Council of the European Union

Brussels, 3 November 2026
(OR. en)

14668/26

ECOFIN 1335
UEM 477
INDEF 186
ECB
EIB

NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
Subject:	COUNCIL RECOMMENDATION allowing Italy to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause)

COUNCIL RECOMMENDATION

Allowing Italy to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121 thereof,

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 26 thereof,

Having regard to the recommendation from the European Commission,

[1] OJ L, 2024/1263, 30.4.2024, ELI: (http://data.europa.eu/eli/reg/2024/1263/oj).

Whereas:

(1) Regulation (EU) 2024/1263, together with the amended Regulation (EC) No 1467/97[2], and the amended Council Directive 2011/85/EU[3] are the core elements of the EU economic governance framework. The framework aims at promoting sound and sustainable public finances and sustainable and inclusive growth and resilience through reforms and investments, and preventing excessive government deficits. It promotes national ownership and has a medium-term focus, combined with an effective and coherent enforcement of the rules.

(2) The maximum growth rates of net expenditure as set in a Council recommendation in accordance with Articles 17(1), 19 or 20 of Regulation (EU) 2024/1263 are the single operational reference for the annual fiscal surveillance of each Member State and are at the centre of the economic governance framework. The maximum growth rates of net expenditure as set by that Council Recommendation establish a budgetary constraint for four or five years, which is based on an adjustment period of four years that can be extended by an additional period of up to three years.

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[2] Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6, ELI: http://data.europa.eu/eli/reg/1997/1467/2024-04-30).

[3] Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ L 306, 23.11.2011, p. 41, ELI: http://data.europa.eu/eli/dir/2011/85/2024-04-30).

(3) The framework provides for flexibility in the application of the rules in the event of exceptional circumstances outside the control of Member States that have a major impact on the public finances, in accordance with Article 26 of Regulation (EU) 2024/1263 ("national escape clauses"). In the latter case, following a request from a Member State and on a recommendation by the Commission based on its analysis, the Council may within four weeks of the Commission recommendation adopt a recommendation allowing a Member State to deviate from its maximum growth rates of net expenditure as set by the Council, where (i) exceptional circumstances outside the control of the Member State (ii) have a major impact on the public finances of the Member State concerned, and (iii) provided that such deviation does not endanger fiscal sustainability over the medium term. The Council is to specify a time limit for such deviation.

(4) The Heads of State or Government, meeting in Versailles on 10–11 March 2022, committed to bolstering European defence capabilities in light of Russia's military aggression against Ukraine. These aims were reiterated in the Strategic Compass for Security and Defence. In its Conclusions on European defence of 6 March 2025, the European Council welcomed the intention of the Commission to recommend the activation, in a coordinated manner, of the national escape clause under the Stability and Growth Pact as an immediate measure.

(5) In its Communication of 19 March 2025[4], the Commission has invited all Member States to make use of the flexibility provided by the national escape clause in a coordinated manner with a view to maximising the impact on the EU's defence capabilities. This flexibility aims at facilitating the transition to higher levels of defence spending provided that it does not endanger fiscal sustainability over the medium term. That Communication describes that the activation of the national escape clause would allow Member States to deviate from the maximum growth rates of net expenditure as set by the Council when endorsing the medium-term fiscal-structural plans or when establishing the corrective paths under the excessive deficit procedure, to the extent that this deviation is justified by an increase in defence spending relative to the reference year, and that the annual excess through 2028 does not exceed 1.5% of GDP. Increases beyond that amount would be subject to the normal assessments of compliance. Such a maximum is necessary to ensure that fiscal sustainability is not endangered, while allowing all Member States to benefit from the flexibility as they move towards a higher level of defence expenditure. The exact amounts will be determined when outturn data become available, to ensure that the additional flexibility is used only for its intended purpose.

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4 Commission Communication (C(2025) 2000 final) of 19 March 2025.

