

Memorandum of Understanding

between the Parliamentary Budget Office
and
the Ministry of the Economy and Finance

regarding the transmission of information
needed to certify macroeconomic forecasts
and assess public finances

15 September 2014

1. Introduction

European budget governance, introduced by the Two Pack, requires that medium-term national budget programmes be based on macroeconomic forecasts calculated or validated by an independent national institution. Therefore, member States in their programmatic documents must indicate whether the macroeconomic forecasts were calculated by an independent institution, or prepared by the Government and validated by the institution. The Two Pack also requires that the independent institutions perform a timely monitoring of compliance to national and European budget rules. In keeping with the Fiscal Compact, EU regulation no. 473/2013, the Two Pack requires that the bodies monitor: i) the occurrence of circumstances that activate the correction mechanism in the cases in which a significant deviation from the Medium Term Objective (MTO) is observed; ii) the conformity of the budget correction procedure to national laws and plans; iii) the occurrence of or the lack of circumstances that can lead to temporary deviations from the MTO (exceptional circumstances). Italy has adopted the indications included in European rules, in particular:

- constitutional law no. 1/2012 provides for the institution of an independent body within Parliament assigned to analyse and monitor the dynamics of public finance and evaluate adherence to budget rules;
- law 243/2012 sets up the Parliamentary Budget Office and defines its functions, indicating that, also through estimates of its own, it analyzes, monitors, and evaluates macroeconomic forecasts, the macroeconomic impact of major provisions, and the observance of budget rules;
- article 10-ter of law 196/2009, enacting EU directive 2011/85, establishes that the Government supplies the same Office with the information needed to assess the forecasts in the economic and financial programmatic documents.

The establishment of institutional relations in order to validate the macroeconomic forecasts and assess public finance forecasts entails the establishment of a memorandum of understanding between the institutes involved that regulates the way information is transmitted, in keeping with the European Commission's indications¹. The purpose of the present Memorandum of Understanding (hereinafter Memorandum), signed between the Ministry of the Economy and Finance (MEF) and the Parliamentary Budget Office (PBO), is that of governing the operational aspects between the two so that the PBO is able to conclude the assignment of validating the macroeconomic forecasts and assessing the Government's public finance forecasts. In detail the Memorandum defines:

1. the general principles governing relations between the two institutions, including identifying documents to be validated or that include forecasts to be assessed;
2. the criteria to validate macroeconomic forecasts, including data requisites and information exchange schedules for them to be validated, as well as the validation issuance procedure;

¹ Specifications on the implementation of the Two Pack and Guidelines on the format and content of draft budgetary plans, economic partnership programmes, and debt issuance reports. July 2013, Annex II.

3. the procedures to assess public finance forecasts, including data requisites and information exchange schedules.

2. General Principles

The following general principles are valid both for the validation of macroeconomic forecasts and the assessment of public finance forecasts. The PBO acknowledges the intrinsic uncertainties characterizing macroeconomic and public finance forecasts and recognizes that the pertinence of the estimates is to be evaluated with respect to a forecast period.

All information transmitted from the MEF to the PBO, before being published by the MEF, must be confidential.

The PBO commits itself to render its assessments on the macroeconomic forecasts public only once the validation process is complete. The PBO and the MEF commit themselves to work towards the conclusion of the validation procedure respecting the schedule of the parliamentary exam of programmatic documents.

The validation of the macroeconomic forecasts is issued by means of a formal letter from the PBO's President to the Minister of the Economy and Finance.

The PBO gives notice of the MEF's transmission of the information relevant to the validation and assessment process, without specifying details, on its official website. The letter validating the macroeconomic forecasts, the results of the analyses, assessments, and monitoring of public finance forecasts, are published on the PBO's official website only following approval of the related documents by the Council of Ministers.

Within the information exchange, the MEF sends the PBO the macroeconomic variables and public finance forecasts to be validated, as selected by the Memorandum. The hypotheses regarding the external variables adopted for the estimates and all other elements useful to validate macroeconomic forecasts and assess public finance forecasts are also sent. Forecasts are formulated on a yearly basis, in reference to the duration of programmatic documents.

