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COVER NOTE

From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
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To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union
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Subject:	Recommendation for a COUNCIL RECOMMENDATION with a view to bringing an end to the situation of an excessive deficit in Italy

Delegations will find attached document COM(2024) 954 final.

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Recommendation for a

COUNCIL RECOMMENDATION

with a view to bringing an end to the situation 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 (TFEU), and in particular Article 126(7) thereof,

Having regard to the recommendation from the Commission,

Whereas:

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

(2) The Stability and Growth Pact 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) On 30 April 2024, the EU's reformed economic governance framework entered into force. The framework includes Regulation (EU) 2024/1263[1] 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 includes Council Regulation (EU) 2024/1264 amending Council Regulation (EC) No 1467/97[2] on speeding up and clarifying the implementation of the excessive deficit procedure, as well as Council Directive (EU) 2024/1265[3] of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States.

(4) On 26 July 2024, the Council decided, in accordance with Article 126(6) TFEU, that an excessive deficit existed in Italy due to non-compliance with the deficit criterion[4].

(5) Article 126(7) TFEU and Article 3(4) of Council Regulation (EC) No 1467/97 require the Council to adopt a recommendation addressed to the Member State concerned with a view to bringing the situation of excessive deficit to an end within a given period. In line with Article 3(4) of Council Regulation (EC) 1467/97, that recommendation is also to establish a maximum deadline of six months for effective action to be taken by the Member State concerned to correct the excessive deficit, which can be reduced to three months when warranted by the seriousness of the situation. Furthermore, in its recommendation, the Council is to recommend that the Member State implements a corrective net expenditure[5] path, which ensures that the general government deficit is

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1 OJ L, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.
2 OJ L 209, 2.8.1997, ELI: http://data.europa.eu/eli/reg/1997/1467/2024-04-30.
3 OJ L, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj.
4 OJ L, 1.8.2024, ELI: http://data.europa.eu/eli/dec/2024/2124/oj.
5 According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of

brought and maintained below the 3% of GDP reference value within the deadline set in that recommendation. Where the excessive deficit procedure was opened on the basis of the deficit criterion, the corrective net expenditure path is to be consistent with a minimum annual structural adjustment of at least 0.5% GDP as a benchmark for the years when the general government deficit is expected to exceed the reference value. The Commission may, during a transition period in 2025, 2026 and 2027, adjust the benchmark to take into account the increase in interest payments when setting the proposed corrective path for those years, taking into account recital 23 of Council Regulation (EU) 2024/1264.

(6) In view of the submission of the national medium-term fiscal-structural plan in accordance with Articles 11 and 36(1), point (a) of Regulation (EU) 2024/1263, the Council Decision of 26 July 2024 took into account that the next step in the excessive deficit procedure, namely the Commission recommendation for a Council recommendation under Article 126(7) TFEU on the correction of the excessive deficit, would take place together with the Commission Opinion 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. This timeline is exceptional and linked to the transition to the new framework, therefore not setting a precedent.

(7) Real GDP in Italy expanded by 0.7% in 2023. According to the European Commission Autumn 2024 Forecast, the economy is expected to grow by 0.7% in 2024, on the back of expanding investment and positive net exports while private consumption stagnates. In 2025, real GDP is expected to increase by 1.0%, as consumption picks up. The unemployment rate is expected to reach 6.8% in 2024 and 6.3% in 2025. Inflation is set to decrease from 5.9% in 2023 to 1.1% in 2024 and to increase again to 1.9% in 2025.

(8) According to the data validated by Eurostat on 22 October 2024[6], the general government deficit in Italy stood at 7.2% of GDP in 2023. The European Commission Autumn 2024 Forecast projects a general government deficit of 3.8% of GDP in 2024 and 3.4% of GDP in 2025, thus above the reference value in both years. The structural deficit is projected at 4.3% of GDP in 2024 and is expected to decrease by 0.5 percentage points in 2025.

(9) General government debt stood at 134.8% of GDP at end-2023. According to the European Commission Autumn 2024 Forecast, it is projected to increase to 136.6% of GDP at end-2024 and 138.2% of GDP at end-2025, thus remaining above the 60% of GDP reference value.

(10) On 15 October 2024, Italy submitted its first national medium-term fiscal-structural plan, in accordance with Articles 11 and 36(1), point (a) of Regulation (EU) 2024/1263. The plan covers the period 2025-2029 and presents a fiscal adjustment spread over seven years. The Council Recommendation endorsing the national medium-term fiscal-structural plan of Italy for the years 2025 to 2029 and endorsing a set of reforms and investment commitments in the plan underpinning an extension of

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programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

[6] Eurostat Euro Indicators published on 22 October 2024. See: https://ec.europa.eu/eurostat/en/web/products-euro-indicators/w/2-22102024-AP

the adjustment period recommends a net expenditure path that factors in all the necessary requirements of a corrective path and should be recommended as the corrective net expenditure path under the excessive deficit procedure. The corrective net expenditure path is thus consistent with a minimum annual structural adjustment of at least 0.5% GDP as a benchmark for the years when the general government deficit is expected to exceed the reference value, in line with Council Regulation (EC) 1467/97.

(11) Based on the net expenditure path, as the sole operational reference for monitoring compliance, which is set out in the Council Recommendation endorsing the plan of Italy and in this recommendation, and based on the European Commission Autumn 2024 Forecast, the general government deficit is expected to decrease from 3.8% of GDP in 2024 to 2.9% by 2026. Likewise, based on the assumptions of the plan, the deficit would go below the 3% deficit reference value in 2026.

(12) Based on the corrective net expenditure path to be recommended, the European Commission medium-term government debt projection framework, and the European Commission Autumn 2024 Forecast, the general government debt would increase from 136.6% of GDP at end-2024 to around 140% in 2026.

(13) Budgetary consolidation measures should secure a lasting correction of the excessive deficit, while being geared towards enhancing the quality and composition of the public finances, preserving investment and reinforcing the growth potential of the economy. Reforms of a fiscal and broader economic nature (including the reforms underpinning the extension of the adjustment period, as specified in Annex II of the Commission Recommendation for a Council Recommendation endorsing the medium-term plan of Italy[7]) should improve the growth and resilience potential of the economy in a sustainable manner and support fiscal sustainability.

HEREBY RECOMMENDS:

(1) Italy should ensure that the nominal growth rate of net expenditure does not exceed the maxima established in Annex I.

(2) Italy should put an end to the excessive deficit situation by 2026.

(3) The Council establishes the deadline of 30 April 2025 for Italy to take effective action and present the necessary measures together with its 2025 annual progress report, to be submitted to the Commission in accordance with Article 21 of Regulation (EU) 2024/1263. Thereafter, Italy should report on progress made in the implementation of this recommendation at least every six months until the excessive deficit has been corrected.

This Recommendation is addressed to Italy.

ANNEX I

Maximum growth rates of net expenditure
(annual and cumulative growth rates, in nominal terms)
Italy

Years		2025	2026
Growth rates (%)	Annual	1.3	1.6

[7] Commission Recommendation for a Council Recommendation endorsing the national medium-term fiscal-structural plan of Italy, 26.11.2024, COM(2024)718 final.

	Cumulative (*)	-0.7	0.9

(*) The cumulative growth rates are calculated by reference to the base year of 2023.

Done at Brussels,

For the Council
The President