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2026 Country Report - Italy

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Italy

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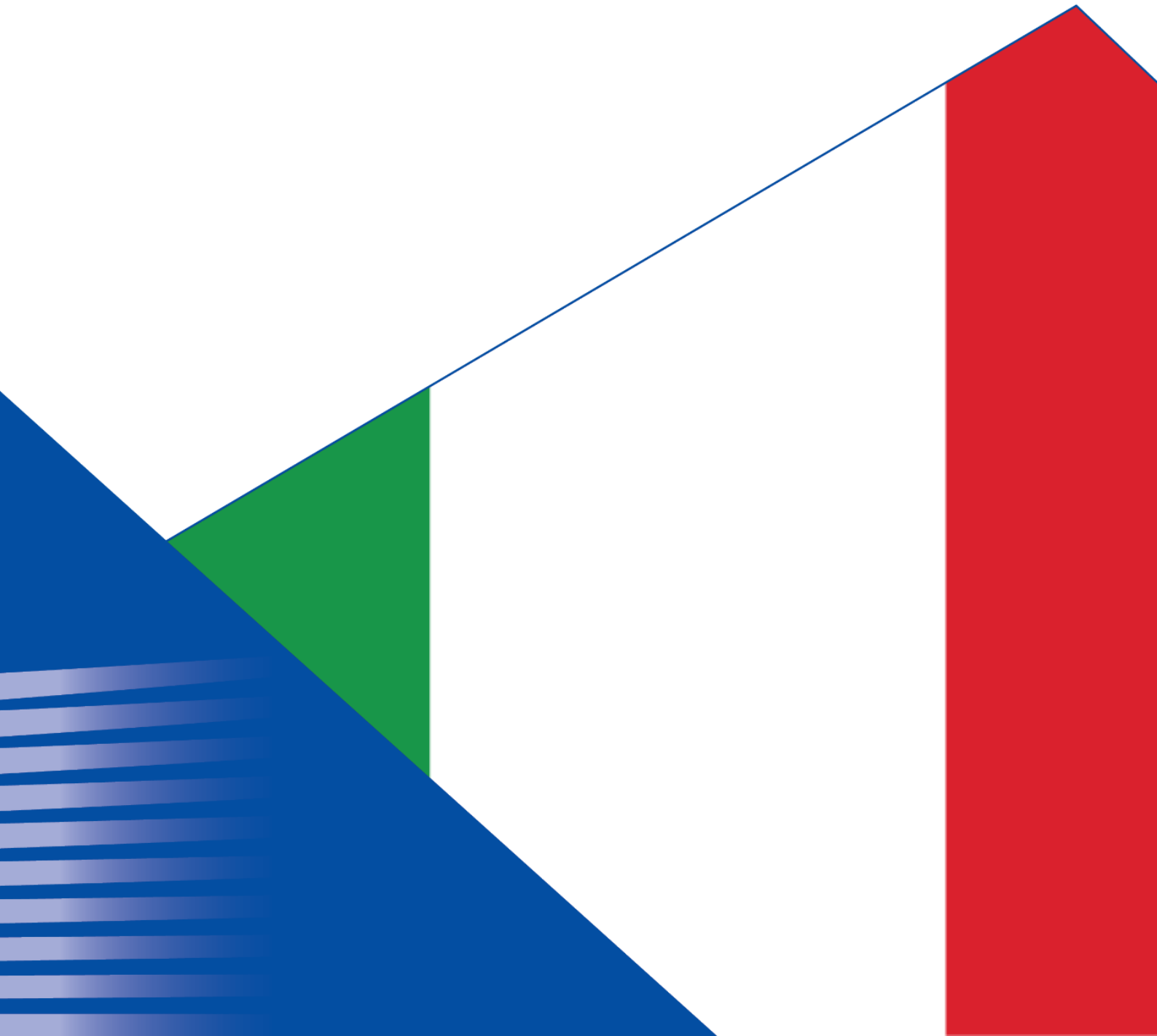
European Commission

Economic and Financial Affairs

Italy

2026 Country Report



ECONOMIC DEVELOPMENTS AND KEY POLICY CHALLENGES

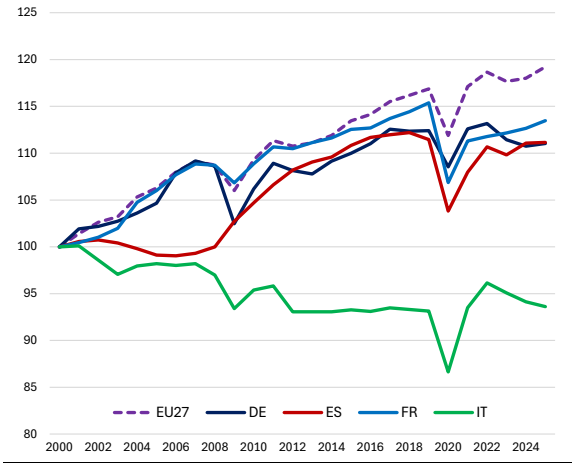
Output growth decelerates, amid international tensions

Trade barriers and uncertainty are affecting Italy's economic performance. GDP growth slowed further to 0.5% in 2025. Geopolitical uncertainty weighed on household spending, while investment rebounded after declining in 2024 due to the rollback of tax credits for residential construction. Despite the challenges posed by trade barriers and a stronger euro, exports grew in 2025, reversing two consecutive years of decline, although imports grew even faster.

Employment continued to grow strongly. Both headcount employment and hours worked increased by 1.1% in 2025, rising in the service and construction sectors but falling in agriculture and manufacturing. Self-employed workers and permanent employees increased the most (by 2.0% and 1.9%, respectively), whereas fixed-term employees decreased by 7.9%. Part-time employment also dropped by 7.1%. The fourth consecutive annual fall brought the unemployment rate down to 6.1%. Despite this progress, the employment rate remained well below the EU average, particularly for women and young people. Wages also grew by 2.5%, particularly in industry (3.5%) and construction (4.4%). Real wages recovered some more of the previously lost purchasing power.

Positive labour market performance has not been matched by productivity growth. Apart from the period after the COVID-19 pandemic, Italy's GDP growth has consistently lagged behind employment growth over the past two decades: a productivity stagnation that sets it apart from other EU countries (see Graph 1.1). Both macro- and microeconomic factors help explain Italy's weak productivity performance. Predominance of small firms and specialisation in traditional, low value-added sectors (see Annex 5) contribute to chronically low investment in research and innovation (see Annex 4). Persistent regional gaps between north and south (see Annex 18), high energy costs (see Annex 9), a still unfavourable business environment, and the absence of an innovation-driven industrial policy vision with a clear territorial focus continue to undermine the country's growth potential. Easier access to finance through deeper capital markets would benefit particularly the most innovative small firms.

Graph 1.1: **Labour productivity**



(1) (Real GDP per person employed, 2000=100)
Source: European Commission

Reduced energy price pressure kept inflation down in 2025, but the outlook worsened significantly due to the Middle East conflict. In 2025, the harmonised index of consumer prices (HICP) rose by 1.6%, with energy import prices continuing to fall and inflation remaining weak for non-energy industrial goods, while food and services saw stronger price growth, reflecting rising unit labour costs. The protracted slump in labour productivity in recent years makes even moderate wage dynamics weigh on competitiveness. Italy's dependence on

imported energy and raw materials makes it highly vulnerable to spikes in commodity prices, like those occurred in the wake of the Middle East conflict, which pass rapidly through to domestic prices and thus weigh on economic growth.

Box 1:

UN Sustainable Development Goals (SDGs)

Italy is making progress on all the SDGs related to competitiveness (SDG 4, 8, 9) and macroeconomic stability (SDGs 8, 16, 17), though overall performance remains below the EU average. In particular, improvement on global partnerships (SDG 17) and innovation, industry and resilient infrastructure (SDG 9) has been slow, largely due to low investment levels and high public debt. This has resulted in limited freight transport infrastructure and a lower share of households with high-speed internet. Stronger progress can be seen for indicators on quality education (SDG 4), decent work and economic growth (SDG 8) and peace, justice and strong institutions (SDG 16) due to improvement on indicators related to tertiary education, skills, employment and crime.

Italy is improving on most of the SDGs related to sustainability (SDGs 2, 7, 9, 11, 12, 13, 14) and all those to social fairness (SDGs 1, 3, 4, 5, 7, 8, 10), but at the same time the indicators on clean water and sanitation and life on land show negative trends and a high need to catch up to the EU average (SDGs 6, 15). Water quality is declining, the impact of droughts on ecosystems is increasing and the areas at risk of severe soil erosion are expanding (SDGs 6 and 15). While health indicators remain above the EU average and self-perceived health has improved slightly, obesity rates and antibiotic use are on the rise (SDG 3). Although indicators on poverty risk (SDG 1) are improving, Italy still needs to catch up with the EU average.

A sustained current account surplus improves Italy's net international investment position. The current account surplus edged up to 1.2% of GDP in 2025, further improving the NIIP to 15.4% of GDP. Net exports of both goods and services worsened marginally, while, the balance of primary incomes turned slightly positive (0.1% from -0.3%), reflecting smaller premia on domestic assets.

Regional gaps remain high despite some recent improvement. Despite marginal progress in recent years, the southern regions' GDP per head (65% of the EU average in purchasing power standards) lags well behind the rest of the country, which is above the EU average (Italy's total: 98%). Structural weaknesses, including low competitiveness, weak innovation, inadequate logistics, demographic decline, and limited administrative capacity tend to perpetuate the gap (see Annex 18). Public service quality and accessibility also remain severely limited in those regions, accelerating depopulation. Productivity (~80% of EU levels vs Italy's 99%), and R&D investment (1% of GDP vs 1.5% in the rest of the country) underscore persistent underperformance. The share of women in the workforce (40%) trails far behind northern Italy (66%) and the EU (71%), while inadequate transport infrastructure constrains economic activity. These challenges are compounded by weak fiscal autonomy and administrative inefficiencies, especially in smaller municipalities, resulting in chronic service failures in healthcare and in water and waste management, and thus worsening the competitiveness gap with the north and territorial fragmentation.

Improving the quality of public finances is key for a sustained reduction of the high public debt

Government deficit is falling but remained slightly above the EU reference value in 2025. Italy's general government deficit fell further from 3.4% in 2024 to 3.1% of GDP in 2025, supported mainly by stronger revenue thanks to higher employment and

wages. For 2026, the deficit is expected to decline further as fiscal consolidation progresses under the framework of the Medium-Term Fiscal-Structural Plan (MTFSP). Until 2027, primary surpluses are expected to remain insufficient to offset the debt-increasing effects of the interest–growth differential and the stock-flow adjustments related to the delayed cash effect of the housing renovation tax credits. As a result, the debt-to-GDP ratio is projected to increase from 137.1% in 2025 to 138.5% in 2026 and 139.2% in 2027.

Bringing public debt on a sustained downward trend remains a key challenge. Italy's debt-to-GDP ratio declined after the COVID-19 pandemic peak but started rising again in 2024 and remains above its pre-pandemic level. The cost of servicing the high level of public debt, combined with projected increases in age-related spending, in particular for pensions spending, is expected to continue weighing on public finances in the coming years. As a result, Italy is projected to face high fiscal sustainability risks in the medium term and low risks in the long term (see Annex 2). Ensuring a sustained reduction in the debt ratio requires continued fiscal consolidation and an improvement in the composition of public finances together with the effective implementation of structural reforms and growth-enhancing investments to support higher potential growth.

Italy continues to face vulnerabilities related to high government debt and weak productivity growth. The Commission undertook an in-depth review of the Italian economy as part of the Macroeconomic Imbalance Procedure earlier in 2026 ([1]). It highlighted that despite improving primary balances, Italy's public debt-to-GDP ratio reversed its downward trajectory in 2024 and started rising again, driven mainly by the lagged impact of the tax credits for housing renovations. Sizeable debt servicing costs, together with a public expenditure skewed towards pensions, limit budgetary flexibility. The adverse impact on the economic potential is compounded by Italy's sluggish productivity growth, a participation to the labour market stubbornly below EU levels and a restrained access to finance by firms, also linked to banks' holdings of sovereign bonds and despite the falling stock of non-performing loans. Fiscal sustainability risks remain high over the medium term. The government has implemented several policies to foster fiscal sustainability, including enhancing the annual spending reviews, permanently reducing the tax wedge and revising tax expenditures. Keeping a prudent fiscal stance and continuing to effectively implement reforms and support investments are crucial to boost productivity growth.

Italy would benefit from a fairer and growth-friendlier tax system, alongside further efforts to curb tax evasion. There is scope to shift part of the relatively high tax burden on labour to other, currently underused tax bases, including wealth and inheritance. The widespread use of special regimes and the large number of tax expenditures, including reduced rates and exemptions in value added tax as well as environmentally harmful subsidies, contribute to making the tax system highly complex and erode the tax base, resulting in significant revenue losses. The inequality of households' disposable income is relatively high and the redistributive effect of the overall tax-and-benefit system could be improved, including by expanding the tax base of progressive income tax. In addition, cadastral values are not aligned to market values and main residences are exempted from property tax (see Annex 3). In its MTFSP, Italy committed to reforms in taxation and tax compliance, including to further reduce the tax wedge by 2026 and reduce tax expenditures by around EUR 7.5 billion by 2028 compared with 2019. Delivering on these commitments would help broaden tax bases, improve the efficiency and fairness of the tax system and support growth over the medium term.

Further progressing on policy evaluation and spending reviews is needed to improve the efficiency and quality of public spending. In 2024, total spending was

([1]) SWD(2026) 139 final; European Commission, Directorate-General for Economic and Financial Affairs, In-Depth Review 2026 Italy, Institutional Paper 335, 20 May 2026.

50.4% of GDP, above the EU average of 49.1%, increasing by 2 pps compared with 2019 (48.4%). A significant share of the budget is earmarked for social protection, in particular pensions, and for debt-servicing costs, limiting fiscal space for other priorities. Public investment has risen significantly compared with pre-pandemic levels, supported in part by the Recovery and Resilience Facility (RRF). At the same time, some growth-enhancing spending, including education and health, has declined compared with 2019. Spending on education fell to 8.0% of total spending in 2024 from 8.2% in 2019, while health spending fell from 13.8% to 13.2% ([2]). Italy conducted annual spending reviews in 2023-2025, in line with RRP commitments, and its administrative capacity is being strengthened. In line with the MTFSP commitments, the 2026 Budget Law established that each ministry is required to evaluate at least one spending policy under its responsibility by 30 June 2026 under the framework of the Spending Analysis and Evaluation Plans. This aims to strengthen financial planning and budgetary responsibility of central administrations, improve the efficiency of public resource management, and boost the monitoring and evaluation of public policies.

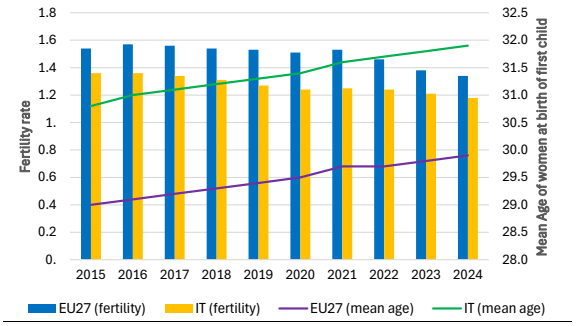
Defence spending is increasing marginally with additional support provided by the EU. Total government spending on defence amounted to 1.3% GDP in 2024 and is forecast by the Commission at 1.3% GDP in 2025, 1.2% in 2026 and 1.4% in 2027 (see Annex 2). Investment in defence is receiving support from the EU. As part of the European Commission's ReArm Europe Plan, Italy has requested EUR 14.9 bn in EU loans under SAFE (Security Action for Europe) for defence procurement. In addition, following the mid-term review of cohesion policy, Italy has allocated EUR 248 million to defence-related priorities, including civil preparedness.

([2]) COFOG data.

Growing demographic challenges

Italy faces long-standing demographic challenges, including an ageing population and a low fertility rate. By 2050, Italy's total population is expected to decline by more than 4 million ([3]). In 2024, Italy had one of the lowest fertility rates in the EU (IT: 1.18; EU: 1.34) and one of the highest women's average age at the birth of their first child (IT: 31.9 years, EU: 29.9; see Graph 1.2). This can also explain why Italy has one of the highest gaps between desired and actual fertility in the EU ([4]). The share of population younger than 15 decreased from 14.2% in 2004 to 11.9% in 2025, more than in the EU (from 16.2% to 14.4%) resulting in one of the lowest shares of children in the EU ([5]). A long-standing demographic decline, particularly in the south, is itself a barrier to higher birth rates. This trend is compounded by a rising share of over-65s, which reached 24.7% in 2025 compared with an EU average of 22% ([6]).

Graph 1.2: **Fertility rate and mean age of women at birth**



Source: European Commission.

While net migration remains positive and in 2025 almost offset the negative natural balance, it only mitigates a structural demographic decline, and the

([3]) Population and household projections – Base 1/1/2024 – Istat.

([4]) Fertility policy and practice: a Toolkit for Europe – Economist Impact.

([5]) Eurostat, Demography of Europe – 2025 edition, Link.

([6]) *Ibidem.*

brain drain persists. In 2024, over 450 000 people migrated to Italy, but around 188 000 left the country ([7]), while in 2025 440 000 people migrated to Italy and a lower amount (around 144 000) left the country. This fall is probably because the year 2024 saw an exceptionally high number of registrations with the registry of Italian citizens residing abroad (AIRE), following the introduction of stricter regulations in this field ([8]). Among these, many young, highly qualified Italians seek better opportunities abroad (see Annex 11). Italy struggles to attract and retain high-skilled workers ([9]) (see Annex 13). The situation is worse in the south of the country, as young people in the southern regions move not only abroad but also to the centre-north ([10]).

These trends point to a shrinking workforce and weigh on social protection. The shrinking workforce is further exacerbated by persistently low labour market participation among women and young people (see Annex 11). The working-age population, aged 15-64, is projected to decrease to 54.3% of the total by 2050 (from 63.5% in 2024) ([11]). Age-related spending (pensions, followed by health and long-term care) is projected to increase, weighing on public finances. An increasing old-age dependency ratio is expected to exert significant upward pressure on pension spending in the coming decades. In addition, the higher prevalence of chronic diseases and multimorbidity among older people is expected to increase demand for hospital services, pharmaceuticals, and long-term care (see Annex 2).

While recent policy measures have had only limited impact, a more integrated approach combining labour, migration, and social policies would be far more effective in addressing Italy's demographic challenges. In the area of pensions, with the 2026 Budget Law, Italy has not renewed the early retirement schemes that had been annually renewed since 2019. In addition, further measures have been adopted to foster participation in supplementary pension schemes (see Annex 2). At the same time, while the automatic link between retirement conditions and life expectancy is set to resume, it will be phased in gradually. Certain categories of workers remain exempt from the adjustment mechanism. For the period 2026-2028, the 2025 decree establishing migration flows to Italy ("Decreto Flussi") has introduced a quota of 497 550 workers of all categories, higher than the previous three-year cycle. The sectors concerned have been identified in consultation with social partners to better address labour market needs. However, this instrument has a limited role in countering population ageing and in attracting high-quality workers, as only a small share of total entry quotas is converted into residence permits (7.9% in 2025) ([12]). Migration can accelerate demographic renewal in the short term, but in the long term, to address Italy's low fertility challenges, a structural approach is essential. An approach that does not solely rely on financial incentives but also promotes a supportive environment for parenting through stable jobs and labour policies especially for young people (see Section 4). This should be complemented by further comprehensive measures to encourage more women and young people into the workforce (see Section 4) and to attract and retain high-quality workers, including through the establishment of favourable conditions that grant young talent the "right to stay" in Italy ([13]). Measures to ease and encourage workers to remain in the workforce for longer are needed, including

([7]) Istat, Trasferimenti di residenza, Tavola 3 - Iscritti e cancellati per trasferimento di residenza da e per l'estero per regione.

([8]) Istat, Demographic Indicators, 2025.

([9]) CNEL, Italy's attractiveness to young people from advanced countries, 2025.

([10]) *Ibidem.*

([11]) Previsioni della popolazione residente e delle famiglie – Base 1/1/2024 – Istat (under the median scenario, with a potential range between 53.2% and 55.4%).

([12]) Ero Straniero, *IV rapporto di monitoraggio sugli ingressi per lavoro*, February 2026.

([13]) *Demographic outlook on "right to stay" - Beyond the Letta report* - Publications Office of the European Union, Luxembourg, 2025.

through flexible working arrangements and age-specific management policies.

EU funding instruments provide considerable resources to Italy. They support investments and structural reforms to increase competitiveness, environmental sustainability, skills, social fairness and security, while helping to address challenges identified in the CSRs. Key instruments include the Recovery and Resilience Facility (see Box 2) and Cohesion policy funds (see Box 3). In addition, the Common Agricultural Policy (CAP) provides Italy with an EU contribution of EUR 28 billion under the CAP strategic plan for 2023-2027 ([14]), while EUR 518 million are allocated under the Common Fisheries Policy (CFP). A further EUR 1.5 billion are available under the Asylum, Migration and Integration Fund (AMIF), together with the Border Management and Visa Instrument (BMVI) and the Internal Security Fund (ISF). Other EU programmes also support competitiveness in Italy, for instance through open calls under Horizon Europe and the Connecting Europe Facility.

([14]) An overview of Italy's formally approved strategy to implement the EU's common agricultural policy nationally can be found at https://agriculture.ec.europa.eu/cap-my-country/cap-strategic-plans/italy_en.

Box 2:

Key achievements of the recovery and resilience plan

Italy's recovery and resilience plan (RRP) represents a total budget of **EUR 194.4 billion**, corresponding to **9.13% of GDP**. The plan is aimed at supporting reforms and investments contributing to the green and digital transitions, strengthening economic resilience, and addressing long-standing structural challenges identified in the European Semester.

As of 4 May 2026, **EUR 153.2 billion** (around **79%** of the total allocation) have been disbursed to Italy following the satisfactory fulfilment of **366 milestones and targets**, of which EUR 99 billion in loans. Implementation has progressed steadily, with a growing number of reforms and investments already fulfilled and delivering real results on the ground.

Highlights and impact of the plan

- **Public administration and digitalisation**. Reforms of public employment and justice, along with investments on civil servants' upskilling and central and local public administrations' digitalisation have contributed to improving **administrative capacity** and public services, including through the simplification/digitalisation of more than 260 administrative procedures for businesses and individuals, and the reduction of criminal justice backlog by around 95% for cases pending since 31 January 2020.
- **Wider availability of renewables** has been unlocked through **a reform consolidating the legal framework on renewable permitting** as well as investments on renewable plants (for example the installation of 1 550 MW of solar panels on agro-industrial structures) complemented by grid investments to improve renewables integration (Tyrrhenian link ensuring electricity transmission between the mainland, Sicily and Sardinia, or interventions on smart grids increasing hosting capacity by 4 000 MW and enabling electrification of consumption for 1 730 000 residents).
- Improved active labour market and skills policies underpinned by reforms and investments to **encourage labour market participation, up and re-skilling and vocational training and improve the quality of public employment services**, resulting in more than 3 million jobseekers, notably women, benefiting from reformed active labour market policy (ALMP) services, over 600 000 jobseekers trained, most of them in digital skills, and other 200 000 people in skills for the green transition; 900 000 students participated in the dual system and more than 347 public employment services supported to for instance improve their IT system, set-up labour market observatories, train their staff or carry out communication campaigns.
- **Digital and inclusive education.** Digital equipment delivered to more than 8 000 schools and 100 000 classrooms, complemented by training focused on school staff and pupils at risk of early school leaving and dropping out.
- Improved resilience of the **national healthcare framework** through the **reform of territorial healthcare** and investments to digitise 281 medium and large hospitals.

Box 3:

Contribution of cohesion policy funds

EU cohesion policy funding supports Italy's efforts to increase competitiveness, territorial development, environmental sustainability as well as skills and social fairness. In 2021-2027, EU cohesion policy funds ([15]) are providing EUR 42.2 billion (amounting to EUR 72.8 billion with national co-financing), or 1.9% of 2024 GDP, to Italy. This makes cohesion policy one of the main sources of public investment in the country. The number of selected projects corresponds to 55.2% of the total allocation as of March 2026, with additional calls in the pipeline.

- **Innovation, business environment and productivity.** Nearly EUR 10.3 billion are allocated for research and innovation and SMEs competitiveness EUR 2.8 billion for investments in critical technologies under the Strategic Technologies for Europe Platform (STEP) initiative. Around 76 715 firms have already seen their projects approved.
- **Decarbonisation, energy affordability and sustainability.** EUR 9.1 billion are dedicated to clean transition projects. Of these, more than EUR 1.7 billion to drinking water and wastewater treatment projects, with expected improved water supply for 2.3 million people and improved wastewater treatment for 1.5 million people. Another EUR 2.8 billion support energy efficiency and renewables interventions, with over 7 000 households expected to have an improved energy performance and an expected renewables new capacity of 888 MW. Clean technologies under STEP are targeted with more than EUR 600 million.
- **Skills, quality jobs and social fairness.** EUR 416 million are allocated to support the labour market relevance of education and training systems, EUR 2.61 billion to improve quality and for strengthening inclusive education and training and an additional EUR 731 million are dedicated to boosting lifelong learning. The European Social Fund Plus (ESF+) also supports better access to employment with EUR 1.35 billion and tackling material deprivation with EUR 747 million. Moreover, it also intervenes in fields such as healthcare (EUR 2.57 billion). By the end of 2025, almost four million participants have benefited from ESF+ funding.

The mid-term review (MTR) ([16]) reinforced the cohesion policy's contribution to emerging strategic priorities, reallocating nearly EUR 7.1 billion. Two thirds of these reallocations support competitiveness and the development of critical technologies, 15% to additional investments in more affordable housing, 9% is dedicated to better water management, and 3% to energy efficiency and investments in interconnectors and related infrastructures. Ringfenced resources for the new MTR priorities will also target policies such as the adaptation of workers to decarbonisation and the development of specialised skills for cyber security and civil preparedness. However, almost 90% of this budget (more than 1 billion out of EUR 1.26 billion) is allocated to promoting skills in the development of critical STEP technologies focusing on access to employment, adaptation to change, improving of and access to the education and training system. In addition to cohesion policy funding, Italy will be allocated up to EUR 7 billion under the Social Climate Fund for the 2026-2032 programming period to help mitigate the social impact of the new emissions trading system (ETS2), supporting vulnerable households and small businesses.

([15]) ERDF, ESF+, CF and JTF.

([16]) The mid-term review is to be carried out halfway through the 2021-2027 programming period. It is a formal assessment process required under Article 18 of the Common Provisions Regulation that aims to assess the implementation of programmes and, where necessary, propose adjustments to improve their performance, ensure their relevance in light of new and emerging needs and keep them aligned with other EU policies.

INNOVATION, BUSINESS ENVIRONMENT AND PRODUCTIVITY

In 2025, Italy received country-specific recommendations (CSRs) to address the challenges related to sluggish productivity growth and competitiveness. Italy was invited to make the tax system more growth-friendly, fight tax evasion, support research and innovation, promote business growth, implement an industrial strategy, including to reduce the territorial divide, increase the efficiency of public administration and justice system, and remove remaining barriers to competition. With the support of the recovery and resilience plan (RRP), several measures have been implemented to address these challenges, but more effort is needed.

Industrial strategy, territorial divide and transport infrastructure

Productivity growth in Italy has remained weak, also due to strong gaps between northern and southern regions. Italy's productivity has been declining since the early 2000s. This is explained at micro level, among other things, by a small average firm size and a structural underinvestment in innovation and firm specialisation in low value-added sectors. This dynamic is even more pronounced in the southern regions, where businesses are on average smaller, more focused on traditional sectors, and disproportionately affected by a significant infrastructural gap compared with the North (see Annex 18).

Italy took a first step in defining a national industrial strategy, but additional effort is needed to implement and align it with the development strategy for the South. In 2026, the Ministry of Enterprises and Made in Italy published the White Book "Made in Italy 2030", which outlines development priorities for the country. However, the White Book is not aligned with the strategic plan for the Single Special Economic Zone (SEZ) ([17]) published in 2024 by the SEZ Mission Structure. Although these two documents clearly identify the challenges that the country faces, they fail to provide clear policy actions, incorporate infrastructural and research investment planning, or ensure mutual alignment overall. At the same time, the identification of a broad range of 18 strategic sectors, many of them low value-added, without clear strategic prioritisation or a defined territorial scope, risks making public efforts non-selective, and consequently, ineffective in a context of limited resources. The analysis provided in the White Book shows a clear need for horizontal measures aimed at addressing the five weaknesses ([18]) identified in the industrial strategy, as well as promoting the competitiveness of Italian firms. There is also a need for vertical measures to support high value-added strategic sectors and technologies in a context of renewed interest in strategic autonomy. An example is Italy's investment in satellite constellations and space technologies under its National Recovery and Resilience Plan, reinforcing innovation-driven industrial capabilities in Earth observation, telecommunications, and advanced propulsion systems. In both cases, it is important to identify clear measurable objectives and actions that can be monitored. The industrial strategy could also contribute improve the coordination among ministries

([17]) The Single Special Economic Zone (SEZ) is a geographically defined area, encompassing the eight southern Italian regions, where business and trade rules are more favourable than the rest of the country. The Single SEZ envisages an administrative simplification tool (the Single Authorisation) and a tax credit for investments in the area.

([18]) Low R&D, firm size, human capital, energy costs, under-capitalisation.

and across different governance levels (local and national).

Streamlining and stabilising national and regional tax incentives is key to promote policy coordination and better focus public actions towards growth-boosting investments. As part of the RRP, the government has recently adopted the Incentive Code, a reform aimed at providing a single rulebook to setup incentives. While this represents a step forward in the creation of a common framework, additional effort is required to rationalise and stabilise national and regional incentives and to earmark ad hoc resources for the southern regions to address their lower economic development (see Annex 18). To date, Italy counts 2 723 incentives, of which 348 of national competence and 2 375 of regional one. The latter amount to only 18% of the overall resources. This fragmentation entails high administrative burdens for businesses and allocation inefficiencies across territories and ministries. The streamlining actions should also be accompanied by a better targeting of incentives, matching the incentive type to the policy objective.

The Single SEZ represents the main policy initiative to support the economic development of the South, but more targeted territorial measures and incentives are needed. While the single authorisation is speeding up permitting procedures in the whole area, and the SEZ tax credit is supporting investments in the South and its extension from one year to three years makes it a more predictable incentive, its design does not promote industrial upgrading in Southern Italy due to its non-selective nature. Sectors such as pharmaceuticals, renewables, microelectronics and aerospace are present in the South, but their potential remain underexploited. For this reason, using locally targeted policy mixes (e.g. a combination of incentives, spatial planning, and infrastructure development), could promote industrial growth and structural transformation in Southern Italy ([19])([20]).

The further development of transport infrastructure beyond 2026 will be a key condition for competitiveness. The RRP and cohesion policy funds provided a significant boost, particularly for railway and port infrastructure. However, sustained effort will be needed beyond the plan's conclusion to address Italy's persistent infrastructural gaps. In the railway sector, it will be essential to finalise the large-scale projects initiated under the RRP, while also accelerating the roll-out of the European Rail Traffic Management System (ERTMS) technology to boost operational efficiency and prioritising the electrification of key lines in support of decarbonisation objectives. Road and port infrastructure and multimodal logistic nodes also require greater attention, given their critical role in connectivity and logistics, particularly in reducing regional gaps. Additionally, bridging the infrastructure gap between northern and southern regions must remain a strategic priority, particularly on access to industrial zones and improving last-mile connectivity. In this sense further effort should be devoted to ensure a multiannual and multimodal Transport Strategy that is closely aligned with industrial and regional development needs. It could help maximise the impact of public spending, avoid the duplication of unnecessary investments, attract private capital, develop public-private partnerships (PPP) and ensure that infrastructure development is both efficient and sustainable in the long term.

Businesses' growth and research & innovation

Italy's business sector faces structural weaknesses that limit business and

([19]) OECD (2025). Place-based industrial policy. Lessons for place transformation. OECD Local Economic and Employment Development (LEED) Papers.

([20]) Incoronato, L. & Lattanzio, S. (2025). Place-based industrial policies and local agglomeration in the long run. Working papers. Banca d'Italia.

productivity growth. In 2023, businesses with fewer than 20 employees generate 34% of value added, compared with 26.1% in the EU, while businesses with 250 employees or more account for only 38.4% compared with 49.1% in the EU. Although fragmentation has declined in recent years, the average business size remains small and continues to hold back productivity growth (see Annex 5 and Section 1). Businesses are smaller in the South which continues to limit productivity growth and technological advancements (see Annex 18). Low innovation, partly explained by a less generous of public support for private R&D, limited managerial professionalisation, modest use of non-bank finance, and tax and regulatory barriers prevent businesses from growing. Italy made some progress in addressing the 2025 CSR to support research and innovation and promote businesses' growth. More specifically, Italy progressed with the implementation of RRP investments under Mission 4 Component 2, such as the support of innovation agreements and the creation and strengthening of R&I infrastructures and networks, continued with the implementation of the Scale Up Act, introduced and new three-year funding plan for competitive project calls. However, more effort is needed to close the gap with best performing countries.

Italy's tax system encourages businesses to stay small and family-run. Family-run businesses, which in Italy account for 83% of micro-firms and a significant share of larger businesses, tend to rely less on professional management practices, with negative implications for innovation and productivity. The simplified lump-sum tax regime, with a 15% rate for businesses with a turnover below EUR 85 000, creates a tax disincentive for micro-firms to merge or expand. Similarly, the favourable tax treatment of inherited businesses encourages generational continuity in ownership and management, rather than aggregation or external succession (OECD, 2026).

More public support for low R&D spending and a stronger framework for innovation procurement, would help unlock Italy's innovation potential. Business R&D spending stood at 0.79% of GDP in 2024, well below the EU average of 1.49%, while SME R&D spending amounted to 0.22% of GDP in 2023, around half the EU average of 0.43%. Low business R&D intensity continues to limit the shift towards more technology-intensive activities (see Annex 4). There is a significant regional divide in the South, with the North and Centre regions showing a stronger R&D performance combining higher R&D spending, stronger patenting capacity, and higher innovation intensity (see Annex 18). Moreover, in 2023, public support for private R&D remained low in Italy, at 0.09% of GDP compared with 0.23% across OECD economies, limiting its capacity to crowd in private investment ([21]). Italy made limited progress in addressing the relevant 2025 CSR to support innovation by strengthening business academia linkages and innovation procurement. On the latter, a comprehensive framework for innovation procurement, which so far is limited to the defence and green sectors, could support the demand for innovation while making public spending more efficient (see Annex 4). Additionally, in line with Medium Term Fiscal Plan commitments, increasing and rebalancing public support to business R&D towards more predictable and well-targeted direct instruments could help crowd in private investment in innovation, especially among SMEs.

Building on RRP efforts, links between business and academia need to be strengthened while existing initiatives could be rationalised. Italy is classified as a moderate innovator, with above EU average results in scientific publications but below average patent applications ([22]). Despite several RRP investments to promote links between business and academia, Italy made limited progress to address the related 2025 CSR. While some of these initiatives will be continued ([23]), the overall fragmentation of

([21]) OECD Country Report 2026.

([22]) 2025 European Innovation Scoreboard.

([23]) The 2025 budget law allocated EUR 300 million to further support the National centres and the extended partnerships financed by investments 1.3 and 1.4 of Mission 4, Component 2, of the Italian RRP. The allocation of resources will be based on specific Key Performance Indicators (KPIs).

actors and investments favours a dispersion of resources. ([24]). Assessing and integrating these initiatives into a coherent national strategy, as established by the annual competition law no. 190/2025, could help rationalise and increase their impact ([25]). Some of these initiatives, for example the competence centres and technology transfer offices could also play a role in stimulating demand for, and raise awareness of, non-bank financing opportunities, while supporting the upskilling and professionalisation of managers and employees. Moreover, the continuation and improvement of innovative PhD scholarships with companies, an important policy action financed by the RRP, could also play a key role in further fostering the alignment of research with entrepreneurial needs.

Limited resources and incentives for universities to focus on the commercialisation of research continue to hamper innovation. Resources for the university system are limited, with Italy showing one of the lowest figures in university spending in the OECD countries ([26]). According to the Bank of Italy ([27]), resources are insufficient to adequately reward best-performing universities. Moreover, universities and researchers continue to have limited incentives to perform research valorisation and technology transfer activities. As a result, R&D spending by higher education institutions is significantly lower than EU average (0.36% of GDP compared with an EU average of 0.48% of GDP in 2024). While the adoption of a three-year plan for the financing of research activities can partially address inefficiencies in the allocation of resources, further efforts are needed to address the relevant 2025 CSR on supporting research and boosting the role of universities in innovation. Strengthening and institutionalising technology transfer and their weight on university governance would be key to increasing the supply of marketable and innovative ideas. Moreover, reward mechanisms for researchers and graduates to pursue entrepreneurial activities would be beneficial to turn research into spin off and start-ups, fuelling the demand for venture capital investment (see Annex 4).

A recent reform could further affect the attractiveness of research careers, in absence of an improved and long-term recruitment planning. Short-term contracts are widely used in the public research sector while the hiring of tenure track researchers and academic staff is contingent to the ad hoc allocation of resources by the government through extraordinary recruitment plans, without stable and predictable multiannual planning. Tenure track researchers and academic staff tend to be older than average ([28]) and data show that around 10 years pass from the PhD completion date to the achievement of a stable position in the university system ([29]). A new reform in 2025 has increased the number of short-term non-tenure track contractual tools to hire researchers, with the risk of making the career path of researchers more unpredictable and unstable. Improving recruitment planning while taking action to speed up the career path of researchers is key to improving the attractiveness of the public research profession.

([24]) Andini, M., Bertolotti, F., Citino, L., D'amuri, F., Linarello, A. & Mattei, G. (2025). Ricerca, innovazione e trasferimento tecnologico in Italia (Occasional Papers No. (954). Banca d'Italia.

([25]) CNR (2025). Relazione sulla ricerca e l'innovazione. Analisi e dati di politica della scienza e della tecnologia. Quinta. Ottobre 2025.

([26]) OECD (2026). OECD economic surveys: Italy 2026.

([27]) Andini, M., Bertolotti, F., Citino, L., D'Amuri, F., Linarello, A., & Mattei, G. (2025). Ricerca, innovazione e trasferimento tecnologico in Italia (Occasional Papers No. 954). Banca d'Italia.

([28]) In 2023, 55% of academic staff had at least 50 years, compared to OECD and EU average respectively 40.4% and 40.6% This represented the highest figure in all OECD countries. OECD (2025). Education at glance. OECD indicators.

([29]) ANVUR (2026). Rapporto sul sistema della formazione superiore e della ricerca.

Channelling savings into growth-boosting investments

While Italy's high savings are key to support growth-boosting investments, capital markets remain undersized and firms' access to non-bank finance limited. In 2024, households' net financial wealth amounted to approximately EUR 5 000 billion, i.e. 226% of GDP, while non-financial wealth, including real estate assets, to EUR 6 700 billion. In 2024, domestic savings were distributed among banks, with total assets amounting to 175.4% of GDP, insurance corporations (50% of GDP), investment funds (24.5% of GDP), and occupational pension funds (8.9% of GDP). At the same time, the market capitalisation of Italian listed companies stood at 39.4% of GDP in September 2025, well below the EU average of 70%. Non-financial corporations and state-owned firms accounted respectively for around 60% of total market capitalisation. The bond market, worth 156.7% of GDP at the end of 2024, is dominated by government bonds and issuances by financial institutions (74% and 20% of the total market, respectively). Non-financial corporations accounted for the remaining 6%. The lack of depth in the Italian capital markets reflects the relatively limited role that listed shares and bonds play as source of financing for domestic non-financial firms, representing only 13.1% of their overall financing vs 23.5% for the EU average. Furthermore, Italian private markets are very limited. In the first half of 2025, real estate funds managed the largest share of assets (EUR 131 billion), while non-real-estate alternative investment funds (AIFs) remained much smaller (EUR 57 billion of which EUR 29.4 billion in private equity funds, i.e. 15.6% of total AIF assets). Venture capital (VC) is catching up but remains small, managing assets for less than EUR 3 billion at the end of 2023. This leads successful local start-ups that want to scale up to increasingly rely on funding from abroad to fully meet their financing needs.

Despite ongoing initiatives, demand for capital market products remains limited. Italy has launched several measures to develop its equity and bond markets and improve their depth and liquidity. The capital markets reform, the ELITE programme, and establishment of the Fondo Strategico Nazionale as an anchor investor for initial public offerings are steps in this direction. Demand for non-bank finance is also limited by the average small firm size and limited professionalisation among managers. The low participation of Italian non-financial corporations in equity and bond markets is a missed opportunity as financial institutions and retail investors increasingly rely on asset managers and exchange-traded funds (ETFs) to ensure diversification and invest savings. Efforts could include temporarily reducing dividend and capital gains taxes on newly listed stocks - both before and after listing - to encourage firms to enter financial markets and attract investor interest. Refocusing existing guarantee schemes to prioritise capital market instruments could also incentivise corporate demand.

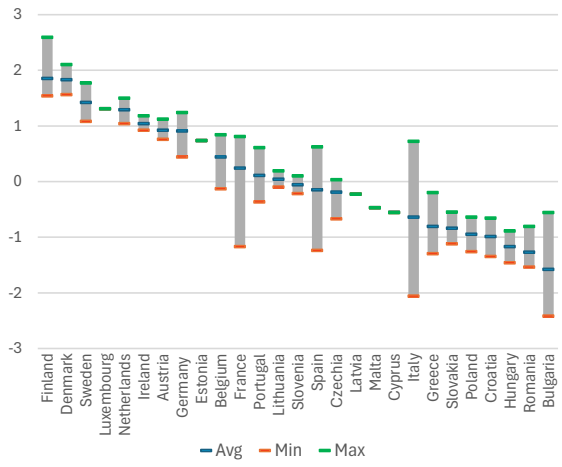
Several initiatives are in place to support the development of venture capital and private equity, but further efforts are needed. Beyond the critical role played by CDP Venture Capital and Fondo Italiano d'Investimento in developing the venture capital and private equity markets, Italy has recently adopted additional measures. The Capital Market Reform, the RRP's Scale Up Act, and the launch of the "Previdentia Fund" are first steps to help institutional investors familiarize themselves with these asset classes and could be expanded to insurance, banking, and corporate players. In this regard, a further development of the market could come from: i) supporting early-stage and riskier market segments; ii) de-risking institutional investors through guarantees, first-loss provisions, or preferential treatment in the distribution of returns; and iii) supporting the consolidation of venture capital funds. Similarly, developing the corporate venture capital market could be important to increase the demand for solutions offered by startups, to support the diffusion of breakthrough technologies to large firms, and to improve the exit opportunities for investors.

Italy's reform to strengthen auto-enrolment will help grow its supplementary pension sector. Insurers and pension funds invest conservatively. At the end of 2024, despite a gradual consolidation, Italy's pension fund system remained fragmented, with 291 funds managing EUR 243 billion in assets, with a predominant allocation to government and other debt securities, and still limited participation by Italian workers particularly self-employed (see Annex 6). In September 2025, insurers held an investment portfolio of EUR 1 070 billion, with large allocations to government and corporate bonds, and, according to Confindustria, with a high share of assets invested abroad (56%) (see Annex 6). The 2026 Budget Law strengthened the auto-enrolment of workers and introduced a life cycle default investment strategy. The reform shortened the period for opting out of the transfer of severance pay to supplementary pension funds and made default investment options more age- and horizon-sensitive; it also improved mobility across pension funds and provided more flexibility for plan holders in the pay-out phase. The reform is a positive step forward, and proper implementation will be important to strengthen the collection of pension funds and ensure better returns for employees. Supplementary pension schemes could boost the resilience of the pension system by diversifying retirement income sources (see Annex 2). On the investment side, improving the ability of domestic institutional investors, such as pension funds and insurers, to invest more in asset classes with a longer investment horizon, could improve access to non-bank finance for companies and foster the development of the venture capital and private equity markets.

A more supportive business environment

Italy's business environment could benefit from a more efficient public administration and further administrative simplification. The data show that 41% of Italian firms report dissatisfaction with the public administration, the highest share in the EU and well above the EU average of 24%. For example, a user-focused approach, the once-only principle, clear data governance and accountability for data reuse should be strengthened (see Annex 7). The shortcomings translate into delays in operations, increased operational costs and difficulties in expanding to new markets. Furthermore, Italy's public administration workforce is among the oldest in the EU, with 53% of civil servants above 50 years of age (EU average: 40%). This is coupled with limited participation of civil servants in adult learning (15% vs EU average of 19%) and a relatively low share of staff with post-secondary education (38% vs EU average of 54%). Moreover, administrative capacity is characterised by significant regional differences, the widest in the EU (see Graph 2.1), with capacity constraints particularly visible at local level, especially in southern regions (see Annex 18). In 2024, northern regions constantly scored higher than southern ones in the European Quality of Government Index (maximum of 0.72 for Friuli Venezia Giulia vs minimum of -2.06 for Sicily).

Graph 2.1: **2024 EU Quality of government index across countries and regions**



(1) EU average = 0
Source: European Commission.

Italy has made progress in strengthening public employment and simplification, but more effort is needed on administrative capacity, especially at local level and in the South. Italy made some progress in addressing the 2025 CSR that called for a

more efficient public administration, more simplification and stronger administrative capacity. Italy is keeping up the simplification effort with the creation of a national repository for simplified and/or digitalised administrative procedures, and of a platform that enables interoperability between one-stop-shops at municipal level with all the public administrations involved in administrative procedures for businesses (see Annex 7). Under the RRP's public administration reform, all platforms for the recruitment and management of civil servants (i.e. HRM-Minerva, inPA, Syllabus) are expected to be operational and interoperable within the year. Boosting horizontal and vertical mobility of public employees, further strengthening upskilling and reskilling (including on AI), and promoting equality and inclusion would further support public administration's effectiveness, in line with objectives included in MTFSP. On administrative capacity, while better-equipped regions are building on the RRP experience, less-resourced regions appear to lag behind and would benefit from a more active support from central administration. Targeted support, tailored for small and southern administrations, including through innovative tools, and promoting forms of administrative associations, could prove key to support local administrations in implementing reforms and investment. These actions go hand in hand with an improvement of local finance mechanisms to increase the tax capacity of local public administration.

Despite recent improvements, there is still ample room to further reduce the length and backlog of trials in Italy. Despite recent measures to reduce the backlog and disposition time, the average duration of Italian civil and commercial trials remains among the highest in the EU (see Annex 7). Under the RRP, Italy made some progress in addressing the relevant CSR on reducing the backlog and disposition time of the justice system by adopting a comprehensive reform to increase the efficiency of the civil, criminal, insolvency and tax justice systems. Italy has also heavily invested, through temporary hirings, to support the activities of the courts (trial office) and administrative staff. Further progress could be achieved by making the trial office, introduced by the RRP and very much appreciated by practitioners, structural. Further progress to address the severe shortages of magistrates and courts staff and the full digitalisation of the justice systems, especially in criminal courts, could help. The adoption of tailored measures to further reduce pressure on courts and the average lengths of trials, for example a targeted support for justice sectors under pressure, such as the Justice of Peace, whose jurisdiction has been expanded by recent reforms without a corresponding increase in resources, could also help to alleviate pressures on the judicial system.

Regulatory and administrative barriers to the EU single market persist in Italy, **affecting both trade in goods and services as well as business operations.** These include packaging and labelling rules and complex permitting and establishment procedures. Easing administrative requirements in the implementation of posting of workers rules could reduce regulatory fragmentation within the EU single market, facilitate cross-border mobility and boost competitiveness, without undermining workers' protections (See Annex 5).

Fostering liberalisations and effective sectoral regulation would benefit Italy's productivity growth. The RRP's annual competition laws are positive steps in addressing the 2025 CSR on removing remaining restrictions to competition, increasing competition in a number of sectors, including in local public services and energy. Competition would benefit from ensuring that the RRP reforms are properly implemented and followed up, particularly for highways, ports and local/regional transport services. Ensuring the implementation of pro-competitive measures in the railways sector to strengthen contestability of the contracts, quality of the service, accountability of the operators and monitoring entities would also be beneficial. The launch of open and competitive tenders for the award of concessions or service contracts in all transport sectors would also help. The electricity sector would benefit from more competitive market structures and improved regulatory frameworks that could reduce costs for households and firms, facilitate

infrastructural investments and support the energy transition (see Section 3). Similarly, strengthening competition and efficiency in the health sector - for instance with open selection procedures for the accredited private providers - remain crucial to improve medical assistance quality and ensure fairer access to healthcare across regions. New annual Competition Laws could be instrumental to ensure the timely tendering of expiring concessions across all sectors, where concessions are granted by public authorities at central, regional or local level.

A more efficient, fair and growth-friendly tax system

There is scope to improve Italy's tax system by shifting the tax mix to better support growth and stepping up efforts to fight tax evasion. Tax revenues to GDP increased in 2024 and remain relatively high compared with the EU average, with the largest contribution coming from labour tax. After a decrease in 2024, the labour tax wedge increased in 2025, although for earners of low wages at 50% of the average wage is now below the EU average (see Annex 3). Overall, despite the structural cuts implemented in recent years, the tax wedge in Italy remains above the EU average. Special regimes for self-employed and the growing use of temporary flat personal income taxation make the tax system highly complex, weakens progressivity and erodes the tax base, resulting in significant revenue loss. Furthermore, despite a significant reduction, environmentally harmful subsidies remain high, and tax expenditures, including on VAT, are widely used. Shifting the current high tax burden on labour to other underused sources of revenue, which are less detrimental to growth, would help to raise economic potential. Moreover, taxes on energy are not designed to sufficiently encourage the transition to clean technologies, and taxation of private vehicles does not directly take into account CO_2 emission levels. Tax evasion remains high, particularly in VAT and among self-employed workers, despite the ambitious countermeasures taken in recent years, including under the RRP (see Annex 3). At the same time, recent measures similar to tax amnesties risk being counterproductive in terms of tax compliance. Efforts to ensure that the cadastre is complete and reflects up-to-date values would improve the fairness and efficiency of the property tax system. Overall, while positive steps have been taken, more effort is needed to further increase the overall progressivity and fairness of the tax mix.

DECARBONISATION, ENERGY AFFORDABILITY AND SUSTAINABILITY

In 2025, Italy received country-specific recommendations (CSRs) to accelerate the electrification and the deployment of renewable energy, address climate-related risks, and tackle the remaining inefficiencies in water and waste management. Under the recovery and resilience plan (RRP), several measures were implemented to address these challenges. However, more effort is needed.

Structurally mitigating high electricity prices

Italy's retail electricity prices for both households and industry remain among the highest in the EU, largely due to the dominance of gas in energy generation. In the first semester of 2025, electricity prices in Italy were the fourth highest in the EU for households and the sixth highest for large businesses ([30]). This translates in a high electricity-to-gas price ratio, equivalent to 2.7 for households (2.5 in the EU), while for large businesses electricity was 3.7 times more costly than gas (3 in the EU). This impacts the competitiveness of Italy's firms and reduces their incentives to electrify, as compared to peer countries (see Graph 3.1). Retail prices are driven by high wholesale prices, in turn caused mainly by Italy's heavy reliance on gas. Despite being typically the most expensive source of electricity generation, gas maintains a structural role as dominant and marginal price-setting technology. It set the electricity price in 61.4% of hours in Italy in 2024 ([31]). Fossil fuels represented 51% of the electricity mix in Italy in 2025, compared with 29% in the EU ([32]).

Despite falling daytime prices in recent years owing to growing solar power, Italy remains vulnerable to price spikes during peak-demand hours when solar output is low. Combined with limited non-fossil flexibility ([33]), this requires the increased use of costly thermal power plants. Further accelerating renewable deployment, along with non-fossil flexibility, would structurally mitigate prices by reducing reliance on gas, in line with the 2025 CSR. However, Italy has one of the highest percentage gaps among EU Member States between its 2030 renewable energy targets and 2023 levels, despite significant untapped renewable potential. National energy and climate plan (NECP) objectives require additional 70GW of renewable capacity installation by 2030 compared with 2022. However, growth is slow: solar capacity added around 5-7 GW annually compared with the 54 GW needed in total, while wind expansion has stalled, and grid/permitting delays continue to hinder deployment. Accelerating support to renewables and storage through regularly planned auctions, in line with and building on FER X and the upcoming FER Z, would mitigate electricity prices in the medium term and contribute to meeting decarbonisation goals. The RRP 'Testo Unico' reform also supported renewable deployment by collecting and simplifying legislation on permitting: full

([30]) Firms here are defined as medium-sized consumers with an annual consumption between 2-20 GWh (ID consumption band), covering firms consuming large amounts of electricity due to their size, or energy-intensive SMEs. Household consumers are defined as medium household annual consumption of 2,5-5 000 GWh (DC consumption band).

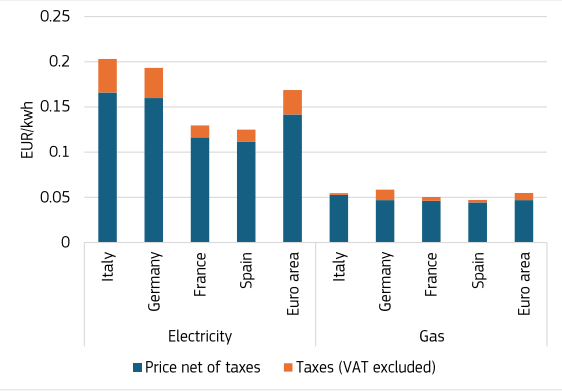
([31]) GME, 2025, Relazione Annuale 2024, Link.

([32]) Ember, 2026, data for Italy: Link; data for EU: Link.

([33]) The ability of the electricity system to adjust to the variability of generation and consumption patterns and to grid availability.

implementation now requires the definition by regions of renewable 'acceleration' and 'suitable' areas beyond the minimum set established at national level. Strengthening the capacity of local public administrations could support faster permitting.

Graph 3.1: **Electricity and gas prices for firms, including taxes**



(1) For non-household consumers, the electricity consumption band is ID (2 000 MWh to 19 999 MWh), and the gas consumption band is I4 (100 000 GJ to 999 999 GJ).
(2) VAT and recoverable charges are not displayed as these are typically recovered by businesses.
(3) The price net of taxes is the retail price excluding all taxes and levies. It includes the energy/supply and network cost components, which are not disaggregated in Eurostat's six-monthly price dataset.
Source: Eurostat.

Final retail prices are also impacted by taxes and levies disproportionately skewed towards electricity compared with gas, particularly for large firms. For large firms, the electricity-to-gas price ratio is 3.7 including taxes and levies, but it would be lower (3.1) without taxes and levies. While taxes and levies paid by Italian firms for electricity as a share of prices was the third highest in the EU in the first half of 2025, the share follows the EU average for household consumers (also due to a denominator effect, as prices themselves are exceptionally high in Italy). As shown also in Graph 3.1, prices are also burdened by parafiscal levies which are significantly higher for electricity compared with gas, especially for firms ([34]). This imbalance disincentivises electrification, especially in industry, and could be adjusted in a budget-neutral way.

Strengthening the power grid to encourage decarbonisation

The electricity system would benefit from strengthening Italy's power grid and flexibility through faster investments, streamlined permitting, and deeper market reforms. Italy's electricity system faces persistent constraints from low interconnection, grid bottlenecks, and limited non-fossil flexibility, though recent reforms and investment plans are beginning to address them. With an interconnection rate expected for this year slightly above 5% ([35]), among the EU's lowest and below the 15% target, Italy experiences high wholesale prices and limited renewable integration. Terna([36]) manages over 75 000 km of high voltage lines and 30 cross-border links. It plans to make more than EUR 23 billion of investments by 2034 to boost transfer capacity by 15 GW and integrate at least additional 65 GW of renewables by 2030 and 94 GW by 2035 ([37]). Decree Law No 21/2026 ("DL Bollette") aims to fast-track strategic projects and shorten permitting to under 12 months. Distribution networks need roughly EUR 6 billion annually to modernise, digitise, and integrate distributed renewables. While second generation smart meters now reach over 95% of households, local congestion still causes curtailment and grid connection delays. Heightened competition to be promoted through open and competitive tenders for concession awards would help attract new investment to address these challenges while limiting the impact on electricity bills. Recent reforms favour renewing existing distribution system operator (DSO) concessions. If concession renewal/extension is deemed the

([34]) ECCO think tank, 2025, Energy taxation and fossil fuel subsidies in Italy, Link.

([35]) of the electricity production capacity on its territory. Source: European Commission, 2026, Electricity interconnection targets, Link.

([36]) Terna S.p.A. is a transmission system operator (TSO).

([37]) Terna, 2025, Esigenze di sviluppo: i nuovi progetti, Link.

only option to carry out urgent grid investments, the renewal/extension should be strictly limited to the period needed to carry out the works and tied to investments being additional, necessary and cost-efficient. Unbundling obligations and monitoring should also be reinforced. Non-fossil flexibility is expanding through storage auctions (MACSE) and the TIDE ([38]) framework, which opens provision of ancillary services to demand response and aggregators. Dynamic contracts cover 15-20% of households, supported by 1.2-1.5 million prosumers ([39]) and energy communities, though electricity-to-gas price imbalances and market barriers still limit broader flexibility and electrification.

Specific measures targeted at industrial players could accelerate their decarbonisation while shielding them from high and volatile energy prices. Around 18% of Italy's total emissions come from manufacturing, in line with the EU. However, since 2019, emissions have fallen by only 9%, below the EU average. More than two thirds of industrial emissions are energy-related, among the highest shares in the EU, largely reflecting the heavy reliance on natural gas. The share of electricity and renewables in final energy consumption in manufacturing has remained broadly stable in the last 5 years, standing at 41.6% in 2023 (EU average: 44.8%). In 2024, energy-intensive industries accounted for 3.7% of Italy's gross value added and remain highly exposed to energy costs, with their production declining by 12% since 2021. The "Energy Release 2.0" scheme provides renewable energy to energy-intensive industries under contracts for difference in exchange for investments in additional renewable capacity. The uptake of power purchase agreements (PPAs) remains limited. Under its RRP, Italy adopted legislation aimed at establishing an organised market for long-term renewable PPAs, backed by the energy services operator GSE as a 'guarantor of last resort', to reduce credit risk. The operationalisation of the platform along with 2025 regulatory changes facilitating PPA-backed projects can mobilise private investment in renewables and reduce exposure to fossil fuel price volatility.

Italy's final energy consumption in industry has fallen by 6.6% since 2019, but with post-COVID-19 and RRF financing now phased out, structural support for industrial energy efficiency remains limited. This includes the need to fully implement the Energy Efficiency Directive. To further support decarbonisation, Italy plans to increase the uptake of hydrogen in transport and hard-to-abate sectors, as well as carbon capture and storage projects, but both require public subsidies to promote deployment. The full allocation of EU emissions trading system (EU ETS) auction revenues to decarbonisation projects could provide a source of revenue in this sense.

While Italy keeps investing in manufacturing capacities for clean and digital technologies, it remains dependent on critical raw material imports. With significant manufacturing facilities for solar PV and wind energy, Italy is one of the leading EU Member States for clean technologies. Additionally, Italy invests in digital technology such as semiconductor manufacturing (see Annexes 4 and 5). On the demand side, Italy has also been the first EU country to apply the Net Zero Industry Act resilience criteria to a renewable energy auction, to diversify supply sources and reducing a strategic dependency. On critical raw materials, however, Italy continues to rely on imports for a large share of its demand, but it has prioritised de-risking activities through a diversification of supply, a national mapping, increasing research and recycling investments (see Annexes 5 and 8).

Increasing economic security by addressing energy and trade dependencies

Italy is working to diversify its energy supply, reduce consumption and support

([38]) Testo Integrato del Dispacciamento Elettrico.

([39]) End users who produce renewable electricity for own consumption and can store or sell self-produced renewable electricity.

the national market but supply security risks persist. Despite efforts undertaken since 2021 to replace Russian gas imports, persisting geopolitical tensions due to the recent conflict in the Middle East increases the need for Italy to further diversify its energy supply. Italy's Piano Mattei's plan to develop economic cooperation with African countries and investments in the energy sector is progressing, with the inclusion of four additional partner countries (Gabon, Democratic Republic of Congo, Rwanda and Zambia) in 2026 ([40]). In parallel, Italy's state-controlled ENI has announced two new gas discoveries in Libya reinforcing a strategic Mediterranean supply corridor ([41]). Domestic gas demand dropped by approximately 18-20% between August 2022 and November 2025, thanks to energy efficiency measures and higher adoption of renewables (see Annex 9).

Rising global trade uncertainty poses a major challenge for export-driven economies such as Italy. Italy is among the world's leading exporters of goods, accounting for 30% of the GDP, while Italy's trade diversification (both geographically and by product) could limit the impact of potential adverse shocks. Italian exporters are active across several sectors. These include metal and non-metal manufactured materials, machinery and equipment (including transport vehicles), textile, apparel and leather products, pharmaceuticals and chemicals, and food and drinks ([42]).

Improving sustainable mobility

Italy's transport system has wide scope to improve its efficiency and energy performance. High reliance on road use, as shown by the highest motorisation rate in the EU ([43]) and a high share of freight transport by road, is a driver of the high road fatality rate and the high share of road transport in effort sharing emissions (see Annexes 8 and 19). This could be mitigated by further developing public transport services, including by complementing scheduled services with cost-efficient flexible, transport-on-demand services and shared mobility schemes. At the same time, the current low uptake of electric vehicles which made up only 6.2% of new car registrations in 2025, could be increased by speeding up the deployment of recharging infrastructure. Redesigning vehicle taxation to accurately reflect CO_2 emissions, with the option of local flexibility to address air pollution in heavily congested cities, could help to finance sustainable mobility infrastructure and encourage its use. On company cars, the recent reform has increased tax incentives for electric and hybrid plug-in vehicles.