The PBO and the MEF nominate their respective representatives for institutional relations between the bodies and for the exchange of information. All requests are sent via dedicated institutional email. In a mutually collaborative spirit, requests are made with congruent procedures and timing and answers are given in the shortest time possible, taking into account the complexity of the request, the time needed to collect the information, and institutional assignments.

The MEF publishes the Methodological Notes on its official website, explaining the methodology adopted to calculate the economic forecasts, the output gap estimates, the public finance forecasts (Methodological Note annexed to the Economic and Financial Document [EFD]). Should

there be any amendments or revisions of the methodologies, the MEF updates the Methodological Notes and promptly informs the PBO.

The MEF also supplies the PBO with all the explanations needed to clarify the methodology used to calculate the forecasts.

In the section including analysis and assessment reports published on its official website the PBO clarifies the approach used and, according to the information supplied by the MEF, the analyses underlying its assessments.

The Memorandum of Understanding is valid until repealed, even if only partially, by one of the two parties, and can be amended following an agreement by the parties. The Memorandum is published on the PBO's and MEF's official websites.

2.1 Documents to be analyzed

As foreseen by European Union regulations, in validating programmatic macroeconomic forecasts and assessing public finance forecasts the PBO will express its opinion on the forecasts published in the following documents:

1. Stability Pact (EFD, Section I), to be submitted to Parliament by 10 April and to be transmitted to European institutions by the end of April of every year;
2. Draft Budgetary Plan, to be submitted to European institutions by 15 October of every year;
3. Reports to Parliament resulting from updates to the programmatic documents or from exceptional events, as per article 6 of law no. 243/2012.

In addition, the parties agree to validate the macroeconomic tendency forecasts included in the following documents:

4. Stability Pact;
5. EFD Update Note, to be submitted to Parliament by 20 September;
6. Reports to Parliament resulting from updates to the programmatic documents or from exceptional events, as per article 6 of law no. 243/2012.

3. Validation of macroeconomic forecasts

3.1 Macroeconomic forecasts to be validated

The macroeconomic variables to be validated by the PBO are:

- i) nominal and real GDP growth rate;
- ii) nominal and real growth rates of the main components of domestic demand (consumer spending, investments, government spending, export and import of goods and services);
- iii) balance of the current account of the balance of payments;

- iv) employment income, employment rate, hours worked, unemployment rate;
- v) inflation and GDP deflator.

To guarantee a complete information framework, in accord with the methodology agreed at the European level within the Economic Policy Committee, the MEF, together with the macroeconomic variables mentioned above, supplies its own forecasts for all the variables needed to calculate the output gap and the economy's potential output which, however, are not validated.

In general, the MEF supplies all the information foreseen by the Guidelines on the format and content of the Stability Pact and the Draft Budgetary Plan.

3.2 Information exchange procedures and schedule

The exchange of information takes place according to a duties schedule, its respect by both parties constitutes a principle of sound institutional collaboration and a necessary requisite for the success of the validation procedure.

The exchange of information needed to validate macroeconomic forecasts included in the documents mentioned in points 1 and 4 of paragraph 2.1 follows the schedule in Annex 1; the exchange of information needed to validate macroeconomic forecasts included in the documents mentioned in points 2 and 5 of the same paragraph 2.1 follows the schedule in Annex 2.

The schedules can be adjusted in accordance with any amendments to the timetable with which the ISTAT data used to calculate the forecasts are published.

Should the Government consider it necessary to draft a Report to Parliament to update the programmatic documents or in the case of exceptional events as per article 6 of law no. 243/2012, the MEF will promptly inform the PBO and the parties will define a schedule allowing the completion of the process to assess the macroeconomic forecasts, by conveniently adapting the timing of the duties foreseen by Annexes 1 and 2.

4. Assessment of public finance forecasts

The PBO, in reference to the programmatic documents of the memorandum, assesses the development of public finance with regards to compliance to budget rules, and the macroeconomic impact of public finance provisions. In general, the MEF supplies the information on public finance foreseen by the Guidelines on the format and content of the Stability Pact and the Draft Budgetary Plan.

