

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

This update to the Report on the Observance of Standards and Codes on Fiscal Transparency Module 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 February 2, 2006. 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
Washington, D.C.**

INTERNATIONAL MONETARY FUND

ITALY

**Update to the Report on the Observance of Standards and Codes (ROSC)—
Fiscal Transparency Module**

Prepared by the European Department on the basis of information
provided by the Italian authorities

February 2, 2006

I. INTRODUCTION

1. The first ROSC for Italy was published in October 2002 and updated in November 2003.¹ During the 2005 Article IV consultation mission, IMF staff reviewed Italy's fiscal transparency practices, to update, where relevant, changes in current practices and assess progress in implementing the initial ROSC's recommendations.

II. DEVELOPMENTS SINCE ORIGINAL ROSC

2. The staff recommendations in the first ROSC for Italy focused on four areas:
- *Clarity of roles and responsibilities across levels of government.* The report emphasized the need for intergovernmental mechanisms to better coordinate budgetary policies and management; for clear and effective sanctions in the event of noncompliance by local governments with agreed fiscal targets; and for timely and reliable mechanisms to monitor developments in local public finances, which in turn would require adopting common accounting rules across levels of government to ensure compatibility with general government policy objectives.
 - *Public availability of information.* The main recommendations focused on improving the quality of fiscal information by broadening the coverage of the general government in published documentation and producing reports for the general government outturn on a quarterly basis; including an assessment of the magnitude of tax expenditure; listing guarantees provided by government entities; providing more information on financial transactions between the government and public enterprises; and increasing published information on larger nonstate entities where the state is a shareholder.

¹ The original fiscal ROSC report is available at <http://www.imf.org/external/pubs/ft/scr/2002/cr02231.pdf>; the update is available at <http://www.imf.org/external/pubs/ft/scr/2003/cr03353.pdf>

- *Open budget preparation, execution, and reporting.* Among other recommendations, the authorities were encouraged to make the budget law the sole authority for expenditures in the fiscal year; reduce carryforwards from previous budgetary allocations; increase the focus of budget execution on efficient resource allocation rather than on legal compliance only; and complete the 1997 Ciampi reform by developing responsibility and accountability lines.
- *Assurances of integrity.* The main focus here was on routinely conducting a full reconciliation between above-the-line and below-the-line cash accounts both at the central and at the general government level.

3. While some progress had already been noted in the 2003 update, two major developments have taken place since then, concerning the reconciliation of above and below the line fiscal data, and the introduction of a standardized recording system for cash transactions of the general government.²

4. In the last few years, considerable effort has been dedicated to narrowing the long standing discrepancy between the two main measures of the fiscal balance (the cash-based net borrowing requirement and the accrual-based budget deficit). A formally established commission in charge of reconciling these two balances for the year 2000 finished its work and has been dissolved (however, its report was never published). Its work has nonetheless, partly in the context of Eurostat-led inquiries, helped clarify and narrow discrepancies between these two balances arising from different methodologies and coverage. Working groups of representatives of the Bank of Italy, Ministry of Economy and Finance, and ISTAT, meet routinely to examine different aspects of this reconciliation. While differences still exist between the two measures, these can now be investigated and explained more comprehensively and promptly; however, details on the items classified under the net acquisition of financial assets—the largest item accounting for the discrepancy—are not available. Recent Eurostat decisions to revise published fiscal data have also contributed to narrowing further the gap between the two balances.

5. A pilot for a computerized recording system of cash transactions of all public entities (SIOPE) was launched on October 1, 2005. This nation-wide system presents two main novelties: (i) it is based on the interbank system; and (ii) it requires a standardized codification of operations. Following the pilot stage, plans foresee that about 80 percent of

² The 2003 update noted progress in two main areas: (i) important modifications in budget management and execution procedures, including by eliminating carryforward of uncommitted funds to future fiscal years; and authorizing the government to impose across-the-board cuts to some approved appropriations when budgetary limits are being exceeded; and (ii) the publication of quarterly accounts on an accrual basis (SEC95) for the general government by ISTAT, the national statistical agency.

all concerned entities to begin using the system by January 2006.³ SIOPE's major strengths are that it is based on a standardized classification for some groups of entities (state, regions, municipalities and provinces, and universities); and that it will allow real-time information on all cash operations. Over time, it will also provide a useful tool to control spending, as payments or receipts will not take place in the absence of the corresponding SIOPE code (banks in charge of treasury functions will not be able to accept payment orders). According to the authorities, preliminary results with the piloted entities are very positive: in addition to enhancing controls and accountability, SIOPE would allow savings in the resources devoted to the administration of treasury operations.

III. IMF STAFF COMMENTARY

6. Some progress has been made vis-à-vis the 2003 ROSC update, especially toward strengthening the integrity of data. The reconciliation of above- and below-the-line fiscal data has contributed to strengthening the quality of data and budget reporting; work should continue on this front, in particular on clarifying the financial transaction account. In addition, SIOPE will contribute to the monitoring of developments in local public finances, as recommended by the original ROSC report; and over time, a standardized reporting system would help lead to common budgeting and accounting rules across levels of government.

7. On the recommendations regarding public availability of information, progress is needed to allow a firmer assessment of Italy's fiscal developments and prospects. A few issues remain outstanding. First, the transparency and timeliness of budget documents should be improved; for example, key details underlying budgetary plans have typically been available only well after the draft budget itself, hampering a proper the assessment of fiscal plans.⁴ Second, more information on financial transactions between the government and public enterprises should be made available—this would also help address the discrepancies in fiscal balances discussed above. Third, the general lack of data on the operations of larger nonstate entities where the state is a shareholder, such as the road company, should be addressed. Finally, as public private partnerships gain ground from the current low base, these operations and associated contingent liabilities should be transparently recorded, including in budget documentation; and project evaluation should be strengthened across all levels of government.

³ As of January 1, 2006, about 800 entities are scheduled to start using SIOPE (22 regions and autonomous provinces; 100 provinces; municipalities with more than 20,000 inhabitants; and 60 universities—all in all accounting for 80 percent of all entities). Municipalities with less than 20,000 inhabitants would start implementing SIOPE as of January 1, 2007.

⁴ Detailed estimates and projections regarding the budget are included in the so-called "Second Section" of the *Relazione Previsionale e Programmatica* (RPP), the technical document accompanying the draft budget law. However, this section is made available after the RPP itself.