

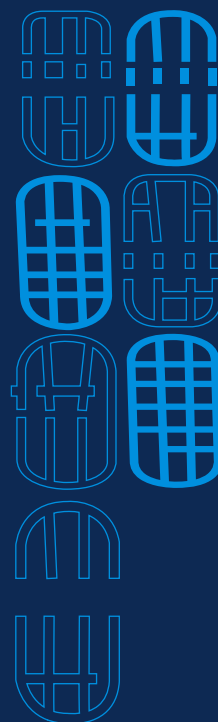


UNVEILING ITALY'S ECONOMIC POTENTIAL

A PERSPECTIVE ON A DYNAMIC
AND RESILIENT ECONOMY



2025



CONFINDUSTRIA
Centro Studi



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AND RESILIENT ECONOMY



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This volume has been coordinated by Piergiorgio Carapella and Alessandro Fontana.

The authors are: Piergiorgio Carapella, Guido Franco, Francesca Mazzolari, Matteo Pignatti and Ciro Rapacciuolo.

Additionally, contributions were made by:
Tullio Buccellato, Stefano Olivari, Cristina Pensa and Lorena Scaperrotta.

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EXECUTIVE SUMMARY



The Italian economy has undergone a significant transformation in recent years. Confindustria seeks to debunk common misconceptions about the country and highlight the strengths of Italy's economy, including consistent trade surpluses, a diversified and sustainable manufacturing sector and improvements in structural reforms which make the country able to withstand external shocks. These factors collectively contribute to a favorable investment climate and reinforce Italy's standing in the global financial markets.

The country has recently shown a significant improvement in the growth rate of the overall economy, compared to the main European countries. In the 5-year period 2018-2023, Italy outperformed Germany in terms of GDP growth averaging +1.0% per year versus Germany's +0.3%. This represents a sharp change in the relative performance of the two economies, considering that Germany had outpaced Italy every year between 2003 and 2018. In the last five years, starting from 2019, investments in Italy experienced a very significant expansion, outpacing other large European countries. Productive investments have increased by +17.8% with respect to 2019, far exceeding France's +6% increase, while Spain and Germany experienced declines of -1.2% and -4.5%.

A key pillar of these robust results is the nation's competitive manufacturing sector, which stands as the second largest and most diversified in Europe. Moreover, the diversification and resilience of Italy's manufacturing sector does not come at the cost of its efficiency. In aggregate terms, manufacturing labour productivity per hour worked is consistently higher than in France or Spain, though still slightly lower than in Germany. Exports of goods have risen by over 45% in value since 2015, contributing to a strong net international investment position (NIIP) of +12.2% of GDP by the third quarter of 2024. The very good performance of Italian exports underlines the strength of the Italian manufacturing sector in terms of product diversification, quality and productivity of exporting firms.



The main strengths of the Italian economy



INDICATOR	ITALY (latest data)	AVG. SPA-GER-FRA (latest)	ITALY (2014)	AVG. SPA-GER-FRA (2014)
Potential GDP growth (average % change)*	1.2	1.1	-0.6	1.1
Productive investment growth (average % change.)**	17.8	-0.4	-15.9	7.8
GHG intensity (kgCO ₂ /\$)	0.12	0.12	--	--
Primary Balance (% of GDP)***	-3.4	-2.9	1.7	-0.9
Var. Public debt (% of GDP)***	1.2	7.9	--	--
Political Stability (index)	0.58	0.41	0.46	0.49
Public Debt Holders (Foreign %)	28.7	45.1	37.7	--
Households' Worth (Tot. Net, % of Income)	8.1	8.2	8.9	6.8
Firms' Capital Share (% of Liabilities)	47.3	46.5	41.5	48.6
Diversification of the manufacturing sector (rank over 27 EU-countries)	1	7	--	--
Trade Balance (% of GDP)	2.8	0.5	2.9	1.1
Net International Investment Position (% of GDP)	12.2	1.2	-20.9	-28.4
Export of goods (average % change) **	9.2	-1.6	--	--
Civil backlog (Total pending cases, thousands)	2,858	--	4,353	--
Manufacturing labour productivity (per hour worked, ppp EUR 2015)	47.6	46.1	--	--
Employment rate (% of total 15-64 years old)	61.5	70.3	55.3	64.4

*2022-2025 and 2012-2014

**2019-2024 and 2009-2014

***simple average 2019-2023

Source: Confindustria Research Department calculations based on Eurostat, European Commission, Istat, Bank of Italy, UN-COMTRADE, IMF, World Bank, and BACH data.

Furthermore, Italy stands out among G20 and EU economies as a sustainable and efficient economy, demonstrating remarkable readiness for the green transition. In 2023, Italy's greenhouse gas (GHG) emissions intensity was 0.12 kilograms of CO₂-equivalent per dollar of GDP, compared to the G20 average of 0.32. The manufacturing sector's performance was even better, among the lowest in Europe. It produced 5.1% less GHG emissions per euro than the EU average, and while being the second largest EU manufacturer, it was only the 17th in emission intensity.

Italian firms underwent a long process of strengthening corporate balance sheets from a financial perspective. The capital share of Italian firms increased from 34.5% in 2007 to 47.3% in 2022 narrowing the gap with Germany from -21.3 percentage points in 2007 to -0.8 in 2022. Over the same period, the share of bank loans in Italian corporate liabilities decreased from 19.5% to 13.2%, and the gap with respect to Germany dropped from 14.7 percentage points to 9.1.

Italy's labor market has made significant strides over the past decade, with rising activity and employment rates and narrowing gaps with other EU nations. Between 2012 and 2023, the activity rate—the proportion of the labor force relative to the working-age population (15–65 years old)—increased by 3.7 percentage points, while the employment rate grew even more significantly, by 5.4 p.p.

Labor market reforms have contributed significantly to greater economic dynamism. Recent changes such as the Jobs Act of 2014-2015, have reduced institutional rigidities. Between 2014 and 2019, the stringency of employment protection in Italy declined by 8%. By comparison, during the same period, the OECD's Employment Protection Legislation indicator decreased by 5% in France and increased by 2% in Spain. This reduction helped narrow the gap between Italy and labor markets with similar institutional frameworks. Recent studies show that these job market reforms may have increase productivity of Italian firms by 1.3%.

Other important structural reforms have shown significant progress. A long-awaited reform of the judicial system can bolster economic confidence. Streamlined processes and digital tools have led to a 44% reduction in civil case backlogs between 2012 and 2022, with average case resolution times also falling sharply. This improved legal efficiency supports a more predictable business climate, critical for attracting domestic and international investments.

Italy, like many other developed nations, has faced significant challenges in managing its pension liabilities due to an aging population and low fertility rates. Over the years, a series of pension reforms have been implemented to address the growing financial burden and ensure the long-term sustainability of the system. The reforms have yielded tangible fiscal benefits. Considering all the measures approved since 2004, the reforms have cumulatively reduced the incidence of pension expenditure relative to GDP by over 60 percentage points by 2060.

One of the historical weaknesses of Italy was its political instability with frequent government changes. However, according to World Bank data, Italy's score for Political Stability increased from 0.33 in 2018 to 0.58 in 2023. This improvement places Italy's stability level close to that of Germany (0.59 in 2023) and ahead of France (0.34) and Spain (0.29).



Italy's rating is still the lowest among the major European countries



	ITALY		FRANCE		SPAIN		GERMANY	
	2014	latest	2014	latest	2014	latest	2014	latest
S&P	BBB	BBB	AA	AA-	BBB	A	AAA	AAA
Moody's	Baa2	Baa3	Aa1	Aa3	Baa2	Baa1	Aaa	Aaa
Fitch	BBB+	BBB	AA+	AA-	BBB+	A-	AAA	AAA
DBRS	A(low)	BBB(high)	AA(high)	AA(high)	A(low)	A	AAA	AAA
Scope*	A-	BBB+	AA	AA-	A-	A	AAA	AAA

*Oldest available rating is from 2017

Source: Confindustria Research Department elaborations.

The country's fiscal stability during recent crises is also worth mentioning. Public debt, often scrutinized in international assessments, grew by just 1.2 percentage point of GDP between 2019 and 2023, far below the Eurozone average of 3.5 points and far below Spain, France and the US that experienced significantly larger rises, with debt-to-GDP ratios increasing by 7.5, 11.8, and 15 percentage points, respectively. Furthermore, Italian public debt is mostly held by domestic investors, since the "foreign sector" accounts for less than a third of the total stock of public securities in Italy (28.7%) in 2024, a figure far below Germany (52.4%) and France (55.4%). Italy's solid fiscal performance in recent years is part of a broader trend of prolonged fiscal discipline spanning the last two decades. If we exclude the COVID crisis, between 2004 and 2019, the country recorded the EU's fifth highest average of primary balance (1.4% of GDP).

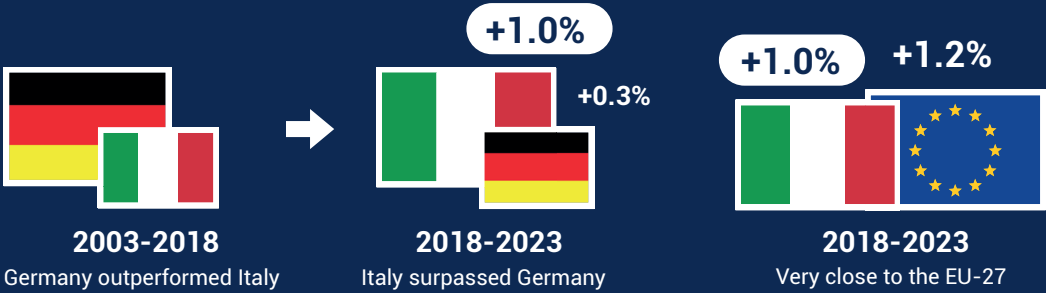
Despite these achievements, a misalignment persists between the country's underlying economic data and the performance of its sovereign ratings. The combination of strong export performance, resilient and diversified manufacturing sector, fiscal stability and a demonstrated commitment to tackle structural problems suggests a certain degree of "stickiness" in external assessments that may not fully reflect the structural progress achieved. This is reflected in the cost of debt for the Italian government. As the economy continues to build on its strengths, there is a compelling case to reevaluate of Italy's creditworthiness considering its demonstrated dynamism and resilience.



OVERVIEW | Higher GDP growth



GDP GROWTH



INVESTMENTS



PRODUCTIVE INVESTMENTS
+17.8%

FRANCE	+6.0%
SPAIN	-1.2%
GERMANY	-4.5%

R&D investments
+17.3%

FRANCE	+26.9%
SPAIN	+13.0%
GERMANY	+11.2%

INVESTMENT in dwellings
+83.9%

FRANCE	-11.9%
SPAIN	+1.4%
GERMANY	-12.9%

Higher GDP growth

Italy has recently shown a significant improvement in the overall economy's growth rate, relative to the other main European countries.

In the 5-year period 2018-2023, Italy outperformed Germany in terms of GDP growth averaging +1.0% per year compared to Germany's +0.3% (Table A). This represents a sharp change in the relative performance of the two economies, considering that Germany had outperformed Italy every year between 2003 and 2018. At the same time, over this same period, Italy's growth has closely mirrored the EU-27 average of 1.2%, a stark contrast to earlier periods when the gap between Italy and the EU was often large. In particular, between 2008-2013 period, the country's growth (together with Spain) was heavily penalized by the sovereign debt crisis (2011-2012).

In the 2019-2023 period, Italian GDP growth outperformed the UK and Japan. US growth, instead, was steadily above +2.0% per year, the highest rate among large, advanced countries. At the same time, mainly thanks to reforms and investments included in the NRPP, estimates of potential GDP growth for Italy have increased sharply. This allows us to be confident that the recently increased dynamics of actual GDP can be sustained in the future and is not just a short-lived episode.

In terms of potential growth, in the past, Italy showed very low values: +0.3% yearly, on average in the period 2017-2019, lower than Germany's +1.3% and the EU's +1.5% (Figure 1).

 Table A. Italy grew more than Germany in the most recent period (GDP, yearly average % variations, constant prices) 					
	1998-2003	2003-2008	2008-2013	2013-2018	2018-2023
EU-27	2.2	2.3	-0.2	2.1	1.2
Germany	1.2	1.9	0.6	2.0	0.3
Spain	3.8	3.0	-1.7	2.8	1.1
France	2.3	2.1	0.5	1.3	0.9
Italy	1.6	0.9	-1.6	0.9	1.0
UK	3.0	2.0	0.4	2.3	0.8
USA	2.9	2.4	1.1	2.4	2.3
Japan	0.9	1.1	0.3	1.0	0.2
Ita-Ger	0.4	-1.0	-2.2	-1.1	0.7

Source: Confindustria Research Department calculations based on Eurostat and IMF data.

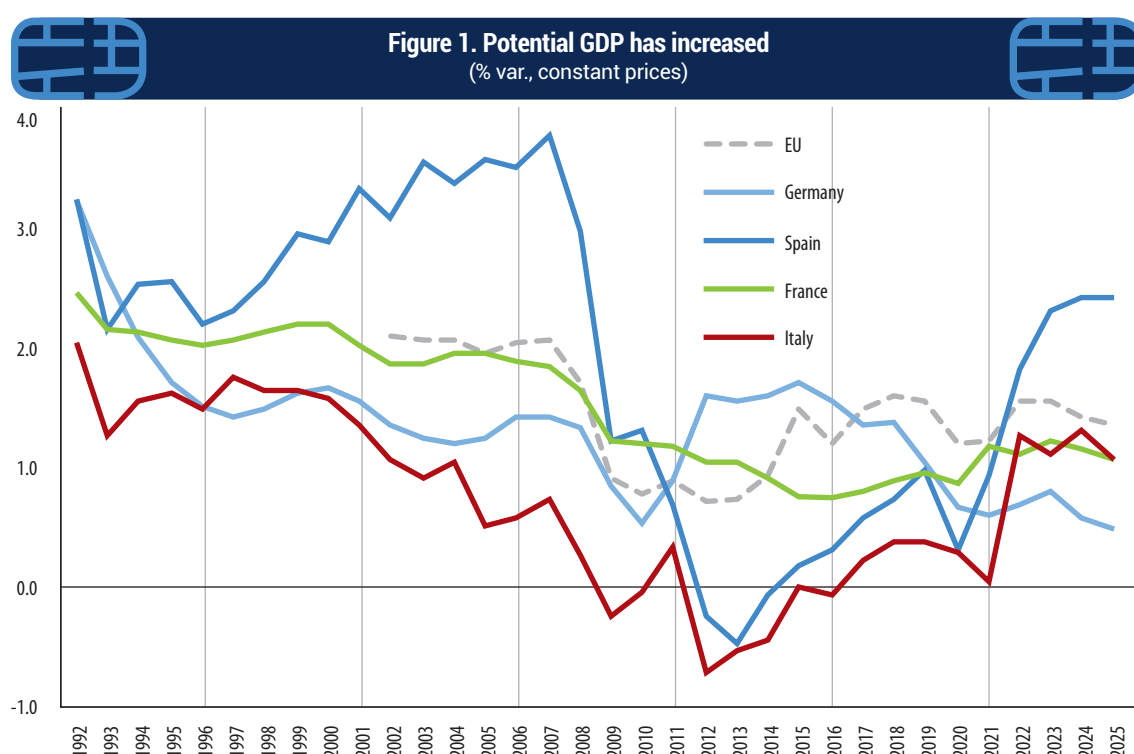
In the pre-pandemic period, Italian potential growth was indeed the lowest among the big four European countries. It was on a decreasing trend since the mid '90s, when it was estimated at around +1.5% yearly. After the Covid period, instead, estimates for potential growth increased a lot for our country, averaging +1.2% during 2022-2025. In the same period, the opposite happened to Germany, where it fell to +0.6%, while the EU as a whole maintained its pre-pandemic rate of +1.5% yearly.

