



EUROPEAN COMMISSION
EUROSTAT
Directorate D Government Finance Statistics
Unit D-2: Excessive deficit procedure (EDP) 1

Luxembourg, 19 May 2017

FINAL FINDINGS

EDP dialogue visit to Italy

7 – 8 February 2017

Executive summary

Eurostat undertook an EDP dialogue visit to Italy on 7–8 February 2017, as part of its regular visits to Member States, with the aim to assess the existing statistical capacity, to enquire on the existing and forthcoming situation with respect to source data, to review the implementation of ESA 2010 methodology, to analyse the recording of specific government transactions and to ensure that provisions from the ESA 2010 Manual on Government Deficit and Debt and recent Eurostat decisions are duly implemented in the Italian EDP tables and national accounts.

Institutional responsibilities in the framework of the reporting of data under the EDP were reviewed. The discussion largely focused on the recent update of the agreement between the Italian Statistical Institute and the Ministry of Economy and Finance concerning the use of a centralised database. In this context, data sources for the compilation of EDP data were also reviewed, including the forthcoming changes in the compilation system resulting from the recent accounting reform. It was agreed that the new chart of accounts introduced for local government in 2016 was to be provided to Eurostat.

Progress achieved by the Italian statistical authorities on open action points from the EDP dialogue visit, which took place in February 2015, was discussed. The few outstanding issues from the October 2016 EDP notification were analysed in more detail. It was agreed that the Italian statistical authorities will work towards a future reporting of the working balance only encompassing the State, instead of the broad concept covering almost the whole subsector. Some technical analysis of the other accounts receivable/payable recording should also be carried out before the April 2017 EDP notification.

Concerning the delimitation of general government, a general discussion about the application of the market/non-market test took place. Eurostat also reviewed the list of the government controlled entities classified outside general government and asked the Italian statistical authorities to analyse the sector classification of several identified units and to reclassify them, where relevant. The classification of some specific units such as the national protection funds, public units in liquidation and foundations was also discussed in more detail.

The discussion continued on the recording of taxes and social contributions, in particular on the adjustments included in the other accounts receivable/payable related to taxes. Eurostat asked the Italian statistical authorities to analyse the stocks of receivables/payables and to clarify and re-examine the statistical recording of the system of the allocation of revenues between the State and Special Statute Regions.

Further, Eurostat reviewed the recent change of the method of recording EU flows, from the submission of claims to the time of expenditure basis. The Italian statistical authorities were requested to clarify the statistical treatment of the so-called 'financial instruments' used in the context of EU funds.

In relation to specific government operations, recent and foreseen transactions relating to the financial sector were discussed. In particular, Eurostat reviewed the follow up of the resolution of four small banks, the treatment of specific funds created to recapitalise banks in difficulties, the collection of additional contributions payable to the National Resolution Fund and a set of recent measures approved by the government to stabilise the financial sector. The involvement of the Cassa Depositi e Prestiti in these operations was also discussed, focusing on a possible rerouting of certain operations deemed to be carried out on behalf of government to the government accounts.

Other issues discussed included capital injections, guarantees, military equipment expenditure, debt assumptions, debt cancellations and debt write-offs, the recording of interest expenditure as well as the recording of significant transactions in derivatives. On these matters, the recordings applied seemed to be in line with Eurostat rules.

Finally, concerning Public Private Partnerships (PPP), Eurostat stressed to the Italian statistical authorities the importance of ensuring that all existing PPPs are monitored in order to classify them correctly. As regards the concessions, the Italian statistical authorities committed to finalise their analysis of concession contracts and to report the results to Eurostat.

Eurostat appreciated the information provided by the Italian statistical authorities prior to the EDP dialogue visit. Eurostat also thanked the Italian statistical authorities for the co-operation during the mission and considered that the discussions were transparent and constructive.

Final findings

Introduction

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to Italy on 7-8 February 2017.

The delegation of Eurostat was headed by Ms Lena Frej Ohlsson, Head of Unit D-2 Excessive Deficit Procedure (EDP) I. Eurostat was also represented by Mr Luca Ascoli, Mr Philippe de Rougemont, Mr Miguel Alonso and Ms Daniela Ilavska. Representatives of the DG ECFIN and the European Central Bank (ECB) also participated in the meeting as observers. The Italian authorities were represented by the Italian Statistical Institute (ISTAT), the Ministry of Economy and Finance (MEF) and the Bank of Italy (BoI).

The previous Eurostat EDP dialogue visit to Italy took place on 2-3 February 2015.

Eurostat carried out this EDP dialogue visit in order to review data sources for the EDP data compilation, notably the availability of the data for local government, as well as to review the implementation of the ESA 2010 methodology in the recording of government transactions, the application of the accrual principle and the sector classification of units.

With regard to procedural arrangements, the Main conclusions and action points were sent to Italy for review. Then, within weeks, the Provisional findings were sent to Italy for review. After this, Final findings will be sent to Italy and the Economic and Financial Committee (EFC) and published on the website of Eurostat.

1. Statistical institutional issues

1.1 Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation

Introduction

The cooperation and exchange of relevant data between the various national statistical authorities are administered by formal cooperation agreements. The agreement between ISTAT and MEF (State General Accounting Department) was updated recently, encompassing the latest changes in the data collection system. The exchange of statistical information between ISTAT and BoI, including the EDP data, is based on a Protocol of agreement signed in March 2011. There are other formalised cooperation agreements with the Ministry of Health, the Ministry of Defence and the Court of Auditors.

ISTAT is responsible for the compilation of non-financial accounts and the delimitation of the general government sector. The MEF is responsible for the State and public sector working balance and for all forecasts. The BoI compiles data for the Maastricht debt and for the financial accounts of general government.

Discussion and methodological analysis

The Italian statistical authorities informed about the latest changes in their organisational structure of the National Accounts Directorate within ISTAT, which resulted in a separation of the '*Compilation of government finance accounts*' division and the '*Treatment and verification of the quality of public finance data*' division. The new organisation scheme is the outcome of an overall modernisation of ISTAT, partly implementing recommendations made by the Upstream Dialogue Visit carried out by Eurostat in 2012.

In the context of changes in the data collection system, ISTAT mentioned a recent update of the agreement with MEF concerning the use of the '*Banca dati delle Amministrazioni Pubbliche*' (BDAP). This database was developed by the MEF with a view to centralise the collection of data for most general government units. Consequently, the current ISTAT practice of collecting input data from several sources, i.e. the budgets, financial statements, profit and loss accounts and balance sheets from various public units, will gradually be replaced by the use of this unique centralised database. Currently, the participation of social security funds and non-market corporations classified in general government (e.g. ANAS S.p.A) is not foreseen in the BDAP, however.

As further explained, the introduction of the centralised data collection is related to a recent accounting reform implementing new accounting rules for general government units, including a new chart of accounts. In addition, it harmonises different accounting systems previously used at the local government level.

Within this new accounting framework, two accounting basis were recognised for accrual accounting: the so-called 'legal accrual' (*contabilità finanziaria*) which is closer to a commitment concept, and the accrual basis, which seems to be a better proxy for the accrual principle defined in ESA 2010. The local government units applying the legal accrual, which are the majority, have to transmit final data to MEF compiled on both bases, while the others report only the balance sheets and profit and loss statements. It was mentioned that currently only the municipalities with more than 5000 inhabitants have to prepare balance sheets, however, the threshold should be abolished in the future. Following Eurostat's enquiry about the compliance of new accounting rules with IPSAS standards, the Italian statistical

authorities admitted that the current framework is not compliant. However, they indicated an intention aiming at converging towards IPSAS in future.

Eurostat enquired on the expected roll-out of this new database. ISTAT indicated that the staged roll-out starts with local government. Regarding local government, first available data referring to the year 2016 will be transmitted to the BDAP in July 2017 after the approval by local authorities. Therefore, ISTAT, in cooperation with MEF, intends in the second half of 2017 to focus on data assessment. It is expected that these provisional data would not be used already in the October 2017 EDP notification, but perhaps used for cross-checking the statistics produced with current source data. The BDAP is more likely to be used in April 2018, when the data will have undergone thorough comprehensive consistency checks and their quality has proved to be sufficient for the EDP data reporting. The BDAP advantage will be to improve the timeliness of the local government data, together with the level of detail available.

Concerning the overall implementation of the accounting reform, the Italian statistical authorities clarified that the harmonisation of accounting rules currently applied to local government, is foreseen to be extended to the State in 2018-2019 when the first balance sheets and profit and loss statements would be available. Eurostat encouraged the Italian authorities a swift inclusion of complete data covering the State.

In response to Eurostat's enquiry, the Italian statistical authorities clarified the link between the new chart of accounts and SIOPE, which is the standardised system of codes currently used to collect, on a daily basis, the information on cash receipts and expenditures from almost all local government and some central government units. SIOPE is based on transactions directly observed in units' bank accounts, notably those maintained at the Bank of Italy. SIOPE data can be transparently observed, on-line, on the web site of the MOF, with a great level of detail.

This system further serves as an input for compiling the working balance in EDP tables. Currently, SIOPE does not collect the data from social security funds, which transmit their figures directly to the MEF on a monthly (INPS, INAIL) or a quarterly basis (other private social security funds). It was explained by the BoI that local government units are included in SIOPE even having bank accounts also in commercial banks. It is planned that in the future SIOPE will follow the framework of the new chart of accounts.

In the context of the cooperation between ISTAT and the Court of Auditors (CoA), Eurostat enquired about the potential implications of the changes previously discussed on bilateral working arrangements. The Italian statistical authorities explained that the CoA will replace a current system of collecting reports from each unit with the use of BDAP. The CoA will nevertheless continue to collect surveys covering qualitative assessments. With regard to the information regularly received by ISTAT from the CoA Regional Branches, the Italian statistical authorities stated that based on the latest reports for 2015, there had been to their knowledge no outcome of the audits having an impact on the EDP data.

Findings and conclusions

- (1) Eurostat took note of the development of a new database '*Banca dati delle Amministrazioni Pubbliche*' (BDAP) which is to be implemented gradually for budgetary general government (public administration units), starting with local government in the April 2018 EDP data reporting. The new database will include the data on a legal accrual, accrual (profit and loss statements and balance sheets) and a

cash basis based on a new chart of accounts. Eurostat encouraged the Italian authorities a swift inclusion of complete data covering the State.

