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- FINAL FINDINGS -

EDP Mission to Italy

Italy, 15-16 March 2007

Executive Summary

Several issues were discussed during this EDP dialogue visit including the delimitation of general government, securitisation, sale and leaseback operations and Public and Private Partnerships (PPPs).

Concerning delimitation, the list of units classified inside general government is published on an annual basis in the form of a Law. This list did not have significant changes over the years. The specific case of Foundations was discussed during the meeting and the Italian Statistical Authorities noted the existing difficulties for classifying the Foundations financed by government. A list of the existing Foundations was provided to Eurostat after the meeting.

A request for advice on the sector classification of *Riscossione SpA* is to be received by Eurostat in the coming weeks. *Riscossione SpA* has absorbed the existing 37 private entities that were entrusted for collecting tax arrears in Italy and will act as a holding company. The sector classification of *Ferrovie dello Stato* was also discussed. In a report from the Ministry of Economy and Finance analysing the Italian public accounts of 2006, it was noted that the financing system changed during this year and that the amounts paid by government, which are classified in national accounts as subsidies on products, had decreased significantly and that the 50% rule will no longer be met.

No securitisation operations have been undertaken by government in 2006 and no securitisation operations are foreseen for 2007. After a Eurostat advice to the Italian Statistical Authorities in 2006, the trade debts of Local Health Agencies were reclassified as loans and recorded as Maastricht debt. Nonetheless, the Italian Statistical Authorities indicated during the meeting that they would need to gather additional information about the accounting treatment in public accounts of such debts. Therefore, the related amounts might be slightly revised for the April 2007 EDP notification, changing government debt.

The Italian Statistical Authorities informed Eurostat that they would be willing to send a request for advice on a securitisation operation now identified. This operation occurred in 2004 and is related with the securitisation of some receivables, such as VAT and other taxes.

Two sale and leaseback operations were undertaken in Italy: "*FIP – Fondo Immobili Pubblici*" and "*Patrimonio I*" and both of them involved the sale of buildings from government to private funds. During the meeting, Eurostat took note of the amounts involved and one of the issues discussed was the existence of a deferred payment on the second year and whether there had been a transfer of risks and rewards to government.

From the discussion about PPPs it was possible to conclude that it is urgent to encourage and improve the way information is collected because the existing information in Italy does not allow determining whether Eurostat rules are being fully applied.

Among the other issues discussed during the meeting were the accrual recording of ESA95 transactions such as health expenditure and taxes and social contributions. It was concluded that there is still work in progress for reconciling information on flows and stocks for health expenditure. For taxes and social contributions, Eurostat pointed out some concerns on the estimation methods used for the accrual recording of social contributions, particularly the appropriate measurement of the coefficient used for the assessed and declared amounts never

collected, which might imply a possible overestimation of the actual amounts of social contributions being recorded in national accounts.

Specific operations were analysed during the meeting, such as the ruling on VAT deductions. The European Court of Justice ruled in 2006 that limitations on VAT deductions for cars in Italy were illegal and that the Italian Government needed to reimburse corporations starting from 2003 purchases. Eurostat acknowledged that a best estimate of the VAT reimbursement had been made by the Italian authorities and that the proposed recording of an expenditure for the full expected amount in 2006 was appropriate. There will be no possibilities of recording matching revenues in the following years, when the final amount will be known (by end 2008), and any difference between the estimate and the actual figure will only lead to a revision in the 2006 deficit.

About the last developments on the high speed train project (RFI – TAV), Eurostat concluded that it does not seem to have any specific impact in government accounts besides the financing foreseen in the Budget Law, which is being recorded as expenditure. Therefore, no formal request for Eurostat opinion is expected to be received from the Italian Statistical Authorities, unless new events will take place. On the other hand, the Italian Statistical Authorities will ask for an advice on the planned railway link Turin/Lyon. ISTAT opinion will also be provided together with this request.

The issue of SACE (corporation in charge of credit export guarantees) was analysed during the meeting. SACE had been reclassified outside general government in 2003 and Eurostat invited ISTAT to route debt cancellation operations through SACE in government accounts. ISTAT will provide to Eurostat an explanatory note about the treatment in national accounts of this issue before the April 2007 EDP reporting¹.

¹ The Italian Statistical Authorities have thereafter rerouted SACE debt cancellations through government accounts in the April 2007 EDP reporting.

Final findings

Introduction

In accordance with article 8d of Council Regulation (EC) No 2103/2005 of 12 December 2005 amending Council Regulation (EC) No 3605/93 as regards the quality of statistical data in the context of the excessive deficit procedure, Eurostat carried out an EDP dialogue visit in Italy on 15-16 March 2007. The delegation of Eurostat was headed by Mr. Norlund, director of National and European Accounts. The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) participated also in the meeting as observers. The Italian Statistical Authorities were represented by the National Statistical Institute (ISTAT), Banca d'Italia and the Ministry of Finance.