(6) In its Communication of 3 June 2026, the Commission announced that the scope of the national escape clause could be extended to accommodate the measures decided by the Member States after 28 February 2026 which strengthen the structural resilience of the European energy system and accelerate the transition away from fossil fuels (henceforth, "energy security measures")[5]. On 18 August 2026, the Commission published a Notice with further guidance to Member States on the scope and design of the additional flexibility for energy security measures[6]. *The measures should be nationally financed, with a direct budgetary impact, decided after 28 February 2026, targeted and cost-effective and designed to maximise impact in terms of their contribution to decarbonisation and/or energy savings and strengthen Europe's energy security.* In order to ensure that fiscal sustainability is not endangered, and to contain the necessary increase in fiscal adjustment in subsequent periods, the existing cap of 1.5% of GDP remains unchanged and applies to both the defence- and energy-related flexibility. Furthermore, the flexibility granted for energy security measures should not exceed 0.3% of GDP per year, while the cumulative flexibility by end-2028 should not exceed 0.6% of GDP.

(7) The Council Recommendation of 21 January 2025[7] endorsed the net expenditure path of Italy. In addition, the Council Recommendation of 21 January 2025[8] established a corrective expenditure path for Italy for the years until 2026. The flexibility provided by the national escape clause will also be considered in the implementation of the excessive deficit procedure, and when assessing if Italy has taken effective action.

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5 Communication from the Commission on the 2026 European Semester – Spring Package (COM(2026) 200 final).

6 Commission Notice – Guidance to Member States on Broadening the Scope of the National Escape Clause for Energy Security, (OJ C, C/2026/4514, 18.8.2026, ELI: http://data.europa.eu/eli/C/2026/4514/oj).

7 Council Recommendation of 21 January 2025 endorsing the national medium-term fiscal-structural plan of Italy (OJ C, C/2025/651, 10.2.2025, ELI: http://data.europa.eu/eli/C/2025/651/oj).

8 Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Italy, 5035/25. Available at: https://economy-finance.ec.europa.eu/document/download/b14462ba-d50b-4360-b538-086ce2360b17_en?filename=ecofin_5035_it.pdf.

(8) On 11 September 2026, Italy submitted a request, to the Council and the Commission, to activate the national escape clause for defence and energy security.

(9) In its request, Italy underlines the repercussions of Russia's continued war of aggression against Ukraine, which requires a significant increase in defence spending. This situation is an exceptional circumstance outside the control of each Member State.

(10) In its request, Italy reports data on total defence expenditure until 2026 (Table 1) and envisages additional defence expenditure by up to 0.9 percentage points of GDP by the end of 2028. The increase would reflect both new multiannual investment programmes and additional current expenditure, including higher personnel and other operating costs. Therefore, the increase in defence expenditure has a major impact on the public finances of Italy and contributes to deteriorating the government balance and increasing government debt.

Table 1: Total defence spending in Italy

	2021 a	2022 a	2023 a	2024 a	2025 b	2026 b
General government total defence expenditure (% of GDP)	1.4	1.2	1.2	1.3	1.3	1.3

Source: a: Eurostat. b: Information provided to the Council and the Commission by Italy.

(11) General government defence expenditure data are compiled and released by the national statistical authorities and Eurostat according to the International Classification of the Functions of Government (COFOG)[9] in the framework of the European System of National Accounts (ESA2010)[10]. These data are appropriate to assess the impact of defence spending on government deficit, debt and net expenditure, and related concepts. Eurostat, in close cooperation with the national statistical authorities, has established a data collection process. The starting point should be COFOG defence categories, while also considering the NATO definition and retaining the possibility to address anomalies that might be attributable to differences in the respective annual reporting systems. The data collection process is aligned with reporting requirements established by Council Regulation (EC) No 479/2009[11].

(12) Moreover, for some of the contracts for military equipment signed during the period of activation of the national escape clause, delivery may occur at a later stage, therefore impacting public finances only after the period of activation of the clause. To cater for this eventuality, the flexibility granted under the national escape clause should also apply to defence expenditure linked to such later delivery, provided that the corresponding contracts were signed during the period of activation of the clause and that this delayed defence spending remains within the overall cap mentioned above.