- (2) The Italian statistical authorities will send to Eurostat the new chart of accounts introduced in the context of the recent accounting reform.

Deadline: end of February 2017¹

1.2 Data sources and revision policy, EDP inventory

1.2.1 Availability and use of data sources, revision policy

Introduction

The general law regulating the compilation of public accounts and the accounting rules is Law no. 196 of 31 December 2009. The accounting system used by government units and public corporations differs according to different groups of units. The institution responsible for the accounting rules used by public units is the MEF. ISTAT cooperates with the MEF in order to guarantee the consistency and appropriateness of information recorded in each budget and their adequacy for EDP purposes. Various ministries are responsible for the collection of the financial statements of specific groups of units (Ministry of Health for Local Health Units, Ministry of Internal Affairs for Provinces and Municipalities).

The data sources used for compilation of EDP/GFS data generally depend on the unit type. They mainly include the State Budget reporting, the budgets of other government bodies, financial statements of the entities using the accrual accounting, certificates for municipalities and provinces, statistical surveys and other supplementary data sources.

Discussion and methodological analysis

The availability of data sources and mainly the foreseen changes related to the recent accounting reform and the introduction of the BDAP were intensively discussed in the context of the institutional responsibilities under the previous point of the agenda. In this respect, Eurostat asked about a potential replacement of the current data collection via statistical surveys by the new database. The Italian statistical authorities clarified that the main purpose of the surveys is to cover the units not included in the BDAP, e. g. non-market corporations and non-profit institutions, which are considered to be a part of general government only from a statistical point of view and not according to budgetary rules.

Eurostat followed up on the action point from the previous dialogue visit concerning the timeliness of data for local government. The Italian statistical authorities confirmed the information already mentioned that, thanks to the recent accounting reform, final data of local government units for the year (T-2) will be available in the October EDP notification of the year T, instead of April (T+1) as it is currently the case. However, the Italian authorities confirmed that due to the unavailability of data in the April EDP notification, accrual data for local government for the year (T-1) will remain to be extrapolated using the accrual data for (T-2) and the annual change of cash flows between (T-1) and (T-2) observed through SIOPE. As discussed in the previous point of the agenda, the first data for local government according to the new schedule should be available in the second half of 2017.

¹ The chart of accounts was sent on 3 March 2017. The action point is completed.

Concerning the revision policy, the Italian statistical authorities informed Eurostat that no changes are planned in this respect, apart from those related to changes in the data collection system (BDAP). The Italian authorities mentioned ongoing work to improve the quality management system, in particular the implementation of quality checks, and focus on a single unit (or grouping of units) approach instead of aggregated data.

Findings and conclusions

Eurostat took note of the explanations.

1.2.2 Compliance with Council Directive 2011/85

Introduction

The data foreseen by Council Directive 2011/85 are published on the MEF website. Published cash-based fiscal data are available for central government and social security funds on a monthly basis and for local government on a quarterly basis. The reconciliation table published alongside the fiscal data constitutes a brief description of primary sources and standards used for the data, including information about the use of estimations and a description of the revision policy. The reconciliation table for general government also briefly describes the transition from public accounts to deficit and debt figures and alternative primary sources used for subsector data.

In December 2016, the MEF published data on guarantees, off-balance public-private partnerships (PPPs) and non-performing loans (NPLs) for 2012-2015 as a % of GDP. At the same time, data on liabilities of public corporations for 2014 and data on government participation in the capital of corporations for 2014 were also published.

Discussion and methodological analysis

Eurostat followed up on the availability of data on standardised guarantees for local government which are currently not reported. The Italian statistical authorities confirmed that in the total stock of one-off guarantees for local government, both categories are included since the split between one-off and standardised guarantees is not available. Furthermore, referring to the results of a recent survey of BoI, they explained that local government entities are not in general involved in the standardised guarantee schemes and that the highest amount, which was reported by the Municipality of Rome (392 million EUR), was related to a guarantee scheme which started before 2000 and is not operating anymore. According to the Italian authorities, this amount might be related to mortgage loans of households, since no student loans are provided in Italy. Concerning the systematic collection of the data on standardised guarantees, the Italian statistical authorities pointed out that the new chart of accounts currently does not provide the split, but it could perhaps be adapted to collect the information in the future. Finally, the Italian statistical authorities confirmed that the total amount of guarantees for local government is captured although the split is missing.

Eurostat enquired about the non-availability of data on NPLs for local government and social security funds which was also discussed in the previous EDP dialogue visit. In a note sent in October 2016, the Italian statistical authorities informed Eurostat about the results of a previous analysis of the new accounting rules for local government. Using the new chart of accounts, two accounting entries, the '*Fondo crediti di dubbia esigibilita*' (FCDE) and the '*Fondo svalutazione crediti*' (FSC), were identified as possible data sources. It was explained,

in the meeting, that the definition of the two items is more general compared to ESA 2010 and it reflected the accounting basis used by a local government entity, i. e. 'legal accrual' or 'accrual'. The first data, which are to be obtained in autumn 2017, will therefore have to be tested before their publication.

Findings and conclusions

- (3) The Italian statistical authorities will reflect on the possibility to include more details on government guarantees in the new chart of accounts, in particular to address the gap for local government, including the standardised guarantees.

Deadline for the progress report: end of 2017

- (4) The Italian statistical authorities will analyse the ways in which the new information on non-performing loans for local government in the new chart of accounts can be used in order to meet the reporting requirements of Council Directive 2011/85.

Deadline: end of October 2017

1.2.3 EDP Inventory

Introduction

The last updated version of the EDP Inventory according to ESA 2010 was provided by ISTAT in December 2015 and was published on the Eurostat website in January 2016. Alongside the main document, a list of general government units is published as an annex.

Discussion and methodological analysis

According to Council Regulation No 479/2009, Member States should update the EDP inventories whenever important revisions in methods, procedures and sources are adopted in the compilation of statistical data. In this respect, Eurostat invited the Italian authorities to update the EDP Inventory when relevant, and in particular now when some changes have been introduced in data sources, in the sector classification of certain units (RAI, National Resolution Fund, REV) and in the implementation of the accrual principle in national accounts (e. g. recording of EU flows).

2. Follow-up of the previous EDP dialogue visit of 2-3 February 2015

Introduction

The previous EDP dialogue visit to Italy took place on 2-3 February 2015. An Upstream Dialogue Visit took place on 19-21 November 2012. Concerning the EDP dialogue visit in 2015, there are still a few open action points. Two action points were discussed under this point of the agenda while the remaining ones were dealt with under the relevant issues during the meeting.

Discussion and methodological analysis

First, Eurostat enquired about the progress in the introduction of the electronic invoice system (PCC) which was supposed to improve the quality and coverage of the data on trade credits at

all levels of general government. The Italian statistical authorities explained that all public administration units are obliged by legislation to register received invoices in the PCC, which should allow tracking the full life-cycle of each invoice from the date of receipt to the final payment. In practise, many local government units were not always consistent in registering invoices in the system. For instance, it was not uncommon for units to omit removing invoices settled. As a result, it might be difficult to match payments with relevant invoices. ISTAT admitted that the PCC is currently not used for compilation of data on trade credits. Eurostat requested the Italian statistical authorities to comment on the total payable amount from the invoices, which was indicated in the note sent prior to the visit, mainly in relation to the figures on government expenditure reported in the ESA tables to Eurostat. According to this note, the total payable amount issued to all general government units reached more than 148 billion EUR for the period of January–September 2016. The Italian authorities committed to analyse the differences between the indicator and the figure on purchases (intermediate consumption – P.2, gross fixed capital formation – P.51g, but also possibly some transfers *in kind*)².

In relation to the second action point outstanding from the previous EDP dialogue visit, Eurostat enquired about the possible operations of the Cassa Depositi e Prestiti (CDP) that might have the features of being undertaken on behalf of government. The Italian statistical authorities were asked whether they were aware of any operation where the government would bear risks (instead of CDP) or where CDP would engage in a transaction following the government decision. Eurostat was informed that this issue is monitored through a direct communication with the bank and that no operation to be rerouted, has been identified until now.

Following the question of Eurostat on the CDP management on behalf of the MEF presented in the 2015 CDP Annual report, the Italian statistical authorities clarified that the loans granted by CDP were transferred to MEF but that the management services are still carried out at CDP. Some specific operations were discussed, notably the interventions regarding ILVA.

ILVA is an Italian company producing iron and steel products, considered of strategic importance to the nation due to industrial assets of significant national interest. In 2013, due to criminal investigations, bank accounts for the significant amount of 1.1 billion EUR had been seized from ILVA's main shareholders. The government appointed a Special Commissioner to guarantee the continuation of the company's activity. In 2015, after becoming insolvent, ILVA was placed by the government under a special administration and by the end of the year, it received from government a loan for an amount of 300 million EUR. In parallel to the government loan in 2015, CDP together with two other private banks granted to ILVA a bridge loan and provided through its subsidiary 'CDP Equity' additional capital with a view of a future sale. Finally, according to an agreement concluded between ILVA and its shareholders in December 2016, the seized amounts were made available to ILVA in order to finance an Environmental Plan designed to address the damages caused by past breaches of ILVA's environmental permit. The Italian statistical authorities also informed about ongoing competition for the sale of the company, where CDP also participated in one of the investors' consortia.

² According to the data reported to Eurostat in ESA tables, the intermediate consumption of general government was app. 89 billion EUR and the fixed capital formation app. 37 billion EUR in 2015.

Eurostat recalled the methodological rules for rerouting of transactions carried out on behalf of government. In particular, this would concern transactions with low or zero return on investment or operations likely to be loss-making. Referring to the case of ILVA, Eurostat pointed to the situation when a government controlled bank substitutes for private banks, not willing to provide financing to the company in insolvency. In general, rearranging transactions would be required for:

- Cases where government assumes the risks and rewards of operations undertaken
- Cases where units have received direct orders from the State, irrespective of whether government promised compensatory payments or not
- Cases where government regulates in such detail a scheme, so that the capacity of the public corporation to make decisions is drastically constrained

In this context, Eurostat mentioned the questionnaire used by another Member State to identify the possible transactions of financial institutions carried out on behalf of government, which could maybe be used also by the Italian statistical authorities.

