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NEW DECISION OF EUROSTAT ON DEFICIT AND DEBT

Payment to the State following the sale of monetary gold by Ufficio Italiano dei Cambi (UIC) to Banca d'Italia

Eurostat, the Statistical Office of the European Communities in Luxembourg, has taken a decision specifying the guidelines to ensure a better comparability for the government deficit and debt data in Member States and assuring conformity with the European System of Accounts (ESA 79).

This decision concerns a payment to the State following the sale of monetary gold by Ufficio Italiano dei Cambi (UIC) to Banca d'Italia. The accounting treatment of this transaction in terms of ESA 79 requires special attention because of the specific institutional arrangements in Italy.

Eurostat has decided to treat this payment as a financial transaction which has no effect on the measurement of the government deficit as defined for the purposes of the excessive deficit procedure.

This decision is in line with ESA 79 and it is built upon two former decisions concerning payments from Central Banks to the State, following sale of gold (see decision of 3 February 1997) or revaluation and sale of foreign exchange reserves (see decisions of 17 December 1997).

This decision is consistent with the opinion of the large majority of CMFB members.

The decision

Eurostat decision applies to a specific case which involves the Ufficio Italiano dei Cambi and the Banca d'Italia. On the 2nd of July 1997 the Board of Directors of the UIC decided to sell all the gold to the Banca d'Italia. It amounted to 10519 bn ITL, valued on the base of the swap operation between the Banca d'Italia and the EMI of 30 June 1997. With the transfer of gold to the Banca d'Italia, the UIC raised 7648 bn ITL. These profits came from the difference between the price of gold at 30 June 1997 and the price in 1976, when it was acquired originally.

On these profits 3685 bn ITL of taxes have been paid to the Italian State. The economic nature and the classification of this transaction in terms of the accounting framework of the ESA 79 was the subject of the discussions at the level of the technical groups.

The key aspects of the issue were discussed by a sub-group of national and financial accounts experts and two working parties on national accounts and on financial accounts were consulted in a written procedure on these questions. Eurostat requested a formal consultation of the CMFB. The result of the CMFB consultation is appended to this press release.

The Eurostat decision is based on the following ground:

- In national accounts, the UIC is economically owned by the Italian central government, as the Italian government appoints the majority of managing board, receives part of the profits on a regular basis, and has right over the net assets in case of liquidation, even though the state is not a legal shareholder.
- Gold reserves are held by UIC and managed in the general interest of the nation e.g. to defend the exchange rate of the national currency.
- In national accounts the State ownership in UIC is materialised by a participation recorded as "other equity".

Thus, any possible payment to the State, following an exceptional sale or revaluation of gold, results in a reduction on the State equity which is a financial transaction without effect on general government deficit.

In this sense, the present decision of Eurostat completes the former decisions taken in December 1997 concerning payments from Central Banks to the State.

This decision is consistent with the basic principles of national accounts requiring that all transactions occurring in different legal settings, but having the same economic effects, are to be recorded in the same way for all Member States in the national accounts.

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CMFB's opinion on the decided case

EXCESSIVE DEFICIT PROCEDURE – CMFB OPINION ON THE STATISTICAL TREATMENT OF TAXES ON THE SALE OF GOLD BETWEEN UFFICIO ITALIANO DEI CAMBI (UIC) AND BANCA D'ITALIA

Issue

Should the tax paid by Ufficio Italiano dei Cambi (UIC) to the Italian State arising from the sale of monetary gold to the Banca d'Italia be recorded in national accounts as a non-financial transaction (tax, capital transfer) or a financial transaction (withdrawal of equity)?

CMFB opinion

A large majority of CMFB members considered that the transaction should be recorded as a financial transaction, which would not reduce the government deficit.

Reasons

Taking account of ESA79, and in addition, other international guidelines, the main reasons were, with varying support:

- (a) A large majority considered that, for the purpose of national accounts, the UIC is owned, either directly or indirectly, by the state;
- (b) Just over half considered that, for the purpose of national accounts, units managing a nation's gold and foreign currency reserves should always be treated as if they were owned by the state;
- (c) A large majority considered that the UIC should be classified to the sector 'central banking authorities' in the national accounts.

A large majority considered that the national accounts could record the economic reality of a transaction when it is different from the legal form.

Finally, many members explained that an important reason for their opinion was consistency with earlier Eurostat decisions, and in particular the Eurostat decisions of 3 February 1997 and of 17 December 1997 on the treatment of "sales of gold by central banks" and of "payments from central banks to the state" respectively. Accordingly, "... the sale of gold and the subsequent transfer of the proceeds from this sale to the general government should be treated as a financial transaction". (Eurostat News Release 10/97 of 3 February 1997); and "... the repayment to general government of all or a part of the proceeds of exceptional sales of foreign currencies must be recorded as a financial transaction". (Eurostat News Release 88/97 of 17 December 1997).

