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COMMISSION OPINION

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on the existence of an excessive deficit in Italy

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GENERAL CONSIDERATIONS

1. Article 126 of the Treaty on the Functioning of the European Union (TFEU) lays down the excessive deficit procedure (EDP). That procedure is further specified in Council Regulation (EC) No 1467/97 "on speeding up and clarifying the implementation of the excessive deficit procedure" ([1]), which is part of the Stability and Growth Pact (SGP).

2. According to Article 126(2) TFEU, the Commission has to monitor compliance with budgetary discipline on the basis of two criteria, namely: (a) whether the ratio of the planned or actual government deficit to gross domestic product (GDP) exceeds the reference value of 3% of GDP (unless either the ratio has declined substantially and continuously and reached a level that comes close to the reference value; or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value); and (b) whether the ratio of government debt to GDP exceeds the reference value of 60% (unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace).

3. Article 126(3) TFEU states that, if a Member State does not fulfil the requirements under one or both of the above criteria, the Commission has to prepare a report. In accordance with the same Article, that report also has to take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State. The Commission may also prepare a report if, notwithstanding the fulfilment of the requirements under the criteria, it is of the opinion that there is a risk of an excessive deficit in a Member State.

4. Article 126(5) TFEU requires the Commission to address an opinion to the Member State concerned and inform the Council if the Commission considers that an excessive deficit in a Member State exists or may occur. In order to reach a conclusion on whether an excessive deficit exists or may occur, the Commission considers that account should be taken of: (i) the conclusions of its report under Article 126(3) TFEU; and (ii) the opinion of the Economic and Financial Committee on that report under Article 126(4) TFEU. On the basis of those elements, the Commission has established a number of considerations for Italy.

5. On 30 April 2024, the EU's reformed economic governance framework entered into force. The framework now includes a new Regulation (EU) 2024/1263 of 29 April 2024 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. It also

([1]) OJ L 209, 2.8.1997, ELI: http://data.europa.eu/eli/reg/1997/1467/2024-04-30.

includes Council Regulation (EU) 2024/1264 amending Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure as well as Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States. The reform kept the rules of the excessive deficit procedure due to non-compliance with the deficit criterion broadly unchanged, whereas for Member States with a government debt ratio above 60% of GDP the excessive deficit procedure due to non-compliance with the debt criterion will focus on departures from the net expenditure path that will be set by the Council under Regulation (EU) 2024/1263. As the Council has not yet set the net expenditure path for Italy, the Commission is not able to assess compliance with the debt criterion in accordance with the new rules. As such, this Commission Opinion concerns the excess of the ratio of the government deficit to gross domestic product (GDP) with respect to the reference value of 3% of GDP.

CONSIDERATIONS CONCERNING ITALY

6. The Commission adopted a report under Article 126(3) TFEU, which discusses Italy, on 19 June 2024. ([2])

7. According to the data validated by Eurostat on 22 April 2024 ([3]), the general government deficit in Italy reached 7.4% of GDP in 2023, and general government debt stood at 137.3% of GDP. The Commission's report under Article 126(3) TFEU considered that the excess of the deficit over the Treaty reference value of 3% of GDP in 2023 is not exceptional, as it neither results from an unusual event nor from a severe economic downturn in the sense of the Stability and Growth Pact. In 2023 Italy's real GDP grew by 0.9% of GDP, following GDP growth of 4.0% in 2022. The excess over the Treaty reference value is also not temporary, based on the Commission 2024 spring forecast, which projects the general government deficit to remain above 3% of GDP in 2024 and 2025. In sum, the deficit in 2023 was above and not close to the 3% of GDP Treaty reference value. The excess is not considered to be exceptional as defined by the Treaty and the Stability and Growth Pact, and not temporary. Hence, the deficit criterion as defined by the Treaty and Regulation (EC) No 1467/97 is *prima facie* not fulfilled.

8. According to the 2024 Stability Programme, Italy's general government deficit is planned to reach 4.3% of GDP in 2024. The Commission's 2024 spring forecast ([4]) indicates a deficit of 4.4% of GDP, above and not close to the Treaty reference value of 3% of GDP.

9. In line with the requirements of Article 126(3) TFEU, the Commission also analysed all the relevant factors in its report under Article 126(3) TFEU. As laid down in Article 2(4) of Regulation (EC) No 1467/97, when assessing compliance on the basis of the deficit criterion, if the ratio of the government debt to GDP exceeds the reference value, relevant factors shall be taken into account in the steps following the report under Article 126(3) TFEU and leading to the decision on the existence of an excessive deficit only if – before these relevant factors are taken into account – the

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([2]) All EDP-related documents for Italy can be found at: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/corrective-arm-excessive-deficit-procedure/closed-excessive-deficit-procedures/italy_en .

([3]) Eurostat Euro Indicators published on 22 April 2024. See: https://ec.europa.eu/eurostat/en/web/products-euro-indicators/w/2-22042024-AP .

([4]) European Economic Forecast - Spring 2024, *European Economy-Institutional Paper*, No 286, 15 May 2024.

general government deficit remains close to the reference value and its excess over the reference value is temporary. In the case of Italy, the double condition is not met. Therefore, relevant factors are not taken into account.

10. The Economic and Financial Committee issued its opinion on the report of the Commission in accordance with Article 126(4) TFEU on 27 June 2024. That opinion is consistent with the assessment in the Commission Report under Article 126(3) TFEU.

CONCLUSION

The monitoring of the budgetary situation in Italy and, in particular, the examination of compliance with the criteria laid down in Article 126(2) TFEU have led the Commission to prepare a report in accordance with Article 126(3) TFEU. The Commission, having taken into account its report and the opinion of the Economic and Financial Committee, is of the opinion that an excessive deficit exists in Italy due to non-compliance with the deficit criterion.

Done at Brussels, 8.7.2024

For the Commission
Paolo GENTILONI
Member of the Commission