Addressing climate risks

Italy is one of the EU Member States most exposed to climate-related risks due to the country's hydrogeological vulnerability and an increasing number of extreme climate events. The 2025 CSR called on Italy to address climate-related risks and mitigate their economic impact, through more institutional coordination, nature-based solutions and climate insurance coverage. Only recently, legislative measures have been adopted, such as the December 2025 set up of the National Observatory for Climate Change Adaptation, which is tasked to improve institutional coordination, operationalise the National Adaptation Plan approved in 2023, and identify sources of funding for climate change adaptation. Securing funding and consolidating planning for investments in climate adaptation and the reduction of hydrogeological risks are of utmost importance, given the country's investment

([40]) Italian Government, 2026, Link.

([41]) ENI, 2026, Link.

([42]) Istat, 2025, Commercio estero e attività internazionali delle imprese, Link.

([43]) Eurostat, 2026, Passenger cars in the EU, Link.

needs for climate adaptation of over EUR 10 billion per year up to 2050 ([44]) (see Annex 10).

Italy is highly vulnerable to hydrogeological risks, and increased soil sealing exacerbates these risks, highlighting the need for more systematic nature-based solutions. National statistics show an increasing trend in 2024 with 23 ha/day of soil sealed (compared with 20 ha/day in 2023) ([45]). Nature-based solutions offer a strategic opportunity to reverse this trend and alleviate Italy's vulnerability to hydrogeological risks. While such solutions are increasingly adopted with the support of EU funding, they would further benefit from the establishment of a national inventory, as well as a more systematic integration into land use planning (see Annex 10).

Italy is addressing the climate insurance gap by introducing mandatory insurance against natural catastrophes for companies, with a gradual roll out that started in 2025. Implementation is ongoing (see Annex 10). This includes uptake, enforcement monitoring and the scheme's impact on reducing the insurance protection gap. However, an insurance protection gap against natural disasters for households remains ([46]). Given that Italy has one of the highest ratios of natural disaster damage to GDP in the EU ([47]), it is important to evaluate approaches in order to address the insurance protection gap for households, balancing affordability and the need for climate adaptation.

([44]) European Commission, 2026, Assessment of EU and Member States adaptation investment needs, Link.

([45]) ISPRA, 2025, Consumo di suolo, dinamiche territoriali e servizi ecosistemici, Link.

([46]) EIOPA, 2025, Dashboard on insurance protection gap for natural catastrophes, Link.

([47]) ECB and EIOPA, 2024, Towards a European system for natural catastrophe risk management, Chart 2, p. 8, Link.

Addressing infrastructure gaps in water and waste management

Infrastructure gaps remain in central and southern regions, creating inefficiencies in waste and water management and increasing costs for individuals. When it comes to circularity, Italy performs strongly on the circular material use rate, reaching 21.6% in 2024, the third highest in the EU. Resource productivity is also well above the EU average (see Annex 8). On waste management, the RRP and cohesion policy funds have financed several initiatives to improve collection, recycling, and treatment of waste, contributing to increasing recycling rates and reducing landfill and incineration. Regional gaps are being narrowed ([48]) but persist, affecting individuals (see Annexes 8 and 18). Reducing infrastructure gaps in the central and southern regions and improving separate waste collection, including improving organic waste treatment and collection and recycling of waste from electrical and electronic equipment (WEEE) is key to improving waste management. On water management, it is crucial to implement the national plan for infrastructure and security in the water sector (PNIISSI), while also advancing efforts to track water usage volumes and collectively managed irrigation in the dedicated system. These measures are essential for closing the infrastructure gaps in central and southern Italy, while building on progress made under the RRP and cohesion policy programmes. Further steps are needed, particularly in the southern region, to consolidate service operators. This includes finalising the designation of single integrated water service operators across all relevant territorial areas to ensure effective governance (see Annexes 10 and 18).

([48]) See ISPRA (2025). Rapporto Rifiuti Urbani, edizione 2025.

SKILLS, QUALITY JOBS AND SOCIAL FAIRNESS

In 2025, Italy received country-specific recommendations (CSRs) to promote job quality, support adequate wages, encourage labour market participation, as well as mitigate the demographic decline, tackle undeclared work, reduce skills mismatches, improve educational outcomes and review housing-related policies. With the support of the Recovery and Resilience Fund (RRF), several measures have been implemented to address these challenges, but more effort is needed.

Demographic and competitiveness challenges call for breaking the low-productivity low-wage growth circle, together with targeted investments in lifelong learning and healthcare. Italy's labour market has seen further progress in participation and employment, particularly in the southern regions, which, however, remain significantly below national averages. Yet, these gains have occurred in labour-intensive, low-productivity sectors and have not been matched by progress in wages or job quality. Mounting demographic pressures will require continued and robust growth in labour market participation and parallel productivity gains across the country. This calls for a policy framework that supports innovation-driven growth (see Chapter 2) as well as gradual improvements in wages and job quality. Closing the labour market participation gaps of underrepresented groups will require sustained, targeted actions, and could help Italy reach its 2030 employment rate target of 73%. Boosting competitiveness will also require substantial investments in education and training and addressing skills mismatch. Based on demographic trends, a more resilient healthcare system will be essential, particularly in southern Italy.

Addressing low wages, improving job quality and boosting participation of women and young people

Amid demographic change, women and young people's participation in the workforce remains the lowest in the EU. Despite recent progress, in 2025 Italy still recorded the lowest participation rate overall, driven by women (57.8%) and young people aged 15-29 (38.6%), both marked by large regional disparities. Women's low participation is linked to uneven availability of childcare and long-term care (LTC) services. Italy made some progress in addressing the CSR to increase labour market participation, also thanks to the RRP, but further effort is needed. While the availability of childcare places is increasing, the low share of women in the workforce is still linked to regional disparities in their access, as well as to increasing domestic long-term care (LTC) responsibilities. Working conditions in professional LTC are deteriorating, fuelling staff shortages and limiting access to services (see Annex 11). Childcare and LTC often entail significant out-of-pocket costs, which limit accessibility and, together with structurally low wages, discourage women from working. Providing affordable services nationwide and promoting flexible work arrangements, which remain limited, are key to increasing women's participation in the workforce. Additionally, the extension of parental leave benefits is a positive step, yet additional measures are required to promote a more balanced uptake between genders and to further extend paternity leave. While the share of young people neither in employment nor education or training (NEETs) has decreased, youth employment remains low and is declining (see Annex 11). Aligning the tertiary education system with labour market needs and

secondary-to-tertiary orientation are key to improve employability. The Guaranteed Employability of Workers (GOL) programme under the RRF has supported more than 3 million job seekers ([49]) but has been less effective in reaching those farthest from the labour market, such as women and young people in the southern regions. The recent scale-up of the Labour Inclusion Information System (SIISL) is a step forward in addressing labour mismatch. However, as the RRF reaches its conclusion, the reformed system of active labour market policies (ALMPs) needs stable funding, careful monitoring, and strengthened outreach mechanisms.

Labour market segmentation and long working hours reduce job quality. In 2025, atypical work remained common: 11.3% of workers had involuntary temporary contracts and 8.5% were in involuntary part-time roles, well above EU averages of 6.4% and 3.3%. Among part-time workers, over half faced involuntary reductions in hours (17.8 % in the EU), while more than 80% of those in temporary jobs would have preferred to be in permanent ones (49.9% in the EU) (see Annex 11). Atypical contracts pose challenges to employment and wage stability, affect outcomes of already disadvantaged groups and limit productivity gains from human capital accumulation. Working atypical hours is more common in Italy than in the rest of the EU, with a higher share of employees working long hours and on weekends. The 2026 Budget Law introduced incentives to convert temporary contracts, requiring close monitoring. More effort is also needed to limit the abuse of on-call work and of repeated internships and apprenticeships. Overall, Italy has made limited progress in addressing the 2025 CSR to reduce labour market segmentation. Legislation such as the "Collegato Lavoro" risks exacerbating the issue by further protecting incumbent workers while expanding temporary and hybrid forms of work.

Slow wage growth and low work intensity contribute to in-work poverty and reinforces a low-wage, low-productivity circle, which limits competitiveness. Despite lower inflation and nominal wage growth of 3%, the 1% rise in real wages in 2025 failed to recover previous losses, leaving real wages nearly 3% below 2019 levels. According to national statistics, between 2015 and 2025, private sector wages rose by 20.8% and public sector ones by 16.1%, against 24.2% cumulative inflation. Stagnant productivity continues to limit wage growth, while low job quality and wages fuel a low-productivity, low-wage trap and discourages labour market participation. In recent years, the relatively lower cost of labour led Italy's production system to use the labour factor more than capital, leading to the expansion of low-added value and labour-intensive industries ([50]). Strengthening competitiveness calls for a policy framework that supports innovation-driven growth alongside gradual improvements in wages and job quality. Low work intensity also raises in-work poverty risks, which slightly decreased in 2025. Families with children are especially affected, contributing to high child poverty rates (see Annex 12).

Weaknesses in the collective bargaining system slow wage growth and exacerbate segmentation. Delays in contract renewals, the limited use of second-level bargaining and contractual dumping limit real wage growth ([51]). By the end of 2025, 42.2% of workers were on expired contracts, with an average 18.2 month wait ([52]). To address the issue of delays in contract renewals, decree-law 62/2026 foresees a provisional wage rise if collective agreements are not renewed within one year of expiry. The provisional wage increase is set at 30% of the variation in the Harmonised Index of Consumer Prices excluding imported energy prices. However, since persistent delays are associated with losses in purchasing power, enforcing timely

([49]) INAPP, Attuazione del programma GOL, 2025.

([50]) CNEL, Comitato Nazionale sulla Produttività, Rapporto annuale sulla produttività 2025.

([51]) CNEL, XXVI rapporto Mercato del lavoro e Contrattazione collettiva, 2025.

([52]) ISTAT, Contratti collettivi e retribuzioni contrattuali, 2026.

contract renewals remains key. Second-level bargaining remains limited, with large firms covering 76.2% of agreements and SMEs only 23.8%. Most agreements are signed in the North. In the South, where SMEs prevail, territorial bargaining is more widespread than firm-level bargaining, but overall, still lags well behind the North ([53]). Strengthening territorial bargaining could particularly support wage growth for SME workers, including by introducing supplementary variable wage components to account for local price variations and streamlining certification for tax-deductions. In 2024, 214 collective agreements signed with major unions covered 96% of workers, while 803 contracts signed by smaller unions covered 4%. The contracts signed by smaller unions typically feature lower wage floors and poor working conditions. They are more widespread in the south and in lower-skilled sectors and often cover women, part-time and low-paid workers ([54]), exacerbating segmentation and regional disparities. While limited in coverage, they exert indirect downward pressure on all negotiated salaries. To strengthen industrial relations, Italy would benefit from greater transparency and continuous monitoring of less representative agreements, as well as appropriate enforcement procedures to tackle underpayment and non-compliance, particularly in the light of decree-law 62/2026.

Widespread undeclared work undermines job quality and fair competition, while enabling non-compliant firms to persist with low-productivity strategies. In 2023, undeclared work concerned about 3.13 million full-time equivalent jobs, up 4.9% from 2022, with a 12.7% irregular work rate ([55]). It is concentrated in labour-intensive services, such as personal services, which together account for about 62% of undeclared work, and is sometimes combined with atypical contracts such as on-call work. By evading taxes, social security contributions and collectively agreed minimum standards, firms can lower production costs and gain an unfair advantage. These distortions weaken market competition and reduce incentives to invest in innovation and training, ultimately hampering productivity growth. Italy is moving in the right direction to address the 2025 CSR on maintaining efforts to tackle undeclared work with the strengthened enforcement under the RRP's National Plan Tackling Undeclared Work. Inspections rose to over 158 000 in 2025, up 42% on 2024. However, staff shortages linked to relatively low pay and working conditions limit enforcement, especially in the northern regions and Sicily. Inspectors also lack administrative support. Increasing data-sharing across all entities carrying out inspections would improve coordination. A public register of companies that violate labour law, linked with limited access to public funding, could increase deterrence. Effective preventive measures would also be beneficial in sectors such as care work and agriculture.

Labour exploitation pushes down wages and traps many in poverty and social exclusion. It occurs in sectors such as agriculture, logistics, retail, food delivery and textiles. Many victims live in overcrowded employer-provided housing without basic services (see Annex 12). Weaknesses in the migration system contribute to exploitation, as intermediaries charge migrants large fees for promised jobs, but employers are not legally required to hire them, and migration offices lack staff to check applications. In 2025, while 181 450 work entries were envisaged (70 720 for non-seasonal workers), Italy received applications for 222 617 workers. A total of 49 762 applications were approved with the release of a six-month entry permit (*nulla osta*). Nevertheless, only 14 349 residence permits were issued, resulting in many migrants accepting irregular and underpaid work to repay debts, while fear of expulsion prevents victims from contacting authorities. Protection for victims could be strengthened, including by improving checks on permit applications and increasing use of special residence permits ([56]) and professional cultural

([53]) INAPP, Wages, tax policies, and industrial relations in Italy, 2026.

([54]) Dustmann & others, Opting Out of Centralized Collective Bargaining: Evidence from Italy, 2025.

([55]) Estimates by ISTAT, *Economia non osservata nei conti nazionali - Anni 2020-2023*, October 2025.

([56]) Legislative decree 25 July 1998, n. 286, art. 18-ter.

mediators in inspections and outreach. To address the root causes, entry permits could be linked to real employment or job search, while removing barriers to regular employment for those already in Italy.

Addressing educational gaps and skills mismatches

Educational outcomes in Italy remain poor and uneven, with disparities across regions and socio-economic backgrounds. Learning outcomes have not recovered to pre-COVID-19 pandemic levels and remain fragile, especially in mathematics, with stark regional disparities. In the south, 46% of pupils fail to achieve basic proficiency, and disadvantaged students are around three times more likely to underperform than their advantaged peers (see Annex 13). Italy made some progress in addressing its 2025 CSR on improving educational outcomes, particularly for disadvantaged students. Measures have included RRF-funded investments to strengthen basic skills, combat educational poverty, reduce drop-out rates, and address regional disparities, alongside programmes to promote Sciences, Technology and Mathematics (STEM) language skills and innovative teaching methods. However, a more structural approach is needed. RRF investments could be leveraged to reform teaching methods, also by harnessing digital tools, and enhancing the teaching profession. Similarly, further efforts could strengthen the implementation of a skills-based approach integrating basic and transversal competences, building on the new national guidelines (DM 221/2025) which apply to pre-primary, primary and lower secondary settings. Following preliminary positive results, further monitoring of the 4-Year Highschool Reform pilot will also be key. Greater focus and targeted action aimed at the worst-performing schools could help Italy to address its socio-economic and territorial inequalities.

The attractiveness of the teaching profession is key to improve educational outcomes. Despite overall spending per student being close to the OECD average, Italian teachers' salaries remain relatively low compared with both EU and OECD averages and to tertiary-educated workers in Italy. The RRP's recruitment reform addresses the 2025 CSR to improve educational outcomes, specifically on the attractiveness of the teaching profession, and goes in the right direction, but lengthy and complex hiring procedures limit schools' ability to attract qualified candidates. As a large share of teachers will retire over the coming decade, strengthening the attractiveness of the profession is key. More stable employment conditions, a clear link between salaries, qualifications and performance, as well as enhanced professional development and mobility could help attract and retain qualified teachers.

Weaknesses in the tertiary education system hinder employment and productivity growth, calling for structural reform. Although the share of 18-34-years-old enrolled in tertiary education in both 2016 and 2021 was around EU average, by 2025 Italy's share of 25-34-year-olds with a tertiary qualification remained the EU's second lowest (IT: 31.1%, EU: 44.8%). This is linked to long graduation times, high drop-out rates, low return on education, and skills mismatch, which have important implications on youth employment and productivity. In 2023, 43.8% of Italian students failed to complete their bachelor's degree within the theoretical duration plus 3 years (EU25: 32.5%). They face comparatively high drop-out rates and the lowest employment rate among recent graduates (77.8% vs EU 86.7%, in 2024), while 40% worked in jobs unrelated to their studies. Additionally, Italy's university teaching staff is the oldest in the EU, associated with less innovative teaching methods, curricula and use of technology (56.2 vs 39.6 years old in 2021). Under the RRF, Italy has taken some steps to address these challenges. The RRP's r*eform of university degree courses,* once fully rolled out, will enable greater curriculum personalisation and alignment with emerging skills needs. However, stark challenges remain unaddressed. Reforming the university system to eliminate disincentives such as free exam retakes, no mandatory minimum annual credits completion, and no class attendance

requirements would help reduce the drop-out rate and graduation delays. Linking ANVUR([57]) university financing criteria to students' courses evaluations and completion rates would also be key. Improving secondary-to-tertiary career guidance and promotion of STEM fields, especially among women, would reduce skills mismatches. Employability would further benefit from reforming curricula and teaching methods to incorporate transversal and work-oriented skills, and mandatory internships during university studies.

Against the background of a shrinking labour force, it is key to boost both the quantity and the quality of human capital. Adults' basic skills remain low, macroeconomic skills mismatches are among the highest in the EU, while low and declining adult participation in learning hampers adequate up- and reskilling (see Annexes 11 and 13). Under the RRF, important measures have been implemented to address the 2025 CSR on post-secondary vocational education and training (VET) and adult training. By 2025, the GOL programme trained more than 600 000 jobseekers, more than 60% of whom in digital skills ([58]). Other programmes are expected to boost skills. "Fondo Nuove Competenze" is supporting on-the-job training; the "New Skills Plan–Transitions" reinforces skills provision and portability; "Crescere Green" trained more than 20 000 people in green skills. However, the training governance remains fragmented and recent investments to strengthen Public Employment Services (PES) have not offset regional disparities. Given its strong link to employability, Italian VET students would benefit from increasing work-based learning (see Annex 13), which still ranks among the lowest in the EU.

Training uptake, notably for reskilling and longer programmes, is hampered both by monetary and non-monetary constraints. The adequacy of accompanying social protection measures, such as "Supporto Formazione e Lavoro" income support or the reduction of care duties, needs to be assessed against other models, such as territorial experiments on individual learning accounts or further reforms of work-based learning ([59]). Information gaps, particularly on employment returns to training, are also a barrier, stressing the importance of aligning training offers with real labour market opportunities and of providing effective tailored guidance ([60]). The GOL programme has reformed the ALMP system in the right direction by introducing minimum services combining training, unemployment and social services, and tailored jobseeker assessment. However, it is important to ensure the sustainability of the system, while focusing investment on less effective PES, particularly in certain regions. Improving skills intelligence and forecasting is also key. Regional observatories would benefit from a national integrated system, which informs and is informed by data on local labour markets and exploiting AI tools. The governance model of skills forecasting and provision could also be improved by placing training effectiveness and quality assurance at its core and through tighter cooperation among education and training providers, social partners and employers, building on the successful experience of "Fondi Interprofessionali". This approach could help Italy reach its 2030 target of 60% of adults participating in training.

Reducing poverty and inequality

Limited social protection for people who are self-employed, unemployed or inactive leaves them more vulnerable to poverty. Italy's share of people at risk of poverty or social exclusion decreased in 2025

([57]) ANVUR is the Italian national agency that evaluates the quality of universities and research institutes in Italy

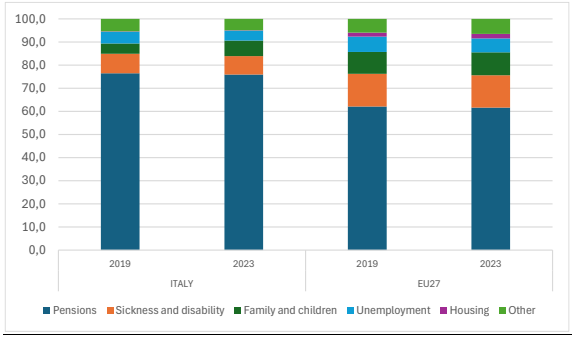
([58]) INAPP (2026), Focus N. 17, "Attuazione del programma GOL garanzia di occupabilità dei lavoratori, Nota di monitoraggio (dati al 31/12/2025)".

([59]) Some experts suggest for instance introducing a model for adults' apprenticeships similar to the Danish model, Link.

([60]) Alexia Delfino, Andrea Garnero, Sergio Inferrera, Marco Leonardi, and Raffaella Sadun, "Unwilling to Reskill? Experimental Evidence from Real-World Jobseekers," NBER Working Paper 34633 (2026), https://doi.org/10.3386/w34633.

but remains among the highest in the EU (22.6% in 2025), particularly for children (27.1%). While the impact of social transfers on poverty reduction is above the EU average for employees, it is lower for people who are self-employed, unemployed or inactive. Self-employed people represent 13.4% of employed people (9.3% in the EU). Around 18% of them depend on only one client, making them particularly vulnerable. A high proportion of them lack formal entitlement to several benefits (see Annex 12). However, people who are unemployed or non-standard workers can receive limited protection, as the duration of unemployment benefits depends on time worked, and one-quarter of temporary contracts last less than six months. After benefits expire, many cannot access the minimum income scheme ([61]). Insufficient social protection heightens poverty risks and exacerbates skills mismatches. By contrast, adequate income support would enable workers to seek jobs suited to their skills, attend training, and pursue mobility opportunities ([62]). While Italy is on track to meet its 2030 poverty reduction target of lifting 3.2 million people out of poverty (compared with 2019 levels), sustained and comprehensive anti-poverty policies in line with the EU anti-poverty strategy remain essential to ensure continued progress. Expanding access to social protection is also a key element of job quality. Expanding it for self-employed workers, improving coverage for non-standard workers and reviewing benefit levels and duration could support better labour market transitions and help Italy achieve its poverty reduction target. To tackle child poverty specifically, among the highest in the EU (see Annex 12), more effort is needed to fully implement the Child Guarantee.

Graph 4.1: **Social protection spending IT and EU-27 - % composition**



Source: European Commission

Territorial disparities in public services call for policy attention. Disparities between the northern and southern regions persist in areas such as healthcare, child and long-term care, as well as in administrative capacity. For instance, the coverage of public childcare ranges from over 40% in Umbria, Emilia Romagna, and Valle d'Aosta to less than 12% in Campania and Calabria. As for LTC services, the offer ranges from 10 beds per 1 000 residents compared with the North-East to just 3 per 1 000 in the South (see 2025 CSR). Despite the RRP and the cohesion funds infrastructural investment, the ability of municipalities to finance current spending, including to operate new infrastructure, puts a constraint on capital investment, especially in the south. There are still wide gaps between municipalities in terms of minimum levels of service (LEP). Most southern regions are also significantly underperforming in the implementation of essential levels of assistance (LEA) in healthcare, with some regions striving to supply minimum level services in primary care, hospital access and prevention, causing an increase in healthcare migration from the southern to the northern regions (see Annex 15). The implementation of the differentiated autonomy reform has been stopped by the Constitutional Court in December 2024, which ruled that several aspects of the framework law adopted in June 2024 were unconstitutional. Efforts are still ongoing to address the concerns raised by the Court, including for the preliminary definition of "essential levels of service". The reform warrants close monitoring in the light of its possible structural effects on the national fiscal framework and regional disparities.

([61]) See 2025 country report.

([62]) OECD (2019), OECD Employment Outlook 2019: The Future of Work, OECD Publishing, Paris. https://doi.org/10.1787/9ee00155-en.

Social services for the most vulnerable groups are hindered by underfunding and a lack of measurable targets. Italy has 23 social workers per 100 000 inhabitants, well below other EU Member States ([63]). Adequate Essential Levels of Social Assistance ([64]) are key to reduce social exclusion for the most vulnerable groups, including migrants, homeless people, and Roma people. However, their delivery depends heavily on local capacity, leading to large regional disparities. At the end of 2024, 80.3% of municipalities in the north could guarantee 1 social worker per 5 000 residents, compared with only 46.3% in the south, where over 72% of minimum income recipients live ([65]). Moreover, municipal spending on social services increased in the centre and the north between 2010 and 2021 but declined in the south ([66]). National funding for social assistance services is complex and often unpredictable, as it relies on around 20 different funds and is often based on temporary calls for applications. Clear and measurable service objectives are often missing, and monitoring systems exist only for a subset of services. Moreover, national coordination of social assistance should be improved, as responsibilities are spread across several ministries. A properly resourced common national fund, allocated based on standard costs and spending needs, could simplify financing. Clear service targets, stronger monitoring and better coordination at national level could also support more consistent implementation across the country, together with effective incentives for local authorities and corrective actions when standards are not met.

High inequality is exacerbated by unequal access to tertiary education, limiting social mobility. Income inequality is among the highest in the EU, fuelled by the low redistributive impact of taxes and benefits (see Section 1 and Annex 12) and by unequal access to housing, healthcare, and education. Increasing the progressivity of the tax system is key (see Section 1). At primary and secondary school level, stark territorial disparities impact families' capacity to sustain costs linked to education (e.g. books, transport), with fragmented rules established at municipal level on co-payments and exemptions. At tertiary level, Italy still has some of the highest tuition fees in the EU, while the maximum need-based grant is well below the poverty threshold ([67]). In addition to high student housing costs, this leads to a strong relationship between the educational attainment level of parents and children, limiting social mobility (see Annex 13). This hinders equal opportunities and results in under-used talent. Reduced poverty and inequality would enhance human capital and labour market inclusion and in turn boost competitiveness.

Addressing these challenges will help Italy boost upward social convergence. The second-stage analysis in line with the Social Convergence Framework points to challenges for Italy that may affect social convergence in relation to its labour market, education and skills as well as its social situation ([68]).

Improving access to healthcare

Access to healthcare has declined in recent years. In 2024, 9.9% of the population (up from 6.3% in 2019) reported forgoing necessary medical care (ISTAT), and 6.8% cited the long waiting lists as the main reason (up from 2.8% in 2019). Moreover, out-of-pocket spending is significantly higher than

([63]) European Social Network, *European Social Services Index 2025 – Cross-country analysis*, 2025.

([64]) *Livelli Essenziali delle Prestazioni Sociali*, which include home care for the elderly, the multi-dimensional needs assessment for minimum income recipients, parenting support to prevent family separation, and more.

([65]) INPS 2026, Osservatorio su assegno d'inclusione e supporto formazione e lavoro.

([66]) Laura Pelliccia, *Quali risorse per i LEPS?*, Prospettive Sociali e Sanitarie, Issue 1-2, 2025.

([67]) See Eurydice.

([68]) European Commission, SWD(2026) 122. The analysis relies on all the available quantitative and qualitative evidence and the policy response undertaken and planned.

the EU average (23.7% vs 14.9% of total health spending in 2023). This burden may be underestimated, given rising financial hardship in Italy, which may in turn likely lead to an increasing number of patients to forgo care due to excessive costs (see Annex 15). These challenges can be attributed to several factors, including in some cases overprescription, organisational bottlenecks and, in particular, shortages in the healthcare workforce, especially in the national healthcare service. Italy records one of the lowest nurse-to-doctor ratios in the EU, increasing shortages of general practitioners, and persistent unfilled positions in key medical specialties (see Annex 15). Combined with rapid population ageing and strong regional disparities, with a more critical situation in the south, these trends threaten the long-term sustainability of the healthcare system and create additional barriers to timely and fair access to care.

The government has taken initial steps, but additional efforts are needed to ensure the efficacy and efficiency of the healthcare system. The Italian government is implementing the 2022 territorial healthcare reform under the RRP, a reform of healthcare professions, and a national plan for managing waiting lists. The full implementation of the territorial healthcare reform especially in the south, and its alignment with the 2015 reform on the reorganisation of the hospital system is key to ensure a more efficient and cost-effective healthcare system. It is essential that the comprehensive implementation of the reform is accompanied by measures to address shortages in key professions, particularly nurses and GPs. The attractiveness of these professions could be improved through economic and career incentives, reducing administrative burden and better aligning the specialisation courses with the national healthcare service needs. Additional gains could also arise from the complete digitalisation and interoperability of the healthcare system, the reduction of overprescription (especially in pharmaceuticals and diagnostic exams), and the full implementation of the waiting list management plan.

Re-thinking housing-related policies

Some Italian cities are characterised by a mismatch between the cost of housing and the average wages. In particular, rents in many northern and central metropolitan areas are disproportionately high compared with local wages and productivity. This may hinder labour mobility and lead to labour shortages ([69]). In 2024, 24.1 % of households were tenants (compared with 31.6% in the EU), of which around 6% occupied a flat for free, but among households with an income below 60% of the median tenancy increases to 63.7%. Affordability is a particular issue for tenants, as 19.4% of them face housing cost overburden ([70])([71]). On average, households renting their home allocate 20.2% of their disposable income to rent, rising to 31.1% for households below the poverty threshold. In around one-tenth of Italian provinces, rents represent more than one third of average wages ([72]). Rent-to-income ratios are particularly high in large cities, reaching 76% in Milan, 65% in Rome and 48% in Bologna (see Annex 16). Short-term rentals account for around 12% of the available housing stock (excluding primary residences, i.e. the majority) in Florence, 11% in Venice, 6% in Milan, and 4% in Rome, with much higher concentrations in historic centres ([73]).

Italy has been traditionally favouring home ownership, while support to affordable housing has been limited. Public spending on housing-related social protection is extremely low (0.04 % of GDP compared with 0.3 % in the EU). In Italy, main

([69]) Confindustria, *Soluzioni abitative sostenibili per i lavoratori*, 2025, Link.

([70]) EU-SILC, *Housing cost overburden rate by tenure status*, 2024, Link.

([71]) This indicator should be read together with the tenure structure (homeowner, tenants), that may differ across country and regions.

([72]) Osservatorio del Mercato Immobiliare, Agenzia delle Entrate, 2023.

([73]) Agenzia delle Entrate, 2024.

residencies are exempted from recurrent property taxation. Moreover, cadastral values are no aligned to market values. This results in lower revenues from property at local level, including in cities facing a housing affordability challenge. The share of social housing is low in Italy, with a limited public housing stock and very long waiting lists. Homelessness also remains a persistent concern. Affordable housing solutions remain underdeveloped, and existing instruments such as regulated rent contracts ("canone concordato") are in some cities set at levels close to market rents (see Annex 16). Governance is fragmented, with responsibilities divided across national and sub-national administrations. In the past years, lack of structural funding further limited the effectiveness of housing policy. The Housing Plan, adopted in May 2026, aims at renovating the public housing stock and supporting in particular affordable housing with the involvement of the private sector.

KEY FINDINGS

In areas **covered by existing country-specific recommendations (CSRs)**, Italy would benefit from:

- **Implementing an innovation-driven industrial policy** to boost high-value added sectors, with a coherent research and infrastructural investment planning, streamlining and better targeting national and regional incentives and addressing transport infrastructural gaps, notably in the South.

- **Promoting business growth** by eliminating regulatory and tax barriers, supporting equity and bond financing, including through institutional investors, and upskilling of managers, in particular in microenterprises.

- **Boosting research and innovation** by supporting public and private R&D spending, further strengthening links between businesses and academia, and boosting the efficiency and attractiveness of the university system.

- **Strengthening administrative capacity and further simplifying the business environment** by advancing digitalisation and addressing the ageing public-sector workforce and skills gaps, focusing on regional disparities.

- **Further reducing the duration and backlog of trials,** including by making the trial office structural, continuing to address magistrate and staff shortages, and supporting justice sectors under pressure, including the Justice of Peace.

- **Addressing remaining barriers to the EU single market and competition,** including by awarding concessions across relevant sectors**,** and improving industry-specific regulations, particularly in the transport, electricity, and health sectors.

- **Further improving the efficiency of the tax system** by further shifting the high tax burden on labour to other under-used sources of revenue, reducing the erosion of the tax base, further combating tax evasion and aligning taxation more closely with the green transition.

- **Further progressing with policy evaluation and spending reviews** to improve the efficiency and quality of public spending in Italy.

- **Improving economic security and tackling high electricity prices** caused by structural reliance on gas by accelerating renewable energy deployment and storage, fully implementing renewable permitting reforms at local level, and rebalancing energy taxation away from electricity, particularly for firms. Supporting industrial decarbonisation, also through renewable power purchase agreements.

- **Strengthening the power grid** by scaling interconnection capacity, addressing grid connection bottlenecks, promoting competition, and accelerating grid investments.

- **Mitigating climate-related risks and their economic impact**, including by improving institutional coordination, integrating nature-based

solutions, and addressing remaining insurance protection gaps in a fair and affordable manner.

- **Tackling infrastructural gaps in water and waste**, in particular in southern and central regions, to reduce inefficiencies and improve water and waste management.

- **Promoting upward social convergence by addressing poverty and inequality,** also through an improved progressive tax and benefits system, access to social protection for all workers (including self-employed), unemployed and inactive people, as well as a more effective delivery of social services for vulnerable groups, including people facing homelessness.

- **Addressing the demographic challenge** by further attracting and retaining a high-quality workforce; supporting natality, labour market participation of women and young people, including through access to child and long-term care, particularly in regions with high net emigration.

- **Addressing undeclared work and labour exploitation,** including by improving administrative capacity of labour inspectorates, promoting sharing of inspection data, and adopting preventive measures for the most affected sectors such as domestic work and agriculture.

- **Improving job quality and reducing labour market segmentation** by tackling the misuse of atypical contracts and strengthening collective bargaining to support adequate wage growth, improve working conditions and tackle contractual dumping.

- **Promoting human capital** by promoting adult learning and vocational education and training, including through improved skills intelligence, to increase quality and relevance of training, strengthen tailored ALMPs, and social services, also addressing regional disparities.

- **Strengthening educational outcomes** by further renewing curricula with a skills-based approach, improving the attractiveness of the teaching profession, and providing targeted support to underperforming schools to address regional and socio-economic disparities, as well as reforming tertiary education to improve employability and reduce drop-out rates.

- **Supporting social and affordable housing solutions**, particularly in areas under pressure, to facilitate labour mobility, and for vulnerable people, including by reassessing indirect tax incentives for homeowners.

In **other areas**, Italy would benefit from:

- **Increasing transport efficiency and sustainability,** including by expanding public and shared mobility options as well as charging infrastructures.

- **Improving access to healthcare** through the continued implementation of the territorial healthcare reform, along with measures to address shortages in key health professions, as well as ensuring the comprehensive digitalisation and interoperability of the healthcare system and improving the waiting list management plan.

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Table A1.1: **2025 CSR implementation and Commission assessment**

Italy faces challenges in a wide range of policy areas, as identified in the country-specific recommendations (CSRs). Italy was recommended, among other things, to strengthen innovation and SME growth by improving business-academia links and industrial strategy; enhance public administration efficiency, justice, and competition; accelerate the green transition through electrification, renewables, and better resource management; and improve labour market outcomes by boosting participation, skills, job quality, and education, while addressing undeclared work.

The Commission has assessed the degree of implementation of the 2025 CSRs considering the policy action taken by Italy to date*. To do so, the Commission has taken into account the information provided by Italy in its Annual Progress Report as well as other information sources. This annex provides summary information on the policy actions taken or planned by Italy for each CSR. More detailed information on these actions is included in the relevant chapters and other annexes of the report.

**CSR 2 is not assessed in CeSaR. RRP implementation is monitored through the assessment of RRP payment requests and analysis of the bi-annual reporting on the achievement of the milestones and targets, to be reflected in the country reports. Progress with the cohesion policy is monitored in the context of the Cohesion Policy of the European Union.*

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
1.1 Reinforce overall defence and security spending and readiness while ensuring debt sustainability in line with the European Council conclusions of 6 March 2025.	Total general government defence expenditure in 2026 is projected at 1.2% of GDP, corresponding to a decrease of around 0.05 ppt. compared to 2024.	Total general government defence expenditure in 2027 is projected at 1.4% of GDP, corresponding to an increase of 0.1 ppt. compared to 2024. The increase is explained by higher expected gross fixed capital formation on defence related to weapon deliveries.	Some progress
1.2 Adhere to the maximum growth rates of net expenditure recommended by the Council on 21 January 2025, with a view to bringing an end to the situation of an excessive deficit.	Annual and cumulated deviations in 2025 amounted to 0.1% of GDP and less than 0.1% of GDP, respectively. Annual and cumulated deviations in 2026 projected at -0.1% of GDP and -0.1% of GDP, respectively. The EDP is held in abeyance.		Substantial progress
1.3 Implement the set of reforms and investments underpinning the extended adjustment period as recommended by the Council on 21 January 2025.	See table A.2.4 in Annex 2 of the Country Report		Full implementation
1.4 In line with fiscal sustainability objectives, make the tax system more conducive to growth, by further fighting tax evasion,	Mandatory electronic connection between POS and cash registers. Measures to improve tax collection (as required by the RRP), especially in relation to VAT. Mandatory 1% withholding tax on PIT and VAT in B2B transactions aimed at incentivising tax compliance.		Some progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
	New simplified and more favourable debt settlement for tax collection (in line with measures similar to tax amnesties introduced in previous years), which risks jeopardising the positive results achieved in recent years in the fight against tax evasion.		
1.5 reducing the labour tax wedge and the remaining tax expenditures, including those related to value added tax and environmentally harmful subsidies, as well as updating cadastral values, building on the medium-term fiscal-structural plan commitment as part of a broader review of housing-related policies, while ensuring fairness.	Measures aimed at permanently reducing the tax wedge for low and middle income earners, by also making structural the lower personal income tax rates already implemented in 2024. Italy has implemented some measures to reduce tax expenditures. Reduction of environmentally harmful subsidies, namely: (i) elimination of the reduced VAT on waste landfill disposal by raising it from 10% to 22%; (ii) remodulating of the taxation of company cars as fringe benefits in favour of electric vehicles with the aim of encouraging the renewal of company fleets; and (iii) elimination of the gasoline/diesel tax differential. Proliferation of flat tax regimes, including for the self-employed and on bonuses and extraordinary earnings, risks further eroding the personal income tax base. It also worsens the horizontal equity and efficiency of the tax system, by reducing redistribution, favouring specific taxpayers' categories and disincentivising business growth. Within the Cohesion Policy programmes, housing investments were prioritised. The 2026 Budget Law allocates limited resources to the Piano Casa. However, no comprehensive review of housing-related policies was carried-out.	Italy is working on the update of cadastral values for some categories of buildings, in line with the MTFSP but concrete broader actions still missing. The adoption of the Piano Casa, aimed at addressing the housing needs of the so-called "grey area" and leveraging public resources to crowd in private investment, was announced for May 2026.	Some progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
1.6 Step up efforts to improve the efficiency and effectiveness of public expenditure.	Yearly spending reviews implemented in line with its national framework. 2026 Budget Law established that each ministry is required to evaluate at least one spending policy under its responsibility by 30 June 2026 within the framework of the Spending Analysis and Evaluation Plans.		Some progress
1.7 Mitigate the effects of ageing on potential growth and fiscal sustainability, including by further limiting the use of early-retirement schemes and by addressing demographic challenges, also attracting and retaining high quality workforce.	Italy has not renewed the early retirement schemes in place in previous years and constantly renewed. At the same time, the retirement age was partially frozen at 67. The new Decreto Flussi for the next three years period 2025-2028. Other measures include the organisation of vocational and civic-linguistic training programmes abroad: 76 projects approved concerning sectors characterised by structural labour shortages (construction, mechanics, plant engineering, shipbuilding, and electronics).		Some progress
3.1 Support innovation by further strengthening business-academia linkages, innovation procurement, corporate venture capital and opportunities for talents.	-The implementation of R&D investments of the RRF (M4C2) is progressing. - Refinancing of some RRF investments on tech transfer (National Centres and extended partnerships) for the years 2027-2028 to ensure continuity of the actions taken. -Legislative provision, in the 2025 Annual Competition Law, requiring the adoption every 3 years of a Strategy on knowledge valorisation and technology transfer -The implementation of R&D investments of the RRF is progressing. - No progress on innovation procurement and corporate venture capital	A broad strategy on innovation and technology transfer has been launched and opened to public consultation.	Limited progress
3.2 Boost the role of universities in innovation by further increasing their focus	Entry into force of the three-plan for the financing of research activities (New RRP reform).		Limited progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
on commercialisation of research results and by improving the career path of researchers.	Reform in 2025 has increased the number of fixed-term non-tenure track contracts for researchers making the career path of researchers less predictable and stable		
3.3 Promote growth and aggregation of SMEs and start-ups, also in light of the commitments in the medium-term fiscal-structural plan.	The implementation of the RRF Scale up act is ongoing and it is too early to judge its effectiveness. Since its creation in 2019, the CDP VC has received public support, including by the RRF (e.g GTF, DTF). funding Annual SME law has been adopted but implementing acts are missing. The Italian Export Action Plan has been published with the aim of strengthening the international competitiveness of small and medium-sized enterprises and promote access to global markets. No measure to attract insurance and banks into the venture capital and private equity ecosystems.		Some progress
3.4 Implement an industrial strategy including to reduce the territorial divide, by streamlining current policy measures and taking into account key infrastructure projects.	Publication of the White Book "Made in Italy 2030" outlining Italy's starting point for an industrial strategy Extension of the SEZ tax credit from 1 year to 3 years. Publication of the incentives code	Rationalization of incentives under MIMIT competence in the context of M1C2 Reform 3	Limited progress
4.1 Further increase the effectiveness and capacity of the public administration and further strengthen administrative capacity, particularly at local level.	Implementation of reforms and investment concerning public employment and training of civil servants under the RRP. In particular: • Reform 1.9 - Reform of the public administration with implementation of strategic human resource management in the Public Administration. • Investment 1.9: Provide technical assistance and strengthen capacity building for the implementation of the Italian recovery and resilience plan.	Italian Strategy for Virtual and Augmented Reality to promote the digitization of public administration and healthcare.	Some progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
	Further measures concerning simplifications of administrative procedures, i.e. simplification and/or digitalization of 200 critical procedures affecting citizens and business.		
4.2 Further reduce the backlog and disposition time of the justice system.	Under the RRP, progress on digitalisation of first instance criminal proceedings Adoption of temporary measures to reduce disposition time in civil courts		Substantial progress
4.3 Address remaining restrictions to competition, including in local public services, business services and railways.	Decree RRP (for railways). Annual Competition Law of 2025 (for local public services).		Some progress
5.1 Accelerate electrification and intensify efforts for the deployment of renewable energy, including by reducing fragmentation of permitting regulation and investing in the electricity grid.	RRP reform Testo Unico (Permitting simplification, legislative decree No. 190/2024), full implementation at sub-national level underway. Contracts-for-difference (FER 2 for immature tech and FER X for mature technology) Auctions for storage under the energy storage capacity procurement mechanism (MACSE)	FER Z auctions with bigger role for aggregators and storage RRP reform to set up a Platform for renewable electricity PPAs (not yet operational) Energy release, offering reduced electricity prices to energy-intensive-companies in exchange for renewable installation	Some progress
5.2 Address climate-related risks and mitigate their economic impact, through more institutional coordination, nature-based solutions and climate insurance coverage.	Mandatory climate disaster insurance scheme for companies introduced by the legge di bilancio 2024 National Observatory for Climate Change Adaptation has been set up by DM 455 from December 2025		Some progress
5.3 Tackle remaining inefficiencies in water and waste management by reducing infrastructural gaps.	First funding decrees for water investments under the national plan for water infrastructure and safety measures (PNIISSI) published		Some progress
6.1 Promote job quality and reduce labour market segmentation, also to support adequate wages, and increase labour market participation, in particular for underrepresented groups, including by further strengthening active labour market policies and improving affordable access	"Collegato lavoro" (Law 203/2024) and implementing decrees in 2025: to simplify the contractual framework but in practice expands temporary/seasonal work and hybrid contracts, especially for vulnerable workers (e.g. unemployed, older workers, workers with lower qualifications), with a likely increase in segmentation.		Some progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
to quality child- and long-term care, taking into account regional disparities.	Expansion of ECEC under the RRF ALMPs reforms and investments in training under the RRF (GOL, Dual etc.) Collective bargaining - Delegated law (Legge delega 144/2025): aims to address structural issues in the collective bargaining framework, namely (i) lack of enforceability of collective agreements, (ii) delays in contract renewals and (iii) contractual dumping (so called "pirate" contracts). Implementing decrees are still to be adopted. Legge Locatelli (Legge Delega 33/2023, implemented by D.Lgs. 29/2024): establishes a National System for Non-Self-Sufficiency Assistance (SNAA) Hiring tax incentives in the 2026 budget Law: *"('Youth and women hiring relief"* – with priority to the ZES); ('*Mothers' full contribution exemption"; General permanent employment incentives'*		
6.2 Keep-up the efforts to tackle undeclared work, particularly in the most affected sectors.	Implementation of reform under the RRP – notably increased inspections, strengthening rete del lavoro agricolo di qualita'	Final target of the RRF reform concerning deterrent measures (ISAC indicators and letters to firms to incentivize compliance), study on impact of employment vouchers	Limited progress
6.3 Continue promoting postsecondary VET and in-work training in high-demand sectors to address short-term skills needs, while strengthening adult learning by expanding work-based learning in high-growth sectors.	ITS academy 4+2 (reform introduced under the RRF as a pilot and brought to 'regime' in all ITS schools, including national Platform Fondo nuove competenze 3: €500M+ PNRR (FNC3); paid leave (up to 160h/year, 100% wage replacement via Fondo) for workers/firms training on digital/green/transversal skills; >300k participants 2021-25; Dual system (further strengthened under the RRF): expanded *apprendistato professionalizzante duale* (15-29 years)		Some progress
6.4 Improve educational outcomes, with a focus on disadvantaged students, including by strengthening basic skills.	School building stock renovated: 70% of the school building stock is being renovated under the RRF, prioritising obsolete and unsafe buildings, especially in disadvantaged areas.	Expansion of 4 years high school pilot to the national level, targeting schools and attracting students from diverse socio-economic backgrounds	Some progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
	Teacher training programme under the RRF ("new language and new skills") Digitalization of classrooms under the RRF ("school 4.0") Teachers reform: The reform under the RRF introduced a new qualified architecture intended to stabilize recruitment, but a link between career progression and performance based incentives is still missing University system – "Riforma delle classi di laurea" and ANVUR: The 2023–25 reform of degree classes (DM 96/2023 and related decrees)		

Source: Italy's reporting and Commission assessment

This annex discusses selected topics in public finances and developments on fiscal-structural CSRs addressed to Italy in July 2025. These include a call to reinforce overall defence spending and readiness while implementing a fiscal strategy in line with the Council Recommendation of 6 March 2025. Italy was also recommended to make the tax system more conducive to growth, step up efforts to improve the efficiency and effectiveness of public expenditure and mitigate the effects of ageing on potential growth and fiscal sustainability.

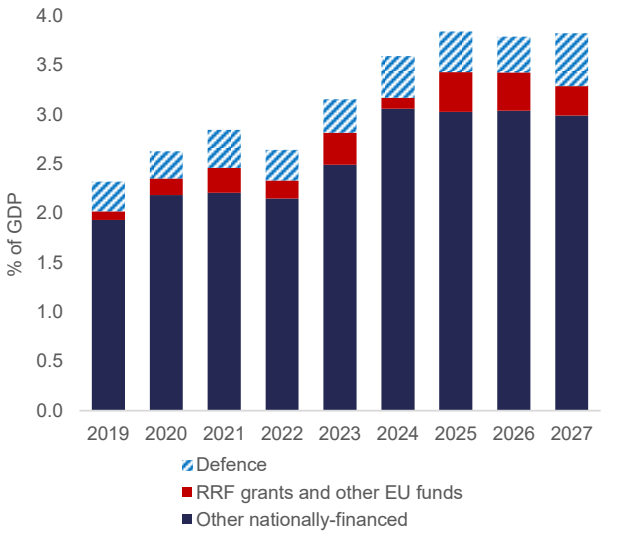
On 8 July 2025, the Council adopted the Recommendation endorsing Italy's medium-term fiscal-structural plan ([74]). The plan includes an extended fiscal adjustment over seven years, underpinned by a set of reforms and investment. At the same time the Council also adopted a Recommendation under Article 126(7) TFEU to correct the excessive deficit in Italy ([75])([76]).

Developments in government balance, debt and public expenditure ([77])

Italy's government deficit amounted to 3.1% of GDP in 2025 and the government debt-to-GDP ratio amounted to 137.1% at the end of 2025. Based on the Commission Spring 2026 Forecast, Italy's government deficit is projected to narrow marginally from 3.1% of GDP in 2025, to 2.9% in both 2026 and 2027. The debt ratio is set to reach 139.2% of GDP by 2027, as the expected primary surpluses are still insufficient to offset the impact of the debt-increasing interest-growth-rate differentials and stock-flow adjustments.

Rising public investment is improving the quality of expenditure in Italy. Compared with pre-pandemic levels, public investment has increased markedly and is projected to stabilise at around 3.8% of GDP in 2026–2027, up from 2.3% in 2019 (see Graph A2.1). This increase has been partly supported by funding from the RRF. At the same time, nationally financed public investment has also risen since 2019 and is expected to continue expanding until 2027, contributing to a more growth-friendly composition of public expenditure.

Graph A2.1: **Public investment evolution and composition (% of GDP)**



Source: European Commission Spring 2026 Forecast

While expenditure with a higher impact on GDP had remained broadly stable over three decades, it has slightly increased compared to 2019. Zooming in on the composition of spending, social protection accounts for the largest share of total expenditure (above 40%), followed by general public services and health, with each accounting for around or above 10% of total spending. Since 2019, public expenditure on transport, housing, other economic affairs and interest spending has increased strongly (see Graph A2.3). Spending on culture has risen more modestly. By contrast, spending on communication remained broadly stable while spending on R&D, defence, education and health expenditure has declined. This trend deserves attention, as these categories (R&D and education) are generally

([74]) OJ C, C/2025/651, EU: http://data.europa.eu/eli/C/2025/651/oj.

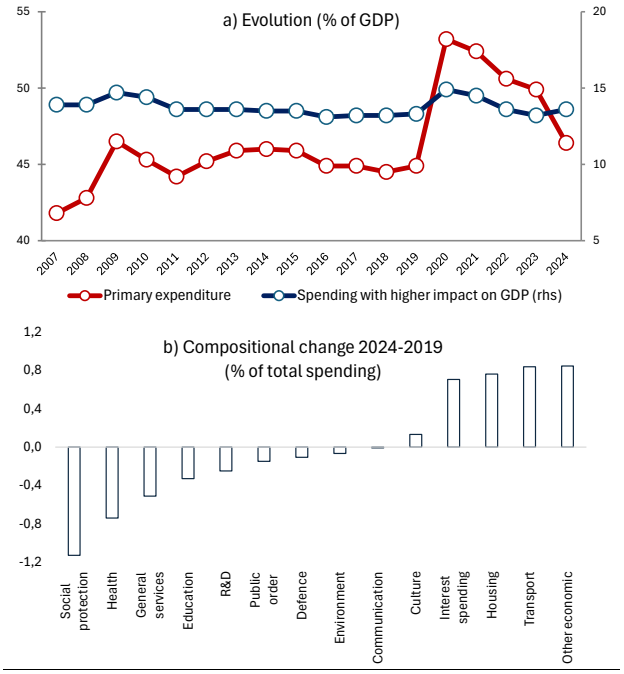
([75]) Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Italy, as adopted on 21 January 2025. The corrective net expenditure path recommended by the Council under the excessive deficit procedure is consistent with the maximum growth rates of net expenditure set out in the plan.

([76]) Compliance by Italy with the maximum growth rates of net expenditure recommended by the Council is assessed in COM(2026) 200.

([77]) Figures underpinning fiscal surveillance (net expenditure growth) are provided in the Fiscal Statistical Tables SWD(2026)200 providing background data relevant for the assessment of the budgetary policies of the Member States.

considered spending categories conducive to growth.

Graph A2.2: **: Primary spending evolution and compositional change**



Source: Eurostat

Note: Based on economic literature, the categories considered to have the higher growth impact include education, R&D, health, transport and communication (See Barbiero and Cournede (2013), Gemmel et al. (2016), Lupu et al (2018), Cepparulo and Mourre (2020) and OECD (2025)).

Italy has high tax revenues as a share of GDP compared to the EU average, with a high labour tax burden, a narrow tax base with many tax expenditures and high revenue loss due to tax evasion. In 2025 Italy's total tax revenues as a percentage of GDP (including compulsory social security contributions) amounted to 43.0%, clearly above the EU average of 39.9%. Total tax revenues are projected to remain stable in 2026 and then slightly increase to 43.2% of GDP in 2027 according to the Commission Spring 2026 Forecast ([78]). Italy has a high labour tax burden at many different wage levels, makes intensive use of reduced VAT rates and tax expenditures (which narrows the tax base) and experiences high levels of tax evasion (see Annex 3).

Cost of ageing

Total age-related spending in Italy is projected to rise by about 1 pp. of GDP by 2040, to around 28% of GDP, though declining by about 2 pps. by 2070 (see Table A2.2**).** The overall decline in the long term is mainly the result of a projected fall in pension spending, which would more than offset the expected rise in healthcare and long-term care spending. Italy currently has one of the highest spending levels on age-related items of all Member States. The projected decline in the long term would bring Italy closer to, but still above, the EU average.

Public pension spending as a share of GDP is projected to increase by 1 pp. by 2040 but decline thereafter. Pension spending currently represents around 16% of GDP, the highest of all EU Member States. A further increase is expected in the coming decades. Yet, by 2070, public pension outlays would decline to a level about 2.5 pps. of GDP below current spending. At close to 14% of GDP in 2070, public pension spending would be higher than the projected EU average of about 12%. In 2025, Italy received a CSR to mitigate the effects of ageing on potential growth and fiscal sustainability, including by further limiting the use of early-retirement schemes, which contribute to an effective retirement age that is lower than the statutory retirement age by more than 4 years ([79]). While early-retirement schemes in place in previous years have not been renewed in 2026, a partial freezing of the retirement age at 67 has been introduced. In particular, the three-month freeze on the life expectancy adjustment has been slowed down: it will be one month in 2027 and two months in 2028, for certain categories only. The impact of this measure on the sustainability of public finances remains contained, but it still puts further pressure on the long-term sustainability of the pension system and public finances. Supplementary pension schemes can make the pension system more resilient by diversifying retirement income sources and encouraging the adoption of sustainability-enhancing reforms. In Italy, however, their uptake remains limited: by

([78]) Data retrieved from the AMECO database (https://economy-finance.ec.europa.eu/economic-research-and-databases/economic-databases/ameco-database_en)

([79]) Economic Policy Committee - Ageing Working Group, 2024 Ageing Report, Italy - Country Fiche.

Table A2.1: **Supplementary pension schemes - Scope for expansion**

	Assets in 2024 (% GDP)	Gross replacement rate at retirement: (pps change 2025-2040)	Participation in 2024 (% working-age population)	
IT	11,7	*-7,7*	26,7	**IT**
EU	32,4	*-2,8*	55,9	EU

Source: European Commission.

end-2024, private pension assets amounted to around 12% of GDP while participation covered around 27% of the working-age population ([80]). This coincides with rising medium-term public pension spending pressures and a projected decrease in the replacement rate by 7.7 pps. between 2025 and 2040 (Table A2.2 and A2.3) ([81]).

Public healthcare expenditure is projected to be 5.8% of GDP in 2025 (below the EU average of 6.6%) and is expected to increase by 0.4 pps by 2040 and by a further 0.2 pp by 2070. The overall increase is driven by an ageing population but is significantly constrained by reform assumptions of a constant nominal growth path for public healthcare expenditure until 2026.

Public expenditure on long-term care is projected at 1.5% of GDP in 2024 (slightly below the EU average of 1.7%) and is expected to increase by 0.3 pps of GDP by 2040 and by a further 0.3 pps of GDP by 2070. The projected increase is due to an ageing population and constrained by budgetary cost containment measures included in the projections until 2026.

National fiscal framework

The Parliamentary Budget Office (PBO) is a well-established and relatively well-resourced independent fiscal institution with a broad mandate. Despite a number of Memoranda of Understanding with the Ministry of Finance and other institutions, the PBO still reports issues of access to information, in particular regarding the timeliness and level of detail of the information received. There is a policy dialogue with the government, which however takes place in a non-public way, giving no media echo and therefore not informing the public debate on fiscal policy and sustainability. The PBO has a clear presence in the domestic media debate and is further developing its outreach activities, becoming more active on social media and developing new features of its website. The PBO recently underwent its very first independent external evaluation.

Table A2.2: **Projected change in age-related expenditure in 2025-2040 and 2025-2070**

	ageing-related expenditure	change in 2025-2040 (pps GDP) due to: pensions	healthcare	long-term care	education	total	ageing-related expenditure	
IT	27,1	*1,0*	*0,4*	*0,3*	*-0,6*	***1,2***	28,3	**IT**
EU	24,3	*0,5*	*0,3*	*0,4*	*-0,3*	***0,9***	25,2	EU

	ageing-related expenditure	change in 2025-2070 (pps GDP) due to: pensions	healthcare	long-term care	education	total	ageing-related expenditure	
IT	27,1	*-2,4*	*0,6*	*0,6*	*-0,7*	***##***	25,3	**IT**
EU	24,3	*0,2*	*0,6*	*0,8*	*-0,3*	***1,3***	25,6	EU

Source: 2024 Ageing Report (EC/EPC).

([80]) Source: OECD Pension Market in Focus 2025. The highest participation rate in at least one supplementary pension plan is reported.

([81]) The (gross) replacement rate refers, where the required data is available, to both public and private pensions. It is based on projections from the 2024 Ageing Report.

Table A2.3: **Fiscal Governance Database Indicators**

Country Fiscal Rule Strength Index (C-FRSI)	19,41	14,81
Medium-Term Budgetary Framework Index (MTBFI)	0,88	0,72
2025 Public accounting maturity of general government	32%	65%

(1) The Country Fiscal Rule Strength Index (C-FRSI) shows the strength of national fiscal rules aggregated at the country level based on i) the legal base, ii) how binding the rule is, iii) monitoring bodies, iv) correction mechanisms, and v) resilience to shocks. The Medium-Term Budgetary Framework Index (MTBFI) shows the strength of the national MTBF based on i) coverage of the targets/ceilings included in the national medium-term fiscal plans; ii) connectedness between these targets/ceilings and the annual budgets; iii) involvement of the national parliament in the preparation of the plans; iv) involvement of independent fiscal institutions in their preparation; and v) their level of detail. A higher score is associated with higher rule and MTBF strength.
The score for public accounting reflects the degree of maturity in relation to the International Public Sector Accounting Standards (IPSAS). Countries with an accounting maturity of 70% or more in relation to IPSAS are deemed to apply accrual accounting. For more information, see the report on public accounting in the EU (COM(2025)746 and accompanying Staff Working Document SWD(2025)396).
Source: Fiscal Governance Database, European Commission

Spending reviews have involved extensive analytical work, but implementation has been limited. Recent efforts have focussed on integrating the findings of 3-year spending reviews cycles into the budgetary cycle. Under the RRP, Italy strengthened the national framework for spending reviews and implemented yearly reviews over the 2023-2025 period. However, the process still involves across-the-board spending cuts leaving margins for a genuine expenditure evaluation with evidence-based reallocation. Under the MTFSP, efforts are expected to intensify with the preparation of monitoring and assessment plans, aimed at improving the efficiency of public spending. The EU Technical Support Instrument (TSI) has provided assistance for performance management.

Accrual accounting improves transparency over a public body's financial position and performance and can support sustainability and intergenerational equity. Most (14) Member States have implemented accrual accounting across the general government sector. Italy is among the five Member States which are set to shift to a system of accrual accountings by 2030, building on the preparatory steps implemented under its RRP ([82]). However, currently Italy still lags behind the EU average (see Table A2.3) ([83]).

Implementation of the reforms and investment underpinning the extension of the adjustment period

The CSRs for Italy also call for implementing the set of reforms and investment underpinning the extension of the adjustment period. This set is composed of commitments from the RRP, commitments extending previously existing RRP measures, as well as some additional commitments of reforms and investment. Taking into account the information provided in the Annual Progress Report, Table A2.4 shows the implementation status of the set of reforms and investments due in 2025 and the first half of 2026.

([82]) Report on public accounting in the EU (COM(2025)746 and accompanying Staff Working Document SWD(2025)396). Countries with an accounting maturity of 70% or more in relation to International Public Accounting Standards are deemed to apply accrual accounting.

([83]) Annexes 3.1 and 3.4 of SWD(2025)396.