Findings and conclusions

- (5) The Italian statistical authorities will enquire the nature of the payments included in the electronic invoicing system (PCC) for a total amount of 148 billion EUR for the period of January – September 2016.

Deadline: end of June 2017

- (6) Eurostat will provide a draft questionnaire used by another Member State on a possible rerouting of transactions of specific financial entities. On this basis, the Italian statistical authorities will reflect on a need to reroute the potential transactions of the Cassa Depositi e Prestiti (CDP) carried out on behalf of government.

Deadline for Eurostat: end of March 2017

Deadline: October 2017 EDP notification

3. Analysis of EDP tables – follow up of the October 2016 EDP notification

Introduction

The Italian statistical authorities sent the October 2016 EDP notification within the legal deadline. At the national level, the press release on deficit and debt figures, including the EDP table 1, EDP table 2 aggregated for general government and the EDP table 3A were published on 21 October 2016.

Prior to the EDP dialogue visit, the Italian statistical authorities sent the EDP table 2A1 and the EDP table 3B1 compiled for the State, thus separating the other central government bodies which are reported in the working balance of the EDP table 2A currently transmitted to Eurostat.

Discussion and methodological analysis

In the beginning, Eurostat thanked the Italian statistical authorities for the well-structured and clear explanatory note that is provided alongside the EDP notification on a regular basis. As expressed in previous communications of Eurostat towards Member States, additional

documentation clarifying the main transactions, main revisions and outstanding issues might facilitate the verification of EDP data during the assessment period.

Referring to the EDP tables 2A1 for 2015 sent prior to the visit, Eurostat enquired about the coverage of units in the tables and the difference compared to the current reporting when almost all central and local government units are included in the working balances. The Italian statistical authorities explained that data were compiled for the State, i. e. Ministries, Prime Minister's Office, fiscal agencies, constitutional bodies and other bodies of constitutional status. The other central government bodies (i. e. the rest of the central government) cover the research bodies, zooprophyllactic experimental institutions, economic activities regulatory bodies, economic services producers, independent administrative authorities, associative type bodies and institutions providing cultural assistance services.

In response to the Eurostat question on a minor volume of operations for the other government bodies, it was clarified that the 2015 data were still provisional. Nonetheless, *'other adjustments'* in the EDP table 2A1 (and table 2A) are attributable only to the State. A significant statistical discrepancy in this table could be explained by missing information on the correct allocation of transfers between State and other government bodies. The same problem is evident also in the local government subsector, although the net lending/net borrowing (B.9) for both subsectors as a whole is correct. As another possible reason for such discrepancy in the EDP table 2A, the Italian statistical authorities mentioned a different number of units, as reported in the working balance (a figure coming from public accounts) and in the B.9 (a figure complying with ESA 2010 rules).

Eurostat enquired about a possibility, in future, to move the reporting for other government bodies from the working balance to the relevant items of EDP tables 2A and 2C that are designed for this purpose. The Italian statistical authorities will examine the issue. They acknowledged some efforts already done in this sense, including an intention to adapt the definition of the working balance in public accounts towards the statistical concept which might be realised within the accounting reform of central government planned for 2018/2019.

In the note on trade credits and advances payable, as published by Eurostat together with the EDP notification, Italy reports a provisional status of the data. The Italian statistical authorities confirmed the status of data during the meeting, adding that this is an issue of data quality, with ongoing works on the accrual recording of investment expenditure.

The following discussion focused on the EDP Questionnaire, in particular the table 4 on other accounts receivable/payable (F.8). Eurostat noted, that for a few other central government bodies currently reported in the EDP table 2A (item *'Net lending/net borrowing of other central government bodies'*), only the receivables related to interest are reported which is apparent from the comparison of Questionnaire tables 4.1 and 4.2. The Italian statistical authorities confirmed this information and explained that these accrual adjustments for interest within F.8 are related to the interest on tax refunds. Eurostat referred to the zeroes reported for the consolidation in AF.8/F.8 and asked whether it is an issue of the data non-availability or whether such intra-transactions in F.8 between government subsectors do not exist. According to the Italian statistical authorities, no such transactions were observed. Eurostat asked ISTAT to verify and confirm this.

Concerning the transfers between government subsectors, they are fully balanced using a cash-basis principle. In case of their reclassification to output (P.1), a timing difference in F.8 could be recorded. The Italian statistical authorities will reflect on the current practise of

reclassification of intra-government sales as intra-governmental transfers, in consultation with Eurostat.

Findings and conclusions

- (7) Eurostat welcomed the effort of the Italian statistical authorities to provide the EDP tables 2A1 and 3B1 on an experimental basis. Based on final data for 2015, the Italian statistical authorities will provide an updated version of the tables with a view to reduce the statistical discrepancy.

Deadline: April 2017 EDP notification³

- (8) The Italian statistical authorities will reflect on the ways to move the working balance from a broad definition to a narrow one, excluding the other government bodies for the central and local government levels.

Deadline: April 2017 EDP notification⁴

- (9) The Italian statistical authorities will clarify the absence of consolidating stocks and transactions in other accounts receivable/payable (F.8).

Deadline: April 2017 EDP notification⁵

- (10) The Italian statistical authorities will clarify the recording of other accounts receivable/payable (F.8) related to interest in the EDP Questionnaire table 4.1.

Deadline: April 2017 EDP notification⁶

- (11) The Italian statistical authorities will reflect on the current practises of reclassification of intra-government sales as intra-governmental transfers, in consultation with Eurostat.

Deadline: end of June 2017

4. Methodological issues and recording of specific government transactions

4.1 Delimitation of general government sector, application of the 50% rule in national accounts

4.1.1 Application of the market/non-market test

Introduction

The authority responsible for the sector classification of units according to ESA 2010 is ISTAT. Each year, usually in September, ISTAT publishes a list of the general government institutional units. The update of the Business Register administered by ISTAT is based on the integration of various administrative and statistical sources.

³ It was agreed to postpone the deadline to the end of June 2017.

⁴ It was agreed to postpone the deadline to the end of June 2017.

⁵ The note was sent on 13 April 2017.

⁶ The note was sent on 13 April 2017.

Discussion and methodological analysis

The application of the market/non-market test was discussed, in particular the prudent approach applied by the Italian statistical authorities when deciding on the sector classification of a unit, i. e. subtracting from the sales all current subsidies, irrespective of their nature, and including in the production costs all current taxes, not only those on production. It was explained that this prudent approach is applied for a first analysis of the units considered, when the relevant data are not available yet.

Before the visit, a list of government controlled entities classified in the non-financial corporations sector (S.11) with results of the market/non-market test for 2012-2015, was provided. The Italian statistical authorities were requested to comment on an extract of those data which showed results below 50% in all reported years and mainly on the reason for not reclassifying those units to general government. It was explained that the reclassification of units is not applied automatically and that the results of the market/non-market test are analysed beforehand, e. g. the composition of sales or specific cases of start-ups. However, the Italian statistical authorities committed to focus on the analysis of the most important units in the following months in order to include their figures already in the April 2017 EDP notification, where necessary. The analysis for the remaining units will be carried out during summer 2017 in order to include their impact in the October 2017 EDP notification, if relevant.

Analogously, Eurostat enquired about the list of units classified in S.11 which seemed to be in liquidation according to their title (*'in liquidazione'*) and asked whether the MGDD guidance had been implemented in this respect. The Italian statistical authorities explained that further investigations are needed on this issue because the 'liquidation' status is a long term process and it does not necessarily limit normal business activity. In addition, relevant information might not be available in this case. Eurostat stressed that an analysis has to be done, applying the MGDD guidance on the classification of units in liquidation.

As a follow up of the previous EDP dialogue visit, the classification of foundations was discussed. Recent analysis of ISTAT showed that out of 11 foundations under observation, one is already classified in general government, another one legally ceased to exist and the remaining entities will be analysed once new data are available. It was stressed that the overall impact of these foundations is negligible.

Eurostat further discussed the formula of the market/non-market test, focusing on the main components of sales and production costs. The Italian authorities confirmed that sales include the payments actually received for market output, excluding those received out of market conditions. Statistical surveys or financial statements provide information on 'other' revenues which might be included in sales. As explained by the Italian statistical authorities, this category of revenues is excluded from the formula unless there is a clear evidence of subsidy on products (in practice, mainly relevant for transportation companies). In response to a Eurostat question on the treatment of losses on trade receivables and of recurrent losses on inventories, the Italian statistical authorities first clarified that they believed that the profit and loss statements do not include the revenues not likely to be collected. Eurostat suggested that ISTAT verifies if this is indeed the case, and where net losses on receivables are actually reported in the profit and losses, and accordingly if the net losses in question are considered within value added in national accounts as well as in the 50% test. Concerning the losses on inventories, the same verification seemed necessary. Eurostat pointed to the ESA 2010 guidance which stipulates that recurrent losses on inventories are deducted from output and

is, accordingly, also to be deducted from the sales for the purpose of the market/non-market test.

Findings and conclusions

- (12) Eurostat stressed the importance of ensuring a correct delimitation of general government with a timely reclassification of units when appropriate, notably based on results of the 50% test.
- (13) The Italian statistical authorities will analyse all active public entities currently classified in S.11 and not fulfilling the market/non-market test, and reclassify them when applicable. For the April 2017 EDP notification, as a first step, the 20 units with the biggest liabilities will be analysed and reclassified if needed. The remaining units not complying with the 50% test will be analysed and reclassified, where needed, before the end of August 2017.

Deadline for the 20 biggest entities: April 2017 EDP notification⁷

Deadline for other units: end of August 2017

- (14) The Italian statistical authorities will analyse all public units in liquidation in order to see whether they should be reclassified in S.13 in line with the MGDD guidance.

Deadline: end of July 2017

- (15) The Italian statistical authorities will send a bridge table between the chart of accounts/business accounts to specific categories of the sales and production costs used for the calculation of the 50% test.

Deadline: end of February 2017⁸

- (16) The Italian statistical authorities should investigate the treatment of current losses on inventories and losses on trade receivables when calculating the 50% test.

