

Work Plan of the Parliamentary Budget Office

Year 2015

(as required by Law 243 of 24 December 2012, Article 18, paragraph 4)

The Parliamentary Budget Office was formed in May 2014 and began operating the following September. This year, 2015, is thus the PBO's first full year of operation during which the work begun in 2014 will be consolidated, refined and further developed.

The PBO's primary duty is to contribute to the sustainability of Italy's public finances, ensuring that the public accounts are transparent and reliable, at the service of Parliament and the general public. With this in mind, the PBO's activity in 2015 will follow three interconnected lines of action:

- 1) strengthening the analysis and assessment of macroeconomic and fiscal forecasts and the impact of significant legislative measures;
- 2) enhancing the PBO's role in encouraging greater transparency in the public accounts at the service of Parliament and the general public, including by enhancing methods of communicating with the public;
- 3) completing development of the PBO's organisational structure by gradually filling all staffing needs and effectively placing all its units in operation.

Economic analysis and public finances

The functions assigned to the PBO, consistent with those set out in European legislation (Regulation (EU) 473/2011, also known as the "Two-pack") for the independent fiscal institutions of each Member State, consist primarily of validating the official macroeconomic forecasts, monitoring compliance with fiscal rules and assessing the public finances. The law establishing the PBO (Law 243/2012, pursuant to the new Article 81 of the Constitution) clarifies that the PBO analyses, verifies and assesses: macroeconomic and fiscal forecasts and the macroeconomic impact of the most important legislative measures; public finance trends, including by sub-sector, and compliance with fiscal rules; implementation and employment of a number of mechanisms envisaged in the new European framework of rules (specifically, the correction mechanism and authorisation in the case of exceptional circumstances); the

long-term sustainability of the public finances and additional economic and financial issues relevant to performing the above duties. Finally, the PBO prepares analyses and reports at the request of the parliamentary committees responsible for public finance matters.

In 2014, the PBO began analysing the Government's budgetary planning documents, assessing compliance with national and European fiscal rules and looking more deeply into a number of issues pertinent to the debate on the economy and the public finances. In terms of organising the PBO's work, this activity led to the identification of various types of documents to be drafted and, in the areas thus delineated, to the production of initial analyses.

First and foremost, twice a year the PBO publishes a Report that discusses its assessments of the macroeconomic and fiscal forecasts contained in the Government's planning documents, as well as compliance with national and European fiscal rules. In mid-May, the PBO published the "2015-2019 Budgetary Planning Report" (<http://www.upbilancio.it/rapporto-sulla-programmazione-di-bilancio-2015/>) dedicated to the analysis of the 2015 Economic and Financial Document and, specifically, Italy's Stability Programme. The Report assesses the Government's trend and policy scenarios for the public finances, as well as the underlying macroeconomic forecasts. As in 2014, in November, the PBO will publish the "2016 Budgetary Policy Report" which, in addition to covering the same topics addressed in the May report, will also contain assessments of the impact of the 2016 budget measures.

Before publishing the Reports, the PBO works to validate the official macroeconomic forecasts (trend and policy), which involves the exchange of information and comments with the MEF, pursuant to the memorandum of understanding between the MEF and the PBO signed in September 2014 (<http://www.upbilancio.it/wp-content/uploads/2014/10/ProtocollointesaMEFUPB.pdf>). The results of this activity and the assessments of the public finances (which are incorporated into the Reports) are provided to the Budget Committees of the Senate and the Chamber of Deputies in connection with the hearings held by the PBO during the parliamentary consideration of the Government's planning documents. The PBO's Reports are published in time for the European Commission's review of the documents submitted by the Italian Government.

In addition to the Reports, the PBO publishes documents that provide an in-depth examination of specific issues, chosen independently by the PBO as part of the duties assigned to it under Law 243/2012 or prepared in response to requests from the parliamentary committees. The PBO has three series of materials dedicated to these in-depth treatments.

- a) The *Working Papers* series, which contains contributions on economic and public finance issues, with a wide range of contributors, focusing on more technical aspects.

- b) The *Focus* series, addressing important issues in a more concise format that contribute to the discussion on economics and the public finances.
- c) The *Reports* for hearings before the parliamentary committees.

