

Valdis Dombrovskis
Vice President of the European Commission

Pierre Moscovici
Member of the European Commission

Brussels, 16 May 2016

Dear Pier Carlo,

Thank you very much for your letter of 9 May and for the detailed information on the relevant factors influencing recent debt developments in Italy. This will be duly taken into account in the preparation of the Commission's report in accordance with Article 126(3) of the Treaty.

The Commission supports Italy's ambitious programme of structural reforms, which can make a significant contribution to lifting the country's potential growth, increasing employment and enhancing the wellbeing of Italian citizens. We also welcome the restatement in your letter that reducing the public debt-to-GDP ratio is one of the government's key economic policy goals, together with deficit reduction.

As you know, the Commission is currently assessing whether the conditions are met for granting the further budgetary flexibility requested by Italy. In the Commission opinion on Italy's Draft Budgetary Plan last November, this assessment was made conditional on: (i) the existence of credible plans for the resumption of the adjustment path towards the Medium Term budgetary Objective (MTO); (ii) whether a deviation from the adjustment path is being effectively used for the purposes of increasing investments; and (iii) progress with the structural reform agenda, taking into account the Council recommendations.

In view of (i), our assessment of the fiscal effort planned for 2017 is particularly important. In a nutshell, the Commission needs a clear and credible commitment that Italy is set to respect the requirements of the preventive arm of the Stability and Growth Pact (SGP) in 2017 in order to grant the further flexibility requested for 2016.

In the spirit of good cooperation that has characterised our exchanges over the past few months, we would like to share with you our current assessment.

We acknowledge Italy's commitment to achieve a headline deficit of 1.8% of GDP in 2017. In structural terms, according to the matrix published in the Commission Communication on making the best of use of the flexibility within the rules of the SGP of 13 January 2015, a country in Italy's cyclical position and with public debt higher than 60% of GDP should make a fiscal effort greater than 0.5% each year. Thus, in principle, the Italian fiscal effort should be greater than 0.5% in both 2017 and 2018. To avoid being considered in significant deviation, Italy's fiscal effort must be within 0.5% of this target.

Italy has requested significant flexibility for 2016. The Commission has carefully assessed these requests from the standpoint of the SGP rules and the agreed practices and thresholds. For 2016, it is our intention in principle, provided all the conditions mentioned above are met, to recommend to the College to grant the full 0.5% available under the structural reform clause, 0.25% under the investment clause, 0.04% for the increase in costs this year related to migrant inflows and 0.06% for exceptional costs directly related to the security situation. This amounts to 0.85% of GDP. It must be recalled that no other Member State has requested nor received anything close to this unprecedented amount of flexibility.

However, our current assessment of the planned fiscal effort for 2017 indicates a projected gap of between 0.15% and 0.2% of GDP – depending on the precise parameters used for the calculation of the output gap. Addressing this is essential in order to avoid a significant deviation and to fulfil condition (i) cited above for the granting of the flexibility linked to structural reforms and investments in 2016.

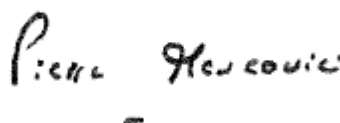
In conclusion, we seek your confirmation that you acknowledge this analysis. It is crucial for the Commission that Italy stands ready to take action ensuring that this projected gap does not materialise and the 2017 budget is at least broadly compliant with the provisions of the SGP. The repeal of the 2017 safeguard clause should be conditional on achieving this.

We look forward to receiving your reassurance regarding the commitment to comply with the provisions of the SGP as soon as possible in view of the upcoming meeting of the College of Commissioners.

Yours sincerely,



Valdis Dombrovskis



Pierre Moscovici