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#### COVER NOTE

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To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union

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**COMMISSION STAFF WORKING DOCUMENT**

**In-depth review for Italy**

**Prepared under Regulation 1176/2011 on the prevention and correction of  
macroeconomic imbalances**



European  
Commission

Italy

**In-Depth Review 2026**



This in-depth review presents the main findings of the Commission's staff assessment of macroeconomic vulnerabilities for Italy for the purposes of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances. It provides technical input to the Commission for the Communication "European Semester – 2026 Spring Package" that will set out the Commission's assessment as to the existence of imbalances or

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# 1. INTRODUCTION

**This in-depth review (IDR) analyses the evolution of the Italy's vulnerabilities mainly related to high government debt and in a context of weak productivity growth.** It also monitors fragilities that had been identified in the previous IDRs, notably in the labour market and the financial sector. An IDR was carried out for Italy in spring 2025, and in June 2025 the Commission concluded that Italy was continuing to experience imbalances<sup>(1)</sup>. This year's IDR, which follows the 2026 Alert Mechanism Report (AMR) published in November 2025, assesses the persistence or unwinding of the vulnerabilities identified last year, potential emerging risks, and relevant policy progress and policy options that could be considered for the future<sup>(2)</sup>.

**Italy's vulnerabilities are analysed in a context of sluggish economic growth and persistent global uncertainties.** Real GDP grew by 0.5% in 2025, down from 0.8% in 2024. In the post-pandemic period, Italy lost some competitiveness in export markets, but continued to import essential inputs, including energy and industrial critical raw materials, which became subject to sharp price increases and in some cases supply bottlenecks. The demand for imports was sustained by a boom in domestic investment, supported at first by government incentives to renovate houses and then by the RRF. Meanwhile, exports have been hit by the double impact of higher tariffs and increased competition from China. GDP is forecast to grow marginally faster in 2026-27, although subject to downward risks on account of the global geopolitical situation. Employment growth has decelerated, after the robust post-pandemic expansion, and is projected to continue slowing down in 2026-27, allowing a small recovery in productivity growth. At the same time, the gradual rise in labour participation is expected to offset declining working-age population, thus leaving the unemployment rate at record-low levels under 6%.

**Inflation has stayed below the euro area average.** That is the case even if in 2025, it was 1.7% after 1.1% in 2024. In autumn 2025, it was forecast to decrease to 1.3% in 2026 but to rise again to 2.0% in 2027, also due to the onset of the EU Emission Trading System 2, which has then been postponed to 2028.

*The cut-off date for the data for preparing this IDR was 23 April 2026. Unless stated otherwise, all the forecast data used in this IDR were taken from the Commission's Autumn 2025 Forecast<sup>(3)</sup> to ensure the coherence of the various figures and calculations. However, if actual outturn data become available after the publication of the autumn forecast, that is used.*

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(1) European Commission (2025), Italy – In-depth Review 2025, Staff Working Document, SWD(2025) 122 final (published as European Economy, [Institutional Paper 310](#), May 2025); and European Commission (2025), 2025 European Semester - Spring package, Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank, [COM\(2025\) 200 final](#).

(2) European Commission (2025), Alert Mechanism Report 2026, Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee, [COM\(2025\) 956 final](#); and European Commission (2025), Alert Mechanism Report 2026, Staff Working Document, [SWD\(2025\) 956 final](#).

(3) European Economy, [Institutional Paper 327](#)

*Assumptions concerning energy prices, other commodities prices, and other general assumptions were taken from the Autumn 2025 Forecast and do not reflect developments related to the war in the Middle East and its impact on energy prices <sup>(4)</sup>.*

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<sup>(4)</sup> The Commission is assessing the sensitivity of Member States to major economic shocks originating abroad, including in the context the recent sharp increase in energy prices and trade tensions. The results of this analysis will be published in the forthcoming European Commission Institutional Paper dedicated to spillovers analysis that accompany the 2026 in-depth reviews.

## 2. ASSESSMENT OF MACROECONOMIC IMBALANCES

**Italy faces challenges mainly related to its high and growing government debt, in a context of weak productivity growth.** Despite improvements, the labour market and the sovereign-bank nexus continue to warrant scrutiny. Italy's public debt-to-GDP ratio continued to rise in 2025 and is expected to peak at 137.9% in 2026 before starting to decline. While the government deficit has improved, debt servicing costs remain high, limiting budgetary flexibility. Labour productivity has continued to decrease, reflecting structural challenges such as small firm size, low worker skills, and regional disparities. Labour market conditions have improved, with unemployment falling and participation rates reaching historical highs, though in a context of demographic decline, female and youth participation remain low, particularly in southern regions. The financial sector has continued to strengthen, with non-performing loans (NPLs) falling further and banks recording strong profitability, capitalisation, and liquidity. The sovereign-bank nexus is still comparatively high, with banks, particularly less significant institutions and cooperative banks, holding a large share of their assets in government bonds.