Deadline: end of June 2017

4.1.2 Classification of national protection funds

Introduction

Regarding 'protection funds', in Italy, there exist the National Resolution Fund (NRF) classified in S.13 and two deposit guarantee schemes currently classified in the financial corporations sector (S.12). In the case of cooperative banks, there is the '*Fondo di Garanzia del Credito Cooperativo*' (FGD) and, for all other banks, the '*Fondo Interbancario di Tutela dei Depositi*' (FITD). Both guarantee funds are private consortia of banks and they collect levies within the compulsory system of the deposit insurance. However, the arrangements are ex-post funded, that is: levies are collected after an event takes place.

⁷ The analysis for the 20 units with the biggest liabilities was sent to Eurostat on 15 March 2017.

⁸ The bridge table was sent on 15 March 2017. The action point is completed.

In relation to the Directives 2014/59/EU (BRRD) and 2014/49/EU (herewith, DGSD), both deposit guarantee funds underwent, in 2016, changes in legislation, which are to be analysed by the Italian statistical authorities in order to decide on their sector classification.

In a note prepared for the meeting, ISTAT had proposed to reroute flows and stocks of these two guarantee scheme pertaining to the DGSD.

Discussion and methodological analysis

Eurostat analysed the framework and financing of the two guarantee funds in the light of the updated MGDD guidance on the classification of national protection funds, focusing on non-statutory schemes which exist in a few Member States including Italy. In the note provided prior to the visit, the Italian statistical authorities explained the main changes introduced already in 2015 before the DGSD transposition to Italian legislation, and in 2016 after approval of Decree no. 30 of 15 February 2016. Under this new legislative framework, both funds moved from ex-post to ex-ante funding arrangement, with a modified system of the calculation of the risk-based contributions, with changes in the use of funds' resources and with modified supervision rules.

In the meeting, the Italian statistical authorities clarified that despite the legislative change, the legal status of both funds remained unchanged, i. e. the consortia of banks (still considered as shareholders) are established according to a private law. The important difference is that all banks participating in the system are obliged to contribute and that the levies are paid on an ex-ante basis.

Eurostat further enquired about the roles of BoI and MEF in the system and it was explained that, consistent with new EU legislation, powers of BoI have changed after the National Resolution Authority was appointed. As regards the compulsory contributions paid by banks, BoI can decide on a deferral payment in case of liquidity problems of a particular bank, however, it is the government who decides on a possible decrease of contributions after having consulted BoI and having received a positive consent of the European Commission. In case of intervention to a bank in difficulties (excluding the resolution case), BoI would be more involved in the decision-making process, as compared to the previous system when it was considered only as a supervisory authority. The involvement of government is not specifically regulated by the Decree. Eurostat asked about possible obligations of the banks participating in this supposedly mutualistic system recorded in their balance sheets. Representatives of BoI explained that a legal obligation remains with the debtor bank while those of the other banks are limited. It was further clarified by the Italian statistical authorities that the NRF can ask for the intervention of guarantee funds, however, it was not clear whether the Fund could refuse to act.

Concerning the financial resources of the two funds, the Decree stipulates that in case the regular contributions are insufficient to compensate deposit holders, exceptional contributions might be called. If still not sufficient, both guarantee funds might charge the participating banks higher contributions after the BoI approval, up to a ,maximum level set by law. If collected resources still do not cover the reimbursement needs, the two guarantee funds would have to obtain short-term borrowings on the financial market or might recall other sources in medium or long-term. Given that the BoI (and the ECB) is of the opinion that financing could not originate from the BoI, Eurostat concluded that the treasury would likely have to step in in order to ensure that the commitment to guarantee deposits below 100.000, as foreseen by EU legislation, is respected.

Eurostat concluded that although the involvement of government in the scheme is *a priori* minimal and BoI has certain powers, the guarantee scheme is regulated by law and, for a major part of the activities, serves a public policy objective (aiming at the protection of public's savings and financial stability). With the exception of the 'Voluntary Intervention Scheme' run by the FITD, the participation of banks in the guarantee scheme is compulsory. In addition, the collection of resources (with a B.9 impact) and their redistribution is performed for a sole purpose of the financial market emergency and it is not a result of an autonomous decision of the consortia, thus implying that they do not comply with the criteria of the financial intermediaries.

The Italian statistical authorities acknowledged that the statutory part of the guarantee scheme is to be rearranged via government accounts, recognising the guarantee funds' assets in general government. An alternative way to present this consists in having each guarantee fund partitioned in two units in national accounts, one of them being classified inside government. The voluntary intervention scheme would remain classified in S.12.

Finally, it was stressed that clear methodological rules on the classification of the non-statutory guarantee schemes are needed and that the current MGDD guidance will be updated with regard to countries having a similar guarantee scheme.

Findings and conclusions

- (17) In relation to the deposit guarantee funds, the Italian statistical authorities will implement the appropriate recording in the April 2017 EDP reporting, pending also a specific guidance on the non-statutory guarantee privately owned schemes in the MGDD.

4.1.3 Government controlled entities classified outside general government (public corporations)

Introduction

The Italian statistical authorities sent the Questionnaire on government controlled entities classified outside general government in December 2016, reporting data for 2015 and 2014 and, for a small group of units, 2013. The list includes over 4000 units, of which around 100 units are classified in S.12. The total amount of liabilities of the units exceeding the threshold of 0.01% of GDP amounted to 47.41% of GDP.

Discussion and methodological analysis

Eurostat reviewed the list of government controlled entities classified outside general government focusing on a few units with the results of the market/non-market test below or close to 50%. In response to a Eurostat question, the Italian statistical authorities explained that two of them, '*Finmeccanica - societa per azioni*' and '*Iren S.p.A.*', have already been analysed and they are head offices, therefore correctly classified in S.11. The sector classification of the '*Syndial S.p.A.*' will be reviewed in the context of the action point 13, focusing on the application of the market/non-market test for government controlled units.

Eurostat asked about the list of six identified financial institutions classified in S.12 and included in the Monetary and Financial Institutions (MFI) list although reporting zero liabilities in the Questionnaire. It was stressed that, for being reported on the MFI list, a

financial corporation mainly has to receive deposits and to grant loans on its own account. Since the Italian statistical authorities were not in the position to clarify the issue, the financial corporations with zero liabilities will be analysed before the April 2017 EDP notification. Moreover, in the next transmission, they will add the four bridge banks created in 2015 after the resolution of four small banks (Nuova Cassa di risparmio di Ferrara SpA, Nuova Banca delle Marche SpA, Nuova Banca dell'Etruria e del Lazio SpA and Nuova Cassa di risparmio di Chieti SpA) which were omitted from the current version of the Questionnaire.

Findings and conclusions

- (18) The Italian statistical authorities will analyse the identified public financial institutions reporting zero liabilities in the Questionnaire on government controlled entities classified outside general government and reclassify them when appropriate.

Deadline: April 2017 EDP notification⁹

- (19) The Italian statistical authorities will add the four bridge banks to the Questionnaire on government controlled entities classified outside general government.

Deadline: end of December 2017

4.2 Implementation of accrual principle

4.2.1 Taxes and social contributions

Introduction

Detailed tax revenues split by type and by collection method are provided by the MEF to ISTAT, which compiles the accrual data on taxes and social contributions depending on the collection method applied in public accounts. Eurostat followed up on the recording of the 'voluntary disclosure' and deferred tax assets (DTAs) discussed in the past.

Discussion and methodological analysis

ISTAT confirmed that, in the case of taxes collected via the direct payment method, '*accertamenti*' data are used and time-adjusted. This is the case of the value added tax (VAT), applying two months' time lag, and of excise duties. Regarding the taxes collected via roll procedure, '*incassi*' data are used, and, however, no time adjustment is applied. The tax authority is not able to identify the reference accounting period and therefore, as agreed with Eurostat in the past, these tax revenues are recorded on a cash basis.

Concerning direct taxes, the Italian statistical authorities clarified that the time adjustment is applied only to the tax balances collected in the first two months of the following year. Thus, the balances received after February (T+1), referring to the year T, are included in accrual revenues of year (T+1). This is notably the case of the personal income tax (IRPEF), and the final balance collected in June is thus not time-adjusted. However, the majority of the IRPEF is collected as advance payments in year T. Following this approach, the corporate income

⁹ The analysis on the public financial institutions reporting zero liabilities in the Questionnaire was sent on 15 March 2017.

tax (IRES) is recorded on a cash basis. The final balance is paid in the sixth month following the close of fiscal year and therefore, no time adjustment is applied in this case either.

The Italian statistical authorities were requested to comment on the development of the stocks of receivables related to taxes that are reported in the EDP Questionnaire table 5. It was explained that the significant movements observed mainly for the last EDP reporting years resulted from the changes in tax legislation. In particular, transactions in receivables related to taxes in 2013 and 2015 reflected legislative changes in the tax base which were implemented in previous years. Eurostat took note of the explanations, nevertheless, stressing that the adjustments in F.8 related to the accrual recording of taxes is to be neutral in the long term. As an example, Eurostat pointed to the disproportion between the increase by 15% in the stock of F.8 related to taxes in the Questionnaire table 5 and the less significant increase of 6% in the tax revenues reported in GFS tables for the period 2011-2015.

The Italian statistical authorities specified that, apart from the receivables related to the time adjustment, specific adjustments referring to the so called 'regulation system' are also included in F.8. Eurostat requested this to be clarified. Concerning the allocation of tax revenues between the State and Special Statute Regions, the rules imply that some taxes assigned to the Special Statute Regions are directly collected and remain in the Regions, in contrast to the 'devolution system' where the taxes are deemed to be State revenue and redistributed from the State as a transfer. In the first case, tax revenue is recorded in the budget of the Special Statute Regions in year T and, in the same year, the amount is also booked by the State as part of the total taxes assessed, without any underlying effective transaction. In the following year (T+1), related cash receipts are recorded in the State on both revenue and expenditure sides. ISTAT indicated that the double recording in public accounts is duly eliminated. However, the difference resulting from the allocation of taxes between two levels, including the tax refunds, is recorded in F.8. Eurostat requested the Italian statistical authorities to clarify this and investigate the proportion and consistency of both elements reported in F.8 related to taxes.