Table A2.4: **Implementation of Reforms and Investments underpinning an extension**

Measure	Key steps	Recommended implementation date	COM's assessment 2026
Reforms and investment in the area of justice Adding to RRP milestones and targets related to M1C1.R1.4 - Reform of civil justice	RRP milestones and targets related to M1C1.R1.4 - Reform of civil justice*	Q4-2021; Q1-2024; Q4-2024; Q2-2026	Completed
	Ensure adequate personnel for the office of trial and the technical administrative personnel	Q4-2026	
Reforms and investment in the area of tax administration Adding to RRP milestones and targets related to M1C1.R1.12 - Reform of the tax administration	RRP milestones and targets related to M1C1.R1.12 - Reform of the tax administration*	Q4-2021; Q2-2022; Q4-2022; Q2-2023; Q4-2023; Q2-2024; Q4-2025; Q2-2026	Reported as completed – under assessment**
	Achievement of annual performance targets that progressively ensures a reduction in VAT repayment times	Q4-2025	Completed
	Strengthen the fight against tax evasion resulting from omitted declarations, by (i) in the event of detected tax evasion, removing tax advantages ("compensazione orizzontale", "rimborsi di imposte", "regimi premiali") and, where relevant, suspending the exercise of the public concessions; (ii) integrating national short-term rental codes into the databases for tax risk analyses conducted by the Revenue Agency; (iii) introducing compulsory connections between automatic cash registers and electronic payments for all businesses; (iv) requiring traceable means of payments for the tax deductibility of expenses related to transport, food and accommodation	Q4 2026	Completed
Reforms and investment in the area of business environment Adding to RRP milestones and targets related to M1C2.R2 - Annual Competition Laws	RRP milestones and targets related to M1C2.R2 - Annual Competition Laws*	Q4 2022; Q4 2023; Q4 2024; Q4 2025	Reported as completed – under assessment**
	Increase public R&D spending	Q4 2025; Q4 2026	Eurostat's statistics available until 2024. Preliminary estimates provided by Italian authorities suggest the target appears to be on track to be met.
	Adoption of Annual Competition Laws	Q4 2026	
	Adoption of a framework law on SMEs on annual basis, based on an impact assessment, and entry into force of the implementing instruments	Q4 2026	
Reforms and investment in the area of public administration and childcare Adding to RRP milestones and targets related to M1C1.R1.9 - Reform of the public administration	RRP milestones and targets related to M1C1.R1.9 - Reform of the public administration*	Q2-2021; Q4-2021; Q2-2022; Q4-2022; Q2-2023; Q4-2023; Q2-2024; Q4-2024; Q2-2025; Q2-2026	Completed
	Implementation of vertical mobility	Q4 2026	
	Implementation of horizontal mobility	Q4 2026	
	Valorization of performance-based framework	Q4 2026	
Reforms and investment in the area of public expenditure Adding to RRP milestones and targets related to M1C1.R1.13 - Reform of the spending review framework	RRP milestones and targets related to M1C1.R1.13 - Reform of the spending review framework*	Q4 2021; Q2 2022; Q4 2022; Q4 2023; Q2 2024; Q2 2025; Q2 2026	Completed
	Reform of the framework for the control of public expenditure for central public administrations, providing for enhanced financial responsibility of administrations for the management of resources as well as strengthened programming and enhanced monitoring and evaluation of policy outputs and impacts	Q1 2026	Completed
Reforms and investment in the area of taxation	Reduction of the labour tax wedge	Q4 2026	

The progress of each backward-looking key step (i.e., those scheduled for completion by 30 April 2026) is either classified as 'completed' or factual information is provided. The status of forward-looking key steps in 2026 not yet completed remains blank and those due after December 2026 do not appear in the table, as these will be assessed by the Commission in future Country Reports.

** These key steps correspond to milestones and targets of Italy's RRP. For milestones and targets which were due by Q4 2025 the assessment is still pending in the context of the 9th payment request under the RRF and the table does not prejudge its assessment.

Source: Annual Progress Report of Italy and Commission's assessment.

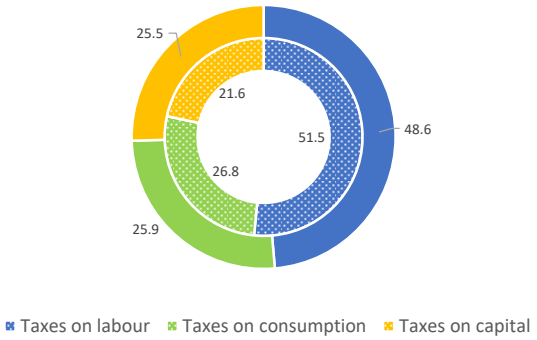
This annex provides an indicator-based overview of Italy's tax system. It includes information on: (i) the tax mix; (ii) competitiveness and fairness aspects of the tax system; and (iii) tax collection and compliance. The 2025 country-specific recommendations for Italy highlighted challenges in making the tax system more conducive to growth (by further fighting tax evasion, reducing the tax wedge, streamlining tax expenditures including environmentally harmful subsidies, and updating cadastral values) while ensuring fairness. In addition, in the context of its medium-term fiscal-structural plan (MTFSP) Italy committed to completing key steps of the above tax reforms, by Q4-2028.

The tax burden in Italy has remained steadily above the European average for the last 10 years. In 2024, the tax burden increased by 1.2 pps from 2023, to 42.4% of GDP, against an EU average of 39.4% (see Table A3.1), with the largest contribution still coming from labour taxation. Labour taxes as a percentage of GDP were also slightly above the EU average.

Property taxation in Italy is also above the EU-27 average (2.2% vs. 1.8% of GDP). However, first residences are exempt for almost all property classes, and cadastral values have not been systematically brought closer to market values yet. Still, Italy is implementing the update of cadastral values for properties not yet included in the register and for buildings that have benefitted from public schemes for energy efficiency and/or house renovation interventions (see Annex 16).

Environmental tax revenues increased in 2024 and environmentally harmful subsidies (EHS) remain sizable. Revenues from environmental taxes increased to 2.75% of GDP in 2024 (from 2.53% in 2023) as a consequence of an increase in energy taxes during the year. The tax on the single use plastics has been delayed for the 8th time until January 2027. Based on the national yearly review, EHS were estimated at EUR 25.34 billion in 2024, of which 19.62 billion were fossil-fuel subsidies ([84]). Recent measures reduced EHS by EUR 4.6 billion, in line with Italy's commitment under the recovery and resilience plan ([85]). Despite this progress, the overall amount of EHS remains sizable. The 2026 Decree-Law (so-called "Bollette") introduces measures that, although being intended as temporary, are expected to increase the level of EHS ([86]). For company cars, there is further scope for reducing tax benefits for endothermic vehicles, which still receive favourable tax treatment, including deductions, although the recent reform for in-kind benefits has increased the price signal differential treating more favourably zero-emission vehicles and plug-in hybrids.

Graph A3.1: **Tax revenue by economic function in 2024, Italy (outer ring) and EU-27 (inner ring)**



Source: Taxation Trends Data, DG TAXUD

Corporate tax revenues as a share of GDP have increased in the last 20 years, despite a decline in the corporate tax rate over this period. Italy's top statutory corporate income tax (CIT) rate of 24% (+3.9% IRAP tax rate ([87])) is among the highest in the EU (where the average CIT rate is around 21%). Italy's forward-looking effective average tax rate (23.9%) is also above the EU average of around 19%. The 2025 Budget Law extended a tax benefit temporarily introduced for 2024 to 2025-2027. This benefit includes a greater tax deduction for the cost of some new

([84]) MASE, 2025, Relazione alle Camere e al CITE, Table 2, p.26.

([85]) In particular, the 2025 and 2026 Budget laws provided for: (i) eliminating the reduced VAT on waste landfill disposal by raising it from 10% to 22%; (ii) remodulating the taxation of company cars as fringe benefits in favour of electric vehicles with the aim of encouraging the renewal of company fleets; and (iii) eliminating the gasoline/diesel tax differential.

([86]) Decree-Law No. 21 of 20 February 2026, converted into law No. 49 of 8 April 2026, Link.

([87]) Italian corporate entities are subject to a corporate income tax (24%) and to a regional productive activities tax (known as imposta regionale sulle attività produttive or IRAP) of 3.9%, where the regions have the right to increase the rate, by up to 0.92 pps, also differentiating it by sectors of activity or categories of taxpayers.

Table A3.1: **Taxation Indicators**

		Italy					EU-27				
		2019	2022	2023	2024	2025	2019	2022	2023	2024	2025
Tax structure	Total taxes (including compulsory actual social contributions) (% of GDP)	42.2	41.7	41.2	42.4		39.9	39.7	39.0	39.4	
By tax base	Taxes on labour (% of GDP)	21.3	20.3	20.3	20.6		20.6	20.1	19.9	20.3	
	of which, social security contributions (SSC, % of GDP)	13.2	12.7	12.3	12.5		13.0	12.7	12.7	13.0	
	Taxes on consumption (% of GDP)	11.5	11.0	10.7	11.0		11.2	10.9	10.5	10.6	
	of which, value added taxes (VAT, % of GDP)	6.2	6.9	6.5	6.6		7.1	7.4	7.1	7.1	
	Taxes on capital (% of GDP)	9.4	10.4	10.2	10.8		8.1	8.7	8.5	8.5	
Some tax types	Personal income taxes (PIT, % of GDP)	11.8	11.3	11.7	12.4		9.6	9.4	9.3	9.6	
	Corporate income taxes (CIT, % of GDP)	1.9	2.7	2.7	2.7		2.6	3.2	3.2	3.1	
	Total property taxes (% of GDP)	2.3	2.3	2.1	2.2		2.2	2.1	1.9	1.8	
	Recurrent taxes on immovable property (% of GDP)	1.4	1.3	1.3	1.3		1.2	1.0	0.9	0.9	
	Environmental taxes (% of GDP)	3.4	2.3	2.5	2.7		2.6	2.1	2.1	2.1	
	Effective carbon rate in EUR per tonne of CO_2 equivalents	na	na	100.1	na		na	na	84.8	na	
Progressivity & fairness	Tax wedge at 50% of average wage (single person) (*)	32.3	31.7	30.1	29.5	30.0	32.4	31.6	31.5	31.5	31.6
	Tax wedge at 100% of average wage (single person) (*)	43.9	42.9	42.6	41.9	42.5	40.1	39.7	39.9	39.9	40.0
	Corporate income tax - effective average tax rates (1) (*)	23.9	23.9	23.9	23.9		20.0	19.2	19.0	19.3	
	Difference in Gini coefficient before and after taxes and cash social transfers (pensions excluded from social transfers) (2) (*)	6.5	7.9	7.6	7.3		7.8	8.0	7.9	7.8	
Tax administration & compliance	Outstanding tax arrears: total year-end tax debt (including debt considered not collectable) / total revenue (in %) (*)	200.7	181.0	180.8	na		31.8	32.6	30.7	na	
	VAT gap (% of VAT total tax liability, VTTL) (**)	19.3	14.5	15.0	15.3		10.5	7.3	8.2	na	

(1) Forward-looking effective tax rate (KPMG).
(2) A higher value indicates a stronger redistributive impact of taxation.
(*) EU-27 simple average.
(**) Forecast value for 2024. EU-27 refers to the median value. For more data on tax revenues as well as the methodology applied, see the Data on Taxation Trends webpage.
Source: European Commission, OECD, ISPRA.

employees, ranging from 120% to 130% depending on the category of newly hired employees (e.g. women, young workers, former beneficiaries of the citizenship income benefit). The reduction in the *IRES premiale* CIT rate - from 24% to 20% - applicable to CIT taxpayers that meet a set of pre-defined conditions was not rolled over to 2026 ([88]).

Italy's R&D investment as a share of GDP is much lower than the European average. In 2024, Italy's R&D expenditure as a percentage of GDP stood at 1.38% compared with an EU average of 2.24% ([89]). This is mainly due to business-sector-related R&D, representing only 0.79% of GDP against an EU average of 1.49%. Thus, public funds support business investments in R&D mainly through tax credits and the new hyper-depreciation regime replacing the previous Transition 4.0/5.0 credits as well as by facilitating access to credit for micro, small and medium-sized enterprises. Other significant incentives pertain to the support for manufacturing capacity for net-zero technologies (EUR 1.5 billion) ([90]), and for the *ZES Unica* tax credit for special economic zones (EUR 2.3 billion in 2026).

The labour-tax burden in Italy remains high despite recent reforms. In 2025, the 2024 reduction of personal-income tax brackets from four to three was made permanent as part of Italy's commitments in the MTFSP, and the basic tax allowance for dependent workers was increased to EUR 8 500. Moreover, the 2026 Budget Law has reduced the tax rate for the second tax bracket (income between EUR 28 000 and EUR 50 000) from 35% to 33%. A mechanism to neutralise the tax benefit arising from the reduction in the tax rate (by a flat reduction of EUR 440) has been introduced for taxpayers with a total income exceeding EUR 200 000. As from 2026, the lump-sum tax regime for foreign-sourced income of non-Italian tax residents in Italy is further increased from EUR 200 000 per year to EUR 300 000.

([88]) i) at least 80% of profits registered for 2024 must be retained in the firm as reserves; ii) at least 30% of these retained profits, and no less than 24% of the profits registered in 2023, must be used to finance new investments in instrumental goods for productive structures located in Italy, those falling under the categories of 'Transition 4.0 and 5.0', with a minimum investment amount of EUR 20 000.

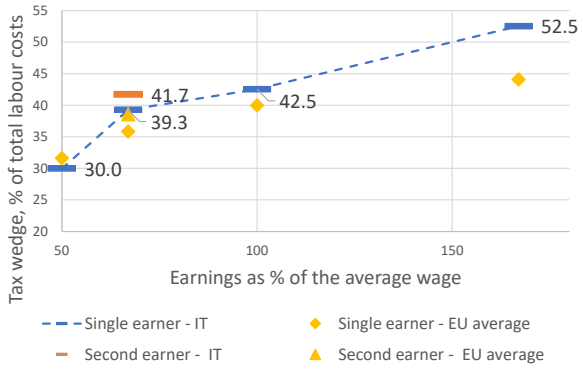
([89]) R&D expenditure - Statistics Explained - Eurostat.

([90]) Commission approves €1.5 billion Italian State aid scheme.

The labour-tax wedge ([91]) for single persons at different wage levels (67%, 100% and 167% of the average wage) was substantially higher in Italy than the EU average in 2025 (see Graph 3.2). At the same time, it was lower than the EU average for earners of low wages at 50% of the average wage. Second earners at a wage level of 67% of the average wage, whose spouses earn the average wage, also faced a tax wedge that was clearly higher than the EU average. The tax wedge for second earners was higher than the tax wedge for single persons at the same wage level, but this difference was slightly less pronounced than for the EU average. The 2026 Budget law introduced changes to already existing and new temporary flat personal income taxes on salary increases, productivity bonuses and overtime allowances. These changes further complicate the tax system and erode the tax base.

In Italy, the fiscal drag in recent years was sizeable but recent measures partly compensated its negative impact. The loss to employees and pensioners related to the fiscal drag in recent years was more than compensated by the tax reforms introduced since 2022, which aimed at protecting low real wages against the inflation registered in 2022 and 2023. EUROMOD simulations carried out by the JRC show that the overall impact of these recent measures has been slightly progressive ([92]). Overall, Italy's labour tax burden as measured by the difference of the tax wedge between single persons at 167% and 50% of average wage is relatively progressive. At the same time, the tax-and-benefit system reduced income inequality (as measured by the corresponding change in the Gini coefficient) by 7.3 pps in 2024, which was below the EU average of 7.8 pps ([93]). Inequality of total disposable household income remains high, with the Gini coefficient for Italy at 32.2% compared to an EU average of 29.1%.

Graph A3.2: **Tax wedge for single and second earners as a % of total labour costs, 2025**



Note: The second earner tax wedge shows a household's tax wedge resulting from the wage that a second earner taking up a job at 67% of the average wage receives. It does not show the total tax wedge of the household. The household is assumed to have a first earner at 100% of the average wage and no children. For the methodology of the tax wedge for second earners, see OECD (2024), Taxing Wages 2024.
Source: European Commission

The tax system does not incentivise the unemployed to enter to work, especially at the lowest wage levels. Recent EUROMOD simulations by the JRC show that participation tax rates (PTR) in Italy are sizeable ([94]). In 2025, the PTR for employees averaged across the whole income distribution was 75.2% ([95]), mainly due to a significant withdrawal of benefit (47%). In addition, the PTR reached 90% for the first quintile and decreasing in the others, reflecting strong

([91]) The tax wedge is an indicator of the tax burden on labour that can be assessed at various levels of earnings. It is calculated as the sum of personal income tax, employee social-security contributions, employer social-security contributions and other mandatory contributions, net of cash family benefits where relevant, expressed as a percentage of total labour costs (composed of the gross wage plus employer social-security contributions). In other words, the tax wedge measures the gap between the total cost of employing a worker and that worker's net earnings, as a share of total labour costs. Tax wedge data in the 2026 country reports are calculated by the Joint Research Centre of the European Commission and based on the EUROMOD model, while in the past country reports they were based on the OECD tax and benefit model. While the underlying methodology is very similar, differences in the assumptions can lead to different results between both models.

([92]) The simulation was performed by the European Commission, Joint Research Centre, based on the EUROMOD model, J2.0+.See also Annex 12.

([93]) The Gini coefficient measures the extent to which the distribution of income within a country deviates from a perfectly equal distribution. A coefficient of 0 expresses perfect equality where everyone has the same income, while a coefficient of 100 expresses full inequality where only one person has all the income.

([94]) PTR shows the share of earnings effectively 'taxed away' when moving from unemployment to employment, due to the combined effect of foregone benefits and higher taxes or contributions. The simulation was performed by the European Commission, Joint Research Centre, based on the EUROMOD model, J2.0+.

([95]) Unweighted EU average was 54.1%. See Annual Report on Taxation 2026 by European Commission for a broader discussion on work incentives in the EU-27.

unemployment protection for low incomes. In practice, potential withdrawal of means-tested benefits after certain income threshold drives lower work incentives for the first quintile.

The number of tax expenditures (TEs) in Italy is still very high and their impact in terms of forgone revenues is larger than in previous years ([96]). As reported by the national Commission for Fiscal Expenditures (CFE), the total number of TEs decreased from 2024 to 2025, although they led to increased forgone revenues. For 2025 TEs are estimated to have led to foregone revenues amounting to EUR 119 billion ([97]), representing about 11.4% of total tax revenues collected and 5.3% of GDP. The Global Tax Expenditure Database ([98]) also estimates the TEs at 5.3% of GDP in 2025, up from 4.8% in 2024. However, in 2025, Italy has begun some rationalisation of tax expenditures by introducing a cap on PIT tax deductions, based on family members and income, and reducing the rates of tax credits for energy efficiency.

Housing subsidies dominate TEs, while systemic inefficiencies persist. According to the Annual Tax Expenditures Report, the largest tax expenditures for 2025 are under the heading 'Housing and Urban Planning' with approximately EUR 63.5 billion, followed by 'Competitiveness and Business Development' (EUR 19.6 billion) and 'Social Rights, Social Policies, and Family' (EUR 8.3 billion). The CFE's analysis also highlights that the Italian system of tax expenditures is characterised not only by the significant amounts of expenditure and uncollected revenues — as deviation from the normal regime and legal standards — but also by the very high number and variety of expenditure measures ([99]). In its MTFSP, Italy has committed to reducing revenue losses related to tax expenditures.

Structural reforms have supported the longer-term improvement in tax compliance. Since 2019, Italy has taken several measures to improve tax compliance, also under its recovery and resilience plan (RRP). These include: extending mandatory e-invoicing (*sistema di interscambio*), which now covers all transaction types; increasing the data and analytical tools available for targeting audits and controls (including using daily data from electronic payments); and introducing penalties for refusing electronic payments.

Despite these efforts, the revenue loss related to tax evasion remains high. The latest national estimates ([100]) put revenue loss from tax evasion in 2023 at between EUR 107-112 billion. The 2026 Budget law includes the adoption of three additional measures planned under the RRP: data from electronic invoicing have been made directly available to the collecting agent; tax offsetting is now only allowed in cases where unpaid tax liabilities do not exceed EUR 50 000; a new fast-track VAT assessment procedure has been introduced in cases where electronic invoices were issued but no annual VAT returns were filed. The 2026 Budget law also introduced a mandatory 1% withholding tax on PIT and VAT in B2B transactions aimed at incentivising tax compliance. This tax will take effect from 2029.

In Italy, the VAT compliance gap declined almost continuously between 2019 and 2023, falling by more than 4 pps from 19% to 15% ([101]) amounting to EUR 25 billion in 2023. The rising share of digital payments, also supported by government measures., contributed to reducing the gap. Despite the steady improvements over the last 5 years, Italy still ranked only 20th among EU countries in 2023, with a VAT compliance gap still considerably higher than the EU average of 9.5%.

Estimates on the size of the Italian PIT and CIT gap are regularly computed and published. The CIT gap in Italy decreased by -0.8 pps between 2022 and 2023, from 18.5% to 17.7% of potential CIT revenue, but increased by

([96]) European Commission: Directorate-General for Taxation and Customs Union, Mind the gap – Challenges and opportunities for tax compliance and tax expenditures in the EU – Italy, Publications Office of the European Union, 2025.

([97]) Rapporto annual sulle spese fiscali 2024, Link.

([98]) Unlike the official sources, the GTED considers the spent amounts instead of the budgeted amounts.

([99]) https://www.mef.gov.it/export/sites/MEF/documenti-allegati/2024/RSF-2024.pdf.

([100]) Relazione-evasione-fiscale-e-contributiva-2025_Aggiornamento_11_12.pdf.

([101]) See European Commission, Synestia, Poniatowski, G., Bonch-Sokolovsky, M., Śmietanka, A. et al., VAT gap in Europe – Report 2025, Publications Office of the European Union, Luxembourg, 2025.

EUR 0.76 billion in nominal terms (EUR 9.6 billion in 2022 vs EUR 10.3 billion in 2023) ([102]).

While PIT compliance in Italy is continuing to improve slightly, tax evasion remains high. Of the EUR 72.3 billion in tax evasion assessed in 2024, the actual recovered amount stood at EUR 12.8 billion (17.7%) ([103]). According to the *Corte dei Conti* (Court of Audit), the widespread expectation of future amnesties leads many taxpayers to postpone payments, hoping for subsequent amnesties or the possibility of evading government enforcement action. A new edition of the *Rottamazione quinques* tax settlement procedure has been provided for 2026.

To improve the efficiency of the tax system, Italy reorganised the national tax system in 2025 ([104]), including the VAT collection system ([105]). Steps towards digitalising the whole tax administration have been made, but challenges remain. Measures implemented to relieve the tax and administrative burden on SMEs include increasing the VAT registration thresholds. Although this aimed to allow micro businesses to benefit from VAT exemption, it might discourage growth of declared activities. This reorganisation affected the core activities of the agency in charge of the tax collection (AdER), including the automatic write-off of qualifying tax receivables that remain uncollected by 31 December of the fifth year. While the measure aims at reducing the stock of uncollectable arrears, it should be accompanied by provisions to accelerate tax collection to avoid ultimately rewarding non-compliant behaviours.

The stock of tax arrears in Italy remains one of the highest among the EU Member States. However, the 2024 financial year was marked by a record level of tax recovery, amounting to a total of EUR 33.4 billion, 5.4 of which derived from the *Rottamazione-quater* extraordinary measures facilitating settlement procedures and 4.5 billion from activities promoting compliance ([106]).

Italy is deploying investments under the RRP to enhance the digitalisation of tax administration, strengthening digital tax processes and improving tax compliance. Since 2023, Italy has automatically prefilled VAT returns with data that it has collected. However, pre-filing for CIT returns is not yet in place. The e-filing rates for PIT, CIT and VAT returns are very high (100% in 2023) and above the EU average ([107]). The high e-filing rate in Italy indicates that the country is well advanced in the digitalisation process. It likely results in a lower compliance burden for Italian taxpayers compared to the EU average. RRP investments have been largely used to enhance digital tax processes, to faster legal enforcement mechanisms and recovery through courts and, to improve administrative capacity. To achieve these goals, the staff of the Revenue Agency will be increased by 1 000 units in 2026 and 1 300 in 2027 ([108]).

([102])CIT gap figures refer to the IRES - *imposta sul reddito / sulle società* ('income/corporate tax' in English). Contextually, the IRAP (imposta tegonale sulle attivitá produttive) gap increased by 1 pp.

([103])https://www.corteconti.it/Download?id=aea876c4-e004-4c06-b3b3-a46098e6c7be

([104])Legislative Decree No 110 of 29 July 2024.

([105])Italy's 2025 draft budgetary plan.

([106])Agenzia delle Entrate press communication.

([107])International Survey on Revenue Administration data.

([108])Piano integrato di attivita' e organizzazione 2026-2028.

Italy's research and innovation (R&I) ecosystem still faces challenges to translate scientific excellence into innovation, despite recent improvements. For Italy, the 2025 country-specific recommendation (CSR) highlighted challenges in supporting innovation. These could be met by further strengthening business-academia linkages, innovation procurement, corporate venture capital and opportunities for talents and by boosting the role of universities in innovation through greater focus on commercialisation of research results and better career paths for researchers. According to the 2025 European Innovation Scoreboard, Italy is still a 'moderate innovator'. Its performance is 93% of the EU average ([109]) while its R&D intensity ([110]) has stagnated over the last decade, amounting to 1.38% in 2024, far below EU levels (2.24%). Italy's weak business dynamism and the prevalence of mid-tech industries contribute to low business investment in R&D. Start-ups still face challenges in attracting venture capital and business-academia linkages require strengthening, with persisting disparities among regions ([111]). These factors, coupled with limited R&D public funding and inadequate opportunities for researchers and talents, hinder the effective translation of research outcomes into marketable innovations. Italy has recorded a strong increase in the uptake of digital technologies by SMEs. Additionally, the country plays a crucial role in the deployment of advanced digital technologies and infrastructure.

Excellent science

Despite improvements to Italy's scientific performance over time, public investment in R&D is subdued, hampering further consolidation of the public science base. The country's share of research publications among the top 10% most-cited worldwide stood above the EU average in 2022 ([112]) (10.6% vs 9.4%), but has stagnated over the last five years. Scientific excellence could be further boosted by increasing the trend in public R&D intensity ([113]), which amounted to 0.57% of Italy's GDP in 2024, still below the EU average of 0.72% ([114]). Public funding of tertiary education, which also drives higher education expenditure on R&D, is in real terms well below the pre-2008 financial crisis levels ([115]). A new reform included in Italy's recovery and resilience plan (RRP) ([116]) aims to improve the planning and predictability of research funding, including through the merger of different funding instruments of competitive nature ([117]). However, ensuring the research system's financial sustainability beyond the end of RRP support in 2026 remains a crucial challenge ([118]). In its medium-term fiscal-structural plan, Italy committed to an increase in public R&D intensity to 0.6% of GDP by 2029.

Research careers in Italy are still insufficiently attractive, despite an increase in the number of public-sector researchers.

([109])European Commission, 2025, *European Innovation Scoreboard, country profile: Italy* ec_rtd_eis-country-profile-it.pdf. The scoreboard provides a comparative analysis of innovation performance in EU countries, including the relative strengths and weaknesses of their national innovation systems (also compared with the EU average).

([110])Defined as gross domestic expenditure on R&D as a percentage of GDP.

([111])European Commission, 2025, *Regional Innovation Scoreboard, country profile: Italy* https://ec.europa.eu/assets/rtd/ris/2025/ec_rtd_ris-regional-profile-it.pdf. This scoreboard is a regional extension of the European Innovation Scoreboard, assessing the innovation performance of European regions.

([112])Last available year.

([113])These data include the government and the higher education sector.

([114])These data include the government and the higher education sector.

([115])Andini, M., Bertolotti, F., Citino, L., D'Amuri, F., Linarello, A., & Mattei, G., 2025, 'Ricerca, innovazione e trasferimento tecnologico in Italia' *Occasional Papers No. 954*, Banca d'Italia.

([116])Reform M4C2-4bis 'Three-year plan for the financing of research activities', included in Italy's RRP amendment approved in autumn 2025.

([117])Including those funding 'research projects of relevant national interest' (PRIN).

([118])Consiglio Nazionale delle Ricerche, 2025, *Relazione sulla ricerca e l'innovazione in Italia: Analisi e dati di politica della scienza e della tecnologia*, 5th ed., CNR Edizioni.

The number of researchers employed by the public sector continues to fall short of the EU average in per capita terms (4.1 researchers per thousand of the active population vs EU average of 4.3 in 2024) ([119]). In recent years, however, there has been an upward trend thanks to RRP measures funding the hiring of fixed-term researchers ([120]). The long-term impact of this initiative may be limited once the RRP concludes, despite some measure included in the 2026 budget. Additionally, research careers are still not attractive, especially at early-career stages, due to both job insecurity and low salaries ([121]). Italy's recent policy action on research careers ([122]), such as the introduction of additional contract types for researchers ([123]), might not contribute to reducing job insecurity or to increasing the attractiveness of these careers, which are crucial to the 2025 CSR on *improving the career path of researchers*.

Business innovation

Business R&D intensity is stagnating, as Italy's economy mainly relies on small and medium-sized enterprises that principally operate in traditional or mid-tech sectors. Business enterprise expenditure on R&D as a percentage of GDP has stagnated over the last 10 years: in 2024, it was far below the EU average (0.79% vs 1.49%) and this gap has widened since 2020, as shown in Graph A4.1. R&D activities are mainly carried out by large firms ([124]). While SME expenditure on R&D as a percentage of GDP has slightly increased over the last decade, it remained at almost half the EU average as a percentage of GDP in 2023 (0.22% vs 0.47%). Weaknesses in business dynamism leads to slow adoption of new technologies ([125]), with significant differences among regions (see Annex 19). Business-sector R&D in Italy remains concentrated in mid-tech industries such as mechanics and transport ([126]), even though since 2015 the fastest-growing innovation areas globally are digital communications and computer technology. This is reflected in patents: in 2024, only 3% of Italy's European Patent Office applications were in these high-tech fields, much lower than the rest of the world (17%) ([127]). Additionally, Italy lacks the presence of global leaders in R&D ([128]). According to the 2025 EU Industrial R&D Investment Scoreboard ([129]), only 21 Italian companies ranked among the top 2 000 R&D investing companies worldwide in 2024 ([130]), slightly more than in 2023 (17 companies). The highest-placed company ranked 105th.

([119])Eurostat, 2023, Researchers (full-time equivalents) employed by the public sector (government+higher education institutions) per thousand of the active population.

([120])The RRP's M4C2 component 'From research to business' has supported researchers through investments such as 'research projects of significant national interest (PRIN)', 'Partnerships extended to universities, research centres, companies and funding of basic research projects', and one investment specifically targeting young researchers.

([121])Civera, A., Lehmann, E., Meoli, M., Paleari, S. and Brioschi, M.S., 2025, 'How to Protect the Taste for Science? Working Conditions in European Higher Education Systems', *Higher Education Quarterly*, 79: e12591. https://doi.org/10.1111/hequ.12591.

([122])Decree Law 45, 7 April 2025.

([123])Such as *incarichi post-doc* (post-doc assignments) and *incarichi di ricerca* (research assignments).

([124])ISTAT, 2025, *Ricerca e sviluppo (R&S) in Italia Anni 2023–2025*.

([125])International Monetary Fund European Dept, 2025, 'Italy: Selected Issues', *IMF Staff Country Reports 2025*, 202, https://doi.org/10.5089/9798229018241.002.

([126])Banca d'Italia, 2025, *Relazione annuale sul 2024*.

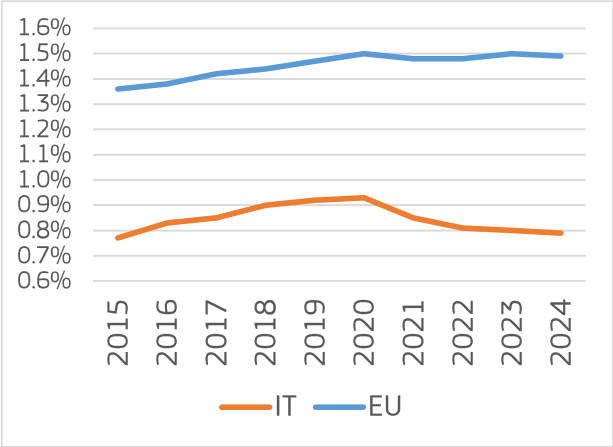
([127])Andini, M., Bertolotti, F., Citino, L., D'Amuri, F., Linarello, A., & Mattei, G. (2025), 'Ricerca, innovazione e trasferimento tecnologico in Italia', *Occasional Papers No. 954*, Banca d'Italia, based on EPO data for the period 2015-2024.

([128])Banca d'Italia, 2025, *Relazione annuale sul 2024*.

([129])Elaboration based on the 2025 EU Industrial R&D Investment Scoreboard (data refer to 2024), JRC Publications Repository - The 2024 EU Industrial R&D Investment Scoreboard.

([130])Compared with 674 from the United States, 109 from Germany and 51 from France.

Graph A4.1: **Business R&D intensity 2015-2024**



Source: DG Research and Innovation, based on Eurostat

The uptake of digital technologies by firms is increasing remarkably, and Italy is also making efforts to advance its digital technologies and infrastructure. The country performs well above the EU average in its level of basic digital intensity for SMEs, reaching 79.5% ([131]) in 2025 and positioning itself among the best performers in the EU. However, the situation differs when advanced technologies are considered. While Italy shows strong performance in cloud adoption (68% of enterprises) and is broadly in line with the EU in data analytics (42.7% of enterprises), AI uptake remains limited (16.4% of enterprises). Overall, progress is uneven: despite recent improvements in AI adoption, the pace remains insufficient to fully close the gap with the EU average. To support further digitalisation of businesses, Italy has put in place a range of policy and funding measures. These include financial incentives and tax credits supporting digital transformation of firms, such as the RRP investment Transition 4.0 and Transition 5.0. Likewise, targeted measures are in place to foster AI adoption, cloud uptake and data use, notably through competence centres and innovation hubs ([132]). On semiconductors, the implementation of the Important Projects of Common European Interest (IPCEI) on Microelectronics and Communication Technologies is complemented by national incentives for companies operating in the semiconductor value chain ([133]). In parallel, Italy continues to support the development of interoperable and accessible European data processing technologies through its participation in the IPCEI on Next Generation Cloud Infrastructure and Services.

Despite increases, Italy's public support for business innovation remains below EU levels. The total public sector support for business expenditure in R&D as a percentage of GDP was below the EU average in 2022 ([134]) (0.11% vs 0.21%), declining from its peak of 2018 (0.26%). Italy's R&D tax incentives are intended to reduce firms' costs, instead of offering companies income-based support ([135]), and the complex legislative framework has changed multiple times, leading to uncertainty surrounding its precise scope of application ([136]). Direct public support to business R&D includes measures such as the innovation agreements, also supported by the RRP, which focus on industrial research. Italy has recently mapped its tax incentives, including those specifically linked to research and innovation, as part of a RRP measure aiming to streamline measures in this field ([137]). Simplifying the incentive framework and guaranteeing its long-term predictability could be beneficial to ensuring effective public support to business innovation.

Italy still faces key challenges to improve science-business linkages, despite growing attention to knowledge valorisation and technology transfer. While the number of public-private scientific co-publications has been on an upward trend since 2018 and was above the EU average in 2024 (9.1% vs 7.6%) ([138]), the country's research valorisation is still a two-tier system. There is a significant gap between the five best-performing entities and a large group of

([131])As share of SMEs.

([132])Including measures funded under the RRP (in particular: measure M4C2.I2.3: strengthening and sectorial/territorial extension of technology transfer centres by industry segments).

([133])'Sportello semiconduttori'.

([134])Last available year.

([135])Income-based tax incentives award successful R&I investments through measures such as reduced tax rates.

([136])Bertolotti, F., Citino, L., Linarello, A., Lotti, F., Padovani, E., Pisano, E., Romanelli, M., Sanelli, A., Scoccianti, F., Sette, E. and Zangari, E., 2024, 'Innovazione e politiche di sostegno pubblico: un'analisi comparata' (Innovation and Public Support Policies: A Comparative analysis), *Bank of Italy Occasional Paper No. 898*.

([137])https://www.mimit.gov.it/it/pnrr/progetti-pnrr/pnrr-riforma-degli-incentivi.

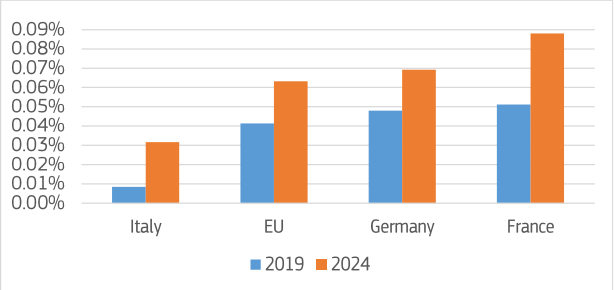
([138])Public-private scientific co-publications as % of total number of publications.

universities and research organisations lagging behind. The creation of public research spin-offs has sharply declined over time, with 86 new companies created in 2023 (compared with 162 in 2018). Spin-off creation is mainly concentrated in northern Italy ([139]). The Ministry of Enterprises and Made in Italy has put forward measures targeting technology transfer offices ([140]), but staffing is still significantly below EU levels (5.7 vs 11 FTEs) ([141]), as is their capacity to generate revenues from their patents ([142]). Small technology transfer offices could benefit from stronger coordination of their activities to promote critical mass, while the best-performing ones could enjoy a more autonomous and flexible set-up, such as that of university foundations ([143]). In line with the 2025 CSR on boosting the role of universities in innovation by increasing their focus on commercialisation of research results and on strengthening business-academia linkages, Italy is preparing a national strategy for technology transfer and knowledge valorisation as part of its annual competition law for 2025. This reform has the potential to introduce a more structured, long-term approach to valorising research results ([144]).

Entrepreneurial dynamism

While Italy's start-up ecosystem has grown over time, venture capital investment still lags behind EU peers. The number of innovative start-ups in Italy increased by 23% between 2019 and 2023 ([145]). Although Italy's venture capital (VC) market has grown over the past decade ([146]), it remains small and insufficient for start-ups: in 2024, VC spending was only 0.03% of GDP, far below the EU average of 0.06% and the levels in Germany and France (Graph A4.2). The main causes lie in the limited dynamism of Italy's economy, the small size of Italian VC players and the delayed start of public intervention compared with other EU countries ([147]). Additionally, the country's economic structure has an above-to-average reliance on bank financing compared with market-based financing, which has a negative impact on access to finance for R&D and knowledge intensive-activities ([148]). In its 2024 competition law, Italy introduced a more targeted definition of 'innovative start-up' as well as measures to increase the participation of institutional players in the VC market. Measures included tax incentives on the capital gains made on VC investments and a tax credit for registered incubators and accelerators. Implementation of these measures could contribute to funnelling resources to young firms (see Annex 6).

Graph A4.2: **Venture capital share as % of GDP: 2019 vs 2024 (1)**



(1) Data calculated as a three-year moving average
Source: DG Research and Innovation, based on Eurostat

Italy has introduced measures to improve the regulatory framework for R&I, but innovation procurement practices require more effective action. 'Sperimentazione Italia', a regulatory sandbox, was introduced in 2020 and received three applications in 2024, mainly for the

([139])Network per la Valorizzazione della Ricerca (NETVAL), 2025, *XX Rapporto* 'Un'occasione persa?'.

([140])Such as the calls launched to promote improvements and capacity building in technology transfer offices and the calls to fund Proof of Concept projects.

([141])Full-time equivalents.

([142])Andini, M., Bertolotti, F., Citino, L., D'Amuri, F., Linarello, A., & Mattei, G., 2025, 'Ricerca, innovazione e trasferimento tecnologico in Italia', *Occasional Papers No. 954*, Banca d'Italia, based on EPO data for the period 2015-2024.

([143])Ibidem.

([144])This milestone is also part of Italy's RRP.

([145])*Relazione annuale 2024 al Parlamento sullo stato di attuazione delle policy a sostegno di Startup e Pmi innovative*, RELAZIONE_ANNUALE_2024-finale.pdf.

([146])Gallo, R., F. Signoretti, I. Supino, E. Sette, P. Cantatore and M. Fabbri, 2025, 'The Italian Venture Capital Market', *Bank of Italy Occasional Papers, 919*.

([147])Ibidem.

([148])International Monetary Fund European Dept, 2025, 'Italy: Selected Issues', *IMF Staff Country Reports 2025*, 202, https://doi.org/10.5089/9798229018241.002.

transport sector ([149]). Reasons for the apparent lack of market attention for this instrument include administrative burden and limited information ([150]). The recently approved AI Act ([151]) also includes provisions on regulatory sandboxes. Policies on innovation procurement need further improvement, in line with the CSR 2025 on strengthening innovation procurement. Initiatives at sectoral level are limited and only a few regions ([152]) are active in this field, resulting in reduced capacity to ensure innovation procurement across the country ([153]).

Italy is lagging behind on innovative talent, especially on ICT subjects, and the entrepreneurial culture is not sufficiently developed. Tertiary education attainment is still one of the lowest in the EU (see Annex 13) ([154]) and is not conducive to increasing the country's talent pool in science and technology. While the number of new graduates in science and engineering has increased over time and has exceeded EU levels ([155]), the number of new ICT graduates was below the EU average in 2024 (Italy: 1.4 per thousand of the population aged 25-34 vs EU: 3.8). However, demand for digital professionals remains high across all sectors, with a growing emphasis on AI skills. According to a recent study measuring 10 different dimensions of entrepreneurial ecosystems across OECD countries from 2020 to 2023 ([156]), Italy's weakest performances are associated with the entrepreneurial culture and talent dimensions ([157]). In response, Italy has taken action to improve students' technological skills, including through fostering ITS academies ([158]). This is in line with the 2025 CSRs on strengthening opportunities for talents and continuing to promote postsecondary VET and in-work training in high-demand sectors to address short-term skills needs.

Entrepreneurship education in Italy remains unevenly developed and only partially connected to the country's innovation and business needs. While elements of entrepreneurship education are embedded in upper secondary curricula, Italy does not have a dedicated national strategy ([159]) or a coordinated governance framework to support the systematic development of entrepreneurial competence across education levels. Recent policy initiatives aim to strengthen students' skills in initiative-taking, risk-taking and project management, with official guidelines issued in 2018 providing orientation for secondary schools in this area. However, the notion of entrepreneurship as a transversal competence, as defined in the European key competence framework ([160]), is not yet fully embedded in curriculum design. According to European comparative evidence, the ability of entrepreneurship education to foster innovation-oriented mindsets and entrepreneurial activity may be held back by limited national coordination, the absence of dedicated support structures, and weak monitoring and evaluation mechanisms. Strengthening strategic coordination, clarifying learning outcomes, and improving data on students' entrepreneurial competences would enable entrepreneurship education to contribute more effectively to Italy's innovation-to-business ecosystem.

([149])*Relazione annuale 2024 al Parlamento sullo stato di attuazione delle policy a sostegno di Startup e Pmi innovative*, RELAZIONE_ANNUALE_2024-finale.pdf.

([150])Ranchordas, S., Vinci, V., 'Regulatory Sandboxes and Innovation-friendly Regulation: Between Collaboration and Capture', *Italian Journal of Public Law*, Vol. 1/2024.

([151])Law 132/2025.

([152])Lombardy and Sardinia.

([153])EU Innovation Procurement Observatory, 2024, *Benchmarking of national policy frameworks for innovation procurement, Italy country profile*, country-report-2024-policy-benchm-italy.pdf.

([154])Source: Eurostat (2024). Share of population aged 25-34 who have successfully completed tertiary education. Italy's data: 31.6% vs EU average 44.2%.

([155])Source: Eurostat (2024). Italy's data: 18.9 vs EU average: 16.8 per thousand of the population aged 25-34.

([156])OECD, 2025, 'Entrepreneurial Ecosystem Diagnostics', *OECD Studies on SMEs and Entrepreneurship*, OECD Publishing, Paris, https://doi.org/10.1787/7096961f-en.

([157])Scores are composite indices, with values ranging from 0-100 (100 indicates the best score). Italy's performance is 18.3 for entrepreneurial culture and 27.9 for talent, well below the OECD average.

([158])*Istituti tecnologici superiori* (Higher technology institutes).

([159])European Commission: European Education and Culture Executive Agency, Baïdak, N., Kocanova, D., Pierantoni, L. and Riiheläinen, J. M., 2025, *Entrepreneurship education at school in Europe – 2025 – Eurydice report*, Publications Office of the European Union, https://data.europa.eu/doi/10.2797/0693204.

([160])This framework defines entrepreneurship as a transversal competence, which applies to all spheres of life.

Table A4.1: **Key innovation indicators**

Italy	2010	2015	2020	2022	2023	2024	2025	EU average (1)	US
Headline indicator									
R&D intensity (gross domestic expenditure on R&D as % of GDP)	1.21	1.33	1.50	1.37	1.37	1.38	:	2.24	3.44
Science and innovative ecosystems									
Public expenditure on R&D as % of GDP	0.52	0.51	0.55	0.53	0.54	0.57	:	0.72	0.64
Scientific publications of the country within the top 10% most-cited publications worldwide as % of total publications of the country	10.32	10.78	10.86	10.56	:	:	:	9.44	12.31
Researchers (FTEs) employed by public sector (Gov+HEI) per thousand active population	2.50	2.90	3.30	3.60	3.70	4.10	:	4.30	:
International co-publications as % of total number of publications	39.52	44.95	47.56	48.04	48.00	50.11	:	57.24	:
R&D investment & researchers employed in businesses									
Business enterprise expenditure on R&D (BERD) as % of GDP	0.65	0.77	0.93	0.81	0.80	0.79	:	1.49	2.69
Business enterprise expenditure on R&D (BERD) performed by SMEs as % of GDP	0.15	0.22	0.29	0.23	0.22	:	:	0.47	0.30
Researchers employed by business per thousand active population	1.60	2.10	3.10	3.10	3.00	3.00	:	5.90	:
Innovation outputs									
Patent applications filed under the Patent Cooperation Treaty per billion GDP (in PPS €)	1.96	2.19	2.34	1.76	:	:	:	2.81	2.20
Employment share of high-growth enterprises measured in employment (%)	:	:	:	0.78	0.86	:	:	0.87	:
Digitalisation of businesses									
SMEs with at least a basic level of digital intensity % SMEs (EU Digital Decade target by 2030: 90%)	:	:	:	:	60.69	:	79.49	71.39	:
Data analytics adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	26.61	:	42.71	39.85	:
Cloud adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	55.11	:	68.05	46.69	:
Artificial intelligence adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	5.05	8.20	16.40	19.95	:
Academia-business collaboration									
Public-private scientific co-publications as % of total number of publications	6.73	7.83	8.05	8.78	9.08	9.06	:	7.62	:
Public expenditure on R&D financed by business enterprises (national) as % of GDP	0.01	0.01	0.03	0.03	0.03	:	:	0.06	0.02
Public support for business innovation									
Total public-sector support for BERD as % of GDP	0.05	0.10	0.12	0.11	:	:	:	0.21	:
R&D tax incentives: foregone revenues as % of GDP	0.00	0.05	0.06	0.06	:	:	:	0.10	0.16
BERD financed by the public sector (national and abroad) as % of GDP	0.05	0.05	0.06	0.05	0.05	:	:	0.11	:
Financing innovation									
Venture capital (market statistics) as % of GDP (calculated as a 3-year moving average)	0.01	0.00	0.01	0.03	0.03	0.03	:	0.06	:
Seed stage funding share (% of GDP)	0.00	0.00	0.00	0.00	0.00	0.00	:	0.01	:
Start-up stage funding share (% of GDP)	0.01	0.00	0.01	0.01	0.02	0.02	:	0.03	:
Later stage funding share (as % of GDP)	0.00	0.00	0.01	0.01	0.01	0.01	:	0.03	:
Innovative talent									
New graduates in science & engineering per thousand population aged 25-34	:	11.0	15.1	16.5	17.9	18.9	:	16.8	:
Graduates in the field of computing per thousand population aged 25-34	:	1.7	1.0	1.2	1.3	1.4	:	3.8	:

(1) EU average for the last available year or the year with the largest number of country data.
* Break in series
Source: Eurostat, DG JRC, OECD, Science-Metrix (Scopus database), Invest Europe, European Innovation Scoreboard.

Italy's business environment is broadly supportive but continues to be constrained by deep-rooted structural features, notably the high level of fragmentation in the productive system and persistent administrative complexity. For Italy, the 2025 CSRs highlighted challenges in growth and aggregation of SMEs and start-ups and restrictions to competition, including in local public services, business services and railways. While overall investment remains above the EU average, business investment lags, reflecting uncertainty, high energy costs, labour regulation and a structural shortfall in intangible and digital investments, particularly among SMEs, compounded by limited access to equity and venture capital financing. Italy has stepped up efforts on regulatory simplification through reforms linked to the recovery and resilience plan (RRP), including major simplification legislation and digitalisation of procedures. Yet administrative burdens, lengthy permitting processes and uneven implementation across regions remain significant obstacles for businesses. The situation on late payments has continued to improve, with shorter payment times in business-to-business transactions and measurable progress in public sector payments driven by RRP commitments, although firms still perceive public administrations as paying late, underscoring the need for sustained monitoring and enforcement. However, despite promising trends and initiatives in connectivity infrastructure, further progress is required, especially in the expansion of fibre.

Business dynamics

The structure of Italian production structure is very fragmented. 94.7% of companies have fewer than 10 employees and more than half of the workers are employed in companies with fewer than 20 employees. This slows down aggregate productivity, as micro-enterprises invest less in physical capital, innovation and technology, have more difficulty investing in knowledge and developing innovative business organisation models, and participate little in global value chains ([161]). In addition, Italy is specialised in sectors with a relatively low labour productivity growth in comparison with similar European peers (see also Annex 18) ([162]).

The fragmentation of businesses has fallen in recent years. This trend, already underway before the outbreak of the Covid-19 pandemic, has continued in the post-pandemic period, accompanied by an increase in employment and turnover and, therefore, in the average size of companies ([163]). The proposed framework law on SMEs is expected to underpin this trend, facilitating the growth in size and aggregation of companies, providing for administrative simplification and digitalisation of procedures, extending and strengthening programmes to support the internationalisation of companies ([164]).

The business churn rate is still one of the lowest in the EU at 13.5% in 2023, compared to an EU average of 19% ([165]). Enterprise births and deaths in the business economy are both below EU levels (7.8% and 5.7%, against EU values of 10.5% and 8.5%, respectively), especially in high-technology sectors ([166]). This reflects a mix of long-term structural factors (such as population decline and ageing, regional fragmentation), supply-side frictions (limited early-stage entrepreneurship, constrained access to risk finance, family and micro-firm structure), and institutional features that hinder scale-up and efficient exits (see Annex 7). In addition, high growth firms accounted for 9.4% of companies and 12.4% of employees, slightly below the EU averages of 10.5% and 12.9%.

Italian firms have long struggled to scale up and innovate (see Annex 4). Mature Italian firms

([161])National Council of Economics and Labor (CNEL) – Annual Productivity Report 2025, September 2025.

([162])Calligaris S. at al (2018). "Poor productivity: An Italian perspective".

([163])Report on the Competitiveness of Productive Sectors (2025).

([164])These measures help address the 2025 CSR to "promote growth and aggregation of SMEs and start-ups, also in light of the commitments in the medium-term fiscal-structural plan (MTFSP)". Italy's MTFSP includes commitments to increase SMEs' competitiveness facilitating business size growth, fostering generational transition, investment orientation and skills matching.

([165])As defined by Eurostat, the business churn rate is the sum of entreprise births and death rates. High growth enterprises are enterprises that have had at least 10 employees at the beginning of a 3-year period and an annual growth in the number of employees above 10% during that period.

([166])IMF, Selected Issues, 2025.

are significantly smaller than in other countries, and there are few new entrants that eventually become market leaders, suggesting barriers to scaling up. While Italy's leading firms are concentrated in the manufacturing sector (machinery, automotive components, textiles), and few are active in the high-tech sector, the country has a below average share of start-ups). Start-ups account for fewer firms in Italy then in other peer country, and the gap is driven by the services sector. According to OECD data, 15.5% of service sector firms were start-ups in Italy (around 17% in peers) and this gap persisted throughout the period 2004-21) ([167]). Despite some recent positive signals, such as an increase in the average size of businesses, the Italian production structure remains dominated by micro-enterprises, this consolidation has not been matched by a proportional improvement in productivity ([168]).

The productivity gap between large and small firms is slightly higher in Italy than in peer countries. The average productivity of firms with more than 250 workers is 33% higher than the productivity of small firms (20-49 workers) in Italy, compared to 26% in similar countries ([169]). In addition, Italy faces a widening productivity gap between young and older firms. The productivity of young firms aged 1-5 years is 31% lower than the average productivity of firms aged 10 years or more in 2020. Policies to boost productivity would aim at reducing size-based regulatory thresholds to eliminate growth disincentives to help firms' growth, expanding access to market-based financing options, such as venture capital and private equity, and investing in research and human capital ([170]).

Business environment

Investment rates remain above the EU average and in line with peer countries. Total investment reached 21.8% of GDP in 2025 (EU: 21.7%, Germany: 20.3). The three most important barriers to investment for Italian companies are: uncertainty about the future (78%), energy costs (73%) and the labour regulation (62%), in line with European averages ([171]). Italian businesses are more confident about their sector's prospects than their European counterparts, with 32% of the firms expecting an improvement and just 12% a worsening (a positive gap of 20% compared to the 0% of the EU).

The perceived investment gap in Italy is in line with the EU average, with less than 10% of Italian firms reporting underinvestment over the past three years (EU average: 12%). Italian investments in capacity expansion are also comparable to EU levels (22% vs 23% in the last year) although Italian firms dedicate more resources to new products or services (19% of their investment against an EU average of 13%). Access to finance remains favourable and borrowing conditions continue to ease, just 10% of Italian firms report dissatisfaction with borrowing costs (an improvement from 22% in 2024), supporting firms' investment intentions ([172]). However, Italy's firms still rely mostly on bank lending and equity financing is low. Expanding access to venture capital could significantly enhance intangible investments for young and high-growth firms. (see Annex 6).

Italy lags significantly behind the European average in intangible investment (such as software, research and development, and organisational capital). In Italy, intangible investment reached 9% of GDP in 2024 (it was 7.5% in 1995), well below peer countries like Germany (10.5% GDP) or France (15.6% GDP) ([173]). Furthermore, between 2022 and 2024, ICT investments grew by only 0.8% per year (compared to 1.9% in the previous three years) ([174]). Only 30% of Italian companies have introduced a product or process innovation in the last three years. ([175]).

([167])OECD insights on productivity and business dynamics. Country Notes: Italy OECD, 2025, Link.

([168])CNEL. The productive system structure.

([169])OECD MultiProd - Country note on productivity for Italy, 2025.

([170])IMF, 2025, Selected Issues. Drivers of Subdued Firm-Level Productivity Growth.

([171])EIB Investment Survey 2025: Italy overview.

([172])EIB Investment Survey 2025: Italy overview.

([173])World Intangible Investment Highlights (WIIH), 2025.

([174])ISTAT 2025 Annual Report.

([175])National Council of Economics and Labor (CNEL) – Annual Productivity report 2025, September 2025.

Italy's coverage of very high-capacity networks (VHCN) and FTTP reached 70.7%, marking sustained growth. It remains more limited for households in sparsely populated areas (reaching 36.8%). Overall 5G coverage stood at 99.49% and Italy has good results also in the 3.4-3.8 GHz band, considered strategic for advanced 5G performance. This progress in the deployment of gigabit networks has been supported largely by the implementation of the RRP, despite the delays experienced in implementing the Italia 1 Giga scheme. The RRP has been complemented by several other actions taken at the national level to accelerate the deployment of gigabit networks (e.g. the ultra-broadband plan, experimentations for hybrid connectivity). Moreover, the country deployed incentives for the development of stand-alone 5G services to strengthen demand for specialised services and support the development of the core network.

Italy benefits from a relatively robust national regulatory framework. OECD Product Market Regulation (PMR) indicators show the country is near the OECD average overall. However, the main constraints faced by businesses arise at the implementation stage, when subnational authorities are involved (see Annex 18). Italian companies would benefit from enhancing the digital transformation of public services, the performance of commercial courts and insolvency procedures (see Annex 7), and the operational capacity of municipalities for permitting. For instance, the ease of starting a business is linked to factors such as the overall cost of company registration and the transparency and complexity of the process. Furthermore, permitting times for building permits are generally lengthy and change substantially across municipalities. Complex administrative backlogs and coordination inefficiencies are key shortcomings and permit costs also vary widely and can be disproportionately high. Simplifying building permit fees, making schedules publicly available and strengthening coordination among public and external authorities to integrate procedures into online platforms could streamline and make the process more transparent. In general, there are substantial differences in the provision of services across regions (see Annex 18): while nationally only 5% of the firms identify business licensing and permits a severe constraint, the percentage doubles in several regions, line 10% in Campania, Basilicata and Calabria or 18% in Sardinia and Sicily (EU average 9%) ([176]).

In 2025, Italy enacted and advanced several critical legislative measures focused on regulatory simplification. These actions are largely driven by the RRP and a broader effort to reduce administrative burdens for citizens and businesses. A major "Simplification Bill" was finalised in late 2025, specifically targeting bureaucratic hurdles in economic sectors, like cutting work permit for highly qualified non EU citizens ("EU Blue Card") processing to 30 days, enabling digital application procedures, and introducing the possibility of tacit consent for building permits related to properties subject to environmental, landscape or heritage restrictions ([177]). In addition, a best practice in terms of administrative simplification is the "ZES Unica" (Single Special Economic Zone). In 2024, Italy introduced the concept of ZES Unica, unifying all previous regional free zones into one simplified framework covering southern regions, with a single, digital, predictable procedure. The key measure is related to the fact that the administrative process has been reduced to the essentials: a single electronic application form, one authority responsible for assessment and verification and clear time limits for responses. The new governance has accelerated procedures, cutting the average time to obtain all permits required to launch an investment from over 98 days to under 54 ([178]).

Despite progress, complex administrative procedures remain an issue for businesses operating in Italy. Regulatory obstacles and administrative burden are the top concerns for SMEs in Italy, with 69% of respondents identifying these as significant challenges, compared to 64% in the EU ([179]). Over a quarter of businesses reported experiencing increased operational costs and minor delays linked to public administration services. About 83% of Italian firms employ staff to deal with regulatory compliance and around

([176]) Subnational Business Ready in the European Union 2025: Italy.

([177]) Law No. 182 of December 2, 2025), known as the "Simplification Law" (Legge Semplificazioni).

([178]) SVIMEZ Report 2025. The economy and society in Southern Italy, 2026.

([179]) Startups, scaleups and entrepreneurship, July 2025, Eurobarometer survey.

13% of firms devote more than 10% of staff to regulatory requirements, above EU average of 11% ([180]).

The late payment situation is improving in Italy. The share of companies reporting issues due to late payments represents 48% and nearly returns to the 2021 low of 47%. Overall, the data point to a sustained positive trajectory over the past 6 years, and a notable improvement from last year's results (54% in 2023) ([181]). On business to business (B2B) transactions, Italian companies experienced shorter payment times, 59.6 days (down from 62 days in 2023), lower than the European average of 60.3. Italian companies estimate that 11.3% of their total revenues are typically paid late by customers, in line with the overall European average, which stands at 11.4%. For the public sector, there is a gap between official data and supplier-reported figures. Companies report that the average days for actual payment for the public sector is 70 days, a figure that has been quite stable for the last 6 years. However, according to official data from the Italian Ministry of Economy and Finances (MEF), public administrations shortened their payment periods by 3 days in 2024 compared to 2023, bringing the average settlement period down to below 30 days. Italy has been subject to infringement proceedings by the European Commission and, as a result, the country has taken extensive action over the years to address the public sector's late payments. The national payment system for the public administrations has also been profoundly reformed in the context of the implementation of the RRP for Italy (for instance, Italy was the first EU country to introduce mandatory e-invoicing), The result is that Italy has reduced payment periods from 43.4 days in 2019 to 26 days for the first semester of 2025, thus bringing them within the legal limit. However, some companies still perceive public administration as paying late in certain sectors, like construction and healthcare, highlighting the need for continuous national surveillance of G2B payment performance and further targeted action.

Improvement in late payments across all company sizes and in most sectors. In 2024, micro-sized companies settled 46 % of their invoices on time, compared with just 21 % for large companies, as illustrated in the figure below. In 2024 there was an increase in the number of invoices paid by the due date by all company size categories compared to 2023. Nevertheless, micro-enterprises remain more than twice as likely to pay on time compared with large companies. Among the sectors with available data, 'Financial and insurance activities' leads in timely payments, with 55 % of invoices paid on time. 'Retail trade' ranks last but shows an improvement in timely payments from 31% in 2023 to 36% in 2024. In 2024, all sectors improved their payment performance, with the most significant increase for 'Wholesale'. In addition, 58% of Italian companies has accepted unfavourable payment terms to protect commercial relationships (above EU average: 56%). As inflation and interest rates have gone down, 50% of Italian firms report having introduced stricter payment terms; this proactive measure is slightly more prevalent in Italy than the overall European average of 48%. Despite these payment challenges, Italian businesses show stability, as only 19% fear they could be forced to shut down within the next two years if economic conditions do not improve, below the European average of 23% ([182]).

Single Market

Italy is well integrated into the Single Market and is among the world's leading exporters. Italy boasts a high level of diversification in its exported products, another key factor behind its success. However, performance in the services sector has been relatively weak, with a lack of development of knowledge-intensive and high value-added activities (trade integration in services is among the lowest in the EU, representing only 4% of the GDP in 2025, below peer countries like Germany or Spain).

Increased global trade uncertainty is a huge challenge for an exporter country like Italy, although its diversification (both geographically and by products) could limit the impact of any potential adverse shocks. Italy's overall exports amount to around 30% of GDP, with exports particularly sizable for machinery and equipment; textile, apparel and leather products; basic and

([180])EIB Investment Survey 2025: Italy overview, 2025.

([181])European payment observatory, 2025.

([182])European Payment Report 2025, Intrum, 2025.

fabricated metals; and transport equipment. However, there are notable regional differences, as Northern and Central Italy accounts for close to 80% of Italy's exports, particularly in traditional heavy industries and high-export value sectors ([183]). In that respect, the flourishing cluster landscape in Italy (with 104 organisations registered on the European Cluster Collaboration Platform ([184])), could help strengthen existing international value chains and fostering the development of new ones ([185]).

