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EU to warn France and Italy on budget plans

di Peter Spiegel

The European Commission will on Wednesday tell five eurozone countries, including France and Italy, that their budget plans risk breaching EU rules, say three officials briefed on the decision.

The move comes a week after all eurozone countries submitted their budgets to Brussels for review as part of the EU's new fiscal rules. Officially a request for more information, the commission's move is the first step in a politically charged process of rejecting a eurozone nation's budget and sending it back to national capitals for revision. A decision on rejection must be made by the end of the month.

In addition to France and Italy, EU officials said similar requests will be sent to Austria, Slovenia and Malta.

Simon O'Connor, a spokesman for Jyrki Katainen, the EU's economic commissioner who is in charge of the evaluations, would not confirm the move. But he said it would not mean that Brussels had definitively decided to reject a country's budget plan.

"Technical consultations with member states on the draft budget plans do not prejudge the outcome of our assessment," Mr O'Connor said.

A formal request for revisions to the French and Italian budgets could prove politically explosive. Both governments are fending off rising anti-EU sentiment.

Under the EU's new budget rules, adopted at the height of the eurozone crisis, the commission is required to send a budget back to its government within two weeks of submission if it finds "particularly serious non-compliance" with EU budget rules.

If the commission is contemplating such a move, the rules require it to notify the government in question within one week. Wednesday is the deadline for the one-week notification.

EU officials said France and Italy may contravene different parts of the budget rules. France is required to get its deficit back under the EU ceiling of 3 per cent of economic output by next year but its plan ignored that commitment, projecting a deficit of 4.3 per cent of gross domestic product.

Paris was also supposed to improve its structural deficit – the deficit stripping out the effects of the economic cycle – by 0.8 percentage points. Instead, Paris proposed a structural improvement of only 0.2 percentage points.

The structural deficit is being closely watched in Berlin. In order to qualify for another extension – Paris was last year given two more years to hit the 3 per cent target – France must prove that it is implementing reforms that will lower its structural deficit more quickly.

Some German officials believe a 0.5 percentage point cut may be enough to cut France some slack.

Italy's budget deficit is already under the 3 per cent threshold. But under the EU's rules, Rome must get its structural budget into balance by next year because its public debt remains far above the EU ceiling of 60 per cent of GDP. It currently sits at 135 per cent, the second highest in the eurozone, after Greece.

Italy was required to improve its structural deficit 0.7 per cent in both 2014 and 2015: instead, its new plan projects almost no progress in either year and unilaterally delays the date when its structural budget is to be balanced by two years – to 2017.