A long process of prior consultation

The convergence criteria on public deficit and debt are an essential element for the admission of Member States into economic and monetary union. In conformity with the Treaty on European Union¹, the European Commission monitors the development of the budgetary situation in Member States and the extent to which the criteria are respected. The statistical data used for evaluation² are provided by the directorate general responsible, **Eurostat, the Statistical Office of the European Communities in Luxembourg**.

The statistics required to measure the convergence indicators clearly have to be strictly comparable. This is why Eurostat, in close collaboration with the statistical institutes of the Member States and statisticians of the central banks, has compiled **texts** setting out the **accounting treatment for transactions**, and put in place a **consultation procedure** to prepare rulings.

Evaluation on the basis of ESA79

Statistical information on Member States' budgetary transactions are presented by Member States and evaluated³ by Eurostat on the basis of the national accounts manual **ESA79**. Following a decision of the Council the new version (ESA95) will not enter into force before the year 1999. In certain cases, however, the ESA95 is being used as the basis for classifying certain budgetary transactions.

The final decision belongs to Eurostat

In recent years problems have arisen when trying to classify, in a harmonised way in all the Member States, economic and financial transactions which are not clearly defined in the ESA79. Therefore, with the aim of assuring good comparability between the statistics, Eurostat has for the past three years engaged in **consultations** with Member States, in the framework of a well-defined procedure.

This **consultation over methodology** is prepared by a task force. The issues are then submitted to two groups of experts: the national accounts working party and financial accounts working party. Following this, Eurostat consults the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB)⁴, comprising senior representatives of the central banks, national statistical institutes, the European Monetary Institute, and Eurostat.

After having heard the position of its members on each point for consultation, the CMFB formulates its opinion in conformity with its rules of procedure and presents it to Eurostat. As a consultative committee, the CMFB's **opinion is not binding on Eurostat**. In its final decision Eurostat does, however, take the utmost account of the opinions expressed by the CMFB and the other consultative expert groups on the accounting treatment of a transaction. The decision is made in complete **independence** and **neutrality**, according to **purely technical criteria**.

Eurostat does not decide on the individual cases of Member States, but on the **principles** of accounting treatment of specific budgetary transactions. Every decision in this area applies automatically to similar cases in all the Member States.

The decision on each issue is recorded in a **methodological note** addressed to the institutions concerned, notably the Commission, CMFB, central banks, and national statistical offices.

- 1 Article 104c of the Treaty on European Union
- 2 Protocol on the excessive deficit procedure
- 3 Regulation EC 3605/93
- 4 See annex 3

Annex 3

Committee on monetary, financial and balance of payments statistics (CMFB)

Principles and procedures for assessing the opinion of the CMFB (advisory committee of senior statisticians from government statistical offices, central banks, the Commission and the EMI) when an opinion is required from Eurostat on the calculation of government debt and deficit.

Background

- Eurostat makes the final decision on debt and deficit statistics.
- Gross domestic product estimates are approved by the Gross national product committee.
- Member States provide the Commission with an early warning of transactions that are likely to raise questions concerning statistical treatment; and provides full information about those transactions.
- Eurostat draws up a timetable for consideration of each case which is consistent with timetables set up by the Council. This leads to a work plan for the totality of cases.
- The work plan is given to the Statistical programme committee, to CMFB and other official institutions and regularly updated.
- Eurostat consults widely as it thinks fit.

Consultation of CMFB

- Eurostat consults the CMFB and notifies its proposals including a timetable.
- The process aims to identify the "best" technical solution for which there is a large support.

- The CMFB seeks advice from its working party, Financial accounts working party, from National accounts working party and from any other expert source it considers appropriate.
- The CMFB opinions are based on three criteria:
 - the solution must be in conformity with ESA79;
 - when ESA79 does not describe the problem or cannot lead to a solution, reference should be made to ESA95.
 - if two or more solutions satisfy the previous criteria, reference should be made to the guiding principles of economic accounts as outlined in the opening chapters of the world-wide systems of national accounts 1993.
- The CMFB consults its members, analyses results and informs Eurostat of the outcome of the consultation.

The process is transparent

- Eurostat makes its decision and informs at the same time, the Commissioner, the National statistical institutes (NSIs) concerned and the CMFB.
- Eurostat informs the CMFB and the NSIs on which methodological grounds the decisions are based.
- The outcome of the consultation of CMFB and the final decision of Eurostat are made publicly available at the same time.