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9 Manual on sources and methods for the compilation of COFOG statistics – Classification of the Functions of Government (COFOG) – 2019 edition.

10 Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union (OJ L 174, 26.6.2013, p. 1).

11 Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community (OJ L 145, 10.6.2009, p. 1).

(13) The expenditure financed by loans, provided under Council Regulation (EU) 2025/1106 of 27 May 2025 establishing the Security Action for Europe (SAFE) through the Reinforcement of European Defence Industry Instrument[12], would automatically benefit from the above flexibility. To this end, Member States would report to Eurostat all defence-related expenditures made under the SAFE Instrument under the categories 'defence products' and 'other products for defence purpose' as defined in Regulation (EU) 2025/1106.

(14) In its request of 11 September 2026, Italy also underlines the repercussions of military action in the Persian Gulf, which endangers Europe's long-term energy security. This situation is an exceptional circumstance outside the control of the Member State and requires a significant increase in government spending to reduce the dependence on, and the vulnerabilities related to, imported fossil fuels and thereby such an increase in government spending contributes to energy security.

(15) In its request, Italy presents an initial list of planned energy security measures that, based on a preliminary assessment, could fall within the scope of the flexibility for energy security. This initial assessment does not prejudge future assessments of eligibility to be carried out by the Commission. These measures envisage investments in, for example, residential electrification, the improvement of the energy performance of private and public buildings and facilities, including schools, universities and healthcare facilities, the deployment of renewable energy solutions, including photovoltaic systems, targeted financial incentives linked to decarbonisation investments, investments in rail transport, public transport and sustainable urban mobility, as well as the expansion of renewable energy generation, energy storage, energy system flexibility and biofuels.

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[12] Council Regulation (EU) 2025/1106 of 27 May 2025 establishing the Security Action for Europe (SAFE) through the Reinforcement of the European Defence Industry Instrument (OJ L 2025/1106, 28.5.2025, ELI: http://data.europa.eu/eli/reg/2025/1106/oj).

(16) An assessment of the eligibility in terms of scope, additionality, targeting, cost effectiveness of concrete measures, and of their budgetary impact, will be carried out by the Commission as part of its regular fiscal surveillance. This is to determine the flexibility stemming from energy security measures that should be considered when setting out the control account for Italy and assessing compliance with the recommended maximum growth rates of net expenditure.

(17) To this end, Italy should twice a year report to the Commission the list of concrete energy security measures that it considers eligible for flexibility under the national escape clause and provide evidence regarding their eligibility and budgetary impact. This regular reporting on energy security measures will form part of the bi-annual fiscal surveillance process. The spring reporting should include measures and their budgetary cost for the previous year and their forecast for the current year, while the autumn reporting should include measures for the current year, as well as measures for the following year which have been adopted or credibly announced in sufficient detail. This will enable the Commission to take into consideration in its fiscal surveillance the concrete measures to enhance energy security, within the maximum annual and cumulative caps of 0.3 and 0.6 percent of GDP, respectively.

(18) All else being equal, an increase in net expenditure over the period covered by the national escape clause will lead to higher government debt and a higher deficit by the end of that period. Indicative projections run by the Commission and assuming, by 2028, a linear uptake of the full increase in government expenditure allowed by this recommendation (i.e. full use of the 1.5% of GDP cap) suggest that the deficit-to-GDP ratio and debt-to-GDP ratio in 2028 would be 1.1 percentage points and 1.3 percentage points higher, respectively, than if net expenditure grew in line with the path set by Council Recommendation C/2025/651. This would likely require an additional fiscal adjustment after the period of activation of the national escape clause in order to meet the requirements of the fiscal framework, including to ensure that the debt ratio is put or remains on a plausibly downward path, or stays at prudent levels below 60% of GDP over the medium term and that the deficit stays or is brought below 3% of GDP and maintained below the reference value over the medium term. Italy acknowledges that, going forward, structurally higher expenditure on defence and energy security may require policies to preserve fiscal sustainability and compliance with the fiscal rules over the medium term. The limited projected increase in deficit and debt levels caused by the national escape clause, together with Italy's commitment to implementing the necessary adjustment to fulfil all the requirements of the fiscal framework in the next plan, ensures that fiscal sustainability is preserved over the medium term.

