COUNCIL DECISION

of 19 January 2010

on the existence of an excessive deficit in Italy

(2010/286/EU)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union and, in particular, Article 126(6) in conjunction with Article 126(13) and Article 136 thereof,

Having regard to the proposal from the Commission,

Having regard to the observations made by Italy,

Whereas:

(1) According to Article 126(1) of the Treaty on the Functioning of the European Union, 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 growth conducive to employment creation.

(3) The excessive deficit procedure (EDP) under Article 126 of the Treaty on the Functioning of the European Union, as clarified by Council Regulation (EC) No 1467/97 of 7 July 1997 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. Regulation (EC) No 1467/97 also establishes provisions for the implementation of Article 104 of the Treaty establishing the European Community, which has become Article 126 of the Treaty on the Functioning of the European Union. The Protocol on the excessive deficit procedure annexed to the Treaty on the Functioning of the European Union sets out further provisions relating to the implementation of the EDP. Council Regulation (EC) No 479/2009 [2] lays down detailed rules and definitions for the application of the provisions of that Protocol.

(4) The 2005 reform of the Stability and Growth Pact sought to strengthen its effectiveness and economic underpinnings as well as safeguard the sustainability of the public finances in the long run. It aimed at ensuring that, in particular, the economic and budgetary background was taken into account fully in all steps in the EDP. In this way, the Stability and Growth Pact provides the framework supporting government policies for a prompt return to sound budgetary positions taking account of the economic situation.

(5) Article 104(5) of the Treaty establishing the European Community, which has become Article 126(5) of the Treaty on the Functioning of the European Union, required the Commission to address an opinion to the Council if the Commission considered that an excessive deficit in a Member State existed or might occur. Having taken into account its report in accordance with Article 104(3) of the Treaty establishing the European Community, which has become Article 126(3) of the Treaty on the Functioning of the European Union, and having regard to the opinion of the Economic and Financial Committee in accordance with Article 104(4)of the Treaty establishing the European Community, which has become Article 126(4) of the Treaty on the Functioning of the European Union, the Commission concluded that an excessive deficit existed in Italy. The Commission therefore addressed such an opinion to the Council in respect of Italy on 11 November 2009 [3].

(6) Article 126(6) of the Treaty on the Functioning of the European Union states that the Council should 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, this overall assessment leads to the conclusions set out in this Decision.

(7) According to data notified by the Italian authorities in October 2009, the general government deficit in Italy is planned to reach 5,3 % of GDP in 2009, thus exceeding and not close to the 3 % of GDP reference value. The planned excess over the reference value can be qualified as exceptional within the meaning of the Treaty and the Stability and Growth Pact. In particular, it results from a severe economic downturn in the sense of the Treaty and the Stability and Growth Pact. The Commission services' autumn 2009 forecast projects real GDP in Italy to contract by 4,7 % in 2009, after decreasing by 1 % in 2008. A moderate recovery is anticipated for 2010, strengthening in 2011. Furthermore, the planned excess over the reference value cannot be considered temporary, since the deficit is projected to increase further in 2010 and, on a no-policy change basis, to decrease marginally in 2011. The discretionary measures taken with the successive recovery packages to respond to the crisis in line with the European Economic Recovery Plan (targeted

[1] OJ L 209, 2.8.1997, p. 6.
[2] OJ L 145, 10.6.2009, p. 1.
[3] All EDP-related documents for Italy can be found at the following website: http://ec.europa.eu/economy_finance/netstartsearch/pdfsearch/pdf.cfm?mode = _m2

to support low-income groups and key industrial sectors) are not expected to appreciably weigh on the government balance, as they are, according to the Italian authorities, fully financed mainly by the reallocation of existing funds. The deficit criterion in the Treaty is not fulfilled.

(8) According to data notified by the Italian authorities in October 2009, general government gross debt has been well above the 60 % of GDP reference value since before the start of stage III of the economic and monetary union and is planned to stand at 115,1 % of GDP in 2009. The Commission services' autumn 2009 forecast projects the debt ratio to rise further, to 117,8 % in 2011. The debt ratio cannot be considered as diminishing sufficiently and approaching the reference value at a satisfactory pace within the meaning of the Treaty and the Stability and Growth Pact. The debt criterion in the Treaty is not fulfilled.

(9) According to Article 2(4) of Regulation (EC) No 1467/97, 'relevant factors' can only be taken into account in the steps leading to the Council decision on the existence of an excessive deficit in accordance with Article 126(6) of the Treaty on the Functioning of the European Union if the double condition — that the deficit remains close to the reference value and that its excess over the reference value is temporary — is fully met. In the case of Italy, this double condition is not met. Therefore, relevant factors are not taken into account in the steps leading to this Decision,

HAS ADOPTED THIS DECISION:

Article 1

From an overall assessment it follows that an excessive deficit exists in Italy.

Article 2

This Decision is addressed to the Italian Republic.

Done at Brussels, 19 January 2010.

For the Council

The President

E. SALGADO