### 2.1. GOVERNMENT SECTOR

#### *Assessment of gravity, evolution and prospects of vulnerabilities*

**Italy's public debt-to-GDP ratio rose again in 2025 and is projected to further increase in 2026, before falling in 2027.** The government deficit improved in recent years, with a primary surplus achieved in 2024 and a general government deficit that decreased to 3.1% of GDP in 2025. These improvements reflect, among others, a sizeable reduction of spending on housing renovation tax credits and higher-than-expected tax revenues driven by a resilient labour market and increased tax compliance. At the same time, in 2024 Italy's public debt reversed its downward trajectory and started rising again. The upward trajectory is expected to be temporary and driven mainly by the lagged impact on cash borrowing of the tax credits for housing renovations that affected previous years' deficits. According to the Commission Autumn 2025 Forecast, assuming no policy changes, the debt-to-GDP ratio is set to peak at 137.9% by 2026, despite a progressive reduction of the government deficit to 2.8% of GDP by 2026. In 2027, the debt ratio is expected to decline, following the phasing out of claims for housing-related tax credits (see Graph 2.1.a).

**Spending pressures related to ageing and sizeable public debt servicing costs further reduce budgetary flexibility.** In 2025, yields on Italian government bonds with 10-year maturity remained on average stable at 3.5%. Spreads to the 10-year German Bund continued decreasing, from around 1.1 pps in January 2025 to around 0.7 pps in mid April 2026. With lower spreads only affecting new borrowing and the government deficit remaining sizeable, the Commission projected debt servicing costs to remain stable at

around 4% of GDP in both 2026 and 2027, thus limiting budgetary flexibility and the ability to finance growth-enhancing policies. The average residual maturity of Italy's outstanding securitised debt stock remained broadly stable at around 7 years at end-2025 compared to previous year, which is below the euro area's average of 8.2<sup>(5)</sup>. Government gross financing needs are expected to remain large, at around 23% of GDP per year over 2026-2027. At the same time, medium-term risks to fiscal sustainability are high overall (see Box 2.1). In particular, public spending is skewed towards pensions which poses fiscal challenges in the face of demographic pressures. In addition, the taxation system is still characterised by several inefficiencies and high tax evasion. On the positive side, risk-mitigating factors include relatively stable government financing sources, with an increasing share of fixed-rate securities. In addition, government guarantees granted during the pandemic decreased to 13.0% of GDP in December 2025, from 14.1% in December 2023 and 15.7% of GDP at their peak in 2021.

### *Assessment of MIP relevant policies*

**According to the medium-term fiscal-structural plan (MTFSP), government debt would increase to 137.8% of GDP at the end of 2026 (from 135.8% in 2024) and then decrease to 132.5% of GDP at the end of the adjustment period in 2031.** In its plan, Italy commits to a net expenditure growth<sup>(6)</sup> that does not exceed 6.2% in cumulative terms by 2029. In particular, Italy commits to a net expenditure growth that does not exceed 1.3% in 2025, 1.6% in 2026, 1.9% in 2027, 1.7% in 2028 and 1.5% in 2029<sup>(7)</sup>, corresponding to average net expenditure growth of 1.6% per year over that period. The plan's indicative fiscal strategy aims to deliver the commitments on net expenditure through both expenditure restraint and discretionary revenue increases. The set of 24 reforms and investments underpinning an extension of the adjustment period from 4 to 7 years is composed of several commitments building on the Recovery and Resilience Plan (RRP).

**Italy has continued to implement measures that improve the quality of its public finances, reduce tax evasion, and support fiscal sustainability.** Progress has been made in recent years to enhance the national framework for the annual spending review, including by strengthening its governance and implementing yearly spending reviews over 2023-2025. The extensive analytical work produced in the spending reviews process remains to be reflected in the budgetary cycle. In line with the MTFSP commitments, the 2026 Budget Law established that each ministry is expected to evaluate at least one spending policy under its responsibility by June 2026 to enhance the monitoring and evaluation of public policies and expenditure. Overall, the monitoring and evaluation plans will cover 10% of the spending

<sup>(5)</sup> Securitised debt accounts for around 85% of total public debt in Italy. If non-securitised debt is taken into account as well, as published by the Bank of Italy, the average residual maturity of Italy's outstanding debt stabilised at 7.9 years in 2023-2025.

<sup>(6)</sup> Net expenditure as defined in Article 2 of Regulation (EU) 2024/1263, namely government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on Union programmes fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure and (vi) one-off and other temporary measures.