Furthermore, in terms of GDP per-capita growth, during the five-year period 2019-2023, among the major advanced economies, Italy (+1.3% on average per year) was second only to the US (+1.9%), while Spain's growth turned out to be much lower (+0.4%) and Germany was at a standstill (-0.1%; Table B).

In previous periods, instead, our country performed worse, in particular in 2009-2013: the good figure for the last period reflects, at least in part, a delayed rebound from that earlier slump. As a whole, the level of Italian GDP per-capita in 2023 was almost equal (-0.2%) to the level reached in 2007.

Comparing the data on GDP with those on GDP per-capita, in the five-year period 2019-2023, it is evident that Italy managed to grow despite a sharp decline in the population (-0.3% on average per year). Instead, a good share of the growth in other countries in this period was due to population growth (+0.7% per year in Spain, +0.4% in Germany, +0.4% in the US).

In PPP, Italy is the only one of the major European countries, including the UK, to have improved its level in 2023 compared to the pre-pandemic values of 2019 (98 from 96, with the EU-27 equal to 100).



Source: Confindustria Research Department calculations based on AMECO data.

Table B. Per-capita GDP growth: a good result for Italy in 2019-2023
(% growth rates, 5 year averages, per year)

	1999-2003	2004-2008	2009-2013	2014-2018	2019-2023
EU-27	2.0	2.0	-0.4	1.9	1.0
Germany	1.2	2.1	0.6	1.4	-0.1
Spain	2.8	1.2	-2.0	2.7	0.4
France	1.6	1.4	0.0	0.9	0.6
Italy	1.4	0.3	-2.0	1.1	1.3
UK	2.5	1.2	-0.3	1.6	0.2
USA	1.9	1.5	0.3	1.7	1.9
Japan	0.7	1.1	0.4	1.1	0.5

Source: CSC calculations based on Istat, Eurostat and IMF data.

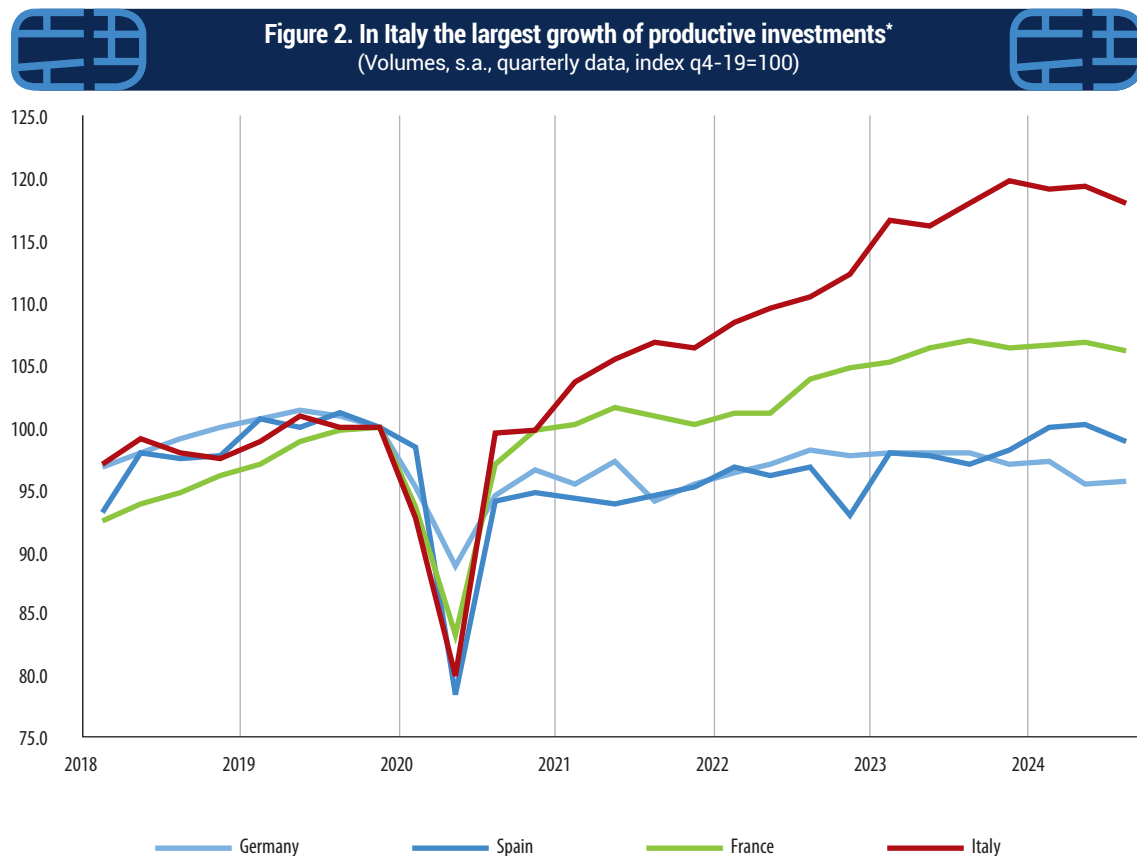
Robust investment growth

In the last five years, starting from 2019, the year before the pandemic, investments in Italy experienced a remarkable expansion, more than in the other big European countries. This is crucial for boosting potential growth, since more investments increase GDP both in the short and in the long term. In fact, not only do they add directly to current GDP but they also expand the capital stock available to the economy.

Calculating total investments net of dwellings, which is a measure of “productive investments”, Italy registered the highest growth among major EU economies: +17.8% in q3-24 with respect to q4-19. In the same period, productive investments increased by +6.0% in France and decreased by -1.2% in Spain and -4.5% in Germany (Figure 2). A brilliant result for our competitiveness in Europe.

During 2024, data showed a significant slowdown in productive investment in Italy, and the same happened in the other large European countries. The gap between Italy's accrued growth with respect to France or Spain, since 2019, stayed, therefore, almost unchanged.

One key factor behind the robust investment performance up to 2023, has been the success of the so-called “Industria 4.0” incentives, introduced in Italy in 2021 with the specific goal of encouraging new capital expenditure by firms in machinery and equipment.



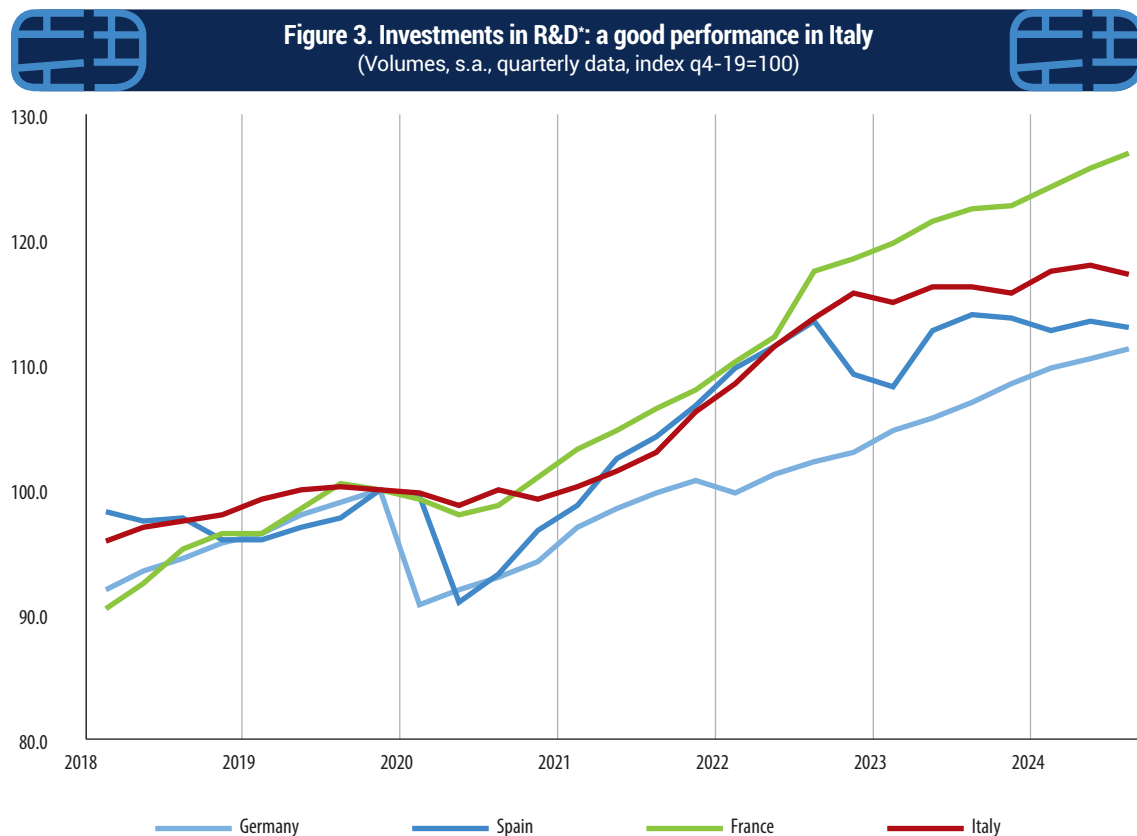
*Total investments net of dwellings.

Source: Confindustria Research Department calculations based on Eurostat data.

Considering, in particular, investments in “Intellectual property products”, which can be interpreted as a measure of Research & Development (Figure 3), one finds that they grew by 17.3% in Italy between 2019 and 2024, much more than in Germany (11.2%) and Spain (13.0%), while the best performance was registered in France (+26.9%). In monetary terms, R&D investments in Italy increased from €14 billion per quarter in 2019, to 16 in 2024 (at constant prices). As a percentage of GDP, they were almost stable at around 3.0% in Italy in 2024, as in 2019; these were only slightly less than in Spain and Germany, although half the percentage of France.

Investment in dwellings, as is well known, registered an extraordinary growth in Italy, fuelled by generous fiscal incentives introduced as a way of stimulating the economy after the pandemic in 2020. They grew by 83.9% in Italy in 2024 with respect to 2019, compared with +1.4% in Spain and a significant reduction of -11.9% in France and -12.9% in Germany.

Lastly, global foreign direct investments (FDI) have decreased since 2016. Over the past two years, global FDI declined by more than 31% from the post-Great Recession levels (2011–2016), with inflows to the EU27 falling by almost 100%. However, during the same period, inflows to Italy increased by a whopping 48%, rising from \$22 billion to \$32 billion, highlighting Italy's growing attractiveness as an investment destination.



*Intellectual property products.

Source: Confindustria Research Department calculations based on Eurostat data.



OVERVIEW | Excellent trade performance



ITALIAN SURPLUSES



NET EXPORT OF GOODS
(AVG. 2019-2024) **+5.4%**

NET INTERNATIONAL
INVESTMENT POSITION
(Q3 2024) **+12.2%**

INCREASED RESILIENCE
TO FINANCIAL SHOCKS



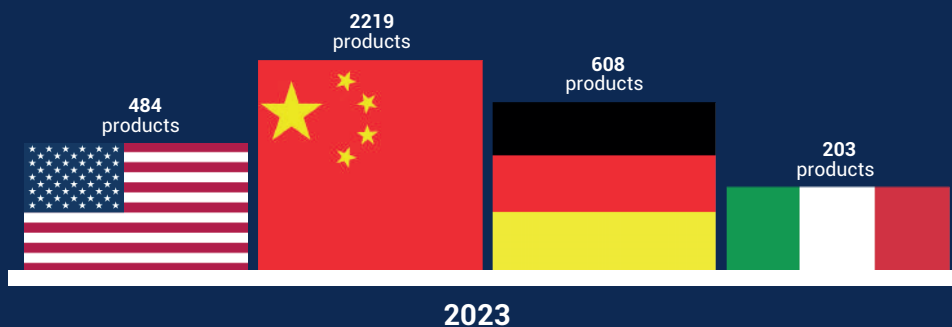
EXPORT GROWTH



VS

**+35%**

TOP EXPORTERS WORLDWIDE

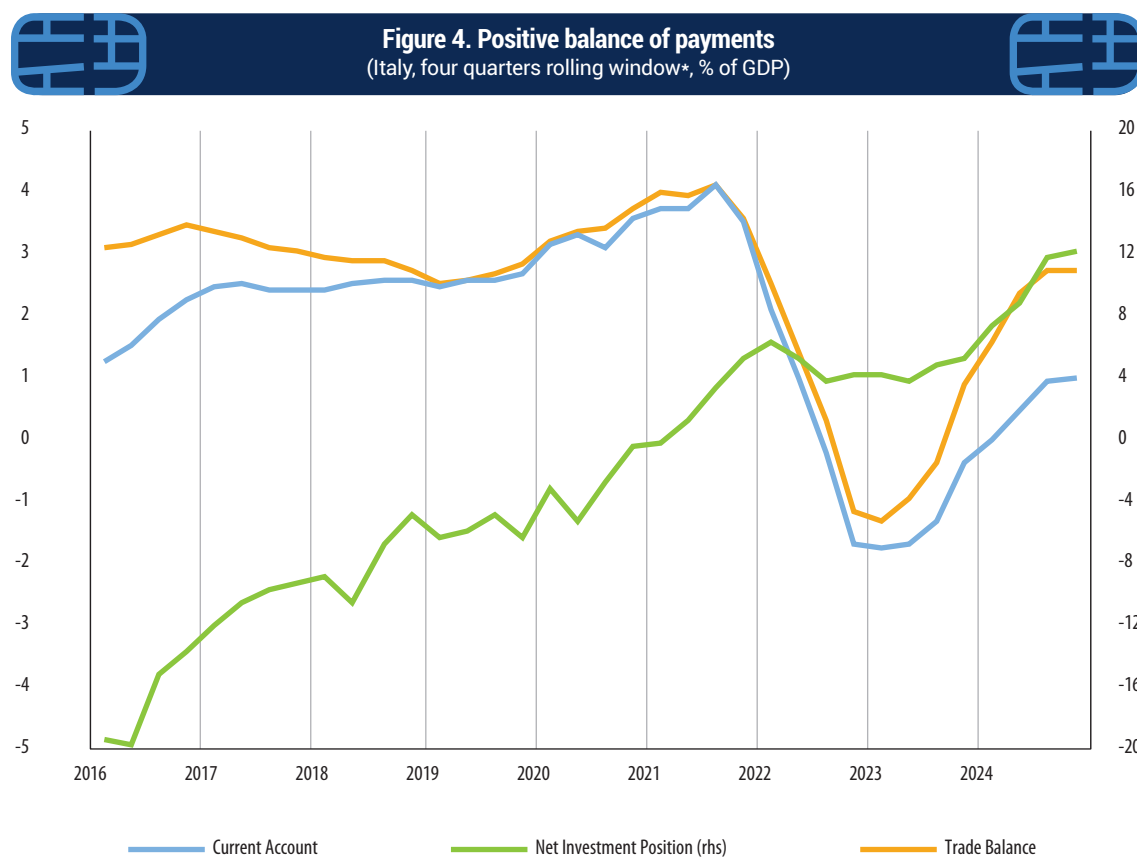


Excellent trade performance

The Italian economy benefits from a structural current account surplus, sustained by positive net exports (except for the period 2022-2023, when the commodity price shock multiplied the value of energy imports). The repeated current account surpluses drove the Italian net international investment position (NIIP) into positive territory, up to +12.2% of GDP in the 3rd quarter 2024 (Figure 4).

Specifically, net financial holdings (relative to the rest of the world) of the Italian private sector, particularly those of households and non-financial companies, are significantly higher than the net debt of the public sector (held by foreign investors). Italy's positive NIIP, sustained by the private financial wealth, represents a structural strength that ensure resilience to external financial shocks.

