

Brussels, 27 October 2017

Prof. Pier Carlo Padoan
Minister of Economy and Finance
Via XX Settembre 97
IT - 00187 Roma

Dear Minister,

Thank you for the submission of Italy's Draft Budgetary Plan (DBP) for 2018, which we received on 17 October and was subsequently updated on 20 October. We are writing to ask for clarifications on the compliance of Italy's planned fiscal effort in 2017 and 2018 with the requirements of the preventive arm of the Stability and Growth Pact.

For 2018, the DBP plans a structural effort of 0.3% of GDP, which once recalculated by the Commission services according to the commonly agreed methodology for the calculation of potential growth amounts to 0.2% of GDP. This structural effort is below the effort of at least 0.6% of GDP required according to the commonly agreed adjustment matrix under the Stability and Growth Pact, as set out in the Council recommendation of 11 July 2017. Also the planned nominal rate of growth of net primary government expenditure exceeds the recommended reduction of at least 0.2% by 0.1% of GDP.

For 2017, the DBP implies a deterioration of the structural balance that points to a significant deviation from the effort of at least 0.6% of GDP recommended by the Council on 12 July 2016. Similarly, the planned real rate of growth of net primary government expenditure exceeds the recommended reduction of at least 1.4%. This conclusion would be confirmed if the temporary allowance (still to be confirmed on the basis of outturn data) related to the exceptional inflow of refugees and for the protection against seismic risks is deducted from the requirement.

This points to a risk of a significant deviation from the required effort in 2017 and 2018 together. We would thus welcome further information on the precise composition of the structural effort envisaged in the DBP. The assessment of Italy's 2018 DBP will nevertheless take due account of the goal of achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of Italy's public finances. We also take note of the recent trends and forecast expenditure related to migrants' arrivals and presence in Italy, presented in the DBP, and invite you to send us further detailed information in that respect. The Commission's preliminary assessment also indicates that Italy does not plan to comply with the debt reduction benchmark in 2018.

We note that according to the DBP the Medium-Term Budgetary Objective is planned to be achieved in 2020.

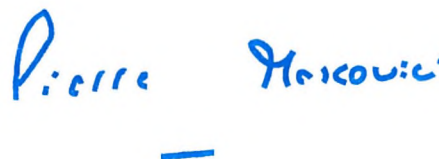
We would also like to recall that Italy's broad compliance with the preventive arm of the Stability and Growth Pact is a key relevant factor in the report under article 126(3) TFEU on the prima facie breach of the debt rule.

The Commission seeks to continue a constructive dialogue with Italy in order to come to a final assessment. We would welcome your views by 31 October 2017, close of business, to allow the Commission to take these into account in its further analysis. Our services stand ready to assist you in this process.

Yours sincerely,



Valdis Dombrovskis



Pierre Moscovici