II

(Acts adopted under the EC Treaty/Euratom Treaty whose publication is not obligatory)

DECISIONS

COUNCIL

COUNCIL DECISION

of 3 June 2008

abrogating Decision 2005/694/EC on the existence of an excessive deficit in Italy

(2008/560/EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 104(12) thereof,

Having regard to the recommendation from the Commission,

Whereas:

(1) By Council Decision 2005/694/EC [1], following a recommendation from the Commission in accordance with Article 104(6) of the Treaty, it was decided that an excessive deficit existed in Italy. The Council noted that the general government deficit was above but close to the 3 % of GDP reference value in both 2003 and 2004, while general government gross debt stood at around 106-107 % of GDP in both years, clearly above the 60 % of GDP Treaty reference value, and it had not declined at a satisfactory pace over recent years.

(2) On 28 July 2005, in accordance with Article 104(7) of the Treaty and Article 3(4) of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure [2], the Council made, based on a recommendation from the Commission, a recommendation addressed to Italy with a view to bringing the excessive deficit situation to an end by 2007 at the latest. The recommendation was made public.

(3) In accordance with Article 104(12) of the Treaty, a Council Decision on the existence of an excessive deficit is to be abrogated when the excessive deficit in the Member State concerned has, in the view of the Council, been corrected.

(4) In accordance with the Protocol on the excessive deficit procedure annexed to the Treaty, the Commission provides the data for the implementation of the procedure. As part of the application of the Protocol, Member States are to notify data on government deficits and debt and other associated variables twice a year, namely before 1 April and before 1 October, in accordance with Article 4 of Council Regulation (EC) No 3605/93 of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community [3].

(5) Based on data provided by the Commission (Eurostat) in accordance with Article 8g(1) of Regulation (EC) No 3605/93 following the notification by Italy before 1 April 2008 and on the Commission services' spring 2008 forecast, the following conclusions are warranted:

— the general government deficit, after rising from 3,5 % of GDP in 2004 to 4,2 % of GDP in 2005, was reduced to 3,4 % of GDP in 2006 and finally to 1,9 % of GDP in 2007, which is below the 3 % of GDP deficit reference value. Net of the budgetary impact of one-off measures, the deficit would be 1,7 % of GDP in 2007. This compares with a target of 2,8 % of GDP set in the December 2006 update of the stability programme,

[1] OJ L 266, 11.10.2005, p. 57.
[2] OJ L 209, 2.8.1997, p. 6. Regulation as amended by Regulation (EC) No 1056/2005 (OJ L 174, 7.7.2005, p. 5).
[3] OJ L 332, 31.12.1993, p. 7. Regulation as last amended by Regulation (EC) No 2103/2005 (OJ L 337, 22.12.2005, p. 1).

— the adjustment was driven by an increase in permanent tax revenues over the 2006-2007 period, which largely exceeded expectations. This was mostly thanks to a higher-than-expected effectiveness of the adopted measures and somewhat higher-than-projected economic growth. After an estimated worsening by ¼ of a percentage point of GDP in 2005, the structural balance (i.e. the cyclically-adjusted balance net of one-off and other temporary measures) is estimated to have improved by 1¾ and 1¼ percentage points of GDP in 2006 and 2007, respectively,

— for 2008, the spring 2008 forecast projects an increase in the deficit to 2,3 % of GDP, including 0,1 % of GDP one-offs proceeds from the sale of real estate. The envisaged worsening of the budgetary balance will be driven by both a rise in the ratio of current primary expenditure to GDP and lower current taxes. This is partly offset by an anticipated decline of capital expenditure, which reflects the substantial one-off expenditure accrued in 2007. Although the 2,3 % of GDP deficit projection is only slightly above the official deficit target of 2,2 % of GDP set in the November 2007 update of the stability programme, the latter was projected using an estimated deficit outturn in 2007 significantly higher than the reported outcome. For 2009, the spring forecast projects, on a no-policy change basis, a deficit of 2,4 % of GDP. This implies that the deficit has been brought below the 3 % of GDP reference value in a credible and sustainable manner,

— nevertheless, the structural balance is projected to worsen by more than ¼ of a percentage point of GDP in 2008 and, on a no-policy change basis, to improve by ¼ of a percentage point in 2009. This has to be seen against the need to make progress towards the medium-term objective (MTO) for the budgetary position, which for Italy is a balanced position in structural terms,

— after decreasing for a decade to just below 104 % of GDP in 2004 (from more than 121 % of GDP in 1994), the government debt ratio increased by two percentage points of GDP in 2005 and by further 0,6 of a percentage point in 2006, to 106,5 % of GDP. The debt ratio fell again to 104 % of GDP in 2007. The development of the debt ratio was significantly affected by a temporary debt-increasing financial operation, i.e. the accumulation of liquid assets, in 2006 and its reversal in 2007. Without this operation the debt ratio would have remained broadly stable in 2006, reflecting the improvement in the primary surplus in line with the Council recommendation. According to the Commission's spring 2008 forecast, under the assumption of unchanged policies the debt ratio is projected to fall to around 102½ % by 2009. While the debt ratio in Italy remains high and clearly above the reference value, it can be considered to have diminished in line with the correction of the excessive deficit in 2007.

(6) In the view of the Council, the excessive deficit in Italy has been corrected and Decision 2005/694/EC should therefore be abrogated,

HAS ADOPTED THIS DECISION:

Article 1

From an overall assessment it follows that the excessive deficit situation in Italy has been corrected.

Article 2

Decision 2005/694/EC is hereby abrogated.

Article 3

This Decision is addressed to the Italian Republic.

Done at Luxembourg, 3 June 2008.

For the Council

The President

A. BAJUK