Moreover, in recent years Italy's net trade surplus has been driven by a remarkable increase in the exports of goods, which outperformed the other main European economies. Since 2015 Italian exports increased by more than 45% in value, in line with Spanish exports but much more than German and French ones (both around +30%).



* End of period for the Net Investment Position.

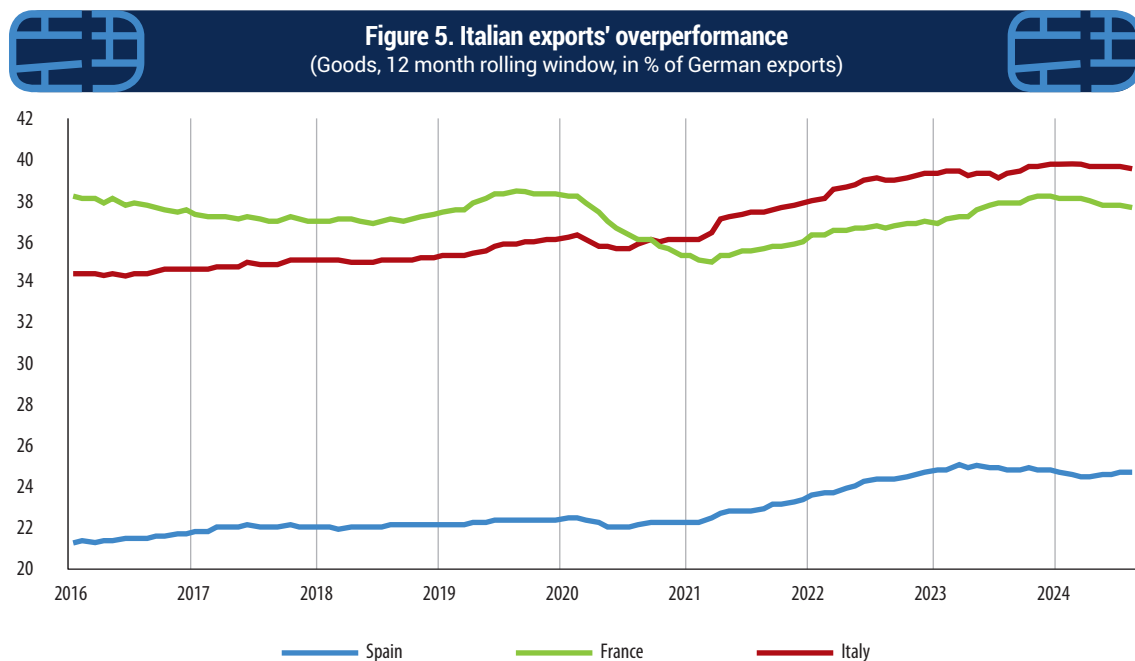
Source: Confindustria Research Department calculations based on Bank of Italy and ISTAT data.

In 2020 Italy became the second largest exporter in the EU after Germany (excluding the Netherlands, whose trade figures are inflated by its role as a major important logistic hub). Italian exports now accounts for nearly almost 40% of German exports up from less than 35% eight years ago. In contrast French exports amount to less than 38% of German exports while Spanish exports remain below 25% (Figure 5).

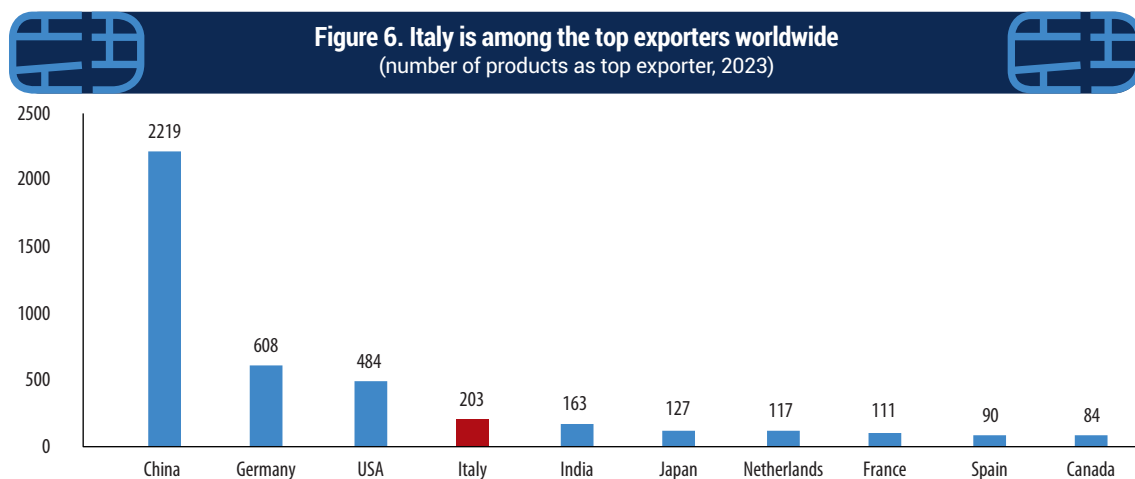
Italy ranks among the largest exporters in the world, after China, the United States and Germany and close to Japan and South Korea. In terms of trade openness, Italy ranks third among the largest exporters: exports of goods amounted to 28.9% of GDP in 2023, lower than in Germany (37.3%) and South Korea (36.6%) but higher than in France (22.8%), China (17.9%), Japan (17.1%) and the United States (7.5%).

Italy has one of the most diversified manufacturing sectors worldwide. Out of 5,388 globally traded goods (HS 6-digit, 2022), Italy exported 5,311 of them (98.6%). Furthermore, the country ranks 4th globally in the number of products for which it is the top exporter (Figure 6). With 203 products, Italy outperformed above India (163), Japan (127), and France (111).

The outstanding performance of Italian exports underlines the strength of the Italian manufacturing sector (accounting for 95% of exported goods), in terms of diversification (of products and destination markets), quality of goods and productivity of exporting firms.



Source: Confindustria Research Department calculations based on Eurostat data.



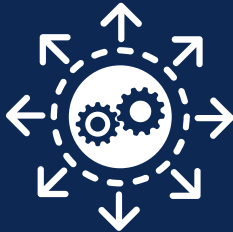
Source: Confindustria Research Department calculations based on UN-COMTRADE data.



OVERVIEW | A diversified and productive manufacturing sector



ONE OF THE GLOBAL LEADERS IN MANUFACTURING



FIRST IN EUROPE FOR
DIVERSIFICATION



SECOND LARGEST IN
EUROPE AFTER GERMANY



IN TOP 10
GLOBALLY

AN EFFICIENT SECTOR

Ranking of Labor Productivity per Hour Worked



- 1) GERMANY
- 2) ITALY
- 3) FRANCE
- 4) SPAIN

Number of Medium and Large Enterprises (2012-2022)

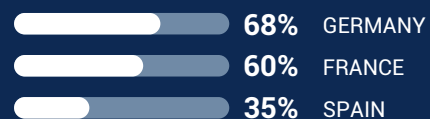
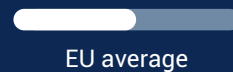


ONE OF THE MOST INNOVATIVE SECTORS IN THE EU

EU firms that have innovated
(2020-2022)



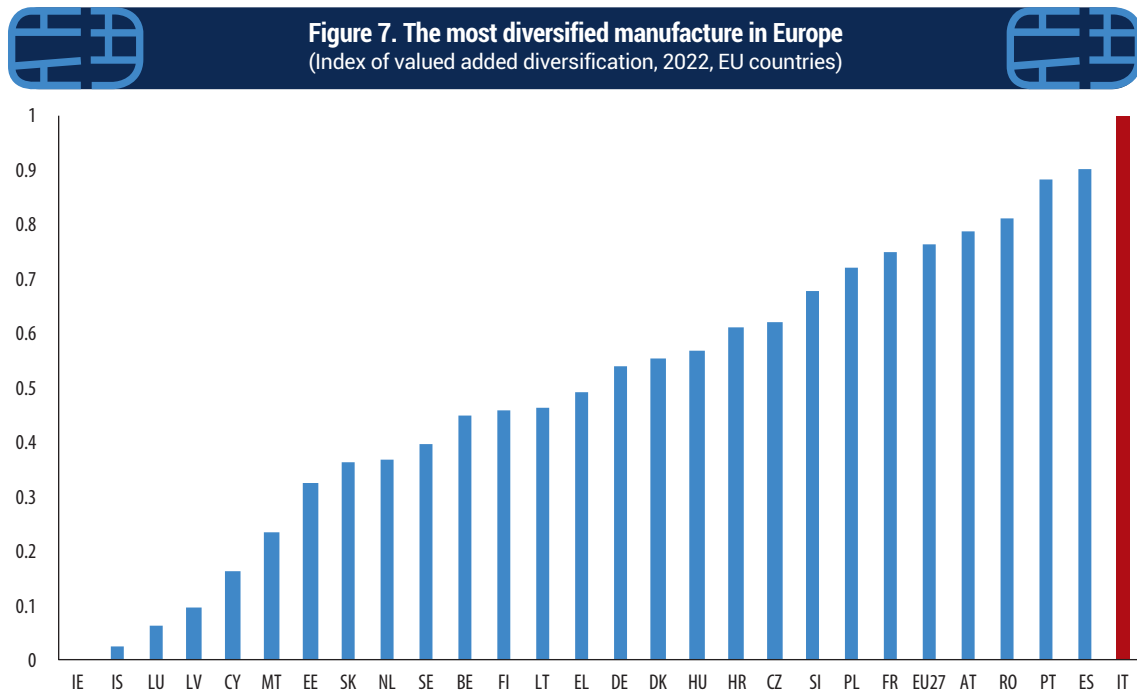
65% vs



A diversified and productive manufacturing sector

Italy's manufacturing sector continues to stand out as a cornerstone of its economy and a global leader in industrial production. Despite the growing industrial development in emerging economic regions and the relatively modest size of the country, Italy's manufacturing sector remains among the top 10 globally and ranks second in Europe, exceeded only by Germany.

Beyond its size, Italy's manufacturing sector is the most diversified in Europe. More specifically, when looking at the reciprocal of the Herfindahl-Hirschman index computed over the value added of 3-digits (according to the Nace Rev.2 classification) manufacturing industries, Italy ranks first among European Union countries (Figure 7). This diversified industrial structure strengthens economic resilience by reducing exposure to sector-specific shocks and enhancing adaptability to shifting consumer preferences, technological trends, and supply chain disruptions.

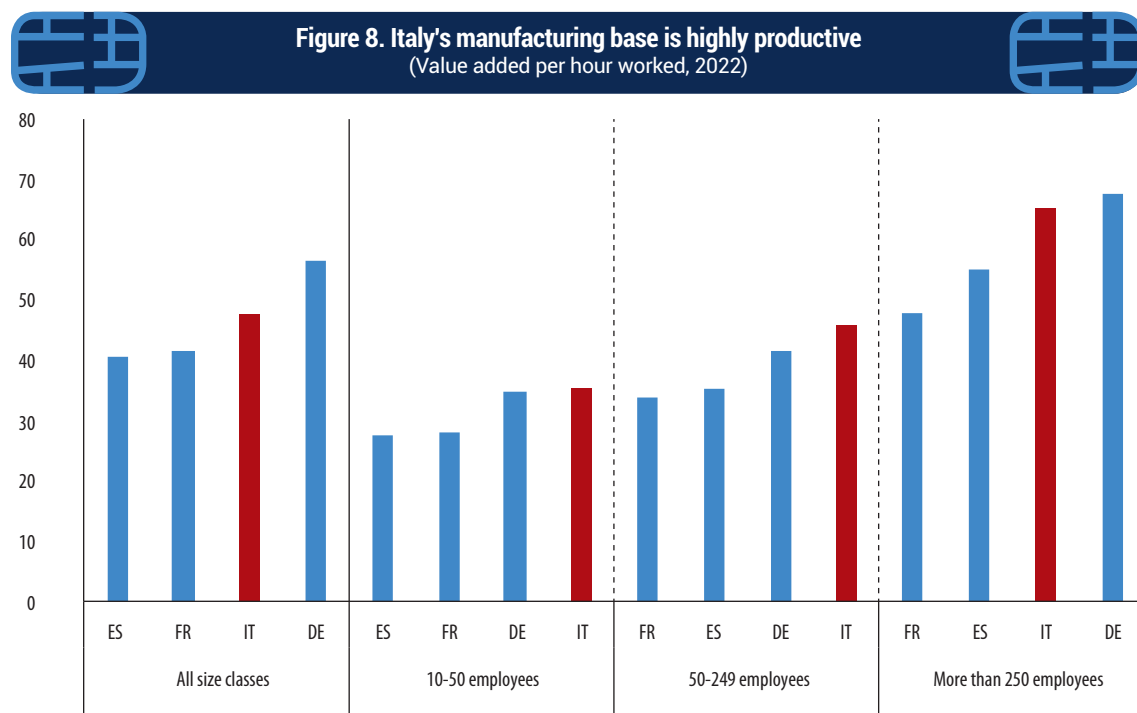


Note: The index is computed as the (normalised) inverse of the Herfindahl-Hirschman index on 3-digits manufacturing industries.
Source: Confindustria Research Department calculations based on Eurostat data.

Importantly, the diversification and resilience of Italy's manufacturing sector does not come at the cost of its efficiency. In aggregate terms, manufacturing labour productivity per hour worked is consistently higher than in France or Spain, though still slightly lower than in Germany (Figure 8). Moreover, when focusing on small (10 to 50 employees) and medium-sized firms (50-249 employees), Italy outperforms all its peers, including Germany. Finally, while the manufacturing base still leans towards smaller firms, which are traditionally less productive than their larger counterparts due to barriers to scaling up and undertaking productivity-enhancing investments, the share of medium-sized and large companies has been rising in the last decade. This has led to an increase in the average manufacturing firm size and thus to productivity gains through a more efficient allocation of resources across firms. In Germany and France, on the contrary, the number of medium-sized firms has been decreasing.

The strengthening of the Italian manufacturing base, also relative to Germany and France, is strictly related to the strong Italian export performance analyzed previously. Nine out of ten Italian medium and large manufacturing companies are exporting firms, and they generate the vast majority of total manufacturing exports (86%).

Furthermore, the sector is one of the most innovative in Europe, with over 65% of firms introducing innovations between 2020 and 2022, above the EU average (57%), France (60%), Spain (35%), and just slightly below Germany (68%)¹.



Note: All values are expressed in 2015 PPP EUR.

Source: Confindustria Research Department calculations based on Eurostat data.

¹ Eurostat data. Community Innovation Survey 2022. For a definition of innovative enterprise, please refer to the Eurostat website.



