

# Country experience: Italy (Chapter 14)

## Country experience: Italy

14.251. In the system of Italy, the construction activity is regarded as an FDI-related operation, if the construction work extends over a period of at least one year, or as a service transaction, if the construction work takes less time. In Italy, the gross construction value of projects lasting one year or more largely exceeds that of short-term projects, both for construction abroad (98 per cent vis-à-vis 2 per cent as an average in the period 2008-2012) and for construction in Italy (80 per cent vis-à-vis 20 per cent).

14.252. **Construction lasting less than one year** The quarterly non-financial transactions questionnaire (TTN questionnaire) collects specific information needed to compile the construction item. In particular, for constructions abroad only, firms are required to report the following transactions, in relation to the reference quarter (see chapter 6, paras. 6.78-6.87, for data collection for construction):

(a) **Goods, services and labour purchased/acquired abroad, used to compile the construction abroad debits** According to MSITS 2010, the goods and services acquired by the construction enterprise from third economies should be recorded under the appropriate general merchandise or services item. However, in order to reduce the reporting burden, firms are not required to split the inputs purchased in the host economy from those acquired in third countries; as a consequence, the inputs purchased abroad are all allocated to construction abroad debits, and to the host economy as the partner country. Moreover, labour costs are included in construction abroad debits, as it was not feasible for firms to separately identify that cost component;<sup>[1]</sup>

(b) **Goods purchased in Italy, used to adjust the BOP goods item, by deducting the corresponding amounts from merchandise exports** This is necessary in order to avoid duplication, as the goods purchased in Italy by the resident construction enterprise are also recorded in merchandise exports on the basis of foreign trade statistics.<sup>[2]</sup> In principle, the services acquired by the resident construction enterprise from residents of the home economy should be excluded; however, in order to simplify the reporting, it is assumed that all services are acquired from the host economy.

14.253. Table 14.8 shows the different sources used for each component of construction services. The construction abroad, as exports, and the construction in Italy, as imports, are computed assuming that the gross construction value is uniformly distributed throughout the duration of the work.

14.254. For construction in Italy, detailed information is usually not available to the reporting enterprises receiving the service. In order to fill that information gap, an assumption is made that the cost structures of construction abroad and in Italy are similar. Therefore, the missing information (i.e. the goods, services and labour purchased/acquired in Italy and the goods purchased in the country of residence of the construction firm) is estimated on the basis of the ratio of the corresponding items reported for construction abroad to the gross construction value.

**Table 14.8**

### Methodology for the compilation of the construction services item in Italy

	Export	Import
Construction abroad	Total contract value pertaining to the reference quarter	Goods, services and labour purchased/acquired abroad
Construction in Italy	Goods, services and labour purchased/acquired in Italy (estimated)	Total contract value pertaining to the reference quarter

14.255. **Construction lasting one year or more** Also in the case of construction lasting one year or more, the gross construction value is uniformly distributed throughout the entire duration of the work. The quota pertaining to the reference quarter is considered an increase of FDI equity stock (FDI abroad, or assets, in the case of construction abroad, and FDI in the reporting economy, or liabilities, in the case of construction in the compiling country).

14.256. For construction abroad, in the quarter in which the construction project ends, the reporting agent has to report the additional information on the net margin, i.e., the difference between the gross construction value and all costs incurred by the construction enterprise in relation to the project. For construction in Italy, the compiler estimates the net margin, which is not directly available to the reporting agent, by applying to the gross construction value the average rate of return observed for construction abroad.

14.257. Consequently, in the BOP for the quarter in which the construction ends: (a) the gross construction value is recorded as FDI disinvestment (on the assets side, in the case of construction abroad; on the liabilities side, in the case of construction in Italy), since the construction is delivered to the client and (b) the net margin is recorded as FDI income (on the credit side, in the case of construction abroad; on the debit side, in the case of constructions in Italy).

[1] MSITS 2010 para. 3.141.

[2] Ibid., para. 3.140, footnote 14, and BPM6, para. 10.22 (d).