The year 2015 saw the publication of a Working Paper on critical factors relating to the estimation of potential GDP and the output gap (<http://www.upbilancio.it/note-di-lavoro/>) and three Focus issues on, respectively, new recommendations from the European Commission on flexibility in the Stability and Growth Pact (http://www.upbilancio.it/wp-content/uploads/2015/01/Focus_1_Upb.pdf), an update on the 2015 public finance measures following the approval of the Stability Act (http://www.upbilancio.it/wp-content/uploads/2015/01/Focus_2_Upb.pdf) and the issues raised by the use of derivatives contracts in managing the public debt (<http://www.upbilancio.it/wp-content/uploads/2015/02/Focus-3.pdf>). The PBO also published (in addition to those incorporated into the Reports), the reports on hearings on trends in the fiscal autonomy of local governments (before the Parliamentary Committee for Fiscal Federalism), on the EU Investment Plan (before the Budget Committee of the Chamber of Deputies) and on financial derivatives (before the Finance Committee of the Chamber of Deputies).

During the rest of the year, the PBO conducts further studies into certain topics in the following areas, although it remains available to address other issues at the request of the parliamentary committees:

- 1) the interaction between fiscal policy and the macroeconomic scenario (fiscal multipliers, elasticity of income taxes) with emphasis on cyclical effects;
- 2) the rationalisation of the national decision-making process concerning public investments in the light of the Juncker Plan;
- 3) the process of implementing structural reforms (public administration, justice, labour, education) and the assessment of their effects;
- 4) the spending review, particularly the measures addressing intermediate consumption and tax expenditures.

The full development of the areas for analysis indicated above is based upon two critical elements.

- a) The use of quantitative forecasting and simulation models. In 2015, the PBO will begin developing its own macroeconomic forecasting model to be used, in conjunction with the results provided by other independent forecasters, to assess and validate the Government's economic scenarios. This model will be developed in partnership with ISTAT, with which the PBO has signed a specific memorandum of understanding (<http://www.upbilancio.it/wp-content/uploads/2015/01/Accordo-tra-Upb-e-Istat.pdf>). The development of independent macroeconomic forecasting capabilities will allow the PBO to improve its monitoring of economic trends over

the entire year and its assessment of the macroeconomic impact of the most important public finance measures. The PBO also plans to refine its forecasting models for developments in the public finances in the consolidated general government accounts and in the more important individual expenditure and revenue items. More specifically, work has begun on creating specific models for forecasting interest expenditure and spending on pension obligations. Here too, the formation of additional forecasting capabilities will permit the PBO to conduct its ongoing monitoring of developments in the public finances more effectively. Furthermore, the PBO is working on developing microsimulation models of the effects, in terms of impact, redistribution and incentive, of the primary taxes on individuals and businesses.

- b) Full and timely access to databases. An initial step towards sharing the information held by the MEF was taken with the signing of the agreement with the MEF - Office of the Accountant General for access to government data (BDAP). A similar agreement was signed with ISTAT in 2014. A memorandum of understanding with INPS is in the process of being completed. An effort will also be made during the year to reach analogous agreements with other government agencies.

As scientific committee will also be formed, composed of economic and public finance experts, to provide guidance on the methodologies employed by the PBO.

Finally, PBO will develop its international network of relationships through participation in the EU Network of Independent Fiscal Institutions (EUNIFI) sponsored by the DG ECFIN of the European Commission and the network of Parliamentary Budget Officials and Independent Fiscal Institutions formed by the OECD. The PBO will be particularly interested in comparing experience with the independent fiscal institutions of other countries, as well as exploring possible joint initiatives to enhance their role.

Transparency of the public accounts

The goal of ensuring the transparency of the public accounts at the service of Parliament and the general public requires that emphasis be placed on how the results of the PBO's analysis are disseminated and communicated. At the end of February 2015 the new version of the PBO's website came on line, providing faster and more direct access to all of the documents prepared by the PBO (<http://www.upbilancio.it>). During its first three months, the website was visited by 5,400 visitors, for a total of 14,000 sessions and 56,000 page views. Beginning in June, an English version of the website will come online to encourage wider dissemination of the information on the PBO's activities to an international audience. In addition, the "Infographics" section will be augmented regularly to provide quicker and clearer information via interactive graphics on complex economic and public finance topics for the general public, not merely for an expert

audience. Press conference will also be organized to coincide with the publication of the major documents.

The organisational structure

At the end of May, the competitive procedures for the selection of the assistant directors of the three departments (Macroeconomic analysis, Public finance and Sectoral analysis) of the PBO and of eight senior experts was completed, bringing the total number of staff to 18. Naturally, expanding our staff is essential for consolidating the PBO's organizational structure. The full staffing needs should be gradually met in 2015 (30 employees for the first three years and 40 once fully staffed, as provided for in the law forming the PBO).