<sup>(7)</sup> These are also the growth rates that the Council recommended. The cumulative growth rates are calculated by reference to the base year of 2023. Council Recommendation of 21 January 2025 endorsing the national medium-term fiscal-structural plan of Italy, Official Journal of the European Union C/2025/651, 10 February 2025.

under the direct responsibility of central administrations, with the aim of formulating proposals and actions for the improvement of the efficiency or quality of spending. Besides this, the authorities have reduced tax expenditures, including by cutting environmentally harmful subsidies, selectively revising personal income tax deductions and scaling back tax incentives for housing renovation. In addition, further measures have been adopted to foster participation in supplementary pension schemes. Italy introduced several measures against tax evasion in recent years, also under the RRP, aimed at making control systems more efficient and at incentivising taxpayers to fully declare their income, supported also by an improvement in the operational capacity of the tax administration. Overall, Italy has implemented a comprehensive digital tax compliance system encompassing mandatory e-invoicing and e-reporting. As a result, as of 2026, the mandatory electronic connection between POS and cash registers became operational with the aim of linking information from digital payments with tax declarations. A new platform launched in 2026 allows the Revenue Agency to cross-reference e-invoicing, digital payments, and tax returns in real-time, providing a reliability profile for each VAT number. The number of pre-filled VAT and income tax returns is being expanded to reduce compliance burdens on taxpayers and minimise errors. Further measures aimed at strengthening the fight against tax evasion resulting from omitted declarations, also in line with the MTFSP commitments, were included in the 2026 Budget Law. The tax gap progressively declined from 19.4% in 2019 to 17.4% in 2023 and further improvements on tax collection and compliance are expected in the medium term, provided that the reform momentum is maintained. At the same time, a new simplified and more favourable debt settlement for tax collection was introduced and the simplified tax settlement system, whereby self-employed workers can agree ex ante their tax liability with the tax administration, was renewed for the 2026-2027 period, which raises some compliance risks. To make the tax system more growth-friendly, the tax wedge was further reduced with the 2026 Budget Law with a permanent tax relief for middle income households (in addition to the reduction introduced in 2025 for low-income households), via a reduction - from 35% to 33% - of the tax rate for the second personal income tax bracket. At the same time, the 2026 budget introduces temporary flat personal income taxes on salary increases, productivity bonuses and overtime allowances which further complicate the tax system and erode the tax base. Overall, the set of fiscal-structural measures improve the quality of public finances, with a positive impact on fiscal sustainability, though the impact of some measures may go in the opposite direction and warrants close monitoring.

**The full implementation of the fiscal path, together with the reforms and investments set out in the RRP and MTFSP, is essential to strengthen fiscal sustainability.** The MTFSP complements the fiscal trajectory with structural measures aimed at improving the quality of public finances. It envisages maintaining nationally financed public investment at its current levels as a percent of GDP beyond the RRP horizon, thereby supporting potential growth while ensuring a growth-friendly fiscal adjustment. It also includes commitments to enhance the capacity for programming, monitoring and evaluating public spending, as well as to streamline and improve the efficiency of state-owned enterprises. These measures are expected to contain expenditure growth through efficiency gains and contribute to a more growth-oriented composition of the budget. On the revenue side, further action is needed to enhance the fairness, efficiency and progressivity of the tax system. The MTFSP includes commitments to simplify and rationalise tax expenditures - including environmentally harmful subsidies - reduce the tax burden on low- and middle-income earners, update the cadastral register for properties renovated using public funds since 2019, and strengthen

prevention and enforcement activities through more targeted and risk-based anti-evasion measures.

## 2.2. COMPETITIVENESS AND PRODUCTIVITY GROWTH

### *Assessment of gravity, evolution and prospects of vulnerabilities*

**Labour productivity continued to decline.** Full-time equivalent employment rose by a further 1.2% in 2025, i.e. faster than output growth (0.5%), resulting in a continued fall in labour productivity per hour worked (0.6%). Despite the strong acceleration in investment, sluggish GDP growth in 2025 reflects the negative dynamics in total factor productivity.

**Sluggish productivity growth is deep-rooted, requiring a comprehensive reform agenda.** This persistent weakness of Italy's economy has been related to several structural factors, from the small average firm size and insufficiently deep capital markets, which limit economies of scale and investment in (private and public) R&D, to the low average workers' skills, hampering innovation. Recently, weak output performance has also been affected by the disruptions to trade flows caused by US tariffs, which reduced external demand at a juncture already characterised by strong price competition from China and technological change in sectors, such as the automotive, which are particularly significant for Italy's exports (see Box 2.1). Finally, capital markets in Italy continue to play a limited role as a source of funding for firms, which acts as a constraining factor to Italy's competitiveness and economic growth.