OVERVIEW | A sustainable economy



ENVIRONMENTAL EFFICIENCY

The italian manufacturing sector



second largest EU manufacturer

#17
IN EMISSION
INTENSITY5.1% lower than
EU average

Renewable capacity

2013-2023

+31%

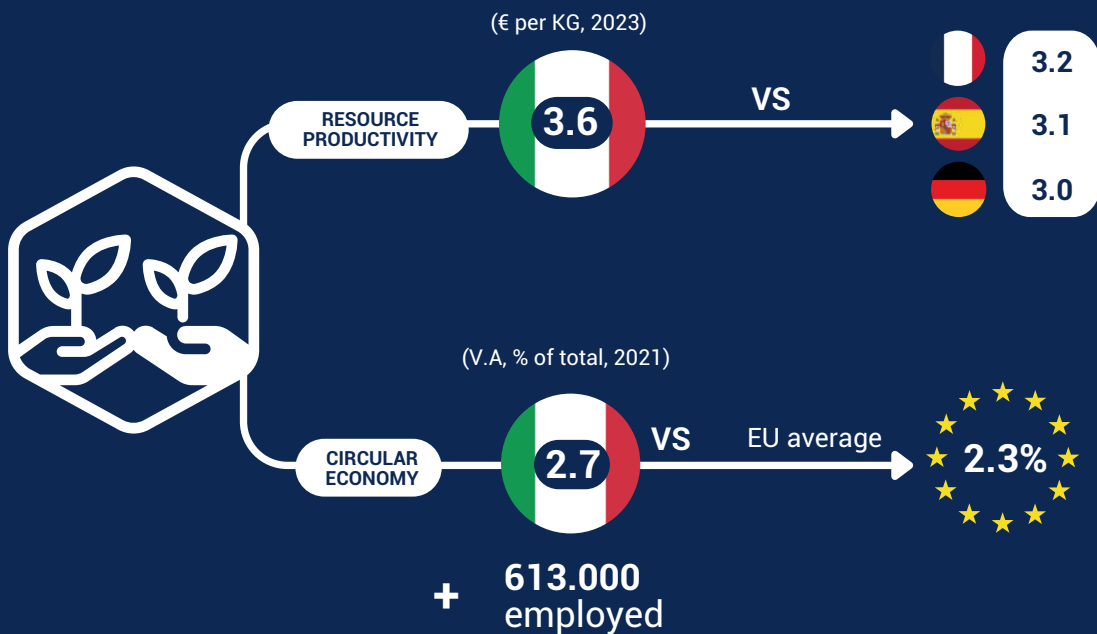
NRRP

55.3 €

BILLION

to the green revolution and ecological transition

RESOURCE EFFICIENCY

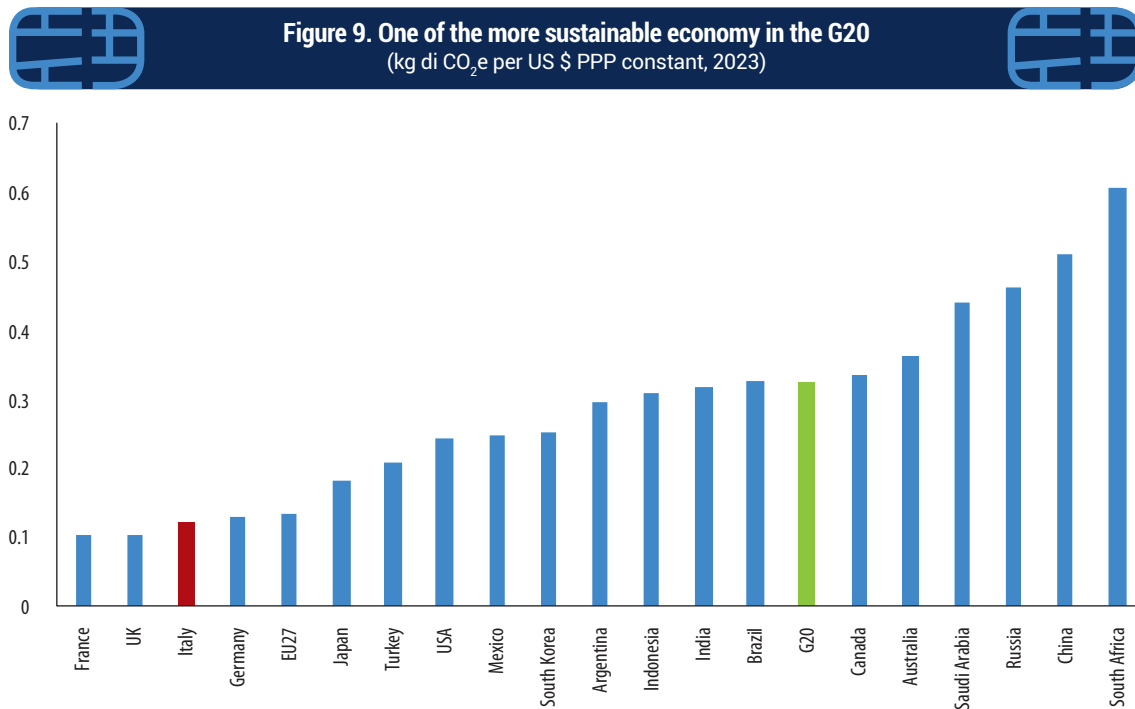


A sustainable economy

Italy stands out among G20 and EU countries as a sustainable and efficient economy, demonstrating exceptional readiness for the green transition. In 2023, Italy's greenhouse gas (GHG) emissions intensity was 0.12 kilograms of CO₂-equivalent per \$ of GDP (kg CO₂e/\$), compared to the G20 average of 0.32 (Figure 9). This highlights Italy's ability to generate economic output with significantly lower emissions.

The Italian manufacturing sector is particularly noteworthy for its environmental efficiency. Italy's manufacturing emissions intensity is among the lowest in Europe, 5.1% lower than the EU average. Italy is the second largest EU manufacturer and only the 17th in emission intensity. This exceptional performance reflects continuous improvements in energy and resource efficiency, established circular economy practices, and investments in cleaner technologies. In fact, between 2013 and 2023, Italy's renewable energy capacity increased by 31%, from 52.8 GW to 69.2 GW². Additionally, Italy's National Recovery and Resilience Plan (NRRP) allocates €55.3 billion to the Green Revolution and Ecological Transition, equal to almost 30% of the total resources of the NRRP.

The low use of resources for production reinforces the sustainability of the industrial system. Influenced by the scarce presence of raw materials in the country, and thus a high dependence on imports, Italy's manufacturing sector has developed a more efficient use of the material needed to produce. The country's resource productivity stands at 3.6 euros per kg, clearly surpassing the European average of 2.2 euros per kg and being more efficient than countries such as Germany (3.0), Spain (3.1) and France (3.2).



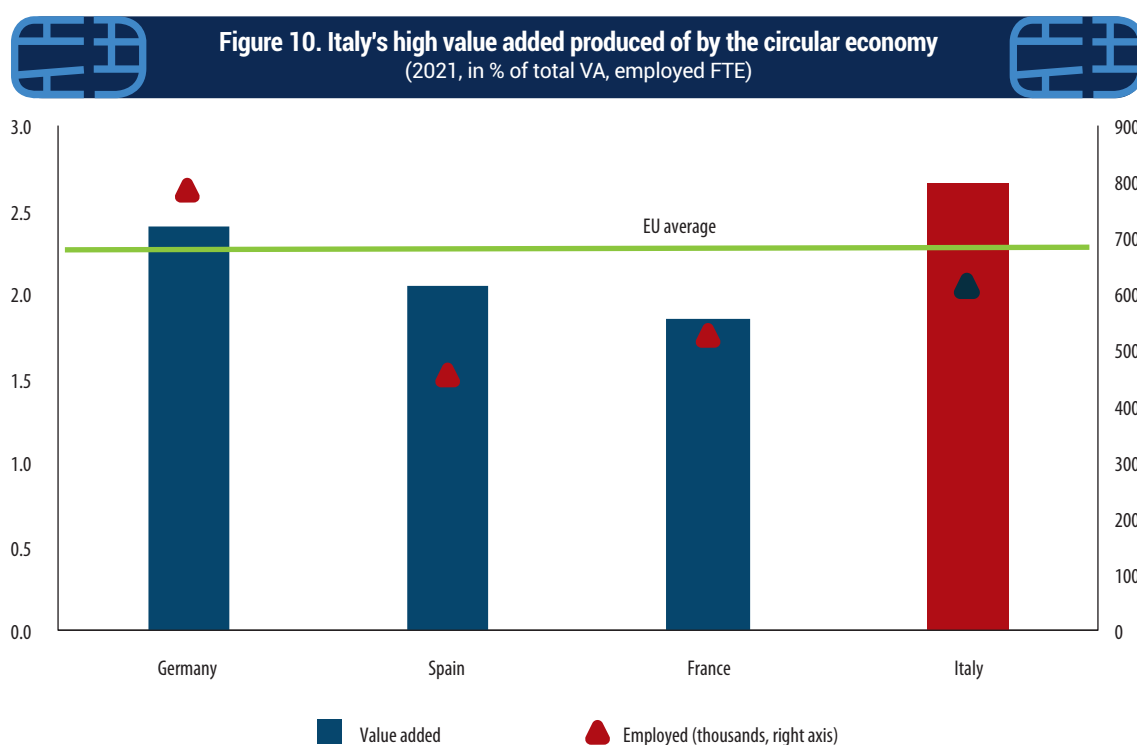
Source: Confindustria Research Department calculations based on EDGAR data.

² IRENA data. Notably, in the first half of 2024, renewable energy sources produced more electricity than fossil fuels for the first time in Italy's history.

Italy is also at the forefront of circular economy (CE) practices. Eurostat data on specific sectors³, estimate that the value added produced by these activities is higher in Italy (2.7 percent of total value added in 2021, 43.6 billion euros) than the European average (2.3 percent), and is even higher than the one recorded in other major European countries (Figure 10). This sector also appears to have been particularly expanding in recent years. Between 2017 and 2021, years of scarce growth given the pandemic crisis, the sector's value added grew in Italy, on average, by 3.6 percent per year, compared to 1.2% in the whole economy. A similar trend has been seen in the European average, albeit with smaller growth differentials.

The rapid expansion in this sector had a significant positive employment impact. In Europe, there are about 4.3 million people employed in CE related sectors, having grown by 5.1 percent between 2017 and 2021. The corresponding figure for Italy is over 613 thousand (with a +3.6% growth in the same period), accounting for 2.4% of total employment. The recycling, reuse and repair sector represents an important part of this employment, highlighting the potential of the circular economy in creating local and sustainable jobs.

These achievements underscore Italy's strong positioning for the green transition; with low emissions intensity, a highly efficient manufacturing sector, and robust policy frameworks, Italy is set to foster sustainable growth and be at the forefront of this transition.



Source: Confindustria Research Department calculations based on Eurostat data.

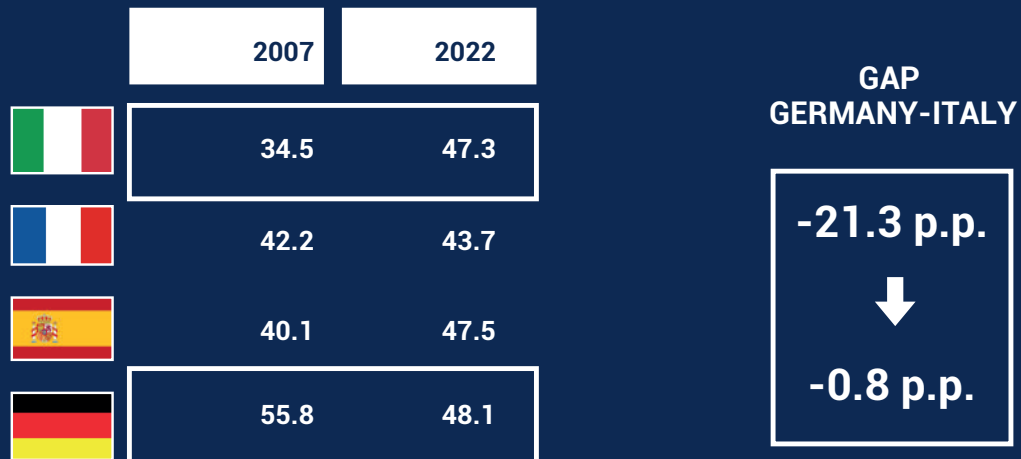
³ The official statistics account only for activities linked to recycling, reuse, repair, rental and leasing. Specifically, about 124 activities belonging to 77 NACE sectors. Estimates therefore of value added may be lower than actual estimates since it is more complex to take into account those firms that carry out internal recycling processes and are not included in the Eurostat estimate.



OVERVIEW | Well capitalized firms



THE CAPITAL SHARE



KEY FINANCIAL REFORMS

SIMPLIFIED PATH
TO LISTINGMINIBOND
FOR SMEs

FIRMS' INDEBTEDNESS IS DOWN

(stock of bank loans as % of GDP)

PEAK (2011)

53.9%



MINIMUM (2024)

27.4%

TOTAL REDUCTION

-26.5 p.p.

Well-capitalized firms

Following the 2007–2008 global financial crisis, Italian firms underwent a long process of strengthening corporate balance sheets from a financial perspective. In terms of capital ratios and liability composition, BACH data provide an international comparison with other major European countries (Table C). The capital share of Italian firms increased from 34.5% in 2007 to 47.5% in 2019 narrowing the gap with Germany from -21.3 percentage points in 2007 to -3.3 in 2019. Over the same period, the share of bank loans in Italian corporate liabilities decreased from 19.5% to 14.2% and the gap with respect to Germany dropped from +14.7 percentage points to +9.6. This means that, in Italy, investments are increasingly financed with resources other than bank debt. After the temporarily reversal of this process in 2020 (due to the pandemic), in the following years and up to 2022 Italian firms were able to bring their balance sheets to even better levels than those reached in 2019 (capital 47.3%, loans 13.2%). The gap with Germany has decreased further (-0.8 in 2022 in terms of capital, +9.1 in terms of loans). In terms of capitalization, Italian firms are now on the same levels of Spanish firms, significantly ahead of French firms, and not far behind their German counterparts.

This strengthening process was made possible by a series of financial market reforms introduced in Italy since 2012, following the 2011 sovereign debt crisis. The two most significant measures are the creation of a new stock market and the introduction of Minibonds for SMEs. The Italian AIM stock market for small and medium-sized enterprises (renamed EGM in 2021), offers a simplified path to listing, with minimal access requirements, obligations and costs tailored to SMEs. As of 2024, 185 firms have been listed. Between 2013 and 2023, a total of 1,158 Italian companies issued Minibonds, 764 of which are SMEs. The volume of issuances declined to 123 in 2023, down from a record 202 in 2022. Over 11 years, minibond issuances raised a total of €9.9 billion, including €4.3 billion from SMEs. Additionally, private equity has become an increasingly important financing channel in Italy in recent years reaching €6.4 billion in 2023. In contrast, the venture capital market remains relatively small, amounting to just €0.8 billion in 2023.

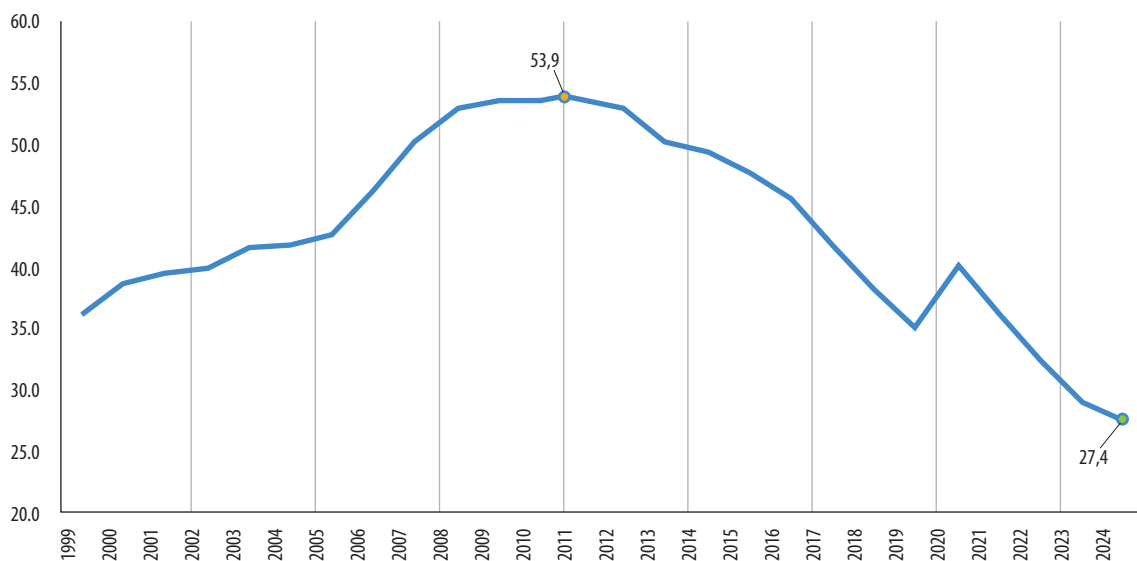
		BANK LOANS	BONDS	OTHER CREDITORS*	COMMERCIAL DEBT	OTHER**	CAPITAL AND RESERVES
Germany	2007	4.8	1.6	25.3	6.8	5.8	55.8
	2019	4.6	2.4	33.0	4.7	4.6	50.8
	2022	4.1	3.4	36.0	4.7	3.7	48.1
Spain	2007	15.2	0.0	26.4	15.3	2.9	40.1
	2019	11.7	0.2	21.2	15.3	2.9	48.7
	2022	9.9	0.2	21.3	16.9	4.3	47.5
France	2007	8.1	0.7	23.4	20.4	5.2	42.2
	2019	5.5	0.6	23.5	16.5	9.2	44.8
	2022	5.8	0.7	23.6	16.9	9.3	43.7
Italy	2007	19.5	0.5	17.1	24.9	3.5	34.5
	2019	14.2	1.3	14.6	19.2	3.2	47.5
	2022	13.2	1.2	14.6	19.8	3.9	47.3

Source: Confindustria Research Department calculations based on BACH data.

