EUROPEAN
COMMISSION

Brussels, 8.7.2024
COM(2024) 513 final

2024/0172 (NLE)

Proposal for a

COUNCIL DECISION

on the existence of an excessive deficit in Italy

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 126(6) thereof,

Having regard to the proposal from the European Commission,

Having regard to the observations made by Italy,

Whereas:

1. According to Article 126 of the TFEU, Member States shall avoid excessive government deficits.

2. The Stability and Growth Pact (SGP) is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong, sustainable and inclusive growth underpinned by financial stability, thereby supporting the achievement of the Union's objectives for sustainable growth and employment.

3. The excessive deficit procedure (EDP) under Article 126 TFEU, as clarified by 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), provides for a decision on the existence of an excessive deficit. Protocol No 12 on the EDP, annexed to the Treaty on the European Union and the TFEU, sets out further provisions relating to the implementation of the excessive deficit procedure. Council Regulation (EC) No 479/2009 ([2]) lays down detailed rules and definitions for the application of those provisions. The EU's reformed economic governance framework, which came into force on 30 April 2024, includes Council Regulation (EU) 2024/1264 amending Council Regulation (EC) No 1467/97. 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 on the basis of the medium-term fiscal structural plans to be submitted by the Member States. 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

([1]) OJ L 209, 2.8.1997, ELI: http://data.europa.eu/eli/reg/1997/1467/2024-04-30.
([2]) OJ L 145, 10.6.2009, p. 1.

with the new rules. Therefore, this Council decision only 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.

4. According to Article 126(5) TFEU, if the Commission considers that an excessive deficit in a Member State exists or may occur, it must address an opinion to the Member State concerned and inform the Council accordingly. Having taken into account its report adopted pursuant to Article 126(3) TFEU and having regard to the opinion of the Economic and Financial Committee adopted pursuant to Article 126(4) TFEU, the Commission concluded that an excessive deficit exists in Italy. On 8 July 2024, the Commission therefore addressed such an opinion to Italy and informed the Council accordingly. ([3])

5. Article 126(6) TFEU states that the Council must consider any observations, which the Member State concerned may wish to make, before deciding, after an overall assessment, whether an excessive deficit exists. In the case of Italy, the overall assessment leads to the following conclusions.

6. According to the data validated by Eurostat on 22 April 2024 ([4]), 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.

7. 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 ([5]) indicates a deficit of 4.4% of GDP, above and not close to the Treaty reference value of 3% of GDP.

8. 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 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.

([3]) 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 .

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

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

Therefore, relevant factors are not taken into account in the steps leading to this decision.

9. In view of the deadline of 20 September 2024 for the submission of the national medium-term fiscal-structural plan in accordance with Article 36 of Regulation (EU) 2024/1263, the Council takes note that the next step in the procedure, namely the Commission recommendation for a Council recommendation under Article 126(7) TFEU on the correction of the excessive deficit, will take place together with the Commission opinions on the draft budgetary plans of euro area Member States under Article 7 of Regulation (EU) No 473/2013. This approach allows to ensure consistency between the budgetary requirements under the excessive deficit procedure and the adjustment path set out in the medium-term fiscal-structural plans. Enabling such consistency while avoiding a surveillance gap under the excessive deficit procedure, requires a timely submission of the Member States' medium-term fiscal-structural plans. This timeline is exceptional and linked to the transition to the new framework, therefore not setting a precedent. The Council also takes note that, in the absence of a timely submission of the medium-term plan, the Commission recommendation for a Council recommendation under Article 126(7) will consider the reference trajectory transmitted by the Commission to the Member State determined according to Regulation (EU) 2024/1263.

HAS ADOPTED THIS DECISION:

Article 1

From an overall assessment it follows that an excessive deficit exists in Italy due to non-compliance with the deficit criterion.

Article 2

This decision is addressed to the Italian Republic.

Done at Brussels,

For the Council
The President