



*Al Presidente
del Consiglio dei Ministri*

Rome, 2nd July 2019

Dear President, dear Vice President, dear Commissioner,

I am writing to you in response to the European Commission's Report on Italy ex article 126(3) TFEU and following up on recent communications by the Italian government. We are now in a position to provide updated projections for Italy's public finances in 2019 and to illustrate the expenditure-control measures that we have just taken as well as the salient points of our fiscal strategy for 2020.

The overarching goal of the new fiscal policy for 2019 and of the budgetary strategy to be presented in the 2020 Draft Budgetary Plan is to achieve broad compliance with the Stability and Growth Pact (SGP).

As far as this year is concerned, our updated projections now indicate an improvement in the structural balance of more than 0.3 percentage points based on the official deficit and output gap estimates (versus a 0.2 pp deterioration estimated in the agreement reached in December before the adoption of Budget Law). This greater fiscal effort is a significant achievement given that it occurs in a context of near economic stagnation (the real GDP growth forecast for 2019 has been lowered from 1.0% in December to 0.2% in April).

The update of the budgetary forecasts involves a reduction of 7.6 billion (0.43 percent of GDP) in the net borrowing projection for this year, compared to the Stability Programme. This significant downward revision stems from three different sources.

- The 19th June **Council of Ministers decision** implementing the 2 billion conditional spending freeze envisaged in the 2019 Budget.
- The **Budget Adjustment Bill** approved by the Council of Ministers on 1st July, plus additional savings not included in this bill as they are outside the State Budget definition.
- The **decree-law** approved by the Council of Ministers on 1st July that freezes general government expenditure for 2019 in anticipation of lower-than-expected outlays for the new welfare policies (citizenship income and early-retirement pensions).

As regards the year 2020, the Government reiterates the commitment to achieve a structural improvement in line with the requirements of the SGP. The Italian Parliament endorsed the fiscal targets set out in the Stability Program while calling for the repeal of the VAT hike in 2020 and the avoidance of increases in the tax burden via offsetting alternative fiscal measures.

In order to fulfil these recommendations the Government has formulated an integrated strategy that relies on a new Spending Review and a revision of tax expenditures. In addition, the no-policy-change projections for 2020 will be revised in light of the favourable trends observed in 2019 and the expenditure on the new welfare policies (citizenship income and early-retirement pensions) are expected to be lower than projected in the Budget also in 2020.

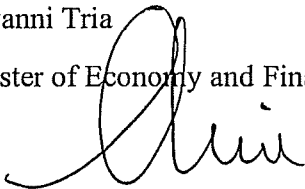
Fiscal consolidation will proceed hand in hand with structural reforms aimed at improving the growth potential of the economy. In response to the Country Specific Recommendations, the Government will focus on improving the efficiency of the public sector and of the legal system. In addition, a broad strategy will be developed in order to enhance human capital and productivity.

We look forward to an ongoing and constructive dialogue with the Commission in order to present a Draft Budgetary Plan for 2020 in line with the preventive arm of the SGP. In the meantime, I attach copies of the government decisions and bills mentioned in this letter.

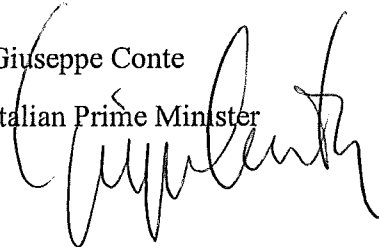
As always, we remain at your disposal should you wish to discuss further the content of this letter and the Government's budget policy plans.

Kind regards,

Giovanni Tria
Minister of Economy and Finance



Giuseppe Conte
Italian Prime Minister



Mr. Jean-Claude Juncker
President
European Commission
Brussels

Mr Valdis Dombrovskis
Vice-President
European Commission
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Mr Pierre Moscovici
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