The main aim of this EDP dialogue visit was to analyse the most updated information on deficit and debt figures and to provide follow-up or other issues, such as Public Private Partnerships (PPPs), securitisation and sale and leaseback operations.

1. Analysis of EDP tables and related questionnaires

Introduction

Prior to the meeting, Eurostat had asked the Italian Statistical Authorities to provide a draft April 2007 EDP notification together with the draft questionnaire related to the notification tables. This information was not provided during the meeting but some other additional information was given, such as the table published at national level that shows the transitional items from the working balance in public accounts to national accounts figures, as well as some tables of the draft questionnaire related to the notification tables (taxes and social contributions, guarantees).

Discussion and methodological analysis

On the basis of the information provided prior and during the meeting, it was possible to partially discuss expected revisions on deficit and debt figures, particularly taking into account the deficit figures recently published by ISTAT. The deficit figures from 2003 to 2005 were slightly revised in comparison with the October 2006 EDP reporting, but remaining the same as % of GDP (3.5, 3.4 and 4.1). During the meeting, it was said that the figures to be reported to Eurostat in April 2007 are expected to be in line with those that have been published at national level. For 2006, deficit figures differ from the October 2006 reporting of planned data mainly due to the European Court of Justice ruling on VAT deductions, to the government debt assumption related to the construction of the high-speed railway links and to the impact of a temporary suspension of social contributions credits due by employers and self-employed in the agricultural sector.

During the meeting, the Italian Statistical Authorities stated that debt is not expected to be significantly revised for 2002 to 2005 in the April 2007 EDP reporting.

It was also explained that the reporting of the accrual adjustment for interest will change in comparison with previous EDP reporting. This change is mostly of a presentational nature without any impact on the deficit. This recording will be more consistent with the one made by other Member States, with similar financial instruments, such as zero-coupon bonds and

Treasury bills. It was also noted by the Italian Statistical Authorities that, since the last EDP October 2006 reporting (EDP table 3), all flows of swaps are being recorded under F3 – securities other than shares, so that transactions in EDP and in ESA Table 6 (annual financial accounts) align and the adjustment for swaps to EDP B.9 is shown under the line "difference between interest accrued and paid". It was noted that the Italian Treasury used swaptions and ISTAT recorded these in the financial accounts, without impact on EDP B9.

Finally, it was noted that ISTAT will use new data sources for municipalities from the Minister of Interior, and this new database will replace the existing sample survey that has been used for municipalities to date.

Findings and conclusions

No major revisions on deficit and debt figures are expected in the April 2007 EDP notification. The accounting treatment of interest will be changed in the next reporting with impact on the presentation of EDP table 3.

2. Delimitation of general government

Introduction

Eurostat had asked the Italian Statistical Authorities to provide the last update of units belonging to general government, as well as an explanatory note about changes observed in the last years.

Discussion and methodological analysis

It was observed that the list of units classified inside general government is published on an annual basis in the form of a Law. The complete list of units belonging to the different sub-sectors of general government started to be published in July 2005 in the Official Journal and the next publication is foreseen for July 2007. ISTAT also reported receiving several requests for opinion on the sector classification of units because in the last years government has been increasing the outsourcing for the provision of goods and services, and new units have been created. These units have most of the times a private status but they often remain under the ownership and control of government. Although sometimes some entities went to Court disputing the view of ISTAT, it seems that the Court rulings until now followed the ISTAT decision all the time. It was also said that there seems to be no clear trend about the sector classification sought by the claimant, with some aiming to be classified inside general government, while others having an opposite wish.

According to the information provided, the list used by the Ministry of Finance (Accounting Department) for compiling the working balances is almost the same as the one that is used by both ISTAT and Banca d'Italia. The list of units of general government change only slightly over the years. Eurostat noted the importance of using the same list of units classified inside general government for various purposes.

Eurostat pointed out that the number of research bodies decreased in 2005 and 2006. The Italian Statistical Authorities explained that this was the result of a merging process between units.

On the explanatory note provided to Eurostat on this item of the agenda, the Italian Statistical Authorities noted the existing difficulties for classifying Foundations financed by government. Some of these units are classified outside general government because it is assumed that they are not controlled by government and according to the Italian Statistical Authorities "government control is ensured solely by the presence of government representatives in their board".

Eurostat asked for a complete list of the Foundations that have been examined by ISTAT, with the indication of those that are classified inside general government. During the meeting, the Italian Statistical Authorities noted the difficulty to analyse and account for all these Foundations, in spite of all efforts made. It seems that a negligible impact on deficit figures would be expected, in case some of these Foundations would need to be reclassified inside general government, because they are being mostly financed by general government and do not borrow noticeable amounts.