Over the past decade, an increase in capital has been accompanied by a reduction in bank debt in the balance sheets of Italian firms. The level of corporate indebtedness of firms can be measured by the ratio of bank debt to nominal GDP. This ratio rose steadily during the first decade of the 2000s, peaking at 53.9% in 2011, when the sovereign debt crisis erupted in Europe (Figure 11). After that, Italy experienced a prolonged and sharp decline in the corporate debt ratio, interrupted only temporarily by the effects of the Covid crisis in 2020. The downward trend resumed rapidly in the following years, reaching a minimum of 27.4% in 2024. Since 2011, the total reduction in the debt ratio has amounted to -26.5 percentage points. This significant decline indicates that Italian firms are now financially stronger, as their reliance on bank debt is far lower than in the past.



Figure 11. Degree of indebtedness of Italian firms: trend of reduction
(Stock of bank loans, as a % of nominal GDP)



Non-financial firms, total economy.

Source: Confindustria Research Department calculations based on Bank of Italy and Istat data.



OVERVIEW | An improved labor market



RISE OF ACTIVITY AND EMPLOYMENT



CHALLENGES

- THE SOVEREIGN DEBT CRISIS (2012-2013)
- THE COVID-19 CRISIS
- THE NEGATIVE DEMOGRAPHIC TRENDS

2012-2023
(15-65 YEARS)

THE ACTIVITY RATE



EMPLOYMENT RATE



TYPES OF CONTRACTS

PERMANENT EMPLOYEES



FIXED-TERM CONTRACTS



REFORMS

Decrease
rigidities
-8% EPL

(Employment protection
legislation index)



Jobs Act
Reform
+1.3% TFP

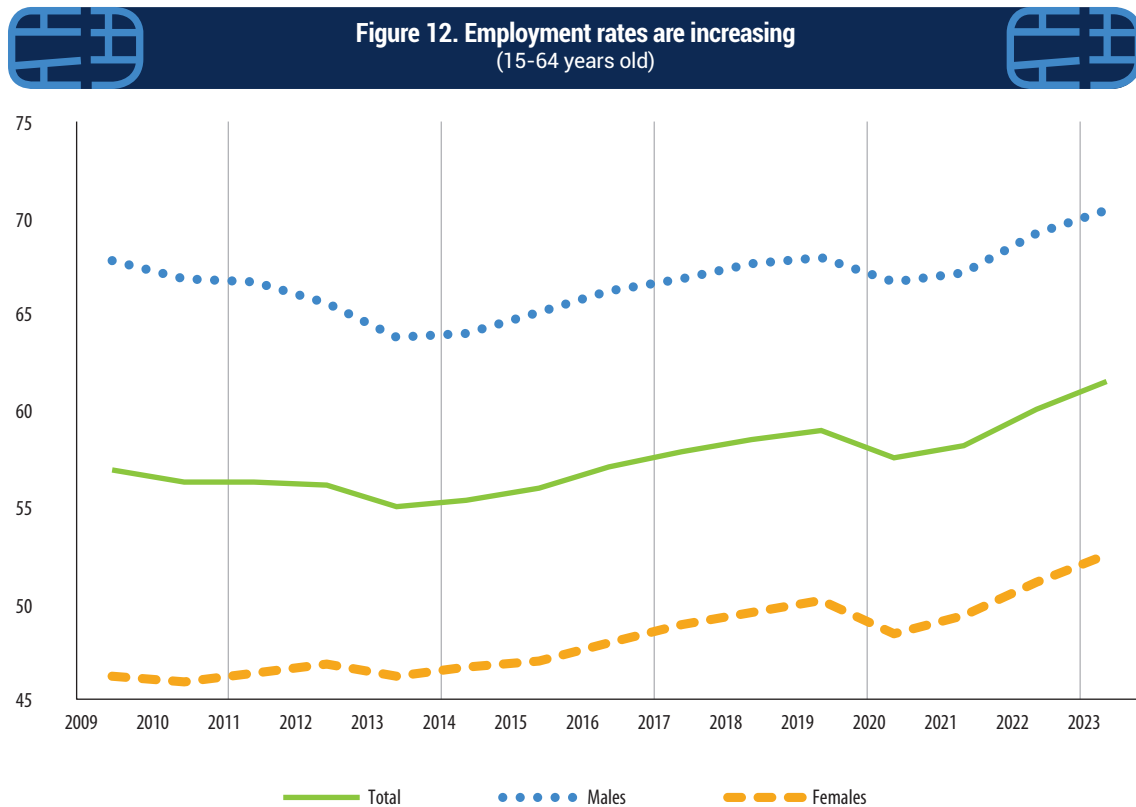
(Total factor productivity,
in the first year)

An improved labor market

Italy's labor market has made significant strides over the past decade, with rising activity and employment rates and narrowing gaps with other EU nations. This progress occurred despite major challenges, common to other countries but particularly severe in Italy, including the sovereign debt crisis of 2012–2013, the COVID-19 crisis, and negative demographic trends such as an aging and shrinking working-age population. These improvements underscore the resilience and adaptability of the Italian labor market, even under adverse conditions, a result achieved also thanks to recent reforms.

Between 2012 and 2023, the activity rate—the proportion of the labor force relative to the working-age population (15–65 years old)—increased by 3.7 percentage points, while the employment rate grew even more significantly, by 5.4 p.p (Figure 12). These trends point to a strengthening of the labor market, as more individuals not only entered the workforce but also found employment.

Italy's labor market performance is also characterized by notable differences across age groups and gender. Participation and employment rates have traditionally been lower for young people, older workers, and women compared to other groups. Despite this, improvements have been substantial. Youth participation and employment have shown a mild recovery, while older age groups have experienced significant gains, driven in part by pension reforms and policies aimed at retaining older workers. Women's participation has also improved markedly, reflecting shifts in cultural norms, policy incentives, and expanded childcare support.



Source: Confindustria Research Department calculations based on Eurostat data.

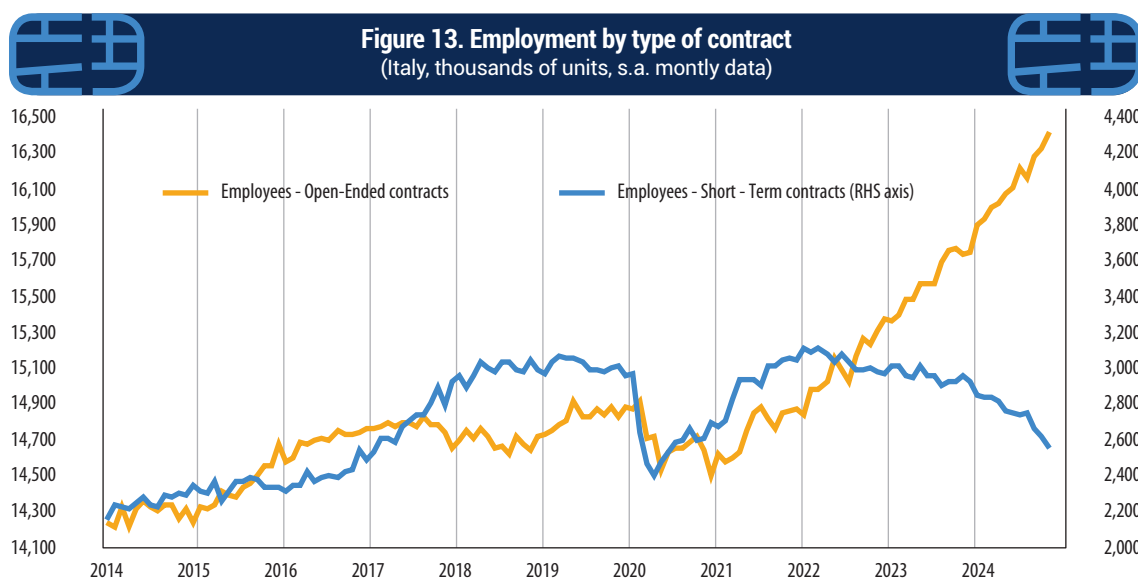
Another interesting thing to note is that the growth in labor demand in Italy, disaggregated by type of contract, is currently driven by open-ended contracts. In particular, the increase in dependent employment of approximately 1 million units from the beginning of 2022 to the end of 2024 is the result of a growth of around 1.4 million permanent employees, while at the same time those with fixed-term contracts decreased by 400 thousand units (Figure 13).

Even though Italy continues to lag behind the EU average and other major European economies, recent advancements have contributed to narrowing the gaps. For instance, in 2012, Italy's activity rate was 11.3 percentage points lower than Spain's. By 2023, this gap had narrowed to 7.8 percentage points, a reduction of 3.5 points. Always in comparison to Spain, Italy registers a much lower unemployment rate (7.7% in 2023 as opposed to 12.2%), roughly in line with the Eurozone average (6.6%).

The progress achieved over the past decade in the Italian labor market performance provides a strong starting point, and the reforms and investments underway as part of the Italian National Recovery and Resilience Plan (NRRP) represent a unique opportunity to accelerate this progress. While it is still early to fully assess the impact of specific programs like the Employability Guarantee Program (GOL), initial steps have been taken to enhance active labor market policies under the NRRP. Additionally, investments in expanding primary school capacity are expected to facilitate greater female participation in the labor market. The Italian labor market has long been characterized by institutional inefficiencies, particularly in dismissal regulations, which have historically entailed a high degree of uncertainty for firms. However, significant reforms in recent years have reduced these inefficiencies, and have aligned Italy's employment protection legislation more closely with international norms, fostering a more predictable and flexible environment for employers while preserving essential worker protections. By making dismissal rules less rigid and their costs more predictable, Italy has taken steps to improve labor market efficiency, employment growth, and firm adaptability.

Employment protection in Italy has traditionally been split into two regimes based on firm size. For firms with more than 15 employees, Article 18 of the Statuto dei Lavoratori required employers to reinstate employees if their dismissal was deemed "unjustified." Legal disputes often dragged on for years, during which employers were liable for back pay for the entire period. This created substantial uncertainty, making it difficult for firms to plan and manage labor costs. These inefficiencies discouraged labor turnover, employment growth, and the expansion of firms beyond the 15-employee threshold.

The Fornero Reform (Law No. 92/2012) was the first step toward reforming dismissal regulations, but it was the Jobs Act reform of 2014-15 (Law No. 183/2014) that introduced a comprehensive overhaul of Italy's employment protection framework. For new hires on permanent contracts, the Jobs Act eliminated reinstatement in most cases of unjust dismissals and replaced it with a predictable compensation system. Compensation was set at two months' salary per year of service, with a minimum of four months and a maximum of 24 months (increased to 36 since 2018). Reinstatement remained possible only in specific circumstances, such as discriminatory dismissals or dismissals deemed null due to special protections (e.g., during pregnancy).



Source: Confindustria Research Department calculations based on Istat data.

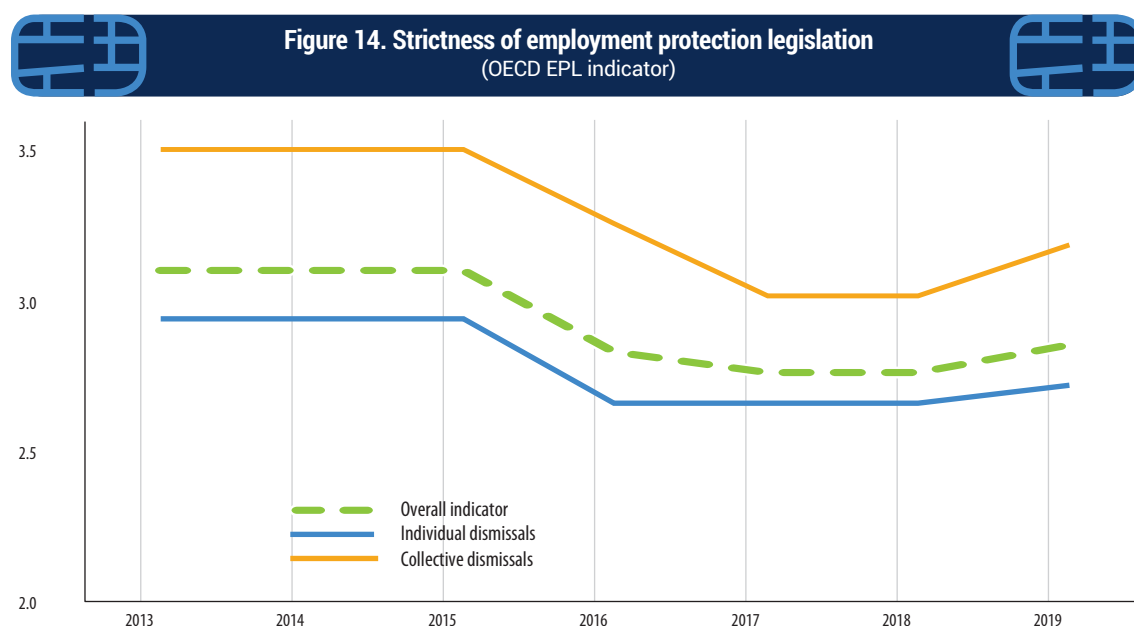
The OECD's Employment Protection Legislation (EPL) indicator, which measures the stringency of employment protection rules, shows a significant reduction in rigidity for Italy following these reforms. In particular, the components capturing the strictness of individual and collective dismissals saw reductions in 2016 and 2017. Even considering subsequent adjustments introduced by the 2018 Dignity Decree—which raised severance pay for unjust dismissals but maintained the core principle of replacing reinstatement with compensation—the overall stringency of dismissal rules decreased notably. Between 2014 and 2019, the stringency of dismissal rules in Italy declined by 8% (Figure 14). By comparison, during the same period, the EPL indicator decreased by 5% in France and increased by 2% in Spain. This reduction helped narrow the gap between Italy and labor markets with similar institutional frameworks.

Both theoretical and empirical findings in economic literature suggest that easing EPL can have positive effects on labor market efficiency.

Studies show that more flexible EPL encourages job turnover and reallocation, fostering dynamic labor markets and better matches between workers and firms.

Although the relationship between EPL and technical efficiency is theoretically ambiguous, empirical studies highlight the negative impact of stringent employment protection on productivity. Using industry-level data across 11 OECD countries from 1982 to 2003, Bassanini et al. (2009) found robust evidence that strict dismissal regulations reduce total factor productivity (TFP) growth⁴. Similarly, Cingano et al. (2010), using firm-level data for 14 European countries during 1997–2003, demonstrated that higher EPL levels lead to lower labor productivity and reduced capital-labor ratios, especially for financially constrained firms⁵.