Eurostat followed up on the recording of 'voluntary disclosure', which was discussed before the April 2016 EDP notification. According to the Law, Italian taxpayers that held financial or non-financial assets abroad, not included in the annual tax return, could have the opportunity to report the amount of tax evaded without the risk of penal proceedings. Taxpayers could submit a 'voluntary disclosure' and also indicate to the tax authorities any other type of tax irregularities in order to remedy their position. The 'voluntary disclosure' was to be presented to the tax authorities by 30 September 2015 with all details. Within two weeks of receiving the tax authority's communication, the tax has to be paid in one or three monthly instalments of an equal amount. The Italian statistical authorities informed that revenues collected from the tax amnesty in 2015 reached 212 million EUR and according to preliminary results, revenues for the first 10 months of 2016 are estimated for an amount of 2.4 billion EUR. Moreover, the opportunity to declare taxes under the 'voluntary disclosure' was extended also to the year 2017.

Concerning the recording of DTAs, Eurostat referred to previous discussions on the issue and pointed to the MGDD guidance, which states that payable tax credits related to DTAs are recorded in national accounts as expenditure for the full amount at the time they are recognised by government, and not at the time they are used by beneficiaries. The Italian statistical authorities described the effect of the late tax declarations submitted by tax payers several months after the deadline, which might prolong the update of DTAs data for more than two years. In order to avoid any significant revisions, DTAs will be recorded in the year

when submitted for the full amount, i.e. recorded as expenditure (negative revenue) at the time of the recognition by the tax authority. This approach should ensure the recording of the amounts which are known with certainty.

Findings and conclusions

- (20) The Italian statistical authorities will analyse the stocks of other accounts receivable/payable (F.8) related to taxes and report on the type of amounts included, in particular whether they are related only to the time adjusted cash.

Deadline: end of June 2017

- (21) The Italian statistical authorities will reflect on the appropriateness of the current recording of the allocation of tax revenues to the State and Special Statute Regions.

Deadline: end of June 2017

- (22) The Italian statistical authorities will also clarify the implied other accounts receivable/payable (F.8) stemming from the allocation of tax revenues to the State and Special Statute Regions.

Deadline: end of June 2017

4.2.2 Interest and consolidated interest

Introduction

Interest expenditure of central government mainly includes the interest paid by the State on government securities and postal savings. Both cash and accrual data are provided by the Treasury. Interest expenditure is also recorded in the current accounts of CDP and other public and private bodies held at the Treasury, on loans granted by CDP or other financial institutions to central government, on delayed payments of tax refunds and wages, postal current accounts. In case of local government, the interest expenditure mainly relate to the loans and, to a limited extent, to bonds (mainly municipalities and regions).

Prior to the visit, the Italian statistical authorities filled in the standard detailed table on the recording of interest flows, for the State, detailing individual items of the EDP tables, including a split by instrument. Data were provided for the years 2014 and 2015.

Discussion and methodological analysis

Eurostat focused on the analysis of flows reported in the table, in particular, the zeroes reported for the premium accrued and discount accrued. The Italian statistical authorities explained that both flows are included in the coupon accrued because the current system used at the Treasury for calculation of accrual interest does not allow distinguishing between the coupon component and the amortisation of the premium/discount. Eurostat recommended to the Italian statistical authorities to investigate about a possible modification to the system in order to separate these flows. The Treasury expressed concerns that the modifications required could be costly and may unduly burden their system, and also wondered about the advantages of having such information. Eurostat indicated that these flows were necessary to verify the data and that other Member States seemed generally in a position to compile those

flows. In addition, Eurostat indicated that this information was also required to compile the ESA 2010 nominal value, as distinguished from the face value used for EDP purposes. Eurostat noted, that as an alternative to a change in the Treasury database, or in the meantime, using the changes in stocks of coupons accrued to date between two accounting periods would allow estimating the data on the amortisation of premium and discount.

Findings and conclusions

- (23) The Italian statistical authorities will complete the table on interest using the split between the coupon accrued and amortisation of premium and discount.

Deadline: April 2017 EDP notification¹⁰

4.2.3 EU flows

Introduction

In the past, the Italian statistical authorities recorded the EU grants on the basis of submitted claims, which were assumed to be close to the time of actual expenditure. Before the April 2016 EDP notification, ISTAT informed Eurostat that due to the important changes introduced in the reimbursement mechanism at the end of the programming period, the method for recording of EU flows had to be changed to the time of expenditure basis.

Discussion and methodological analysis

The Italian statistical authorities presented the reasons leading to the recent change in the recording of EU grants. With regard to the closure of the programming period 2007-2013, it was recalled that the deadline for the submission of final claims was extended to 31 March 2017, for expenditure incurred by 31 December 2015 under the programmes of the European Regional Development Fund (ERDF) or the European Social Fund (ESF). IGRUE (General Inspectorate for Financial Relations with EU, a part of MEF) has provided to ISTAT the data on expenditure incurred in 2015 on behalf of EU for an amount of 4.3 billion EUR, while the value of the claims submitted for reimbursement was only 3.4 billion EUR as of January 2016. In order to avoid recording the expenditure actually incurred in 2015 in the two following years (when the claims are submitted), a decision was made to move to the 'time of expenditure' method. As explained by the Italian statistical authorities, the remaining claims are expected to be submitted by the end of March 2017. On the basis of updated information on validated expenditure, data for 2015 might be revised in the April 2017 EDP notification.

Concerning the new programming period 2014-2020, the Italian statistical authorities informed about certain problems with the timeliness of validation of expenditures. In particular, the validated data on the expenditures incurred by final beneficiaries and notified to the Commission by 15 February of year T are only available for the period from 1 July of (T-2) to 30 June of (T-1). Therefore, the final data for the year (T-1) would be available only in the April EDP notification of (T+1). In order to avoid constant revisions resulting from the gradual validation of expenditures, the Italian statistical authorities proposed a method applying a correction coefficient. In this case, the Italian statistical authorities will report in the April EDP notification the validated data on the expenditure for the first half of the previous year and the non-validated data for the second half of the previous year, however,

¹⁰ The follow up note was sent on 30 March 2017.

adjusted by a downward coefficient calculated according to the proportion of the validated and non-validated data for the previous available quarters. Eurostat took note of the explanations.

Eurostat enquired about the reporting of the data on the stocks of receivables and payables against the EU, which are currently reported as non-available in the EDP Questionnaire table 6. The Italian statistical authorities committed to investigate the issue. Furthermore, Eurostat commented on the decrease of receivables relating to EU flows, for an amount of 688 million EUR in 2015, while the claims submitted for reimbursement amounted to 2.1 billion EUR, as mentioned in the previous discussion. The Italian statistical authorities explained that the effect of payments made by EU in respect to the submission of claims has to be considered, but will confirm this.

Finally, Eurostat asked about the use of the so-called 'financial instruments' in parallel with grants from the EU structural funds (such as loans, guarantees, equity, fund of funds, etc). The Italian statistical authorities confirmed the existence of such programmes, however, their recording in the national accounts could not be fully clarified during the meeting and has to be investigated.

Findings and conclusions

- (24) The Italian statistical authorities will report the data on stocks of other accounts receivable/payable related to EU flows in the EDP Questionnaire table 6 in the April 2017 EDP notification.

Deadline: end of June 2017

- (25) The Italian statistical authorities will clarify the statistical treatment of the EU financial instruments.

Deadline: April 2017 EDP notification¹¹

4.2.4 Military expenditure

Introduction

The data on the expenditure relating to military equipment under long-term contracts are provided by the Ministry of Defence (MOD), for deliveries, under a formal agreement, and by MEF, for cash data, for specific chapters of the State Budget.

Discussion and methodological analysis

Following the discussion in the previous EDP dialogue visit in 2015, the Italian statistical authorities, including MOD, carried out an in-depth analysis about the nature of the payments for military expenditures under long-term contracts. As a result, in the April 2016 EDP notification, the new data on the stocks of receivables for 2012-2015 were reported in the EDP Questionnaire table 7. During the meeting, the Italian statistical authorities confirmed that, currently, military equipment purchased under long-term contracts, are exclusively financed from advance payments, and that no payables in this respect exist. Eurostat

¹¹ The note was sent on 31 March 2017.

questioned the significant increase in the stocks of trade credits and advances receivable in the table 7 for 2012-2015, which was explained by an expected increase in the volume of deliveries of military equipment in coming years.

Findings and conclusions

Eurostat took note of the explanations.

4.2.5 Gross Fixed Capital Formation (GFCF)

Introduction

The GFCF (P.51g) is recorded on an accrual basis for those units with available accrual data sources (balance sheets), e.g. Anas, the INPS starting from October 2013, and in the case of the remaining social security funds and local health units (LHUs) starting from April 2014. For those units which report on a commitment and cash basis, P.51g estimates are based on the actual cash data. At the local government level, works on obtaining reliable data and on the compilation method are still ongoing.

Discussion and methodological analysis

Referring to the previous discussions, Eurostat asked about the progress in obtaining the relevant data on accrual investments and on the proportion of the P.51g where data are reported on an accrual basis. According to the figures provided by ISTAT during the meeting, in 2015, the share of the accrual-based P.51g for general government was 49%, or 44% when excluding the military equipment and R&D. For central and local governments, the ratios were 50% and 20% respectively, however, the figure for local government was to be checked, due to some apparent inconsistencies pointed at by Eurostat.

Concerning local government, the Italian statistical authorities presented a proposal, already described in the document sent before the visit, which aimed at using the Public Works Database (MOP) administered by MEF. The MOP database provides the indicator '*Realised amounts*', which seemed to be closer to the ESA 2010 definition of accrual. The initial analysis focused on a possible replacement of the current data source - Final Accounts Certificates - by the data received from the MOP. However, the comparison between the cash-based '*Payments*' included in the MOP and the cash amounts in the Certificates at the level of a municipality, showed that the share of units characterized by a satisfactory degree of coherence between the two sources is not sufficient. Therefore, instead of moving fully towards the MOP data, ISTAT proposed to change the data source only for those CUPs (unique identification code of a single realized project) which are simultaneously included in the '*Payments*' (Final Accounts Certificates) and in the '*Realised amounts*' (MOP) datasets. Thus, accrual investments would be estimated by using the '*Realised amounts*' data for the identified projects. For the remaining CUPs, cash data would be used as before. Eurostat provisionally agreed with the approach proposed by ISTAT, which implies doing an accrual adjustment only for a smaller part of investment expenditure. A more complete approach, by only using MOP data, implies too much uncertainty.

The Italian statistical authorities stressed that the approach described above would be used on a temporary basis until the first data (for 2016), according to the new chart of accounts, were available. The introduction of the '*enforced legal accrual*' principle in the Italian accounting

system which is the basis for the *'Realised amounts'* indicator, should approximate to the concept of the accrual, as defined by ESA 2010.

