
EU TO ASSESS ITALY BUDGET, WISHES RENZI WELL IN REFERENDUM

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By Francesco Guarascio | BRUSSELS

The European Commission reserved judgment on Monday on Italian Prime Minister Matteo Renzi's weekend speech setting out only a minimal reduction in his country's budget deficit next year, saying it would wait for formal fiscal documents.

The EU executive must rule on whether Rome's plans for 2017 meet euro zone rules, however, before an Italian referendum on Dec. 4 that may determine whether Renzi stays in office. Officials insist the fiscal verdict is unrelated to the campaign, but EU diplomats believe the Commission will do what it can to avoid damaging Renzi.

Key European allies, including German Chancellor Angela Merkel and French President Francois Hollande, have been keen to bolster Renzi and fear he may lose the referendum he called on constitutional reform, raising the possibility of new elections that could benefit the eurosceptic 5-Star movement.

Commission President Jean-Claude Juncker has been making clear to officials he shares that view, telling one internal meeting: "If we give up on Renzi, we give up on Europe."

An aggressive demand from Brussels in the coming weeks for Italy to cut its budget could make it harder for the socialist premier to win over voters tempted to vote against his reforms by a powerful coalition of interests, including 5-Star, which has long campaigned against euro zone austerity policies.

A Commission spokeswoman said on Monday that the EU executive was still waiting for written documents on Italy's 2017 budget and expected them shortly.

It is bound by EU rules to issue an opinion on whether national budgets meet euro zone fiscal rules by the end of November. Struggling with heavy debts, Renzi's government is also close to its deficit limit but has said it will cut the budget shortfall by only a small degree next year.

The Commission, concerned about low economic growth, has said recently it will grant Italy the fiscal leeway allowed by the rules but says that Rome has already benefited from such flexibility and needs to reduce its huge public debt.

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In its assessment, EU officials said, Brussels will have to review whether Italy respects its structural adjustment targets, if revenues foreseen in the budget are credible and whether spending on migrants and reconstruction following an earthquake in central Italy in August can be exempted from EU fiscal rules.

One EU official said: "We have no interest in escalating what does not need to be escalated."

(Editing by Alastair Macdonald)

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