Italy's performance on implementing the Single Market has deteriorated. Its transposition deficit (the percentage of all directives not transposed into national law) more than doubled (from 0.5% in 2024 to 1.3%). It is now above both the EU average (1.1%) and the EU Council's 1% target. Its performance is also weak in correctly transposing directives, with a higher deficit (2.1% vs 1.8% in 2024), well above the EU average of 1.1% ([186]). The number of pending Single Market infringements is among the highest in the EU (26th out of 27 Member States). Only the average delay in transposing directives as well as the average duration of infringement proceedings are better than the average EU performance. Italy resolved 82.3% of the SOLVIT cases it handled as lead centre in 2025 (EU average, 84.6%).

Compliance of products circulating in the Single Market is key to ensuring a level-playing field for law-abiding companies and the safety of consumers ([187]). In Italy, the number of market surveillance investigations has increased compared with 2019. In 2025, national authorities reported in the EU system for market surveillance (ICSMS) a total of 9.4 investigations per one million inhabitants, which is lower than the EU median of 136,2. The number of notifications remains limited in absolute terms, which may also be the result of insufficient IT national interoperability to the ICSMS system. The upcoming revision of the Market Surveillance Regulation will upgrade ICSMS to a fully interoperable EU digital platform. Furthermore, Italy's competitiveness may be undermined by the country's repeated non-compliance with the legal obligations under the Single Market Transparency Directive (SMTD), resulting in new unjustified regulatory barriers to the free movement of goods and services in the Single Market. Regulatory fragmentation within the Single Market results in a less predictable environment for businesses, investors and consumers alike with adverse effects on productivity. Better compliance with Single Market rules will reduce the risk for competitiveness for the businesses in Italy and the Single Market as a whole.

Italy's standardisation system could enhance digitalisation to stay competitive. The effectiveness of the European standardisation system and the competitiveness of Italian industries depend on national standardisation bodies (NSBs) mobilising a strong and diverse pool of experts. This challenge has grown as rapid technological change increases demand for expertise, not only in traditional sectors but also in emerging fields such as AI and quantum computing. According to its latest annual report, the *Ente Italiano di Normazione* (UNI) could further boost Italian expertise in CEN and ISO. Further digitalisation of Italy's NSBs, in line with ongoing initiatives in ISO and CEN, would improve participation in standardisation and help develop standards and services suited to the digital economy through more flexible processes.

Regulatory and administrative barriers to the Single Market persist in Italy, affecting goods and services trade as well as freedom of establishment. For goods, businesses report that packaging and labelling rules, such as national eco-labelling scheme, alphanumeric paint codes ([188]) and shrinkflation labelling ([189]), create

([183])IMF, Italy, 2025.

([184])European Cluster Collaboration Platform, *Country factsheet Italy*, European Cluster Collaboration Platform.

([185])European Cluster Collaboration Platform, *Clusters and Europe's Competitiveness, ECCP Summary Report 2025*, ECCP Summary Report 2025.

([186])Part of the barriers highlighted in the 2025 Single Market Strategy ("Terrible 10"), Single market strategy. See also the Annual Single Market and Competitiveness Report 2026.

([187])*Part of the barriers highlighted in the* Single market strategy *('Terrible Ten') and the* 2026 Annual Single Market and Competitiveness Report.

([188])European Round Table for Industry (ERT), *Single Market Compendium of Obstacles*, 21 May 2025, Single Market Compendium of Obstacles.

([189])European Commission, *Infringement procedure against Italy (INFR(2025)4000), 12* March 2025, March infringements package: key decisions.

compliance burdens. In services, posting workers involves complex administrative duties ([190]). Business establishment is hindered by restrictive practices, such as limited licensing in on-demand transport and complex permitting for EV charging infrastructure ([191]).

Italy is making significant efforts to improve the efficiency of its public procurement system. Beyond introducing a new Code of Public Contracts in 2023, Italy is proceeding with the ambitious reform of public procurement set out in its recovery and resilience plan. This reform is aimed at simplifying procedures, increasing digitalisation and professionalising public buyers, and is expected to improve the speed, competitiveness and overall efficiency of the Italian public procurement system. In 2025, single bid procedures still made up 39% of the total bids (above the EU median of 27%). The share of direct awards is only around 2%, significantly below the EU median (7%). Indicators on SMEs participation in public procurement and duration of the process are also better than EU averages.

Measures were taken to mitigate corruption in public procurement, which remains a high-risk area. In Italy, 65% of companies (EU average: 53%) consider conflicts of interest in the evaluation of bids in public procurement procedures, and 65% (EU average: 58%) tailor-made specifications for companies, 'very' or 'fairly widespread' practice. Among companies that have experience in and participated in a public procurement procedure, 33% think that corruption has prevented them from winning a public tender or a public procurement contract in practice (EU average: 25%) ([192]). Also, 81% of businesses perceive that the level of independence of the public procurement review body (Regional Administrative Tribunals and the Council of State) is 'very' or 'fairly good' when it is reviewing public procurement cases ([193]). The National Anti Corruption Authority issued guidelines and reports on risk of corruption in public procurement and reviewed its cooperation with the Guardia di Finanza and the Carabinieri to prevent corruption in public contracts to ensure a level playing field for businesses ([194]).

Italy's fragmented eProcurement landscape and data quality issues have been addressed by the centralisation of the system through the ANAC's BDNCP (National Database of Public Procurement). However, there is still some room for improvement in terms of interoperability and common standards. So far, an Italian economic operator still must use one of the twenty-one separate procurement services in operation to participate in public procurement procedures ([195]). This situation also affects cross-border procurement. The once- only principle is only partially implemented at national level (see Annex 7). To ensure full interoperability and the application of the "once only" principle, by 2026 eProcurement platforms must be certified in accordance with the requirements set by AgID. As buyers across the EU still lack access to relevant evidence, it is therefore essential that Italy continues strengthening the once-only principle functionalities in its national eProcurement system to allow easier evidence verification. Italy has started to introduce full digitalisation of the lifecycle of public procurement contracts; it is crucial that the authorities continue this path. The Italian system would benefit from a dedicated government department for public procurement data collection and analysis, to support data-driven oversight of the procurement lifecycle ([196]).

Italy has taken some steps to increase competition in local public services, regulated professions and retail ([197])**.** In local public services, the Competition law 2025, part of the recovery and resilience plan, introduces stricter oversight, transparency, and accountability,

([190])German Chamber of Commerce and Industry (DIHK), *DIHK-Umfrage zu Binnenmarkthindernissen 2024: Dienstleistungen, Waren und Investitionen*, 2024, DIHK-Umfrage zu Binnenmarkthindernissen 2024.

([191])Autorità Garante della Concorrenza e del Mercato (AGCM), *Relazione annuale sull'attività svolta*, 31 March 2025, Relazione annuale sull'attività svolta.

([192])Flash Eurobarometer 557 on Businesses' attitudes towards corruption in the EU (2025).

([193])Justice Scoreboard (2025), p. 53; Flash Eurobarometer 555, p. 39.

([194])Rule of Law Report- Country Chapter Italy (2025), p. 13.

([195])As reported on the eProcurement matrix.

([196])European Court of Auditors, Special Report 28/2023: Public Procurement in the EU. Less competition for contracts awarded for works, goods and services in the 10 years up to 2021, 2023, Special report 28/2023: Public procurement in the EU.

([197])These measures help address the 2025 CSR (remaining restrictions on competition, including in local public services, business services and railways).

particularly targeting "in-house" and direct awards, to ensure that the management of the service remains efficient and complies with the required quality standards. In regulated professions some measures were already adopted to streamline market access, address skills shortages, and align with EU directives ([198]). However, the level of restrictiveness is still high overall for several professional services (accountants, architects, civil engineers and real estate agents). For instance, there are quotas for foreign workers residency requirements for engineers ([199]) and limitations to the service offer of accountants ([200]). Following a survey carried out by the European Commission between December 2025 and February 2026, Italy reported it had fully implemented 6 and partially implemented 9 of the 15 2021 Commission recommendations ([201]). The Commission is currently assessing Italy's answers to measure actual progress in implementing the 2021 recommendations. In this regard, the Annual Competition Law for 2025 aims at simplifying the requirements for incorporating and registering professional companies. Finally, in retail some legislative changes have introduced substantial simplifications for commercial activities, particularly regarding clearance sales, promotions and sales below cost, effectively reducing administrative burden ([202]). However, the regulatory framework remains complex as regional and local authorities continue to exhibit restrictive attitudes, for instance toward the authorization of large retail stores.

Ensuring open and transparent procedures for renewing expired infrastructure concessions remains important to promote effective competition. Following the reforms included in the RRP, Italian authorities should ensure that public concessions are allocated through competitive public tenders that guarantee transparency, impartiality and non-discrimination, with procedures designed to maximise bidder participation and prevent unjustified barriers to entry. The planned renewal of expiring (or expired) highway concessions makes it necessary to ensure open and transparent tender procedures ([203]). The Italian Competition Authority (AGCM) also called for more competition in electricity distribution concessions ([204]).

Industry and economic security

Italian manufacturing maintains an important role in the international context and for the national economy, generating 15% of Italian GDP. In addition, it accounts for 35% of investment in machinery and equipment and 50% of R&D spending. Manufacturing in Italy has a very high degree of diversification compared to other European manufacturers, which helps strengthen its resilience to global shocks. Its sectoral composition has remained relatively stable in the last decade, with specialisation concentrated in medium and low technology intensity sectors, which account for about 60% of manufacturing value added, a share lower than that of Spain (64%) but higher than that of France (51%) and Germany (39%). The main exporting sectors are mechanics (17.1% of manufacturing exports, 2023-2024 average), textiles (10.8%), food and beverages (9.8%), pharmaceuticals (8.6%) and motor vehicles (7.3%) ([205]).

The cost of energy remains a key to the competitiveness of Italian industry. Energy-intensive industries have been particularly exposed to a price differential with their main European partners. In 2024, energy intensive industries accounted for 3.7% of Italy's gross value added (4.1% in 2023). In Italy, the production of these industries has declined by around 12% on average since 2021 (see graph), with the highest declines in basic metals and wood. In February 2026, the

([198])For instance, law No. 190/2023, introduced under the RRF, established a unified national framework for the profession of tourist guides.

([199])OECD, *Services Trade Restrictiveness Index 2026 – Country Note Italy*, Services Trade Restrictiveness Index: Italy.

([200])European Commission, *Infringement decisions: December package of infringement procedures*, 10 December 2025, December infringements package: key decisions.

([201])European Commission, 2021, Communication on updating the reform recommendations for regulation in professional services, COM(2021)385.

([202])Annual Competition Law 2022 (Law 214/2023).

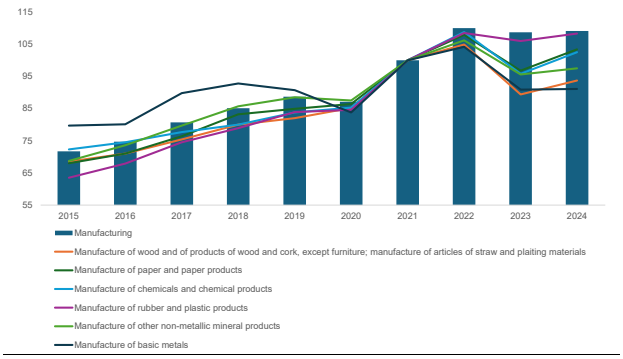
([203])Italy is set to address the expiry of 17 of 27 highway concessions managed by the Ministry of Infrastructure and Transport, including A22 Autobrennero, A4 Torino-Milano, A4 Brescia-Padova, and A33 Asti-Cuneo, over the next 15 years.

([204])AGCM, AS2079, 30 April 2025.

([205])Manifattura in trasformazione: rimarra ancora competitiva? Confindustria, 2025.

Italian government approved the Energy Bill Decree. The decree allocates over EUR 5 billion to mitigate high energy costs, with approximately EUR 1.4 billion specifically designated for businesses.

Graph A5.1: **Manufacturing production: total and selected sector, index (2021=100), 2015-2024**



Source: Eurostat

Italy is rapidly advancing its clean-tech manufacturing industry by capitalising on its strong industrial base, strategic location and favourable government policies (see Annex 18). Italy is one of the leading European countries in clean technologies, with a significant number of solar PV and wind manufacturing facilities ([206]). In addition, it participates extensively in the Important Projects of Common European Interest (IPCEIs) for batteries and hydrogen. Solar cell manufacturing capacity is around 2 GW, and the country has announced projects in the battery sector that could enhance manufacturing capacity to 60.75 GW ([207]) (European leaders in battery cell manufacturing are Poland and Hungary, with a capacity of 86 and 71.3 GW, respectively) ([208]). Furthermore, the clean technology sector constitutes a significant component of the Italian labour market, employing around 65 000 workers in 2023, representing 0.28% of the total workforce ([209]).

Italy could improve progress in implementing the Net-Zero Industry Act (NZIA). Italy still has not designated a single point of contact, which is crucial for streamlining communication and coordination among stakeholders. For the moment, Italy has not confirmed any Net-Zero Strategic Projects and has not established a national contact point to administer applications that could facilitate the advancement of those projects. Finally, Italy has not expressed an interest in the acceleration valleys described in NZIA regulation. However, there are some positive steps, as with the FER-X Transitory Decree, Italy has been the first country to apply NZIA criteria to a renewable energy auction. In addition, in December 2025, Italy approved EUR 1.5 bn of Italian state aid to support strategic investment that add clean tech manufacturing capacity, in line with the objectives of the Clean Industrial Deal.

Regarding critical raw materials, Italy continues to rely on imports for a large share of its demand but has prioritised diversifying suppliers to reduce dependency on China. The Italian environmental agency (ISPRA) was tasked with providing an updated national minerals map to guide new exploration and investment. Italy launched a nationwide geological research initiative in 2025, its first in 30 years, investing EUR 3.5 million in 14 research projects (key targets for domestic extraction include lithium, antimony, cobalt, titanium, zinc and manganese). Furthermore, in 2025, the European Commission officially recognised four major Italian recycling initiatives as strategic projects. These projects benefit from streamlined permitting (maximum 15–27 months) and facilitated access to finance.

([206])The net-zero manufacturing industry landscape across Member States, European Commission, 2025.

([207])Bruegel. European Clean Tracker, 2026.

([208])European Commission, based on Bloomberg New Energy Finance (BNEF) data.

([209])Bruegel. European Clean Tracker, 2026.

Table A5.1: **Single Market and Industry**

Italy								
POLICY AREA	**INDICATOR NAME**		**2021**	**2022**	**2023**	**2024**	**2025**	**EU-27 average**
Business environment and investment								
Productivity and investment	Labour productivity (GDP per hour worked in PPP terms), % of EU27[1]		102,8	103,2	101,2	99,1	96,1	100,0
	Business investment (share of GDP)[1]		11,3	11,7	11,1	12,2	12,5	12,6
	Public investment (share of GDP)[1]		2,8	2,6	3,2	3,6	3,8	3,9
Business environment and simplification	Impact of regulation on long-term investment, % of firms reporting business regulation as a major obstacle[2]		34,3	34,1	23,6	16,8	22,0	34,0
SME liquidity	EIF Access to Finance for SMEs index - loans[3]		0,60	0,65	0,53	0,63	-	0,43
	EIF Access to Finance for SMEs index - equity[3]		0,06	0,13	0,20	0,08	-	0,19
Late payments	Payment gap - corporates B2B, difference in days between offered and actual payment[4]		10,9	16,2	16,3	17,3	16,6	17,4
	Payment gap - public sector, difference in days between offered and actual payment[4]		11,2	21,8	17,6	17,8	13,2	13,6
	Share of SMEs experiencing late payments, %[5]	from private entities in the previous or current quarter	-	-	-	45,1	46,6	47,1
		from public entities in the previous or current quarter	-	-	-	13,1	13,8	15,9
Single Market								
Integration	EU trade integration, average(intra-EU imports + intra EU exports)/GDP, %[1]		16,9	19,2	18,1	17,4	17,8	40,7
	EEA Services Trade Restrictiveness index[6]		0,064	0,064	0,064	0,064	0,064	0,050
Public procurement	Single bids, % of total contractors[7*]		35	37	37	34	39	27
	Direct awards, % of negotiated procedures[7*]		7	6	5	3	2	6
Compliance	Transposition deficit, % of all directives not transposed[8]		1,2	0,7	0,4	0,5	1,3	1
	Conformity deficit, % of all directives transposed incorrectly[8]		1,8	1,5	1,4	1,8	2,1	1,1
	SOLVIT, resolution rate per country, %[8]		96,8	98,6	91	84,3	82,3	84,6
	Number of pending infringement proceedings[8]		46	42	43	39	44	25
Industry and economic security								
Energy-intensive industries	Electricity prices for non-household consumers[1]		0,1527	0,2946	0,2184	0,1805	0,1989	0,1462
	Electrification (electricity as a share of total energy consumption in industry)[1]		38,2	39,0	39,2	-	-	32,7
	Share of energy from renewable sources (renewable energy generation as a share of overall energy consumption)[1]		18,9	18,8	19,2	19,4	-	25,2
Critical raw materials	Material import dependency, %[1]		46,6	48,1	47,6	46,6	-	22,4
	Circular material use rate[1]		19,3	20,2	21,1	21,6	-	12,2
Operational cleantech manufacturing capacity in 2025[9]	- Solar PV (c: cell, w: wafer, M:module), GW		1.921 (c), 0.015 (w), 3.4844 (m)		- Electrolyzer, GW		0,090	
	- Heat pump assembly		0,2645		- Battery, GW		-	

Source: (1) Eurostat, (2) EIB Investment Survey, (3) EIF SME Access to Finance Index, (4) Intrum Payment Report, (5) SAFE survey, (6) OECD, (7) data up to 2024: Single Market and Competitiveness Scoreboard, 2025: Commission calculation based on TED data, accessible at the Public Procurement Data Space (PPDS) (*) the value represented here under EU average is the median, (8) Single Market and Competitiveness Scoreboard, (9) European Commission calculations.

Table A6.1: **Savings and Investments Union summary diagnostic**

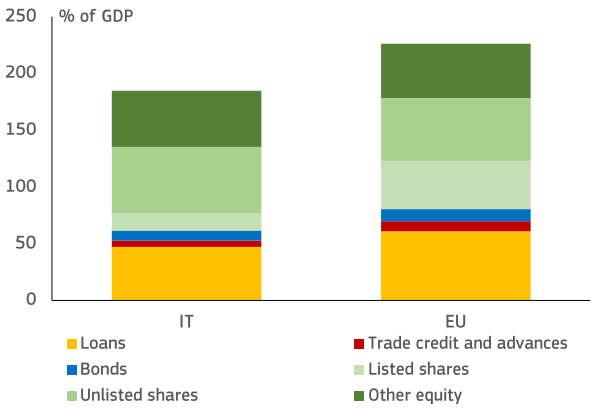
Topic	*Main features*	*Relative EU positioning*
Asset-backed pension schemes	Assets at 17.1% of GDP (32.3% in the EU) 10-year real return: 0.2% (1.4% in the EU)	A below EU average and median share in asset-backed pension assets has produced barely positive real returns over a 10-year period.
Households' financial assets	EUR 97 758 per capita (EUR 85 090 in the EU) o/w 8.6% in bonds (2.8% in the EU) o/w 2.9% in listed shares (4.8% in the EU) o/w 14.6% in investment funds (11.0% in the EU) o/w 13.5% in life insurance (13.4% in the EU) o/w 5.0% in pension claims (13.6% in the EU)	Above EU average household wealth invested to a similar degree as EU peers, mainly through bonds and investment funds. Medium level of life insurance holdings, low level of IORP pension claims. Low share of direct equity holdings suggests a degree of risk aversion. Investment flows to Italian SIA (called PIR) have stagnated.
Venture capital (VC) **Private equity (PE)**	VC at 0.032% of GDP (0.064% in the EU) PE at 0.447% of GDP (0.487% in the EU)	Low share of venture capital and medium level of private equity investments.
Capital taxation	*Capital gains tax (CGT):* 26% for individuals, 24% for companies. A 95% CGT exemption from qualifying shareholdings for companies. Real estate CGT is 0% if first residence or 5 years holding period. *Dividend and interest income tax:* 26% withholding tax, variations based e.g. on residency. Interest and capital gains from government bonds of Italy or 'white list' countries taxed at 12.5%.	Above-average capital gains tax (CGT) rate but participation exemption reduces CGT burden for corporates. For individuals, CGT exemption for real estate sales creates bias for real estate investment. No bias between equity and corporate debt investment but bias in favor of investing in government bonds. Taxation may vary in some cases e.g. based on residency, which reduces transparency and predictability.
1-3 **4-10** **11-17** **18-24** **25-27**	Colours indicate the country's relative ranking based on five groups, ranging from the three best to the three worst performers. The relative ranking as regards an SIU diagnostic topic derives from a consistent cross-country comparison, the starting point of which is the average of the underlying main features.	

Source: OECD (pensions), Eurostat (households' financial wealth), FISMA CMU dashboard (VC and PE), national sources (capital taxation). End-2024.

Italian firms rely mainly on internal funding and bank lending. The domestic listed equity market lacks depth and is relatively small compared with GDP. Investments in government debt are tax-advantaged compared with equity or corporate debt and dominate the local debt market. Italian households have above-average wealth, but prefer to invest in bonds and investment funds over listed shares, while the take-up of individual savings plans (PIRs) has waned since 2019. Italian banks increased their resilience in 2025, while bank lending to households and corporates started to recover. Insurers and pension funds' investments are conservative, tilted towards domestic government bonds. This has led to sub-par real returns. Auto-enrolment for second pillar pensions in Italy has only modestly increased participation rates so far, creating the need for the recent improvements in the design of these pensions. Additional contributions to second pillar pensions, beyond the transfer of the annual severance pay (TFR) accruals under auto-enrolment, are low. If early surrenders and withdrawals were further disincentivised, it might alter the liability structure of life insurers and pension funds, incentivising long-term equity investments. The Italian venture capital (VC) ecosystem is growing, but remains fragmented and does not fully meet the financing needs of start-ups. Institutional investors provide limited funding to VC funds and start-ups. Italy's promotional bank is trying to set-up investment vehicles to 'crowd in' such investors, while new tax incentives have been provided to supplementary pension funds investing in VC.

Business landscape and company funding

Graph A6.1: **Composition of non-financial corporations' funding**



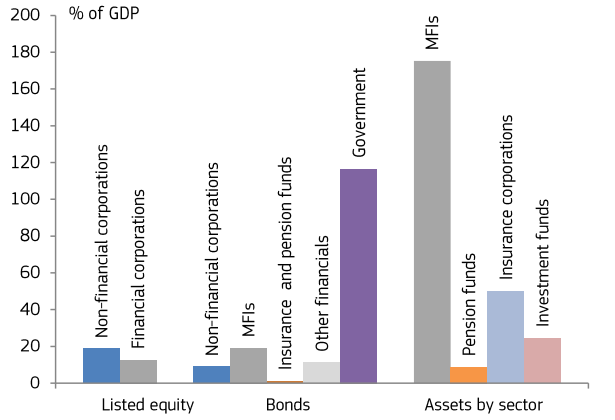
Source: Eurostat. End-2024.

Italian firms rely mainly on their own profitability and lending for their funding. Unlisted and other equity (i.e. a measure of both the capital invested by firms' owners and earnings retained) was equivalent to 107.7% of GDP in 2024 (see Graph A6.1), accounting for 58.3% of all funding vs an EU average of 45.7%. The other main source of corporate financing in Italy is lending. Loans were equivalent to 47.1% of GDP as of end-2024, and at 25.5% of all financing for Italian firms, were only marginally below the EU average of 26.9%. However, Italian non-financial

corporations' (NFCs) use of listed shares and bonds was much lower than the EU average, both as a share of GDP (24.2% at end-2024 vs the EU average of 53.2%) and as a share of NFC financing (13.1% vs 23.5%). This is largely due to the small proportion of listed shares in the funding mix, given the greater significance of micro firms and SMEs in Italy (see Annex 5). Overall, NFC funding stood at 184.6% of GDP in 2024, below the EU's 226.2%.

Size and structure of the financial sector

Graph A6.2: **Capital markets and financial intermediaries**



Source: ECB, EIOPA, AMECO. End-2024.

Banks dominate the financial sector in Italy, followed by insurance. With about EUR 3.86 trillion in assets at the end of 2024, the Italian banking sector remains among the largest in the EU, and is by far the largest part of the Italian financial system (see Graph A6.2). However, it represents a decreasing share of GDP (175.3% in 2024 vs 202% in 2022), well below the euro-area average of 266.3%. It is primarily domestically owned (roughly 91% of total banking-sector assets as of end-2024), with the five largest banking groups accounting for 50.5% of banking-sector assets. Insurance companies, with total assets equivalent to 50% of GDP at end-2024, are well developed in Italy, although their relative size remains below the EU average (55% of GDP). The total assets of investment funds were equivalent to 24.5% of GDP at end-2024, with occupational pension funds at 8.9%.

The local stock market remains insufficiently deep, with limited new listings. The Italian stock exchange (Borsa Italiana) forms part of Euronext, a pan-European market infrastructure, and its integration in the group was completed in 2024. Euronext is in the process of centralising its post-trading infrastructure and ancillary services, but its acquisition of Borsa Italiana has not yet provided a major boost to Italy's equity market. The market capitalisation of Italian listed companies as a share of GDP ([210]) stood at 39.4% of GDP as of September 2025, substantially short of the EU average of 70% (see Table A6.2). Non-financial firms accounted for about 60% of that capitalisation. Market liquidity, as expressed via the proxy of the bid-ask spread of listed shares, has been below the EU average since 2022 ([211]). New listings have been limited in the main market in recent years, with several companies postponing or withdrawing planned listings, but initial public offering activity has been better in the Euronext Growth Milan market.

The bond market is dominated by the sovereign. Outstanding debt securities were the equivalent of 156.7% of GDP at end-2024 (see Graph A6.2), one of the highest in the EU. However, marketable debt securities issued by NFCs accounted for less than 6% of the total, as government debt dominated the local bond market, accounting for 74% of the total. Financial firms make up the remaining 20% of debt securities in issuance.

A reform of the Italian capital markets is underway but will take time to bear fruit. The adoption of the Capital Markets bill (*Decreto Capitali*, Law 21/2024) in February 2024 marked the first step towards a reform of Italian capital markets. It has now been followed by the publication of a delegated act ([212]) that updates the Consolidated Law on Finance (TUF) and amends certain key corporate law provisions of the Italian Civil Code. The delegated act addresses crucial areas such as takeover bids, corporate governance, disclosure, shareholders' meetings, as well as mobility between regulated markets and

([210]) Irrespective of the stock exchange where they are listed.

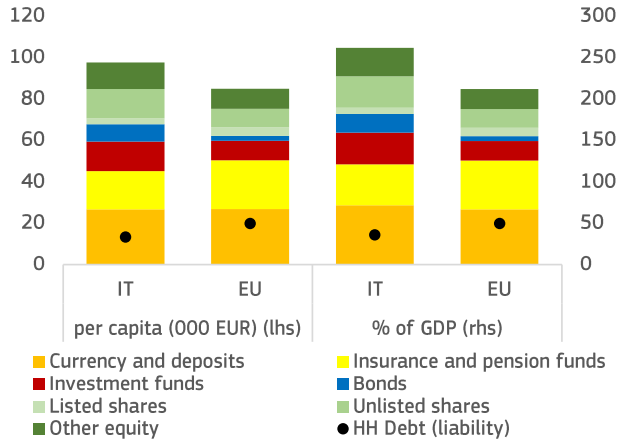
([211]) See FISMA's list of indicators to monitor SIU progress.

([212]) Legislative decree 27.3.2026 n. 47. A second legislative decree — specifically concerning administrative proceedings and sanctions — is currently pending before the Italian Parliament.

multilateral trading facilities. It also facilitates the use of multiple voting rights and introduces: (i) significant simplifications for newly listed companies and SMEs; and (ii) the limited partnership legal form for VC and private equity investment vehicles. The aim is to make the Italian capital market more attractive, fostering the participation of retail investors, including in VC and private equity funds ([213]). Another initiative, the Fondo Nazionale Strategico Indiretto (FNSI), a fund-of-funds launched in 2025 and managed by Cassa Depositi Prestiti (CDP), aims to invest up to EUR 1 billion in small and mid-cap firms listed in Italy and try to 'crowd-in' private investors as an anchor investor in initial public offerings.

Households' participation in capital markets

Graph A6.3: **Composition of households' financial assets**



Source: Eurostat. End-2024.

Italian households prefer bonds and investment funds over listed shares. Italian households have a higher amount of financial assets than the EU average, both per capita and as a share of GDP (see Graph A6.3). The share of household financial assets held in pension and investment funds or directly in financial investment instruments is only slightly below the EU average (45% vs 46.5% as of end-2024). Compared with the EU average, Italian households have a higher share of financial assets invested in bonds (8.6% vs 2.8%) and investment funds (14.6% vs 11.0%), a similar share invested in insurance products (13.9% vs 14.2%, mostly in life insurance) and a lower share invested in listed shares (2.9% vs 4.8%) and (occupational) pension funds (5% vs 13.6%). Domestic government debt in particular is a popular investment for Italian households, which, together with Italian non-financial firms, held 15% of Italy's outstanding general government debt as of September 2025.

Italian households have access to a wide range of investment products, as well as tax benefits under individual savings plans. Low-cost, well-diversified investment products suited to retail investors are available in Italy through the country's developed investment fund industry. Since 2016, Italy has also created individual savings plans called *piani individuali di risparmio* (PIR) which, subject to certain conditions (such as a minimum lock-up period of five years), confer substantial tax incentives on their holders. These include: (i) an exemption from the 26% tax typically paid on capital gains, dividend or interest income from financial instruments included in the PIR; and (ii) the non-applicability of inheritance tax on the PIR assets of deceased savers. However, after a successful start, the take-up of PIRs has waned since 2019. As of end-2024, only 1.5% of the assets under management of open-ended and closed-ended funds in Italy were in the form of original PIRs and only 0.2% in alternative PIRs ([214]).

Further measures have been adopted recently to facilitate investment by retail investors. Italy has made use of the option under EU legislation ([215]) for a simpler registration system (instead of a more complex authorisation system) for alternative investment funds (AIFs) of fund managers with assets below set thresholds; the recently adopted delegated act to reform financial legislation ([212]) (i) simplifies the relevant framework ([216]), ii) allows retail investors, with a minimum investment of EUR 500 000 and a total portfolio of financial assets of at least EUR 5 m, to invest in these registered alternative funds, thus

([213])The new provisions are expected to enter into force in Spring 2026, following parliamentary review.

([214])Alternative PIRs, adopted in 2020, require at least 70% of assets to be invested in SMEs, often including illiquid or unlisted assets via venture capital or private equity funds.

([215])Directive 2011/61/EU (AIFMD).

([216])More specifically, registered sub-threshold managers are no longer subject to microprudential supervision, nor to transparency or conduct-of-business requirements.

facilitating investment in private equity and VC funds; and (iii) aims to limit 'gold-plating' of EU rules to promote a single rulebook, and improve competition and the availability of low-cost investment funds for investors.

Listed equity and corporate bonds have less preferential tax treatment than other asset classes in Italy. The taxation of investment income in Italy (capital gains, dividends, interest income) does not discriminate between shares or corporate debt securities, with a flat 26% tax rate, albeit with variations (e.g. based on investor residency for dividends or due to the 95% exemption for capital gains on corporates' qualifying shareholdings). However, both the lower 12.5% tax rate for interest income from government bonds of Italy or 'white list' countries ([217]) and the capital gains exemption on real estate for natural persons, subject to a five-year minimum holding period for non-primary residences, favour these investments.

Financial literacy levels in Italy are close to the EU average. Italy has had a national strategy for financial literacy in place since 2017, and the capital markets bill adopted in 2024 introduced financial education into the school curriculum. Various public authorities (the Bank of Italy, Consob) offer extracurricular activities on financial literacy in schools, including training for teachers. The level of financial literacy in Italy is in line with the EU average. The 2023 Eurobarometer survey showed that 18% of Italians have a high level of financial literacy, 64% a medium level, and the remaining 19% a low level.

The banking sector: resilience and financing of the economy

The Italian banking sector has improved its resilience and is thus not constrained in its role of funding the economy. In the year to September 2025, Italian banks have maintained an adequate capital position, in terms of size and quality (see Table A6.2). Banks' liquidity position remains solid, while profits are strong and have been resilient to the normalisation of interest rates. The ongoing process of banking-sector consolidation in Italy should also support profits through cost synergies and revenue diversification, improving banks' capacity to lend ([218]). Asset quality is stable, with a non-performing loan ratio of 2.6% as of September 2025 vs an EU average of 1.9% and a falling share of stage 2 loans in recent years. Credit quality pressures on the corporate side remain modest by historical standards and provisioning levels are high, with a cash coverage ratio of 45.3% vs an EU average of 42.1%. Italian banks are more exposed than the euro-area average to increased US tariffs, but any potential impact on asset quality appears manageable. However, the banks' asset quality outlook is subject to increased uncertainty due to the current conflict in the Middle East and its potential impact on energy prices and economic growth. Despite the gradual phase-out of COVID-19-related state guaranteed loans, domestic sovereign bond exposure remains greater than most euro-area peers, at 9.9% of banks' total assets in December 2025 but lower than the 10.9% at end-2020 ([219]).

Bank lending to households and corporates started to recover in 2025. There was a gradual, timid recovery in bank lending to households and corporates in the second half of 2024, which picked up speed in 2025, with year-on-year credit growth rate improving from -1.5% for households and -3.9% for NFCs in March 2024 to 2.5% and 1.8% respectively in December 2025. The outlook, particularly for households, is expected to improve further on the back of easing monetary policy. Moreover, recent credit upgrades of the Italian sovereign reflect positively on banks' credit ratings and reduce funding spreads. They could also support cheaper credit to firms.

Role of non-bank financial intermediaries

The Italian insurance sector has an investment portfolio heavily tilted towards bonds. The Italian insurance market is predominantly focused on life insurance, with life-insurance premiums accounting for

([217]) Jurisdictions with agreements to exchange tax information.

([218]) Consolidation, especially on a cross-border basis, allows for the better allocation of resources and risk diversification.

([219]) ECB data, including state-controlled Cassa Depositi Prestiti.

EUR 110.5 billion at end-2024 (i.e. around 73% of total gross written premiums) and non-life for about EUR 40.9 billion (the remaining 27%) ([220]). The investment portfolio of the Italian insurance sector, one of the largest in Europe in absolute terms, was EUR 1 070 billion as of September 2025. This was invested in: (i) in government bonds (34.1%); (ii) corporate bonds (15.3%), mainly issued by foreign NFCs; (iii) equity (11.5%); (iv) investment funds (32.4% evenly split between equity funds, bond funds and other types of funds ([221])); and (v) cash and deposits (3.5%). Excluding unit-linked products, insurers' exposure to bonds becomes even greater, with 43.5% invested in government bonds ([222]) and 19.4% in corporate bonds. In fact, Italian insurers hold roughly 10% of the outstanding stock of Italian government bonds.

Italy's supplementary private pension system remains fragmented. According to the national supervisor of private pension funds COVIP, the number of pension funds in Italy at the end of 2024 fell to 291 from 302 in 2023 (and 387 in 2020), with total assets of EUR 243 billion. These pension funds comprised: (i) 33 contractual closed-end funds (with assets of EUR 74.5 billion), set up by workers' unions and employers at national, sector or company level; (ii) 38 open-end funds (with assets of EUR 37.3 billion); (iii) 69 personal pension plans (PIPs) (with assets of EUR 54.7 billion), i.e. life-insurance contracts with social security purposes; and (iv) 151 pre-existing pension funds (with assets of EUR 69.6 billion), i.e. pension funds already in existence on 15 November 1992. Excluding the latter, there were 10.1 m members of supplementary pension funds as of end-2024, corresponding to a participation rate of 38.3% of the labour force, or 27.6% excluding non active contributors. Only 29% of these members were below 40 years old, while participation is much lower among the self-employed ([223]).

Supplementary pension funds operate mainly on a defined contribution (DC) basis and benefit from a favourable tax regime. Defined benefit plans are restricted to pre-existing funds and are not open to new members. All pension funds need to have a depositary and an agreement with an external investment manager, which can only be an insurer, a bank or an asset manager. The supplementary pension funds' tax regime is advantageous, with a maximum tax-deductible amount for combined employee/employer contributions of EUR 5 164.57 per year (recently increased to EUR 5 300 from tax year 2026) ([224]). Retirees also pay a reduced 20% (instead of the usual 26%) dividend and interest income tax rate and a reduced 15% (instead of 26%) tax rate on accumulated realised gains during the payout phase, which can decrease progressively to 9% based on the duration of contributions.

Private pension funds invest conservatively, and this has led to sub-par real returns. At the end of 2024, Italian supplementary pension fund assets were invested as follows: 14.2% in Italian government bonds, 24.3% in other government bonds, 17% in other debt securities, 22.7% in equity securities, 12.7% in UCITS, 2.3% in alternative mutual funds other than real estate funds, 3.7% in deposits and 1.5% in real estate ([225]). Among the various types of schemes, contractual pension funds had 25.1% invested in equities, open funds had 29.9% invested in equities, and 'new' PIPs only 13.2% in equities. Domestic investments accounted for 19.3% of total assets (EUR 40.1 billion), the majority in government bonds, while investments in equity and debt securities of Italian firms were limited (2.4% of total assets) ([226]). This conservative investment allocation is reflected in sub-par performance, with the average real return of Italian private pension funds in the period 2014-2024 reaching only 0.2% per year, below both the EU median and the guaranteed return the TFR severance pay would have provided if it had remained with the employer (+0.5%) ([227]). Looking

([220]) Ivass: The main numbers of insurance firms in Italy 2024.

([221]) EIOPA data.

([222]) December 2025 data suggest that two-thirds of those holdings are Italian government bonds, see Banca d'Italia Financial Stability Report No 1 2026, p.36.

([223]) Table 6, COVIP - Supplementary Pension Funds in Italy at end 2024 – Main data.

([224]) Contributions via the trattamento di fine rapporto (TFR) severance pay in second pillar pension funds do not count towards the cap on tax-deductible pension contributions.

([225]) Table 16, COVIP - Supplementary Pension Funds in Italy at end 2024 – Main data.

([226]) COVIP, Supplementary pension funds in Italy at the end of 2024: Main data.

([227]) OECD and COVIP data. If the TFR stays with the employer or the Italian National Social Security Institute (INPS) for larger firms, it offers a guaranteed return equal to a fixed 1.5% plus 75% of the annual inflation rate. If it is transferred to a

at the different types of private pension funds over the same period, contractual pension funds have produced +0.3% average annual net real return, open-end funds +0.5%, unit-linked PIPs +1%, and non-unit-linked PIPs a poor -0.3%. Currently, the COVIP website provides comparison data on returns and fees of individual pension funds, but there is no pension tracking system for pension planholders to see the combined value of their pension entitlements from all – public and private – pension schemes.

Improvements were recently introduced to Italy's auto-enrolment regime, which will apply from July 2026. Since 2007, newly hired private sector employees must transfer their *trattamento di fine rapporto* (TFR) severance pay to a supplementary pension fund of their choice or opt-out within six months and leave it with their old company. If no active choice is made within this time, the TFR will be automatically transferred to the contractual closed-end pension fund used by any existing collective agreement ([228]). However, the new 2026 Budget Law reduces this time window to 60 days and strengthens the automatic nature of the enrolment for all private sector employees. In addition, the default investment option, if no active choice is made by a planholder, is changed from a guaranteed sub-fund to an investment profile adjusted to take into account the time horizon of the investment and the age of the member ([229]). In an effort to provide more flexibility in the payout phase, the new law increases the share of accumulated wealth that can be paid as a lump-sum (from 50% to 60%) but also introduces new types of annuity or gradual payment (fixed term annuity, fractional payment), in an effort to both make them more attractive than lump-sum withdrawals and reduce pension funds' own liquidity needs. The new law also improves mobility across pension funds, even when employees elect to join a pension fund other than the one set in their respective collective bargaining agreements, thus strengthening competition.

Auto-enrolment has only modestly increased participation, and contributions to supplementary funds, beyond the TFR severance pay, are low. Since auto-enrolment was adopted, participation rates in Italy's contractual pension funds have risen modestly, but from a very low base, namely from only 5% of Italian workers in 2006 to 16% in 2025 ([230]). This suggests significant employee opt-out rates, particularly among younger and lower income employees and in more 'fragmented' industries, with a larger number of smaller firms. In addition, the TFR tends to be used by smaller companies as a source of working capital, which may discourage its transfer to a pension fund by their employees. Additional voluntary contributions beyond the TFR are low ([231]) and average contributions per employee (from both employees and employers) in post-November 1992 supplementary pension funds are less than half of the personal income tax (PIT) exemption upper limit set by law. Beyond the unattractive return profile of contractual pension funds (see above), this may also imply that current tax incentives are not so attractive for medium-to-low income earners with lower marginal PIT tax rates.

Taxation and liability structure influence the investment strategy of pension funds and insurers. Overweight positions in the government bonds of Italy and 'white list' countries reduce these investors' tax burden, as the investment return of these bonds (interest and capital gains) is subject to a lower tax rate (12.5%) than other financial instruments (26% or 20% if held by a pension plan). The low risk and predictable, stable returns provided by bonds also allow pension funds and insurers to meet their stringent regulatory requirements while matching the average duration of their liabilities, which is impacted by early surrenders and withdrawals in life insurance and pension products. The risk of early withdrawals is increased by several factors, including the absence of a statutory minimum notice period for pension funds, but these early

pension fund, then the returns depend on the employee's investment profile choice.

([228])In the absence of such a fund, the TFR is transferred to the supplementary pension scheme set up by INPS.

([229])Italian pension funds offer several investment profile options (guaranteed, pure bond, mixed bond, balanced, equity).

([230])FISMA own calculations based on COVIP and ISTAT data.

([231])Since 2015, employees may proceed to additional voluntary pension fund contributions beyond their TFR, with an obligation for the employer to also contribute based on the relevant national or sectoral collective agreement.

withdrawals are also a signal that current tax disincentives are not sufficient ([232]).

The Italian asset management industry is reasonably developed and has a balanced investment profile. As of Q3 2025, the assets under management of all funds distributed in Italy amounted to EUR 1 403 billion, up 6.1% year-on-year ([233]). Of these, EUR 1 327 billion (94.6%) were open-ended funds, of which EUR 680 billion were managed by Italian management companies or groups ([234]) and the rest by foreign groups. Of the open-ended funds, 31.5% were equity funds, 36.2% bond funds, 24.7% balanced or flexible funds, 3.6% money market funds and 4.9% other types of funds. Investment funds managed by Italian groups have a higher share of bond holdings than those of foreign groups distributed in Italy, while a larger part of these bond holdings is invested in domestic bonds than EU peers (40% in 2024 vs an EU average of 33.7%). However, the home bias of Italian investment groups for their equity holdings is less than the average EU investment group, with 12% of their holdings in domestic equities, compared to 19.4% on average in the EU ([235]). Italian and euro-area funds play an important role in the Italian bond market, holding about a third of outstanding NFC bonds and a tenth of government securities. On AIFs, 90% of which are closed-end funds in Italy, the total assets under management of non-real-estate AIFs amounted to EUR 57 billion as of mid-2025. Of these, EUR 29.4 billion belonged to private equity funds.

Venture capital ecosystem

The venture and growth capital ecosystem in Italy is growing, but remains fragmented and does not fully meet start-up financing needs. The Italian start-up ecosystem is valued at around EUR 67 billion, having grown twenty-five-fold in the past 10 years. Both private equity (PE) and VC investment (with investments equivalent to 0.45% and 0.03% of GDP respectively in 2024, expressed as a three-year moving average) have gained traction since 2022. However, these figures still lag behind the EU averages of 0.49% and 0.06% of GDP respectively, particularly for VC investment. With a prevalence of small operators, the Italian VC sector does not sufficiently cover the later stages of the enterprise life cycle. In this context, foreign investors play a significant role in partially bridging the financing gap for successful start-ups that want to scale up. In 2024, of the 297 different investors active in Italy, 42% of them came from abroad vs 35% in 2023 (see Annex 4 for more details).

Italy's national promotional bank, CDP, is creating VC investment vehicles to 'crowd in' institutional investors. CDP Venture Capital (a subsidiary of state-owned CDP) plays a central role in the Italian VC market, with EUR 4.7 billion of assets under management and 15 operational direct or indirect VC funds, with further investment planned in its 2024-2028 business plan. One of the new initiatives is the Previdentia compartment in the new fund-of-funds VenturItaly II. Previdentia is designed to attract pension fund investment in VC, by allowing them to invest in this asset class in a cost-effective and risk-controlled way, drawing on CDP's skills in fund selection and due diligence.

The Italian authorities are trying to incentivise start-up and VC funding by Italian institutional investors. Only 0.1% of Italian insurers' investment portfolios was allocated to PE funds and 0.3% in other AIFs beyond real estate and infrastructure funds as of September 2025. Similarly, according to EIOPA, 0.3% of Italian occupational pension funds' assets were invested in unlisted equity and another 0.3% in AIFs. This led the Italian government to legislate that, as of end-2024, all supplementary pension schemes and first pillar Casse di Previdenza will benefit from the tax exemption under Law 232/2016 on capital gains from qualified investments in shares and units of collective investment vehicles, only if VC investments make up at least 3% for 2025, 5% for 2026 and 10% for 2027 ([236]), of their qualified investments in the previous year. However, it is too early to assess the measure's success.

([232])For supplementary pension plans, existing tax disincentives include the forfeit of the favourable tax treatment on contributions and payout returns.

([233])Assogestioni, Mappa trimestrale del Risparmio Gestito, Q3 2025. This figure does not include discretionary mandates.

([234])Banca d'Italia, Financial Stability Report November 2025.

([235])EFAMA Asset Management in Europe, December 2025.

([236])Thresholds as amended by Decreto Legge 95/2025.

Table A6.2: **Financial sector indicators**

		2018	2019	2020	2021	2022	2023	2024	2025-Q3	EU
Banking sector	Total assets of MFIs, % of GDP	206.4	206.3	230.4	216.2	198.6	177.1	175.3	177.8	246.1
	Common equity Tier 1 ratio	12.9	13.9	15.5	15.1	15.2	15.5	15.7	15.5	16.8
	Total capital adequacy ratio	16.1	17.2	19.3	18.8	19.2	19.4	19.7	19.5	20.2
	Overall NPL ratio, % of all loans	8.4	6.7	4.5	3.5	2.9	2.7	2.7	2.6	1.9
	NPL ratio, loans to NFCs	14.2	11.7	7.8	5.7	4.5	4.3	4.1	4.2	3.5
	NPL ratio, loans to HHs	6.5	5.1	4.0	3.6	2.8	2.6	2.4	2.3	2.1
	Return on equity ratio[1]	5.8	4.9	1.0	5.7	9.1	12.7	13.2	13.6	9.6
	Loans to NFCs, % of GDP	44.5	41.8	47.8	43.3	33.9	30.4	28.6	27.9	29.3
	Loans to HHs, % of GDP	37.6	37.7	41.4	38.7	34.6	31.8	31.1	30.7	43.6
	NFC credit growth rate, %	1.5	-1.8	8.5	1.7	-0.2	-3.7	-2.3	1.1	2.5
	HH credit growth rate, %	2.8	2.6	2.4	3.7	3.3	-1.3	0.3	2.2	2.6
Non-banking sector	Stock market capitalisation, % of GDP	26.6	30.8	31.1	33.6	25.6	28.3	31.1	39.4	69.9
	Initial public offerings, % of GDP	0.13	0.17	0.05	0.30	0.20	0.23	0.04	-	0.06
	Market funding ratio	34.2	35.3	35.2	37.4	39.1	39.7	40.8	-	49.7
	Private equity, % of GDP	0.332	0.337	0.370	0.379	0.459	0.458	0.447	-	0.487
	Venture capital, % of GDP	0.006	0.008	0.014	0.018	0.026	0.030	0.032	-	0.064
	Financial literacy, composite index	-	-	-	-	-	43.5	-	-	45.5
	Bonds, % of HHs' financial assets	7.3	6.3	5.5	4.4	5.2	7.9	8.6	-	2.8
	Listed shares, % of HHs' financial assets	2.1	2.3	2.5	2.8	2.5	2.7	2.9	-	4.8
	Investment funds, % of HHs' financial assets	14.4	14.6	14.4	15.3	13.8	13.5	14.6	-	11.0
	Insurance/pension funds, % of HHs' financial assets	22.9	23.4	23.6	21.9	19.6	18.9	18.9	-	27.8
	Total assets of insurers, % of GDP	51.3	56.5	65.2	60.9	48.7	49.1	50.0	49.7	53.9
	Pension assets, bn EUR	-	-	-	323.3	322.9	349.9	375.9	-	5813.8
	Pension assets, % of GDP	-	-	-	17.5	16.2	16.3	17.1	-	32.3
	10y real return average of pension assets, %	-	-	-	-	-	0.3	0.2	-	1.4
	Pension funds assets, ECB (% of GDP)	-	8.4	9.7	9.3	8.2	8.3	8.9	9.1	23.0
	1-3 / 4-10 / 11-17 / 18-24 / 25-27	Colours indicate performance ranking among the 27 EU Member States.								

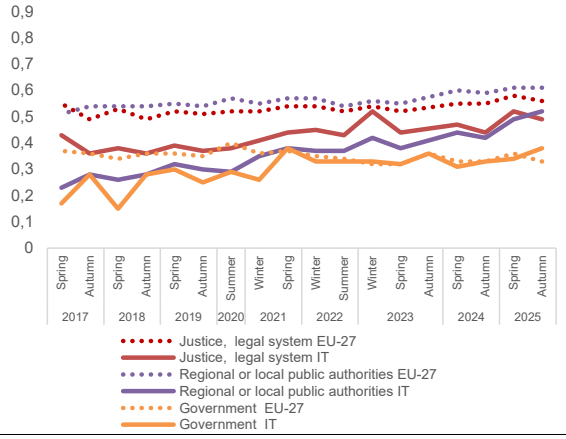
(1) Annualised data. EU data for credit growth and pension funds refer to the EA average.

Source: ECB, Eurostat, European Insurance and Occupational Pensions Authority, DG FISMA CMU dashboard, AMECO.

An effective institutional framework is essential for competitiveness. This requires public trust built on integrity, high-quality legislation, regulatory simplification and efficient services for people and for businesses. The 2025 country specific recommendations (CSRs) highlighted challenges faced by Italy in improving the effectiveness of its public administration and the efficiency of the justice system, tackling corruption and strengthening the capacity of local administrations (see also Annex 18).

Public trust

Graph A7.1: **Trust in the justice system, regional / local authorities and in government**



(1) EU-27 since 2019; EU-28 before
Source: European Commission, Standard Eurobarometer surveys

Public trust in government in Italy remains around the EU average (Graph A7.1)**.** Trust in other public institutions is nearing the EU average, and trust in regional and local authorities is increasing at a faster rate. Both businesses and people trust the ability of public administration to handle data securely and responsibly ([237]). People's perceptions of public administration have improved – the proportion of those finding it complex and burdensome has fallen by 14 percentage points since 2023 (Italy 39%; EU 38% in 2025).

([237])European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

Quality of lawmaking and implementation

Italy's lawmaking framework is broadly in line with best practice in terms of reducing the regulatory burden and ensuring effective implementation, but there is scope for improvement. (Table A7.1). Regulatory impact assessments (RIAs) are mandatory for major legislation. RIAs are expected to cover a wide range of impacts, and the costs and benefits to companies, people and the government. In the case of government emergency decrees simplified RIAs can be submitted. As these are extensively used, the implementation of the better-regulation framework is undermined. No assessment of its effectiveness has been undertaken in the last five years. An independent body provides advice/feedback on RIA quality, without issuing a formal opinion. This body could be helped by greater autonomy and better follow-up of its opinions. RIAs and evaluations remain uneven in quality and timeliness: weak points include impact analysis, transparency, consultation and approach. Regions are seeking to be involved in the legislative process, to ensure proper cooperation between different levels of government ([238]).

Italy has launched a regulatory simplification reform ([239]) **supported by the *Italia Semplice* portal** ([240]) **and has strengthened the coordinated simplification agenda between central and local authorities via *l'Agenda per la simplificazione*([241])**. Under milestone M1C1-60 of the recovery and resilience programme (RRP), Italy simplified and/or digitalised more than 260 critical procedures, by harmonising rules across government levels. In so doing it managed to eliminate unnecessary authorisations,

([238])Regioni.it - Conferenza delle Regioni e delle Province autonome - Regioni.it

([239])Law 167 of 10 Nov 2025 introduced rules on regulatory simplification, public consultation and impact assessment procedures.

([240])Italia Semplice.

([241])L'Agenda per la Semplificazione.

Table A7.1: **Italy. Selected indicators on better regulation practices for primary legislation**

Tools for smart legislation:	
Share of possible impacts assessed for all primary laws when developing legislation	●
Regulators are required to identify and quantify the benefits of a new primary law	●
Regulators are required to identify and assess the impacts of alternative non-regulatory options	●
Tools for effective implementation: when developing laws, regulators are required to:	
Assess the level of compliance	●
Identify and assess potential enforcement mechanisms	●
Specify the methodology of measuring progress in achieving the law's goals	●
Oversight of better regulation:	
There is an external body responsible for reviewing the quality of RIAs and of ex post evacuations	●
There are publicly available assessments of the effectiveness of RIA in modifying regulatory proposals	●
There are reports on the level of compliance by government department with the requirements of RIA	●
There are indicators on the percentage of ex post evaluations that comply with guidelines	●
The effectiveness of ex post evaluations in improving the regulatory stock has been assessed in the last five years	●

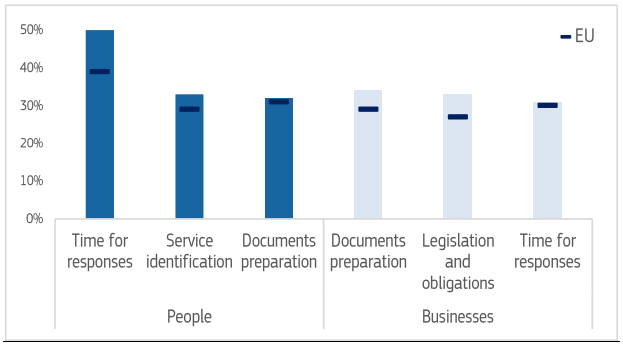
● High / yes / for all primary laws ● Medium / in part / for major primary laws ● Low / for some primary laws ● Very low / no / never

Source: OECD, 2025, Regulatory Policy Outlook 2025 and Better Regulation across the European Union 2025.

streamline timelines, reduce administrative burdens and support reforms([242]) (See Annex 5).

Public service delivery and digitalisation

Graph A7.2: **Most time-consuming aspects of service delivery**



Source: European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

Delivery of public administration services is improving, but user-friendliness still less than ideal. Satisfaction with administrative services is low, among both people and businesses (13% of people and 24% of companies, compared with EU averages of 45% and 42% respectively). The difficulties include i) time-consuming procedures (long waiting times), ii) preparing the necessary documents, iii) identifying the service needed and iv) understanding legislation (Graph A7.2). These obstacles lead to delays in business operations more frequently than the EU average (44% vs 36%). At the same time, a substantial proportion of people (Italy 70%; EU 67%) and companies (Italy 75; EU 73) find that digital services save time. Most people and companies find it easy to use public administration services while abroad in the EU.

Italy has made rapid progress with making services available online for people (Table A7.2). Measures to simplify access, supported by the national RRP contribute to this result, exceeding the EU average ([243]). The availability of electronic health records has risen above the EU average (score of 84 vs 82) ([244]). E-government use remains below the EU average (Italy 63%; EU: 76%), but 82% of residents have eID, providing access to an expanding range of services such as taxation and municipal services ([245]). Interactive help (71%) and more information about the progress of the requested service (57%) could make digital services more attractive.

([242])European Commission – Preliminary assessment of 7th payment request fa5262e2-06ba-4b24-b024-072ad032dffd_en.

([243])European Commission. Digital Decade 2025: eGovernment Benchmark 2025 | Shaping Europe's digital future.

([244])European Commission, 2025, Digital Decade: eGovernment Benchmark.

([245])European Commission, forthcoming, Simplification of key life events.

Table A7.2: **Digital Decade key performance indicators: availability of digital public services**

	Italy			EU-27
	2023	2024	2025	2025
Digital public services for citizens (0 to 100)	68	68	84	82
Digital public services for businesses (0 to 100)	75	76	81	86
Access to electronic health records (0 to 100)	71	83	84	83

(1) Digital Decade target by 2030: 100. (2) Publishing year, data was collected in the previous year
Source: European Commission, State of the Digital Decade report 2025

There has been an increase in the availability of digital public services for businesses, but it remains below the EU average (Table A7.2). Access to these services for companies from other EU countries also lags behind (Italy 63%; EU 74%) ([246]). 73% of businesses regularly use digital public services (EU: 68%). Business permitting is handled through a platform that enables interoperability between digital one-stop shops at municipal level with all the public administrations involved in administrative procedures ([247]). However the time it takes can vary considerably between municipalities, and it is documentation-heavy, time-consuming and lacks proper technical support. It is managed at municipal level, where applications for permits are submitted. In theory all relevant authorities are involved, but in practice efficiency varies by region and municipality ([248]).

Small commercial or service activities are straightforward and relatively fast if no major construction is involved. Industrial, environmental or new-building projects can be more complex and take much longer ([249]), especially if emissions, zoning, fire safety or environmental assessments are required. Delays often stem from i) complex administrative backlogs, ii) lack of coordination with external authorities, iii) limited technical staffing and iv) incomplete or inaccurate applications.

One major shortcoming is the lack of integration between online permitting platforms and external agencies, requiring local authorities to coordinate separately with multiple bodies, which adds administrative complexity and delays ([249]). Italy has received RRP support and has made considerable progress in its regulatory framework on the cloud and interoperability ([250]). However, only 7 900 out of 22 000 central and local administrations have completed the enrolment process for the national digital data platform ([251])([252]).

Italy has enabled cross-border data and document exchange via the EU once-only technical system ([253]). This will reduce the need for people and businesses to manually submit documents across Member States as more once-only services ([254]) come online. Italy has yet to identify the types of documents and data to exchange through the system and explore ways to shift from the submission of documents to exchange of structured data. Currently, Italy has two procedures ([255]) connected in the area of business. Italy has connected authority registries in the field of population.

([246])European Commission, 2025, Digital Decade: eGovernment Benchmark, p.34.

([247])http://www.suapsue.gov.it/ https://www.impresainungiorno.gov.it/.

([248])Unimpresa, 2025, Più servizi pubblici online della pubblica amministrazione, ma resta il divario tra nord e sud.

([249])World Bank, 2025, Subnational Business Ready in the European Union 2025: Italy.

([250])RRP – 3rd payment request – preliminary assessment C_2023_5284_1__annexe_EN.pdf.

([251])European Commission, 2025, Digital Decade 2025: Country reports.

([252])Stato di avanzamento|Agenzia per l'Italia Digitale.

([253])European Commission, *Once-Only Technical System Acceleratormeter*, Ec.europa.eu.

([254])Procedure types - Annex II of SDGR (2018/1724/EU) and directives 2005/36/EC, 2006/123/EC, 2014/24/EU and 2014/25/EU.

([255])European Commission, 2025, *Once-Only Services going-live! Change of competent authority for air-traffic controllers in Italy*, Ec.europa.eu.

Civil service

Italy's public administration faces challenges due to its ageing workforce and limited skills renewal. It has the oldest public administration workforce in the EU, with a growing proportion of civil servants over 49 and over 55 ([256]), creating risks for medium-term capacity and service quality. New recruitment has not yet offset retirements. Skills renewal is limited by low participation in adult learning among civil servants (Italy 15% vs EU 19%) ([257]). There is also a small proportion of staff with post-secondary education, though this has gone up slightly. The capacity of the Italian public administration to deliver public services varies considerably from region to region. Italy adopted a ministerial directive on training ([258]) and allocated around EUR 20 million for skills development, with the national digital platform *Syllabus* and initiatives such as *PA 110 e lode* and *PerForma PA*, but training at local level remains limited ([259]).

To address capacity gaps, especially at local level, Italy introduced the *inPA* recruitment portal for both central and local authorities ([260]). It also significantly increased (almost threefold compared to the year before) authorised local recruitment in 2025 (3 800 new positions including 3 360 permanent posts) ([261]). EU cohesion funding is also supporting the recruitment of specialist staff in less developed regions (e.g. 1 200 new civil servants with specialised technical profiles). RRP Investment 1.9 also supported the recruitment of a pool of temporary technical experts to help implement the RRP at regional and local level.

Integrity

While the perception of corruption in Italy remains high, the reported level of corruption actually experienced is low. 82% of companies see it as widespread (EU: 64%) and 85% cite close business–politics ties (EU: 76%), while 44% say this affects their operations (EU: 35%) ([262]). Public procurement is particularly vulnerable to corruption (See Annex 5). However, no company has reported being asked for bribes (Italy 0%; EU: 13%), and more firms than the EU average believe bribery is punished appropriately (Italy 38%; EU: 33%), suggesting low direct exposure despite high perceived risk.

Italy is making further progress in the prevention and detection of corruption. It has updated its national anti-corruption plan ([263]), including integrity risk assessments, and issued new guidelines on revolving doors. Italy has also drawn up new guidance to strengthen whistleblower reporting (considered effective by 23% of businesses in Italy; EU: 29%). However, integrity safeguards remain incomplete, due to gaps in lobbying regulations and conflict-of-interest rules for public officials ([264]).

