VALDIS DOMBROVSKIS
Vice-President of the European Commission

PIERRE MOSCOVICI
Member of the European Commission

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Prof. Pier Carlo Padoan

Minister of Economy and Finance
Via XX Settembre 97
IT-00187 ROMA

Dear Minister,

We are writing to inform you about the proceedings relating to the fiscal surveillance of Italy by the European Commission.

As you know, the Stability and Growth Pact allows Member States to put forward *"...any other factors which, in the opinion of the Member States 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 Commission and to the Council."* (Art. 2(3) of Council Regulation (EC) 1467/97). The Code of Conduct specifies that this information should be put forward by the Member State in due time for the preparation of the report under Article 126(3).

On 18 May 2016, the Commission issued a report under article 126(3) TFEU[1], as Italy did not make sufficient progress towards compliance with the debt reduction benchmark in 2015 (as you know, this followed an exchange of letters between us concerning Italy's fiscal plans for 2016 and 2017). The report concluded that, after the assessment of all relevant factors, the debt rule as defined in the Treaty and in Regulation (EC) No 1467/1997 should be considered as complied with. At the same time, the Commission announced a new report under Article 126(3) of the Treaty as further information on the resumption of the adjustment path towards the medium-term budgetary objective (MTO) for 2016 and 2017 would become available.

Based on the Commission 2016 autumn forecast, on 16 November 2016, the Commission concluded in its Opinion on Italy's 2017 Draft Budgetary Plan[2] that there was a risk of significant deviation from the required adjustment path towards the MTO in 2017. Broad compliance with the preventive arm in 2017 was a precondition for part of the flexibility granted for 2016. Without the full allowance of 0.75% of GDP granted under the structural reform and investment clause, the Commission 2016 autumn forecast would point to a risk of significant deviation from the required adjustment path towards the MTO also in 2016.

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[1] See "COM(2016) 305 final" of 18.5.2016.
[2] Commission Opinion "C(2016) 8009 final" of 16.11.2016.

Additional budgetary measures delivering a structural effort of at least 0.2% of GDP would be needed to reduce the gap to broad compliance in 2017 and hence avoid the opening of an Excessive Deficit Procedure for non-compliance with the debt-rule based on notified data for 2015.

In order for the Commission to fully reflect your possible additional budgetary measures and updated input on relevant factors in its report, we would need to receive, before the cut-off date of the Commission 2017 winter forecast (1 February), a public reply that includes a sufficiently detailed set of specific commitments and a clear calendar for their swift legal adoption.

Yours sincerely,

Valdis Dombrovskis

Pierre Moscovici