For Italy, a recent study by Ciminelli and Franco (2025) examines the impact of the Jobs Act reform and finds that easing EPL boosted total factor productivity (TFP) growth in treated firms (those with more than 15 employees), with a peak increase of 1.3% observed in the first year post-reform⁶.



Note: The EPL indicator varies between 0 and 6, with values increasing with the stringency of employment protection.

Source: Confindustria Research Department calculations on OECD data.

⁴ Andrea Bassanini, Luca Nunziata and Danielle Venn (2009), Job protection legislation and productivity growth in OECD countries, *Economic Policy*, Volume 24, Issue 58, Pages 349–402.

⁵ Federico Cingano, Marco Leonardi, Julián Messina and Giovanni Pica (2010), The effects of employment protection legislation and financial market imperfections on investment: evidence from a firm-level panel of EU countries, *Economic Policy*, Volume 25, Issue 61, 1 January 2010, Pages 117–163.

⁶ Gabriele Ciminelli and Guido Franco (2025), Job protection deregulation and productivity: Firm-level evidence from the Italian Jobs Act, Forthcoming CSC Working Paper.



OVERVIEW | Reforms



SIMPLIFICATION OF PROCEDURAL RULES

	2014	Q2 2024
TOTAL PENDING CASE	4.353.122	2.710.905
PATHOLOGICAL BACKLOG	859.777	353.566
TOTAL (pending + pathological backlog)	5.212.899	3.064.471

PENSION REFORMS

FROM 2004



Pension expenditure
(% of GDP) by 2060
-60 p.p.

POLITICAL STABILITY

SCORE FOR POLITICAL STABILITY

2018

2023



0.33



0.58

ITALIAN GOVERNMENT

Duration



0.58

0.59



0.01

0.34



0.27

0.29

Before 1994

2011-2022

12 months

20 months

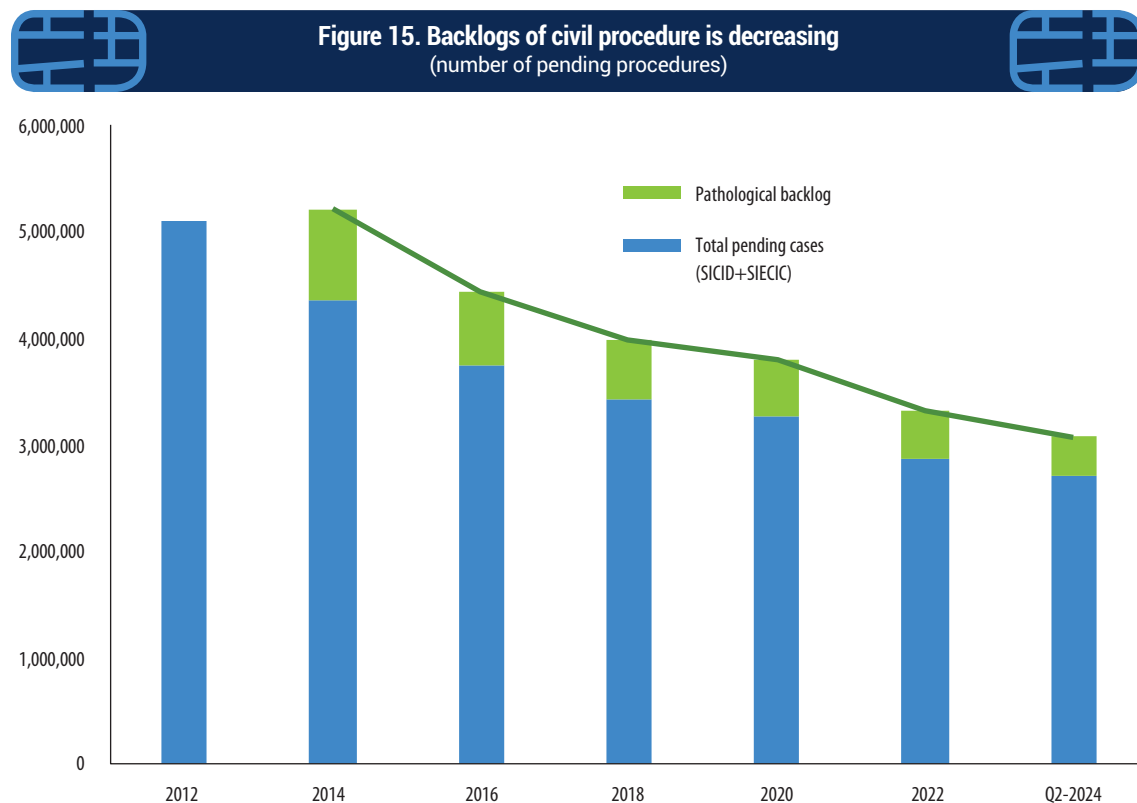
A streamlined judicial system

The Italian justice system has long suffered from considerable dysfunctions, but recent reforms, such as the introduction of digital tools and simplification of procedural rules, have led to a sizable reduction in both the backlog of cases and the average case duration. Faster dispute resolution means businesses face less legal uncertainty, enhancing the general business climate and making the country more attractive for investment.

In the decade preceding the Covid crisis, Italy's civil justice system underwent significant reforms, particularly from the summer of 2011. These measures aimed, on the one hand, at reducing the number of legal disputes and, on the other, at enhancing court productivity. On the demand side, conditions for initiating a case, such as procedural rules and costs, were revised and alternative dispute resolution mechanisms were introduced. On the supply side, reforms included a geographical reorganization of trial courts, investments in digital infrastructure and new regulations to promote the adoption of information technologies. Additionally, incentives for court managers to reduce their backlogs were introduced. Finally projects were launched to promote the spread of best practices across the judicial system.

The Italian NRRP includes a number of key reforms aimed at continuing the modernization of the justice system, building on the previous efforts before the Covid crisis. By implementing these reforms, the Italian government seeks to continue improving the judicial system's efficiency, reduce delays, and create a more predictable legal environment—factors crucial to enhancing Italy's overall economic competitiveness. The key elements of these ongoing reforms include the accelerated digitalization of the civil justice system; efforts to simplify court procedures, especially in civil cases, to ensure faster case resolution; the promotion of faster, less costly alternatives for resolving conflicts outside of the formal judicial system to reduce the burden on courts; further modernizing and increasing the capacity of court infrastructure.

Descriptive evidence highlights the civil justice system's improvements over the past decade. The total number of pending proceedings in trial courts fell by 44% between 2012 and 2022 and by another 5% through Q2-2024 (Figure 15). Over the same period 2012-2022, the estimated disposition time for civil cases decreased by 27%.



Data on "pathological backlog" not available for 2012.

Source: Confindustria Research Department calculations based on data from the Italian Ministry of Justice.

Likewise, there are clear signs of improvements in the criminal justice system, where the number of pending procedures declined by 19.4% from 2012 to 2022, with an additional -18.0% decrease through Q2-2024; during the same 2012-2022 period, the disposition time for criminal cases dropped by 19%.

Regarding the NRRP achievement of the judicial system's efficiency objectives, the results reported by the Ministry of Justice were positive. By the end of October 2024, Italy's Courts of Appeal had met their target with a 95% reduction in backlog cases while the first-level courts had achieved a 91% reduction. Regarding disposition times, the target set for 2026 was of a 40% reduction for civil cases and a 25% reduction for criminal cases. So far, civil case disposition times have decreased by 22% - still below the target - while criminal cases have already surpassed the goal with a 32% decrease.

Furthermore, the "trial office" (Ufficio per il processo) proved to be a key success of the reform, functioning as an efficient tool to resolve backlog and pending cases. The Government has committed to stabilizing 6,000 positions and different operational models are currently being assessed to identify the most effective one.

The functioning of justice is crucial for the legal protection of investment and trade, two key elements of economic activity. Available empirical evidence underscores the significant effects of a well functioning justice system on the economy along several dimensions⁷.

Based on Bank of Italy's analyses (focusing on the Italian case in the period 2008-2017⁸), the elasticity of the TFP with respect to the length of civil cases is estimated at around 0.03. According to these results, the -27% decrease in the length of proceedings (i.e. that observed in the period 2012-2022) led to a permanent increase in TFP of around 0.8%.

In comparative terms, Italy was the only major European country to reduce the length of trials since 2012. Between 2012 and 2022, Italy's civil case disposition time fell by 27% whereas it increased by 20% in France and 75% in Spain.

Thanks to procedural simplifications and innovations as well as large investments through the NRRP (in infrastructure and human capital), Italy's strong reduction in backlogs and trial duration is expected to continue, helping to significantly close the gap with other countries.

For example, one of the key objectives of the Italian Plan is to reduce the processing time for civil proceedings by 40% from 2019 levels by mid-2026. As of 2022 (the latest available data), a reduction of 11% had already been achieved. The most recent figures are expected to show a further sharp decline, with this trend continuing throughout 2025-2026.

A sustainable pension system

Like many other developed nations, Italy has faced significant challenges in managing its pension liabilities due to an aging population and low fertility rates. Over the years, a series of pension reforms have been implemented to address the growing financial burden and ensure the long-term sustainability of the system, notably the 2011 Fornero reform. The success of these reforms can be assessed by examining their impact on curbing pension liabilities.

Following the seminal 1995 Dini Reform, which marked a significant shift in Italy's pension system by replacing the pay-as-you-go (PAYG) system with a Notional Defined Contribution (NDC) scheme, the 2011 reforms (D.L. 98/2011, the second tranche of the so-called Sacconi reform, and D.L. 201/2011, converted by L. 214/2011, the so-called Fornero reform) introduced pivotal measures to significantly reduce public expenditure and to enhance pension sustainability. Most notably, the reform expedited

⁷ With reference to Italy, inefficiencies of the judicial system worsen financing conditions for households (Fabbri, D., & Padula, M. (2004). Does poor legal enforcement make households credit-constrained? *Journal of Banking & Finance*, 28(10), 2369-2397) and firms (Jappelli, T., Pagano, M., & Bianco, M. (2005). Courts and banks: Effects of judicial enforcement on credit markets. *Journal of Money, Credit and Banking*, 223-244; Magri, S. (2010). Debt maturity choice of nonpublic Italian firms. *Journal of Money, Credit and Banking*, 42(2-3), 443-463) and have negative effects on the participation of firms in global value chains (Accetturo, A., Linarello, A., & Petrella, A. (2017). Legal enforcement and global value chains: micro-evidence from Italian manufacturing firms. *Bank of Italy Occasional Paper*, (397)) and on their size (Giacomelli, S., & Menon, C. (2017). Does weak contract enforcement affect firm size? Evidence from the neighbour's court. *Journal of Economic Geography*, 17(6), 1251-1282).

⁸ Ciapanna, E., Mocetti, S., & Notarpietro, A. (2020). *The effects of structural reforms: evidence from Italy*. Banca d'Italia Eurosystem.

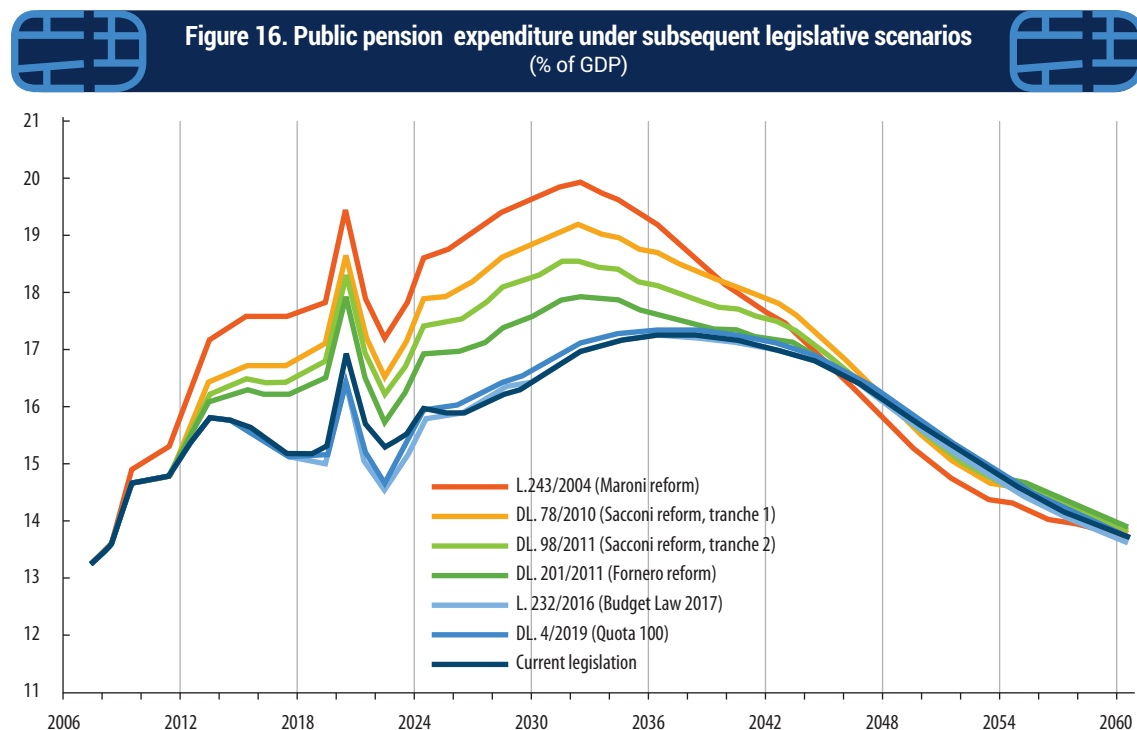
the full implementation of the NDC system for all workers, ensuring that benefits were closely tied to contributions. It also introduced automatic adjustments to retirement age based on life expectancy and implemented a sustainability factor to align pensions with demographic trends, ensuring the system's long-term financial balance. Additionally, the reform tightened early retirement rules and abolished seniority pensions, which had allowed retirement after a certain number of contribution years regardless of age.

The reforms have yielded tangible fiscal benefits. Figure 16 shows the forecast of pension expenditure in relation to GDP, where the current legislation is compared with counterfactual scenarios under the same demographic and macroeconomic assumptions. These scenarios include the effects of successive pension reforms. Considering all the measures approved since 2004, the reforms have cumulatively reduced the incidence of pension expenditure relative to GDP by over 60 percentage points by 2060. Of this sizable reduction, more than half is attributable to interventions adopted since 2011.

The efficacy of Italian pension reforms is further confirmed by estimates on changes over time in Implicit Public Debt (IPD). Symeonidis et al. (2021) analyzed differences in IPD resulting from the 2018 and 2021 AWG exercises and found that Italy was among the 11 EU27 countries to have experienced a drop in IPD⁹. This reduction signals that measures addressing the impact of aging on pensions are paying off.

These reforms also contribute favorably to the sustainability of public debt in the long term. The European Commission assesses that Italian public debt is at 'low risk' of not stabilizing over the long term, following the definition of the S2 indicator¹⁰. This result is also achieved by a negative contribution of pension spending over the long term.

Italy's pension reforms have been instrumental in controlling pension liabilities and ensuring the system's sustainability. By aligning benefits with contributions, raising retirement ages, and tightening early retirement rules, these measures have mitigated the fiscal risks posed by an aging population. However, ongoing reforms and complementary policies will be essential to address remaining challenges and secure a fair and sustainable pension system for future generations.



Source: MEF (naDEF 2023).

⁹ Symeonidis, G., Tinios, P., & Chouzouris, M. (2021). Public Pensions and Implicit Debt: An Investigation for EU Member States Using Ageing Working Group 2021 Projections. *Risks*, 9(11), 190.