The Italian Statistical Authorities briefly described the activity of two institutional units – *Riscossione SpA* and *Agenzia del Demanio* – and informed about their provisional sector classification. While Eurostat agreed with the provisional sector classification of *Agenzia del Demanio* inside general government, doubts subsisted on the sector classification of *Riscossione SpA*.

Agenzia del Demanio is one of the four fiscal entities in charge of managing public owned assets without owning them themselves. An ISTAT opinion had been asked after a change in the legal status of the Agency. In the view of ISTAT, the change in legal status did not justify a change in the sector classification of the unit.

Riscossione SpA has absorbed the existing 37 private entities that were entrusted for collecting tax arrears in Italy. In this context, these entities had been operating on concessionary service contracts of three years, signed with government, which ended in September 2005. From October 2005 to September 2006, the private entities operated under an extension of the previous contract. In September 2006, a new 3-year contract entered into force between *Riscossione SpA* and government. During 2006, *Riscossione SpA* acquired the share capital of these concessionary companies administering this collection service, by way of exchange of shares. *Riscossione SpA* will act as a holding company receiving revenues from fees and commissions in proportion to their volume of business.

Following the exchange of shares, *Riscossione SpA* itself is at present owned by the Revenue Agency (24.9%), INPS (a social security fund) (24.99%) and the ex-shareholders of concessionary companies (49%). By Law, this share of 49% is to be repurchased by the public partners of *Riscossione SpA* by the end of 2010. The above exchange value as well as the buyback price is (already) based on the company net worth (as accounted and audited by an independent expert), with accrued interest.

Eurostat noted that equity stake of private owners might in fact have a loan character for the purpose of ESA95 classification.

It was agreed during the meeting that a request for advice will be sent to Eurostat together with additional documentation (in English) including the existing Laws.

The sector classification of *Ferrovie dello Stato* was also discussed. Eurostat questioned whether subsidies of government had a sale character for the purpose of the market/nonmarket test (50%). In addition, in a report dated from June 2006 analysing the public accounts ("*Sintesi dei risultati della verifica sui conti pubblici 2006, Ministero dell'Economia e delle Finanze*"), one of the risks noted was the possible reclassification of *Ferrovie dello Stato*, after a change of the financing system in 2006, as the amounts paid from government, which are currently classified as subsidies on products in national accounts, would fall considerably and the 50% rule might no longer be met (ESA95, § 3.33, 4.33). If that was the case, *Ferrovie dello Stato* would need to be reclassified inside general government.

Eurostat asked the Italian Statistical Authorities if this information was correct. The Italian Statistical Authorities noted that they are still waiting for the financial statements of 2006 for further analysing the fulfilment of the 50% criteria.

On the basis of the information exchanged between Eurostat and the Italian Statistical Authorities during October 2006, it seemed that the figures compiled by ISTAT fulfilled the 50% rule and therefore *Ferrovie dello Stato* would remain classified outside general government, assuming that subsidies received from government would be considered as subsidies on products (ISTAT to further check). Another issue was about the recording of amounts of own production which are shown under these calculations. Those appear on the revenue side whereas they should be deducted from the cost side when applying the 50% rule.

Findings and conclusions

The Italian Statistical Authorities will provide to Eurostat the list of the existing Foundations that were examined by ISTAT, indicating those that are classified inside general government and those that are classified outside.

Eurostat will receive in the coming weeks a request for advice on the sector classification of Riscossione SpA.

Eurostat will also be informed about the main findings of the analysis of the sector classification of *Ferrovie dello Stato* undertaken by the Italian Statistical Authorities for 2006.

3. Sale and leaseback operations

Introduction

Prior to the meeting, Eurostat had requested from the Italian Statistical Authorities a note on the main findings of the methodological analysis on the sale and leaseback operations undertaken by government in the last years, including the one of "*Patrimonio I*".

Discussion and methodological analysis

On the basis of the explanations provided during the meeting, general government undertook up to now two sale and leaseback operations in Italy: "*FIP – Fondo Immobili Pubblici*" and "*Patrimonio I*". Both these operations involved the sale of buildings from government to private funds. Buildings are acquired by a Fund initially owned by government against issuance of shares and cash borrowed. These shares are quickly sold in the market. The main difference between the two operations relates to the involvement of CDP – Cassa Depositi e

Prestiti – which participated in the first operation (FIP), in the capacity of lender, and did not participate in the second (Patrimonio 1). The following amounts have been recorded in the Italian national accounts - FIP: 2004 = 2987 million euro and 2005 = 592 million euro; Patrimonio 1: 2005 = 543 million euro and 2006 = 128 million euro. These amounts were recorded as negative gross fixed capital formation and therefore have reduced net borrowing of general government.

