

# Working Paper 1/2024 “The New EU Stability and Growth Pact and its Fiscal Implications for Italy”

## Summary

4<sup>th</sup> July 2024 | On the 30<sup>th</sup> of April 2024, the new EU Stability and Growth Pact (SGP) entered into force following an approach based on country-specific fiscal adjustments. This paper presents illustrative scenarios for Italy’s public finances, carried out using the DSA framework developed by the Parliamentary Budget Office and adapted to be broadly consistent with the new SGP. The scenarios are compared with those consistent with the requirements set in the initial legislative proposals put forward by the European Commission in April 2023 and with the ones that assume the convergence of the structural balance to the medium-term budgetary objective (MTO), one of the main rules of the previous SGP. These scenarios show that the multiannual fiscal consolidation, broadly consistent with the new SGP, is estimated in an annual adjustment of the structural primary balance of around 1 percentage point of GDP with a 4-year adjustment path and of around 0.5-0.6 percentage points with a 7-year adjustment path. No substantial difference emerges between the adjustment required by the final version of the new SGP and the one required by the European Commission proposal. Indeed, the paper shows that, in the case of Italy, the debt sustainability safeguard, introduced in the final version of the new SGP, is not binding, while the deficit resilience safeguard binds only after the adjustment period, although just in some scenarios and for a limited number of years. Finally, the comparison between the fiscal consolidation consistent with the previous convergence to the MTO and the one consistent with the new SGP, shows that the latter implies either the same annual adjustment or a lower one during a 7-year adjustment period, while it requires a greater one during a 4-year adjustment period. However, in the new framework, a considerably smaller correction is required after the adjustment period.