Commission concludes that an Excessive Deficit Procedure is no longer warranted for Italy at this stage

The Commission took stock today of the additional fiscal effort announced by the Italian authorities this week and concluded that it was material enough not to propose to the Council the opening of an Excessive Deficit Procedure (EDP) for Italy's lack of compliance with the debt criterion at this stage.

Valdis **Dombrovskis**, Vice-President for the Euro and Social Dialogue, also in charge of Financial Stability, Financial Services and Capital Markets Union, said: *"I welcome the actions taken by the Italian government to ensure a better budget outcome in 2019. Ensuring sound public finances is a bedrock for confidence and growth. Respecting the commitment to prepare a 2020 budget in line with the EU fiscal rules and thus avoiding further uncertainty will be important in this context."*

Pierre **Moscovici**, Commissioner for Economic and Financial Affairs, Taxation and Customs, said: *"The aim of the Stability and Growth Pact is not to punish or discipline anyone; it is to ensure that governments pursue sound public finances and correct problems swiftly when they occur. I am pleased to note this is the case today. The Italian government has responded to the Commission's signal one month ago that an Excessive Deficit Procedure was warranted by adopting a sound package of measures that ensure broad compliance with the Pact. We will carefully monitor the implementation of these measures in the second half of the year. Moreover, we stand ready to ensure that the 2020 draft budget to be presented this autumn will be compliant with the Pact. I have no doubt that we will work seamlessly in this context with the next Commission."*

On 5 June 2019, the Commission assessed in its report under Article 126(3) of the Treaty the factors behind Italy's breach of the debt benchmark in 2018. The report examined Italy's budgetary outturn in 2018 and the fiscal forecasts for 2019 and 2020 and concluded that an EDP was warranted. This conclusion was supported by the Economic and Financial Committee in its opinion adopted on 11 June 2019. The Member States also invited Italy to 'take the necessary measures to ensure compliance with the provisions of the Stability and Growth Pact in accordance with the EDP process', and added that 'further elements that Italy may put forward could be taken into account by the Commission and the Committee'.

On 1 July, the Italian government adopted its mid-year budget for 2019 as well as a decree-law, which include a correction for 2019 amounting to €7.6 billion or 0.42% of GDP in nominal terms. As a result, Italy's headline deficit is expected to reach 2.04% of GDP in 2019 (compared to 2.5% in the Commission 2019 spring forecast), which was the target enshrined in the 2019 budget as adopted by the Italian Parliament. The correction in structural terms is slightly greater, amounting to €8.2 billion or 0.45% of GDP, leading to an improvement in the structural balance of around 0.2% of GDP (compared to a deterioration of 0.2% in the Commission 2019 spring forecast). The difference compared to the nominal amount is due to the lower-than-expected one-off revenues from the tax amnesty of around €0.6 billion, which worsen the fiscal target in nominal but not in structural terms. These figures do not take into account the 0.18% flexibility provisionally granted to Italy for ‘unusual events’ related to the collapse of the Morandi Bridge and to hydrogeological risks, which will need to be confirmed ex-post based on the outturn data for 2019.

Taking into account the provisions adopted on 1 July, Italy is expected to be broadly compliant with the required effort under the preventive arm of the Stability and Growth Pact (SGP) in 2019, bridging the 0.3% of GDP gap estimated on the basis of the Commission spring forecast. Moreover, the additional fiscal effort delivered by the government for 2019 is such that it also partially compensates the deterioration in the structural balance recorded in 2018.

Finally, as regards 2020, the Italian government has reiterated its commitment to achieve a structural improvement in line with the requirements of the SGP, notably through a new spending review and revision of tax expenditures, as well as improved no-policy change projections reflecting the favourable trends observed so far in 2019. This information was set out in a letter sent on 2 July to the Commission from Prime Minister Giuseppe Conte, and Economy and Finance Minister Giovanni Tria.

Next steps

The Commission will keep under surveillance the effective implementation of this package: It will monitor closely the execution of the 2019 budget and will assess the compliance of the 2020 draft budgetary plan with the Stability and Growth Pact. Moreover, progress with structural reforms in the country-specific recommendations will be key to ensure higher growth and thereby contribute to a decrease in the debt-to-GDP ratio. The Commission will assess the implementation of these reforms within the context of the European Semester.

Background

The EDP is the ‘corrective arm’ of the Stability and Growth Pact and is designed to safeguard the requirement laid out in the Treaty that Member States should avoid excessive levels of deficit and debt.

The basis for triggering an EDP is a general government deficit in excess of the 3% of GDP, and/or a debt level above 60% of GDP and insufficiently diminishing towards that level. Currently, no Member State is in the corrective arm of the Pact, following Spain’s exit in June 2019.

For more information

[Communication ‘The 2019 Spring Round of Fiscal Surveillance for Italy’]

[Article 126(3) report on Italy (5 June 2019)]

Press release: Spring 2019 Economic Forecast

Press release: European Semester 2019 Spring Package

Article 126 of the Treaty on the Functioning of the EU (TFEU)

The Stability and Growth Pact

Excessive Deficit Procedure

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