

VALDIS DOMBROVSKIS
Vice-President of the European Commission

PIERRE MOSCOVICI
Member of the European Commission

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Ares(2016)

Dear Minister,

Italy has a very high general government gross debt-to-GDP ratio which is estimated to have peaked at 132.6% in 2015 and, according to the Commission 2016 Winter Forecast, is projected to decrease slowly in the next two years.

After having corrected its excessive deficit in 2012, Italy has been subject to a three-year transition period, during which it is required to make sufficient progress towards compliance with the debt reduction benchmark, as defined by the minimum linear structural adjustment. The Commission 2016 Winter Forecast points to a risk of non-compliance with the transitional debt rule in 2015. The Commission 2016 Winter Forecast also points to a risk of non-compliance with the debt reduction benchmark in 2016.

On this basis, there is a *prima facie* risk that the debt criterion in the sense of the Treaty and Council Regulation (EC) No 1467/97 of 7 July 1997 is not fulfilled. If the budgetary data for 2015 as validated by Eurostat in April confirm the breach of the transitional debt rule in 2015, the Commission will have to produce a report in accordance with Article 126(3) of the Treaty.

According to Council Regulation (EC) No 1467/97 of 7 July 1997, when preparing such a report, the Commission shall take into account all relevant factors in so far as they affect the assessment of compliance with the deficit and debt criteria by the Member State concerned. These include the adherence to the recommended adjustment path towards the country-specific medium-term budgetary objective (MTO) and the implementation of ambitious growth-enhancing structural reforms, which are both expected to contribute, in the medium term, to a general government debt ratio that is approaching the 60% of GDP reference value at a satisfactory pace.

The Commission 2016 Winter Forecast, following an overall assessment, points to a risk of some deviation from the recommended adjustment path towards the MTO in 2015. Furthermore, the Commission 2016 Winter Forecast, following an overall assessment, points to a risk of a significant deviation from the recommended adjustment path towards the MTO in 2016. These conclusions would not change in case the incremental budgetary impact of the exceptional inflow of refugees, as estimated by the authorities in Italy's Draft Budgetary Plan (DBP) for 2016, were excluded from the assessment.

As mentioned in the Commission opinion on its DBP for 2016, Italy's possible eligibility for additional flexibility under the Stability and Growth Pact (SGP) in 2016 will be considered in the context of the overall assessment of compliance with the recommended adjustment towards the MTO to be carried out in spring. Particular attention will be paid to whether a deviation from the adjustment path is being effectively used for the purpose of increasing investments; to the existence of credible plans

for the resumption of the adjustment path towards the MTO; and to progress with the structural reform agenda, taking into account the Council recommendations.

Italy has made some progress in addressing the 2015 Country-specific Recommendations adopted by the Council on 14 July 2015. Nevertheless, as indicated in the 2016 Country Report, challenges remain in the areas of spending review, taxation, promoting an effective framework for second-level bargaining and fighting against corruption through the revision of the statute of limitations. There is thus scope for further progress in the implementation of ambitious structural reforms in order to lift the medium-term growth potential.

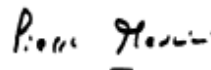
Against this background, it will be important for Italy to ensure that the necessary measures to comply with the recommended adjustment path towards the MTO are credibly announced and detailed by 15 April at the latest. This will allow them to be taken into consideration in the 2016 Spring Forecast, which will be the basis for the Commission to reassess Italy's compliance with its obligations under the SGP, including the budgetary data for 2015 as validated by Eurostat in April and Italy's forthcoming Stability Programme if available by mid-April. Progress with the implementation of structural reforms will be assessed on the basis of the 2016 Country Report as well as subsequent developments as contained in the National Reform Programme.

In the meantime, the Commission stands ready to support Italy in achieving sustained economic growth and ensuring sound public finances.

Yours sincerely,



Valdis Dombrovskis



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