One of the issues that were further discussed during the meeting was the occurrence of a deferred payment in the second year. Eurostat noted that this is a payment not related to the sale of building but to the resale of shares. There might be a time of recording issue. For the Italian Statistical Authorities, this is to be assimilated to an upside payment which is not uncommon in contracts. Some comparisons were made with the DPPs – Deferred Purchase Price – that exist in securitisation operations.

Eurostat observed that under the scheme all the upside would revert to government, which meant that none of the rewards had been transferred, although government had locked a fixed minimum price. On the other hand, the transfer of risk was mitigated by the fact that given that all rewards were retained by government, the discount on the first sale could be designed to ensure virtually no risk.

There were uncertainties whether two sales of non-financial assets (building), at origin and at time of deferred payment, could be recorded in national accounts. Plausible options were to record the deferred payment in the financial accounts, either with keeping the disposal of non-financial assets unchanged at origin or with increasing a *posteriori* this amount by the deferred payment, or alternatively to record a disposal of non-financial assets only in the following year (assuming the analysis suggests a marginal transfer of risk).

Findings and conclusions

Eurostat will inform the Italian Statistical Authorities, before the next EDP notification, whether any specific issues are to be further analysed in the context of the FIP transaction.

4. Securitisation operations

Introduction

No securitisation operations have been undertaken directly by government in 2006 and no securitisation operations are foreseen for 2007.

Discussion and methodological analysis

The Italian Statistical Authorities explained during the meeting the main features of some specific securitisation operations that impacted deficit or debt figures: securitisation operations concerning the trade debts of Local Health Agencies (LHAs), the temporary suspension of the recovery of social contributions credits of employers working in the agricultural sector, and the later indemnity from government to the SPV that was involved in the securitisation operation (SCIP).

Following a Eurostat advice to the Italian Statistical Authorities provided in September 2006, the trade debts of Local Health Agencies were reclassified as loan liabilities and therefore

recorded in the Maastricht debt. The Italian Statistical Authorities explained that for reclassifying these amounts, they needed to gather additional information about the accounting treatment in public accounts.

Consistency is needed between expenditure amounts that are being recorded on an accrual basis and the amounts of credits securitized that give rise to a cash payment made by the SPV in the context of the "settlement agreements". ISTAT provided a table to the effect of showing a complete reconciliation for the purpose of EDP table 3. Among the amounts recorded in EDP table 3 are those corresponding to the interest accrued (impact on deficit figures).

The amounts that have been recorded up to now in government accounts could be revised because figures are still being analysed. An estimate for trade credits (F7) had been recorded in the past. Nonetheless, figures are expected to be slightly changed in the April 2007 EDP notification, and debt figures will also reflect possible renegotiations that have taken place. In the context of the October 2006 request for clarification rounds that took place after the September 2006 EDP reporting, Eurostat was aware that the following trade credits had been reclassified as loans from 2002 to 2005 (million euro): 2002 = 250; 2003 = 250; 2004 = 673 and 2005 = 2691. During the discussion held during the meeting, Eurostat was informed that there were other financial instruments that might need to be reclassified. Eurostat was provided with an exhaustive list of securitisation operations examined for the purpose of debt calculation.

At this stage, the Italian Statistical Authorities informed Eurostat that they would be willing to send a request for advice on a securitisation operation now identified. Apparently this operation occurred in 2004 and is related with the securitisation of some receivables, such as VAT or other taxes. Not many details were given during the meeting, and Eurostat took note that a request from the Italian Statistical Authorities will be received in coming weeks.

The Italian Statistical Authorities described the transaction involving the temporary suspension of the recovery of receivables of the SPV (INPS securitisation). On March 2006, the Italian Parliament approved a law suspending the collection of those social contributions receivables against employers and self-employed of the agricultural sector, pending conclusions from a Commission examining a possible contract renegotiation. In October 2006, the recovery of these receivables resumed by the SPV because eventually the contract was not to be renegotiated.

According to ISTAT the suspension determined a substantial change in ownership rights that had been established. The claims were first moved in national accounts on the balance sheets of government by way of an other changes in volume (K.8 – uncompensated seizures). The restitution of the same credits to the SPV has been recorded as other capital transfer, because it was considered to be a gift from government. The deficit worsened by 734 million euro in 2006.

The other securitisation operation that was briefly described to Eurostat was the one related to the SCIP operations, which had been discussed in the past and was followed by a Eurostat decision (news release 65/2005 of 23 May 2005). It is recalled that in April 2004, the Italian Parliament approved a law allowing tenants to buy their apartments at a price prevailing in the market in 2001 rather than at 2004 market price. This action implied that government needed to compensate those tenants that had bought their apartments between 2001 and 2004. In addition, the SPV has been obliged to sell the apartments for a price lower than the market

price, against compensation by government. Finally, government was also forced to provide a guarantee on the loan that the SPV contracted from financial institutions for ensuring bond servicing and maintaining a high rating of its bonds. In national accounts, the following total amounts were recorded as government expenditure worsening deficit figures (million euro) over 2004-2006: 232, 364 and 171.

