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Decisions of Eurostat on deficit and debt

Three decisions on Italy: SCIP, ISPA and Concessionari d'imposta

Eurostat, the Statistical office of the European Communities, has taken three decisions related to specific operations undertaken in **Italy**. They refer to:

- the time of recording of government expenditure in the context of a law establishing the right to compensation from government for households and for a Special Purpose Vehicle, in the framework of the SCIP securitisation operations;
- the recording of the debt issued by Infrastrutture S.p.A. (ISPA) in the context of the financing of the high-speed railway operation;
- the treatment of payments received from government by Concessionari d'imposta.

The decisions are in line with the European System of Accounts (ESA95). The decisions on SCIP and ISPA have been the object of a consultation of the Committee on Monetary, Financial and Balance of Payment Statistics (CMFB) and are consistent with its opinion, as described in annex.

1. SCIP securitisation operations

Background[1]

In 2001 and 2002, the Italian State undertook two securitisation operations, called SCIP (Società Cartolarizzazione Immobili Pubblici Srl). SCIP is the name of the Special Purpose Vehicle (SPV) involved in these operations, which concern the sale of a portfolio of buildings owned by the Social Security Funds to the SPV. The majority of the buildings sold to the SPV were rented by households, which were given priority in purchasing the apartments rented, before they could be freely sold on the market.

In April 2004 the Italian Parliament approved a law allowing those tenants who had already expressed in the past, in the context of the SCIP operations, the willingness to purchase the apartment they were living in, to buy it at the price prevailing on the market in 2001, rather than at the current market price at the moment of the sale. The law recognised that tenants, who had purchased apartments between 2001 and 2004, before the law was enacted, should be reimbursed by government for the difference between the price they paid and the 2001 price.

Moreover, the law also established the principle that the SPV which had purchased the real estate assets from government also had the right to be compensated by government, as it was forced, from the moment in which the law was approved, to sell the real estate assets at a price lower than market price (which was the original agreement with government) to certain categories of households. For this purpose government provided a guarantee to the SPV for a loan which the SPV was forced to request from financial institutions, in order to be able to repay the high-rated bonds issued by the SPV and thus maintain their high rating.

The decision of Eurostat and its impact

In the case of buildings purchased by households before the enactment of the law, and for which the State is now obliged to pay compensation to households, the time of recording of government expenditure (a capital transfer) should be in 2004, when the law was enacted, by the expected amount to be reimbursed by government to households.

In the case of buildings to be purchased by households after enactment of the Law however, the time of recording of government expenditure shall be at the moment of each sale, by the difference between the market price at the moment of the sale and the effective price paid by households.

As a consequence, the deficit of government for the year 2004 is expected to increase by an amount of €182 mn, compared to that reported by the Italian statistical authorities in the March 2005 EDP notification. There would be no impact on the debt.

2. The role of ISPA in the financing of the high-speed railway

Background[1]

Infrastrutture S.p.A. (ISPA) is a joint-stock company whose main activity is to provide financial consulting and financial resources directly to private and public enterprises engaged in large public works and/or infrastructure. ISPA is controlled by government and is now classified in the sector of financial auxiliaries outside general government.

ISPA is at present taking care of the entire financing of the construction of a high-speed railway link between Turin, Milan, Rome and Naples (the “High-Velocity/ High-Capacity” project). For this purpose, ISPA raises money on the market by issuing notes and loans. The proceeds are then provided to RFI (Rete Ferroviaria Italiana S.p.A.) and TAV (Treno Alta Velocità S.p.A.) in order to finance the construction of the high-speed railway link.

Following close examination of the balance sheet of ISPA, it was clear that the debt issued by ISPA had to be rerouted either to government or to the railway company, as ISPA was not bearing any risk in this operation.

The decision of Eurostat and its impact

All the debt issued by ISPA in the context of the construction of the high-speed railway link is to be recorded as government debt. Moreover, the counterpart entry of the debt issued by ISPA is a financial transaction, in the form of a loan from government to RFI-TAV.

If at the moment in which the debt has to be reimbursed by RFI-TAV (that is, at the end of reimbursement of each tranche issued) this will not happen, there will be a debt assumption by government whose counterpart will be a capital transfer from government to RFI-TAV. Capital transfers will be imputed only in those years where a part of the debt will have to be reimbursed, and only for the part that RFI-TAV will not be able to reimburse.

As a consequence, the debt of government in 2004 will increase by an estimated amount of €7.5 bn, equal to 0.6% of GDP. There will be no immediate effect on the deficit of government, except for interest repayments.

3. Concessionari d’imposta

It is recalled that, in previous years, government asked the Concessionari d’imposta (mainly banks exercising the function of tax collectors on behalf of the State) to advance to government the payment of taxes to be collected only in the future. The amounts paid to government in this respect were equal to €2 691 mn in 2003 and to €1 460 mn in 2004.