During the period prior to submission to Parliament of the EFD and Update Note, upon request of the PBO, the MEF will supply clarifications on the tendency of specific items of public finance. Following submission to Parliament of the above mentioned programmatic documents, the MEF

will supply the PBO with elements useful to evaluate the public finance forecasts reported in the same documents.

The President of the
Parliamentary Budget Office
Prof. Giuseppe Pisauro

The Minister of the Economy and Finance
Prof. Pier Carlo Padoan

Annex 1

Validation schedule of the macroeconomic forecasts included in the EFD (stability programme)

<i>Step</i>	<i>Timing</i>	<i>Action</i>
1	At least 60 days before the date set by law to submit the EFD to Parliament	The MEF sends the PBO the schedule to prepare the EFD and to send the Stability Programme to the European Commission (by law: the EFD is to be submitted to Parliament by 10 April; the Stability Programme is to be sent to the European Commission by the end of April)
2	At least 20 days before the date set by the MEF timetable to present the EFD to the Council of Ministers (CoM)	The MEF sends the PBO the provisional macroeconomic tendency framework
3	At least 14 days before the date set by the MEF timetable to present the EFD to the CoM	The PBO could send the MEF remarks on the provisional macroeconomic tendency framework
4	At least 6 days before the date set by the MEF timetable to present the EFD to the CoM+B8	The MEF sends the PBO the macroeconomic tendency framework to submit to the CoM
5	At least 2 days before the date set by the MEF timetable to present the EFD to the CoM	The PBO sends the MEF the validation of the macroeconomic tendency framework to submit to the CoM
6	Date of EFD submission to the CoM	EFD submission to the CoM
7	No later than 1 day after the EFD submission to Parliament	The MEF sends the PBO the programmatic macroeconomic framework (published in the EFD)
8	At least 15 days before the date set by the MEF timetable to send the Stability Programme to the European Commission	The PBO could send the MEF remarks on the programmatic macroeconomic framework
9	At least 6 days before the date set by the MEF timetable to send the Stability Programme to the European Commission	The MEF could send the PBO the amended programmatic macroeconomic framework
10	At least 1 day before the date set by the MEF timetable to send the Stability Programme to the European Commission	The PBO sends the MEF the validation of the programmatic macroeconomic framework
11	Date set to send the Stability Programme to the European Commission	

Annex 2

Validation schedule of the macroeconomic forecasts included in the EFD Update Note and in the Draft Budgetary Plan

<i>Step</i>	<i>Timing</i>	<i>Action</i>
1	At least 60 days before the date set by law to submit the EFD Update Note to Parliament	The MEF sends the PBO the schedule to prepare the EFD Update Note (by law it is to be submitted to Parliament by 20 September) and the Draft Budgetary Plan (by law it is to be sent to the European Commission by 15 October)
2	At least 14 days before the date set by the MEF timetable to submit the EFD Update Note to the CoM	The MEF sends the PBO the provisional macroeconomic tendency framework
3	At least 9 days before the date set by the MEF timetable to submit the EFD Update Note to the CoM	The PBO could send the MEF remarks on the provisional macroeconomic tendency framework
4	At least 6 days before the date set by the MEF timetable to submit the EFD Update Note to the CoM	The MEF sends the PBO the macroeconomic tendency framework to submit to the CoM
5	At least 2 days before the date set by the MEF timetable to submit the EFD Update Note to the CoM	The PBO sends the MEF the validation of the macroeconomic tendency framework to submit to the CoM
6	Date of EFD Update Note submission to the CoM	EFD Update Note submission to the CoM
7	No later than 1 day after the EFD Update Note submission to Parliament	The MEF sends the PBO the programmatic macroeconomic framework
8	At least 8 days before the date set by the MEF timetable to send the Draft Budgetary Plan to the European Commission	The PBO could send the MEF remarks on the programmatic macroeconomic framework
9	At least 3 days before the date set by the MEF timetable to send the Draft Budgetary Plan to the European Commission	The MEF could send the PBO the amended programmatic macroeconomic framework
10	At least 1 day before the date set by the MEF timetable to send the Draft Budgetary Plan to the European Commission	The PBO sends the MEF the validation of the programmatic macroeconomic framework
11	Date set to send the Draft Budgetary Plan to the European Commission	