Italy is taking measures to improve prosecution of corruption, in response to the 2025 CSRs. In 2024, Italy's Court of Audits (*Corte dei Conti*) issued 177 convictions totalling approximately EUR 41 million for financial crimes against public administration services, and the European Public Prosecutor's Office reported 51 corruption investigations. However, the number of suspended convictions remains generally high (67% in 2024).

([256])European Commission, Eurostat, 2026, European Union Labour Force Survey, Employed persons by economic activity (NACE Rev. 2) (2008-2026).

([257])European Commission, Eurostat, 2026, European Union Labour Force Survey, Participation rate of employees in education and training (last 4 weeks) by NACE Rev. 2 activity (2008-2026).

([258])Direttiva del Ministro in materia di formazione del 14 gennaio 2025.

([259])European Commission, 2025, European Public Administration Country Knowledge: Country Brief 2024 Italy.

([260])Sub-investimento 2.1.1: Creazione di una piattaforma unica di reclutamento.

([261])Commissione per la stabilità finanziaria degli Enti locali | Ministero dell'Interno.

([262])European Commission, 2025, Flash Eurobarometer survey 557 on Businesses' attitudes towards corruption in the EU.

([263])Autorità Nazional Anticorruzione, 2026, Piano Nazionale Anticorruzione 2026-2028.

([264])European Commission, 2025, Rule of Law Report.

Justice

Overall, the justice system continues to face challenges in terms of efficiency. The expected time taken to reach a decision in litigious civil and commercial cases in first-instance courts increased to 584 days in 2024 from 511 in 2023, one of the highest in the EU. The estimated time taken to resolve administrative cases in first-instance courts decreased to 483 days (from 595 days in 2023) but remains among the highest in the EU. Italy is taking additional measures to address the 2025 CSR on further reducing the backlog and disposition time of the justice system. Italy has revised the rules on mediation and assisted negotiation to further reduce the number of civil and commercial proceedings ([265]).

The quality of the justice system is generally perceived as good overall. Although persistent shortages remain, the recruitment of magistrates and administrative court staff continues apace. Italy has introduced i) mobility of magistrates between appeal courts, ii) more remote-working opportunities for judges, iii) flexibility for reassignment of cases and iv) improved training and induction of new magistrates.

Italy has made substantial progress in digitising its justice system. First instance criminal proceedings have been digitalised, while further improvements could be made to complete the digitalisation in all instances and fully enable online hearings. Italy is among the best performing countries in the EU in digital solutions for initiating and following proceedings in civil, commercial and administrative cases. However, there is room for improvement in arrangements for producing machine-readable judicial decisions. Better online access to case law would help increase transparency and trust in the judiciary ([266]).

([265])2026 Justice Scoreboard, forthcoming.

([266])For a more detailed analysis of the performance of the justice system in Italy, see the upcoming 2026 EU Justice Scoreboard and the 2025 Rule of Law Report.

Italy faces challenges in decarbonising its industry, reducing emissions in the effort sharing sectors including road transport, and on waste management. It still spends half of its revenue from the EU emissions trading system (ETS) on objectives other than the climate and energy transition. In 2025 Italy received a country-specific recommendation to tackle residual inefficiencies in waste management by reducing infrastructure capacity gaps. There are still wide regional differences in the capacity of waste infrastructure and in Sicily, extraordinary governance powers are in use. The rate of separate waste collection varies widely by region, as does the rate of anaerobic treatment of organic waste, varying enormously between the north and centre-south. The governance structure in the waste management sector is fragmented, with opportunities missed to unlock economies of scale.

Industry decarbonisation

Greenhouse gas emissions from industry

The greenhouse gas emission intensity of Italy's manufacturing sector is similar to the EU average, but it accounts for a significantly higher share of energy-related emissions ([267])**.** Manufacturing generates around 18% of Italy's total greenhouse gas (GHG) emissions, similar to the EU average ([268]). In 2024, manufacturing emitted 244 g CO_2eq of GHG per euro of gross value added (GVA), in line with the EU average. Between 2019 and 2023, the GHG emissions intensity of manufacturing in Italy has fallen by 9%. At over two thirds in 2023, Italy's share of energy-related GHG emissions of all industry emissions (the remaining share of emissions are generated by industrial processes and product use) is among the highest in the EU, where the average is 58%. Between 2018 and 2023, the intensity of energy-related GHG emissions in Italy's manufacturing fell by 8% to 179 g CO_2eq per euro of GVA, above to the EU average of 163 g CO_2eq per euro of GVA (that declined by 20%). In that period, at around 41%, electricity and renewables generated a broadly stable share of the final energy used in manufacturing. In the five years until 2024, the energy intensity of Italian manufacturing declined by about 10%, to 0.9 GWh per euro of GVA.

Italy's energy-intensive industries face challenges but their output remains stable. Energy-intensive industries ([269]) accounted for 12% of Italy's manufacturing GVA in 2022. With the exception of paper and paper products, the GHG emission intensity of these industries is moderate by EU standards. These industries are particularly exposed to energy prices. Electricity prices for industry are high and have increased significantly in Italy in recent years ([270]).

Policies to promote industry decarbonisation

Italy has started complementing its energy efficiency incentives with support for industry decarbonisation, but more is needed. Italy has set up some schemes for power purchase agreements ([271]), but uptake has been limited as the sector has been partially crowded out by contracts for difference. To address this problem,

([267])This Annex discusses the transition of Italy's manufacturing industry, specifically its energy-intensive industries, to low-carbon and net-zero modes of production, which is key to preserving competitiveness on the path towards climate neutrality as mandated by the European Climate Law. A broader perspective on the current competitiveness challenges facing Italy's manufacturing industry is provided in Annex 5. For a more detailed description of greenhouse gas emissions from industry, see European Commission (2025), Commission staff working document, SWD (2025) 205 final, Brussels, 4.6.2025, Annex A7. Clean industry and climate mitigation, Link.

([268])In 2023. Data on the manufacturing sector exclude the NACE division C19 – manufacture of coke and refined petroleum products, for better match of the sectoral data from Eurostat (gross value added) with those from the UNFCCC under the Common Reporting Format. Also see further indicators on industry decarbonisation, as well as the annotation for further information, in table A8.1 at the end of this Annex.

([269])Notably, the manufacture of paper and paper products (NACE division C17), of chemicals and chemical products (C20), "other" non-metallic mineral products (C23; this division includes manufacturing activities related to a single substance of mineral origin, such as glass, ceramic products, tiles, and cement and plaster), and basic metals (C24). To date, these industries are energy-intensive – i.e. consuming high levels of energy both on site and/or in the form of purchased electricity – and greenhouse gas emissions intensive, in various combinations.

([270])See Annex 9.

([271])See Annex 9.

the authorities launched the 'Energy Release 2.0' scheme, which provides renewable energy via contracts for difference directly to energy-intensive industries at the bid price, in exchange for commitments and investments in additional renewable energy generation. Despite some interesting innovative projects providing long-term energy storage (e.g. Energy Dome), Italy has not yet tapped the full potential of the long-term energy storage sector, nor the high potential for geothermal and waste heat. Further action is therefore needed to bring down the high cost of electricity and promote industry's shift to using electricity.

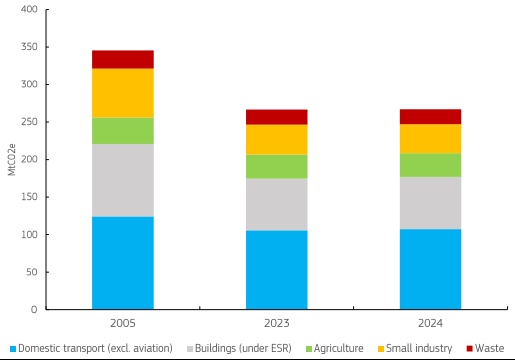
A major opportunity to fund decarbonisation is to allocate in full Italy's auctioning revenues from the EU ETS to the climate and energy transition, in line with the EU ETS Directive. Italy still allocates 50% of its national revenues to servicing its public debt/deficit (*fondo di ammortamento titoli di stato*).

Reduction of effort sharing emissions

Compliance with effort sharing limits with domestic measures

Italy's effort sharing emissions are projected to be above its target in 2030; earlier years' unused emission allocations will not suffice to cover the gap to achieve compliance with the Effort Sharing Regulation ([272]). In 2024, greenhouse gas emissions from Italy's effort sharing sectors are expected to have been 21.9% below 2005 levels. By 2030, current and planned policies and measures are expected to lead to a 40.5% reduction, leaving a gap of 3.2 percentage points to the 2030 target, a 43.7% reduction. Italy could bridge part of this gap with own unused annual emission allocations from earlier years but would also need transfers of allocations from other Member States to achieve compliance with the Effort Sharing Regulation. Progressing towards climate neutrality will require swift implementation of the additional measures planned and new measures identified.

Graph A8.1: **Greenhouse gas emissions in the effort sharing sectors, 2005, 2023, and 2024**



Source: European Environment Agency.

Sustainable transport

Italy lags behind on electric road transport ([273]) as car ownership is widespread ([274]) and road transport is the dominant form of transport ([275]). In 2024, road transport generated 40% of Italy's effort sharing emissions transport, although this is a 14% reduction from 2005 levels ([276]). The uptake of electric vehicles is low; in 2025, 6.2% of new car registrations were battery electric cars, roughly 1/3 of the EU average. Battery electric vehicles could provide crucial demand-side flexibility and contribute to peak-shaving using vehicle-to-grid technologies, which would help bring down electricity costs and increase grid hosting capacity, thereby optimising grid investments. Italy had installed only 25% of electric charging infrastructure for cars by end-2025 ([277]). The lack

([272])The national GHG emission reduction target is set out in Regulation (EU) 2018/842 (the Effort Sharing Regulation). It applies jointly to buildings (heating and cooling), road transport, agriculture, waste and small industry (known as the effort sharing sectors). The emissions from effort sharing sectors for 2024 are based on approximated inventory data. The final data will be calculated in 2027 after a comprehensive review. Projections about the impact of current policies ('with existing measures', WEM) and additional policies ('with additional measures', WAM) as per Italy's 2025 reporting under Article 17 of Regulation (EU) 2018/1999 (the Governance Regulation). Also see European Commission (2025), *Climate Action Progress Report 2025 – Technical Information*, Commission staff working document, Brussels, Chapter 9 (pp. 111ff.), and in particular Tables 25 and 26, Link.

([273])European Commission, EU Alternative Fuels Infrastructure Observatory, Link.

([274])Eurostat, Passenger cars in the EU, Link.

([275])European Commission, 2025, *EU Statistical pocketbook 2025*, Link.

([276])See Graph A8.1, and Table A8.1 at the end of this Annex.

([277])Data on the fulfilment of AFIR Distance-based targets, Alternative fuels observatory, Link.

of charging infrastructure for trucks risks becoming a significant bottleneck for the uptake of electric trucks and the ability of manufacturers to meet their legally binding sales targets. Zero-emission vehicles are not yet exonerated from concession tolls nor subject to the optional assessments under Article 7(4) of the Eurovignette Directive (1999/62/EC). Italy has over 700 cars per 1 000 inhabitants, the most in the EU and still increasing. It has the second highest share in the EU of inhabitants who do not use public transport (68%) ([278]). In 2024, Italy's competition authority has signalled issues related to charging infrastructure ([279]).

Vehicle taxation could better encourage the transition to sustainable transport. Italy's recurrent taxes on vehicles set different rates based on engine power and European emission standards, but do not explicitly take into account vehicles' CO_2 emission or weight, as most other Member States. In addition, vehicles older than 20 years are subject to a 50% reduction, while those older than 30 years are exempt. Vehicle taxes are set and collected by regional governments, within a framework set at central level. A central surtax (so-called "superbollo") also applies to vehicles with most powerful engines (above 185 kW), and progressively declines with the age of the vehicle. At the same time, Italian cities are among the most polluted in the EU (see section ("Zero-pollution industry").

The share of freight transport by road is around 84% (2023; EU average: 75%). Improving modal integration and the offer of rail services and levelling the playing field among transport modes by internalising external costs and withdrawing direct and indirect fossil fuel subsidies would help attain an efficient modal split of transport, in line with investments supported by the national recovery and resilience plan. As for industrial decarbonisation (see above), EU ETS revenues are an untapped resource to finance transport decarbonisation, in line with Article 10.3 of the EU ETS Directive. This would also deliver long-term benefits by tackling the persistent problem of air pollution.

([278])2024 data, Eurostat, Link.

([279])*Autorità Garante della Concorrenza e del Mercato*, Link.

Decarbonisation of fisheries

The Italian fishing fleet is among the higher emitting fleets in the EU in terms of total CO2 equivalents, amounting to an average of 786 thousand tonnes CO_2eq between 2018 and 2022 ([280]), and 190.9 million litres of marine fuel consumed in 2023. In view of climate change mitigation, both the fisheries and aquaculture sectors face the dual challenge of moving away from fossil fuels and increasing energy efficiency to enhance sector resilience. This requires a comprehensive energy transition strategy that incorporates renewable energy sources, technological innovation, adequate infrastructure and access to energy sources, and improved energy practices across the sector's operations.

Sustainable industry

Circular economy industry

Italy is on target to meet all EU recycling targets for 2025 apart from the target on waste from electrical and electronic equipment (WEEE). The rate of municipal waste recycling was 50.8% in 2023 ([281]) against the EU average of 47.7% ([282]). However, the volume of total waste generated increased slightly between 2022 and 2023 (from 486 kg per capita to 489 kg per capita), though this is below the 504 kg per capita level recorded in 2018 (SDG 12).

In terms of WEEE separate collection, Italy is well below the EU 2019 target of 65%, recycling only 29.6% in 2024, down from 34% in 2022. The rate of professional collection is much higher than the household waste collection rate. The WEEE Coordination Centre ([283])

([280])European Commission, 2026, *Study on greenhouse gas emission (GHG) reduction costs, scenarios and pathways for EU fisheries to achieve net zero by 2050*, Link.

([281])Due to new reporting rules for calculating recycled municipal waste under Directive 2008/98/EC, there is a break in the time series compared to previous years.

([282])More recent national data indicate a recycling rate of 52.3% in 2024, still below the EU targets of 55% for 2025 and 60% in 2030, see Institute for Environmental Protection and Research (ISPRA), Municipal Waste Report 2025, Link, Figure 3.5, p.87.

([283])Centro di Coordinamento RAEE (CdC RAEE), Link.

announced a series of measures, including new drop-off points, extending distributor take-back obligations, pilot projects to intercept incorrect WEEE disposal and simplified registration procedures. The share of used batteries and accumulators collected in Italy in 2023 was low at 35.5% (EU average: 48.8%) against the EU target of 73% by 2030 ([284]).

Italy is close to meeting the EU's 2025 target to recycle 50% of plastic packaging, recycling 49% in 2023 ([285]). However, plastic recycling facilities are not working at full capacity. This means that plastic waste storage facilities are in turn not being emptied and collection has to slow down due to the lack of storage. These difficulties are compounded by the cost of imported virgin plastic from non-EU countries being lower than recycled plastic.

Italy has reduced its landfilling rate significantly, from 46.3% in 2010 to 15.9% in 2023. This puts Italy on track to achieve the EU landfilling target of a maximum of 10% by 2035. The incineration rate has remained relatively stable at 19.1% in 2023, a slight increase since 2022 (18.5%).

Italy has untapped potential to use fiscal tools to improve waste management. The tax on landfilling and waste incineration of municipal solid waste without energy recovery at EUR 5.17-25.82/tonnes is one of the lowest in the EU ([286]). Increasing the landfill and waste incineration tax and applying it consistently across all regions could reduce regional disparities and increase revenue by EUR 200 million by 2030, double the current level ([287]).

As noted in the 2025 country-specific recommendation, there are still wide regional differences in waste management performance and in the capacity of waste infrastructure, with the north generally more advanced than the centre-south (Annex 18). In 2024, the rate of separate municipal waste collection ranged from 78.9% in Emilia-Romagna to 55.5% in Sicily ([288]). Some provinces perform poorly on separate waste collection, such as Palermo (36.9%) (both province and city), Reggio Calabria (43.8%), Crotone (46.4%) and Foggia (49%) in 2024 ([289]). In addition to ERDF support, at least 584 waste projects designed to improve waste collection, recycling and treatment, financed by the Recovery and Resilience Facility, will need to be completed in 2026.

The rate of anaerobic treatment of organic waste fluctuates greatly between the north and centre-south. Rates vary between almost 24% in Lombardy to 1% in Campania in 2024 ([290]). This is due to a lack of available infrastructure, with 54 plants in Lombardy against only five in Campania in 2022-2023 ([291]). This results in organic waste being transported between regions for treatment.

In 2024, waste management cost more on average per capita in the centre and south of Italy ([292]). ARERA has brought in measures to prevent increases in costs from burdening the most vulnerable groups: the social waste bonus was introduced in 2026 with the new tariff method (MTR-3) ([293]). Quantity-based pricing is becoming more widespread as the pay-as-you-throw TARIP gradually replaces TARI ([294]) especially in northern and central regions. Italy is still paying fines for European Court judgments on illegal landfills and waste management in Campania. However, both fines have been significantly reduced over time to recognise the progress made ([295]).

([284]) Eurostat, Recycling of batteries and accumulators, Link.

([285]) Eurostat, Recycling rates of packaging waste for monitoring compliance with policy targets, by type of packaging, Link.

([286]) European Commission: Directorate-General for Environment, Camboni, M., Markandya, A., Tyrer, D., Goonesekera, S. *et al.*, *Greening the European Semester – Resource and pollution taxes*. Annex 6, Country factsheets, 2026, pp. 222-223, Link.

([287]) Ibid., Table 71, p.232.

([288]) ISPRA, *Municipal Waste Report 2025*, Link, Figure 2.23, p.51.

([289]) Ibid. Table 2.15, p.58.

([290]) Ibid., Figure 3.2.4, p.93.

([291]) Ibid., Table 3.2.2, p.98.

([292]) Ibid., Figure 5.4, p.242.

([293]) *Autorità di Regolazione per Energia Reti e Ambiente*, Link.

([294]) Ibid., pp.235-6; TARI: Tassa sui Rifiuti; TARIP: Tassa sui Rifiuti Puntuale.

([295]) For the Campania case, in January 2026, the daily fine was reduced from EUR 120 000/day to EUR 20 000/day.

As reported in the 2025 country report, Italy is estimated to need total additional investment of at least EUR 3.3 billion a year to fund the circular economy transition (including waste management), representing 0.15% of its GDP. This includes EUR 745 million for recent initiatives such as eco-design for sustainable products, packaging and packaging waste, labelling and digital tools, critical raw material recycling and measures proposed under the amended the Waste Framework Directive. Italy needs an additional EUR 2.1 billion in investment to unlock its circular economy potential ([296]).

The governance structure in the waste sector is fragmented with opportunities missed to unlock economies of scale. There are currently 54 *Ambiti Territoriali Ottimali (ATOs)* across the country. While 65% of Italian regions have one ATO per region, there are notable exceptions, the most per region being in Campania (7) and Sicily (18). A higher number of ATOs can indicate more waste operators. ARERA has identified inefficiencies in this system in terms of untapped economies of scale ([297]) (see Annex 18).

Italy's results on the circular economy indicators are in sharp contrast to the results on waste management. The explanation is that performance on circular economy indicators does not vary widely by region as it does for waste infrastructure capacity ([298]). The rate of circular use of materials was 21.6% in 2024 (EU average 12.2%), making Italy the third best performer in the EU([299]). At EUR 4.51 generated per kg of material consumed in 2024, resource productivity in Italy is well above the EU average of EUR 3 per kg and one of the highest in the EU. However, the import material dependency in Italy at 46.6% is double the EU average (22.4%) in 2024, albeit lower than the 49.2% in 2018 ([300]). 31% of Italy's GDP depends on critical raw materials (CRM), above the EU average of 22% ([301]) (see Annex 5). Confindustria has underlined Italy's vulnerability in the supply of CRM supply in its work on the Cascade project ([302]). On construction and demolition waste, despite high levels of separate collection above 80% ([303]), Italy had a low reuse rate 0.46% in 2023 ([304]). New guidelines on sustainable construction ([305]) and minimum environmental criteria for green public procurement ([306]) were published in 2025.

The 2022 national circular economy strategy ([307]) **and related timetable** ([308]) **provides a roadmap for the transition**. Many of the actions are in the national recovery and resilience plan (RRP) ([309]). A survey of 800 small companies showed that 65% employ circular economy practices, double the rate in 2021. 61% of businesses surveyed considered that circular economy measures generated cost reductions ([310]). By contrast, Italy has seen only a 2% increase in circular economy jobs between 2014 and 2022 ([311]), with the sector accounting for only 2% of total employment in 2023, equal to the EU average. Circular economy practices are estimated to have saved EUR 18.3 billion per year ([312]). Italy has an active national circular economy network ([313]), stakeholder platform ([314]) and a plethora of regional activities ([315]) worth noting. A national

([296])European Commission, DG Environment, Environmental investment needs & gaps assessment programme, 2025 update. Expressed in 2022 prices.

([297]) ARERA, Relazione 304/2025/I/RIF, Link; ISPRA, Green Book 2025 - Data on waste management in Italy, Link.

([298])Foundation for Sustainable development, European Semester fact-finding mission, 28 January 2026.

([299])Belgium and Netherlands have a higher rate.

([300])Eurostat, Link.

([301])National Circular Economy Network, Link.

([302])Confindustria, Cascade project, 2026, Critical raw materials and resilience of supply chains, Link.

([303])ISPRA, *Rapporto Rifiuti Speciali Edizione 2024*, p.214, Link

([304])Federbeton-Confindustria, *Rapporto di sostenibilità 2024*, p.15, Link.

([305])ISPRA, *EMAS nel settore delle costruzioni: buone pratiche e circolarità*, Link.

([306])MASE, Criteri ambientale minimi, Link.

([307]) MASE, 2022, National Circular Economy Strategy, Link.

([308]) A related timetable addendum (*cronoprogramma*) contains targets to be achieved by 2027, Link.

([309])Recovery and resilience plan, 2021, Link.

([310])National Circular Economy Network, seventh report, Link.

([311])Eurostat, Persons employed in circular economy sectors, Link.

([312])Intesa San Paolo, *Circular Economy Report 2025*, Link.

([313])National Circular Economy Network, Link.

([314])Piattaforma Italiana degli attori per l'Economia Circolare, Link.

([315])Italia circolare, Link.

plan on sustainable consumption and production is under development ([316]).

Italy has extended producer responsibility schemes in operation. There are five schemes covering oils, packaging, tyres, batteries and electronic waste, and one under development for single-use plastics ([317])([318]). Nevertheless, sectors such as plastics, textiles, construction and e-waste are less robust due to uneven collection nationally with lower levels in the southern regions, weak markets and low demand for recycled materials ([319]). When facilities are limited, inter-regional transfers can become more expensive. Furthermore, a tax on single-use plastic goods, which was supposed to enter into force in 2021, has been delayed for the eight time to 1 January 2027.

Bioeconomy industry

Italy's bioeconomy has generated broad-based and increasingly dynamic growth, with value added outpacing domestic GDP in recent years. The bioeconomy is driven notably by bio-based chemicals and plastics, and wood products and furniture, with the former registering the highest sub-sector value added growth at 6.1% between 2018 and 2023([320]). Employment trends are mixed: overall bioeconomy employment has edged downward, but bio-based chemicals and plastics and food and beverages bucked this trend with job growth of 3.9% and 0.7% respectively, reflecting the expanding industrial footprint of these two strategically significant segments ([321]). Labour productivity stood at 81.1% of the national average, up from 74.8% in 2018, indicating a steady convergence with the broader economy and a gradual shift toward higher-value activities. R&D investment is also trending in the right direction, with bioeconomy-relevant sub-sectors growing faster than the national average (2.0%, up from 1.2% between 2018 and 2023) ([322]).

Structurally, Italy's bioeconomy is one of the largest in Europe with an annual turnover of approximately EUR 437.5 billion and 2 million employees as of 2023([323]). It is anchored by a dominant food and beverage sector that increasingly creates value from agricultural residues, complemented by a globally competitive bio-based chemicals and plastics industry driven by significant private investment in biorefineries and biopolymer innovation. These developments are guided by the Bioeconomy Strategy (BIT) II Implementation Action Plan 2025-2027, approved in December 2024 ([324]).

Zero-pollution industry

Air quality in Italy remains a serious cause for concern in some parts of the country, notably the Po River basin and large cities. The latest available annual estimates for 2023 attribute 43 083 deaths each year (or 407 949 years of life lost (YLL)) to fine particulate matter (PM2.5), and 9 064 deaths each year (or 85 828 YLL) for NO_2, the worst in Europe on each parameter ([325]). Environmental risks put a heavy toll on population health, causing nearly half the health impacts that smoking does. Combined, behavioural risks (i.e. smoking, harmful alcohol use, poor diet and physical inactivity) and air pollution accounted for around 29% of deaths in Italy in 2021 underscoring the need for stronger and more comprehensive public health measures ([326]). Labour productivity is estimated to have increased by 2.56% between 2000-2022 due to a 4.7% reduction in PM2.5 ([327]). The European

([316])MASE, Piano d'Azione Nazionale per il Consumo e la Produzione Sostenibile (PAN CPS), Link.

([317])Deliverables from LIFE4EPR mapping tool, Link.

([318])Decreto Legislativo, 8 novembre 2021, n. 196, Link.

([319])Assoambiente *L'Italia che Ricicla*, Link.

([320])European Commission, Jobs and Wealth in the European Union Bioeconomy, Link.

([321])Ibid.

([322])European Commission, *Business expenditure in Research and Development (R&D) in the EU bioeconomy*, JRC analysis, Link.

([323])Italian government, *Updated implementation action plan (2025-2027) for the Italian bioeconomy strategy (BIT II)*, p.6, Link, Intesa San Paolo *et al*, *La Bioeconomia in Europa*, p.2, Link.

([324])Ibid.

([325])EEA, 2025, Harm to human health from air pollution in Europe: burden of disease status, 2025, Link.

([326])European Commission, 2025, State of Health in the EU Italy Country Health Profile 2025, p.5, Link.

([327])Dechezleprêtre A. & Vienne V, 2025, *The impact of air pollution on labour productivity: Large-scale micro evidence from Europe*, p.36, Table 13, OECD Science, Technology and Industry Working Papers 2025/14, Link.

Court has delivered two judgments for non-compliance with the Ambient Air Quality Directive: in 2020 for exceedances of PM10 limit values and in 2022 for exceedances of NO_2 limit values. In 2024 the limits for NO_2 were reported to be exceeded in seven air quality zones (down from 10 in 2023), PM10 exceeded in 23 zones (up from 19 in 2023), and no exceedances of the annual limits for PM2.5 (compared with 1 in 2023). A new infringement was opened in December 2025 for excess levels of NO_2 in Naples and Palermo. The cost of air pollution from the main pollutants (ammonia, non-methane volatile organic compounds, sulphur dioxide, NOx and $PM_{2.5}$) is estimated at EUR 42.4 billion every year in Italy ([328]). Italian cities are among the most polluted in the EU, with 29 of the 76 cities in the lowest 90-100 European Air Quality ranking decile ([329]). On 20 June 2025, the Italian government approved an action plan for 2025-2027 to improve air quality with funding of EUR 2.4 billion ([330]). The Italian Parliament is discussing a dedicated fund to reduce air pollution in the Po Basin ([331]).

A tax on emissions of sulphur dioxide (SO_2) and nitrogen oxides (NOx) was established in January 1998 paid by operators of large combustion plants. It is estimated that incremental air pollutant charges (NOx, SO_2, $PM_{2.5}$) applied to large industrial emitters under integrated permits, complementing regulatory standards could increase revenue by EUR 43 million by 2030, double the current level ([332]). Some Italian cities (Milan, Bologna and Palermo) operate congestion charging, which reduces air pollution.

Water pollution from industry is another critical challenge. Italy has the highest level of pollutant releases into water in the EU, with 1.92 kg weighed by human toxicity factors/EUR billion GVA in 2022 (EU average: 0.86). However, it has achieved a 30% reduction between 2010 and 2023 in industrial heavy metal releases (Cd, Hg, Ni, Pb), a 46% reduction in total organic carbon emissions, and a 43% reduction in total phosphorus as reported under the Industrial Emissions Directive ([333]). A national phosphorus platform has been established([334]). Water pollution by Italian industry imposes direct and indirect costs of EUR 3 billion a year, not yet sufficiently borne by the polluters ([335]).

As of January 2026, the European quality standards for per- and polyfluoroalkyl substances (PFAS) in drinking water applies, ensuring harmonised reporting across the EU of PFAS monitoring data. PFAS are a concern across Italy ([336]) with over 2 700 contaminated sites and 2.5% of the population affected ([337]). Italy has set up a national fund for monitoring, study and research into PFAS pollution with a budget of EUR 0.5 million in 2025 and EUR 1 million a year in 2026 and in 2027 ([338]).

In terms of governance, Italy has established essential technical performance levels for the National System of Environmental Protection ([339]), covering different types of pollution but it has not

([328])European Commission: Directorate-General for Environment, IEEP, *Green taxation and other economic instruments – Internalising environmental costs to make the polluter pay*. pp. 32-33, Table 3, 2021, Link.

([329])EEA, European City air quality viewer, Link; cities are ranked by default from the cleanest to the most polluted city, based on the risk of mortality associated with long-term exposure to $PM_{2.5}$, NO_2 and O_3 in the years 2023 and 2024, assuming that the total attributable risk for exposure to several pollutants is the sum of the attributable risk per pollutant.

([330])Piano di azione nazionale per il miglioramento della qualità dell'aria 2025-2027, Link; Official Journal, Link.

([331])*Fondo per il finanziamento di specifiche strategie di intervento volte al miglioramento della qualità dell'aria nell'area della pianura padana.*

([332])European Commission: Directorate-General for Environment, Camboni, M., Markandya, A., Tyrer, D., Goonesekera, S. *et al.*, *Greening the European Semester – Resource and pollution taxes*. Annex 6, Country factsheets, 2026, Table 71, p.232, Link.

([333])EEA, Water pollutant releases changes from 2010 to 2022 for the EU Member States, 2024, Link.

([334])Italian Phosphorus Platform, Link.

([335])European Commission: Directorate-General for Environment, IEEP, *Green taxation and other economic instruments – Internalising environmental costs to make the polluter pay*, 2021, p.35, Table 5, Link.

([336])ISPRA, PFAS – Inquinamento da sostanze perfluoroalchiliche nelle acque, Link.

([337])European Commission: Directorate-General for Environment, Ricardo, Trinomics and WSP, *The cost of PFAS pollution for our society – Final report*, 2026, Table 3-9 p.58 & Table 2.1, p.14, Link.

([338])Reply to Semester questionnaire (6.2.2026).

([339])ISPRA, *Sistema Nazionale di Protezione Ambientale* (SNPA), 2019, *Livelli essenziali delle Prestazioni Tecniche Ambientali* (LEPTA), Link; Law 132/2016, 28.6.2016, Article 9, Link.

Table A8.1: **Key clean industry and climate mitigation indicators: Italy**

Climate mitigation	Italy							Trend	EU	
Industry decarbonisation	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**2023**
GHG emissions intensity of manufacturing production, g/€ (1)	285	266	279	279	262	245	244	↘	330	-
Share of energy-related emissions in industrial GHG emissions (2)	65.1	64.3	65.0	68.0	69.6	69.1	-	↗	55.5	57.9
Energy-related GHG emissions intensity of manufacturing and construction, g/€ (3)	194.0	178.5	189.4	196.3	193.2	178.9	-	↗	203.9	163.0
Share of electricity and renewables in final energy consumption in manufacturing, % (4)	42.1	42.9	44.1	41.4	42.4	42.8	42.9	↘	42.8	43.9
Energy intensity of manufacturing, GWh/€ (4)	1.01	1.01	1.13	1.04	0.94	0.90	0.90	↘	1.27	1.05
Share of energy-intensive industries in manufacturing production, % in GVA (5)	14.18	13.75	14.36	15.05	14.90	14.31	-	↗	-	-
GHG emissions intensity of production in sector [...], g/€ (6)										
- paper and paper products (NACE C17)	851	801	842	870	861	770	-	↘	722	619
- chemicals and chemical products (NACE C20)	1,274	1,075	1,094	1,127	1,433	1,179	1,082	↘↘	-	-
- other non-metallic mineral products (NACE C23)	2,229	2,164	2,285	1,852	1,831	1,956	-	↘↘	2,495	2,352
- basic metals (NACE C24)	1,728	1,683	1,545	2,199	2,111	2,041	-	↗	2,842	3,099
Reduction of effort sharing emissions	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**2023**
GHG emission reductions relative to base year, %				-17.9	-19.4	-21.3	-21.9			
- domestic road transport	-18.1	-17.2	-32.0	-19.4	-15.1	-15.0	-13.7	↗	-1.4	-5.6
- buildings	-13.7	-16.2	-17.8	-15.0	-24.4	-28.7	-27.9	↘	-20.3	-33.5
	2005			**2021**	**2022**	**2023**	**2024**	**Target**	**WEM**	**WAM**
Effort sharing: GHG emissions, Mt; target, gap, %	343.1			281.7	276.4	269.9	267.8	-43.7%	-30.3%	-40.5%
Sustainable road transport	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2018**	**2021**
New zero-emission vehicles, electricity motor, % (7)	0.27	0.54	2.15	4.55	3.67	4.16	4.21	↗	1.03	8.96
Number of publicly accessible AC/DC charging points (8)	-	-	11564	21365	30855	41113	58189	70039 ↗	446956	n/a
Share of electrified railways, % of total (9)	71.62	71.61	71.89	72.24	72.40	72.51	72.74	↗	55.47	56.49

Sustainable industry	Italy							Trend	EU-27	
Circular economy transition	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**latest data**
Material footprint, tonnes per person	10.9	10.4	9.4	10.9	11.2	9.9	10.1	↘	14.8	13.7
Circular material use rate, %	18.3	18.7	20.1	19.3	20.2	21.1	21.6	↗	11.6	12.2
Resource productivity, €/kg	3.5	3.6	3.5	3.5	3.8	4.4	4.5	↗	2.1	3.0
Employees in circular economy	2.1	2.1	2.2	2.3	2.0	2.0	-		2.1	2.0
Patents in circular economy	21.95	49.3	57.8	37.6					12.3	12.0
Recycling rate	49.8	51.4	51.4	51.9	53.3	50.8	:		46.40	48.1
Plastic recyling	44%	45%	44%	48%	47%	49%	-		41%	42%
Construction and demolition waste (CDW) recovery	98	-	98						88	89
Bioeconomy industry	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**CAGR 2018-2023**	**2018**	**2023**
Value added, million EUR	91,249	93,447	88,638	97,770	107,851	115,810	-	4.1%	642,438	863,436
Employment, total number of people employed	1,941,348	1,942,216	1,908,369	1,906,815	1,918,815	1,934,543	-	-0.1%	17,649,040	17,085,642
Productivity										
Valued added per worker, thousand EUR	47.0	48.1	46.4	51.3	56.2	59.9	-	4.1%	36.4	50.5
Valued added per worker, % of national average	74.8	76.0	77.1	78.2	80.1	81.1	-	-	62.2	70.7
R&D business expenditure										
Total bioeconomy (biomass producing and converting sectors)	1,384	1,537	1,516	1,489	1,548	1,561		2.0%	15,672	23,335
Total R&D business expenditure	15,934	16,589	15,467	15,645	16,270	17,156	-	1.2%	196,587	259,525
Zero pollution industry	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**2021**
Damage cost for industrial pollution	35.4	32.7	31.7	32.0	-	-	-		414.9	352.7
Water industrial pollutants releases	Cd, Hg, Ni, Pb		nitrogen		TOC		Phosporus			
	2021	change (2010)	2021	change (2010)	2021	change (2010)	2021	change (2010)		
	75,735	-30%	23,700,918	-29%	20,725,082	-46%	2,553,488	-43%		
Water chemical status		Good	5,835	Good (%)	0.8		Poor	1228.0	Poor (%)	16%

Source: Industry decarbonisation: All data are from Eurostat; data following the UNFCCC Common Reporting Format (CRF) are from the European Environment Agency (EEA), republished by Eurostat. (1) Sectors covered: all divisions of section C - Manufacturing - of the NACE Rev. 2 statistical classification of economic activities, except C19 (manufacture of coke and refined petroleum products). (2) GHG emissions as per UNFCCC Common Reporting Framework (CRF) categories 1.A.2 - fuel combustion in manufacturing in industries and construction (that broadly correspond to the broadly correspond to the NACE sections C - Manufacturing and E - Construction, excluding C-19), and CRF2 - industrial processes and product use. The figures shows the emissions in the 1.A.2 category as a share of the sum of CRF1.A.2. and CRF2 emissions. (3) Sectors covered: CRF 1.A.2 as described above. Gross value added (GVA) data in the denominator aligned in sectoral coverage, in 2020 prices. (4) Sectors covered: NACE section C excluding C19. (5) Nominator: NACE divisions C17, 20, 23, 24; denominator: NACE section C excluding C19 (see above). (6) GVA (denominator) in 2020 prices. Reduction of effort sharing emissions: Data source: European Environment Agency, greenhouse gas data viewer; European Commission, Climate Action Progress Report, 2025. For details, see the footnote in the "Reduction of effort sharing emissions" section. Sustainable road transport: (7) Source: Eurostat; (8) Source: European Alternative Fuels Observatory; (9) Source: Eurostat. For all climate mitigation indicators, the trend arrows compare the latest available data (year t) with the data four years earlier (t-4). Sustainable industry: Bioeconomy value added, employment and productivity: JRC, Developments of Economic Growth and Employment in Bioeconomy Sectors across the EU. Bioeconomy R&D business expenditure: JRC, Business expenditure in Research and Development (R&D) in the EU bioeconomy. Damage cost for industrial pollution: EEA, The costs to health and the environment from industrial air pollution in Europe, 2024. Water industrial pollutants releases: EEA, Industrial releases of pollutants to water and economic activity in the EU-27, 2024. Water chemical status: WISE, Surface water bodies: Chemical status, 2024 and WISE Groundwater bodies: chemical status, 2024. Other indicators: Eurostat. For circular economy indicators, the trend arrows compare the latest available data (year t) with the data two years earlier (t-2).

yet been fully implemented as an implementing decree is pending.

This annex outlines the progress made and the ongoing challenges faced in enhancing energy affordability, while advancing the transition to net zero. It reflects the implementation of past energy-related Country-Specific Recommendations (CSRs) and notably the 2025 CSR which called on Italy to accelerate electrification and intensify its efforts to deploy renewable energy, including by reducing the fragmentation of its permitting process and investing in the electricity grid. The decarbonisation of the Italian energy system is progressing, but challenges persist. Fossil fuels still account for a large share of total energy imports, despite the major potential represented by renewable energy installations. Electricity prices remain high as gas price traditionally sets the marginal wholesale price of electricity (more than 60% of the price). Italy has been working to increase its grid interconnection capacity and has delivered non-fossil flexibility solutions, e.g. through its successful procurement mechanism for energy storage capacity. Renewables play a pivotal role in electricity generation in Italy, however there is scope to improve their integration into the grid. Italy has already taken steps in this regard, e.g. by preparing a unified regulatory framework for renewable energy (the 'Single Text'), setting up a single digital platform for renewable energy permitting (the SUER platform) (Reform 1, in Mission 7 of the National Recovery and Resilience Plan), setting up the FER-X renewables support scheme, and adopting legislation aiming to establish a power purchase agreement (PPA) dedicated market (Reform 4, in Mission 7 of the National Recovery and Resilience Plan). The trend in positive energy efficiency initiatives has slowed over the past year. A new future-proof support framework for energy efficiency, including for the energy performance of buildings, is needed and must be clear in order to give certainty to both the banking and industrial sectors. As shown during the energy crisis, Italy has a strong record when it comes to diversifying its energy supply.

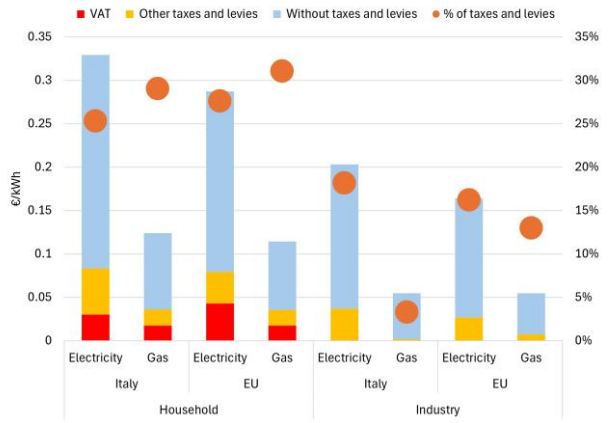
Energy prices and costs

Despite continued government support to help lower final energy bills, retail household energy prices in Italy have risen since 2024, while the disproportionately higher tax burden on electricity is undermining affordability and preventing accurate price signals for electrification. In the first half of 2025, household electricity prices in Italy increased compared with the previous year, reaching EUR 0.329/kWh (the fourth highest in the EU) and remaining above the EU average. Similarly, household gas prices increased, remaining above the EU average at EUR 0.124/kWh. The share of industrial electricity demand in overall demand in Italy is 42.65% ([340]). Retail electricity prices for industrial consumers (EUR 203/MWh) also increased, remaining well above the EU average (EUR 164/MWh) and the third highest in the EU, while industrial gas prices also increased but were in line with the EU average. While wholesale costs account for 61% of the industrial electricity price, network costs, carbon costs, and taxes represent 10%, 11% and 18% respectively of electricity bills. Nevertheless, final energy prices in Italy during the first half of 2025 remained imbalanced, partly due to a fiscal burden disproportionately skewed towards electricity. For large businesses, electricity was 3.7 times more expensive than gas in the first half of 2025, with taxes and levies (excluding VAT) accounting for 18% of electricity bills and only 3% of gas bills. By contrast, for household consumers, taxes and levies had a slight positive balancing effect on the electricity-to-gas price ratio, which would have increased from 2.7 to 2.8 if taxes and levies were excluded. This was the case despite taxes being skewed towards electricity whereby taxes and levies combined represented nearly 30% of electricity bills as gas bills ([341]).

([340]) Industrial electricity demand =124.8 TWh; overall demand=292.7 TWh, source: official statistics 2024.

([341]) Analysis based on S1 2025 Eurostat data.

Graph A9.1: **Electricity and gas prices for household and non-household consumers, first half of 2025**



(i) For household consumers, the consumption band is DC for electricity and D2 for gas.
(ii) For non-household consumers, the consumption band is ID for electricity and I4 for gas. VAT and recoverable charges are not displayed for non-household consumers as these are typically recovered by businesses. This also applies to the '% of taxes and levies', which is shown excluding VAT and recoverable charges for non-household consumers.
(iii) 'Without taxes and levies' indicates the retail price excluding all taxes and levies. It always includes the energy/supply and network cost components, which are not disaggregated in Eurostat's six-monthly price dataset.
Source: Eurostat

Due to Italy's dependence on costly natural gas for electricity generation and its limited non-fossil flexibility and interconnection capacity, its average wholesale electricity price was EUR 116/MWh in 2025 ([342]) (vs EU average of EUR 85/MWh), the highest in the EU. Fossil fuels continued to account for 52.3% of electricity generation in Italy throughout the year (the fifth largest share of fossil fuels in a country's electricity mix in the EU), maintaining their structural role as the dominant marginal price-setting technology and keeping costs elevated (88% of price setting hours for 58% of electricity generation). Average day-ahead electricity prices in Italy increased by 12% in 2025 amid rising natural gas procurement costs and limited renewable output. Short-run marginal costs ([343]) of natural gas in the EU rose from EUR 96/MWh in 2024 to nearly EUR 103/MWh in 2025. Although daytime prices have fallen in recent years owing to the growing incorporation of solar power in Italy and neighbouring markets, Italy remains vulnerable to severe price spikes during peak-demand hours. This is because falling solar output in the evening and early morning, combined with limited non-fossil flexibility often means that thermal plants must significantly ramp up generation to cover the supply–demand gap. Price spreads ([344]) in Italy averaged EUR 46/MWh in 2025, down 36% from 2024.

Graph A9.2: **Low-carbon electricity generation vs. electricity wholesale prices, 2025**

Unavailable data for Cyprus and Malta. Wholesale price is given as average of day-ahead electricity prices over 2025. EU-27 average is calculated as consumption-weighted. EU low-carbon share is calculated out of total EU electricity generation. Low-carbon share by country is calculated out of total public electricity generation. Low-carbon includes renewables and nuclear.
Source: Eurostat

Flexibility and electricity grids

A number of projects are ongoing to increase Italy's interconnection capacity. Italy's electricity interconnection rate stands at 5,13% and is one of the lowest in the EU — below the 15% target and well below the EU's top performers such as the Netherlands (over 25%) and Nordic countries. Italy's electricity transmission grid is interconnected with neighbouring countries through 30 cross-border power lines. Italy is a significant net electricity importer (18% of own consumption). It exports some volumes to Malta but imports significant volumes from Switzerland and France. In 2025,

([342])Ember.

([343])Short Run Marginal Costs (SRMC) are the sum of the variable costs associated with producing electricity using hard coal and fossil gas. These are fuel costs, carbon costs and variable operating and maintenance costs. Estimates are provided by Ember.

([344])Spread refers to the difference between the highest and lowest hourly day-ahead electricity prices in a single day.

56.71 GWh of electricity was exchanged through cross-border interconnections, of which 51.80 GWh were imports and 4.91 GWh were exports ([345]), Core and Greece-Italy capacity calculation regions (CCRs). Member States must ensure that a minimum of 70% of technical cross-border capacity is available for trading. The use of allocation constraints has limited import possibilities into Italy North from neighbouring countries.

A derogation allowing lower levels of trade for a limited time, if needed, has been granted to the Italian transmission system operator, Terna, for operational security reasons. Regarding the Greece-Italy CCR, the impact of exchanges with non-EU countries is limited, as is the impact of exchanges across other borders within the region. The permit-granting process for cross-border infrastructure projects in Italy remains complex despite EU-level reforms intended to accelerate permitting. The multi-layered approval process covers national, regional and local authorities and can last from 3 to 5 years due to Italy's fragmented approach to environmental assessments and public consultations, and a lack of coordination with neighbouring countries under Projects of Common Interest/Projects of Mutual Interest frameworks.

Terna has plans to invest more than EUR 25 billion in Italy's power grid by 2034, with the aim of integrating data centres and around 70 GW of renewables, but is faced with the problem of grid saturation, with more than 350 GW of pending connection requests. Delays continue to be caused by permitting bottlenecks and regional congestion, limiting cross-border capacity in 2026 (e.g. France-Italy decreased by 54% to 457 MW).

Nevertheless, on 20 February 2026, Italy adopted Decree-Law No 21/2026 which is intended to directly target these grid bottlenecks. The Decree-Law streamlines permitting by slashing the timelines from 24-36 months to under 12 months for strategic transmission projects by fast-tracking strategic environmental assessments. In 2024, curtailment of renewable energy reached around 338 GWh (mostly solar energy in the south), the equivalent of around 1-2% of total renewables output. Projections for 2025 suggest 500-800 GWh of curtailment against a background of more than 7 GW of new capacity, with peaks during low-demand/high-production periods (e.g. on the main islands). Remedial actions cost EUR 1.2-1.5 billion in 2024-2025, caused by thermal plants ramping up generation to balance renewables.

Recent financial reports from Terna, indicate significant investment and strong financial performance, which align with the range of €500–700 million in quarterly capital expenditure and earnings, rather than annually. The electricity distribution grid also requires substantial investment, estimated at EUR 6 billion annually over the next decade, to modernising infrastructure, integrate renewables, increase digitalisation, and boost resilience against climate risks ([346]). Italy's 2025 Budget Law allows concessions to be renewed for electricity distribution system operators through the submission of 'extraordinary investment plans' rather than competitive tenders by area as envisaged by Legislative Decree No 79/1999. Where such extensions are the only viable option for carrying out urgent investments, they must be essential, cost-efficient and go beyond the planned investments or publicly subsidised works. Moreover, the extension must be limited to the time needed to carry out the works. Given the changing role of distribution system operators in the context of growing prosumerism, it could be justified to increase the monitoring of them and to strengthen their independence in terms of their legal form, organisational structure, and decision-making processes, from activities unrelated to distribution.

Italy has taken steps to support non-fossil flexibility. Currently power-storage capacity is around 9.04 GW of operational but is hampered by a lack of information on ancillary services to develop a storage business plan that is not based on the energy market alone. Recent reforms to unlock non-fossil flexibility potential, include, on the one hand, MACSE storage auctions (first awards in 2025 for 10 GWh of new batteries for the 2028 delivery period) to support renewables integration and ensure system stability and, on the

([345]) France, Italy, Austria and Slovenia are part of the Italy North CCR. A CCR is a group of countries which calculate cross-border electricity flows together.

([346])ENEL-TEHA study, 2024, The role of electricity distribution for a safe energy transition, Link.

other hand, the TIDE ("Testo Integrato del Dispacciamento Elettrico") dispatching framework (effective since January 2025) to promote demand response in the provision of ancillary services. This energy storage capacity procurement mechanism is intended to support the installation of the necessary power-storage capacity to achieve the country's renewable energy target of 50 GWh storage by 2030. The new regulatory framework on dispatching formally entered into force on 1 January 2025, including new rules on the contribution of demand response in the provision of ancillary services.

A consolidation phase for the new framework is scheduled from 1 February 2026 until 2028, during which the rules will be progressively developed and fine-tuned. Despite the improvements made by the TIDE reform, participation of aggregators on the balancing markets and services may still be restricted due to participation requirements. Moreover, further efforts are still needed concerning the participation of aggregators on all wholesale markets. Interest of utility-scale resources in the Italian MACSE has been steadily increasing over time, with an additional auction scheduled for 2026 targeting batteries and pumped hydro, building on the success of the first round and in perspective also new auctions for pumped hydro.

Italy has strengthened consumer empowerment on the energy markets while stepping up electrification. Dynamic/hourly contracts for households have grown to around 15-20% of the market (up from less than 5% in 2023), driven by wholesale price exposure and optimisation apps; fixed-price deals, which ensure price stability, still dominate at 70-75%, according to data trends identified by the Regulatory Authority for Energy, Networks and Environment (ARERA). Around 1.2-1.5 million households (12-15%) are prosumers with rooftop photovoltaic and storage systems, boosted by renewable incentives and energy communities. Self-consumption exceeds 50% in recently installed rooftop photovoltaic systems (primarily since 2023). Over 95% of households have 2G smart meters ('e-distribuzione' rollout completed in 2024), enabling real-time data, although full remote reading/active demand is still at 80-85%, pending upgrades to second-generation smart meters.

In 2024, electricity accounted for 22.7% of Italy's final energy consumption (FEC) ([347]), slightly below the EU average of 23.4%, a share which has remained largely unchanged over the last decade, partly due to the unfavourable electricity-to-gas price ratio that disincentivises electrification and cost-effective decarbonisation. Electricity accounts for 21.1% of household FEC and 40.0% of industrial FEC (see Annex 8). In the transport sector, the share of FEC accounted for by electricity remains negligible at 2%.

Renewables and long-term contracts

The difference between Italy's share of renewables in 2023 and its 2030 target is one of the largest in the EU. This is due to Italy's ambitious targets which were revised upwards following the adoption of the REPowerEU strategy (e.g. 63.4% coverage of electricity consumption by renewables, requiring more than 70 GW additional capacity), but also due to slow growth in renewables between 2023 and 2025, (e.g. solar capacity increased by 5-7 GW annually although a total of 54 GW was needed, roll-out of wind energy stalled, and grid permitting delays slowed the deployment of renewables). Despite the 'Single Text' having a positive impact, saturation of the grid (stalling more than 350 GW of power) and interconnections (8-10%) exacerbated this problem. A further positive contribution came from Decree-Law No 21/2026 (the 'Decreto Bollette'), which amended Decree-Law No 190/2024 by giving renewables and data centres priority grid access via provision connections and allowed projects under 1 MW to benefit from queue prioritisation. It also fast-tracked authorisations for data centres tied to grid reinforcements, thereby promoting the role of prosumers (1.2-1.5 million households).

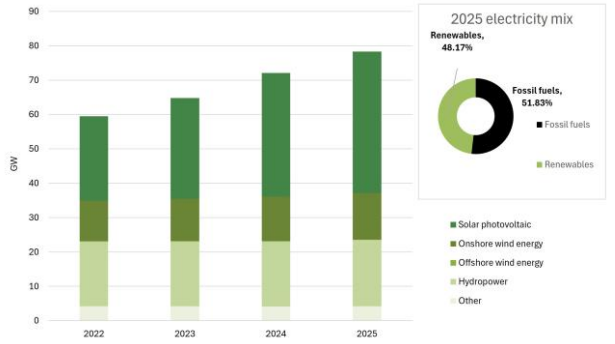
In 2025, renewables covered 47.7% of electricity generation in Italy, slightly above the overall figure for the EU of 47% ([348]). Hydropower accounted for 15.8% of the electricity

([347])CAGR (compound annual growth rate) of 0.31% between 2015 and 2024 and minimum/maximum share of 22% and 23%, respectively (Source: Eurostat).

([348])Yearly electricity data, Ember.

mix, biomass for 5.9% and solar for 16.6%. Wind accounted for 7.9%.

Graph A9.3: **Italy's installed renewable capacity vs electricity generation mix**



Electricity mix is given as net electricity generation (gross electricity production minus consumption of power stations' auxiliary services). Electricity produced in pumped hydro plants is excluded from total net electricity production, as it was previously counted as electricity produced from another source.
"Other" includes renewable municipal waste, solid biofuels, liquid biofuels, and biogas.
Source: IRENA, Eurostat

Installed capacity for renewables in Italy represented 78,277 MW in 2025, an increase of 9.0% compared to 2024 (71,841 MW). Installed capacity for wind energy grew to 13.6 GW in 2025 (compared to 13.0 GW in 2024, +4.7%), whilst installed capacity for solar grew significantly (+16.2% compared to 2024), reaching 41.2 GW. Italy's updated national energy and climate plan sets a target of 131 GW of renewable capacity by 2030 (including 28 GW of wind and 79 GW of solar), and 228 TWh of renewable generation (including 98 TWh (or 43%) from solar and 65 TWh (or 28%) from wind). In addition, Terna estimates that Italy would need 8.9 GW (71 GWh) of energy storage (including pumped-storage hydropower) to meet its 2030 decarbonisation targets.

The already mentioned 'Single Text' (Testo Unico), adopted by way of Legislative Decree No 190 of 25 November 2024 ([349]), as amended by Decree-Law No 175 of 21 November 2025 ([350]) is intended to collect, compile and consolidate existing legislation and provisions on renewables deployment and thus to supersede all previous related legislation. Through this reform Italy has harmonised the previously fragmented permit-granting framework and has, at the same time, established a minimum number of 'renewable acceleration areas' (as required by the Renewable Energy Directive III) and 'suitable areas' (as required by Italian legislation) which are subject to faster permit-granting procedures and which regional authorities are only allowed ex. The reform, which includes extensions to the aforementioned areas, is still yet to be fully implemented by the regional and provincial authorities. Moreover, the stability of the legal framework is fundamental, but has been challenged by a considerable number of disputes stemming from the regions. As part of the same reform under the National Recovery and Resilience Plan, Italy will be setting up a single digital platform, called the SUER, intended to support project developers and permit-granting authorities with the permit-granting process and to ensure interoperability between permit-granting platforms at national, regional and local level. It is expected to provide concrete benefits by simplifying and accelerating permit-granting processes. However, the Single Text only allows photovoltaic installations on agricultural land in specific and very limited cases and also requires such installations to use elevated modules. This restricts the possibilities for photovoltaic systems, especially utility-scale systems, and will require deployment of solar power to be accelerated if Italy is to achieve the targets set in its national energy and climate plan. By differentiating agricultural land, for instance by identifying degraded or unused agricultural areas where photovoltaic systems could still be installed, and by granting more flexibility beyond elevated modules regarding the types of agricultural photovoltaic systems which may be used, this would enable faster deployment of solar power.

In 2025 Italy carried out auctions of photovoltaic and wind capacity under the transitional FER-X support scheme. The result was very positive for photovoltaic (7.7 GW awarded with a weighted average price of EUR 56.825 and 1GW awarded under the NZIA procedure), while the wind auction was heavily undersubscribed. Italy is currently working with the European Commission to assess the compliance of two further mechanisms, the regime FER-X and the FER-Z, with State Aid rules. Under the regime FER-X new competitive procedures will be launched in 2026. Italy has not yet provided a

([349])Legislative decree from 25 November 2024, n. 190, Link.

([350])Decree law n. 175 from 21 November 2025, Link.

schedule for future auctions in the coming years on the Union Renewables Development Platform. Such information would be very useful to help project developers plan for future investments.

By way of Decree No 152 of the Ministry of the Environment and Energy Security of 20 June 2025, Italy committed to setting up a dedicated organised power purchase agreement (PPA) market, to be implemented by the energy market operator GME and overseen by the energy services operator GSE (in accordance with reform 4, mission 7 of the NPRR). This market will be integrated within the existing forward electricity market and is designed specifically for long-term renewable PPAs (generally 5–10 years) based on standardised terms. The aforementioned Decree also introduced a 'guarantee of last resort' to be provided by GSE, whereby if one counterparty defaults on a PPA traded on the organised market, GSE will be able to step in and take over the contract, settling at a regulated 'reserve price'. This mechanism is meant to reduce credit and counterparty risk, particularly for smaller buyers and project special purpose vehicles, and directly adheres to the EU's electricity market design rules that call on Member States to remove barriers to PPAs, such as a lack of guarantees or high collateral requirements. Regulatory changes in 2025 (including resolutions issued by ARERA, as mentioned in the sectoral analyses) have tightened the rules on grid access, metering and congestion management to better accommodate fluctuating levels of renewable generation, making PPA-backed projects easier to connect and operate. Italy also aligned its PPA measures with its National Energy and Climate Plan, explicitly recognising PPAs as a key tool for mobilising private capital to create new renewable capacity and for reducing exposure to fossil fuel price volatility.

Italy significantly increased support for renewable energy communities (REC) in 2025 by expanding regulation and introducing incentives under the recovery and resilience plan. The Decree-Law No 19/2025 (converted to Law No 60/2025) broadened access to RECs for municipalities of up to 50 000 inhabitants (previously <5 000), covering some 7 750 towns and unlocking incentives for a greater number of urban areas. Updated ministerial rules (pending the approval of the Court of Auditors in mid-2025) raised advance payments for qualifying REC solar/wind projects from 10% to 40%, alongside non-repayable grants covering up to 40% of eligible costs for small plants, extending the application deadline under the NRPP to November 2025. GSE's updated operational rules (post 2024) allow RECs to be registered digitally. Moreover, 2025 saw the first major REC activations under the tariff scheme established by Decree No 414/2023 of the Ministry of the Environment and Energy Security offering support for up to 5 GW of capacity by 2027. This built on Legislative Decree No 199/2021 (transposing the Renewable Energy Directive II) by positioning RECs as a decarbonisation tool in view of Italy's 131 GW renewable target.

Self-consumption in Italy grew rapidly in 2025, driven by regulatory simplification, incentives tied to the NRPP, and the phase-out of net metering ('scambio sul posto'), which ended for new requests in September 2025. ARERA Resolution No 727/2022 and its subsequent updates have enabled 'virtual' hourly energy sharing for collective self-consumption schemes, including renewable energy communities, with GSE managing access and incentives. The Decree-Law No 19/2025 (the 'Decreto Bollette' 2025) expanded REC eligibility and streamlined grid access rules, thereby boosting the adoption of RECs in industrial/commercial settings as well as individual rooftop solar installations. By mid-2025, over 7 750 municipalities qualified for REC-linked self-consumption, setting a path to achieve the 131 GW renewables target under the National Energy and Climate Plan and reducing grid strain.

Energy efficiency

Italy made no significant progress on energy efficiency in 2024, reversing the positive trend seen notably in the residential and services sector since 2019. In 2024, Italy's final energy consumption (FEC) decreased slightly compared with 2023, reaching 108.9 Mtoe, continuing the positive but declining trend seen since 2019. Italy's FEC in 2024 was beyond the trajectory needed to meet its expected contribution by 2030.

While FEC has decreased since 2019 in industry (by 8.2%), in the residential sector (by 16.5%, mostly driven by milder temperatures) and in services (by 5.5%), it increased over the same period in the transport sector (by 6.2%). At the same time, according to data from 2024, FEC in the residential sector and in services saw an upturn following a sustained decrease over the period 2019-2023 thanks to energy efficiency policy measures and financing deployed by Italy. This trend can be attributed to the phasing out of the post-COVID-19 support framework for energy efficiency improvements and the clean energy transition under the NRPP which has not yet been followed up with a new future-proof support framework for energy efficiency. High upfront costs, financing gaps, and slow uptake in non-residential sectors, alongside delays in transposing the Energy Performance of Buildings Directive, have compounded the situation. While Italy's 'Transition 5.0' tax credit scheme offers support to industry for investing in renewables, renewed incentives are necessary to pick up the weak momentum in this field. In terms of new policies and financing, in September 2025 Italy updated the framework for its national energy efficiency certificates (or 'white certificates') scheme, extending it to cover the entire 2025-2030 period and establishing energy savings obligations for energy distributors with more than 50 000 customers.

Given that buildings are responsible for 37% of energy use in Italy they play an important role in improving energy efficiency. Italy is therefore encouraged to submit its draft national building renovation plan pursuant to the recast of the Energy Performance of Buildings Directive to ensure a clear and predictable pathway towards an energy efficient and decarbonised building stock.