Eurostat decided that the amounts received by Government from Concessionari d’imposta as pre-payments, equal to a fixed percentage (1% for 2003 and 1.5% for 2004) of revenues of previous years, should be recorded as financial transactions (government borrowing) without improving the deficit, as they are not to be considered as revenue. The examination of the balance sheets of banks acting as tax collectors showed that these amounts do not have the nature of a tax, but one of a deposit or guarantee, which would be reimbursable by government. In consequence, the deficit and debt of government is expected to increase by 0.2% of GDP in 2003 and by 0.1% of GDP in 2004 (€1 149 mn out of the €1 460 mn, as some had been already considered as financial transactions by ISTAT).

4. Consequences on deficit and debt of government

As a consequence of the above decisions taken by Eurostat, the government deficit of Italy is now provisionally set at 3.1% of GDP for the year 2003 and at 3.1% of GDP for the year 2004. Government debt in 2003 and 2004 is also provisionally set at 106.5% and 106.6% of GDP respectively.

5. Other outstanding issues

It is recalled that Eurostat was not in a position to validate the figures for Italy in the context of the March 2005 EDP notification. Apart from the three issues mentioned above, this was mainly due to the recording of transactions with the EU budget, to inconsistencies between data on cash and accrual bases and to statistical discrepancies in government accounts. It is expected that Eurostat will shortly receive from the Italian authorities the information requested on these issues and will then be able to clarify these issues in co-operation with ISTAT. Depending on the outcome of the examination, this could lead to a further upward revision in the government deficit for the period between 2001 and 2004.

1. A more complete background on the securitisation operations SCIP1 and SCIP2, and on the role of ISPA in the financing of the high-speed railway operation, is available on the Eurostat website. See Eurostat activities/Eurostat news.

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CMFB

COMMITTEE ON MONETARY, FINANCIAL AND BALANCE OF PAYMENTS STATISTICS

CMFB opinion

concerning the CMFB consultation on the securitisation operations of SCIP 1 and SCIP 2 in Italy

1. On Eurostat's request the CMFB Chairman, with the assistance of the CMFB Executive Body, asked the CMFB Members to state their opinions on the treatment in national accounts of the sale by the Italian government of real estate assets to a special purpose vehicle in the context of the securitisation operations SCIP. Seventeen (17) national statistical institutes and nineteen (19) national central banks from the Member States returned the questionnaire. A total of thirty-six (36) national institutions responded to the questionnaire. The ECB also provided a reply.

2. The results of the consultation were as follows:

2.1 Based on a majority of the replies received, the CMFB considers that:

The time of recording and amount of the government expenditure related to buildings purchased by households before 2004 should be in 2004 when the Law was enacted and by the expected amount to be paid by the government to households

2.2 Based on a very large majority of the replies received, the CMFB considers that:

For buildings to be purchased by households after the Law was enacted, the time of recording of the government expenditure should be at the moment of each sale. The amount of the government expenditure should be the difference between the market price at the moment of the sale and the effective price paid by households.

3. Further details on these accounting treatments are provided in the background document prepared by the Task Force in support of this CMFB consultation.

4. This opinion has been transmitted to Eurostat and will be kept in the records of the CMFB secretariat.

(Signed)

Bill KEATING
CMFB Chairman

Dublin, 20 May 2005

CMFB

COMMITTEE ON MONETARY, FINANCIAL AND BALANCE OF PAYMENTS STATISTICS

CMFB opinion

concerning the CMFB consultation on the role of ISPA in the financing of the high speed railway link in Italy (RFI – TAV)

1. On Eurostat's request the CMFB Chairman, with the assistance of the CMFB Executive Body, asked the CMFB Members to state their opinions on the treatment in national accounts of the financing of the high-speed railway link in Italy (RFI – TAV) through Infrastrutture S.p.A (ISPA). Seventeen (17) national statistical institutes and nineteen (19) national central banks from the Member States returned the questionnaire. A total of thirty-six (36) national institutions responded to the questionnaire. The ECB also provided a reply.

2. The results of the consultation were as follows:

2.1 Based on a large majority of the replies received, the CMFB considers that:

The debt issued by ISPA in the context of the construction of the high-speed railway link is to be recorded as government debt (in whole or in part).

2.2 Those who considered that the debt issued by ISPA should be debt of government were then requested to consider how this debt should be recorded in the Government accounts in the year of issue. Based on these replies, the CMFB considers that:

The debt should be recorded as 100% debt of the government

2.3 Based on the replies from those who considered that the debt should be considered as debt of government, there was no clear majority in favour of recording the counterpart entry of the debt issued by ISPA as either a financial transaction or as a capital transfer.

The CMFB, therefore, is unable to provide an opinion on this aspect.

3. Further details on these accounting treatments are provided in the background document prepared by the Task Force in support of this CMFB consultation.

4. This opinion has been transmitted to Eurostat and will be kept in the records of the CMFB secretariat.

(Signed)

Bill KEATING
CMFB Chairman

Dublin, 20 May 2005