

Brussels, 18 October 2018

Dear Minister,

We would like to thank you for the submission of Italy's Draft Budgetary Plan (DBP) for 2019.

In line with the provisions of Article 7 of Regulation (EU) No. 473/2013 and following up on our letter of 5 October 2018, we are writing to consult you on the reasons why Italy plans “*an obvious significant deviation of the recommendations adopted by the Council under the Stability and Growth Pact*” for 2019, which is a source of serious concern for the European Commission.

The recommendation addressed to Italy regarding the requirements under the Stability and Growth Pact was, as for all Member States, endorsed unanimously by the European Council of 28 June 2018 and adopted by the Council of the European Union on 13 July 2018, including Italy.

The DBP plans a nominal rate of growth of net primary government expenditure of 2.7%, which exceeds the recommended maximum increase of 0.1%. The (recalculated) structural deterioration in 2019 amounts to 0.8% of GDP, which points to a significant deviation from the structural improvement of 0.6% of GDP in 2019 recommended by the Council on 13 July 2018.

Both the fact that the DBP plans a fiscal expansion of close to 1% of GDP, while the Council has recommended a fiscal adjustment, and the size of the deviation (a gap of around 1.5% of GDP) are unprecedented in the history of the Stability and Growth Pact.

Moreover, with Italy's government debt standing at around 130% of GDP, our preliminary assessment also indicates that Italy's plans would not ensure compliance with the debt reduction benchmark agreed by all Member States, which requires a steady reduction of the debt level towards the 60% threshold referred to in the Treaties. While Italy was found in non-compliance with the debt reduction benchmark in the past, we would like to recall that when the Commission assessed the deficit and debt situation of Italy in preparing its reports under Article 126(3) of the Treaty on the Functioning of the European Union (including the last one in May 2018), broad compliance with the preventive arm of the Stability and Growth Pact was a key relevant factor. The conclusions of that Article 126(3) report may need to be reviewed if such broad compliance can no longer be established in light of the planned significant deviation. Related to this, we note that, according to Italy's DBP, the Medium Term Budgetary Objective is not planned to be achieved by 2021.

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Finally, we note that the macroeconomic forecast underlying Italy's budgetary plans has not been endorsed by the Parliamentary Budget Office (PBO), Italy's independent fiscal monitoring institution. At first sight, this appears not to respect the explicit provision of Regulation 473/2013 (Article 4(4)) calling for the macroeconomic forecast to be produced or endorsed by an independent body. We would therefore ask for your arguments for not taking on board the PBO's opinion.

Those three factors would seem to point to a *“particularly serious non-compliance with the budgetary policy obligations laid down in the Stability and Growth Pact”* as set out in Article 7(2) of Regulation (EU) No. 473/2013.

The European Commission seeks to continue a constructive dialogue with Italy in order to come to a final assessment. We would welcome your views by noon on Monday 22 October 2018 to allow the Commission to take them into account before it provides its formal Opinion on the DBP. Our services stand ready to assist your services in this process.

Yours sincerely,



Valdis Dombrovskis



Pierre Moscovici