Findings and conclusions

- (26) In relation to the shortcomings in the accrual recording of investment expenditure, Eurostat took note that the situation will improve with the new chart of accounts. In the meanwhile, the proposed method will be to use the Public Works Database (MOP) only for projects (Codice Unico di Progetto - CUP) which have the MOP and cash data at the same time.

4.3 Recording of specific government transactions

4.3.1 Government transactions in the context of the financial crisis

Introduction

Under this agenda point, the operations resulting from the resolution of four small banks in 2015 and the related transfer of the non-performing loans (NPLs) in 2016 were discussed. In the note sent before the visit, the Italian statistical authorities informed about other operations possibly impacting the year 2017 and recent measures approved by government in the context of the financial sector crisis.

Discussion and methodological analysis

Resolution of four banks

Eurostat reviewed the recording of the **resolution of four banks** (Cassa di risparmio di Ferrara, Banca delle Marche, Banca popolare dell'Etruria e del Lazio and Cassa di risparmio di Chieti) in 2015. In the beginning of the resolution process, the banks' NPLs were written-down from an initial book value of 8.5 billion EUR to 1.5 billion EUR. The reduction in value, net of write-downs already booked in the past, was app. 4.1 billion EUR. These losses were partly covered by shareholders and subordinated bondholders (0.87 billion EUR), as requested by the BRRD, and partly by the NRF (1.7 billion EUR, with a B.9 impact on government accounts). The NPLs were transferred to the bad bank (REV) classified inside general government.

The remaining assets and related liabilities were transferred to four newly created 'bridge banks'. In order to provide an initial capital, the NRF granted a capital injection of 1815 million EUR to these bridge banks, which was initially recorded as a financial transaction (F.5). In the October 2016 EDP notification, following the failed efforts to privatise the four bridge banks, the capital injection was then reclassified to a capital transfer (D.9).

In 2015, the NRF collected fees from banks in the amount of 2.3 billion EUR, which were used to finance the four small banks' resolution. In order to obtain additional funds, three big Italian banks provided to the NRF a loan for an amount of 4.0 billion EUR at market conditions. The loan was partially repaid. The outstanding amount of the loan by the end of 2015 was 1.55 billion EUR.

In 2016, the **NPLs of the four banks** in resolution were transferred to REV, for a net value of 1.5 billion. The transfer was financed by a loan for an amount of 1.5 billion EUR granted

by the bridge banks to REV. During the meeting, the Italian statistical authorities confirmed that the NPLs had been booked in the national accounts balance sheet of REV at the purchasing price of 1.5 billion EUR, instead of their nominal value 8.5 billion EUR. The 'market' value of the NPLs (app. 17% of the nominal value) was determined by the independent experts appointed by BoI. As regards the impact on EDP figures, the operation increased government debt by 1.5 billion EUR in 2016 for the outstanding amount of the loan, without impacting the 2016 deficit. Eurostat temporarily accepted the recording of the NPLs at the purchasing value on the REV balance sheet and recalled the ongoing updated guidance on the defeasance structures in the MGDD, to interpret ESA 2010 paragraph 7.70 for defeasance structures.

Eurostat enquired about the operations impacting the year 2017, mainly the **sale of three bridge banks** (Nuova Banca delle Marche, Nuova Banca dell'Etruria e del Lazio and Nuova cassa di risparmio di Chieti) to UBI Banca, which was announced by BoI in January 2017. The Italian statistical authorities explained that, in exchange for a negligible price, resulting from the current situation on the market, the purchasing bank committed to their recapitalisation.

NRF funding call

The discussion continued with analysing the NRF decision of December 2016 to call **additional contributions** for a total amount of 1.5 billion EUR in order to repay the outstanding debt due to the three big banks, as seen above. The Italian statistical authorities informed about the ongoing discussions, which might result in a decision of BoI to spread the obligation to pay the contributions in five years instead of a one-off payment. The BoI competence to spread the obligation over five years was established in the Decree Law no. 237/2016 of 23 December 2016. This, however, had to be converted to law, by a Parliament act, within 60 days in order to be applicable. Therefore, depending on the legal status of the Decree Law, a decision of BoI might be published, which would be the basis for the recording in national accounts. It was stressed that the final outcome would be available and communicated to Eurostat before the April 2017 EDP notification¹².

Garanzia Cartolarizzazione Sofferenze (GACS)

In 2016, the Italian government introduced by Law 49/2016 a **securitisation scheme GACS** aiming at providing a government guarantee as part of securitization transactions whose underlying assets are NPLs. Under this scheme, banks can sell their NPLs to a Special Purpose Vehicles (SPVs) that would finance the acquisition through the emission of asset-backed securities. The rate of return of these securities will be linked to the actual recovery of NPLs. The state guarantee can cover only the senior tranches of securitization transactions (i. e. the least risky ones), and provided that they have received an 'investment grade' rating by an independent rating agency. The government guarantee is granted against a fee which was recognised by the Commission as charged at market conditions. A special fund was created by the MEF (managed through a dedicated treasury account) in order to collect the fees and, in case of default, to pay the guarantees called. The government also allocated 120 million EUR to this fund. Eurostat enquired about the SPVs. The Italian statistical authorities clarified that they are not to be publicly owned. Concerning the special fund, it was explained that no specific unit had been created, and the earmarked amount had simply been booked as a reserve in the budget.

¹² The Decree Law no. 237/2016 was converted into a law on 17 February 2017, with some modifications.

Atlante funds

Afterwards, the discussion focused on specific funds established in 2016 for the purpose of gathering the capital from financial institutions to recapitalise banks in difficulties, and to promote the NPLs market.

The first initiative called **Atlante**, administered by an independent asset management company, Quaestio Capital Management SGR S.p.A, in April 2016 collected 4249 million EUR from 67 investors, mainly the Italian and foreign affiliates of banks, insurance corporations, banking foundations, etc. As concerns public sector investors, 500 million EUR was invested by CDP and 260 million EUR by the Poste Vita (both classified in S.12). In 2016, Atlante intervened in favour of two banks, i.e. in Banca Popolare di Vicenza through an equity injection of 1.5 billion EUR, acquiring a controlling interest of 99.33%, and in Veneto Banca for an amount of 989 million EUR, acquiring a controlling interest of 97.64%.

Atlante 2 is phase two created with the aim to use the remaining capital from Atlante and to collect new capital from other investors. Before the visit, the Italian statistical authorities informed about the CDP's participation in Atlante 2's capital for an amount of 250 million EUR.

Eurostat commented on the participation of the government controlled CDP in the capital of both Atlante funds and mentioned in this context the Italian Court of Auditors statement of July 2016, expressing some concerns about the CDP competence to participate in the capital of Atlante as well as in ILVA S.p.A rescue. The Italian statistical authorities clarified that the results of a subsequent analysis of the CDP Statute did not confirm the Court statement. They further described the background of the CDP involvement in ILVA (see point 2 - Follow-up of the previous EDP dialogue visit of 2-3 February 2015).

Recent government measures for ensuring financial stability

By the Decree Law n. 237/2016 approved on 23 December 2016, **government introduced a set of measures** in order to ensure an adequate level of liquidity to Italian banks. In this context, a fund of 20 billion EUR has been created with the aim to finance two kinds of interventions: (i) government guarantees and (ii) precautionary recapitalization by the State. The Italian statistical authorities clarified that 16 billion EUR was earmarked for bank recapitalisations and the remaining 4 billion EUR is included for guarantees. The government guarantees can be provided on new bonds with a specific maturity, issued by Italian banks against a fee. The issued bonds cannot be subordinated. The guarantee also applies to emergency loans provided by BoI under the Emergency Liquidity Assistance (ELA). Until now, the Monte dei Paschi di Siena (MPS) issued two bonds under the guarantee scheme for a total amount of 7.0 billion EUR. Three additional banks (Banca Marche, CariFerrara and Banca Etruria) received a government guarantee on ELA loans.

As regards precautionary recapitalisation, the Decree Law 237/2016 stipulates that banks showing a capital shortfall in the adverse scenario of a stress test may request a precautionary recapitalization by the State, if complying with a set of specific conditions. In accordance with the European regulatory framework on Bank resolution and State aid, public intervention in the form of a precautionary recapitalization will not trigger resolution or bail-in, but will require the conversion of subordinated bonds into equity (burden sharing). As stated by the Italian statistical authorities, the measures of the precautionary recapitalisation are to be used in the case of MPS and possibly two other banks.

In this context, Eurostat recalled the MGDD guidance on the recording of capital injections and on the case where the capital injection is provided less than one year before the planned privatisation. In this respect, the Italian statistical authorities raised the issue of divergence between the MGDD rules and the BRRD, where the latter stipulates the assessment period to two years. Eurostat also referred to the principle of apportioned losses, which would imply in the MPS case that only 4% of the accumulated losses (i.e. proportionally to the government share on the bank's equity) would be considered for the capital injection test (with respect to past losses). This criterion of apportionment of losses though not yet in the MGDD, has been informally approved by Eurostat statistical working groups, and was already implemented by Eurostat in other cases. The practical consequence is that it was likely that most of the MPS injection would be treated as financial, unless future losses or future low rate of returns were expected.

Findings and conclusions

- (27) In relation to the transfer of non-performing loans from four banks in resolution to the bad bank (REV) in 2016, Eurostat takes note that the Italian statistical authorities will book the purchase value of 1.5 billion EUR, increasing government debt for the same amount.
- (28) In relation to the additional contributions of 1.5 billion EUR, payable to the National Resolution Fund, the Italian statistical authorities will monitor and inform Eurostat on the decision-making process in order to conclude whether the full amount of contributions should be recorded in 2017 or spread in future years.

Deadline: when applicable¹³

- (29) Eurostat invites the Italian statistical authorities to investigate the operations that the CDP might have conducted on behalf of government, and in particular the bridge loan which the CDP provided to ILVA S.p.A. in order to solve the liquidity problem.

Deadline: April 2017 EDP notification¹⁴

- (30) The Italian statistical authorities will record the capital injection of government into Monte dei Paschi di Siena (MPS) in 2017 according to the MGDD rules and using the criteria of apportioning of losses, taking into account the fact that the government is the owner of only a small percentage of capital of the MPS.