Heating and cooling account for 79% ([351]) of Italy's residential FEC, with renewables supplying 22% ([352]) of the total energy used for heating and cooling across all sectors. Approximately 348 000 heat pumps were sold in 2024, a decrease of 4% compared to the previous year, taking Italy's total stock of heat pumps to around 4.2 million ([353]).

Italy reported 153 eco-design and energy labelling checks in 2025. This is an improvement on the previous year but is considered insufficient relative to the size of the country and overall levels of non-compliance in the EU.

Italy made targeted progress on energy poverty through private-public partnerships and by extending EU-funded efficiency programmes. Banco dell' Energia organised 30 projects in 2025, backed by EUR 13 million in funding, aimed at supporting 13 000 vulnerable persons, by providing help with paying bills and replacing old appliances, and education on energy matters. Under Italy's Recovery and Resilience Plan, EUR 2.2 billion was allocated to energy communities and self-consumption in small municipalities, with the aim of generating 2 500 GWh of community-led renewables by 2027 to ease energy poverty in underserved areas. Incentives, including a EUR 100 million fund for third-sector ([354]) upgrades, helped low-income groups access energy efficiency retrofitting measures, despite earlier credit transfer cuts. There is no unified national strategy for these measures, although they leverage opportunities under the EU Social Climate Fund to achieve scalability.

Security of supply and diversification

Italy's reliance on Russian gas has significantly decreased since 2021, with minimal volumes (less than 3% of its needs) imported in 2024, while in 2025 Italy received only one Russian LNG cargo and no pipeline gas following the end of Russian gas transit through Ukraine. Key to Italy's

([351]) Eurostat, 2025. https://data.europa.eu/data/datasets/uvygjkxev6pywqwbgmgwyg?locale=en.

([352]) Eurostat, 2025. https://ec.europa.eu/eurostat/databrowser/product/view/SDG_07_40?lang=en&category=sdg.sdg_07

([353]) European Heat Pump Association (EHPA), 2025. https://ehpa.org/market-data/.

([354]) The third sector includes non-profit organisations, cooperatives, social enterprises, foundations, and voluntary associations (e.g. charities, community groups) that pursue social goals rather than profit.

diversification strategy has been the phase-out of Russian gas, which will be achieved by 2025 through increased imports from other countries, primarily Algeria, as well as Azerbaijan, and LNG imports from Qatar and the US. Domestic gas production stayed roughly constant at around 3-4 bcm/y and accounted for a minimal share of the total supply against a backdrop of falling demand (demand reduced to 19% over the period 2021-2024 ([355]).

To support its diversification efforts, Italy has increased LNG imports and explored new pipeline routes rather than pursuing upstream growth. The floating storage and regasification units (FSRUs) in Piombino will remain in operation until mid-2026, with plans to relocate them to Savona (Liguria) by October 2026 at the earliest, while the FSRU in Ravenna began operating in January 2026. The FSRUs have a combined capacity of 10 bcm/y. Italy successfully navigated the end of Russian gas transit via Ukraine, which ceased on 1 January 2025. Additionally, it reduced its gas demand by approximately 18-20% between August 2022 and November 2025 thanks to sustained efficiency measures, milder weather, growth in renewables and cutbacks by industry.

In 2024, fossil fuels accounted for around 80% of Italy's total energy supply. Specifically, natural gas accounted for roughly 39% of Italy's energy mix, while oil accounted for 34%. By contrast, renewables accounted for less than 20% of Italy's total energy mix (or gross inland consumption). Italy is advancing legislative initiatives to assess the potential relaunch of a national nuclear programme, focusing on Small Modular Reactors (SMRs) and advanced technologies. This shift leverages Italy's strong industrial base, which is well-positioned to strengthen the EU energy supply chain and enhance domestic manufacturing capacity for the net-zero transition.

In response to the regional crisis in the Middle East, Italy has introduced temporary excise cuts of €0.25/litre on petrol and diesel and €0.12/litre on GPL, alongside 20% tax credits for road transport, fishing, and agriculture. Italy has also delayed the coal phase-out from 2026 to 2038. Italy contributed to the IEA collective action to release 400 million barrels of emergency oil reserves.

([355])ARERA Annual Report 2025: Summary_2025.pdf.

Fossil fuel subsidies

Italy continues to operate high levels of fossil fuel subsidies, mostly natural gas consumer support, exceeding its phase-out commitments, amid energy security challenges. In 2024, environmentally harmful ([356]) fossil fuel subsidies without a comprehensive phase-out plan before 2030 represented 0.29% ([357]) of Italy's GDP ([358]). Overall, natural gas subsidies account for the majority (between 50-65%) of total fossil fuel subsidies ([359]). Additionally, Italy's 2023 Effective Carbon Rate ([360]) averaged EUR 100.05 per tonne of CO_2, above the EU weighted mean of EUR 84.80 ([361]).

([356])Explicit fossil fuel subsidies (e.g. direct transfers) and implicit fossil fuel subsidies (i.e. tax expenditures linked to forgone tax revenues that have an identifiable fiscal impact for the central budget) that support fossil fuel energy production, transmission and/or consumption.

([357])European Commission calculation based on *Study on energy subsidies and other government interventions in the EU – 2025 edition*, Enerdata.

([358])2024 Gross Domestic Product at market prices, Eurostat.

([359])How the G7 Can Advance Action on Fossil Fuel Subsidies in 2025 | International Institute for Sustainable Development.

([360])The Effective Carbon Rate is the sum of carbon taxes, ETS permit prices and fuel excise taxes, representing the aggregate effective carbon rate paid on emissions.

([361])OECD (2024), Pricing Greenhouse Gas Emissions 2024.

Italy is one of the EU Member States that is the most exposed to climate risks, and action to improve its resilience would therefore help to preserve its competitiveness. In 2025, Italy received a CSR to address climate-related risks and mitigate their economic impact through enhanced climate insurance coverage, increased implementation of nature-based solutions and more institutional coordination. The CSR also called for the tackling of remaining inefficiencies in water management by reducing infrastructural gaps. Relevant progress was made on all these fronts in 2025 and early 2026. Insurance for extreme events has become obligatory for companies, but marine storm surges are not covered. An insurance protection gap against natural disasters for households remains. Nature-based solutions are being increasingly applied as an alternative to grey infrastructure. They are supported through EU financing, but there is no national assessment of their potential. Soil consumption increased even faster in 2024 than before and a proposed national law has been blocked in the parliament for over 10 years. There are concerns regarding the quality of surface water and persistent infringements in urban wastewater treatment, despite EU financing. Leakage rates remain high for water supply networks and reservoirs. A fragmented governance structure in the water sector results in missed economies of scale.

Climate adaptation and preparedness

National policy measures related to adaptation and preparedness have improved in recent years, but additional efforts are still required in Italy. The Observatory on Climate Change Adaptation was created in December 2025 by ministerial decree ([362]). The Observatory should set priorities; identify interested parties and sources of financing, as well as measures to remove obstacles to adaptation; and ensure vertical and horizontal coordination, involving the regions. These priorities, including the improved coordination and sub-national adaptation planning, as well as a consolidated planning for investments for climate change adaptation are of utmost importance, as highlighted also by the National Adaptation Plan adopted in 2023. The Observatory also has a forum that involves stakeholders. One important achievement in 2026 has been the creation of the integrated monitoring and forecasting system supported by the recovery and resilience plan (RRP). This provides comprehensive data on climate-related risks ([363]). A fund with a budget of EUR 350 million for 2026 has been set up at the Ministry of Economy and Finance to support measures to reduce Italy's exposure to natural risks and other unforeseeable events ([364]). As indicated in the 2025 report, several regions and municipalities have approved their own climate change adaptation strategies and plans and are now implementing the related measures ([365]). The share of Italy's population covered by the EU Covenant of Mayors signatories has been steadily increasing and stood at the very high level of 78% in 2024 (EU-27: 44%). 64% of Italy's signatories have submitted a sustainable energy and action plan (SECAP) for 2030-2050 ([366]). This indicates a high level of commitment among Italy's municipalities to increase climate resilience and adaptation. However, further action and implementation can enhance the impact of climate action at the local level.

Italy is strongly exposed to extreme events and is highly vulnerable in hydrological terms, and most of its areas are at risk of floods, droughts and heatwaves. Italy is in two out of three macro-regions that have been identified as hotspots of climate risks most affected by climate change – southern Europe and low-lying coastal regions ([367]). In 2024, 94.5% ([368])

([362])MASE, *Decreto di istituzione dell'Osservatorio*, 17 December 2025, Link.

([363])MASE, *Il MASE lancia SIM, infrastruttura per la sicurezza ambientale*, 11 February 2026, Link.

([364])Dossier del Centro Studi della Camera, Legge di Bilancio, Profili di interesse della VIII Commissione Ambiente A.C. 2750, commas 555-558, p. 31, Link.

([365])Climate Adaptation, Link.

([366])Covenant of Mayors, Link.

([367])EEA, 2024, *European Climate Risk Assessment*, Link.

([368])In 2024, Italy's river basin planning identified a total of 28 801 km^2 (9.5%) of areas at high and very high landslide, potentially affecting around 1.3 million people (2.2%). Flood hazard areas at medium hydraulic risk cover a total area of 30 196 km^2 (10%), potentially affecting 6.8 million people (11.5%). The aforementioned areas at high and very high landslide hazard, medium probability flood hazard, as well as those affected by coastal erosion and avalanches, fall within

of Italian municipalities were at risk from landslides, floods, coastal erosion or avalanches ([369]). In 2024, Italy had one of the highest heat-related mortality rates in the EU ([370]). In 2025, the government adopted a scheme to mitigate the risk to workers posed by extreme climate conditions ([371]). Available water fell by 19% in 2025 compared with 2024, and has fallen by 4% over the past 30 years ([372]). A recent Commission study estimates that Italy will need to invest just over EUR 10 billion per year up to 2050 (0.4% of annual GDP, below the EU average of 0.5%) ([373]), primarily in infrastructure retrofitting and reinforcement (45% of the total), followed by ecosystems restoration (around 20%) and food (around 18%).

Climate risks have a direct and significant effect on Italy's economy and mandatory insurance coverage for companies began to be rolled out in 2025. The specific impacts at regional level in Italy are shown in Annex 18. Recorded economic losses caused by weather and climate-related extreme events in 2024 were abnormally low (around EUR 6 billion), but the values for 2022 and 2023 (EUR 18.1 billion and EUR 16.1 billion respectively) were much higher, and so are the provisional data for 2025 (in summer 2025 alone, Italy experienced losses of EUR 0.5 billion gross value added due to heatwaves, EUR 4.6 billion due to floods and EUR 6.8 billion due to droughts) ([374]). Italy has one of the highest ratios of natural catastrophe damage to GDP in the EU ([375]). Projections suggest a cumulative negative impact of climate change on GDP per capita of 3.7% in 2050 and 8.5% in 2080, across all economic sectors ([376]). Overall, it is estimated that there were 376 extreme weather events in 2025 (a 5.9% increase on 2024 and up from 60 in 2015) ([377]). The macroeconomic costs of Cyclone Harry in Calabria, eastern Sicily and Sardinia on 20-21 January 2026 were reported in the media at EUR 1-2 billion ([378]). The government passed a decree (the *Decreto Maltempo*) for urgent interventions (EUR 90 million in 2026 and EUR 25 million in 2027) ([379]). Another serious hydrogeological event occurred in early April 2026 impacting especially Molise and Abruzzo.

Only 4% of economic damage in 1980-2024 was covered by insurance ([380])**.** Provisions introduced in the 2024 budget law on mandatory company insurance for extreme events and natural disasters (Nat Cat) entered into force in 2025 and 2026 ([381]). A short extension was granted until 31 March 2026 for fishing, aquaculture, food and beverage establishments as well as for tourism and hospitality businesses. Marine storm surges are not covered ([382]), but agricultural activities have been covered since 2022 ([383]). Furthermore, a dedicated monitoring committee has been

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the administrative boundaries of 94.5% of Italy's municipalities.

([369])ISPRA, 2025, *Dissesto idrogeologico in Italia: pericolosità e indicatori di rischio*, Link.

([370])Janoš, T. et al., 2025, *Heat-related mortality in Europe during 2024 and health emergency forecasting to reduce preventable deaths*, Nature Medicine, 31, Table 1, p. 4069, Link.

([371])Ministry of Labour and Social Policies, 2025, *Protocollo quadro per l'adozione delle misure di contenimento dei rischi lavorativi legate alle emergenze climatiche negli ambienti di Lavoro*, Link.

([372])ISPRA, 2026, *Nel 2025 risorse idriche in calo rispetto al 2024. ISPRA ne monitora e aggiorna l'evoluzione*, Link.

([373])European Commission, 2026, *Assessment of EU and Member States adaptation investment needs,* Table 25, Link The study provides detailed estimates of adaptation investment needs at the level of the EU and individual Member States per type of measure. It relies on a common methodology that makes estimates comparable across the EU. Four accompanying methodological reports provide a detailed description of how the results were estimated to ensure full transparency.

([374])Usman S., Parker M. and Vallat M., 2025, *Dry-roasted NUTS: early estimates of the regional impact of 2025 extreme weather,* Tables 1, 2 and 3, Link.

([375])ECB and EIOPA, 2024, *Towards a European system for natural catastrophe risk management*, Chart 2, p. 8, Link.

([376])Ronchi, E. 2019, ed., *Relazione sullo stato della green economy*, p. 30, Link.

([377])Legambiente, 30.12.2025, *Il bilancio finale dell'Osservatorio Città Clima*, Link.

([378])Il Sole 24 ore, 4 February 2026, Link; ISPRA, Dissesto e frane: il quadro nazionale nei dati e mappe Ispra, Link.

([379])Decree-Law, 27 February 2026, no 25, Link.

([380])EEA, 2025, Economic losses from weather and climate-related extremes in Europe, Figure 2, Link.

([381])Italian government, 2024 Budget Law, Articles 101-111, Link.; Decree-law 39 of 31.3.2025, Link, for large companies obligatory from 1.4.2025, for medium sized companies from 1.10.2025, for small and micro enterprises from 1.1.2026.

([382])Institute for the Supervision of Insurance (IVASS), fact-finding mission, 27.02.2026.

([383])*Fondo mutualistico nazionale per la copertura dei danni catastrofali meteoclimatici alle produzioni agricole causati da alluvione, gelo-brina e siccità* (2022 Budget Law).

established by the Ministry of Enterprise and Made in Italy to monitor market phenomena related to the implementation of mandatory insurance ([384]). In the event of a catastrophic event, a company that lacks this compulsory coverage does not have access to any state contribution, subsidies and/or facilities for reconstruction or recovery after the calamitous event. The 2025 country report summarised Bank of Italy studies on insurance against flooding and the impacts of climate change on manufacturing and housing. The current framework does not envisage structural solutions to tackle the climate insurance gap in residential housing, but comparative analysis is ongoing ([385]). A new study on the expected impact of coastal flooding in Rimini showed that adaptation measures (particularly the Parco del Mare, a natural solution against flooding) ([386]) are significantly reducing expected losses in banking intermediaries' residential mortgage portfolios.

The Italian Treasury has updated its green bond framework, placing an increased focus on adaptation and resilience. This has involved expanding categories that capture a wider range of climate-related and environment-related investments (including those tied to biodiversity and water systems). Climate resilience is now a category in itself, bringing adaptation measures (e.g. flood-defence infrastructure, wildfire prevention and emergency-response systems) into the scope core of eligible expenditure for the first time. The new framework contains detailed disclosures regarding the EU Taxonomy ([387]).

Comprehensive estimates are needed for the costs of climate change in all sectors. Information is available from different sources rather than from a single source. The following paragraphs present impacts on agriculture, fishing and key infrastructure.

Climate change continues to have substantial impacts on agriculture in Italy. Crops and livestock production show differing dynamics, with extreme weather events having a strong impact on yields and quality ([388]). Italy has the highest level of annual average crop loss due to climate perils in the EU (approximately EUR 2.9 billion per year). Over 50% of this loss is due to drought events ([389]). Fires are also common in Italy, especially in southern regions (51 424 hectares were burnt in 2024 and 33% of this was agricultural land ([390])). In the first year of implementing the common agricultural policy (CAP) strategic plan, the highest level of spending was on risk management tools to manage losses in the event of adverse weather conditions and natural disasters. At regional level, spending on agriculture also illustrates the focus on climate change: natural disaster spending increased from 4% in 2019 to 9% in 2022 ([391]).

Italy's fisheries and aquaculture sectors face persistent sustainability and climate-related challenges. Environmental damage is estimated to cost the commercial fishing sector up to EUR 200 million each year ([392]). In the Mediterranean Sea, a large share of fish stocks (including several key demersal and small pelagic stocks) remain overfished ([393]). Reinforcing fisheries control and data collection is key to safeguarding marine biodiversity and ecosystems and to ensuring sustainable, traceable and resilient fisheries and aquaculture. Rising sea temperatures, invasive species (see the sub-section on nature restoration) and marine heatwaves are increasingly affecting stocks, making fisheries management less certain and weakening recovery prospects. The 2026 Budget Law adds the promotion of underwater dimension policies to the objectives of the Sustainable Blue Economy and Growth Fund.

Climate-proofing has not been systematically applied across sectors and key infrastructure. This is partly because the National Observatory on Climate Adaptation has

([384])Reply to Semester questionnaire, 6.2.2026.

([385])The government is currently carrying out a benchmarking exercise on Nat Cat insurance for private housing, Semester fact-finding mission, 12 February 2026.

([386])Bank of Italy, *Here comes the flood: the climate risk of residential mortgages in Rimini*, Occasional Paper 925, Link.

([387])Ministry of Finance, 2025, Link.

([388])Ibid, p. 23.

([389])EIB, 2025, *Insurance and Risk Management Tools for Agriculture in the EU*, Figure 12, p. 16 and Figure 13, p. 25, Link.

([390])ISPRA, 2025, *Ecosistemi terrestri ed incendi boschivi in Italia: Anno 2024*, p. 12, Link.

([391])CREA, 2023, Annual yearbook 2023, p. 12

([392])Confcooperative Fedagripesca, 10.9.2025, Link.

([393])European Commission, 2025, Common Fisheries Policy Monitoring, STECF-Adhoc-25-01, Link.

only been recently established and is only now starting to identify the instruments and responsible entities for implementing measures under the national adaptation plan.

On transport, regarding TEN-T alone, Italy experienced around EUR 15 billion losses for railways and roads due to coastal floods, flash floods and river floods in 2010-2022. This was the second highest loss in the EU. Over 45 critical events were recorded ([394]) (most recently river floods and wildfires in airports ([395])). The specific costs of closure for Catania airport in July 2023 due to wildfire are estimated at EUR 80 million ([396]). It has been estimated that total adaptation costs until mid-century for the TEN-T are EUR 6.6 billion ([397]). This added loss represents a medium risk according to the transport vulnerability index (TVI), with heatwaves as the main risk factor. Over 10 000 km of both rail and road TEN-T network will require upgrading in order to cope with climate adaptation needs ([398]). A national study from 2022 estimated the annual costs of climate change for infrastructure in Italy at around EUR 2 billion in 2030 ([399]). A resilience plan and database for national rail and road transport networks to climate change is currently being prepared. For the energy sector, Italy has identified the electric grid as being vulnerable to heatwaves (increased resistance of copper, risk of fires) and drought (decreased soil humidity, higher temperature for underground cables and decreased hydropower output). Italy has also assessed the consequences of future water availability and risks ([400]).

Nature-based solutions (NbS) could be used more widely and systematically. NbS and prevention play a key role in increasing resilience. In 2023, Italy launched the Nature Network (a national hub for NbS) ([401]), the Nature Positive Network ([402]) and the Nature Recovery Network ([403]). National standardisation based on European norms work are under development ([404]). No attempt has yet been made to develop nature credits in Italy ([405]). NbS can greatly contribute to Italy's adaptation and resilience to climate change, and reduce its high vulnerability to hydrological and hydrogeological risks ([406]). A comprehensive national inventory and assessment of the potential for NbS, as suggested by the Commission roadmap for R&I on NbS ([407]), is nevertheless lacking ([408]). Making an inventory is the first step for transparency and knowledge-building on NbS.

Water resilience

Large areas of Italy are subject to water stress that is particularly due to demand for water from agriculture, manufacturing and electricity cooling. These sectors are heavily dependent on the water supply and irrigation is crucial in many rural areas. In 2024, 11 926 million m^3 of water was used and collectively managed for the irrigation sector as recorded in SIGRIAN (the National Information

([394]) European Commission, Directorate-General for Mobility and Transport, 2024, *Support study on the climate adaptation and cross-border investment needs to realise the TEN-T network*, Figures 7.3 and 7.4, p. 156, Link.

([395]) Ibid., Table 7.1, p. 157.

([396]) Ibid., pp. 166-7.

([397]) Ibid., Figure 4.35, p. 121 and Table 4.28, p. 108.

([398]) Ibid., Table 9.4, p. 201.

([399]) MIMS 2022, *Cambiamenti climatici, infrastrutture e mobilita*, p. 17, Link.

([400])MASE, *Piano nazionale di adattamento ai cambiamenti climatici*, pp. 80-82, Link.

([401]) Nature Network, Link.

([402]) Foundation for Sustainable Development, *Verso un'economia nature positive*, Link.

([403]) Rete Italiana Ripristino Ecologico, Link.

([404]) Ente Italiano di Normazione (UNI), *Soluzioni basate sulla natura*, Link.

([405]) European Commission, 2025 Nature credits, Link .

([406]) For example, the Serchio River Basin, the Portofino National Regional Park and Milan and Turin sustainable urban drainage. The ERDF has helped support green infrastructure, for example, in urban areas in Emilia-Romagna, Link. The RRP has supported a significant investment in restoring 37 km of the River Po, Link. LIFE has supported renaturalising the Bacchiglione River. Aqua Publica Europea, *Working with Nature to Restore the Water Cycle*, p. 15, Link.

([407]) European Commission, Link. El Harrak M. and Lemaitre F., 2023, *European Roadmap to 2030 for Research and Innovation on Nature-based Solutions*, Network Nature, Link.

([408]) For example, MASE, *Elenco delle zone umide*, Link; Legambiente, *Ecosistemi acquatici*, Link.; WWF, 75% of Italy's wetlands are already lost Link.

System for the Management of Water Resources in Agriculture) ([409]).

Italy is one of the worst five performers in terms of the Water Exploitation Index+ in the EU ([410])**.** Its value of 10 in 2023 was almost twice the EU average of 5.15 ([411]). Italy's water productivity (at EUR 45 per m^3 of abstracted water in 2022) is considerably lower than the EU average of EUR 151 per m^3 in 2022. In 2023, agriculture and public water supply accounted for 48% and 23% of freshwater abstraction respectively ([412]). Total water abstraction dropped by around 12% between 2022 and 2023. It is estimated that water scarcity, floods and systemic inefficiencies are costing Italy more than EUR 13 billion annually ([413]). The European Drought Risk Atlas shows the major impact of drought on crop production and hydropower in Italy ([414]).

Concerns remain regarding the quality of surface water in Italy, but the status of groundwater has improved significantly. The assessment of the third river basin management plans (RBMPs) shows that around 47% and 16% of surface water bodies fail to achieve good ecological and chemical status respectively. Good progress has nevertheless been made on the quantitative status and chemical status of groundwater bodies compared with the second RBMPs. The Environmental Implementation Review sets out priority actions to deal with these issues (including improving river continuity; boosting the use of NbS; and reducing pollution from nutrients, chemicals, metals and saline discharges ([415])).

Water leakage remains a significant problem. In 2022, around 9.1 billion m^3 of withdrawals were made (81% of this volume was measured). However, only 8 billion m^3 of water is fed into the network each year and only 4.6 billion m^3 per year of this is distributed to authorised users ([416]). There is a 'water service divide', with leakages ranging from 33.6% in north-eastern regions to 49.4% in the southern-island regions ([417]) (see Annex 18). Campania and Apulia import the highest volume of water from other regions ([418]). In addition to considerable investment, the RRP has introduced two reforms. One has strengthened governance for investment in water infrastructure. The other has established a central public financing instrument for investment in the water sector (the national plan for infrastructure and security in the water sector – PNIISSI) ([419]), which has identified a need for EUR 12 billion for structural interventions for water security ([420]). The national fund for infrastructure investments and safety in the water sector (SFNIISSI) ([421]), which the RRP has supported with EUR 1 billion, has the primary objective of implementing projects selected in the PNIISSI and is currently being established by law. Water infrastructure is a key priority for the 2025-27 strategic plan of the Cassa Depositi e Prestiti. The Autorità di Regolazione per Energia, Rete e Ambiente (ARERA) has taken environment resource costs and climate change into account in its tariffs ([422]). ARERA has introduced a macro-indicator (M0) to require operators to maintain a strong focus on the sustainability of their water

([409]) Reply to Semester questionnaire, (6.2.2026): 11 926 million m^3 is not the total figure because it relates to validated data that are currently available for 38.9% of irrigation districts, corresponding to an irrigated area of approximately 1.5 million hectares. Only about 58% of this volume is measured; the remaining 42% estimated. This is lower than the 20% estimated in the European Semester Country Report 2025, footnote 228 on p. 93, Link.

([410]) This is a measure of how much water is being used compared with the total renewable freshwater resources available for a given territory and period.

([411]) EEA, 2025, Link.

([412]) EEA, 2025, *Water abstraction by source and economic sector in Europe*, Link.

([413]) Community Valore Acqua, 2026; Libro Bianco Valore Acqua, 2026, Link.

([414]) European Commission, 2023, *European Drought Risk Atlas*, Link.

([415]) European Commission, *2025 Environmental Implementation Review*, Link.

([416]) European Commission, *European Semester 2025 Country Report*, p. 94, Link.

([417]) Autorità di Regolazione per Energia Reti e Ambiente (ARERA), *Rapporto Annuale 2024 – stato dei servizi,* p. 386, Link.

([418]) Confindustria, 2024, *Dall'emergenza all'efficienza idrica*, pp. 19-20, Link.

([419]) Ministry of Infrastructure and Transport, *Piano nazionale di interventi infrastrutturali e per la sicurezza nel settore idrico* (PNIISSI), Link. The 2025 budget law increased PNIISSI resources by EUR 950 million, Link, p. 171 and in 2026 a further EUR 800 million is expected.

([420]) For example, the Horizon 2020 Oristano project, Link.

([421]) *Strumento finanziario nazionale per gli investimenti infrastrutturali e per la sicurezza nel settore idrico* (SFNIISSI).

([422]) ARERA, Link.

supply. Water service operators are therefore incentivised to secure water resources. ARERA also assesses the revenue lost from leakages. Within the framework of the 2025 mid-term review of cohesion policy programmes, more than EUR 600 million is being reallocated to investments to promote secure access to water, sustainable water management and water resilience (including further reduction of water losses) ([423]). District metered areas (DMAs) have been rolled out, creating smaller zones where flow and pressure can be closely monitored and controlled ([424]). However, metering in Italy is limited outside the drinking water service ([425]).

Wastewater treatment is a persistent cause for concern. Italy's overall compliance rate with the Urban Waste Water Treatment Directive was only 50.8% in 2022 – down from 55.8% in 2020 ([426]). Four infringement proceedings are currently open for failure to comply with the requirements of the EU Directive, currently covering more than 850 agglomerations (mostly in Sicilia, Calabria, Campania and Lombardia). Two infringements have led to EU Court of Justice rulings and fines (C-251/17 & C-515/23).

As mentioned in the 2025 country report, the investment needs for water protection and management are substantial (with a projected gap of EUR 2.2 billion per year by 2027). Between 2025 and 2034, Italy needs to invest a total of EUR 3.65 billion to bring its urban wastewater collection and treatment into compliance with the 1991 Urban Waste Water Treatment Directive. Further investment will be needed to meet the requirements of the 2024 recast directive.

The water sector's fragmented governance structure is resulting in missed economies of scale and limiting investment capacity. Legislative Decree, 2006 no 152 and Decree-Law, 2014 no 133 are intended to limit the number of *Ambiti Territoriali Ottimali* (ATOs) identified by each region. They also provide that there should be a single governing body, plan and water operator for each ATO (if a single ATO covers an entire region, the management of the water service can be split into areas that are no smaller than a province or a metropolitan city) ([427]). There are currently 62 ATOs. The northern Italian regions and Sicilia have more than one ATO per region. Italy has more than 2 000 water operators ([428]). Financial incentives are available to ATOs that aggregate their services. ATOs can also use specialised technical support to increase efficiency ([429]). Fragmented management structures perform less well. Smaller operators have lower investment capacity, generally resulting in a lower level of service to citizens (see also Annex 18). In order to deal with the emergency situation with drought and inadequate urban wastewater treatment, the ordinary administration is being replaced with designated special national-level commissioners with delegated extraordinary powers to resolve the situation as quickly as possible. The fact that multiple actors are dealing with flooding and drought, which have been exacerbated by climate change ([430]), would seem to call for better national oversight by the new Observatory ([431]).

Italy is still not fully using the tools that are available to improve water resilience practices. A wastewater effluent tax that reflects pollutant loads and is linked to performance-based funding for treatment upgrades could raise EUR 5.6 billion per year. A water abstraction tax could raise EUR 8 billion per year by 2030 ([432]).

([423])European Commission, mid-term review – Italy, Link.

([424]) World Economic Forum, University of Cambridge and ACEA, 2025, *Bridging the €6.5 Trillion Water Infrastructure Gap: A Playbook*, pp. 17-18 Link; presented at Davos, 21 January 2026, Link.

([425]) Laboratorio Ref., *An incentive-based pricing for irrigation water consumption: the Italian case study*, p. 5, Link.

([426]) 2022 data reported by Member States on the implementation of Article 17 of Directive 91/271/EEC, unpublished, OiEau and Ramboll consultant's report.

([427]) Legislative Decree, 3 April 2006, no 152 (as modified), Article 147, Link. Decree-Law, 12 September 2014, no 133, Article 7, Link.

([428]) OECD, 2015, *The Governance of Water Regulators*, p. 81, Link.

([429]) Ministry of Economics and Finance, Decree 28 April 2023, Link; Legislative Decree, 23 December 2022, no 201, Article 17, Link.

([430]) Interreg Adrion project, 2025, *Urban floods in a changing climate*, Link.

([431]) Italian Alliance for Sustainable Development (ASVIS), Policy brief: dissesto idrogeologico: poca prevenzione, e i danni aumentano, Link.

([432]) European Commission: Directorate-General for Environment, Camboni, M., Markandya, A., Tyrer, D., Goonesekera, S. et al.,

Nature restoration

Nature degradation poses significant risks to Italy's economy and competitiveness. As reported in the 2025 country report, Italy has a high supply-chain dependency on ecosystem services of 21% of its gross value added (EU average: 22%) ([433]). Overall, 41% of Italy's economy is highly dependent on ecosystem services to produce its gross value added (EU average: 44%). 100% of the gross value added of several sectors (e.g. agriculture, forestry and water facilities) is dependent on ecosystem services. The annual costs and benefits of ecosystem restoration and maintenance in Italy have been estimated at EUR 0.26 billion and EUR 2.42 billion respectively ([434]). In Italy, the role of the private sector in financing biodiversity is increasingly recognised ([435]). The European Central Bank has assessed the dependency of non-financial corporations financed by euro area banks on nature. It has also studied the magnitude and likelihood of shocks caused by nature depletion, identifying northern Italy as an important cluster ([436]).

Action on nature protection and restoration is needed in order to meet the EU goal of protecting 30% of its territory by 2030. As reported in the 2025 country report, Italy (including both Natura 2000 and other nationally designated protected areas) legally protects 21.4% of its land (EU average: 26%) and about 9.7% of its marine areas (EU average: 12.1%). Italy still needs to restore up to 67 333 km^2 of the land habitats listed in Annex I to the Habitats Directive (equivalent to up to 22.3% of its land) ([437]). In 2013-18, just under 10% of habitats and 44% of species had a good conservation status. The mean forest condition index was 0.6 in 2018 ([438]). Furthermore, Italy's common farmland bird index of 69.4 in 2022 was below the EU average of 68.2 in 2022 (a steady decline since 92.4 in 2011).

Nature degradation is further amplified by invasive alien species. 54 were recorded in Italy in 2024 ([439]), inflicting estimated damage of EUR 0.57 billion between 1960 and 2020 (primarily affecting agriculture) ([440]). An infringement case is ongoing against Italy for not having reported without delay the detection of the fire ant in Sicily and the measures taken to eradicate it and their effectiveness; and for not having taken all necessary measures to prevent its spread ([441]). Extreme weather events such as marine heatwaves and the proliferation of invasive species have negatively impacted the Italian fisheries and aquaculture sectors, particularly in the Adriatic (see Annex 18). The national and regional administrations have taken several measures to respond to these challenges (mainly in the form of state-aid compensation to operators). The best known invasive alien species is the blue crab, which is not classified as an invasive species of EU concern but is nevertheless a predator of fish, molluscs and other crustaceans ([442]). Eutrophication (a threat to biodiversity and ecosystem integrity) has partially improved, with the areas at risk declining from 84.5% in 2005 to 60.1% in 2023 ([443]).

2026, *Greening the European Semester – Resource and pollution taxes. Annex 6, Country factsheets*, Table 71, p. 232, Link.

([433]) Dataset from Commission/JRC, based on Hirschbuehl D. *et al*, 2025, *The EU economy's dependency on nature*, Link.

([434]) European Commission: Directorate-General for Environment, IEEP, IUCN, Trinomics and UNEP-WCMC, *Impact assessment study to support the development of legally binding EU nature restoration targets – Final report*, Table 6-11, p. 85, Link.

([435]) Etifor Valuing Nature and Università degli Studi di Padova, *Biodiversità e il settore privato in Italia tendenze, politiche e strumenti finanziari*, 2024 edition updated for 2025, Link, p. 16.

([436]) Boldrini S., Ceglar A., Lelli C., Parisi L. and Heemskerk I., 2023, *Living in a world of disappearing nature: physical risk and the implications for financial stability*, ECB occasional series, pp. 17-18, Link.

([437]) European Commission, 2022, *Impact assessment accompanying the proposal for a Regulation on nature restoration*, Link.

([438]) On a scale from 0 to 1, where 0 represents a degraded ecosystem and 1 represents a reference condition based on primary or protected forests.

([439]) European Commission, 2025, *Environmental Implementation Review, Italy Country Report*, Link.

([440]) NeoBiota, *Economic Cost of invasive alien species across Europe*, 2021, Link, and European Commission: EMRC, Logika Group and RPA Europe, *Update of the costs of not implementing EU environmental law*, 2025, Link, p. 62.

([441]) INFR(2024)2226.

([442]) The estimated cost of damage by the blue crab was estimated at EUR 100 million Fedagripesca-Confcooperative, Link.. The Italian government appointed a special commissioner to deal with the issue in 2024.

([443]) EEA 2024, *Eutrophication caused by atmospheric nitrogen deposition in Europe*, Link.

Aligning with the EU Biodiversity Strategy would enable Italy to contribute to achieving the EU target of making at least 25 000 km of rivers free-flowing by 2030. Italy has not yet made any pledges to restore a particular amount of free-flowing rivers. The nature restoration plan ([444]), which is to be submitted by 1 September 2026, must quantify the extent to which the removal of artificial barriers will contribute to achieving the 25 000 km objective. These efforts support the Water Framework Directive in restoring freshwater ecosystems and the natural function of rivers, and in mitigating the impact of floods. Free-flowing rivers also generate broader socio-economic benefits, including enhanced rural landscape quality, new recreation and tourism opportunities, strengthened local job creation, improved water quality, and better sediment transport that protects deltas and coastal areas against erosion and rising sea levels.

Sustainable agriculture and land use

Italy's carbon removals are broadly on track to meet its 2030 target for land use, land-use change and forestry (LULUCF). This is particularly due to the increasing growth of forests, despite challenges from increasing droughts and fires. Additional carbon removals of 3.2 million tonnes of CO_2 equivalent (CO_2-eq) are needed in order to meet Italy's 2030 LULUCF target ([445]). The latest available projections show that Italy is very close to meeting this target ([446]). Investment in healthy forests and soils is key to building resilient bio-based product value chains and enabling a growing, competitive EU bioeconomy. In particular, continued improvements to the system for monitoring net removal data will play a crucial role in supporting timely and effective action in the sector. Italy is using the RRP to improve its carbon sequestration capacities with a measure for planting at least 4.5 million trees and shrubs (in 4 500 hectares). At least 3.5 million of these trees will be transplanted in the 14 metropolitan cities for urban and peri-urban forestry (the RiforestAzione project).

Italian agriculture continues to have significant impacts on air, water and soils. The utilised agricultural area (UAA) in Italy decreased slightly from 12 909 000 hectares in 2018 to 12 901 000 in 2024. There has been some improvement in the overall nitrogen balance, with a drop from 58.2 kg of nitrogen per hectare of UAA in 2018 to 56.2 kg in 2021. An infringement procedure of the Nitrates Directive nevertheless remains open because the situation in several Italian regions is not improving sufficiently. The livestock density index in Italy was 0.81 in 2020 (above the EU average of 0.75). Italy is on track to reduce its ammonia emissions. The level of ammonia emissions reported for 2023 indicates that the agriculture is responsible for 91% of total national emissions (349.20 Gg). Within this sector, livestock has the highest share (69.5%). Italy is compliant with the 2020-2029 Ammonia Emission Reduction Commitment (ERC), having achieved the reduction of 5% relative to the 2005 base year. Additionally, the reported data indicates that Italy is already meeting the 2030 ammonia ERC (16% reduction relative to the 2005 base year). In 2018-2023, 41% of reported waterbodies with pesticides exceeded EU thresholds in rivers ([447]). Pesticides not only threaten aquatic ecosystems but also pose long-term risks to human health through contaminated drinking water and food chains.

Italy is highly vulnerable to hydrogeological threats and water-induced erosion, exacerbated by extreme weather events. Italy faces the highest risk of water-induced soil erosion in the EU. Regions such as Calabria, Sicilia, Marche, Abruzzo and Molise are particularly vulnerable. Soil organic carbon content varies, with higher levels in hilly and mountainous areas. National statistics show that 23 ha/day of soil was converted to artificial land cover (land take) in 2024 – an increase on 2023. The estimated total costs of the loss of ecosystem service flows due to land consumption in 2006–2024 range from

([444]) Article 9 of the Nature Restoration Regulation requires this, Link.

([445]) National LULUCF targets of the Member States in line with Regulation (EU) 2023/839, Link.

([446]) *Climate action progress report 2025*, Link. Italy has submitted updated projections that take methodological adjustments into account in its most recent NECP reporting in March 2025.

([447]) EEA, *Pesticides in rivers, lakes and groundwater in Europe*, Figure 2, Link.

EUR 8.66 billion to EUR 10.59 billion per year ([448]). A law on controlling soil consumption has been pending in parliament since 2012 ([449]). Emilia-Romagna, Lombardia, Toscana, Umbria and Veneto have laws limiting soil consumption, and the Rome municipality is currently adopting a law to stop further soil consumption ([450]).

Italy is transitioning to a sustainable food system by implementing policies to reduce the environmental impact of agriculture. 11.7% of monitoring points have average annual nitrate concentrations greater than or equal to 50 mg/l (EU average: 13.3%) in groundwater 2020–23 ([451]). Areas of intensive farming have a higher level of nitrates pollution in groundwater. Italy's 19.5% organic farming share in 2024 was the third highest in the EU, but pesticide use is intensive in several regions. Organic farming covered 18.78% of agricultural land in 2023 (primarily in the south). The consumption of organic produce is rising in the north. This is underlined in national reports ([452]).

([448]) ISPRA, 2025, *Consumo di Suolo, Dinamiche Territoriali e Servizi Ecosistemici – Edizione 2025*, Link.

([449]) Senate, Nuovo testo, NT2 alla congiunzione no 29, 761, 863, 903, 1028, 42, 1122, 1131, Link.

([450]) Reply to Semester questionnaire, 6.2.2026; one third of Rome municipality is classed as agricultural land.

([451]) Member State implementation reports of the Nitrates Directive, period 2020-23, forthcoming.

([452]) ISMEA, 2025, *Rapporto Bio in Cifre 2025*, Link.

Table A10.1:**Key Adaptation Indicators**

Climate adaptation and preparedness:							EU-27
	2019	2020	2021	2022	2023	2024	latest data
Drought impact on ecosystems *[area impacted by drought as % of total]*	0.58	1.59	3.77	18.17	1.83	-	2.76
Forest fires burned area [1] *[burned area in ha. per year]*	36,887	53,750	150,552	58,751	97,984	40,122	354,510
Economic losses from extreme events *[EUR million at constant 2022 prices]*	5,409	2,792	703	18,112	16,072	5,972	40,452
Insurance protection gap [2] *[composite score between 0 and 4]*	-	-	-	2	2	2	-
Sub-national climate adaptation action *[% of population covered by the EU Covenant of Mayors for Climate & Energy]*	34	36	39	45	46	46	34

Water resilience:							EU-27
	2019	2020	2021	2022	2023	2024	latest data
Water Exploitation Index Plus, WEI+ [3] *[total water consumption as % of renewable freshwater resources]*	7.58	11.06	11.04	15.62	10.02	-	4.53
Water productivity *[EUR per m^3]*	-	-	-	45	-	-	151
Water abstraction							
Water abstraction by source (% from surface water)	-	-	-	-	-		-
Water abstraction by sector	Agriculture	Electricity cooling	Manufactu-ring	Public water supply	Mining and Quarrying	Construc-tion	
	47.97%	10.99%	18.08%	22.97%	0.00%	0.00%	
Status of water bodies [4] *[% of water bodies in a good status]*							
Surface water bodies (ecological)	-	-	-	-	-	44%	38%
Groundwater bodies (quantitative)	-	-	-	-	-	79%	93%

Nature restoration:							EU-27
	2019	2020	2021	2022	2023	2024	latest data
Ecosystem dependency *[% of direct dependency]*	-	-	-	41%	-	-	44%
Protected area *[% of terrestrial protected areas]*	21.4	21.4	21.4	21.4	21.4		26.4
Invasive alien species (IAS) *[number of IAS of Union concern]*	-	-	-	-	-	54	29.2
Damage cost of IAS *[EUR billion]*	-	-	-	-	0.57		1.69
Eutrophication *[AAE of area at risk of euthrophication]*				212	212		295

Sustainable agriculture and land use:							EU-27
			2012-2018		2018-2021		latest data
Yearly net land taken by Member State *[ppm of total urban surface per Member State]*			462		397		670
Land conversion in functional urban area *[% of total land taken from 2018-2021]*							
Arable land					65%		
Complex and mixed cultivation					0%		
Forests					3%		
Herbaceous vegetation associations					5%		
Open spaces with little or no vegetation					0%		
Pastures					18%		
Permanent crops					8%		
Water					1%		
Wetlands					0%		
	2019	2020	2021	2022	2023	2024	latest data
Nitrates in groundwater [5] *[mgNO_3/l]*	20.0	20.6	20.5	19.5	18.8		
Livestock density *(number of livestock units per hectare of utilised agricultural area)*		0.81			:		0.75
Ammonia emissions *[% of total utilised agricultural area]*	91%	92%	92%	91%	91%	-	94%
Pesticide contamination on rivers and lakes water bodies *[% of monitoring sites with pesticides exceeding thresholds, 2018-2023]*				rivers	41%		27%
				lakes	15%		18%
Pesticide contamination in soil *[% of samples with a concentration over 0.5 mg/Kg^{-1}]*					48%		57%
Net greenhouse gas removals from LULUCF [6] *[ktCO_2-eq]*	-47640.8	-39791.4	-38057.1	-39233.3	-53588.8	-	-198,421

(1) EFFIS (European Forest Fire Information System), Link.
(2) The climate protection gap refers to the share of non-insured economic losses caused by climate-related disasters, based on modelling of the risk from floods and wildfires, windstorms, and on the insurance penetration rate. Scale: 0 (no protection gap) – 4 (very high gap). EIOPA, 2025, Dashboard on insurance protection gap for natural catastrophes.
(3) This measures total water consumption as a percentage of the renewable freshwater resources available for a given territory and period. Values above 20% are generally considered to be a sign of water scarcity, while values equal to or greater than 40% indicate severe water scarcity.
(4) European Commission, 2024, *Seventh Implementation Report from the Commission to the Council and the European Parliament on the implementation of the Water Framework Directive (2000/60/EC) and the Floods Directive (2007/60/EC) (Third River Basin Management Plans and Second Flood Risk Management Plans).*
(5) Indicator refers to concentrations of nitrate (NO_3) in groundwater, measured as milligrams per litre (mgNO_3/L). Nitrate can persist in groundwater for a long time and accumulate at a high level through inputs from anthropogenic sources (mainly agriculture). The EU drinking water standard is limited to 50 mgNO_3/L to avoid threats to human health.
(6) Net removals are expressed in negative figures and net emissions are expressed in positive figures. Reported data are from the 2025 greenhouse gas inventory submission. The 2030 value of net greenhouse gas removals is taken from Regulation (EU) 2023/839 – Annex IIa.

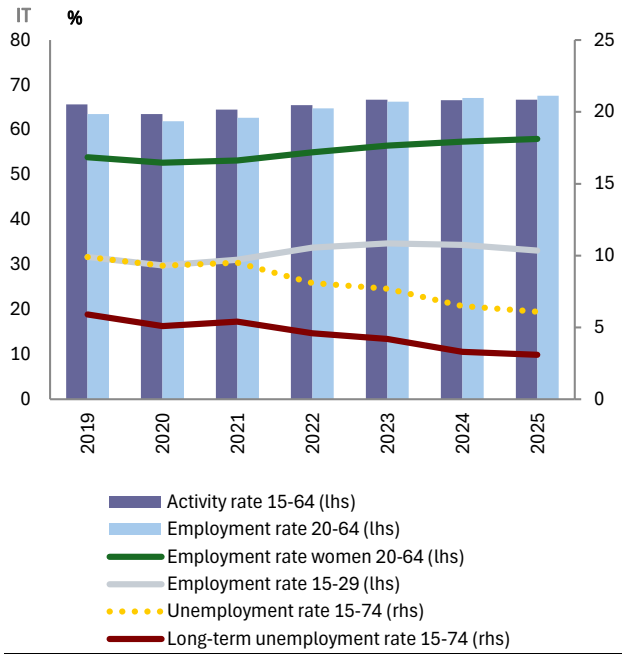
Sources: Eurostat, EEA and JRC.

ANNEX 11: LABOUR MARKET

Italy's labour market has been improving, though at a slowing pace, with significant structural challenges still weighing on productivity and competitiveness. While overall employment rates have improved, economic growth remains constrained by persistently low productivity growth, wage stagnation in certain sectors, stark regional differences, demographic change compounded by talent outflow, and continued under-representation of some groups, particularly women and young people, in the labour market. As Italy works towards achieving its 2030 employment rate target, mobilising untapped potential, tackling skills mismatches and improving job quality will be key to supporting a more robust and inclusive labour market and a thriving economy. The 2025 country-specific recommendations (CSRs) for Italy highlighted the need to address demographic challenges, also by attracting and retaining high-quality workforce, promote job quality and increase labour market participation, taking into account regional disparities, and keep up efforts to tackle undeclared work ([453]).

The labour market continues to improve gradually but is still marked by structural challenges and substantial regional disparities. The employment rate reached a record high of 67.6% in 2025 but remains well below the EU average (76.1%) and below the national employment rate target (73% by 2030). This improvement was mainly driven by the higher employment rate among older people (aged 55 and above) ([454]), while the employment rate of young people (aged 15-29) declined. The labour force participation rate continued stagnating at 66.7%, halting the post-pandemic upward trend and further widening the gap between Italy and the EU average (75.7%). At the same time, the unemployment rate fell to 6.1% in 2025, marking a significant improvement. Nonetheless, long-term unemployment remains higher than the EU average (3.1% vs 1.9%). Regional disparities are particularly pronounced, with a gap of 21.9 pps in employment rates in 2025 between the North-East and the Islands, mirrored by similar differences in labour force participation and unemployment rates (see Annex 16). These disparities are driven by structural weaknesses in the southern regions, such as inefficiencies in public administration and a prevalence of smaller, less competitive and less innovative firms, leading to fewer job opportunities and lower overall job quality and attractiveness ([455]).

Graph A11.1: **Key labour market indicators**



Source: Eurostat, LFS [lfsi_emp_a, une_rt_a, lfsi_neet_a, une_ltu_a, lfsi_emp_a]

Low labour market participation among women and young people weighs on the country's growth potential. The employment rate for women, at 58% in 2025, is among the lowest in the EU (71.4%) and characterised by significant regional differences. While the female employment rate was 68.2% in the North-East in 2025, the lowest rates, around 41%, were recorded in the South and the Islands (see Annex 18). The gender employment gap is nearly twice the EU average (19.1 pps vs 9.6 pps) and has shown no improvement since 2015. Also, women's labour force participation rate is significantly lower than both the EU average

([453])*CSR 2025*.6.1 Promote job quality and reduce labour market segmentation, also to support adequate wages, and increase labour market participation, in particular for under-represented groups, including by further strengthening active labour market policies and improving affordable access to quality child- and long-term care, taking into account regional disparities.

([454])OCSE, Prospettive dell'occupazione OCSE 2025: Italia.

([455])Banca d'Italia, 2019, Lo sviluppo del Mezzogiorno: una priorità nazionale.

(57.8% vs 71.1%) and that of men (75.6%), with inactivity rates among women in the South exceeding the respective employment rates. These gaps are linked, among other factors, to the insufficient availability of childcare and long-term care services (see the 2025 country report, Annex 10). Participation in formal childcare for children under three years of age reached 39.4% in 2024, slightly above the EU average and almost 10 pps higher than in 2021, supported by investment under the Recovery and Resilience Facility (RFF). However, in 2025 it dropped again to 35.5% (EU: 40.2%), and wide disparities between regions and socio-economic groups persist ([456]) (see Annex 13). Italy's medium-term fiscal-structural plan commits to allocate more current spending to operating new facilities, to further expand capacity and harmonise access rules and user fees through national legislation. Labour market outcomes for young people remain weak. In 2025, only 38.6% of young Italians (aged 15-29) participated in the labour market, down by 1.7 pps from the year before, and significantly below the EU average of 55.6%. Among those participating, 14.4% were unemployed, well above the EU average of 11.6%, even though that figure was still at a historically low level for the country. Youth employment rates continued to decrease compared with 2024, and only a third (33.1%) of young people were employed as compared with about half of people from this age group in the EU. Difficulties faced by young people in transitioning to high-quality, stable employment are reflected in the still high, though significantly decreasing, share of young people neither in employment nor in education and training (NEETs) (13.3% vs 10.9% in the EU), and the prevalence of temporary employment. These trends reflect structural challenges such as low job quality, limited job opportunities and difficult transitions from education to work.

Italy is taking measures to tackle the challenges described above, including through investments in ALMPs, but there is scope for further action. With support from the RRF, Italy launched the 'Guaranteed Employability of Workers' programme, a reform of its active labour market policies (ALMPs), focused on training and personalised activation support. The European Social Fund (ESF) and the ESF+ support access to employment through national and regional programmes. Between 2014 and 2023, the ESF reached over 7.1 million people outside the workforce and 4.1 million unemployed people, including 1.4 million long-term unemployed. Italy's 'Plan for Nurseries and Preschools', also supported by RRF funding, aims to create over 150 000 new places in childcare establishments by 2026 to support work-life balance and increase the employment of women. The higher participation of children under three years of age in formal childcare in 2024 can be partly attributed to a combination of these government policies to support families and address low birth rates. At the same time, access to ECEC is still strongly dependent on the place of residence. There are large disparities in childcare provision between the Centre-North and the South, and between large urban and smaller peripheral municipalities, also due to different levels of demand. According to national data for the 2023/2024 school year, the average coverage rate ranged from 40.4% in the Centre to 19% in the South ([457]). There is scope for further policy action to address other drivers of the limited participation of women in the labour market, including measures to further expand childcare in the South and the Islands and access to long-term care, to extend the duration of paternity leave and full-time schooling, and increasing flexible work options. While ALMP expenditure was above the EU average in 2023, only limited measures were taken to help increase employment rates and retain young talent, for example by improving the quality of job offers and outreach activities, including streamlining public employment services, aligning training and education with labour market needs, and enhancing support to job quality creation and job transitions, taking regional disparities into account.

Labour shortages in labour-intensive and high-growth sectors, persistent skills mismatches and underuse of skilled workers may reduce potential productivity gains. Job vacancy rates have remained stable, standing at 1.9% in Q4-2025 (EU: 2.1%). Despite the significant under-representation of certain groups in the labour market, labour shortages persist, as vacancies remain particularly high in accommodation and food service activities (3.6%),

([456])See ISTAT 2025, Report sui servizi educativi per l'infanzia in Italia, and European Commission, 2025, Education and Training Monitor - Italy.

([457])ISTAT, Offerta di nidi e servizi integrativi per la prima infanzia, 2026.

construction (2.6%), as well as in arts, entertainment and recreation (2.4%). Shortages of health professionals are a persisting challenge (see Annex 15). This reflects both the low job quality in labour-intensive sectors and insufficient supply of skilled labour in fast-growing sectors ([458]). Notably, the ICT sector remains underdeveloped, with ICT specialists estimated to account for 3.8% of total employment in 2025, compared with 5% in the EU, also marking a decrease of 0.2 pps from 2024. Demand for ICT specialists remains high and is expected to increase across all sectors, with a growing focus on AI-related profiles, while supply continues to lag behind demand. This is also partly due to low enrolment in relevant higher education programmes (see Annex 13). Women's under-representation in ICT-related professions, also due to their lower participation in STEM disciplines, may exacerbate labour market segregation ([459]). At the same time, skills mismatches ([460]) remain among the highest in the EU, especially for young people. In 2025, the macroeconomic skills mismatch rate stood at 25%, far above the EU average of 19.2%. The employment rate of people with tertiary education lags behind the EU average (83.4% vs 88.4%), and recent university graduates face even greater challenges (78.7% vs 87.0%), pointing to barriers in transitioning to the labour market. Over-qualification remains a structural issue, with more than one in five tertiary-educated workers employed in a position that does not require their level of education. Particularly high over-qualification rates in administrative and support services highlight weaknesses in the responsiveness of the education and training systems to changing labour market needs and to limited capacity among firms to effectively harness skilled labour. Despite significant improvements, Italy also lags behind the EU in terms of digital skills in the general population, with only 54.3% of people aged 16-74 having at least basic digital skills in 2025.

Italy is facing adverse demographic developments and a significant outflow of young talent. While the pace of population decline has recently slowed, Italy has experienced a net loss of 1.22 million residents since 2015, and the birth rate is at its historic low ([461]). Many young, highly qualified Italians seek better opportunities abroad, as recent figures demonstrate ([462]), which amplifies the existing trends. Between 2011 and 2024, about 630 000 young people (aged 18-34) emigrated, yielding a net migration balance of 441 000, representing an estimated EUR 160 billion or 7.5% of GDP. Moreover, the outflow of talent has intensified over time. In 2024 alone, 78 000 young people left and between 2022 and 2024, around 42% of those who left held university degrees, with that share having increased compared with previous years. Improving job quality, especially career and pay prospects for young graduates, is instrumental to retaining talent in the domestic labour market. At the same time, vulnerable groups, including low-qualified adults, second-generation immigrants and persons with disabilities, face barriers to labour market integration (see the 2025 country report, Annex 10) ([463]).

In this context, better integrating under-represented groups and attracting and retaining a high-quality workforce are key to supporting growth and competitiveness as the population ages. By the end of 2025, the 'Guaranteed Employability of Workers' programme reached over 3 million people, of whom 55.5% were women and 45.9% were people aged under 30 or over 55. The voluntary nature of the programme requires individual activation and registration. As nearly 2 million individuals outside the workforce do not participate in the programme, effective outreach remains a challenge. Together with other relevant measures under its recovery and resilience plan (RRP), Italy also aims to address gender gaps in employment in high-skilled professions, notably in STEM jobs. Moreover, changing labour market requirements and the growing need for high-skilled professionals pose challenges with regard to upskilling and reskilling and for stronger alignment of labour market needs with training and

([458])Banca d'Italia, 2024, Labour shortages in Italy: determinants, firms' responses and employment prospects.

([459])INAPP, 2025, Rapporto annuale su mercato del lavoro e politiche di genere.

([460])This indicator highlights the relatively higher difficulty of low- and medium-qualified people in entering the labour market, as compared with the highly qualified.

([461])ISTAT, Indicatori demografici - Anno 2025, 2026.

([462])CNEL, 2025, Italy's attractiveness to young people from advanced countries.

([463])*CSR 2025*.6.2 Keep-up efforts to tackle undeclared work, particularly in the most affected sectors.

education programmes (see Annex 13). However, despite significant efforts in recent years, often supported by the ESF+ and the RRF, to improve the integration of under-represented groups and activate those outside the labour force, Italy recorded one of the highest numbers of shortage occupations in the EU in 2024 ([464]). Demographic developments are expected to have a profound impact on economic growth. Banca d'Italia expects that an increased labour market participation of under-represented groups would merely offset the reduced supply of labour, even under optimistic scenarios ([465]). In this context, Italy has increasingly issued work permits to non-EU nationals. Between 2026 and 2028, it plans to receive almost 500 000 applications from non-EU nationals to enter for work purposes ([466]). With a view to addressing emerging shortages, in addition to the measures to activate and integrate currently untapped labour market potential, there is a growing need to also boost legal migration, for example by improving the recognition of qualifications, validation of skills and tackling integration issues (see Annex 12). Attracting and retaining talent is key to sustaining human capital, especially in labour-intensive sectors such as construction and tourism, and high-growth sectors, such as ICT and STEM. Moreover, Italy benefits form the support of the Technical Support Instrument to improve its capacity to align and match workforce skills with current and future labour market needs and develop an improved model for contracted-out employment services to increase service coverage ([467]).

Recent real wage increases have only partly offset past losses, while low work intensity and a high prevalence of atypical work continue to negatively impact job quality ([468])**.** Productivity growth has long been hindered by low levels of investment, particularly in R&D, innovation and human capital (see Annex 1) ([469]), constraining wage growth (see the 2025 country report). After rebounding by 2.3% in 2024, real wages increased by 1.1% in 2025, reflecting both moderate inflation and comparatively low nominal wage growth. However, these gains do not yet fully compensate for prior losses, leaving real wages 3.5% below 2019 levels. On the other side, low wage growth over the past decade has enabled cost-competitiveness gains ([470]). Over 2026-27, wage growth is expected to moderate to below 3%, as renewed inflationary pressures are not fully passed through to wages, amid softening labour demand and the lagged, partial indexation of wage contracts ([471]). Despite significant improvements over recent years, including a rise in the number of permanent jobs and a fall in fixed-term contracts, atypical work remains common. This includes a high share of involuntary part-time (8.5% vs EU: 3.3%) and temporary (11.3% vs EU: 6.4%) work, with a high prevalence of temporary contracts among young employees (aged 25-34, 21.8% vs EU: 16.6%), with low job security and work intensity. These conditions exacerbate the risk of in-work poverty, currently at 10.2% (EU: 8.3%), and undermine the accumulation of firm-specific human capital and the financing of adequate social protection coverage. Moreover, undeclared work remains widespread (see Annex 12 and the 2025 country report).

Italy's collective bargaining system faces limitations that hinder wage and productivity growth. In the absence of a statutory minimum wage, collective bargaining plays a key role in setting minimum wages. Effective dialogue, and negotiation dynamics between the social partners are key to ensuring adequate wages and working conditions. Trade union density was 30.2% in 2024, while employer organisation density stood at 77% in 2018. Collective bargaining coverage was 100% in 2024. Yet, factors such as contract fragmentation, lack of transparency and clear representativeness criteria hinder the functioning of the system. The increasing number of agreements signed by smaller unions intensifies

([464])ELA, EURES report on labour shortages and surpluses 2024.

([465])Banca d'Italia, 2025,The Governor's Concluding Remarks for 2024.

([466])OECD, International migration outlook 2025.

([467])Strengthening public-private partnerships in the delivery of employment services in Italy - Reforms and Investments

([468])*CSR 2025*.6.1 Promote job quality and reduce labour market segmentation, also to support adequate wages, and increase labour market participation, in particular for under-represented groups, including by further strengthening active labour market policies and improving affordable access to quality child- and long-term care, taking into account regional disparities.

([469])European Commission, 2025, In-Depth Review 2025 – Italy.

([470])European Commission, Labour market and wage developments in Europe - Annual review 2025.

([471])European Commission, Spring 2026 Economic Forecast – Italy.

'contractual dumping' ([472]), fuelling downward pressure on wages and working conditions ([473]). In 2024, of 1 017 agreements, 803 were signed by smaller unions, covering 4% of workers and offering lower wages. The wage gap between the more and less representative contracts is estimated at 14.6%, affecting especially low-wage sectors like logistics, cleaning, retail and hospitality. These challenges are even more widespread in the South and in vulnerable areas, which may exacerbate regional disparities ([474]). In addition, at the end of 2025, 42.2% of employees were on expired contracts, contributing to wage stagnation. Second-level collective bargaining at firm and territorial level could support productivity growth by boosting investment in upskilling and reskilling and improve working conditions ([475]). Decentralised collective bargaining is characterised by strong regional disparities, with 74% of contracts having been concluded in the North and only 9% in the South ([476]). To address these shortcomings, Italy would benefit from reforms to promote transparency and representativeness as well as second-level collective bargaining. Moreover, despite the existence of formal and informal consultation mechanisms, the participation of social partners, including trade unions and the National Council for Economics and Labour (CNEL), remains limited, and their influence on policymaking is weak.