Findings and conclusions

The amounts of trade credits reclassified into loans are expected to be slightly revised for the April 2007 EDP notification and government debt may change due to this reclassification.

The Italian Statistical Authorities will send to Eurostat a request for advice in the coming days relating to a securitisation operation of reimbursement of tax credits that has taken place in 2004.

Eurostat took note of the amounts recorded for SCIP.

5. Private Public Partnerships

Introduction

During the meeting, the Italian Statistical Authorities described the state of play on gathering information on PPPs.

Discussion and methodological analysis

The following steps have been taken since October 2006: a questionnaire was designed by the Ministry of Finance with the assistance of the Technical Unit on PPP that has been recently moved within the Prime Ministry Office and was sent to the 18 units identified that launched PPPs of more than 50 million euro. Direct contacts were established by ISTAT with some other bodies involved in specific projects such as the municipality of Florence for "Tramvia 2 e 3 projects" and the region of Veneto for the new Hospital of Mestre.

From the discussion held in the meeting, it was possible to conclude that the Italian Statistical Authorities must further investigate which are the existing PPPs in Italy and to establish mechanisms allowing ISTAT to receive the requested information. The Italian Statistical Authorities indicated that after investigating the issue, the source of information deemed more reliable for collecting data on PPPs was the National Observatory, which collects and manages data on all the calls for tender on public procurements in the form of concessions or PPPs. The main difficulty seems to distinguish at present if one project is to be qualified as a PPP or merely as a concession. In addition, there is no legal obligation for local authorities to report to ISTAT information on signed PPPs.

Findings and conclusions

Eurostat concluded that the existing information in Italy does not allow concluding yet whether Eurostat rules on PPPs are fully applied and that it is urgent to encourage and establish a better system of information. Eurostat asked to receive the legal framework, some information about the existing PPP contracts, and some of the existing PPP contracts.

6. **Accrual recording of ESA95 transactions such as health expenditure, taxes and social contributions, etc.**

Introduction

During the meeting, the accrual recording of health expenditure and of taxes and social contributions were discussed. The Italian Statistical Authorities provided additional tables on the estimates and compilations made for several years including for the year 2006.

Discussion and methodological analysis

When discussing the recording of health expenditure, the Italian Statistical Authorities noted the difficulties faced for reconciling information on flows and stocks. Supplementary tables were provided, exploring the articulation between the information on stocks of payables provided by the Ministry of Health and the information on an accrual basis derived from the profit and loss accounts, which is used for measuring B.9. The flows of payables deriving from the balance data were currently found to exceed the amount recorded in financial accounts. However, it was agreed that it was too early to conclude, as this was still work in progress, and that further developments are expected in future.

When analysing the table on taxes and social contributions of the questionnaire related to EDP notification tables provided by the Italian Statistical Authorities, Eurostat observed that figures for social contributions had been reviewed after 2003. It was possible to conclude that figures had been revised due to changes in the coefficient used for the assessed and declared amounts never collected. The change in coefficient in 2004 resulted from a switch in method designed to avoid using accounting information on write-offs that became recently unreliable, and in 2005 resulted from an update of the coefficient incorporating new information available on stocks for social security funds (INPS). Eurostat noted that the Italian Statistical Authorities had not answered to the questionnaire on the methods used for compiling taxes and social contributions. Eurostat recalled that, following existing legal requirements, any change in the method used must be agreed in advance with Eurostat.

Eurostat indicated during the meeting some worries about the significant receivables amounts that are being recorded over the last years. It is possible to observe that the stocks of receivables in social contributions have tended to grow substantially over time as a % of GDP, in spite of the large securitisations operations undertaken in the most recent years. Looking at these stock patterns, one could think of a possible underestimation of the coefficient used for measuring amounts uncollectible or, alternatively, that the problem is related to an abnormally low stock of receivables recorded in the starting year of the time-series.

ISTAT noted that the noticeable increase in the flow of receivable in 2006 was caused by the absence of any securitisation operations in that year, in contrast to previous years.

Findings and conclusions

It was concluded that there is still work in progress for reconciling information on flows and stocks for health expenditure.

For taxes and social contributions, Eurostat pointed out to some concerns on the estimation methods used for the accrual recording of social contributions, particularly for the appropriate measurement of the coefficient used for the assessed and declared amounts never collected, that might lead to a possible overestimation of the actual amounts of tax and social contributions being recorded in national accounts.

