Il Ministro dell'Economia e delle Finanze

PROT. 212/2020

Rome, 5 March 2020

Dear Valdis, dear Paolo,

I am writing to inform you that the Italian Government is planning to send to the Parliament a Report *(Relazione al Parlamento)* in accordance with Article 6 comma 2 a) of Law n. 243/2012. The latter envisages that deviations from existing structural deficit targets can be authorised by Parliament in the presence of extraordinary events outside of the government's control.

As you are well aware, the Coronavirus COVID-19 has suddenly hit Italy very hard over the past two weeks. The government and regional authorities have given priority to the protection of citizens' health by locking down the infection clusters and by putting in place a series of preventive measures that affect broader regions and, in some respects, the entire country. For instance, the government today decided to close all of the country's schools and universities until 15 March.

In addition, other nations have announced restrictions on travel to Italy. A number of sectors of our economy, including transportation, lodging, tourist services, entertainment, cultural activities and trade fairs will suffer as a result. This new phase of the COVID-19 emergency will compound the contractionary effects on our manufacturing industry of falling international trade with China and third countries. The economic fallout will be broad and we cannot accurately predict its duration at this stage.

In light of this serious situation, we have decided to issue a package of support measures for the economy. The package consists primarily of an increase in the financial resources for the wage supplementation fund and for financial assistance to the most affected sectors and firms, including through the postponement of certain tax and social security payments and the provision of state guarantees to ensure that credit extension is maintained. In addition, we will provide extra funding for the public health-care system, civil protection and security forces, so they can, respectively, provide assistance to those affected by the disease and enforce prevention policies.

The package we are about to legislate is worth €6.3 billion in terms of impact on the general government deficit. Last September Parliament authorised a general government deficit of 2.2 percent of GDP in 2020. If Parliament approves the additional expenditure, the deficit projection for 2020 will rise to 2.5 percent of GDP.

The deficit estimate for this year is likely to change by the time we release our 2020 Stability Program. The trend in the public finances before the Coronavirus outbreak was extremely encouraging. Indeed, the deficit outturn for 2019 was much lower than expected, at 1.6 percent of GDP, versus a projection of 2.2 percent of GDP in October's Draft Budgetary Plan. Moreover, January and February 2020 have seen a continuation of the year-on-year decline in the borrowing requirement of the central government: at €32 billion, the twelve-month rolling deficit is the lowest since mid-2008. However, while starting from a stronger base, the Coronavirus outbreak will negatively affect the economic and budgetary data for March and our annual projections. At present, it is difficult to predict what the net impact of all these factors will be, but we are hopeful that the new estimate will be close to the original one.

The commitment we made in the September Report to Parliament and in the Draft Budgetary Plan 2020 was to allow at most a deterioration of 0.1 percent of GDP in the structural budget balance for this year. We reiterate this commitment while calling on Parliament and the European Commission to consider the 0.3 percent-of-GDP emergency package as a one-off budgetary item that will not recur once Italy overcomes the COVID-19 epidemic and its economic fallout, and should thus be excluded from the structural balance computations.

We are convinced that raising the tax burden to cover the cost of the emergency package at this stage could aggravate the downside risks for the Italian economy and hurt sentiment at a very delicate time. Italy will steadfastly resume its debt-reduction strategy as soon as conditions return to normality.

In closing, I should also mention that in view of the broadening of the COVID-19 outbreak across Europe and of weak pre-existing cyclical conditions, we believe the EU should respond to this emergency by using the inbuilt flexibility of the Stability and Growth Pact and by readying a coordinated fiscal stimulus package focused on our common sustainable growth goals.

Il Ministro
dell'Economia e delle Finanze

I remain at your disposal to continue the dialogue concerning Italy's response to the COVID-19 emergency and our fiscal policy plans. I also take this opportunity to thank you for the empathy and understanding you have shown during these difficult days.

Yours sincerely,

Roberto Gualtieri

Economy and Finance Minister

Valdis Dombrovskis
Vice President
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Mr. Paolo Gentiloni
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