II

(Acts whose publication is not obligatory)

COUNCIL

COUNCIL DECISION

of 28 July 2005

on the existence of an excessive deficit in Italy

(2005/694/EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 104(6) thereof,

Having regard to the recommendation from the Commission,

Having regard to the observations made by Italy,

Whereas:

(1) According to Article 104 of the Treaty Member States are to 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 under Article 104 provides for a decision on the existence of an excessive deficit. The Protocol on the excessive deficit procedure annexed to the Treaty sets out further provisions relating to the implementation of the excessive deficit procedure. Council Regulation (EC) No 3605/93 [1], lays down detailed rules and definitions for the application of the provision of the said Protocol.

(4) Article 104(5) of the Treaty requires the Commission to address an opinion to the Council if the Commission considers that an excessive deficit in a Member State exists or may occur. The Commission addressed such an opinion on Italy to the Council on 29 June 2005. Having taken into account its report in accordance with Article 104(3) of the Treaty and having regard to the opinion of the Economic and Financial Committee in accordance with Article 104(4) of the Treaty, the Commission concluded that there exists an excessive deficit in Italy. In delivering its assessment, the Commission has taken into account the Ecofin Report to the European Council on 'Improving the implementation of the Stability and Growth Pact', endorsed by the latter on 22 March 2005.

(5) Article 104(6) of the Treaty lays down 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 following conclusions.

(6) According to the figures for 2003 and 2004 reported so far, the deficit ratio has been above but close to the 3 % of GDP reference value in 2003 and 2004. The breach of the 3 % of GDP Treaty reference value in 2003 and 2004 did not result from an unusual event outside the control of the Italian authorities, nor was it the result of a severe economic downturn in the sense of the Stability and Growth Pact. The rate of economic growth over the last three years was positive but low (0,4 %, 0,3 % and 1,2 %, in 2002, 2003 and 2004, respectively). The output gap is estimated to have turned from 2,1 % of potential GDP in 2001 to – 1,3 % of potential GDP in 2004. As such, the situation of slow growth in 2003 and 2004 cannot be qualified as exceptional in the sense of the Treaty and the Stability and Growth Pact.

(7) The excess over the reference value cannot be considered temporary because the deficit, after exceeding (but remaining close to) the reference value in 2003 and 2004, is projected by the Commission to exceed it by a large margin in 2005 and 2006 under the standard no-policy change assumption. This indicates that the Treaty requirement concerning the deficit criterion is not fulfilled.

(1) OJ L 332, 31.12.1993, p. 7. Regulation as last amended by Commission Regulation (EC) No 351/2002 (OJ L 55, 26.2.2002, p. 23).

(8) In addition, the debt-to-GDP ratio, at around 106 to 107 % of GDP in 2004, is clearly above the reference value in the Treaty and has not declined at a satisfactory pace over recent years. The pace of debt reduction has been affected by debt-increasing below-the-line operations. Moreover, the present level of the primary surplus (below 2 % of GDP in 2004) does not ensure a satisfactorily declining path of the debt ratio. This indicates that the Treaty requirement concerning the debt criterion is not fulfilled either.

(9) Other relevant factors included in the Commission report in accordance to Article 104(3) of the Treaty, as well as additional ones put forward by the Italian authorities with their letter dated 6 June 2005, have been analysed by the Council. According to the Ecofin Report to the European Council on 'Improving the implementation of the Stability and Growth Pact', taking into account other relevant factors in the Council decision on the existence of an excessive deficit in accordance with Article 104(6) of the Treaty, 'must be fully conditional on the overarching principle that, before other relevant factors are taken into account, the excess of the reference value is temporary and the deficit remains close to the reference value'. In the case of Italy, the first condition is not met. Therefore, for the purpose of the Council decision in accordance with Article 104(6) of the Treaty, other relevant factors are not taken into account in the case of Italy,

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, 28 July 2005.

For the Council

The President

J. STRAW