7. Analysis of specific operations or cases:

7.1. Ruling on VAT deductions

Introduction

The European Court of Justice ruled in 2006 that limitations on VAT deductions for cars in Italy were illegal and that the Italian Government would need to reimburse corporations starting 2003.

Discussion and methodological analysis

It was possible to clarify during the meeting the amounts involved in this operation. The total amount estimated to be due for repayment is 17204 million euro. In national accounts, an amount of 1222 million euro was deducted relating to taxes on income due, leading to a net amount of VAT to be recorded of 15982 million euro. This amount was recorded as other capital transfer (expenditure) of general government in 2006.

During the meeting, the Italian Statistical Authorities provided precise explanations and documentation on the detailed method used for compiling these estimates, involving crossing the individual information of two very large databases. The estimates are based on the total number of persons which will be entitled to be reimbursed and on the car tax information system. Eurostat considers that the estimate is very solid, although the method used seemed very conservative, as the calculation was based on a hypothesis that 100% of eligible claimants will put up their claim. The Italian authorities felt that, given that the required documentation must be in any case kept by taxpayers for other fiscal reasons, there was an expectation that the actual figure be close to 100%. Thus, a maximum amount has been imputed into government accounts in 2006 and there is little likelihood that government will need to pay more than this estimated amount.

Eurostat explained the reasoning adopted regarding the time of recording of a claim recognized by government. The understanding is that claims should be recorded at time of submission in case the validation process is not automatic, or in case government actions are involved for accepting the claim later on, or if the amounts cannot be reliably measured. It was concluded that this was not the case in Italy, and that it was appropriate to record a government liability at time of Court decision.

It is expected that the final amount will not differ significantly from the amounts that were recorded in national accounts and that, in any circumstances, it will be the figure of 2006 that will have to be revised. It was noted that any difference that will be eventually observed will have to be entered in 2006, in the form of a correction to the original estimate.

A discussion took place on the appropriate classification of the flow. ISTAT strongly felt that the operation was a capital transfer, though Eurostat wondered if this recording would not result in overestimating the GDP over a number of years. One question to enquire is the accounting treatment that has been adopted in similar cases by other Member States. As an example, it was recalled that a possible similar situation occurred in Denmark some years ago.

Findings and conclusions

Eurostat acknowledged that a best estimate of the VAT amounts had been made by the Italian Statistical Authorities which seemed very prudent. Eurostat found the proposed time of recording (for an impact on the deficit in 2006) appropriate, given that the liability of government is established irrevocably (payments will be conducted automatically) and can be reliably measured.

The process of cross-checking and compiling the final amounts to be reimbursed will be known only by the end of 2009, since the deadline for creditors to ask for reimbursements expires in 2008 at the latest. It will not be possible to record matching revenues in the following years, and any differences with the original estimate will be entered as revision to the 2006 figure.

Eurostat will further investigate if this accounting treatment has been adopted in similar cases by other Member States.

7.2. ANAS (National Road Company) related operations

Introduction

Clarifications were provided following a Eurostat letter advising on the recording of a sale of concession from ANAS (classified inside general government) to a private entity. Eurostat view was that the transaction should not be recorded as a sale of an asset but accrued over time with the recording of a rent. This led to a revision upward in the deficit figure in 2003 of 738 million euro and a revision downward in deficit figures both in 2004 and 2005 of 11 million euro.

Discussion and methodological analysis

The Italian Statistical Authorities explained during the meeting that no securitisation operation involving ANAS took place, contrary to what had been originally foreseen. In addition, the Italian Statistical Authorities explained that the request for not publishing Eurostat letter advising on ANAS was mostly related to the fact that some of the ex-ante features had not implemented and that a risk of misunderstanding might exist.

Findings and conclusions

Eurostat will draft an accompanying explanatory note to the Eurostat letter on its advice on ANAS. The aim is to publish this explanatory note together with the letter, identifying the specific features that have not occurred, so to avoid misunderstanding from the reader. This explanatory note will be agreed with the Italian Statistical Authorities before publication on Eurostat website.

7.3. Follow-up of the sector classification of CDP (Cassa Depositi e Prestiti)

Introduction

Prior to the meeting, Eurostat requested the Italian Statistical Authorities to provide the profit and loss accounts and balance sheet of CDP from 2003 to 2006 (provisional). This issue was a follow-up of an EDP mission of 2004, which had concluded that the Italian Statistical Authorities were to monitor the sector classification of CDP in the light of its role and behaviour. CDP was classified inside general government until 11 December 2003, when it was converted into a joint stock company, and is classified in the sector of financial intermediaries thereafter.