4.3.2 Guarantees

Introduction

Government guarantees are provided by central and local governments mainly to public corporations, SMEs, exporters, international organizations, banks and local government units. Guarantees on assets mainly concern export insurance and loans. The guarantees issued under standardised schemes are provided by two guarantee funds, to SMEs and to households.

Discussion and methodological analysis

¹³ The note was sent on 31 March 2017.

¹⁴ The note on the loan granted by CDP to ILVA was sent on 6 April 2017.

Eurostat reviewed the table on stocks and flows of guarantees provided to public and private corporations, which was sent before the visit. The Italian statistical authorities informed about forthcoming revisions of some stocks in the April 2017 EDP notification, updating the figures on guarantees on bonds issued by CDP and export claims of SACE, and including (in the stock) guarantees on loans of a private corporation not reported in October 2016. Afterwards, Eurostat enquired about the series of cash calls in the period 2012-2015 without any underlying debt assumption. It was explained that in this case, each provision of the guarantee was followed by an immediate cash call. The Italian statistical authorities were asked to comment on the 'partial' coverage of the stocks of guarantees provided by central government that is indicated in the EDP Questionnaire table 9.1. Concerning the State, data are exhaustive. However, information for other central government bodies is not available. According to the Italian statistical authorities, those units are not supposed to provide any guarantees, anyway.

In the EDP Questionnaire table 9.4, the Italian statistical authorities report two types of standardised guarantees, in particular guarantees on loans to SMEs and on real estate loans to households. Referring to the data for 2012-2015 reported in the table, Eurostat asked about the disproportion between the development of the outstanding amounts of liability (AF.66) and the growth of the provisions for future calls (F.66) over the reporting period, the latter showing higher dynamics. The Italian statistical authorities clarified that the data on provisions, provided by MEF, are calculated on an 'expert' basis (i. e. they are not obtained from administrative sources), and they reflect the situation of the last three years.

Findings and conclusions

Eurostat took note of the explanations.

4.3.3 Debt assumptions, debt cancellations and debt write-offs, government claims

Introduction

Central government provides loans to corporations (under a particular scheme), households, local government units and foreign countries, e.g. under the Paris Club and other foreign claims to less developed countries. Other types of loans are related to foreign claims of SACE, the Italian export credit agency. Main data source for ISTAT are data on transactions, new lending and related repayments received from MEF and BoI.

Prior to the visit, the Italian statistical authorities provided a table listing the debt cancellations for 2012-2015, mainly related to foreign claims.

Discussion and methodological analysis

In the EDP Questionnaire table 9.2, which seeks information on debt assumptions, no transactions are reported for the period of 2012-2015. According to the Italian statistical authorities, no debt assumptions occur in general government accounts. Similarly to the case of guarantees, the Italian statistical authorities explained that the 'partial' coverage in the table reflects the non-availability of data for the other government bodies.

Eurostat enquired about the availability of data on debt cancellations in local government. Up to date, the only existing information in existence concerns cases identified by a survey run by the Italian Court of Auditors. The survey covers a large number of local units, however, it

is not exhaustive. In future, the situation is expected to improve mainly due to the new chart of accounts, which should capture the relevant information in several accounting items.

Findings and conclusions

Eurostat took note of the explanations.

4.3.4 Capital injections in public corporations

Introduction

According to the EDP Inventory, no capital injections are recorded in the central government. At the local government level, capital injections are provided to public corporations by regions, provinces and municipalities. Prior to the visit, the Italian statistical authorities provided a list of those, that are recorded as expenditure in national accounts.

Discussion and methodological analysis

Eurostat recalled the October 2016 request for clarification regarding capital injections, with transactions in equity for an amount of 1766 million EUR in 2015. As further explained, a major part was related to equity purchases by social security funds. During the meeting, the Italian statistical authorities were not in a position to clarify these transactions and committed to provide more details in the forthcoming April 2017 EDP notification. In addition, they will send a list of capital injections split by public corporations for 2012-2015, recorded as transactions in equity (Block B in the EDP Questionnaire table 10.2), which was not provided before the visit.

Findings and conclusions

- (31) The Italian statistical authorities will provide a split of acquisitions of equity in public corporations for 2012-2015 in the EDP Questionnaire table 10.2 and will enquire on the nature of acquisition of equity by social security funds in 2015.

Deadline: April 2017 notification

4.3.5 Dividends, super dividends

Introduction

In EDP Questionnaire table 10.2, the Italian statistical authorities report distributions to government by corporations, of which only a negligible amount is recorded as super dividends. Prior to the visit, the Italian statistical authorities sent a list of dividends and of profits of the largest corporations, and the results of the super dividend test for 2012-2015.

Discussion and methodological analysis

Referring to the calculation of the super dividend test sent prior to the visit, Eurostat questioned the calculations, which seemed to compare the dividends paid in a year with the profit of the current year, instead of the previous year's profit. During the meeting, the Italian statistical authorities provided an updated version of the table. Furthermore, they claimed that in some cases (e.g. Enel), part of the profit for distribution to shareholders could be put to a

reserve in order to be paid in the following year (the so-called smoothing of dividends). Eurostat stressed that the case of dividend smoothing is often misunderstood by countries and referred to the MGDD guidance which states that any significant payment out of reserves, reducing the own funds of a corporations, is considered as the withdrawal of equity (F.5). Concerning the application of the super dividend test, the Italian statistical authorities committed to verify the calculations provided previously in the table.

It was also mentioned during the meeting that, with reference to year 2014, the data were collected by the new '*Survey on corporations participated by general government units*' which was launched by the MEF for the first time. From 2015, detailed data are to be collected and provided to ISTAT on a regular basis.

Finally, Eurostat enquired about the concept of the 'profit' applied by the Italian statistical authorities in the calculation of the super dividend test. Since there was some uncertainty about the definition of the 'profit' adopted from the business accounts, the Italian statistical authorities committed to investigate the issue and inform Eurostat.

Findings and conclusions

- (32) The Italian statistical authorities will verify whether the super dividend test is implemented comparing the dividend of year T with the operating profit of the year (T-1).

Deadline: April 2017 EDP notification

4.3.6 Financial derivatives

Introduction

Financial derivatives are used by central and local governments, in particular options (swaptions), cross currency swaps and interest rate swaps. As regards the recording in EDP table 2, cash amount related to swaps are reported in the working balance and excluded in the '*Other financial transactions, of which: net settlements under swap contracts*'.

Discussion and methodological analysis

Eurostat enquired on the large cumulated flows in financial derivatives (both asset and liability sides) reported in the EDP table 3B, which reached about 21 billion EUR over the period 2012-2015 (12.8 billion EUR on the asset side and 7.9 billion EUR on the liability side), as against 13.6 billion EUR reported over 2012-2015 in EDP table 2A. For the sole year 2015, transactions in financial derivatives (F.71A, F.71L) reported in the EDP table 3B were app. 6.8 billion EUR, whereas the cash flow in the working balance in table 2A (also reported in the table on interest) was only 3.6 billion EUR.

The Italian statistical authorities explained that the transactions in derivatives in table 3B contained broadly three components that had to be distinguished: (1) net streams of cash outflows on swaps, which are entering the working balance and are neutralised in the EDP table 2A, and which are reported as transactions in derivatives on the assets side in EDP table 3B, (2) the impact of swaps restructuring in 2012 and 2013 (reported as transactions in derivatives liabilities in the EDP table 3B), which according to the Eurostat decision leads to an increase in Maastricht debt (and a decrease in derivative liabilities), similarly to off-market

swaps, and (3) the activation of swaptions in 2014 and 2015, also reported as transactions in derivatives liabilities in table 3B.

The Treasury explained that a hedging policy initiated a long time ago had resulted in a significant short position, where the Treasury was paying the fixed rate and receiving the floating (at very low rate, currently). The notional position was approximately 150 billion EUR – thus currently generating around 3 billion EUR of cash outflows annually. Swaps contracted are often very long term (30 years) although there are some with a more reduced maturity (6-7 year).

This hedging policy had included swaptions, in the form of option sold (for small amounts at inception), a long time ago, that were now being exercised. The exercise of swaptions by the options holder is treated as a swap restructuring: an increase in debt and a decrease in derivative liability (redemption of the option). The Italian statistical authorities thus explained that, in 2015, there had been 3.5 billion EUR redeemed in derivatives, not settled in cash but with an increased in debt, due to off-market swaps generated by the exercise of swaptions. The Italian statistical authorities specified that by end 2016, the Maastricht debt related to off-market swaps had reached 8 billion EUR (including the 3.5 billion EUR incurred in 2015).

The stocks of financial derivatives are reported on a net basis, on the liability side (AF.71L), in ESA table 27, for a market value of 38.6 billion EUR in the third quarter of 2016. The Italian statistical authorities explained that according to a decision taken in the past, data on financial derivatives were recorded on the liability side (although the information on gross values is available).

Findings and conclusions

Eurostat took note of the explanations.

4.3.7 PPPs, concessions and energy performance contracts (EPC)

Introduction

The Italian statistical authorities currently report 30 PPP contracts, mainly in the healthcare sector, of which 23 projects are recorded on balance sheet of government. Prior to the visit, the Italian statistical authorities informed about a new PPP project that is to be reported in the April 2017 EDP notification. Concerning data sources, relevant information is provided to ISTAT mainly by the Interministerial Department for Economic Programming (DIPE) and other involved institutions.

As regards EPCs, there is a number of forthcoming projects which have not started yet, pending the legislative Decree, issued in December 2016.

Following the updated provisions in the MGDD, the Italian statistical authorities recently started with the analysis of concession contracts, focusing on motorway concessions in a first phase.

Discussion and methodological analysis

Concerning **PPPs**, the Italian statistical authorities informed about a recent cooperation agreement between ISTAT and the Unit for Assessment and Verification of Public Investment established under the Ministry of Health. Until now, the Unit had provided to ISTAT information on 21 PPPs, of which 13 projects were included in the ISTAT monitoring system. Eurostat expressed some concern about the remaining projects that were not monitored and urged the Italian statistical authorities to find a systematic solution for projects monitoring. The Italian statistical authorities explained that municipalities have a legal obligation to report PPPs to the Cabinet, however, small projects might still be omitted. As a possible data source, the new chart of accounts implemented in 2016 was proposed, which could capture exhaustive information for all local government entities reporting certain categories of costs.

