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Italy risks losing billions on debt restructured amid eurozone crisis

By Guy Dinmore in Rome

Italy risks potential losses of billions of euros on derivatives contracts it restructured at the height of the eurozone crisis, according to a confidential government report that sheds more light on the tactics that enabled the debt-laden country to enter the euro in 1999.

A 29-page Treasury department report, obtained by the Financial Times, details Italy's debt transactions and exposure in the first half of 2012, including the restructuring of eight derivatives contracts with foreign banks with a total notional value of €31.7bn.

While the report leaves out crucial details and appears intended not to give a full picture of Italy's potential losses, experts who examined it told the FT that the restructuring allowed the cash-strapped Treasury to stagger payments owed to foreign banks over a longer period but, in some cases, at more disadvantageous terms.

The report does not name the banks or give details of the original contracts – questions that worried the state auditors – but the experts said they appeared to date back to the period in the late 1990s.

At that time, before and just after Italy entered the euro, Rome was flattering its accounts by taking upfront payments from banks in order to meet the deficit targets set by the EU for joining.

The report was submitted, as required, early this year to the Corte dei Conti, Italy's state auditors. According to a senior government official, who declined to be named, the auditors were concerned by the numbers and requested the finance police to intervene. In April, police of the Guardia di Finanza visited the offices of Maria Cannata, head of the Treasury's debt management agency, asking for more information on the report drafted by the agency, including details of the original derivatives contracts, the senior official said.

The 2012 Treasury report, which was also obtained by La Repubblica, an Italian newspaper, does not specify the potential losses faced on the restructured contracts. But three independent experts consulted by the FT calculated the losses based on market prices on June 20 and concluded the Treasury was facing a potential loss at that moment of about €8bn, a figure based on the €31.7bn notional value of the contracts.

Additional reporting by Giulia Segreti in Rome


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