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Commission assesses the updated Stability Programme of Italy

The European Commission today adopted a Recommendation to the Council of Ministers on the updated stability programme of Italy (1999-2003). The Commission concludes that the updated stability programme, which confirms and extends the objectives announced in last year's programme, is in line with the requirements of the Stability and Growth Pact and with the Broad Economic Policy Guidelines. The net borrowing of the general government is projected to decline from an estimated 2.0% of GDP in 1999 to 0.1% of GDP in 2003. The debt-to-GDP ratio is also projected to decline steadily, by over 3 percentage points per year, from an estimated 114.7% in 1999 to 100.0% in 2003. On the basis of the Commission's Recommendation, the Council is expected to adopt a formal opinion on the update of Italy's stability programme on [28 February 2000].

The Commission Recommendation was adopted on the initiative of Pedro Solbes, EU Commissioner for economic and monetary affairs, as part of the procedures set in the Stability and Growth Pact for surveillance and co-ordination of national economic and budgetary policies at the level of the European Union.

The Stability and Growth Pact, adopted by the European Council at its meeting in Amsterdam in June 1997, requires Member States participating in the euro-zone to present stability programmes and their updates to the Council and the Commission. The programmes provide information on how Member States intend to meet the objectives of the Pact, in particular, the medium-term budgetary target of a general government budget close to balance or in surplus which will enable their finances to withstand normal cyclical fluctuations without exceeding the reference value of a deficit of 3 % of GDP. The Italian updated programme was submitted on 18 January 2000.

The Commission's Recommendation highlights the following:

- The updated Italian stability programme is in line with the requirements of the Stability and Growth Pact.
- Despite the cyclical slowdown, the initial programme's objective of a budget deficit of 2.0% of GDP in 1999 appears to have been achieved, as recommended in the Broad Economic Policy Guidelines. Likewise, the debt/GDP ratio (estimated at 114.7% of GDP) is in line with the projection in the initial programme, as large privatisation receipts have offset the negative impact of lower growth.

- The update of the Italian programme confirms the objectives for the government deficit in 2000 and 2001 (respectively, 1.5% and 1.0% of GDP) and commits to further fiscal consolidation, which would lead to an almost balanced budgetary position in 2003. This consolidation would support a decline by over 3 percentage points per year in the debt/GDP ratio, which is projected to reach 100.0% in 2003.
- The central macroeconomic scenario of the updated programme assumes a gradual increase in the rate of GDP growth, from 1.3% in 1999 to nearly 3% in 2003. This scenario is broadly in line with the Commission's services view of the Italian economy. In fact, also considering the improvement in the external environment and the growth-supporting measures included in the Budget Law for 2000, the upswing in 2000-2001 could be stronger than assumed in the updated programme.
- The updated programme continues the budgetary strategy aimed at stabilising public finances and promoting growth and an equitable distribution of income. This strategy is based on keeping the primary surplus at a high level, reducing current expenditure as a percentage of GDP, easing the still heavy tax burden, and expanding public investment, particularly in the South. As projections for interest payments have been revised downwards, the budgetary objectives would now be achieved with a primary surplus of about 5.0% of GDP (compared to the previous programme's projections of 5.5% of GDP for 2000 and 2001). However, the envisaged medium-term path of decline of the debt/GDP ratio would not be affected. Furthermore, the lower primary surplus does not result from a drift in primary current expenditures, which are projected to decline from 37.9% of GDP in 1999 to 36.2% of GDP in 2003.
- The updated programme complies with the Broad Economic Policy Guidelines. However, it should be recalled that the revitalisation of the Italian economy rests upon the enhancement of the structural reforms in labour and product markets and in the public administration. The privatisation programme should also be vigorously pursued. In addition, Italy faces medium-term challenges to public finances from pension and other age-related budgetary expenditures which should be urgently addressed. Recent government proposals to promote the expansion of funded pension provisions go in the right direction, but it is also necessary to begin as soon as possible the preparatory work for the re-assessment of the pension system, scheduled for the year 2001. Moreover, there is a need to ensure the fulfilment of the budgetary objectives in order to secure the intended reduction in the debt/GDP ratio. Should growth turn out better than expected, Italy should achieve better budgetary outcomes than planned and thus accelerate the reduction in the debt/GDP ratio towards the 60% reference value.

Key Figures of the updated Italian Stability Programme

	1999	**2000**	**2001**	**2002**	**2003**
Real GDP growth rate (annual % change)	1.3	2.2	2.6	2.8	2.9
General government balance (% of GDP)	-2.0	-1.5	-1.0	-0.6	-0.1
Government debt (% of GDP)	114.7	111.7	108.5	104.3	100.0
Inflation (private consumption deflator, annual % change)	1.9	1.7	1.6	1.5	1.5
Employment (annual % change)	0.7	0.8	1.0	0.9	0.9