Discussion and methodological analysis

During the meeting, the Italian Statistical Authorities noted that Banca d'Italia had recently regulated the activity of CDP as a financial institution. This will imply that this financial institution will be obliged to follow some legal requirements, such as the constitution of reserves. The Italian Statistical Authorities reassured Eurostat that the economic behaviour of CDP is similar to any other financial intermediary and that this unit is not acting on behalf of government.

Findings and conclusions

Eurostat took note of the explanations provided during the meeting.

7.4. Last developments on the high speed train project (RFI-TAV)

Introduction

The main aim of this item of the agenda was to further understand the most recent arrangements for constructing the high speed railway lines in Italy.

Discussion and methodological analysis

The Italian Statistical Authorities informed Eurostat that the previous financing scheme of loans granted to RFI/TAV was no longer in place and that ISPA had been merged with CDP in January 2006. In public accounts, government assumed in a formal way ISPA's debt (in December 2006), which had already been considered as government debt in national accounts in 2005 (counterbalanced by a matching asset of government against TAV). In national accounts, the event was considered as a debt cancellation and has been recorded as other capital transfer (2006 = 12950 million euro).

During the meeting, a presentation was made on future developments. The construction of the high-speed train is expected to be financed as follows: equity (5.1 billion euro), government expenditure (6 billion euro), new debt to be raised in the market (5 billion euro) and a part will also come from VAT reimbursements. However, the financing project is still being analysed by *Ferrovie dello Stato* and some of the features can change. Government is not expected to provide any guarantee.

Eurostat asked the Italian Statistical Authorities about the follow-up on a request for advice that was previously sent to Eurostat by the *Commissione Intergovernativa per la nuova linea ferroviaria Torino-Lione* on the construction of the railway link between Turin/Lyon. A similar request was received by ISTAT, and a copy of the letter that was sent by the President of ISTAT to the above-referred Commission was provided to Eurostat. A formal request for advice will be sent to Eurostat together with an ISTAT opinion on the issue.

Findings and conclusions

Eurostat took note of the recording in national accounts of the debt assumption/cancellation benefiting TAV, with a capital transfer expenditure recorded in 2006.

Regarding the future developments on the construction of the high-speed railway lines, Eurostat concluded that there seem not to have any specific impact in government accounts besides the financing foreseen in the Budget Law that is being recorded as expenditure. Therefore, no formal request for Eurostat opinion is expected to be received from the Italian Statistical Authorities, unless new events will take place.

A formal request for advice is expected to be received from the Italian Statistical Authorities regarding the railway link Turin/Lyon. An ISTAT opinion will also be provided together with this request.

7.5. Last developments on establishment of new system of *Trattamento di Fine Rapporto* (TFR)

Introduction

This is a follow-up issue after an advice requested by the Italian Statistical Authorities at the beginning of 2007.

Discussion and methodological analysis

The Italian Statistical Authorities stated that no changes had been observed in relation to the establishment of the TFR system. Eurostat preliminary view, sent early 2007, based on the information provided by the Italian Statistical Authorities, was that the TFR could be classified as a social security scheme and the collection of contributions and payments of benefits would impact government accounts.

Findings and conclusions

Eurostat took note of the explanations provided during the meeting.

8. Recording of specific government transactions:

8.1. Debt assumptions, debt cancellations and debt write-offs

Introduction

The information available at Eurostat was analysed based on the questionnaires related to

EDP notification tables.

Discussion and methodological analysis

Additional clarifications were asked to be provided for linking the information presented in the questionnaire related to the EDP notification tables with the EDP tables, including on the reconciliation of stocks and flows. ISTAT and the MOF indicated that data in the questionnaire related with EDP notification excluded accrued interest, for both stocks and flows in the ISTAT reporting, whereas the flow of cancellation included interest cancelled in EDP table 2A, as appropriate.

The issue of SACE (corporation in charge of credit export guarantees), which was reclassified outside general government in 2003, was further analysed. The Italian Statistical Authorities indicated, upon Eurostat question, that debt cancellations of SACE portfolio are not being routed via government accounts. During the meeting, the representative of the Treasury Department described the accounting treatment adopted in SACE books, noting that the transferred assets had been written down ("devaluation of the credits"). Eurostat requested to ISTAT an analysis of this issue in the framework of national accounts.

The representative of the Treasury Department confirmed that a large claim against Nigeria of close to 1.4 billion including accrued interest had been in large part cancelled in 2005-2006 (buyback operation by Nigeria in the context of the Paris club). Eurostat noted a need to ensure that this cancellation impacts government accounts given that SACE was presumably acting on behalf of government and that the transfer to SACE of the foreign debt portfolios had been recorded without impact on the deficit at that time. Eurostat recalled the methodological note on this issue that was examined at the last Financial Accounts Working Party in January 2007.

Findings and conclusions

ISTAT will adapt the questionnaire related to EDP tables, to ensure consistency with EDP tables, if this is possible.