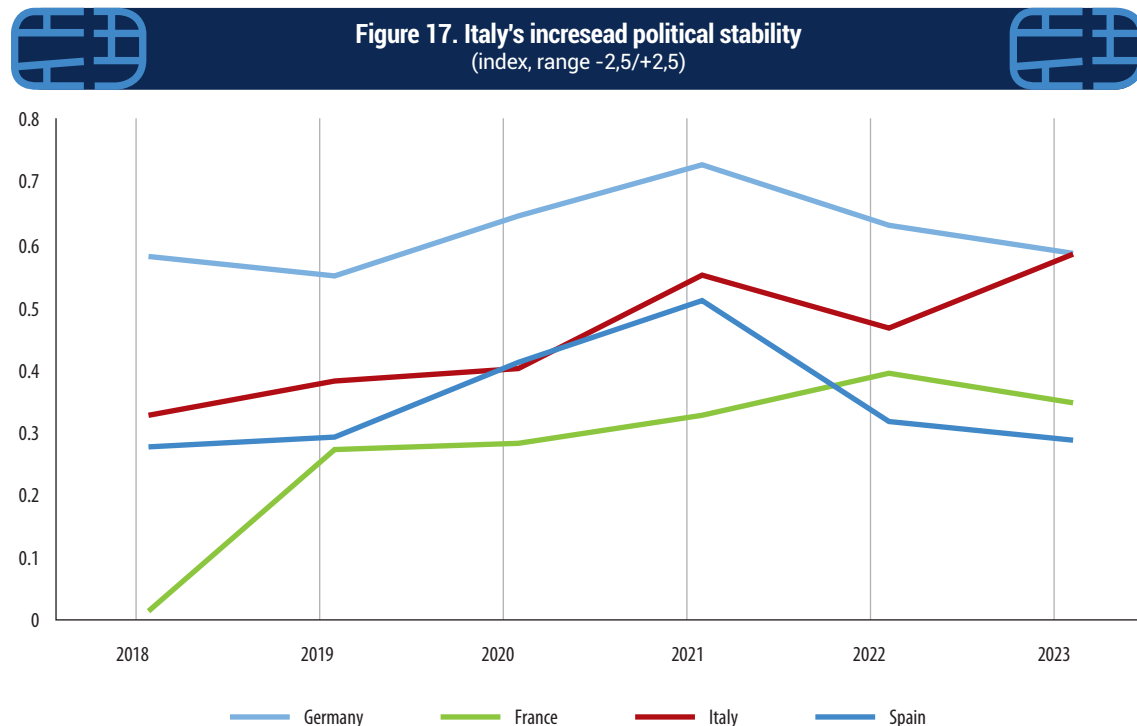
¹⁰ European Commission, Debt Sustainability Monitor 2023.

Greater political stability

Italy has experienced a marked improvement in political stability since 2018, reflecting greater resilience, reduced volatility, and more consistent governance. According to World Bank data, Italy's score for Political Stability increased from 0.33 in 2018 to 0.58 in 2023 (Figure 17). This improvement places Italy's stability level close to that of Germany (0.59 in 2023) and ahead of France (0.34) and Spain (0.29).

One indicator of this enhanced stability is the average length of government, which has increased significantly over the years. Before 1994, Italy's governments lasted, on average, 12 months, reflecting frequent political turnover. From 1994 to 2011, the average duration increased to 21 months. After the sovereign debt crisis, this figure remained steady at an average of 20 months, including the current government led by Giorgia Meloni, which has been in office since October 2022 and has well surpassed 2 years in duration¹¹.

Additionally, Italy's Government Effectiveness rank, as measured by the World Bank, improved from 67.6 in 2018 to 70.3 in 2023, making Italy the only large European country to experience an increase in government effectiveness during this period. While this figure still lags behind major European peers such as Germany (85.4) and France (83.0), Italy's progress highlights meaningful strides in governance and public administration.



Source: Confindustria Research Department calculations based on World Bank data.

¹¹ It should also be mentioned that even if there is a change in government this does not automatically mean political instability. If the parliamentary majority is the same, the policies of the government will reflect the same priorities, ensuring continuity even if the prime minister changes.

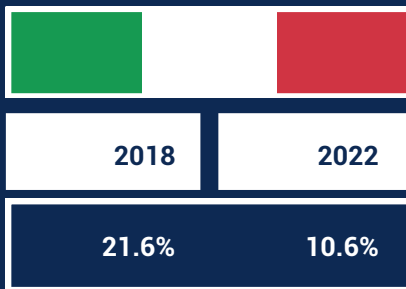


OVERVIEW | Stable public finances



BETTER TAX COMPLIANCE

VAT COMPLIANCE GAP



THIRD HIGHEST REDUCTION IN EU

-11.1 p.p. vs **-5.6 p.p.**



PUBLIC DEBT

2019-2023
(% of GDP)

ITALY	+1.2 p.p.
GERMANY	+4.3 p.p.
SPAIN	+7.5 p.p.
FRANCE	+11.8 p.p.
UNITED STATES	+15.0 p.p.

2004-2019

STOCK OF GOVERNMENT BONDS
HELD BY ITALIANS

Q-2 2024

12.5%
of debt



28.7%

ITALIAN BONDS
HELD BY
FOREIGNERS

VS



54.2%



54.4%

LOW DEPENDENCE ON FOREIGN INVESTORS

Better tax compliance

Over the last few years, Italy has shown notable progress in improving tax compliance and reducing tax evasion. One of the most significant indicators of this progress is the reduction of the VAT compliance gap, which measures the difference between potential VAT revenue and the actual VAT collected. The European Commission estimates that, in 2018, the VAT compliance gap stood at approximately 21.6% of the theoretical VAT liability (VTTL). By 2022, this gap decreased substantially to 10.6% of the VTTL. Italy experienced the third highest reduction in the VAT compliance gap in Europe during the five-year period, improving by 11.1 percentage points compared to the EU average reduction of 5.6 percentage points. This improvement reflects a broader effort to close the gap through enhanced digital tools, increased transparency, and more efficient administrative practices.

During this period, VAT revenues consistently increased, rising from €107.6 billion in 2017 to €120.9 billion in 2021. The rising VAT revenue, coupled with a decreasing compliance gap, indicates that more taxable transactions were being accurately reported and that compliance measures were becoming more effective. The broader introduction and enforcement of electronic invoicing played a crucial role in this improvement by making transactions more traceable and reducing opportunities for underreporting.

Additionally, the overall tax gap – encompassing both taxes and social contributions – exhibited a similar trend. In 2017, the total tax gap was estimated at 14.9% of total revenues (108.4 billion), with approximately €96.6 billion attributed to tax evasion and the remaining €11.7 billion linked to unpaid social contributions (Table D). By 2021, the total tax gap had fallen to 10.6% of total revenue, with a decrease of over 4 percentage points, reflecting a reduction of €26 billion over the five-year span. This decline was driven largely by the reduction in the VAT gap, but other taxes also showed improvement. The personal income tax gap of self-employed workers decreased by 3.7 billion in 2017-2021, while the tax gap for rental income saw a drop from €1 billion to €222 million over the same period.

TAX	2017	2018	2019	2020	2021	DIFFERENCE 2021-2017
PIT for Dependent Work (Irregular)	4,338	4,431	4,589	3,855	3,956	-382
PIT for Self-Employed and Business	33,323	32,939	32,447	28,070	29,574	-3,748
Local PIT Surcharges (Dependent Work)	799	797	803	696	683	-116
Corporate Income Tax (IRES)	8,625	7,897	8,655	8,109	7,999	-626
Value Added Tax (VAT)	35,579	31,523	27,536	22,015	17,817	-17,762
Regional Production Tax (IRAP)	5,107	5,202	4,946	4,358	4,736	-371
Rental Income	1,048	1,052	945	526	222	-825
RAI License Fee	225	239	241	248	225	0
Excise Duties on Energy Products	2,077	1,498	1,914	1,722	1,753	-324
Municipal Property Taxes (IMU-TASI)	5,514	5,455	5,462	5,191	5,055	-459
Gap Total Tax Revenues	96,635	91,033	87,538	74,790	72,021	-24,615
Employee Social Contributions	2,928	2,940	2,965	2,547	2,475	-452
Employer Social Contributions	8,804	9,317	9,719	8,311	7,915	-889
Total Social Contributions	11,731	12,257	12,684	10,858	10,390	-1,341
Gap Total Tax and Social Contributions Revenues	108,367	103,290	100,222	85,648	82,410	-25,956

Note: PIT is the personale income tax, namely IRPEF.
Source: Italian Ministry of Economy and Finance.

Stable public finances

Italy has emerged as one of the countries where the public debt-to-GDP ratio increased the least during the crises caused by the COVID-19 pandemic and the war in Ukraine. Between 2019 and 2023, Italy's public debt-to-GDP ratio grew by just 1.2 percentage points, with respect to an average growth in the Eurozone of 3.5. Italy's performance stands in stark contrast to other major economies: Germany saw an increase of 4.3 percentage points, while Spain, France, and the United States experienced significantly larger rises, with debt-to-GDP ratios increasing by 7.5, 11.8, and 15.0 percentage points, respectively (Table E).

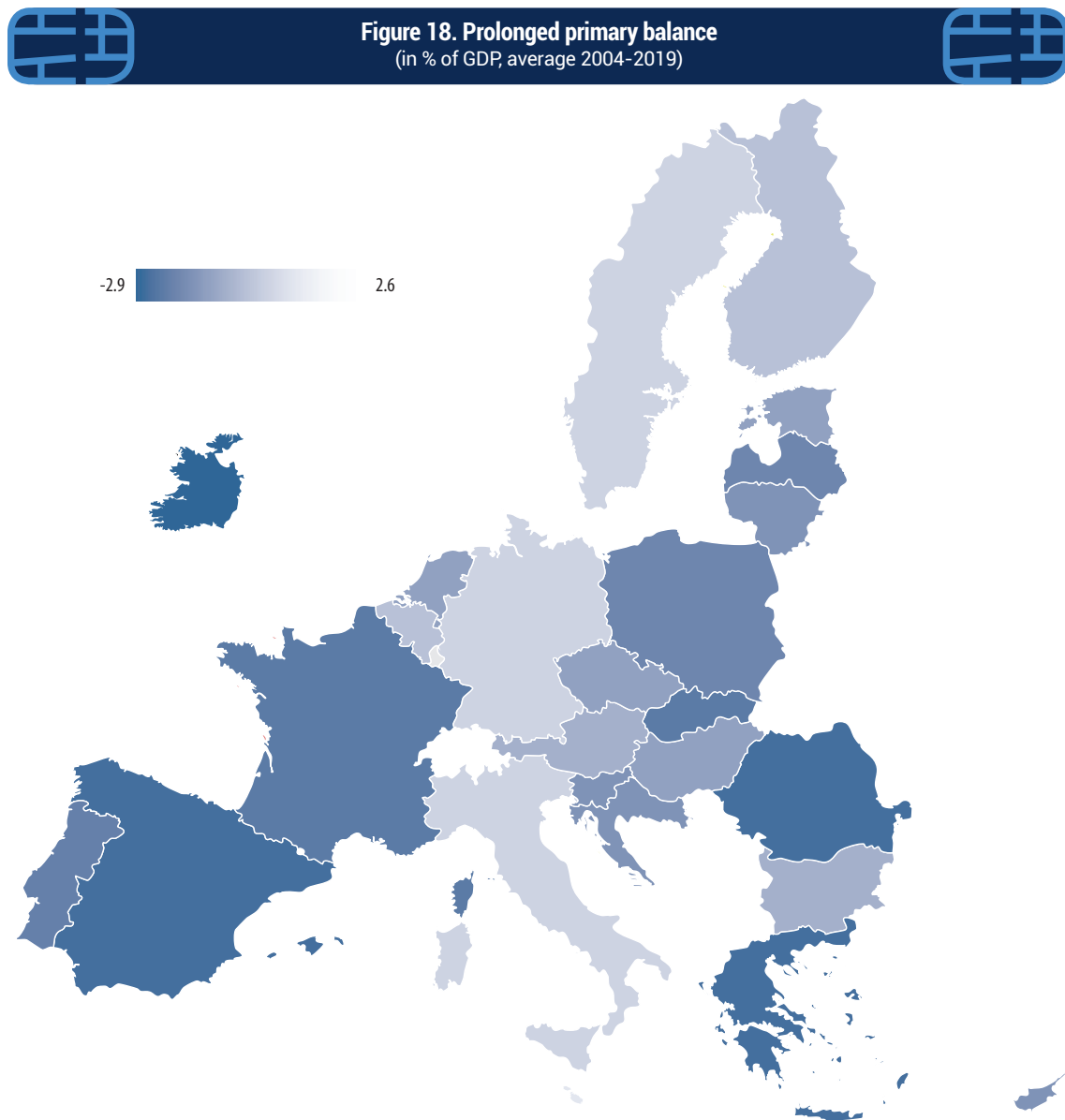
This modest growth in Italy's debt-to-GDP ratio can be attributed to several factors, including the use of NRRP funds, and improved tax compliance measures that have bolstered public revenues. Additionally, Italy's good post-pandemic economic recovery provided sufficient support to keep debt growth under control.

 Table E. Italian public debt is stable at pre-pandemic levels  (% of GDP)					
	1999-2003	2004-2008	2009-2013	2014-2018	2019-2023
Eurozone	-2.3	-0.1	15.0	-7.6	3.5
Germany	2.8	0.3	5.1	-13.1	4.3
Spain	-13.2	-5.7	46.9	-4.7	7.5
France	4.0	2.9	10.4	2.4	11.8
Italy	-8.0	1.1	15.7	-0.7	1.2
United Kingdom	-3.6	11.0	20.4	-0.8	14.3
United States	1.1	10.2	17.8	3.4	15.0
Japan	31.1	12.0	30.7	-0.9	13.3

Source: Confindustria Research Department calculations based on European Commission data.

Italy's solid fiscal performance in recent years is part of a broader trend of prolonged fiscal discipline spanning the last two decades. If we exclude the COVID crisis, between 2004 and 2019, Italy recorded the 5th highest average of primary balance (1.4% of GDP) in the EU (Figure 18). This is particularly noteworthy considering that the average primary balance for Europe during the same period was equal to 0.0% of GDP. Italy's fiscal restraint stands out even more when compared to other major European economies. Apart from Germany, which maintained a strong fiscal position, other key countries fared worse than Italy. France registered an average primary deficit of -1.8% of GDP, slightly better than Spain (-2.2%).

Furthermore, the IMF forecasts that over the next five years (2025-2029) Italy's primary balance will average 0.8% of GDP, higher than Germany (0.1%), Spain (-0.3%) and France (-3.3%), highlighting the country's strong commitment to decreasing and stabilizing its public debt¹².



Source: Confindustria Research Department calculations based on European Commission data.