The Italian statistical authorities informed Eurostat that, in December 2016, a Ministerial Decree issued by two ministries moved forward the implementation of the **EPC projects**. Annexed to the Decree, a list of approved interventions, submitted by central administrations for 2014 and 2015, was published. The Italian statistical authorities clarified that a series of necessary steps were still to be implemented before the projects' realisation. Eurostat took note that the total amount of financing for these projects was negligible.

In the context of updated MGDD guidance on **concessions**, the Italian statistical authorities recently started the analysis of existing concession contracts. In a note sent prior to the visit, they provided a list of motorway concessionaires and preliminary results of the analysis for two particular concession contracts. In the case of Autostrade per l'Italia S.p.A., a concession contract is concluded between the Ministry of Transport and the private corporation. The contract covers the realization, management and maintenance of highway sections and obliges the concessionaire to refurbishment, ordinary and extraordinary maintenance of the highway infrastructure. It also establishes the right to demand toll payments from users (a share of it is then rerouted to ANAS S.p.a.). In the note, ISTAT provided detailed data on investment expenditure and revenue which showed that the public contributions account for a minority of the concessionaire's revenue. More than 80% comes from the tolls paid by users. On this basis, ISTAT concluded that the asset has to be included in the corporation's balance sheet, thus having no impact on the government deficit.

In the second case of the Milano Serravalle - Milano Tangenziali S.p.A., ISTAT provided details about the concessionaire, which is clearly a public corporation, complying with the 50% test, and therefore classified outside S.13. The concession contract covers the realisation of some highway sections, either already operational or still under construction. The preliminary analysis carried out by the Italian statistical authorities showed that in case of two specific sections, the majority of the planned investment expenditure is to be financed from public contributions. According to the Italian statistical authorities, a more detailed analysis is still needed, however, the preliminary results pointed to a reclassification of the assets related to the two specific sections on government balance sheet.

Findings and conclusions

- (33) Eurostat stressed the importance for ISTAT to ensure that it is informed of all existing PPPs for the purpose to classify them correctly. Eurostat invited the Italian statistical authorities to take concrete action in order to avoid that some existing PPPs could be still unreported.

Deadline: October 2017 EDP notification

- (34) The Italian statistical authorities will finalise the analysis of the concession Milano Serravalle – Milano Tangenziali in order to decide on its correct classification.

*Deadline: April 2017 EDP notification*¹⁵

4.3.8 Emission trading permits

Introduction

The entity responsible for the sale of emission permits is the *Gestore dei Servizi Energetici* (GSE) which is classified in S.13. Proceeds from the auctions are collected by GSE itself and then transferred, gross of interests earned in the period, to the State Treasury by 20 May of the following year. Permits auctioned in any year can be surrendered by April of the year following the sales. In the October 2016 EDP notification, the Italian statistical authorities modified a method for the recording of emission permits.

Findings and conclusions

Eurostat agreed with the Italian statistical authorities that the recording of emission trading permits will be discussed bilaterally at a later stage.

4.3.9 Others: privatization, sale and leaseback operations, UMTS, securitisation

Introduction

Prior to the visit, the Italian statistical authorities sent a note on the current and planned operations related to privatisation, sale and leaseback, UMTS and securitisation.

Discussion and methodological analysis

Referring to the list of **privatisation** transactions sent before the visit, Eurostat enquired about the availability of information for local government for 2016. It was clarified that, in the April 2017 EDP notification, data for 2016 will be reported based on updated information. Concerning planned privatisations, the MEF informed about a foreseen second tranche of 'Poste' and a possible privatisation in the railway sector, which is still to be decided.

During the meeting, the Italian statistical authorities confirmed that, according to them, there were no **sale and leaseback operations** in Italy. Eurostat enquired about the existence in the government sector of an option to repurchase assets sold. It was confirmed by the MEF that no such options existed, apart from the cases related to the sale of buildings that had been already discussed with Eurostat in the past.

In the context of the recording of **UMTS licences**, the Italian statistical authorities described in detail currently available licences for frequencies and the foreseen changes in their recording in national accounts, following the updated MGDD.

¹⁵ The note was sent on 31 March 2017.

In the case of frequencies expiring by the end of June 2018 (assigned in the 1990s), the operators can simply extend the licence until December 2029 without a technical change (prorogation) or to upgrade the communication services with a higher value since July 2017 to December 2029 (refarming). In both cases, each operator should pay the whole amount by September 2017 at the latest. The remaining unused frequencies will be auctioned and assigned possibly by 31 October 2017. The expected revenue is 2 billion EUR.

The Italian statistical authorities clarified that, starting with the April 2017 EDP notification, the recording of frequencies in national accounts will follow the updated MGDD guidance, i.e. revenue from the sale of frequency bands will be spread over the licence duration and recorded as a rent (D.45), instead of as a sale of non-produced assets (NP). However, in line with the ISTAT revision policy, the change in the recording will only impact the contracts for which the frequencies became available from 2013 onwards. In practice, the foreseen revision will thus cover the contracts concluded in 2011 (recorded previously as NP in 2013 due to the criterion of availability), the contract concluded in 2015 (recorded as NP in 2016) and the extension of the licenses concluded in 2015. The latter ones were not yet reported to Eurostat. As confirmed by the Italian statistical authorities, the years before 2013 will be revised in the next benchmark revision.

As regards the recording of the new operations planned for 2017, they will be recorded as D.45 spread over time, depending on the type of extension: from 1 July 2018 to 31 December 2029 in case of the prorogation, or from 1 July 2017 to 31 December 2029 in case of the refarming.

Eurostat reviewed the table sent prior to the visit with a list of **securitisation** operations for 2012-2016 and enquired about the stock of debt related to securitisations. The Italian statistical authorities clarified that no information on the stocks is available. However, as concerns the central government, all securitisations should have been already reimbursed. Eurostat asked about securitisation of fiscal claims. It was explained that these operations mainly related to future fiscal claims. Furthermore, Eurostat requested the Italian statistical authorities to clarify the reason for a different recording of securitisation of trade credits, since some securitisations were reported in the table as impacting debt, while the others not. It was explained that most of the trade credits are already included in the debt due to the rules on recording of trade credits under factoring without recourse. The trade credits securitised by local government units concerned in fact liabilities, and it was the original creditor who securitised the claims against local government. Eurostat took note of the explanations and pointed out that the operations appeared more to be factoring through securitisation than real securitisation operations of government.

Findings and conclusions

- (35) The Italian statistical authorities will reclassify the UMTS proceeds from sale of non-produced assets (NP) to rent for 2013 and onwards. The backward years will be reclassified in the next benchmark revision.

Deadline: April 2017 EDP notification¹⁶

¹⁶ The note explaining the revision in national accounts was sent on 30 March 2017 and updated on 6 April 2017.

5. Any other business

No issues

EDP dialogue visit to Italy, 7 - 8 February 2017

Draft Agenda

1. Statistical institutional issues

1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation

1.2. Data sources and revision policy, EDP inventory

1.2.1. Availability and use of data sources, revision policy

1.2.2. Compliance with Council Directive 2011/85

1.2.3. EDP Inventory

2. Follow-up of the previous EDP dialogue visit of 2-3 February 2015

3. Analysis of EDP tables – follow up of the October 2016 EDP notification

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of general government sector, application of 50% rule in national accounts

4.1.1. Application of the market/non-market test

4.1.2. Classification of national protection funds

4.1.3. Government controlled entities classified outside general government

4.2. Implementation of accrual principle

4.2.1. Taxes and social contributions

4.2.2. Interest and consolidated interest

4.2.3. EU flows

4.2.4. Military expenditure

4.2.5. Gross Fixed Capital Formation (GFCF)

4.3. Recording of specific government transactions

4.3.1. Government transactions in the context of the financial crisis

4.3.2. Guarantees

4.3.3. Debt assumptions, debt cancellations and debt write-offs, government claims

4.3.4. Capital injections in public corporations

4.3.5. Dividends, super dividends

4.3.6. Financial derivatives

4.3.7. PPPs, concessions and energy performance contracts (EPC)

4.3.8. Emission trading permits

4.3.9. Others: privatization, sale and leaseback operations, UMTS, securitisation

5. Any other business

EDP dialogue visit to Italy, 7 - 8 February 2017

List of participants

EUROSTAT

Lena Frej Ohlsson
Luca Ascoli
Philippe de Rougemont
Miguel Alonso
Daniela Ilavska

DG ECFIN

Vito Ernesto Reitano

ECB

Patrick Grussenmeyer

The Italian statistical authorities:

ISTAT

Gian Paolo Oneto	Director of the National Accounts Directorate
Stefano Menghinello	Director of Economic Statistics Directorate
Ludovico Bracci	Head of Compilation of government finance account Division
Gerolamo Giungato	Head of Treatment and verification of the quality of public finance data Division
Marinella Cosco	Compilation of government finance account Division
Susanna Riccioni	Compilation of government finance account Division
Luisa Sciandra	Compilation of government finance account Division
Rosa Bianca Sanna	Compilation of government finance account Division
Liviana Mattonetti	Compilation of government finance account Division
Giovanna Ottaviani	Compilation of government finance account Division
Nicola Vallo	Compilation of government finance account Division
Fiorella Boscaino	Treatment and verification of the quality of public finance data
Grazia Scacco	Treatment and verification of the quality of public finance data
Giovanna Dabbicco	Treatment and verification of the quality of public finance data

Ministry of Economy and Finance (MEF)

Treasury Department

Maria Cannata	General Director of the Directorate II - Public Debt
Paola De Rita	Directorate II - Public Debt
Giorgio Capulli	Directorate II - Public Debt

State Accountant General Department

Pierpaolo Italia	General Director of the General Inspectorate for Public accounting and finance
Daniela Mariani	General Inspectorate for Public accounting and finance

Mara Meacci
Emilia Scafuri

General Inspectorate for Public accounting and finance
General Inspectorate for Public accounting and finance

Bank of Italy (BoI)

Economic and Financial Statistics Department - Financial Account Unit

Gabriele Semeraro
Stefano Piermattei

Structural Economic Analysis Department Public Finances Division

Stefania Zotteri
Domenico Depalo
Angelo Pace
Emilio Vadalà