

Antonio Fazio: A brief look at the economy in Southern Italy and accounting practices

Address by Mr Antonio Fazio, Governor of the Bank of Italy, to the Otranto City Council, Castello Aragonese, 25 September 2004.

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I would like to begin by thanking everyone for their warm welcome and the civil and religious authorities for honouring the institution I represent by their presence.

It is indeed a pleasure to be here in your city, known in ancient times as *Hydruntum*, after the nearby river Idro. The monuments and the outline of the old town immediately evoke its magnificent history and the role it once played in the Salentine Peninsula, which for many centuries was *Terra d'Otranto* - the 'Land of Otranto'.

The beatification of the Hydruntum martyrs recalls an episode firmly imprinted in the memory not only of this part of Italy: the valiant resistance of its citizens against a violent siege raised long ago in 1480, when 800 men paid with their lives for refusing to renounce their Christian faith; it brings to mind other tragic times in the history of our country. It leads us to reflect on the goals to which humankind aspires, and on the principles that we must, especially now, preserve and reinforce in the international order in defence of life, liberty and democracy. To ensure détente will prevail among nations and people will live together in peace; to foster the development of relations between different races, religions and lifestyles in the name of human dignity.

1. This is my first visit to Otranto, and I am struck by the picture I see. In addition to its rich artistic heritage, the city enjoys an enviable position, set as it is in lovely countryside, with the sea and a beautiful stretch of coast.

Otranto has all the right qualities for a substantial growth of tourism. Its residents possess the spirit of initiative and organizational skills needed to capitalize on the available environmental and artistic resources and local produce and crafts, which are renowned for their excellence.

In 2004 Otranto again came top of Legambiente's ranking of Italian summer resorts published in the Italian Touring Club's Blue Guide for the year. The current project to set up a marine park along the Otranto-Santa Maria di Leuca coast will also make an important contribution to environmental policy and benefit the local community.

The city looks across the sea towards the East; it responds with equanimity and solidarity to the problems raised by the influx of immigrants who reach land in this area. Hospitality, open-minded acceptance, rules, controls, law and order, and far-sightedness are closely related aspects of the attitude towards immigrants in search of better living conditions and a more advanced social and human context.

Today, more than ever before, globalization demands that we pay attention to events beyond our own borders, and not only in the economic field.

Immigration can be a positive force, particularly in view of the demographic problems facing us, and we should keep an open attitude towards it, provided its negative aspects are tackled and its legality is assured by creating the conditions required for security.

2. This morning, in Lecce, I had time to consider the economic outlook for the regions of Southern Italy. Today's guests include representatives of the business world and the professions.

Firms, all firms, are indispensable and powerful forces of economic growth. A business culture, a drive to improve production techniques, innovate, and manufacture better goods with more value added are crucial for the progress of the productive fabric.

Although the South of Italy has experienced periods of exceptionally fast economic and civil modernization in the past fifty years, it continues to be a national problem.

The economy of the South has opportunities and potential. There must be a drive to accelerate the process and overcome dualism, with Italy's public institutions, corporate sector and social partners all contributing.

The South of Italy is hampered by poor infrastructure; this shortcoming, and particularly the lack of transport and service networks, affects production, which is thus less competitive than in the regions of the Centre and North.

An additional boost for public works and infrastructure investment is likely to stimulate aggregate demand and create good prospects of recovery.

An increase of productivity and competitiveness in the South of Italy necessitates an efficient and effective public administration and conditions of safety and legality. Moreover, a problem of solidarity exists between the regions of Italy with regard to making good use of the institutional and functional forms of decentralization.

The available labour force, particularly of young people, and the cultural and environmental resources of the less developed regions constitute a "reserve" that can be tapped for growth, to the benefit of the whole of Italy's economy and society.

Technical and scientific capabilities are crucial for governing transformation and avoiding marginalization. Basic and applied research play a leading role in international competition, process and product innovation, and the introduction of new technologies.

3. Today's guests include auditors and accountants. Members of these professions perform a complex task with great responsibilities.

I have often stressed that accounting rules are indispensable in order to know and certify the truthfulness of economic and administrative facts, which are a fundamental aspect of the organization of society.

The whole of civil life could not function in fact if people did not tell each other the truth. In *Summa Theologiae* Thomas Aquinas said that truth was one of the values underlying social coexistence. The same holds for the economy and business, which must rest on an order made up of relationships and rules that include accounting standards.

In Italy great masters laid the foundations of the art of accounting. In the fifteenth century Luca Pacioli, adopting the practices long in use among Venetian merchants, developed the theory of "double entry" bookkeeping Goethe called "one of the most wonderful discoveries of the human mind". Fabio Besta arranged these studies on a scientific basis, perfecting the tools available to make correct entries. These are the solid foundations on which we now work.

As a consequence of the function they perform, accountants are expected to show professional autonomy, independence of judgement, and constant dedication, vis-à-vis clients, to transparency and honesty. Members of the profession now face new duties; they must cope with all the forthcoming changes in the methods of accounting for corporate facts; they must keep constantly abreast of developments and study the innovations in company and fiscal matters.

The recent financial difficulties of several industrial firms have highlighted the crucial role of internal controls and of external audits to verify that accounts are properly kept, that transactions are correctly recorded, and that the financial statements conform with the book entries and the rules for valuing assets and liabilities and recording corporate facts.

The bankruptcy laws are in urgent need of reform, which is now under study, to shorten procedures, offer greater certainty and broaden the scope for mutually agreed solutions and the survival of worthwhile economic projects in temporary difficulty. Firms, banks and the economy will benefit.

In the financial sector, reliable judgements and proper conduct are equally important. Intermediaries are required to assess fully all the risks of their clients' investment decisions and present them clearly.

4. The discipline of accounting is undergoing far-reaching review at the moment in response to the demand for standardization stemming from the growing international openness of our economies.

According to the principles derived from the European framework of harmonized legislation, from 2005 onwards listed companies, and banks and financial corporations will have to draw up their financial statements in compliance with the International Accounting Standards. In Italy the process of adapting our legislation, including civil and tax law, is under way.

The new Capital Accord for banks known as Basel 2 will entail changes in the way financial statements are presented. It will come into force between the end of 2006 and beginning of 2007 and will introduce more efficient methods of defining the capital employed to hedge different types of risk that reflect the best business practices at international level.

I affirm once again that, on the basis of existing studies, we do not expect there to be adverse effects on corporate financing, particularly of small and medium-sized firms. In fact the adoption of the new system will certainly encourage banks to become more efficient, improve their ability to assess creditworthiness, and better satisfy the needs of the business sector. At the same time firms must provide banks with exhaustive information about their assets and revenues, and the structure and scope of their activities at home and abroad.

All this indicates that accountants will be expected to perform an increasingly important role, and highlights the advisory nature of their work and its contribution to dynamism. They must always be guided by ethics and professionalism.

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A joint effort is needed, based on a climate of complete trust and cooperation between firms, banks and institutions, to help lay the foundations for economic recovery, foster a reversal of the current trend, and encourage new models of growth to emerge in Southern Italy as well. The people, the intelligence, the savings and the business ability to do so are all present.

I wish to thank you once again and wish you pleasure and success in the performance of your work.