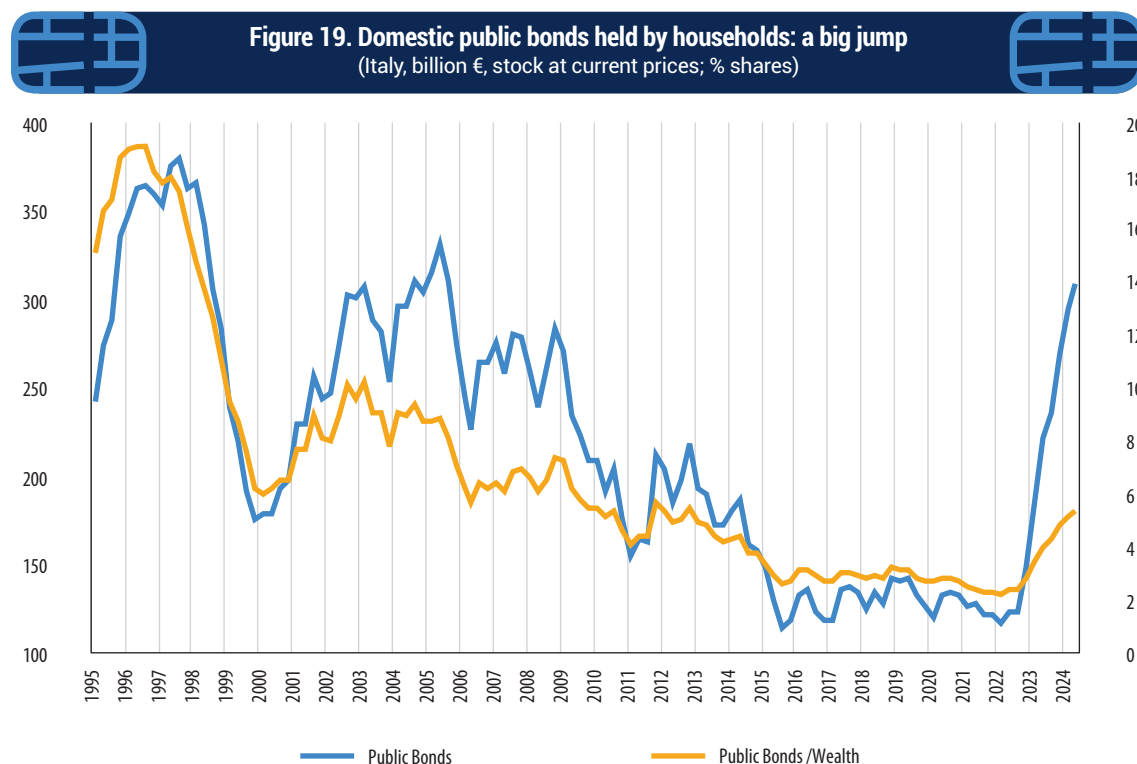
¹² International Monetary Fund, Fiscal Monitor, October 2024, Washington DC.

Public debt mostly domestically held

Between 2022 and 2024, the composition of Italy's public debt holders underwent a significant and positive change. The various factors which determined this result can be summarized in two terms: rebalancing and normalization.

The stock of government bonds held by Italian households has steadily increased over the past two years: rising by €192 billion in the second quarter of 2024 compared to early 2022, reaching a total of €309 billion. As a result, the share held by households has grown from 4.7% of the total in early 2022 to 12.5% in 2024 (Figure 19). This is a result of a reallocation of household assets in response to rising inflation, higher interest rates and increased global uncertainty. Over the past two years, the share of government bonds in Italian household wealth more than doubled, rising from 2.2% in 2022 to 5.4% in 2024. Italian firms also increased their holdings of domestic government bonds, with their share rising from 1.3% of the total in 2022 to 2.0% in 2024. Companies have acquired these bonds as a way to invest part of their liquidity, increasing their holdings in short-term public securities from zero to €6 billion. However, the majority of their investments remain in medium to long term instruments, which grew from €33 billion to €44 billion.

Conversely, in the last two years Italian banks have been rapidly disinvesting from government bonds: -75 billion in 2024 compared to 2022. This is good news: the banks had accumulated an excessive stock of public securities, a legacy of the sovereign debt crisis of 2011-2012. The ongoing reduction in bank-held public securities mitigates the risks associated with the stock of public debt held by banks, the well-known "doom loop" between banks and the public sector. Insurance companies are also reducing their holdings of Italian public securities, for similar reasons and with similar methods as banks. The share of government bonds held by banks declined from 17.0% to 14.2%, while that of insurance companies fell from 12.1% to 9.4%.



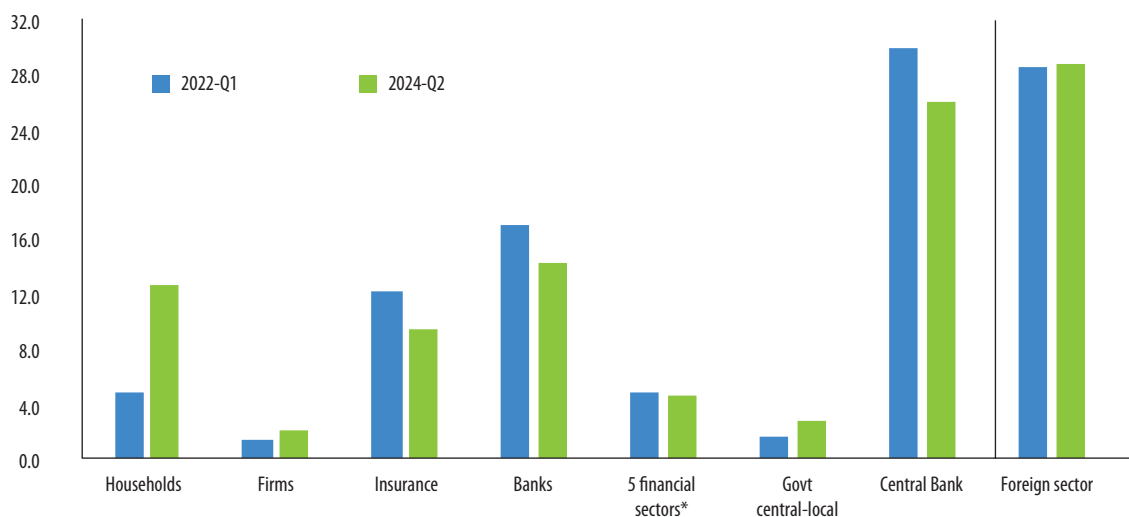
Source: Confindustria Research Department calculations based on Bank of Italy data.

Overall, a normalization is taking place among holders of Italian government bonds (Figure 20) with a shift away from financial institutions (banks and insurance companies), whose combined share has declined from 29.1% to 23.6%, and toward families and firms ("real" economy), which together now hold 14.6% of public debt securities, up from 6.0%. This rebalancing is a positive result for the country's financial stability. In the other two main Euro countries, the role of households and firms is much more limited: 0.8% and 0.5% of the total government bonds in Germany and just 0.001% and 0.2% in France.

The ECB's normalization process is also at play: since 2023, it has been gradually reducing the large stock of securities on its balance sheet, with holdings of Italian government bonds decreasing by €105 billion between 2022 and 2024. As a result, the ECB's share of these bonds has declined by 4 percentage points, reaching 25.9% in 2024. Despite this reduction, the ECB's holdings remain substantial, amounting to €639 billion— a legacy of the hyper-expansive monetary policies adopted since 2014, when it purchased large quantities of Eurozone securities to keep medium to long-term interest rates low and safeguard financial stability. The Central Bank's role is even more significant in the two largest Eurozone economies, with its holdings accounting for 32.3% of German government bonds. This happens because the ECB purchases securities based on a country's 'capital key,' which is determined by the size of its economy rather than its public debt. As a result, Germany and France receive a relatively larger share of ECB purchases, despite having lower public debt levels than Italy.

The foreign sector holds less than a third of Italy's total stock of public securities (28.7% in 2024), an increase from 2023 but roughly in line with 2022 levels. This limited foreign share is a positive factor for the financial soundness of Italy, helping shield the country from potential turbulence in international financial markets. In other major European economies, however, the share of domestic bond-holders is not as significant a strength as it is in Italy. In 2024, 54.2% of Germany's public securities were held abroad, while in France, the figure stood at 55.4%, almost twice the share seen in Italy.

Figure 20. Who holds the Italian public debt bonds?
(% shares on stocks in euro billion, current prices)

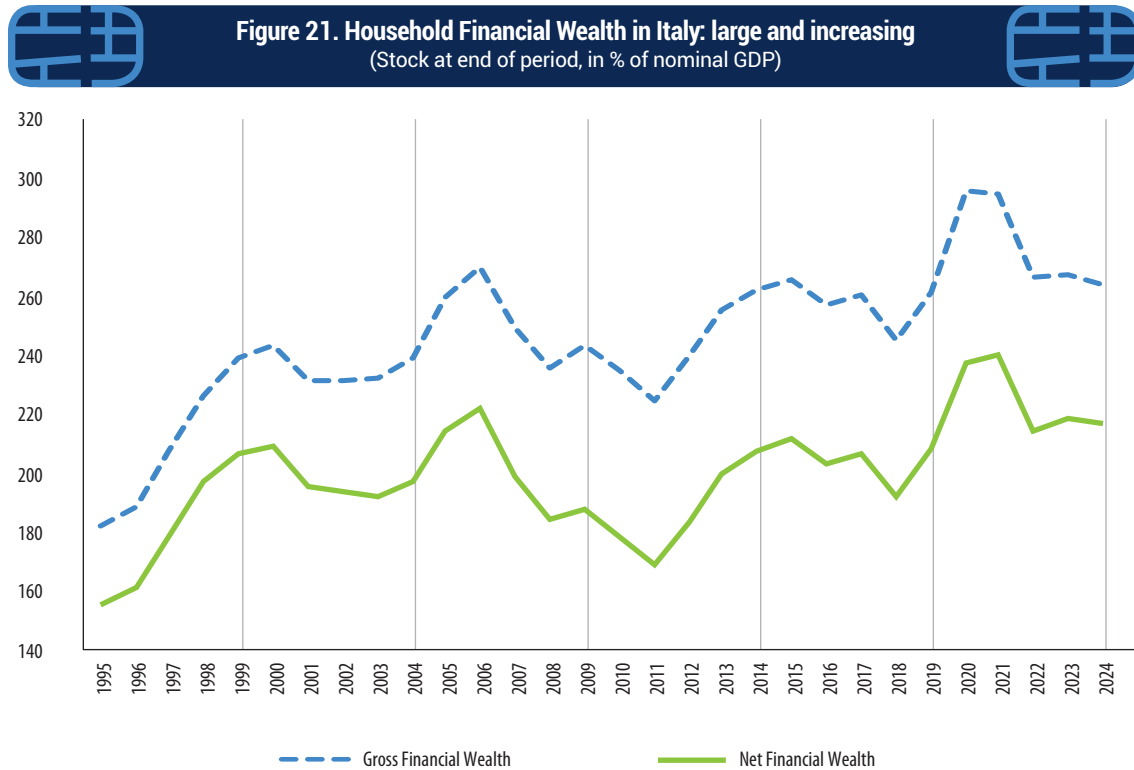


* Common Funds, Financial Auxiliaries, Pension Funds, Social Security Institutions, other Financial Intermediaries.

Source: Confindustria Research Department calculations based on Bank of Italy data.

High household net worth

The financial wealth of Italian households is equal to €5,727 billion in 2024. After subtracting €1,026 billion in liabilities (mainly bank loans), net financial wealth amounts to €4,701 billion (Bank of Italy data). The gross figure corresponded to 264% of Italy's nominal GDP in 2024, while net wealth stood at 216% of GDP, significantly higher than the country's public debt-to-GDP ratio. The net financial wealth-to-GDP ratio has followed an upward trend over the past three decades, though with significant fluctuations due to various economic crises, particularly the 2011 sovereign debt crisis. In 2000, the ratio stood at 209%, rising to 221% in 2006 and reaching 240% in 2021. Although the hyperinflation of 2022-2023 eroded this ratio, it remains, however, close to pre-Lehman levels (Figure 21).



Source: Confindustria Research Department calculations based on Bank of Italy and Istat data.

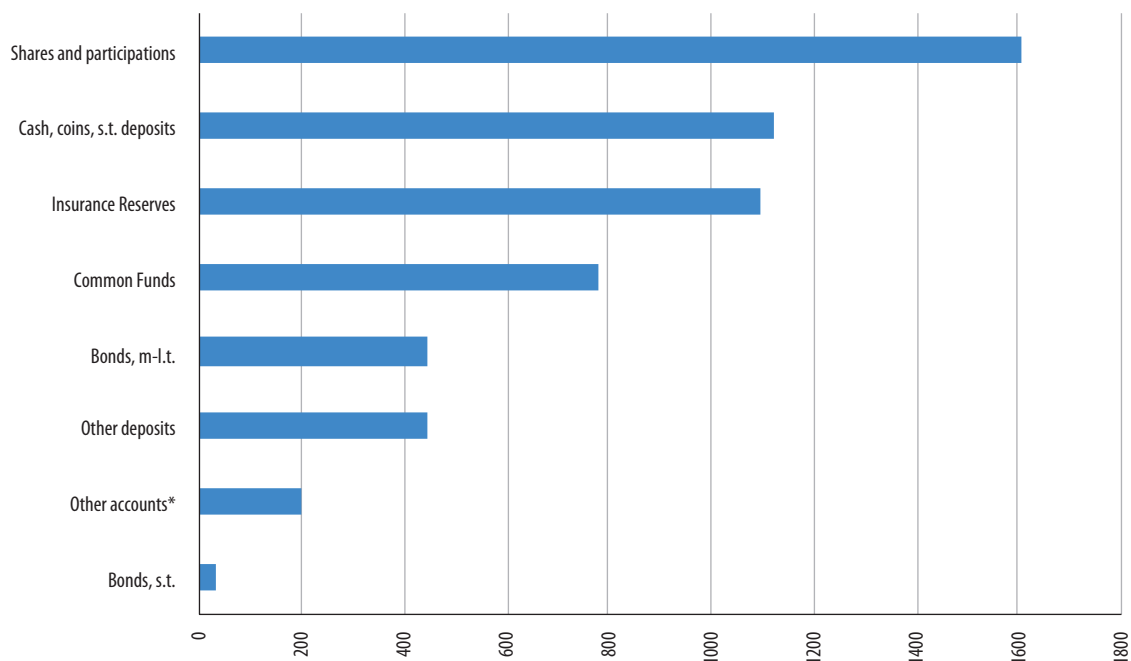
The composition of gross financial wealth in 2024 (Bank of Italy data) provides insight into its liquidity and potential use for purchasing Italian public bonds (Figure 22). First, 1,569 billion euro, equivalent to 27.4% of gross financial wealth, consists of cash and deposits (mainly bank deposits), the most liquid part of wealth. Second, 483 billion euro (8.4%) are invested in bonds, mainly Italian public bonds, but also Italian bank and foreign bonds, the larger part of which through medium/long term instruments. Thus, more than one-third of gross wealth in Italy is already invested in bonds or can be easily converted into bonds. A substantial amount of wealth is held in investment funds (including foreign ones) and insurance/pension funds, for a total of 1,871 billion euro (32.7%). A very large part of household financial wealth, 1,606 billion euro (28.0%), instead, is held in shares, the vast majority of which is not listed in stock exchanges. This part of wealth is very illiquid and subject to large price fluctuations. Finally, commercial credits (including those involving the public sector) and other accounts make up the remaining €184 billion (3.2%).

Italian households can also count on a significant amount of non-financial wealth, estimated at 6,317 billion euro in 2022 (Istat data, at current prices). A very significant portion of this "real" wealth is made up of the value of residential buildings (5,307 billion euro), which depends heavily on housing prices in the country. Non-residential buildings account for 642 billion euro while cultivated land is valued at 263 billion euro. The remaining real wealth includes means of transport, equipment, machinery (74 billion) and other residual items. Naturally, this non-financial wealth is highly illiquid and would require a long time to be converted into other assets, such as Italian public bonds.

A comparison of household net wealth with the main European countries, measured as a percentage of disposable income, shows that Italy's total net wealth level (both financial and real) stood at 8.1 in 2022, a figure considerably higher than Germany (7.3) and slightly below France (8.6). This value is higher in Spain (9.9), although most of Spanish wealth is non-financial (69%, compared to 62% in Germany and 61% in France). In Italy, by contrast, non-financial wealth represents a smaller share of total wealth (55%), meaning that, in Italy, the liquid portion of household assets is relatively larger.



Figure 22. The composition of Household financial wealth
(Italy, billion euro, stocks at q2-24)



* Includes: Loans and Derivatives.

Source: Confindustria Research Department calculations based on Bank of Italy data.