(19) This recommendation does not modify the definitions of government deficit, debt and net expenditure, and related concepts. Data based on these concepts are to be compiled and reported by Italy in accordance with Regulation (EU) 2024/1263, Council Regulation (EC) No 479/2009[13] and Regulation (EU) No 549/2013[14].

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[13] Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community (OJ L 145, 10.6.2009, p. 1-9, ELI: http://data.europa.eu/eli/reg/2009/479/2014-09-01).

[14] Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union (OJ L 174, 26.6.2013, p. 1, ELI: http://data.europa.eu/eli/reg/2013/549/2025-09-01).

HEREBY RECOMMENDS:

1. Until 2028, Italy is allowed to deviate from and exceed the maximum growth rates of net expenditure as set by Council Recommendation C/2025/651[15] to the extent that the net expenditure in excess of those maximum growth rates is not more than

   (i) the sum of:

      (a) the increase in defence expenditure in percent of GDP since 2024 (reference year);

      (b) the budgetary cost of eligible measures which enhance energy security during the period 2026–2028, capped at 0.3 percent of GDP per year and 0.6 percent of GDP in cumulative terms over the same period;

   (ii) provided that the total deviation in excess of the maximum growth rates of net expenditure does not exceed 1.5 percent of GDP.

2. In the years after 2028, Italy may still deviate from and exceed the maximum growth rates of net expenditure as set by a Council Recommendation in accordance with Articles 17, 19 or 20 of Regulation (EU) 2024/1263, to the extent that the net expenditure in excess of these maximum growth rates is related to deliveries of military equipment contracted before end-2028 and remains within the overall cap mentioned above.

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[15] Council Recommendation of 21 January 2025 endorsing the national medium-term fiscal-structural plan of Italy (OJ C, C/2025/651, 10.2.2025, ELI: http://data.europa.eu/eli/C/2025/651/oj).

3. In accordance with Article 22(7) of Regulation (EU) 2024/1263, the deviations from the maximum growth rates of net expenditure as set by the Council that are allowed by this Recommendation will not be recorded as debits in the control account of Italy.

4. In order to ensure correct recording of the additional expenditure, Italy is to include actual and planned data on total defence expenditure (COFOG division 02), including on defence investment (COFOG division 02 P.51) and any expenditure to be financed by SAFE loans that are not covered in COFOG-02:

   (a) for years 2021 through year T-1 (with year T being the current year) in the reporting to the Commission (Eurostat) in accordance with Council Regulation (EC) No 479/2009;

   (b) for years 2021 through year T (current year), in national medium-term fiscal structural plans and in annual progress reports in accordance with Articles 11(1) and 15, and 21(1) of Regulation (EU) 2024/1263;

   (c) for years T (current year) and T+1 in draft budgetary plans in accordance with Regulation (EU) No 473/2013 of the European Parliament and of the Council[16].

[16] Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (OJ L 140, 27.5.2013, pp. 11–23).

5. In order to ensure correct recording, Italy is to report to the Commission concrete measures enhancing energy security for the purpose of this recommendation in 2026–2028.
The reporting to the Commission of these concrete measures should respect the reporting template provided by the Commission, including information on the state of implementation, evidence regarding their eligibility, and estimated budgetary impact quantified in a transparent and prudent manner. The reporting is to take place twice a year, in spring by 15 April, and in autumn, in the context of draft budgetary plans, by 15 October.

This recommendation is addressed to the Italian Republic.

Done at

For the Council
The President