Eurostat invited ISTAT to route debt cancellation operations through SACE in government accounts. ISTAT will provide to Eurostat an explanatory note about the treatment in national accounts of this issue before the April 2007 EDP reporting.

8.2. Military equipment expenditure

Introduction

Eurostat asked the Italian Statistical Authorities to provide a description on the methods used for recording military expenditure.

Discussion and methodological analysis

A description of the methodology used and additional information broken-down by projects was provided during the meeting. The acquisition of military expenditure is being recorded in national accounts on a delivery basis starting 2005.

In line with the Eurostat decision concerning the transitional period, pre-payments on delivered equipment in 2005-2006 have been deducted from notified figures. Prepayments are spread over the years, with information available for each of the programmes under the responsibility of the Minister of Defence.

Findings and conclusions

Eurostat took note of the explanations provided during the meeting.

8.3. Capital injections in public corporations, dividends and privatizations

Introduction

The information available at Eurostat was analysed based on the questionnaires related with EDP notification tables and on some additional information that was provided during the meeting, particularly on capital injections and dividends for 2006.

Discussion and methodological analysis

The amounts of capital injections undertaken by general government into local corporations were mostly discussed. The observed fall from 2005 to 2006 was due to a one-off capital injection which was classified as a capital transfer into the bus transportation company of Rome (ATAC). Eurostat observed that only 15% of the total amount of capital injections undertaken into local corporations was being classified as capital transfers in national accounts, the remainder entering the financial accounts. ISTAT mentioned that this result was consistent with the information on the profitability of public corporations at the local level as well as with the information private researchers also disseminate.

Eurostat asked for additional clarifications of the amounts of dividends paid to government from RAI (2005: 79 million euro), Fintecna (2006: 150 million euro) and Poste (2006: 77 million euro). The Italian Statistical Authorities indicated that figures were recorded as non-financial transactions on the basis of the profitability of these corporations.

Findings and conclusions

The Italian Statistical Authorities will provide to Eurostat a summary table of the profit and loss accounts of the above three corporations before the April EDP reporting².

8.4. Guarantees

Introduction

An update of the questionnaire related to the EDP notification tables was provided during the meeting, with figures for 2006.

² This information was provided to Eurostat before the April 2007 EDP reporting.

Discussion and methodological analysis

No major changes were observed when analysing the figures. In Italy, almost no guarantees are called. The main item of the table on guaranteed debt relates to postal saving bonds that are part of monetary instruments (80%). Eurostat suggested that these amounts would be shown as a memo item of the tables, to promote comparability with other Member States where most of the guarantees are provided to non-bank public corporations.

Findings and conclusions

Eurostat took note of the explanations provided during the meeting and suggested to the Italian Statistical Authorities showing the amounts of postal savings as a memo item in the questionnaire related with the EDP notification tables.

8.5. EU flows

Introduction

The aim was to discuss, under this item of the agenda, whether the figures provided were to be considered as final and to have an updated description of the information system used for compiling these amounts.

Discussion and methodological analysis

Eurostat asked to the Italian Statistical Authorities whether the figures for EU flows could be considered as final. During the October 2006 request for clarification rounds, the Italian Statistical Authorities referred that the questionnaire related to the notifications tables for EU flows needed to be corrected due to a material error. It was explained that only the line of stocks had been filled wrongly. Eurostat took note that EU flows are being recorded in national accounts following the most recent decisions on EU transfers.

Findings and conclusions

Eurostat took note of the explanations provided during the meeting.

8.6. Carbon trading rights

Introduction

The Italian Statistical Authorities provided to Eurostat a description of the accounting treatment of carbon trading rights in national accounts.

Discussion and methodological analysis

The Italian Statistical Authorities explained that the allocation to national companies of the right to pollute (carbon dioxide emissions) was given for free and that there is no impact in government accounts. Italy also contributed nevertheless into a World Bank Fund. These amounts have been classified as expenditure (other capital transfers) in national accounts and the amounts are as follows: 25 million euro in 2005 and 1 million euro in 2006.

Findings and conclusions

Eurostat took note of the explanations provided during the meeting.

8.7. Other (swaps, UMTS, etc.)

Introduction

The Italian Statistical Authorities provided a brief explanation about the liability management during the year 2006.

Discussion and methodological analysis

The liability management has been mainly focused on: managing the current exposure, locking-in interest rates, through interest rate swap, and reducing the currency exposure derived from the foreign currency issuance activity carried out in previous years. The overall impact of the derivative activity on cash interest payments in 2006 was a positive 557.6 million euro, implying a positive adjustment to EDP B.9 in EDP tables of 268.16 million euro.

Findings and conclusions

Eurostat took note of the explanations provided during the meeting. No specific actions are to be taken.

