VALDIS DOMBROVSKIS
VICE-PRESIDENT DE LA COMMISSION EUROPEENE

PIERRE MOSCOVICI
MEMBRE DE LA COMMISSION EUROPEENE

Brussels, 12 July 2017

Dear Minister,

Thank you for your letter of 30 May, announcing a revised fiscal target for 2018 compared to Italy's Stability Programme and welcoming the thrust of the European Semester package of 22 May.

The 2017 country-specific recommendations require Italy to pursue a substantial fiscal effort for 2018, in line with the preventive arm of the Stability and Growth Pact. In preparing the opinion on Italy's Draft Budgetary Plan next autumn, compliance with this recommendation will be assessed primarily on the basis of the 'expenditure benchmark'. This means that the Italian government should ensure an adequate improvement of net primary expenditure under the Commission 2017 autumn economic forecast.

The Commission will exercise its degree of discretion when considering departures from the fiscal adjustments prescribed by the commonly agreed matrix, specifically in the phase of establishing the existence of a significant deviation. In doing so, it will balance the two objectives of supporting the recovery and ensuring fiscal sustainability.

As indicated in a note circulated to the Economic and Financial Committee on 28 June, the Commission will still use the output gap to assess each Member State's cyclical position but will also consider other indicators of slack in the economy, as well as each country's short-term market vulnerability and medium-term sustainability challenges, including the prospects for debt reduction. As a result of this qualitative assessment, applied consistently across Member States, the Commission may in some cases consider as adequate a fiscal adjustment somewhat below the requirement prescribed by the matrix. At the same time, that same note clarifies the implications under the Stability and Growth Pact rules of a failure to deliver a significant fiscal adjustment in cases of non-respect of the debt reduction benchmark.

Overall, Italy's full implementation of all country-specific recommendations should form an integral part of the government's commitment to an appropriate balance between preserving current and future growth and ensuring fiscal sustainability, in line with the commitment in your letter to wide-ranging structural reforms and to lowering the headline budget deficit and ensuring a decline in the debt/GDP ratio. We are confident that with these policies Italy can benefit fully from the firming economic expansion in the euro area.

Let us take this opportunity to thank you, as always, for the fruitful cooperation.

Yours sincerely,

V. Dl

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