Additional measures are needed to improve job quality, reduce labour market segmentation, and support adequate wages. The 2026 Budget Law reduced Italy's high labour tax wedge, granted partial social-security contribution relief for hiring workers on open-ended contracts or for converting fixed-term contracts into permanent ones, and introduced temporary fiscal provisions aimed at promoting renewals of national contracts for 2026. The Budget Law also provided for incentives to firms in Italy's Special Economic Zone (ZES) in the Southern and two Central regions. In addition, the decree-law 62/2026 established new provisions linking fair wages to collective agreements signed by the most representative organisations. Nevertheless, the legal text does not outline adopted enforcement procedures in case of underpayment and non-compliance. While these measures are steps in the right direction, several challenges remain also with regard to access to social protection for non-standard workers and self-employed (see Annex 12).

Italy faces several labour market challenges in the transition towards climate neutrality. Employment in mining and quarrying decreased by 7.3% in 2024 from the previous year (to 27 900 workers). In the automotive sector, employment decreased by 15 000 between 2011 and 2023. The energy-intensive industries accounted for 3.3% of total employment as of 2023 (EU: 3.5%). At the same time, the employment share of the environmental goods and services sector was 4.5% in 2022, above the EU average of 3.1%. Estimations also show that new job creation in wind and solar generation can create jobs amounting to over 0.1% of the total workforce by 2030 ([477]).

([472])Contractual dumping is a practice involving the reduction of workers' remuneration and employment conditions due to the presence of substandard collective labour agreements which, in a significant number of cases, do not effectively represent or protect a genuine collective interest within the meaning of Article 39 of the Italian Constitution. CNEL XXVI Report 2025

([473])Michele Faioli e Claudio Lucifora, 2026, *Strategie di "non" equivalenza contrattuale collettiva nel terziario e nel turismo*.

([474])Confcommercio, 2025, Il peso insostenibile del dumping contrattuale e dei "contratti pirata".

([475])Eurofund, 2025, Collective bargaining beyond pay: An analysis of collective agreements in selected low-paid sectors.

([476])CNEL, 2025, Mercato del lavoro e contrattazione collettiva.

([477])European Commission, Publications Office of the European Union, 2025, Estimating labour market transitions and skills investment needs of the green transition – A new approach.

Italy faces persistent challenges in reducing poverty, inequality and labour exploitation. Despite improvements, poverty, particularly among children, and inequality remain relatively high. The 2025 country-specific recommendations called on Italy to expand childcare and long-term care services and further limit the use of early-retirement schemes ([478]). Although childcare provision has improved and some early-retirement schemes have been discontinued (*Opzione donna*, *Quota 103*), long-term care remains insufficient to meet rising demand. Moreover, cases of labour exploitation, particularly affecting migrants, are frequent, and access to social protection is incomplete. Italy's tax-benefit system also has a limited redistributive effect. Addressing these issues would improve social mobility, reduce poverty and inequality, and limit the loss of human capital, thereby supporting inclusive growth and competitiveness.

Poverty and social exclusion improved in 2025, but with pronounced and widening regional disparities. The proportion of people at risk of poverty or social exclusion (AROPE) was 22.6% in 2025 (EU average: 20.9%) decreasing by 0.5 pps since 2024. In absolute terms, around 13.3 million people were at risk of poverty or social exclusion, i.e. 260 000 less than in the previous year. This is the lowest value since 2015 and represents about half of the 2030 national poverty reduction target. Income poverty remained the main driver of the risk of poverty, affecting 18.6% of the population (compared with 16.3% in the EU), with a slight decrease of 0.3 pps. The percentage of people living in households with very low work intensity decreased to 8.2%, down by 1.0 pps and close to the EU average of 7.9%. In contrast, severe material and social deprivation increased by 0.6 pps and reached 5.2%, though still below the EU average of 6.3%. The most affected groups were single parents (44.4%), couples with three or more children (39.3%), tenants (39.4%) and foreigners (38.6%). According to the most recent national statistics, absolute poverty ([479]) affected 8.4% of households and 9.8% of individuals in 2024, which is broadly stable compared with 2023. Large regional disparities persisted, with the AROPE rate ranging from 11.3% in the North-East to 40.5% on the Islands – a gap of 29.2 pps that has been widening since 2021. These disparities are driven by differences in labour market performance, a higher concentration of low-paid and seasonal jobs and higher levels of inactivity among young people in certain regions, and the persistent emigration of skilled people from regions with limited economic opportunities. The AROPE rate is higher in rural areas (24.0%) than in towns, suburbs (23.0%) and cities (21.3%). The depth of poverty declined by 1.4 pps and reached 24.6% in 2025, against an EU average of 22.5%. To address the multiple dimensions of poverty, the implementation of a comprehensive approach, as set out in the EU Anti-Poverty Strategy, can support progress towards achieving the national anti-poverty target.

Social benefits reduce poverty only to a limited extent, and the minimum income scheme provides uneven support across household types. In 2025, social benefits other than pensions reduced the at-risk-of-poverty rate by 30.6%, a decrease of 0.7 pps compared to the previous year, remaining below the EU average of 33.2%. The 2026 Budget Law has increased the *Carta dedicata a te* fund, which provides low-income households with basic material support, by EUR 500 million per year in 2026 and 2027. It has also slightly increased monetary support for low-income pensioners. However, challenges remain regarding minimum income support. The 2023 reform of the minimum income scheme, now known as the *Assegno di Inclusione* (ADI), reduced both adequacy and coverage, and restricted access to specific household types (see the 2025 country report). In 2024, only 18.5% of people at risk of poverty received minimum income benefits, and just 70.7% of people in jobless households received social benefits of any type - well below the EU average of 83.2% and lower than in previous years. The benefit integrates household income up to a set threshold, but Italy lacks a transparent and robust methodology for setting and adjusting it regularly. Nonetheless, in 2025 the average benefit amount increased by 22.6% and the number of individual recipients by 6% ([480]),

([478])CSR 2025.1.7: Mitigate the effects of ageing on potential growth and fiscal sustainability, including by further limiting the use of early-retirement schemes (...).

CSR 2025.6.1: (...) increase labour market participation, in particular for underrepresented groups, including by (...) improving affordable access to quality child- and long-term care, taking into account regional disparities.

([479])See ISTAT (2024), La povertà in Italia - Anno 2024.

([480])INPS, Osservatorio su Assegno d'Inclusione e Supporto Formazione e Lavoro, January 2026.

also due to an ad-hoc increase of both benefit levels and the eligibility means test. The recent abolition of the suspension period between annual ADI renewals has reduced income discontinuity for vulnerable households, although the benefits are still reduced by 50% during the first month after renewal. Through the Technical Support Instrument, Italy has requested support to better understand the reasons of the non-take-up of minimum income benefits and to integrate artificial intelligence (AI) technologies into the operations of the National Social Security Institute (INPS).

Cases of labour exploitation, which particularly affects migrants in certain sectors, are frequent and lead to extreme poverty and social exclusion ([481]). An estimated 10 000 exploited workers, mostly migrants, live, or are forced to live, in informal settlements that lack essential services such as water, sanitation and electricity, and that are characterised by overcrowding, unsafe housing and poor hygiene ([482]). Under the recovery and resilience plan (RRP), Italy has implemented the national plan to tackle undeclared work and has invested in urban integration plans, including housing solutions for agricultural workers. However, Italy's Court of Auditors has found that investments to overcome informal settlements in agriculture have produced limited results, due to inaccurate mapping, fragmented governance and insufficient local capacity ([483]). Recent research highlights how restrictive migration policies have exacerbated the problem by leaving many migrants without legal status or access to regular employment, pushing them into irregular and exploitative arrangements ([484]). To address persistent undeclared work and recurrent breaches of occupational safety and health rules, Italy will receive technical support to strengthen labour inspections through a more coordinated, risk-based enforcement model that makes better use of data and analytics.

Child poverty remains a challenge, with larger families facing higher poverty risks. In 2025, 27.1% of children were at risk of poverty or social exclusion, which is above the EU average of 24.3% and did not change for the second consecutive year. The risk of poverty increases steadily with family size: for couples without children, the AROPE rate was 16.2% (compared with 14.4% in the EU), increasing to 18.7% for couples with one child and 22.9% for those with two children, while average EU rates increase only marginally with the first two children. For couples with three or more children, the rate increases sharply to 39.3% in Italy, compared with 32.4% in the EU. Single-parent households remain the most vulnerable, with an AROPE rate of 44.4%. Overall, people in households with children face a higher poverty risk (25.5%) than those without (20.2%), a gap more than twice the EU average, pointing to shortcomings in the adequacy of family allowances.

Access to childcare has improved and family policies have been expanded, but progress remains uneven. In its mid-term fiscal structural plan, Italy committed to expanding early childhood education and care (ECEC) coverage and improving its affordability. However, participation in formal childcare decreased in 2025, and strong disparities remain between regions and socio-economic groups, exacerbating inequalities ([485]) (see Annex 13). As of 2026, family policies have been broadened through extended parental leave up to the age of 14, doubled unpaid leave for the illness of children aged 8–14, and additional funding to support access to socio-educational services, summer camps and sports activities and the purchase of school textbooks. Revisions to the calculation of the index of equivalent economic situation (ISEE), an economic indicator commonly used in Italy for means-testing social benefits and services, have also improved access to social protection for large families by increasing the equivalence scale factors for children. To achieve further progress in reducing child poverty, Italy would particularly benefit from expanding access to school meals in line with the Child Guarantee. This would require further investment in school

([481])CSR 2025.6.2 Keep-up the efforts to tackle undeclared work, particularly in the most affected sectors.

([482])Ministero del Lavoro e delle Politiche Sociali, ANCI e Cittalia, Le condizioni abitative dei migranti che lavorano nel settore agroalimentare, 2022.

([483])See Corte dei Conti, Deliberazione 25 luglio 2024, n. 81/2024/G.

([484])Pomponi, F., Main Policy Orientations that Impact on Undeclared Work of Foreigners in Italy, 2024. See also CNEL, Osservazioni e Proposte in materia di caporalato e prevenzione delle forme di sfruttamento lavorativo, 2026.

([485])European Commission, Education and Training Monitor - Italy, 2025.

canteens and full-time schooling (see Annex 13), as well as recurrent funding to sustain the 1 300 school canteens built under the Recovery and Resilience Facility.

Energy and transport poverty are below the EU average. In 2025, 8.6% of households reported difficulties in keeping their homes adequately warm. While this value is in line with the EU average of 8.8%, the situation varies significantly by income level, with 20.9% of lower-income households facing this challenge compared with only 5.8% of higher-income households. These figures also reveal strong regional disparities, with values ranging from 16.0% on the Islands to 5.1% in the North-East. Furthermore, as fuels covered by the upcoming extension of the EU emission trading scheme to buildings (ETS2) – primarily gas – account for 52% of final household energy consumption, compared with just 42% across the EU, heating costs in Italy are expected to rise slightly more than the EU average. Transport poverty, measured by the share of people unable to afford a car, is also relatively low, at 4% in 2025 (compared with 5.5% in the EU). Under ETS2, transport fuel spending in Italy is expected to rise by less than the EU average. Cars are often the only option given the lack of adequate public transport (see Annex 19), which poses environmental challenges (see Annex 8).

Uneven access to social protection exposes unemployed people and self-employed and atypical workers to high poverty risks. Among people aged 15-74 registered as unemployed for up to 12 months, only 45.1% receive unemployment benefits (against 58.7% in the EU). Only 39% of unemployed people and 20.6% of the economically inactive population receive any form of support (against 52.8% and 40.3% respectively in the EU). This leads to an at-risk-of-poverty (AROP) rate of 49.8% for unemployed people and 32.2% for the economically inactive population. While self-employed workers, such as farmers, face a lower AROP rate (17.7% vs EU: 20.9%), significant coverage gaps persist: only 11.5% receive any social benefits, compared with 35.7% for employees, and most were not covered by unemployment (79%) or sickness benefits (68%) in 2022. Although temporary workers are comparatively more likely to receive benefits (51.9%) than their EU peers (38.3%), they are more exposed to poverty (20.4%) than permanent workers (6.9%). Part-time employees are both less likely to receive benefits (26.6%) than in the EU (30.1%) and more likely to face poverty (15.7% compared with 12.9% across the EU) ([486]).

Recent reforms have expanded access to social protection, but significant coverage and adequacy gaps persist. Measures adopted since 2020 have strengthened unemployment protection for atypical workers. These include longer unemployment benefit duration for certain categories of self-employed workers (DIS-COLL), broader coverage of the short-time work scheme, and a permanent income support scheme for freelance professionals (ISCRO). Moreover, maternity and parental leave rights for the self-employed have been expanded, alongside targeted extensions for cultural workers and students in work-based learning. However, access to unemployment, sickness and work-injury benefits for the self-employed remains limited, while very short contracts continue to weaken benefit access and adequacy for temporary workers, with one in four temporary contract workers on contracts lasting six months or less. Low take-up and insufficient benefit levels further reduce the effectiveness of unemployment support.

Income inequality improved, while wealth inequality is on a worsening trend, and both remain high. In 2025, the income quintile share ratio (S80/S20) declined to 5.13, the lowest level since 2004, but remained well above the EU average of 4.62. The middle-to-bottom income ratio (S50/S20) decreased to 2.35, compared with 2.17 in the EU, indicating that lower-income households gained ground relative to the middle, while the top-to-middle ratio (S80/S50) decreased to 2.19 (EU: 2.12), signalling a modest narrowing at the top. While gross market income inequality decreased markedly (from 9.35 to 8.67), the impact of taxes and transfers remained stable (see below). In contrast, wealth inequality is on the rise: in the third quarter of 2025, the top 10% of households owned 60.1% of net wealth, while the bottom 50% owned 7.4% of it, compared to 57.2% and 5.1% in the euro area, respectively. The share of net wealth owned by the top 10% has been increasing at a fast pace since 2020, by a

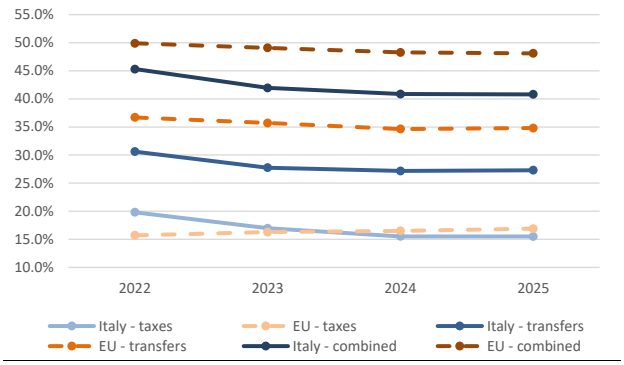
([486]) This paragraph contains data on recipient rates of individual cash benefits for the population (16-64, unless specified otherwise) at risk of poverty before social cash transfers (excluding pensions). Source: Eurostat, EMPL special extraction.

total of about 5 pps, while the share owned by the bottom 50% has slightly decreased.

Recent changes to taxes and benefits in contributed to some progress in reducing income inequalities. The National Statistical Institute estimates that changes to taxes and benefits implemented in 2025 have reduced the Gini index from 31.41 to 31.17 ([487]). Offering a longer-term perspective, simulations performed by the European Commission's Joint Research Centre estimate that, between 2022 and 2025, unindexed progressive tax parameters would have raised revenues by EUR 56.6 billion without policy changes, but fiscal reforms limited the increase to EUR 18.4 billion. Indexing tax brackets at this stage would reduce revenues by a further EUR 4.5 billion and would have a strongly regressive distributive impact. By contrast, the reforms implemented since 2022 have had a slightly progressive effect, remaining broadly neutral for the three lowest income deciles while reducing disposable income among higher-income groups ([488]). In this context, the 2026 Budget Law has lowered the second personal income tax rate from 35% to 33%, easing fiscal pressure on middle-income earners.

Nonetheless, the overall effectiveness of the tax-benefit system in reducing inequality remains low, reflecting its limited redistributive capacity. In 2025, taxes and benefits (excluding pensions) reduced income inequality by 40.8%, well below the EU average of 48.1% and in line with previous years. Both social benefits (27.3% vs 34.8%) and taxes (15.5% vs 16.9%) contributed less than in the EU. This partly reflects the tax system's structure: since 2019, most self-employed people have been subject to flat-tax regime, which was extended in 2023 to include those with revenues below EUR 85 000. Under this system, taxable income is calculated as a fixed percentage of revenues, and a single tax rate of 15% (or 5% for new businesses) applies instead of a progressive schedule. This weakens progressivity, creates horizontal inequities between employees and self-employed people and across income thresholds, and risks distorting work incentives and encouraging bogus self-employment. Preferential treatment of rental and capital income, together with low taxes on wealth and inheritances ([489]), further limits the redistributive role of fiscal policy. Sustainably reducing inequality would require further increasing the overall progressivity and fairness of the tax mix.

Graph A12.1: **Impact of taxes and benefits (excl. pensions) on the S80/S20 income share ratio**



Source: Eurostat, EMPL calculations.

The delivery of essential social services is being strengthened, but territorial disparities and gaps in the service offer remain. Introduced in 2021, the minimum set of social assistance services that municipalities must guarantee uniformly across the country (LEPS) has been strengthened by the 2026 Budget Law, which aims to set up a monitoring system with measurable service objectives. The law also allocates EUR 200 million per year from 2027 to guarantee one psychologist per 30 000 inhabitants and one socio-pedagogical professional educator per 20 000 inhabitants in each multidisciplinary team. Nonetheless, LEPS remain scattered across several legal acts and some essential services, such as 'housing first' services, are not included (see Annex 16). Municipalities with lower administrative and fiscal capacity, most often in the South (see Annex 19), struggle to deliver high-quality social services. Full implementation would benefit from legislative

([487])ISTAT, La redistribuzione del reddito in Italia, March 2026. The analysis considers (i) the shift from partial social contribution relief for employees to a tax bonus and an additional tax deduction; (ii) the transition from full social contribution exemption for working mothers to the "mothers' bonus"; (iii) the adjustment to the cost of living of the amounts and related thresholds of the Universal Allowance (AUU), the newborn bonus, and the changes to the nursery bonus; (iv) the changes to thresholds and amounts of the Inclusion Allowance (ADI) and the Support for Training and Employment (SFL); (v) the extraordinary €200 contribution to support energy expenses and the update of social bonuses.

([488])The simulation was performed by the European Commission, Joint Research Centre, based on the EUROMOD model, J2.0+.

([489])See OECD 2021, Inheritance taxation in OECD countries.

codification, a clear division of responsibilities across government levels and adequate financing to expand the service offer and bridge territorial disparities.

Italy faces rising long-term care needs amid population ageing, but service provision remains insufficient and fragmented. People aged 65 and over accounted for 24.3% of the population in 2024, with 28.7% reporting severe difficulties in daily activities in 2019 (EU: 26.6%). Public expenditure on long-term care stood at 1.6% of GDP in 2022, below the EU average, and was projected to remain unchanged by 2030([490]). Access to care is constrained by high out-of-pocket costs (see Annex 15) and a benefits system that does not vary according to income or dependency level and is not conditional on purchasing care, leaving many households unable to afford professional home care. Home care service intensity is low, focusing mainly on basic personal care, while instrumental daily activities are often unmet. Fragmentation between health authorities and municipalities limits coordination and produces uneven territorial coverage (see Annex 15). Long-term care spending is heavily skewed towards cash benefits, while home and residential care remain underfunded. The long-term care workforce ratio, standing at 1.5, is much lower than the EU average of 3.3 (2024). Residential care is particularly scarce in southern regions, and many older people report unmet needs, especially in towns, suburbs and rural areas. Poor working conditions reduce the sector's attractiveness and lead to workforce shortages, forcing families, mainly women, to provide high-intensity informal care, with negative effects on health, employment and future pension adequacy. Although the long-term care system was reformed in 2023 under the recovery and resilience plan, the funding necessary to build an integrated system, expand services, and introduce new models of care remains insufficient. While measures have recently been taken to create a fund to support family caregivers (EUR 1.15 million in 2026 and EUR 207 million from 2027), reliance on monetary support alone, without an adequate service offer, risks perpetuating inactivity in the labour market, especially among women.

([490])European Commission and SPC ISG, Monitoring Framework on the Council Recommendation on access to affordable high-quality long-term care, 2025.

Italy continues to face structural challenges across the education and skills system, particularly affecting disadvantaged groups. Despite gradual progress on key education indicators, weaknesses persist in basic skills, adult participation in training and the alignment between education and labour market needs. Skills shortages in technical, digital and science, technology, engineering and mathematics (STEM) fields coexist with a still developing system of tertiary and vocational education and training (VET). Socio-economic inequalities and marked regional disparities continue to affect educational outcomes. The 2025 country-specific recommendations for Italy called for improving access to quality childcare, strengthening VET and adult learning, promoting work-based learning and improving educational outcomes, with particular attention to disadvantaged learners.

Participation in early childhood education and care (ECEC) continues to increase, but regional disparities remain pronounced. Access to ECEC for children under three remains higher in northern regions than in the South, reflecting differences in household income, parental education and employment status ([491]). In 2024, participation among children aged 0-2 was 39.4%, up 4.9 percentage points (pps) from 2023 and broadly in line with the EU average (39.2%), approaching the revised 2030 Barcelona national target of 41.7%. However, significant regional disparities persist ([492]), and in 2025 participation dropped again to 35.5% (EU: 40.2%). Three-year-olds' participation in the first year of compulsory education reached 94.0% in 2024 (EU average: 95.0%). However, this is still below pre-pandemic levels. Under the recovery and resilience plan (RRP), over 150 000 ECEC places are expected to be created through EUR 3.2 billion of investment, with a strong focus on municipalities with the largest shortages. These measures are expected to reduce territorial gaps, but because not all eligible municipalities are participating, evidence on the impact on access for disadvantaged children is still emerging. Expanded provision may contribute to more equitable participation and future skills development, depending on the availability of qualified staff, adequate quality standards and sustainable local financing ([493]).

Progress in reducing early leaving contrasts with persistently weak and unequal learning outcomes, varying strongly by school type, region and socio-economic background. In 2025, the share of early leavers from education and training (ELET) among 18-24-year-olds continued its positive trend and fell to 8.2% (EU average: 9.1%), already meeting the EU 2030 target of 9%. The rate, however, remains relatively high in the South (8.4%) and especially the Islands (13.7%) and is overall characterised by strong disparities across genders and between those born in and outside Italy ([494]). Regarding basic skills, underperformance has significantly risen in mathematics, reversing progress made since 2006. In addition, proficiency levels remain shaped by socio-economic background, with students in the bottom ESCS quarter three times more likely to underachieve in mathematics, compared to non-disadvantaged students. More in general, territorial divides remain a major obstacle to equity, with almost half of all students (46%) in the South failing to achieve basic proficiency and less than 3% reaching top performance ([495]). Implemented over the 2024/2025 and 2025/2026 school years and partially funded by the Recovery and Resilience Facility (RRF), the *Agenda Sud* initiative aims to improve basic skills and reduce educational disparities, including early leaving in southern regions ([496]). The initiative involved around 2 000 schools, including the 245 identified as 'critical' by Invalsi on the basis of student performance data. The RRF also finances structured socio-educational interventions in the South to combat educational poverty, providing services to minors, thus increasing access to childcare and educational opportunities, and preventing school dropout and early leaving ([497]).

([491])ISTAT (2023). I servizi educativi per l'infanzia in un'epoca di profondi cambiamenti.

([492])See ISTAT, Il benessere equo e sostenibile in Italia 2024.

([493])ISTAT (2025) BES Sintesi per la stampa_2025.

([494])See Education and Training Monitor 2025 – Italy.

([495])See Country Report Italy 2025 and OECD, PISA, 2022.

([496])CSR.2025.6.4: Improve educational outcomes, with a focus on disadvantaged students, including by strengthening basic skills.

([497])CSR.2025.6.1: Promote job quality and reduce labour market segmentation, also to support adequate wages, and increase labour market participation, in particular for underrepresented groups, including by further strengthening active labour market policies and improving affordable access to quality child- and long-term care, taking into account regional disparities.

In June 2025, Italy converted Law Decree n. 45 into Law 79/2025, introducing RRP-linked structural measures to strengthen the school system. Additional well-designed measures could lead to long-lasting improvements in basic skills across regions and backgrounds.

While some measures have been taken, the attractiveness of the teaching profession remains low. TALIS 2024 confirms a rapidly ageing workforce: 50.5% of lower secondary teachers are aged 50 or over (EU average: 39.9%), while the share of young teachers remains limited. Despite declining student numbers, teacher shortages persist also due to regional imbalances. Shortages are particularly acute in science, mathematics, foreign languages and learning support, and are more pronounced in northern regions, while some southern regions face oversupply ([498]). Teachers' salaries remain well below those of other tertiary-educated workers, while career progression is mainly based on seniority, with limited opportunities for differentiated roles, despite recent initiatives introducing functions such as *docente orientatore* (career guidance teacher) or *animatore digitale* (digital entertainer). In addition, while improvements have been introduced, schools continue to rely on temporary contracts. The cumbersome and lengthy process for obtaining a standard teaching contract hampers schools' ability to hire and retain good candidates**.** Italy has introduced a set of policy measures under the RRP to enhance the teaching workforce, including a recruitment reform, and investments in training. These include the extension and monitoring of the *Carta del Docente* to support professional learning and access to training and digital tools, and measures to strengthen induction and mentoring for teachers and, more generally, the overall school staff. Further improvements in working conditions and career prospects would help attract and retain qualified professionals and support teaching quality in the long run.

Despite recent efforts, the labour-market relevance of VET remains constrained by limited work-based learning and declining participation. The share of medium-level education students attending programmes with a vocational orientation (51% in 2024) has steadily decreased over the last decade (down 8.4 pps compared with 2013). Among them, only 36.4% were women, reflecting persistent gender stereotypes and early educational choices. Moreover, very few recent VET graduates experience work-based learning (22.0% vs EU average: 66.0% in 2025), hindering their smooth transition to work. At the same time, the employment rate of recent VET graduates has increased in line with general employment trends but, at 64.9% in 2025, is among the lowest in the EU (EU average: 80.2%). In turn, at upper secondary level, 44.5% of VET students are enrolled in STEM-related fields, higher than the EU average of 39.1%. The Labour Decree (48/2023) introduced skilling and career-guidance pathways to better align education with labour market needs. In parallel, under the RRP, Italy reformed its VET system, strengthening private-sector involvement, also through a targeted investment building up a dedicated national digital platform ([499]). This direction is further reflected in Law Decree No. 127 of September 2025, which strengthens the link between schools and the world of work. However, the orientation offer remains fragmented, contributing to disjointed pathways and misaligned information ([500]).

Italy is strengthening its skills agenda also by expanding ITS academies and investing in STEM education. Under the RRF, Italy introduced an integrated 4+2-year pathway linking technical or vocational upper secondary education with ITS specialisation. Given its positive labour market outcomes, the pathway has been expanded to cover all ITS schools at national level. ITS academies provide professional courses at the European Qualifications Framework levels 5 and 6. Since 2022, the focus has been on strengthening and internationalising these institutions. RRF funding has led to a substantial increase in the number of academies, courses and participants. Yet, it will be essential to maintain support. Under the RRP, Italy is also strengthening STEM education through enhanced digital infrastructure, updated teaching methods, and targeted VET aligned with labour market needs. While participation in vocational STEM programmes is

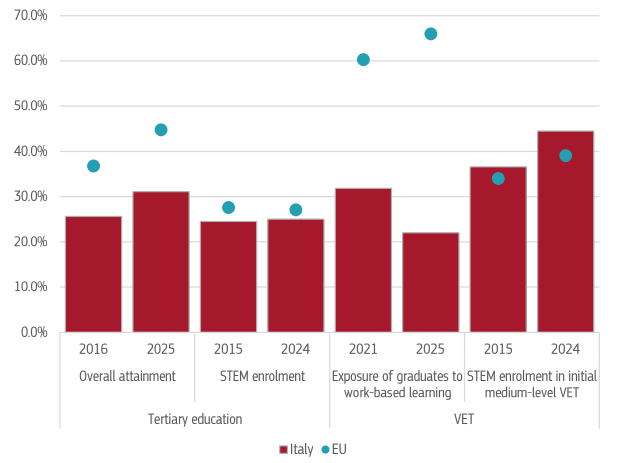
([498])EY (2025) Forecasting the Teaching Workforce in Italy.

([499])CSR.2025.6.3: Continue promoting postsecondary VET and in-work training in high-demand sectors to address short-term skills needs, while strengthening adult learning by expanding work-based learning in high-growth sectors.

([500])INAPP, L'offerta di orientamento in Italia. Una mappa aggiornata dei servizi.

relatively high, tertiary STEM enrolment, particularly in information and communications technology (ICT), and female representation remain below EU targets. Persistent gender stereotypes and early educational choices contribute to these gaps, highlighting the need for early interventions.

Graph A13.1: **Selected indicators on tertiary education and VET**



Source: Eurostat, [edat_lfse_03, educ_uoe_enrt03, edat_lfs_9919, educ_uoe_enra03].

Tertiary educational attainment has steadily increased but it remains low, notably in STEM fields. In 2025, 31.1% of 25–34-year-olds held a tertiary qualification, up from 25.6% in 2016. The increase has been mainly driven by women. Despite this progress, Italy remains among the countries with the lowest attainment. Attainment is particularly low among foreign-born people, whether from EU countries (12.2%) or non-EU countries (12.6%), pointing to challenges in integration and in attracting highly qualified talent from abroad. The employment rate of recent (one to three years) tertiary graduates continued to grow in 2025 but remains among the lowest in the EU at 78.7% (EU 87.0%). This also contributes to Italy experiencing a significant outflow of highly educated young people (see Country Report 2025). Italians represented 9% of all EU-movers (citizens of an EU country who live and work in a different EU country) in 2024, while returns remain comparatively limited, resulting in a progressive loss of skilled human capital. Moreover, tertiary enrolment in STEM fields remained below the EU average in 2024 (25.0% vs 27.1%). Enrolment is particularly low in ICT (2.4%), among the lowest in the EU, and female participation – while generally above the EU average (37.0% vs 32.2%) – in some STEM disciplines remains limited, despite recent policy efforts under the RRP to strengthen STEM pathways across education levels. Socio-economic background continues to shape educational outcomes: among 25-34 year-olds, 63.4% of those with at least one tertiary-educated parent had attained tertiary education in 2023, compared with just 14.6% of those whose parents did not complete upper secondary school. Since the RRP led to an increase in scholarships for students from disadvantaged backgrounds, a particular attention could be paid to how their scope and level develops beyond 2026.

Shortages of skilled labour remain prevalent and are, connected to skills mismatches, among other things. Although overall vacancy rates are below the EU average and on a declining trend (see Annex 11), in April 2026, according to the Excelsior Information System data, 44.6% of all job vacancies were difficult to fill (down by 2.6 pps from April 2025), due to a shortage of candidates (27.7%) or inadequate preparation (13.3%) ([501]). In 2024, Italy reported shortages in 180 occupations ([502]). The most difficult positions to fill required technical skills (indicated by 57.1% of participating companies) and manual tasks (46.3%), with higher incidences in industry than in services ([503]). Between 2022 and 2025, among occupations with relevance to the green transition and climate adaptation, there were persistent shortages of industrial and production engineers, electrical mechanics and fitters, welders, and flame cutters. Recent survey data indicate that more than two-thirds of participating companies experienced recruitment difficulties. These patterns underscore persistent mismatches between labour demand and the available skills base. Italy also faces a substantial structural skills mismatch, with one of the highest macroeconomic skills mismatches in the EU in 2025 (25 vs 19.2) and only 43.6% of young people (aged 25-34) reporting a high or very high match between their field of study and their current or last main job (EU: 59.5%). Several databases monitor labour market trends, but data on the skills development needs of currently employed workers are not collected. Connecting existing databases with a focus on skills demand (e.g. SIISL, AppLI, ISTAT's

([501]) Union Camere - Ministero del Lavoro e delle Politiche Sociali, Sistema Informativo Excelsior, 2026.

([502]) Labour shortages and surpluses in Europe - EURES (EURopean Employment Services), accessed on 2026-05-06.

([503]) Confindustria, Confindustria survey on work in 2025, 2025.

labour force survey database, INPS and regional labour market observatories) could help address this issue ([504]). Moreover, creating a national skills observatory or other effective skills anticipation tools, aligning methodologies, time horizons and definitions of skills, could strengthen skills intelligence and help address regional disparities. As part of a multi-country project with Czechia, Italy benefits from support through the Technical Support Instrument to enhance skills assessment and forecasting through the development of a tool matching workforce skills and improved skills governance.

Italy is taking action to better align the education system with labour market needs, including through work-based learning. According to Confindustria, Italian companies address labour shortages and skills mismatches by strengthening internal staff training, relying on external consultancies and participating in territorial educational initiatives, such as ITS academies, pathways for transversal skills and orientation, and curricular internships ([505]). Under the RRP, in March 2024, Italy adopted the *Piano nuove competenze e transizioni*, to better align the planning of the training offer with labour market needs, promote work-based learning, recognise prior learning, introduce micro credentials, and strengthen active labour market policies (ALMPs) ([506]). Its implementation is expected to be completed by early 2026. Moreover, in December 2024, the third edition of the *Fondo nuove competenze* was launched, providing over EUR 1 billion to Italian companies to bring themselves in line with major European skills frameworks. The effects of recent changes to ALMPs will need to be monitored. Yet, cooperation across regions remains a challenge with territorial disparities remaining a significant barrier.

Skills shortages and mismatches are exacerbated by limited labour mobility, low graduate wages and difficulties in attracting high-skilled talent from abroad ([507])**.** In high-productivity areas, wage growth has not kept pace with rising housing prices (see Country Report 2025 and Annex 16), presenting an additional hurdle for skilled workers. Immigration could help address shortages, especially in sectors such as construction and tourism. However, Italy ranks among the least attractive countries for highly skilled workers in the EU (31st out of 38 OECD countries) ([508]). Enhancing the country's attractiveness to young and highly qualified migrants could entail faster and more coherent recognition of qualifications and skills obtained abroad. ([509]). CEDEFOP projections indicate that by 2035 Italy's labour market will be dominated by medium- and high-skilled jobs, but skills supply is expected to remain heavily misaligned, with shortages of high-skilled workers and surpluses at lower skill levels ([510]).

Italian adults lag behind their European peers in basic and digital skills, with implications for productivity and competitiveness. 2023 OECD data show that Italian adults perform worse than adults from other participating EU countries in literacy, numeracy and problem-solving (see Country Report 2025). Around one third of adults can only handle simple texts or basic calculations, and nearly half struggle with multi-step problems. The share of Italians with at least basic digital skills has significantly increased in the last two years (from 45.8% in 2023 to 54.3% in 2025), although it remains below the EU average (60.4%). RRP-supported measures, such as the network of digital facilitation centres or the Digital Civic Service, might have contributed to this result ([511]). However, large gaps remain, especially among people with lower levels of education, unemployed people and people outside the labour force, highlighting an urgent and continued challenge with regards to targeted upskilling ([512]). Italy's 'New Skills Fund' was recently expanded to strengthen lifelong learning paths. In May 2025, Director's Decree No. 243 provided further EUR 319 million, raising total resources to EUR 1.049

([504])CEDEFOP, Next generation skills intelligence for more learning and better matching, 2024.

([505])Confindustria, Mismatch, and Indagine Confindustria sul lavoro del 2024, 2025.

([506])Ministero del lavoro, Fondo nuove competenze.

([507])Fondazione Nord Est, Nota della Fondazione Nota 8 and Nota 6, 2024.

([508])CNEL, Italy's attractiveness to young people from advanced countries, 2025.

([509])Banca d'Italia, N. 923 - Flussi e politiche migratorie in Italia e in altri paesi europei, 2025.

([510])CEDEFOP, Skills forecast – Italy, 2025.

([511])Respectively M1C1.I1.7.1 and M1C1.I1.7.2.

([512])INAPP, Cognitive skills in adults, 2024.

billion and doubling funding for individual enterprises. Training will be delivered by accredited providers, ITS institutes, and universities, strengthening lifelong learning and highlighting the strategic role of upskilling and reskilling.

Participation in adult learning is low and decreasing, particularly among low-qualified people and people distant from the labour market. Participation in adult learning has declined and stood at only 29% in 2022 (EU average: 39.5%) ([513]), falling short of the 2030 national target of 60% and with especially low values for people with lower education levels, people in low-skilled jobs and older people (see Country Report 2025). Recent data from the Labour Force Survey indicate only a moderate increase over the past three years. Recent policy responses closely follow the initiatives introduced during the pandemic. ALMPs are being pursued through the 'Employability Guarantee for Workers' (GOL), under which around 675 000 people had been trained by the end of 2025, and the 'Training and Job Support' allowance ([514]). Most reforms are implemented under the RRP, including the New Skills-Transitions Plan, which strengthens labour market analysis and forecasting with a focus on green and digital skills. Moreover, currently no national qualifications database, in line with the European Qualifications Framework is in place and there is no connection to Europass.

([513])See European Commission, 2026, Joint Employment Report, Publications Office of the European Union.

([514])CSR.2025.6.3: Continue promoting postsecondary VET and in-work training in high-demand sectors to address short-term skills needs, while strengthening adult learning by expanding work-based learning in high-growth sectors.

Table A14.1:**Social Scoreboard for Italy**

Equal opportunities and access to the labour market	Adult participation in learning (during the last 12 months, excl. guided on the job training, % of the population aged 25-64, 2022)	29.0
	Early leavers from education and training (% of the population aged 18-24, 2025)	8.2
	Share of individuals who have basic or above basic overall digital skills (% of the population aged 16-74, 2025)	54.3
	Young people not in employment, education or training (% of the population aged 15-29, 2025)	13.3
	Gender employment gap (percentage points, population aged 20-64, 2025)	19.1
	Income quintile ratio (S80/S20, 2025)	5.13
Dynamic labour markets and fair working conditions	Employment rate (% of the population aged 20-64, 2025)	67.6
	Unemployment rate (% of the active population aged 15-74, 2025)	6.1
	Long term unemployment (% of the active population aged 15-74, 2025)	3.1
	Gross disposable household income (GDHI) per capita growth (index, 2008=100, 2024)	95.8
Social protection and inclusion	At risk of poverty or social exclusion (AROPE) rate (% of the total population, 2025)	22.6
	At risk of poverty or social exclusion (AROPE) rate for children (% of the population aged 0-17, 2025)	27.1
	Impact of social transfers (other than pensions) on poverty reduction (% reduction of AROP, 2025)	30.6
	Disability employment gap (percentage points, population aged 20-64, 2025)	25.1
	Housing cost overburden (% of the total population, 2025)	5.0
	Children aged less than 3 years in formal childcare (% of the under 3-years-old population, 2025)	35.5
	Self-reported unmet need for medical care (% of the population aged 16+, 2025)	2.5

Critical situation	To watch	Weak but improving	Good but to monitor	On average	Better than average	Best performers

Update of 4 May 2026. Members States are categorised based on the Social Scoreboard according to a methodology agreed with the EMCO and SPC Committees. Please consult the Annex of the Joint Employment Report 2026 for details on the methodology (https://employment-social-affairs.ec.europa.eu/joint-employment-report-2026_en).
Source: Eurostat

Italy's health system performs comparatively well with relatively low levels of avoidable mortality. However, significant challenges persist in accessing healthcare with evidence suggesting deterioration in recent years, driven by regional disparities, high private spending, workforce shortages and investment gaps. This in turn negatively affects the health of the population, social fairness and productivity.

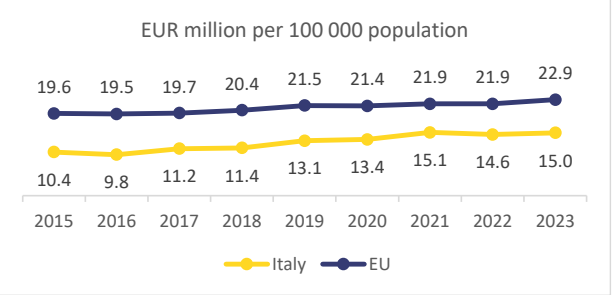
Life expectancy at birth in Italy was among the highest in the EU in 2024, reflecting relatively low levels of preventable and treatable mortality. Cardiovascular diseases and cancer are the leading causes of death. Pronounced north-south disparities in life expectancy persist, with people in northern regions enjoying longer, healthier lives than those in the south. This divide also reflected in access to healthcare.

Despite Italy's good performance in preventing avoidable deaths, some concerning trends are emerging. Adult smoking has stabilised to just below 20% but shows a slight upward trend, while young people smoking remains very high, with 27% of 15-year-olds reporting having smoked in the past month, one of the highest rates in the EU. E-cigarette use has also surged, rising from 13% in 2019 to 23% among 15-16-year-olds in 2022. Measures to increase cigarette prices have yet to be assessed. Overall alcohol consumption is moderate, but heavy binge drinking affects 10% of adults and one in six young people. Adult obesity remains relatively low. The relatively low rates of adolescents that are overweight in Italy conceal significant regional disparities and a very low level of physical activity, particularly among boys. A 2023 national survey found that 19% of children aged 8–9 were overweight and nearly 10% were considered obese, pointing to a possible deterioration in younger cohorts. In October 2025, the Italian Parliament approved a law formally recognising obesity as a chronic disease and including obesity-prevention services in the Essential Levels of Assistance (LEA). Mortality linked to air pollution is high (see Annex 8).

The health system's strong performance conceals some challenges. Treatable mortality was 30% below the EU average in 2022, driven mainly by lower mortality from ischaemic heart disease, colorectal cancer, and breast cancer. However, cancer screening participation in Italy remained below pre-COVID-19 pandemic levels in 2023 with stark regional inequalities and a lower uptake of cancer screening in southern regions.

Despite its organisational strength, there are some issues with access to outpatient care. A well-developed primary care system allows Italy to maintain among the lowest hospital admission rates for chronic conditions in the EU**.** Almost 70% of general practitioners (GPs) operated in group practices by 2023. Despite these achievements, challenges remain. In 2023, elective care, which could be provided in outpatient settings made up 40% of all admissions, and hospitalisations for conditions better managed in ambulatory settings increased from 1.63 million in 2022 to 1.71 million in 2023 ([515]). Limited public coverage of outpatient and dental care in Italy has led to high private spending driven mainly by direct payments to private providers, often exacerbated by long waiting times.

Graph A15.1: **Healthcare infrastructure investment by year**



Source: Country Health Profiles - Dashboard

Low healthcare investment, coupled with persistent regional gaps, especially in the south, underscores the need for targeted funding and stronger governance to ensure fairer access. Italy's health spending per capita and as a share of GDP is below the EU average. Only around three quarters of total health spending is publicly funded. Total health infrastructure investment per 100 000 inhabitants in Italy is below the EU average (see Graph A15.1), which is coupled with relatively low availability of medical imaging equipment. Since 2020, Italy has monitored regional compliance with the LEA through the New Guarantee System, which scores regions on prevention, community care, and

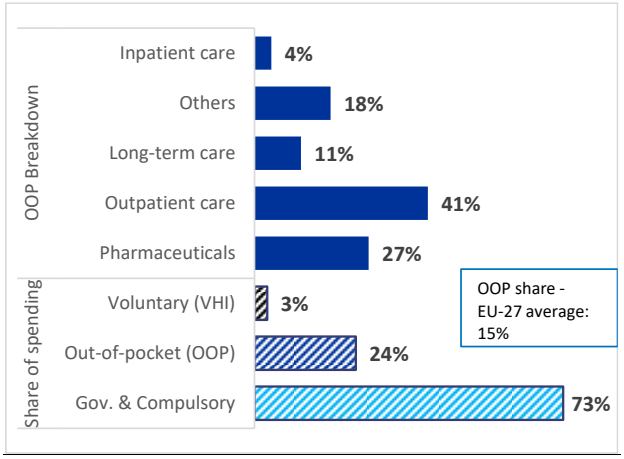
([515])OECD/European Observatory on Health Systems and Policies (2025), *Country Health Profile 2025: Italy. State of Health in the EU.*

hospital services. Regions must meet minimum standards or face corrective measures and potential funding losses. While 2023 results show overall improvement, significant regional disparities remain: 10 regions met all standards, but 11, particularly the southern regions, underperformed in at least one area, mainly in prevention and community care. Marked regional disparities continue to also drive patient mobility, particularly from southern regions. In 2023, 21% of acute care admissions in Calabria, 29% in Basilicata and 32% in Molise occurred outside the region of residence ([516]), reflecting persistent gaps in local hospital infrastructure (see Annex 18).

Italy is a major beneficiary of EU funding for health. Italy's recovery and resilience plan (RRP) invests nearly EUR 16 billion in structural reforms, upgrading infrastructure and digital systems, expanding community care through telemedicine and strengthening the health workforce. The 2021-2027 Cohesion Policy funds complementary investments amount to EUR 1 billion. Italy benefits from initiatives under the EU4Health programme, focused on cross-border health threats, EHDS and health workforce planning, and EU-funded technical support to accompany reforms.

Italy's heavy reliance on out-of-pocket spending creates a substantial financial and access burden. Out-of-pocket payments account for a greater proportion of spending on health in Italy than the EU average (23.7% vs 15% in 2023). Nearly half of all out-of-pocket payments result from the restricted health coverage for outpatient care (specialist visits, diagnostic tests, dental care). Heavy reliance on private spending accounting for 27% of total health spending in 2023, is driven mainly by direct payments for outpatient care provided by private providers, rather than formal cost-sharing, with long waiting times in the public system further pushing patients to private care. Only 58% of outpatient care costs were publicly financed, below the EU average of 77%. However, public financing in Italy strongly protects patients from hospital costs, covering 96% of hospital spending in 2023, above the EU average. Public coverage for medicines is also relatively comprehensive. Direct payments for private alternatives to public services are particularly high in regions with more limited public health service capacity. Italy has the highest rate of catastrophic health spending (8.6% households) in Western Europe, disproportionately affecting low-income households (60% of households in the lowest income quintile) ([517]).

Graph A15.2: **Out-of-pocket payments: share in healthcare spending and categories, 2023**



Household out-of-pocket payment: direct payment for healthcare goods and services from the household primary income or savings, where the payment is made by the user at the time of the purchase of goods or the use of the services (Eurostat). VHI: voluntary health insurance.
(1) Others: eyeglasses, hearing aids, lab tests...
Source: Eurostat and Country Health Profiles - Dashboard

Social inequalities and waiting times remain key barriers to healthcare access. In 2025, 4.5% of Italian adults who needed medical care reported unmet needs, a level above the EU average of 3.6%. People at risk of poverty were 2.6 times more likely to experience unmet medical needs than the general population, well above the EU average ratio of 1.6. Barriers were even greater in dental care. Long waiting times concern in particular specialist consultations and diagnostic tests, affecting 2.7 million people in 2023 ([518]). Even though surgical delays are relatively short, the main bottleneck lies in the diagnostic and referral stages. Since 2024, legislation requires regions to appoint Regional Healthcare Managers, and establishes financial incentives for regions to meet waiting-time targets. At the same time, efforts for the implementation of the differentiated autonomy are ongoing, but the effects on healthcare governance and regional disparities remain uncertain. The 2025–2027 National Plan for Waiting List Management

([516])*Country Health Profile 2025: Italy* - see earlier footnote.

([517])WHO (2025) Can people afford to pay for healthcare? New evidence on financial protection in Italy.

([518])*Country Health Profile 2025: Italy* - see earlier footnote.

Table A15.1:**Key health indicators**

	2020	2021	2022	2023	2024	10-year change**	EU average* (latest year)
Cancer mortality per 100 000 population	227.0	221.5	218.7	216.7	n.a.	0.88	233.1 (2023)
Mortality due to circulatory diseases per 100 000 population	281.1	266.9	270.3	247.4	n.a.	0.80	313.0 (2023)
Current expenditure on health, purchasing power standards, per capita	2 620	2 828	2 978	3 086	3 199	1.40	3834.9 (2023)
Public share of health expenditure, % of current health expenditure	75.8	74.5	73.7	73.1	74.3	1.00	80.6 (2023)
Spending on prevention, % of current health expenditure	5.3	6.5	5.8	4.7	4.7	1.08	3.7 (2023)
Available hospital beds per 100 000 population***	310	304	301	296	n.a.	0.94	440 (2023)
Doctors per 1 000 population*	4.0	5.3	5.4	5.4	n.a.	1.36	4.3 (2023)*
Nurses per 1 000 population*	6.3	6.8	6.8	6.9	n.a.	1.28	7.6 (2023)*
Mortality at working age (20-64 years), % of total mortality	9.8	10.4	9.7	10.1	10.0	0.92	14.3 (2023)
Consumption of antibiotics in the community and hospital sectors, defined daily doses per 1 000 inhabitants	18.4	17.5	21.9	23.1	22.3	0.91	20.3 (2024)

*The EU average is weighted for all indicators except for doctors and nurses per 1 000 population, for which the EU simple average is used based on 2023 data (or latest available). Doctors' density data refer to practising doctors in all countries except Greece, Portugal (licensed to practise) and Slovakia (professionally active). Density of nurses: data refer to practising nurses (EU recognised qualification) in most countries except Portugal (licensed to practice) and Slovakia (professionally active). Latest data update on nurses for Belgium and Sweden: 2022; for France: 2021; for Luxembourg: 2017.
** latest available 10-year trend: ratio 2023/2014 or 2024/2013; a factor of 2.00 means that it has doubled in 10 years.
***'Available hospital beds' covers somatic care, not psychiatric care.
Source: Eurostat

established in 2025 the National Waiting List Platform, which has some limitations, affecting the scope and depth of analysis. The monitoring dashboard shows that urgent services are delivered effectively. However, less urgent care - over 75% of demand - faces significant delays, such as cardiology consultations. Cardiology consultations cleared only 75% of lists after an average of 90 days against a 30-day target. The plan establishes legally binding "patient protection pathways", requiring local health authorities to offer timely alternatives through other public or private-sector providers at public expense. Supported by a dedicated budget of EUR 50 million in 2025, rising to EUR 100 million annually from 2026, funds incentivise regions to hire staff, extend service hours, or contract private providers, reinforced by regional oversight and impose penalties for missed appointments.

Diverging trends in doctor and nurse training and geographical disparities risk creating a skills imbalance in Italy. Italy has one of the highest doctor densities in the EU (5.4 per 1 000 population), but a comparatively low nurse density (6.9 per 1 000), resulting in one of the lowest nurse-to-doctor ratios in the EU (1.3) ([519]). This imbalance reflects longstanding difficulties in expanding the nursing workforce, compounded by ageing, retirements, emigration, low salaries, declining interest in nursing careers, and high attrition rates of around 15% in the first year. Since 2018, Italy has expanded its medical school intake and specialist training, easing bottlenecks in postgraduate medical education. However, student preferences have shifted away from system-critical specialties towards fields with better work-life balance and opportunities of working in the private sector. While the number of medical graduates is above the EU average and postgraduate training bottlenecks have largely eased, in 2024 one-quarter of residency posts went unfilled, with particularly high vacancy rates in emergency medicine (30%) and clinical pathology (15%), compounded by about 9% of residents leaving before completing training ([520]). Nursing graduate numbers declined by over 3% annually between 2013 and 2022, falling to less than half the EU average and resulting in fewer nurses than doctors entering the workforce. However, 2023 saw a modest recovery. Despite growth in overall doctor numbers, Italy's GP workforce has declined by around 13% over the past decade. This has led to significant workload pressures, with over half of GPs exceeding the contractual patient ceiling in 2023 and an estimated nationwide shortfall of 8-16% ([521]). Geographic disparities add to the challenges in access to healthcare, with recruitment particularly difficult in rural and remote areas (see Annex 18). Shortages of GPs are pronounced particularly in the North, where compliance with caseload thresholds would require substantial workforce

([519])*Country Health Profile 2025: Italy* - see earlier footnote.

([520])*Country Health Profile 2025: Italy* - see earlier footnote.

([521])*Country Health Profile 2025: Italy* - see earlier footnote.

expansion. Several regions have introduced temporary measures such as extending retirement age and deploying hospital physicians in community settings. Reforms currently under way aim to improve the attractiveness of general practice by aligning GP training with medical specialisation, but demographic projections indicate further declines, especially in southern regions. These challenges are further exacerbated by rigid health workforce planning and deployment, as Italy's 31 legally recognised health professions create a highly segmented system that limits interoperability. Italy plans to gradually expand undergraduate medical education to produce 30 000 additional physicians by 2032, starting from around 20 900 entrants in 2023/24 ([522]). From 2025, the traditional multiple-choice entrance exam was replaced with an open-access first-semester track, where continuation in the full medical programme depends on a standardised national test at the end of the semester. Insufficient expansion of postgraduate residency positions could leave some graduates unable to secure a residency in order to qualify as specialists. Rapid growth in first-year cohorts may put pressure on facilities, affecting training quality as well as budget pressures in universities.

Italy has stepped up investment in digital health, yet progress is limited, especially in some regions. The proportion of Italians accessing their electronic health records has grown rapidly, reaching the EU average of 28% in 2024. This progress reflects the investments that have been made under the RRP, supporting substantially the expansion of the country's core digital infrastructure, including the electronic health records, the national telemedicine platform and the emerging health data ecosystem. However, challenges remain regarding regional fragmentation, due to the decentralised governance of the SSN. Capital spending on digital health per capita has also been about 30% lower than the EU average since 2015. Italy has adopted a national strategy on artificial intelligence (AI), including healthcare as a priority area. It aims to promote the ethical and trustworthy use of AI to improve diagnosis, treatment planning, health system efficiency, and data governance.

More rational use of medicines would offer some opportunities for efficiency gains. Contrary to biosimilars, the uptake of generic medicines remains low, accounting for only 29% of volumes in 2024, well below the EU average of over 50% and revealing a north-south divide ([523]). To overcome market barriers, Italy reformed pharmacy remuneration in 2024, replacing purely price-based margins with a mixed system of fixed fees and lower ad-valorem margins to encourage generics. Persistent hospital pharmaceutical overspending continues to challenge Italy's SSN. In 2023, hospital purchases exceeded the 8.15% allocation of the National Health Fund by over EUR 3 billion, while retail pharmaceutical spending remained below its ceiling, triggering payback mechanisms shared between manufacturers and regional authorities. Despite raising the hospital ceiling to 8.5% in 2024, the overspending grew to over EUR 4 billion, partly due to the transfer of financing for certain innovative medicines from the Innovative Medicines Fund to hospital budgets. The government proposed in July 2025 a comprehensive reform via a Consolidated Act (*Testo Unico*). The Act aims to modernise the payback mechanism into a proactive, data-driven contingency tool rather than a routine response.

Italy's pharmaceutical sector shows economic significance, combining modest R&D investment - EUR 14 per capita in 2022, less than half the EU average - with strong innovation outputs. Employment in pharmaceutical manufacturing is above the EU average. In 2024, Italy reported slightly below the EU average number (15.5) of clinical trials per million population. Despite lower per capita figures due to its large population, the absolute clinical trial count is substantial, with 301 trials recorded in 2025. Regarding trade and commercialisation, the industry maintains a modest but fairly stable share of extra-EU exports (11.6% in 2025 vs 13.9% for the EU average), though it has not yet mirrored the rapid growth observed in the EU's top-improving countries. Italy's public investment bank and regional authorities co-finance biotech start-ups, clinical research and manufacturing upgrades, often in collaboration with EU funding instruments. Italy provides quick access to new medicines: between 2020 and 2023, patients received EU-approved drugs over four months faster than the EU average. However, these figures mask regional disparities.

([522])*Country Health Profile 2025: Italy* - see earlier footnote.

([523])*Country Health Profile 2025: Italy* - see earlier footnote.

Housing affordability issues expose some parts of Italy's population to difficult living conditions. While house prices have broadly stagnated in the last two decades, there are affordability issues for middle- and low-income households, particularly those living in some metropolitan cities and relying on rental contracts. The significant presence of short-term rental supply in certain tourist cities further reduces available supply in the long-term rental market.

Housing-related policies are skewed towards homeownership, while the provision of social and affordable housing is limited. While primary residences are exempt from property taxation, the limited availability of public support—particularly relevant given that public housing units (Edilizia Residenziale Pubblica) operate with very low rents—has contributed to a slowdown in the renovation of the public housing stock and in the new constructions over the past decades. This, in turn, has resulted in numerous empty public houses (needing renovation) and long waiting lists for the most vulnerable groups. At the same time affordable housing solutions (such as *Edilizia Residenziale Sociale* or *housing sociale*) – characterised by rents at below market rates, but higher than those for public housing – remain limited.

Public interventions cover a wide spectrum of regulatory and investment measures, but remain to a certain extent uncoordinated. Powers are divided between local, regional and national levels, while responsibilities for housing-related matters are fragmented across different ministries. At the same time, data availability could be made better by improving coordination between datasets. Such limited coordination may hamper a comprehensive evidence-based approach and reduce the potential for synergies across policies, instruments and stakeholders.

These structural weaknesses in the housing system have direct implications for homelessness, which remains persistent. Limited access to affordable and public housing reduces the availability of stable exit pathways for people experiencing homelessness. At the same time, funding cycles to fight homelessness are unstable, and there is a lack of enforceable national standards. Consequently, long-term structural solutions, in particular those based on a housing-led approach, struggle to reach the scale and sustainability needed to effectively reduce homelessness.

A broader alignment of cadastral values to market values is still missing. Italy has undertaken to continue updating the cadastral register by mapping properties that are currently not included and by updating cadastral values for buildings that have benefited from public schemes for energy efficiency and/or house renovation interventions (see Annex 3).

In May 2026, the national housing plan (Piano Casa Italia) was adopted. It aims at renovating the public housing stock, as well as supporting in particualr affordable housing with the involvement of the private sector.

Housing market developments

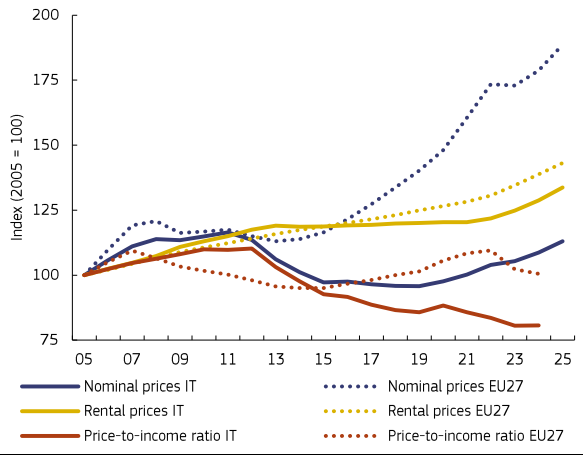
Homeownership, in particular without a mortgage, remains prevalent in Italy. Residential property remains the primary component of household wealth in Italy, with 76% of people owning a house (EU average 68%). The share of homeowners with a mortgage is below the EU average (12.7% vs 24.3% in the EU in 2024). Homeowners decrease to 64% among 'poor' households – those with an equivalised disposable income below 60% of the median equivalised income. But even among this population segment there is a higher ownership rate compared with the EU average of 50%. New bank mortgages for house purchases decelerated over 2020-2024, but picked up slightly in 2025 (first three quarters).

House prices have broadly stagnated in the past two decades. House price levels peaked in 2011. Subsequently, as the euro area sovereign debt crisis intensified, they declined by nearly 18% cumulatively until 2019. In 2020 they started recovering, gaining back 15% by 2025. This indicates a fall of almost 25% in real terms over the whole period 2005-2025. In parallel, household incomes expanded, albeit only moderately, resulting in a steadily falling price-to-income ratio throughout 2012-2025. In 2025, the standardised price-to-income ratio was at 85% relative to its long-term average and 87% relative to 2015 (against 96% and 106% in the EU, respectively). House price increases are largely

concentrated in Italy's main metropolitan cities (e.g. Milan and Rome +6.3% and 5% respectively yearly increase at Q4-2025 ([524]), while more moderate dynamics prevail elsewhere.

Rents have increased in recent years, after a long period of stagnation, pushed up by high inflation in 2022 and 2023. Rental prices (including existing and new rental contracts) did not slump as a consequence of the crisis, but rather stagnated until 2016 and then rose very gradually during the following five years, picking up more strongly in 2022-24 and reflecting high consumer price inflation. Between 2015 and 2024, the monthly rental price index rose by 14.6% (December to December), slower than household disposable income per capita, which rose by 28.4% over the same period.

Graph A16.1: **House prices, rents and price-to-income evolution in IT and EU27 since 2005**



Source: Eurostat

Housing affordability pressure in Italy remains comparatively contained, but is surging in large urban centres and weighs heavily on tenants, single people and individuals on a low income. Overall, the share of disposable income devoted to rent is 20.2%, rising to 31.1% for people below the poverty threshold, while arrears on rent, mortgage or utilities affect 5.3% of people and 11.3% of people at risk of poverty. In 2025, 5.0% of Italians lived in households spending more than 40% of their disposable income on housing, below the EU average of 7.7% ([525]). Tenants renting at market prices faced the greatest pressure, with 22.3% facing housing cost overburden. People in the lowest income quintile and single people under 65 also experienced significant strain, at 20.6% and 16.3% respectively. The risk of poverty or social exclusion is substantially higher for tenants than for homeowners (39.4% vs 19.5%). In more productive areas, such as large urban centres, labour productivity dynamics have not kept up with the growth of housing prices, and the average salary is not proportionate to the average dwelling cost. This may hamper labour mobility (Confindustria, 2025 ([526])). Looking at employees in the non-agricultural private sector (excluding managers), a study by Cassa Depositi e Prestiti estimates the rent-to-income ratio at around 35% on average, with significantly higher levels in large cities, reaching 76% in Milan, 65% in Rome and 48% in Bologna. The estimates are based on the monthly rent of a 60 m² apartment in provincial capitals, and should therefore be interpreted as indicative rather than representative of the overall rental market.

