EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

The Director-General

Brussels, 29 October 2018

Dear Mr Rivera,

I am writing to inform you about the next steps relating to the fiscal surveillance of Italy by the European Commission.

Let me first recall that on 23 October 2018 the Commission adopted its Opinion on Italy's 2019 Draft Budgetary Plan, which identifies in the Draft Budgetary Plan submitted by Italy for 2019 a particularly serious non-compliance with the recommendation addressed to Italy by the Council on 13 July 2018. The Commission also notes that the 2019 draft budgetary plan is not in line with the commitments presented by Italy in its Stability Programme of April 2018. In accordance with Article 7(2) of Regulation (EU) No 473/2013, the Commission requested Italy to submit a revised draft budgetary plan as soon as possible and in any event within three weeks of the date of the Opinion.

Italy's public debt remains a key vulnerability. Italy notified to Eurostat a general government gross debt for 2017 of 131.2% of GDP, thereby confirming that Italy did not make sufficient progress towards compliance with the debt reduction benchmark in 2017. The 2019 draft budgetary plan expects that the debt-to-GDP ratio will slightly decline from 131.2% of GDP in 2017 to 130.9% in 2018 and to 130.0% in 2019. The decrease in debt-to-GDP ratio is set to continue thereafter, down to 126.7% of GDP in 2021. Despite the planned reduction of the debt-to-GDP ratio, Italy is not projected to comply *prima facie* with the debt reduction benchmark either in 2018 or in 2019 based on the 2019 draft budgetary plan. Such high public debt constrains the government's room of manoeuvre for more productive investment for the benefit of its citizens. Given the size of the Italian economy, it is a source of common concern for the euro area as a whole.

On 23 May 2018, in view of Italy's *prima facie* non-compliance with the debt reduction benchmark in 2017, the Commission adopted a report under Article 126(3) of the Treaty on the Functioning of the European Union. That report analysed whether Italy was compliant with the debt criterion of the Treaty. After considering all the relevant factors and in particular Italy's compliance with the preventive arm of the Stability and Growth Pact, the report concluded that the debt criterion as defined by the Treaty and Regulation (EC) No 1467/1997 should be considered as complied with at the time.

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The particularly serious non-compliance with the recommendation addressed to Italy by the Council on 13 July 2018 identified in the Draft Budgetary Plan submitted by Italy for 2019 represents a material change in the relevant factors justifying the issuance of a new Article 126(3) report for Italy's *prima facie* non-compliance with the debt reduction benchmark in 2017. The Opinion of the Commission on Italy's 2019 Draft Budgetary Plan stresses that the planned budgetary trajectory both for 2018 and 2019 shows a significant deviation from the adjustment path recommended by the Council towards the medium-term budgetary objective for Italy. In particular, the large fiscal expansion projected for 2019 is in stark contrast with the fiscal adjustment recommended by the Council. That fiscal course, coupled with the downside risks to nominal GDP growth, will be incompatible with the need to decisively reduce Italy's large debt-to-GDP ratio.

The Stability and Growth Pact allows Member States to put forward *"...any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess in qualitative terms the excess over the reference value and which the Member State has put forward to the Council and the Commission."* (Article 2(3) of Regulation (EC) 1467/97). The Code of Conduct of the Stability and Growth Pact, agreed by all Member States, specifies that such information should be put forward by the Member State concerned in due time for the preparation of the report under Article 126(3) TFEU. The European Commission will consider the extent to which Italy has taken into account the Commission's opinion in line with Article 12 of Regulation (EU) 473/2013.

In order to allow the European Commission to fully reflect your input on the relevant factors in its report, I would appreciate receiving your reply by 13 November 2018 at the latest.

Yours sincerely,

Marco Buti