Investment in dwellings has been growing since the late 2010s, although the housing stock remains old. It has reached record-high levels in recent years (Graph A16.2), although this is largely due to tax credits for housing renovation, which has not led to the stock of dwellings being expanded. In 2024, 1.7 new dwellings per 1 000 inhabitants were completed, which was the same as in 2023 but still higher than in the previous decade. More residential building permits are being issued (Graph A16.2). 72% of residential buildings were built before 1980 (e.g. 85% in Liguria), while 43% of buildings are concentrated in climatic zones requiring significant energy. The 3.2 million most inefficient dwellings are estimated to need EUR 143.2 billion of investment to improve energy efficiency ([527]).

([524])Istat dashboard on house prices, Link.

([525])The overburden rate should be read together with the tenure structure (homeowner, tenants), that may differ across country and regions.

([526])Confindustria, Soluzioni Abitative Sostenibili per i Lavoratori (2025).

([527])Fondazione Symbola-CRESME: La riqualificazione energetica del patrimonio abitativo italiano, 2024.

Graph A16.2: **House supply indicators in IT since 2005**

Source: Eurostat

Italy is also characterised by a share of unoccupied dwellings higher than in other EU Member States (around 27% compared with an EU average of 19.7%). This national rate hides significant differences between provinces, ranging from 56% (Sondrio) to 8% (Prato). It includes holiday residences, which can be rented out for limited periods (e.g. the summer months), or used occasionally by the owners. Unoccupied dwellings (and thus potentially available for rent) are particularly prevalent in less populated areas, with only 18% (fewer than 1.8 million dwellings) found in cities and more densely populated municipalities ([528]). As for public buildings, according to 2018 data, 7% of the stock of public buildings owned by the public administration are estimated to be empty ([529]).

Italy is characterised by a high presence of short-term rentals, however the phenomenon is particularly strong in certain cities and in specific areas within those cities. According to Eurostat, in 2024 Italy came third in the EU for the number of nights spent in short-term accommodation booked via online platforms, with 127 million (after France and Spain). Rome, Milan, Florence, Naples and Venice were among the top 20 cities. According to the Real Estate Market Observatory of the Italian Revenue Agency, the share of dwellings offered for short-term rental (on Airbnb) from the residential stock, excluding primary residences, is 12% in Florence, 11% in Venice, 5.7% in Milan and 4% in Rome. Short-term rentals are, however, highly concentrated in certain areas attracting tourism: dwellings used for short-term rentals exceed 20% of the total non-primary residences in the historic centres of Milan and Venice, and even surpass 40% in the historic centre of Florence ([530]).

Structural policies

Housing policy in Italy has historically favoured ownership, including with dedicated fiscal incentives. Homeownership increased tremendously throughout the second half of the last century: from 40% in 1951 to 68% in 1991 (ISTAT). Ownership is still supported, e.g. the first residence is exempt from annual property tax and a Guarantee Fund provides a public guarantee of 50% for first-home purchases by vulnerable groups and individuals without any other residential property (mortgage amounts cannot exceed EUR 250 000).

Housing policy competences are quite divided across national, regional and local levels, in particular after the constitutional reform of 2001 which delegated greater responsibilities to regions and cities. This transfer of responsibilities was not accompanied by an allocation of structural resources to regions. Furthermore, several ministries are in charge of different instruments, highlighting the need to ensure effective coordination mechanisms. Aggregated data, in particular on affordability issues, are also scattered. A national housing observatory (*Osservatorio Nazionale della Condizione Abitativa)* – announced already in 1998 and then again in 2022 – has not yet been set up. Various regions have their own observatories, however, but without strong coordination (Corte dei Conti, 2020 ([531])).

Social and affordable housing solutions are limited. As better explained in the section on vulnerable groups below, vulnerable people with

([528])Corte dei Conti 2024, on ISTAT data, 2021.

([529])Ministero dell'Economia, Rapporto sui beni immobili delle Amministrazioni Pubbliche (2018).

([530])Agenzia delle Entrate, Osservatorio Immobiliare. Locazioni brevi: un'analisi del fenomeno in alcune città italiane (2024).

([531])Corte dei Conti, I fondi per il sostegno all'abitazione in locazione per le categorie sociali deboli (2020).

very low incomes are eligible for public housing, whereas low- and medium-income households are often not eligible for public housing but still struggle to pay their rent at market prices. Affordable housing solutions are available in the form of *Edilizia Residenziale Sociale* or *housing sociale*. This type of housing is often – but not always – based on some form of cooperation between the private and public sectors, and allows households to rent below market price but at prices considerably higher than those for public housing (ensuring greater cash flows). It is implemented by regions and cities using their own frameworks. Cooperatives also offer affordable rent schemes and have helped increase housing supply. While there are no official aggregate data at national level for these affordable housing solutions, they are estimated to be below 90 000 units ([532]).

Some of those units have been developed through the *Fondo Italiano per l'Abitare* (FIA), a fund of funds structure managed by Cassa Depositi e Prestiti Real Asset. With a budget of over EUR 2 billion, it contributed to the creation of 28 different funds, typically operating at regional level and focused on affordable housing. Similar instruments exist focusing on student and senior housing, also with the support of EU funds, such as the InvestEU Program.

Regulated rents are present in Italy and cover the part of the rental market just below long-term rental at market price. Under the *canone concordato* regulated rent system, landlords agree to charge below market rents based on locally negotiated territorial agreements in exchange for tax incentives. In 2024, 23.9% of registered rental contracts set a *canone concordato* ([533]). The average reduced price corresponds to 72.5% of the average long-term market rate rent, though the difference with the market rate can be very small in certain cities. In Milan the use of regulated rents is marginal.

A new national housing Plan ("Piano Casa") has been adopted in May 2026. The measures envisaged are based on three pillars. The first pillar provides for an extraordinary program of interventions for the recovery and maintenance of the current stock of public residential housing. The second pillar of the Plan is based on the creation of a specific financial instrument with resources at national and European level. The third pillar introduces bureaucratic simplifications and fast-track procedures for investors with a view to activating private investment and building housing units to rent or sell to citizens at controlled prices. The 2023, 2024, 2025 budget laws provide a total of €970 million for the implementation of the Plan. The Plan may also mobilise European resources such as cohesion funds, including EUR 1.1 bn reprogrammed in the context of the Mid-Term review and the Social Climate Fund. It also intends to attract private capital.

The Italian recovery and resilience plan features one of Italy's flagship measures for housing ([534]) which focuses on expanding availability by building, purchasing or renovating over 10 000 units, coupled with urban regeneration of at least 1.8 million square meters of public spaces.

The 2026 Budget Law also tightens rules on short-term rentals. As from 2026, private individuals may rent out no more than two dwellings under the 'private' tax regime; renting three or more units is automatically classified as a business activity, requiring VAT registration and corporate tax compliance. Moreover, income from short-term rentals of the first dwelling remains taxed at 21%, while the second dwelling is subject to a 26% tax rate. Initiatives are also starting to be developed at local and regional level. For example, Florence has introduced municipal laws restricting short-term rental activities.

Efforts to reintegrate unoccupied and abandoned housing into the market are emerging, but are not structured. For example,

([532])According to Fondazione Housing Sociale, 25 000 public housing units of public housing (Edilizia Residenziale Sociale typology) are managed by housing companies, around 40 000 co-owned dwellings are owned by cooperatives, and around 20 000 units are managed by the Fondo Investimenti per l'Abitare.

([533])Agenzia delle Entrate and Italian Banking Association – Annual report on housing, 2025.

([534])"PINQUA" - Investment 6 - Innovation Programme for Housing Quality of Mission 5, Component 2 of the Italian RRP. Additionally, following the November 2025 revision of the NRRP, Italy has reinforced its commitment to affordable housing introducing a new measure for the implementation of the Member State Compartment of the InvestEU Program. The measure, under the CDP Social Investments and Skills Window Intermediated Equity Financial Product, will finance investments targeting the Affordable Social Housing sector.

some regions like Tuscany, and municipalities like Bologna, have taken initiatives to map the unoccupied housing stock and provide incentives to bring those properties back to the market, also in relation to policies to revitalise inner city areas. In parallel, a number of small municipalities facing demographic decline have launched 'one-euro house' schemes to encourage buyers to renovate abandoned properties. In addition, a task force (*cabina di regia*) was set up in November 2024 under the Ministry of Finance to coordinate public efforts to valorise public property.

Building and construction codes will be amply revised in 2026. In December 2025, a draft enabling law was approved to develop a new Building and Construction Code, which must be completed within 12 months. The implementing law being drafted aims to, among other things, reduce administrative complexity, provide greater certainty in building permission and simplify authorisations

Vulnerable groups

Quality of housing remains an issue, marked by pronounced income and regional disparities. In 2024, 23.9% of residents lived in an overcrowded home, against 16.9% in the EU. Overcrowded homes are much more common among tenants (43.7%), young people aged 16-29 (40.1%), people at risk of poverty (31.7%), and in cities (27%). This can partly be attributed to delayed household formation, as young people remain in the parental home until, on average, the age of 30. Severe housing deprivation also affected a higher share of the population in Italy than in the rest of the EU in 2023 (5.8% vs 4%), especially market tenants (11.5%) and young people aged 16-29 (10.2%). The share of population living in houses with structural deficiencies such as leaking roofs and damp walls was 17.1% in 2024, above the EU average (15.6%). The incidence of people living in damaged dwellings is higher in the south and city centres ([535]).

Housing policy for vulnerable people has gradually lost centrality. This decline has been particularly marked following the end of structural financial flows to social housing programmes through dedicated payroll contributions by workers (GESCal) and the gradual sale of the public housing stock. The expenditure on social protection dedicated to housing (comprising mainly social protection payments to households to help with the cost of housing as well as the operation of social housing schemes) is 0.04% of GDP, considerably lower in Italy than the EU average (0.3%).

The supply of social housing is currently insufficient to cover the demand. According to the latest Eurostat figures (EU-SILC 2024), the percentage of the population at risk of poverty (those earning less than 60% of the median national income) who live in housing with reduced rent or for free is 13.0% for Italy, compared with 22.6% for the euro area. Public housing accounted for just 2.4% of the housing stock in 2022, down from 4.2% in 2010 (OECD). Around 750 000 housing units are available (i.e. public residential housing *Edilizia Residenziale Pubblica*). Fully public and aimed at the most vulnerable households, these dwellings are managed by public housing companies owned by the local authorities and rented at well-below market rates (around EUR 100 per month on average, compared with around EUR 500 on the private rental market). Some 650 000 households are estimated to be on the waiting list. The analysis by period of construction highlights that the public residential housing stock is of a certain age: more than half of these units were built between 1960 and 1990, while only 9.1% were built after 2000, and only 2.2% of the stock was built after 2010. A significant share of the stock, estimated at more than 63 000 units, is currently vacant due to the need for major maintenance works ([536]).

National instruments aimed at preventing housing exclusion and supporting vulnerable tenants in the private rental market exist, but financing has so far been limited. In particular, the *Fondo Morosità Incolpevole* (Fund for rent arrears due to no-fault tenants) aims to prevent evictions by supporting tenants who are suddenly unable to pay their rent due to the loss

([535])Ministero delle infrastrutture, Rapporto Programma Innovativo Nazionale per la Qualità dell'Abitare, 2022.

([536])Federcasa and Nomisma, La centralità dell'edilizia residenziale pubblica nelle politiche abitative, 2024.

or reduction of their household income (for example due to unemployment). The allocations to the fund were drastically reduced before the COVID-19 pandemic and significantly increased afterwards. Budget Law 2025 and 2026 allocated resources to the Fund for about EUR 22 million.

Homelessness in Italy remains a persistent and severe phenomenon. According to the most recent permanent census, nearly 96 200 people were homeless in 2021, representing 0.16% of the population. Among them, 32% were women and 13% were under 18, almost half lived in the three largest cities ([537]). A recent ISTAT field survey conducted in the 14 main metropolitan areas found over 10 000 homeless people. Among them, 78.6% were men and over two-thirds were foreign nationals. Shelters in these cities were found to have an average accommodation capacity of 66.5% of the homeless population, 44.6% of whom were found living on the street ([538]). According to the Italian Federation of Organisations for Homeless People, 414 homeless individuals died in 2025, a figure consistent with previous years ([539]). The lack of recent census data makes it difficult to monitor homelessness trends and design targeted policies.

Despite the progress achieved under the national recovery and resilience plan, there is ample scope to expand the delivery of housing-first interventions. Under the plan, Italy has invested in housing-first solutions for more than 1 300 people, 'post stations' offering essential services to over 11 000 people, and housing solutions for agricultural workers to overcome illegal settlements (see Annex 12). The European Social Fund Plus also finances housing-first interventions via the national programme for social inclusion and poverty reduction 2021-2027. However, beyond these significant programmes, funding is insufficient and several challenges remain. First, housing-first services are not included in the minimum set of social services that municipalities must guarantee uniformly across the country (see Annex 12), unlike the provision of a fictitious residence ([540]), leading to territorial disparities rooted in the uneven budgets and administrative capacity of municipalities (see Annex 19). Second, the shortage of public housing both limits homelessness prevention and hampers the scalability of housing-first interventions. Third, the absence of a comprehensive national monitoring framework makes it difficult to systematically track homelessness trends and assess the long-term impact of policies and programmes. These gaps are only partially filled by third-sector organisations. Lastly, many measures still focus on basic material assistance, providing short-term relief but without a lasting structural impact.

The supply of student accommodation is increasing in the face of needs that remain high. Italy is an increasingly attractive destination for foreign students: in the 2024/2025 school year, around 110 000 international students were enrolled in Italian universities, 165% more than a decade earlier ([541]). The share of domestic mobile students is also rising, although at a slower rate. The overall supply of student beds is at 83 000 units, most of which are publicly owned (69%), which only covers about 4% of the student population, one of the lowest shares in the EU. There has been a significant increase in investment in the context of the RRP, reaching EUR 1.2 billion ([542]), yet the related expansion in supply is not expected to satisfy the rising demand, especially in the largest university cities ([543]). Under the recovery and resilience plan, Italy has reformed student housing regulations and is investing in providing more than 30 000 new student beds with rent at least 15% below market prices and 30% of the places reserved for disadvantaged students. A financial instrument is supporting the creation of additional units for a total estimation of around 60 000 student beds.

([537])OECD, Data on homelessness 2024 - Country notes: Italy.

([538])ISTAT, Le persone senza dimora: il conteggio nei 14 comuni centro di area metropolitana. Primi risultati, 2026.

([539])FIO.PSD, Morti senza dimora, la strage invisibile, accessed on 2026/05/05.

([540])Fictitious residence is a right for people experiencing homelessness that allows them to register in the municipal population register at a non-existent address, thereby ensuring access to identity documents, healthcare and social services.

([541])National agency for the evaluation of universities and research, Rapporto sul Sistema della formazione superiore e della ricerca (2026).

([542])NRPP - M4C1 Investment 5 (implemented through a dedicated financial instrument managed by Cassa Depositi e Prestiti S.p.A.) and M4C1- Reform 1.7.

([543])Savills (2025). *Italian student housing market – Italy Spotlight, June 2025.*

Graph A16.3: **Housing affordability selected indicators**

		EU27				IT							
	unit	2000-25 avg.	2023	2024	2025	2000-25 avg.	2023	2024	2025	unit	2023	2024	2025
House price to income ratio	*2000-25 avg = 100*	100.0	102.0	100.2		100.0	85.2	85.3		YoY%	-3.7	0.1	
Rent to income ratio	*2000-25 avg = 100*	100.0	85.1	83.5	84.5	100.0	91.1	91.4	92.6	YoY%	-2.6	0.3	1.3
Overburden rate, total	%	9.9	8.8	8.2		8.3	5.7	5.1	5.0	PPS/y	-0.9	-0.6	-0.1
Overburden rate, tenant with market rent	%	23.8	20.3	19.2		28.7	21.9	19.4	22.3	PPS/y	-4.0	-2.5	2.9
Overvaluation gap	%					1.9	-13.3	-13.3	-12.6				
Deflated construction production price	*2010 = 100*	102.2	112.2	111.8	110.5	97.6	94.9	93.0	92.3	YoY%	-2.9	-2.0	-0.7
Building permits	*m^2 per ths persons*	483.5	376.9	362.9	379.9	136.3	79.7	79.7		YoY%	-9.6	0.0	
Residential construction investment	*% GDP*	5.5	5.8	5.1	5.0	5.0	7.5	4.7	4.4	YoY%	17.2	-37.3	-6.4
Share of ownership	%	70.0	69.1	68.4		73.5	75.2	75.9	77.1	PPS/y	1.2	0.9	1.6
Share of people living in overcrowded homes	%	17.7	16.8	16.9		25.8	25.4	23.9	24.3	PPS/y	0.3	-1.5	0.4

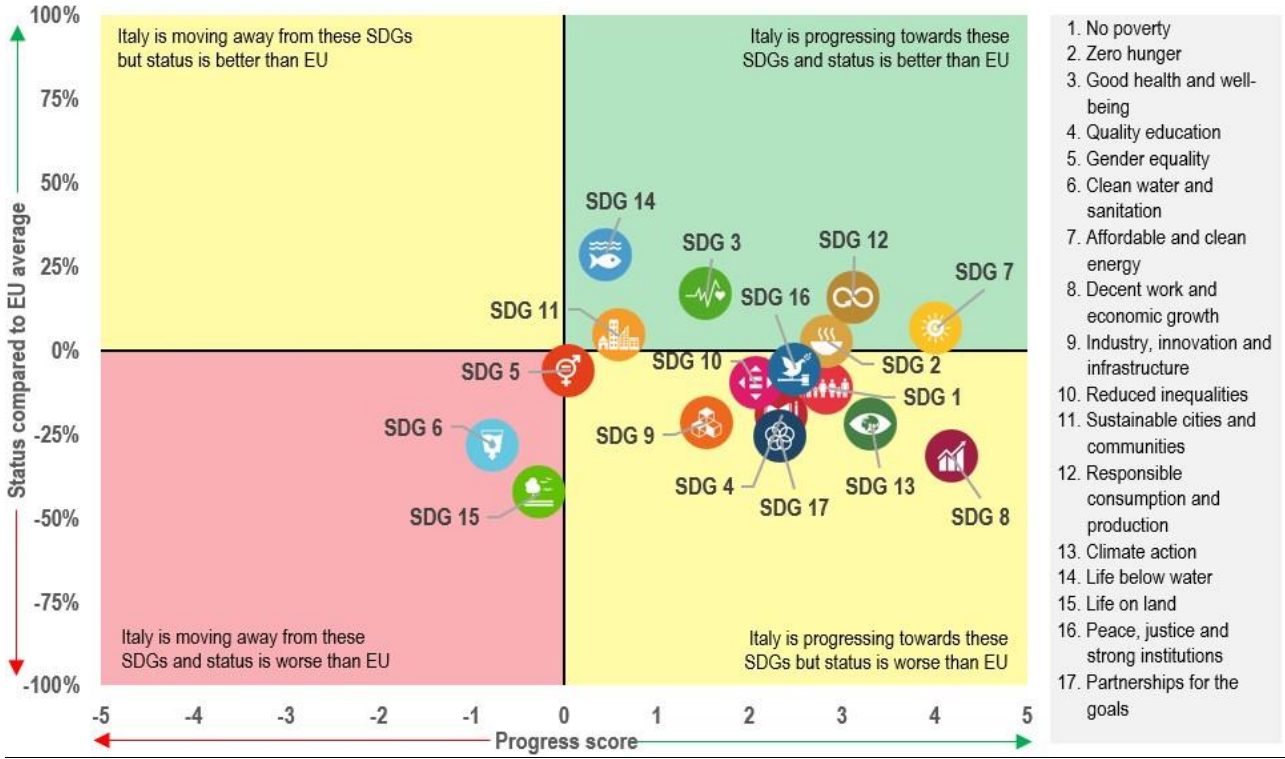
Source: Housing affordability selected indicators. The overburden rate should be read together with the tenure structure (homeowner, tenants), that may differ across country and regions.

Italy also supports equal access to higher education through scholarships for students from lower socio-economic backgrounds, also with the contribution of the European Social Fund Plus and the Recovery and Resilience Facility.

This annex assesses Italy's progress on the sustainable development goals (SDGs) along the dimensions of competitiveness, sustainability, social fairness and macroeconomic stability. The 17 SDGs and their related indicators provide a policy framework under the UN's 2030 Agenda for Sustainable Development. The aim is to end all forms of poverty, fight inequalities and tackle climate change and the environmental crisis, while ensuring that no one is left behind. The EU and its Member States are committed to this historic global framework agreement and to playing an active role in maximising progress on the SDGs. The graph below is based on the EU SDG indicator set developed to monitor progress on the SDGs in the EU.

Italy needs to catch up with the EU average on all SDGs related to *competitiveness* (SDGs 4, 8, 9), but it is improving. Gross domestic expenditure on R&D increased slightly but remains below the EU average (1.4% of GDP, against 2.2% in the EU in 2024; SDG 9). Real GDP per capita is almost on a par with the EU (EUR 33 080 vs EUR 34 110 in the EU in 2025) and investments represent 21.8% of GDP (SDG 8), which is in line with the EU average (21.7%). The percentage of households with a high-speed internet connection in 2024 (70.7%) was well below the EU average (82.5%), despite significant progress since 2019 (30%) (SDGs 9 and 17). The percentage of adults aged 16 to 74 with at least basic digital skills increased but remained below the EU average (54.3% vs 60.4% in the EU in 2024; SDG 4). Italy progressed on indicators related to tertiary education and adult learning but remains well below the EU average (SDG 4). The recovery and resilience plan (RRP) is expected to contribute significantly to competitiveness by investing in the digitalisation of public administration, justice, education and research, as well as in the tourism and cultural sector. Measures supporting the digitalisation and

Graph A17.1: **Progress towards the SDGs in Italy**



For a detailed progress assessment towards the various SDGs, see the annual Eurostat report 'Sustainable development in the European Union'; for extensive data on the short-term SDG progress of EU countries, see Key findings – Sustainable development indicators; for an interactive visualization of SDG progress of EU countries, see SDG country overview. A high status does not mean that a country is close to reaching a specific SDG, but signals that it is doing better than the EU on average. The progress score is an absolute measure based on the indicator trends over the past five or six years. The calculation does not take into account any target values, as most EU policy targets are only valid for the aggregate EU level. Depending on data availability for each goal, not all 17 SDGs are shown for each country.

Source: Eurostat, latest update of 29 April 2026. Data refer mainly to the period 2019-2024 or 2019-2025. Data on SDGs may vary across the report and its annexes due to different cut-off dates.

competitiveness of manufacturing and research and innovation are also expected to boost productivity.

Italy is improving on most of the SDGs related to *sustainability* (SDGs 2, 7, 9, 11, 12, 13, 14) and performs well on some of them (SDGs 2, 7, 11, 12, 14). In Italy the use of circular material is higher than in the rest of the EU (21.6% of material input for domestic use vs 12.2% in the EU in 2024), but generation of waste increased between 2018 and 2022 (from 2.8 to 3.2 kg per capita; SDG 12). While the percentage of marine protected areas is below the EU level (10% vs 13.7% in the EU in 2023), the figure for marine waters affected by eutrophication is virtually zero, outperforming the EU average (0.01% of the exclusive economic zone vs 0.38% in the EU in 2025; SDG 14). Italy performs well on energy efficiency and consumption (SDG 7), but the percentage of renewables in the energy mix remains lower than the EU average (19.4% of gross final energy consumption vs 25.2% in the EU in 2024; SDG 13). Italy also faces increasing climate-related economic losses which are the third highest in the EU (EUR 68.3 per inhabitant expressed as a 30-year moving average vs EUR 49 in the EU in 2024; SDG 13).

Italy still needs to catch up with the EU average indicators on clean water, industry, innovation and infrastructure, sustainable cities and communities, climate action and life on land (SDGs 6, 9, 11, 13, 15). Italy is improving on financing climate action but needs to catch up with the EU average with 3.24% of bonds issued by corporates and the government labelled as green bonds in 2024 (6.94% in the EU). On a positive note, net greenhouse gas emissions removals from land use and forestry are improving compared to 2018 and are higher than the EU level (-212.1 tonnes CO_2 eq. per km² vs -54.7 tonnes in the EU in 2024, SDG 13). While Italy performs well on sustainable agricultural production, ammonia emissions from agriculture remain above the EU average (25.5 kg per hectare of utilised agricultural area vs 19.1 kg in the EU in 2023; SDG 2). Railways and inland waterways accounted for a much lower share of freight transport than the EU average (10.2 percentage points (pps) difference in % of inland freight tonne/km in 2024; SDG 9). The recycling rate of waste at municipal level is above the EU average (50.8% in 2023 vs 47.9% in the EU; SDG 11).

Italy is moving away from SDGs on clean water and sanitation as well as life on land (SDGs 6 and 15) and needs to catch up to the EU average. In particular, the impact of drought on ecosystems increased from 2018 to 2024 and is above EU levels (10.7% of the country area vs 3.7% in the EU in 2024; SDGs 6 and 15). Moreover, Italy needs to catch up with the EU average on water quality in rivers: the percentage of waterbodies with pesticides exceeding thresholds has increased and is above the EU average (27.9% vs 23.3% in the EU in 2023, SDG 6). While biochemical oxygen demand in rivers (an indicator for organic pollution) has improved, it remains above the EU average (2.6 mg O_2/litre vs 2.24 in the EU in 2023, SDGs 6 and 15).

For SDG 15, the percentage of terrestrial protected areas has remained stable and is below the EU average (21.4% of total area vs 26.4% in the EU in 2023). Increased soil sealing had a significant environmental impact, and the area at risk of severe soil erosion by water is well above the EU average (24.4% of non-artificial erodible area vs 5.1% in the EU in 2023; SDGs 2 and 15). The average performance in each dimension of environmental sustainability masks large regional differences across the country. The RRP includes important measures expected to support the green transition in renewable energy, circular economy, water and natural resource management, the reduction of hydrogeological risks, sustainable transport and the energy efficiency of buildings.

Italy is improving in all SDGs related to *social fairness* (SDGs 1, 3, 4, 5, 7, 8, 10). It performs well on good health and well-being and affordable and clean energy compared with the rest of the EU (SDGs 3, 7). Labour market participation improved but wide gaps with the EU average remain. The percentage of young people not in education, employment or training is declining but is still well above the EU average (15.2% of the population aged 15-29 vs 11% in the EU in 2024; SDG 8). Despite a relatively high percentage of women in senior management positions (45% in 2025 vs 33.6% in the EU; SDG 5), the gender employment gap (19.1 pps vs 9.6 pps in the EU in the population aged 20-64 in 2025; SG 5) remains much higher than the EU average. So does the participation gender gap due to caring responsibilities (0.9 pps vs 0.7 in the EU

in 2025 in the population aged 20-64; SDGs 5 and 8). In a context of low tertiary education attainment and low labour market participation of women, the percentage of women attaining tertiary education is higher than that of men; the gap is increasing and higher than the EU average (13.1 pps vs 11.3 in the EU in 2025 in the population aged 25-34; SDG 5). The percentage of employed people at risk of poverty slightly decreased (11.8% of population over 18 in 2019 vs 10.2% in 2024). Fatal accidents at work also declined slightly, but remain higher than the EU average (2.01 per 100 000 workers vs 1.63 in the EU in 2023; SDG 8). Numerical skills worsened across the EU: over 2018-2022, the percentage of low achievers in mathematics among 15-year-olds increased by almost 7%, reaching about 30% in Italy and the EU (SDG 4).

However, Italy needs to catch up with the EU average on most indicators (SDGs 1, 4, 8, 10). Participation in early childhood education has slightly decreased in Italy, while improving at the EU level (94% of children aged 3 and over vs 95% in the EU in 2024; SDG 4). Preventing early leaving from education remains a challenge, especially for students with a migrant background (22.1 pp. difference between EU and non-EU population aged 18-24 vs 16.8 pp. difference in the EU in 2025; SDG 10). Access to housing in terms of excessive costs (SDG 1) and affordable energy (SDG 7) improved in Italy, as the percentage of the population unable to keep their homes adequately warm decreased, falling below the EU average (8.6% of population vs 9.2% in the EU in 2024; SDG 7). The percentage of people at risk of poverty or social exclusion declined but remains slightly higher than in the EU (23.1% of the total population in 2024 vs 21% in the EU). Despite a decrease in the relative median of the at-risk-of-poverty gap, Italy remains above the EU average (26% distance to poverty threshold vs 22.7% in the EU in 2024; SDG 1). Healthy life expectancy at birth based on self-perceived health increased and is above the EU average (79 years vs 75.3 in 2023). The percentage of people perceiving themselves as healthy slightly increased, against a slight decline at EU level, with 72.9% of Italian population above 16 in 2019 (vs 68.6% of population in the EU), and 75.5% in 2023 (vs EU 68.5%). The obesity rate decreased to 7% of adult population in 2025 (vs 16.3% in the EU). At the same time, the proportion of households suffering from noise increased, while remaining lower than the EU average (SDG 3). RRP measures on education and training, active labour market policies, social and territorial cohesion, social services and inclusion and gender equality are expected to improve Italy's performance on the fairness-related SDGs.

While the country is improving on SDGs related to *macroeconomic stability*, it still needs to catch up with the EU average on all of them (SDGs 8, 16, 17). Italy has made progress on peace, justice and the quality of its institutions, with a significant reduction in reported crime, falling below the EU average (from 11.3% in 2018 to 6.4% in 2023, EU: 10% of the total population in 2023; SDG 16). Access to justice remains a challenge, with only 46% of the population perceiving the justice system as independent, and the perception of corruption in institutions is above the EU average (SDG 16). There has been some progress related to sustainable economic growth and employment indicators, but the country remains below the EU average (SDG 8). There is still little uptake on global partnerships, and important challenges remain on public debt (137.1% of GDP vs EU average of 81.7% in 2025; SDG 17). Several structural reforms included in the RRP are expected to improve Italy's macroeconomic stability, particularly the public administration and justice system reforms and the measures to fight tax evasion.

As the SDGs form an overarching framework, any links to relevant SDGs are either explained or depicted with icons in the other annexes.

Regional development trends

While economic growth at national and regional level has converged with the EU average in recent years, disparities both internally and vis-à-vis the EU remain. Despite having increased since the pandemic, the growth rate in GDP per head in all Italy's regions was below the EU average during the last decade. As a consequence, GDP per head (PPS) in all Italian regions has fallen vis-à-vis the EU average, while the large gap between the North and the southern and insular regions of the country remains**.** Although post-pandemic trends have shown a modest narrowing of growth disparities, GDP per head (PPS) in the northern regions remained more than 50% higher than in the southern and the island regions. In 2024, GDP per head was lowest in Calabria, at 57% of the EU average, and below 70% in the three other most populous southern regions ([544]) (see table A19.2).

The significant regional disparities in GDP per head are related to the important labour productivity gaps between regions. In 2023, labour productivity (measured by GDP (PPS) per hour worked) was 101% of the EU average at national level. It reached 114% in the North-West, with Lombardia (120%) and Bolzano (129%) standing out, and exceeded the EU average in all the central and northern regions. The index was at 82% in the South and 83% in the Islands, with the worst performance in Puglia and Calabria (76% and 75% respectively). In terms of trends over the last decade, productivity growth was slower in Italy than the EU average and, in general, the regions of the North were doing better than those less developed in the South despite the overall stability in regional disparities in GDP per head. Lower wages in the Mezzogiorno are also related to lower labour productivity (see Annex 11).

Map A18.1: **GDP per head compared to the EU average.**

Note: 2021-2023 average GDP per head in purchasing power standard compared to the EU average.

Source: Commission calculations based on Eurostat 16 July 2025 data

Moreover, productivity growth historically has been sluggish vis-à-vis the EU, most notably in the Mezzogiorno. Between 2013-23, Italy's average annual real productivity growth per hour worked (0.1%) was significantly below the EU average (0.7%). Productivity growth was lower than the national average (0.1%) in the South (0.0%), Centro (-0.1%) and island regions (-0.2%) and higher in the Northern regions. This reflected differences in regional economic structures: Italy's industrial base is geographically concentrated, with two-thirds of industry located in the North. In the Centre-North, a dense industrial base supports higher productivity, innovation capacity and international competitiveness. Southern regions are characterised by a predominance of micro and small enterprises, concentrated in traditional or downstream segments of value chains, with limited international openness and relatively low productivity.

In parallel to this historical economic under-performance, Southern regions and the islands have seen demographic decline. In the decade from 2015 to 2024, the Italian population

([544])Campania, Puglia and Sicilia.

decreased by an average of 2.3 people per thousand residents each year. In the same period, the EU population grew on average by 1.8 per thousand residents. Decline was most marked in Molise, Basilicata, Calabria, Sicilia and Sardegna, with an average decrease between 4.9 and 7.8 people per thousand residents per year. There are marked differences between coastal and inland territories, metropolitan and non-metropolitan areas, and island and mainland regions. There are strong migration flows from Southern Italy to Northern and central areas of the country and abroad, mainly concerning the younger population. Intra-regional disparities.

As a consequence of measures put in place post-pandemic, some of these trends have reversed, with the Mezzogiorno seeing stronger economic growth in recent years. The combination of higher public investment, tax incentives and regulatory simplification measures targeted to the Mezzogiorno have contributed to higher economic growth in Southern Italy than the rest of the country between 2019-24 and convergence with the EU average. This has contributed also to stronger employment growth in the Mezzogiorno and a shift in migration trends, with fewer Southern Italians working in the northern-central regions. As some of the factors driving this resurgence such as the National Recovery and Resilience Plan are phased out, a renewed push in investments and reforms focused on these regions could consolidate and build on these positive recent developments.

Key challenges for regional competitiveness

R&D and innovation capacities remain limited in the South, hindering its long-term economic and competitiveness potential. Southern regions show increased activity among SMEs in product and process innovation, digital adoption, and collaborative projects. However, limited non-R&D innovation investment, lower patent rates, and smaller firm sizes continue to constrain productivity and technological gains ([545]).

There is an uneven distribution of research excellence and technology-transfer infrastructure (see Annex 4 "Innovation to business"), which contributes to weaker science–industry linkages in the southern regions**.** Conversely, the North and Centre show a stronger R&D performance combining high R&D expenditure, strong patenting capacity, and high innovation intensity ([546]) (compared to the national average, although still below EU average). This in turn supports high-value-added manufacturing, advanced services, and favourable global value chain positioning.

These regional disparities in innovation capacity in part reflect differences in productive structures. Other than the agro-industry, value chains in southern Italy show limited international orientation. This reflects structural weaknesses including infrastructure constraints, the prevalence of small firms, limited supply of advanced skills, a strong dependence on domestic demand, and the specialisation in less tradable sectors, such as construction, transport and retail ([547]). Southern regions are also strongly oriented towards tertiary sectors, particularly in activities of low-value added within value chains or in traditional industrial sectors.

This picture is partially compounded by the growth of certain advanced industrial sectors in the Mezzogiorno. The presence of some advanced services and specialised manufacturing hubs in southern regions is expanding, for example in the green industry and renewable energy (solar, wind, photovoltaic, biogas) thanks to abundant natural resources. The aerospace sector in Puglia and Campania are also areas of excellence.

Attracting more major players in high-value added sectors with specialised competencies could be a driver of competitiveness in the Mezzogiorno. The 2025 Country Specific Recommendations for Italy point to the need to pursue a more ambitious industrial policy in southern Italy that supports productive priorities and strategic specialisations. In this direction,

([545])ISTAT (2024). BES 2023, Il benessere equo e sostenibile in Italia.

([546])Innovation intensity is defined as the number of innovation active or innovative firms, as a percentage of total firms by industry.

([547])SVIMEZ Report 2024 - The Southern Economy and Society - Competitiveness and cohesion: time for policy.

Table A18.1:**Main development trends, challenges and the concentration of resources.**

	Main development trends
Less developed regions (population 19.9 million)	A persistent north-south divide marks the situation among the less developed regions in the Italian Mezzogiorno, where (i) macro-regional gaps remain significant generally in productivity (RCI 67% of the EU average in the South and 61.8% in the islands); (ii) employment (52.5% of population aged 20-64 in the south and 51.5% in the islands); (iii) innovation capacity and public service quality; as well as in (iv) infrastructure endowment, both in terms of accessibility and services for the productive sectors. In the Mezzogiorno regions, the productive sector remains characterised by micro and small firms, often family-run and concentrated in traditional or downstream segments of value chains, with limited international openness and low labour productivity. While some advanced services (ICT, professional services) and specialised manufacturing hubs exist, particularly in parts of Campania, Puglia, and Sicily, the overall presence of medium-sized and large enterprises, innovation infrastructure, and high-value manufacturing remains weak, constraining the regions' ability to drive growth and fully participate in global value chains.
Transition regions (population 7.9 million)	In 2021-2023, four Italian regions had an average GDP per head (in PPS), at least 75% but less than 100% of the EU average, with Piedmont entering this group. The other three regions' (Abruzzo, Marche and Umbria) GDP trends show that these regions' performance is declining. This is in part due to low innovation, stagnating economic activities and structural difficulties in traditional industrial activities (i.e. automotive, textile and ceramics).
More developed regions (population 31.3 million)	In the Centre-North, a dense industrial base – anchored by medium and large firms, industrial districts, and strong integration into global value chains – supports higher productivity, innovation capacity, and international competitiveness. The strong industrial concentration also makes northern regions more exposed to European industrial slowdowns and energy price shocks, particularly given the weight of energy-intensive sectors. However, the industrial fabric of the more developed Italian regions is diverse, with higher technological innovation in Lombardy and Emilia Romagna and a more traditional industrial structure in Veneto. Marked internal differences are registered in these regions. For instance, the situation in Lazio relies strongly on the capital.
Specific territories	Spatial imbalances are extremely relevant in Italy. These include an urban–rural divide – driven by depopulation, ageing and reduced access to essential services in inner and mountainous areas – as well as marked differences between coastal and inland territories, metropolitan and non-metropolitan areas, and island (including minor islands) and mainland regions. Moreover, intra-regional disparities persist within both the northern and southern regions, and dynamic urban centres coexist with structurally weaker peripheral municipalities. Overall, Italy's territorial imbalances are multidimensional and layered, combining macro-regional, geographical and functional differences, inaccessibility, and level of essential public services. These imbalances affect the country's development potential and are linked to Italy's depopulation trends and its brain drain.

Source: European Commission based on Eurostat data; categories of regions based on Map A18.1.

Banca d'Italia([548]) and Confindustria([549]) highlight the pivotal role of large players in driving supply chain development, particularly in Mezzogiorno regions. There is scope to capitalise on existing areas of excellence to enhance regional competitiveness such as the aerospace sector in Puglia and Campania, the renewable energy sector in all southern regions or the electronics and semiconductors sectors in Sicilia. Exploiting the potential of strategic specialisation in new value chains and sectors at the technological frontier such as semiconductors, artificial intelligence and ICT technologies can also foster economic diversification of territories dependent on declining sectors.

Private investment into the country's most disadvantaged areas can be boosted by the focused targeting of national measures and leveraging of cohesion policy. Most nationwide measures to promote business growth, internationalisation, innovation, access to finance, and foreign investments have disproportionately benefited the Centre-North when there have not been provisions earmarked for the southern regions. Transition 4.0 Plan tax credits did not include targeted support for southern regions and saw very limited uptake there while 'Nuova Sabatini' directed around 90% of incentives to the Centre-North between 2014 and 2023 and only ~19% of Cassa Depositi e Prestiti venture capital investments were in the South ([550]). Conversely, the Budget Law 2026 that extended for three

([548])Banca d'Italia, 2022: "Il divario Nord-Sud: sviluppo economico e intervento pubblico".

([549])Confindustria, 2025: « **Check-up Mezzogiorno 2025 ».**

([550])Details on the geographical distribution of projects and incentives are provided by the SVIMEZ Report 2024.

years the funding of the Special Economic Zone (SEZ) scheme, provided enterprises with some certainty for their investment in the SEZ. Overall, the South's share of key support instruments is around 30%, mainly thanks to national schemes such as the Development Contracts, the Guarantee Fund for SMEs and Smart & Start Italia, that were co-financed with cohesion policy resources and had a specific earmarking for southern regions. Going forward, a policy framework for regional competitiveness that builds on past effective practices would provide long-term financial and regulatory incentives for large investments in clearly defined sectors, knowledge domains and geographic areas, in line with the needs for the Mezzogiorno.

At the same time, some Northern and Centre regions could also merit targeted support in light of growing challenges to their competitiveness. The Italian automotive and manufacturing sectors which have been at the heart of the economic growth of many regions of the North and Centre, face significant challenges in terms of both cost and non-cost competitiveness. Maintaining their competitiveness requires significant investments in innovation and technology and a skilled workforce proficient in digital skills and new technologies, with the latter often requiring targeted public support for training.

Low employment is a major constraint to the growth potential of the Mezzogiorno and co-exists with labour shortages in some high-value added sectors. These regions have been historically characterised by significantly lower employment rates than those of the Centre and North of the country. This difference has not narrowed down over time. Female employment rate in the labour market remains among the lowest in the EU in those regions. Insufficient availability of childcare and long-term care services are still a major challenge (see Annex 15). Additionally, addressing skill shortages in ICT, engineering, technology and the green transition is increasingly important for the Italian labour market and productive system, in particular in the South.

Transport infrastructure is still significantly underdeveloped in the South. It is insufficient in serving productive activities in the region. In the Mezzogiorno infrastructure endowment is insufficient as regards the multimodal logistics and interports, as well as for rail freight terminals and yards to support a more efficient handling of cargo. This is exacerbated by a systemic lack of coordinated infrastructural development planning. Transport and logistics infrastructure in the North is more environmentally sustainable and digitalised, thus providing more efficient networks and local transport mobility services typically offer a better coverage. Given however the reliance of supply chains in sectors under intense global competition (i.e automotive) on highly efficient transport and logistics, tailored public investment may be needed also in northern/central regions.

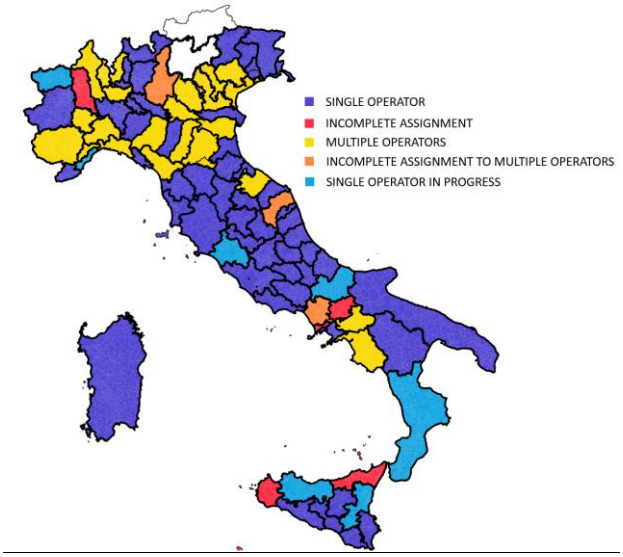
Grid infrastructure suffers from significant weaknesses in the South constraining the development of its full potential in renewable energies The infrastructure is unevenly exploited throughout the country with ample weaknesses in the Mezzogiorno regions. According to the Renewable Thinking Indicator (RTI) ([551]) regions such as Piemonte, Lombardia, and Abruzzo, have already harnessed over 70% of their renewable potential (mostly in hydropower), whilst Sicilia and Sardegna exploit only 32% and 35% respectively of their potential despite having some of the best conditions for renewable energy development. Weaknesses in the grid infrastructure (i.e lower capacity, density, and interconnection of electricity networks) are a significant bottleneck for further uptaking and developing renewable energy in the South. There is also substantial scope to invest in the upgrade of electricity transmission network and in smart grids.

The quality, efficiency and availability of water infrastructure and water services are lower in the Mezzogiorno. Italy received a Country Specific Recommendation in 2025 to tackle remaining inefficiencies in water management by reducing infrastructural gaps. Total water losses are highest in Basilicata, Sardegna, Lazio, and Sicilia - regions already subject to high water stress and drought risks. This is mostly a consequence of the lower investment capacity of operators located in the southern regions compared to the North and the Centre, and of a mostly fragmented management system of water services. However, important signs of managerial integration have emerged in Calabria, and Sardegna (Map A18.2) where water service is being consolidated into a single operator. In many

([551]) CVA and The European House Ambrosetti – TEHA (2025). Renewable Thinking 2025.

Italian regions there are still considerable investment needs relating to modernising and upgrading water infrastructure. Regional disparities can also be seen in wastewater treatment infrastructure with significant gaps again in the South. In Sicily only 76.5% of the population were connected to the sewerage system in 2022 (compared to 89% as the national average) ([552])(see Annex 10).

Map A18.2: **Water services management in Italy**



Source: Utilitatis foundation

There are significant weaknesses in waste management in the regions of the Centre and South of the country. Italy received a Country Specific Recommendation in 2025 to tackle remaining inefficiencies in waste management by reducing infrastructural gaps. Despite significant progress made in past years, also thanks to investment supported by cohesion policy, most of central and southern Italy faces a treatment deficit. Organic waste is often transported to regions far from where it is produced. In addition, the high level of fragmentation of waste management, especially in the south, lead to diseconomies (see Annex 8). Conversely, Northern Italy drives the overall increase in separate collection waste rates and the decrease in the rates of waste sent to landfills ([553]). Northern regions also benefit from better infrastructure for organic waste treatment and energy recovery, both in terms of quantity and quality, and are able to treat more waste than they actually produce.

Access to health services is also often difficult in the South. Historical differences in policy and financing have created marked regional imbalances in the availability of resources (infrastructure and workforce) affecting both the supply and quality of services ([554]). Territorial disparities are also evident in terms of healthcare personnel. A structural under-allocation and greater difficulties in meeting the Essential Levels of Care (LEA) in southern regions, call for a revisit of the resource allocation for healthcare across regions by integrating socioeconomic factors (see Annex 15).

Several structural weaknesses remain in relation to the blue economy, in particular in the South and islands ([555]). Those activities represent a significant share of the employment and value added of those coastal regions. Challenges faced by them include environmental degradation, over-reliance on seasonal tourism, declining fish stocks, aging fleet and underdeveloped port hinterland connections, compounded by high exposure to climate change.

Housing affordability is a structural challenge in several Italian regions, albeit with different territorial drivers. In the South, housing affordability constraints are more closely associated with lower income levels and insufficient social housing stock. In the Centre-North, particularly in major metropolitan and high-tourism areas such as Milano, Firenze, Bologna and Roma, sustained demand pressures have led to significant increases in property values and rental prices. Under the revised mid-term review priorities, Cohesion Policy will support investments of 1.1 billion EUR aimed at modernising the existing housing stock and expanding the availability of affordable and social housing across Italian regions. (see Annex 16).

Italian regions are characterised by substantial asymmetries in fiscal capacity, reflecting differences between Special-Statute ([556]) and Ordinary-Statute regions.

([552])ISTAT (2025), Water statistics 2020-2024, Link.

([553])ISPRA (2024). Rapporto Rifiuti Urbani Edizione 2024.

([554])ISTAT (2024). BES 2023, il benessere equo e sostenibile in Italia

([555])EU Blue Economy Observatory – Italy Country Profile link
Osservatorio Nazionale sull'Economia del Mare - XIII National Report on the Sea Economy (2025)

([556])Trentino-Alto Adige, Valle d'Aosta, Friuli-Venezia Giulia, Sicilia and Sardegna.

Special-Statute regions recorded the highest revenue per head in 2023, notably Northern regions, with Valle d'Aosta at EUR 17 400 and Sardegna at EUR 9 700. Ordinary statute regions exhibited substantially lower revenue per head, ranging between EUR 4 500 EUR 6 700 in 2023 ([557]). The reliance of southern regions on transfers from the central government is higher: state transfers per head were particularly high in Molise (EUR 1 268), Sicilia (EUR 1 195), and Puglia (EUR 929), whereas Lombardia, Veneto and Emilia-Romagna received substantially lower transfers per head (EUR 268–333). Regions such as Puglia, Molise, and Sicilia have the lowest levels of financial autonomy, as measured by the ratio of own-source revenues to total current revenues**.**

The limited fiscal capacity and autonomy of regional administrations in the Mezzogiorno constrain investment in infrastructure and local public services. Structural weaknesses in fiscal capacity, including a high level of indebtedness of local administrations, continue to constrain investment capacity, especially in the South ([558])**.** Municipalities in the Mezzogiorno face greater budgetary and financial imbalances compared with Centre-North ones, driven by systemic weaknesses in revenue capacity particularly in Sicily ([559]). Several technical difficulties have slowed down the progress towards the completion of the regional federalism reform ([560]), limiting the convergence trends between less and more developed regions. Moreover, the envisaged activation of an equalisation fund to balance resources among regions to guarantee the coverage of expenditure needs for the Essential Levels of Services (ELS) and to reduce differences in fiscal capacity is not yet achieved, exacerbating the differences in public services delivery still characterising the Mezzogiorno from the rest of the country. Despite a general increase in capital expenditure between 2018 and 2023—supported in particular by RRF resources, there are still persistent territorial disparities between Mezzogiorno and the Centre-North in infrastructure, connectivity, and public service quality.

Administrative capacity is weaker in the regions and municipalities of the South across many aspects, exacerbating challenges to regional competitiveness. Disparities in the capacity of public administrations persist in key areas such as digitisation, decision-making capacity, efficiency of public financial management or procurement. Southern areas lag behind in rankings assessing the availability and quality of digital public services for citizens and businesses ([561]). Delays in public procurement are more significant in the South and less frequent in municipalities where the workforce shows a higher presence of women and young workers ([562]), showing the importance of modernising human resources in public administrations. Remuneration remains limited in the South and small municipalities or those with limited fiscal autonomy struggle to attract qualified staff. The use of association solutions between municipalities to reduce operating costs and secure economies of scale is still limited. Italy's 2025 CSRs included a recommendation to increase the efficiency of the public administration and strengthen administrative capacity, particularly at local level, which are yet to be tackled in a systemic manner.

([557])Elaborations based on Italian Ministry of Finance data.

([558])Elaboration based on 2023 ISTAT data, for local authorities and for regions.

([559])De Toni, A. (2024). Lo stato di crisi degli enti locali: evoluzione e prospettive, Link.

([560])Fiscal federalism originates from Delegated Law No. 42/2009, implementing Article 119 of the Italian Constitution as amended in 2001. Its purpose is to guarantee revenue and expenditure autonomy for municipalities, provinces, metropolitan cities and regions, while safeguarding the principles of solidarity and social cohesion; to gradually replace, at all levels of government, the criterion of historical expenditure; to make administrators more accountable in the use of public resources; and to ensure the effectiveness and transparency of democratic oversight over elected officials. This reform, still unfinished and included among the objectives of the NRRP, provides for the gradual replacement of state transfers with autonomous forms of taxation in financing the core functions of territorial entities. This is the so-called "fiscalisation" of state transfers, aimed at shifting from a system of derived finance to one of autonomous finance for each territorial level of government.

([561])Banca d'Italia (2024). The economy of Italian regions: Recent dynamics and structural aspects. Economie Regionali, n. 22.

([562])Banca d'Italia (2021). La realizzazione dei lavori pubblici in Italia: fattori istituzionali e caratteristiche regionali. Questioni di Economia e Finanza, n. 659.

Table A18.2:**Selection of indicators at regional level in Italy**

	GDP per head (PPS, index)	Real GDP per head growth	Productivity: GDP (PPS) per hour worked (index)	Real productivity growth (per hour worked)	R&D expenditure	Population growth	Net migration	Female employment rate 20-64
	EU27=100	Average annual % change	EU27=100	Average annual % change	% of GDP	Average annual change per 1000 residents	Average annual change per 1000 residents	% of women aged 20-64
	2024	2014-2024	2023	2013-2023	2023	2015-2024	2015-2024	2025
EU	100	1.4	100	0.7	2.24	1.8	3.5	71.3
Italy	98	1.3	101	0.1	1.38	-2.3	1.8	58.0
Nord-Ovest	121	1.4	114	0.2	1.40	-0.9	3.8	67.2
Sud	66	1.4	82	0.0	0.98	-4.7	-1.6	40.7
Isole	64	1.4	83	-0.2	0.94	-5.0	-1.2	41.7
Nord-Est	114	1.2	107	0.4	1.58	-0.2	3.8	68.2
Centro (IT)	105	1.0	103	-0.1	1.52	-1.9	2.9	64.6
Piemonte	101	1.4	102	0.0	2.09	-3.5	2.8	67.7
Valle d'Aosta/Vallée d'Aoste	125	0.8	112	-0.3	0.53	-4.3	1.0	74.3
Liguria	102	0.9	108	0.4	1.44	-3.9	4.9	66.6
Lombardia	132	1.4	120	0.2	1.19	0.8	4.0	66.9
Abruzzo	84	1.1	89	0.2	1.10	-4.4	0.9	56.6
Molise	72	1.5	87	0.3	0.78	-7.9	-0.9	50.7
Campania	64	1.6	85	0.2	1.20	-3.9	-2.0	36.8
Puglia	64	1.5	76	-0.3	0.82	-4.7	-1.2	40.9
Basilicata	74	1.9	85	-0.3	0.64	-7.8	-2.4	49.0
Calabria	57	0.9	75	-0.2	0.64	-6.2	-2.7	37.7
Sicilia	61	1.4	83	-0.3	0.98	-4.9	-1.6	37.5
Sardegna	73	1.6	82	0.1	0.83	-5.4	0.2	54.7
Provincia Autonoma di Bolzano/Bo	161	1.6	129	0.9	0.65	4.1	3.2	74.3
Provincia Autonoma di Trento	125	1.1	117	0.4	1.59	1.6	3.5	72.8
Veneto	109	1.2	103	0.3	1.20	-1.0	2.5	65.5
Friuli-Venezia Giulia	102	1.2	101	0.2	1.69	-2.4	3.8	68.7
Emilia-Romagna	117	1.1	108	0.4	2.09	0.6	5.4	69.6
Toscana	103	1.1	100	0.1	1.37	-2.2	3.6	69.2
Umbria	85	1.4	88	-0.2	0.88	-4.2	1.8	68.0
Marche	89	1.0	89	-0.3	0.94	-4.3	1.3	67.5
Lazio	113	0.8	110	-0.2	1.80	-0.6	3.0	60.5

Dark green - the indicator is 120% or more of the EU average.
Light Green - the indicator is 100% or more, but less than 120% of the EU average.
Yellow - the indicator is 90% or more, but less than 100% of the EU average.
Light red – the indicator is 75% or more, but less than 90% of the EU average.
Dark red – the indicator is below 75% of the EU average.
This colour scale applies to 'positive' indicators, where higher values are favourable.
For 'negative' indicators (where higher values are unfavourable), the colours are reversed
Source: Eurostat and ARDECO (JRC)

This Transport Annex presents the state of play, and the challenges Italy faces with the implementation of the trans-European transport network (TEN-T), the European railway traffic management system (ERTMS), the roll-out of Sustainable Aviation Fuels (SAF) and road safety.

TEN-T

Four European transport corridors cross Italy (North Sea – Rhine-Mediterranean, Mediterranean, Baltic – Adriatic, and Scandinavian – Mediterranean). The Italian TEN-T rail network is 11 622 km long (5 730 of which are on the core network). The TEN-T road network is 10 735 km long (4 312 of which on the core network). Italy has 912 km of TEN-T inland waterways, 34 TEN-T airports (including 11 core airports), 50 TEN-T ports (including 17 core ports) and 50 urban nodes ([563]). Italy fully aligned its national transport planning with the TEN-T European Transport Corridors.

Italy's rail network is well developed but heavily used and some sections require further investments, especially in view of the ongoing upgrades of major cross-border projects to France, Austria and Slovenia. The southern part of the country remains poorly connected. Another priority will be to address capacity bottlenecks in the surroundings of major urban nodes.

The ERTMS is essential to efforts to digitalise the railways and to modernise and harmonise railway operations across Europe. The ERTMS ensures the safety of rail networks by providing a unified signalling system that significantly reduces the risk of accidents. It also provides interoperability between national rail systems, improving cross-border train movements. Finally, ERTMS enhances network capacity and operational efficiency, increasing the competitiveness of the rail sector.

The ERTMS was operational on 8.6% of Italy's TEN-T rail network by the end of 2024. Based on its national plan Italy would require significant efforts to reach its ERTMS roll-out target by 2035, namely deploying ERTMS on an additional length of 8 104 km and to pursue the decommissioning of the legacy signalling system. Of particular concern in Italy are the lengthy and expensive testing requirements for ERTMS vehicles which, if streamlined, would avoid vehicle authorisation bottlenecks for rail operations.

In northern Italy, the priority sections complete the European transport corridor between the Mediterranean and eastern Europe. The railway lines eastwards of Verona face significant capacity constraints and should be upgraded given the future traffic increases that the cross-border improvements towards Slovenia will bring.

Furthermore, the line between Bologna and Pescara along the Adriatic coast needs upgrading as it is the backbone of the railway system along the eastern coast and a major route for freight transports. In southern Italy, the line from Salerno to Reggio Calabria needs further upgrades to extend the Italian high-speed network to the southernmost regions and support the economic development of this area.

In Italy, the timely implementation of large-scale infrastructure projects is affected by overlapping competencies between different administrative layers involved in the relevant permitting procedures. New rules were introduced in 2023 to streamline and accelerate public procurement procedures. However, it is not yet clear whether they will trigger the expected results. In addition, growing construction costs have affected budgetary planning and procurement procedures for several big projects.

Together with Austria and France, Italy needs to prepare a model on how to efficiently operate railway traffic on the Brenner and Lyon-Turin cross-border sections, especially to cover traffic management, maintenance and operations in line with the rules of the single European railway area. Harmonising technical and operational rules with the minimisation of national rules in line with the EU directives on rail interoperability and safety remains critical to ensuring seamless cross-border rail transport.

([563])TENtec Information System, according to Reg. 2024/1679.

Table A19.1:**ERTMS deployment in Italy.**

ERTMS in Italy				
TEN-T rail network	ERTMS (trackside) in operation			Min. estimated cost of additional deployment until 2035
	year	length	% of TEN-T network	
11 622 km	end 2024	998 km	8.6 %	
	by 2035	9 102 km	78 %	EUR 1.9 billion

Source: Based on ERTMS – Third work plan of the European Coordinator Matthias Ruete.

Map A19.1: **TEN-T Cross-Border & National Priority Sections in Italy**

Italy has a strong industrial base to produce sustainable aviation fuels (SAF). It is home to one of the largest SAF facilities in Europe with a production capacity of up to 400kt/year of SAF from biological origin (bioSAF). Without investment support to kick start commercial-scale eSAF deployment (hydrogen-based) and ramp up bioSAF reaching the targets set by ReFuelEU Aviation is unlikely. Making use of EU ETS proceeds and ReFuelEU Aviation penalty revenue to support the deployment of eSAF as well as ramp up production of advanced bioSAF would represent a significant contribution. Italy could also join the eSAF Early Movers Coalition to contribute financially to de-risking instruments for eSAF production such as double-sided auction mechanisms.

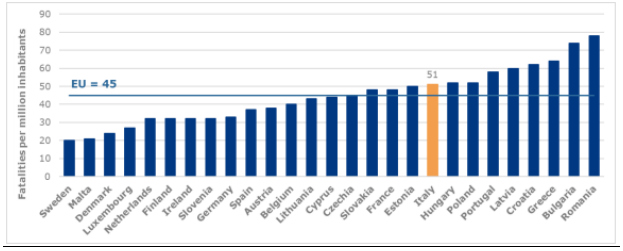
Road Safety

Road crashes impose an enormous social, economic and health burden on the EU economy. The external socio-economic costs of fatal, serious and minor injuries have remained

persistently high despite the progress made in reducing crash frequency and severity. These resources could otherwise fuel innovation, education, healthcare and other crucial public investments ([564]).

In 2024, Italy was above the EU average (45), with 51 fatalities per million inhabitants. Compared with the EU average, the distribution of fatalities in Italy showed a high proportion of accidents involving powered two wheelers and fatalities occurring on roads inside urban areas. Over the 2010-2019 period, the categories of pedestrians and cyclists showed the lowest reductions in both fatalities and injuries. Based on the latest data, and the 5% decrease in fatalities between 2019 and 2024, progress remains slow. Italy therefore would benefit from accelerating the pace of change in its road safety measures to reach the 2030 target of halving the number of fatalities.

Graph A19.1: **Italy's road fatalities per million, 2024**



Source: Report at the Mid-Point - Italy, SWD(2026) 47 final.

Overall road safety performance has not improved sufficiently to meet the targets set for this period, which may primarily be attributed to the delays met in the implementation of the road safety strategy. Italian authorities have committed to carry out a mid-term evaluation of the road safety strategy's implementation, with the aim of identifying the most effective actions to compensate for the gaps identified. Within this context, it would be very useful to review the degree of implementation of the actions and to explore any other relevant activities, with emphasis on crashes inside urban areas and VRUs ([565]).

The map below presents the roads with poor infrastructure safety, where urgent action is required.

Map A19.2: **Italy's road safety map**

Source: TENtec Information System and TEN-T map library – European Commission

([564])Report on the implementation of the EU Road Safety Policy framework at the Mid-Point, COM(2026) 77 final.

([565])More details in Report on the implementation of the EU Road Safety Policy framework at the Mid-Point – Italy, SWD(2026) 47 final.