### *Assessment of MIP relevant policies*

**Over the last year, Italy has made progress in implementing growth-enhancing reforms.** In early 2026, the government adopted the white book "Made in Italy 2030, per una nuova strategia industriale" which represents a first step towards a coherent national industrial strategy. Additionally, following the adoption of the relevant enabling law, the government is advancing primary legislation to rationalise fiscal incentives for firms. A new Incentive Code ("Codice Degli Incentivi") has been adopted that will help streamline and facilitate access to fiscal incentives. Looking ahead, it will be important to concentrate public resources on the most effective instruments, in particular to support R&D and innovation, human capital as well as closer collaboration among smaller firms. Finally, a reform of the Italian capital markets framework is underway but will take time to bear fruit.

**Further efforts are needed to boost productivity and enhance Italy's growth potential.** The RRF is expected to have a favourable effect on the main growth drivers. However, while the main investments are being completed and start producing benefits on Italy's innovation capacity and infrastructural endowment, the impact of reforms in domains such as the business environment, labour activation and skills, or the regional disparities takes inevitably longer to become visible. In the post-RRF period, reform efforts should continue, prioritising the structural factors behind Italy's persistent productivity weakness. This requires a comprehensive approach that builds on ongoing RRF efforts to make the justice system more efficient (including by accelerating the exit of unproductive firms through a more efficient insolvency procedure), public administration more effective, and the business

environment more competition friendly. Further policy actions should also prioritise three critical objectives: (i) promoting business growth and mergers of SMEs by professionalising management and reducing size-based regulatory thresholds and incentives that encourage firms to stay small; (ii) mobilising domestic savings and attract institutional investors into growth-enhancing investments such as venture capital, private equity, and infrastructure, while deepening capital markets; and (iii) supporting public and private investment in innovation and human capital.

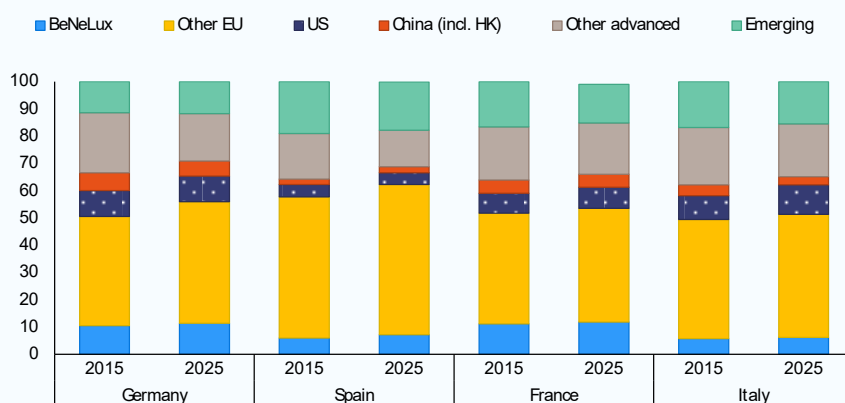
### Box 2.1: External competitiveness

Over the past decade, the share of Italy's exports of goods and services in total world exports has fallen, by 0.8% per year on average, despite a rebound in 2023. The negative performance results from an expansion of Italy's exports by around 42% cumulatively between 2015 and 2025, against 50% growth in world exports. Cost competitiveness does not seem to be the main contributing factor: Italy's unit labour costs have risen less than in the euro area, and the real effective exchange rate based on the HICP has depreciated slightly (-0.2% per year on average, vis-à-vis 42 trading partners).

Looking beyond these macroeconomic indicators of external competitiveness, the sectorial composition of exports seems to play a role. To begin with, goods' exports have grown steadily as a share of GDP, from 21.3% in the 2005-2014 period to 25.4% in the following decade. This however has largely mirrored the growing share of global trade out of global output. Italy's imports of goods also rose from 21% to 23% of GDP over the same period. For services trade, both imports and exports increased by 0.6 pp of GDP between the two decades, bringing the respective levels to 6.7% and 6.4% of GDP in 2024). As a result, the trade balance of services has been negative since 2014, averaging -0.3% of GDP since 2000, while that of goods has been positive throughout 2000-24 (average: 1.0% of GDP), except in 2022 when energy prices spiked.

As far as services are concerned, the growth in net tourism inflows has been more than offset by soaring net outflows of transport and business services, thus keeping the negative service trade balance quite stable. Compared to its European peers, Italy has rather low shares in global services exports. Turning to goods, Italy's share of global exports continued to erode slowly, due both to its relative low penetration of emerging markets, particularly the more dynamic Asian economies, and its product specialisation.<sup>(1)</sup>

Graph 1: Share of goods exports by destination (%)



Source: Eurostat

The breakdown of Italy's goods exports by main trade partner does not show marked changes over the past decade (Graph 1). Roughly half of exports by value go to other EU partners, while China and all emerging economies taken together absorb around 20% of total exports, and the US around 10%.

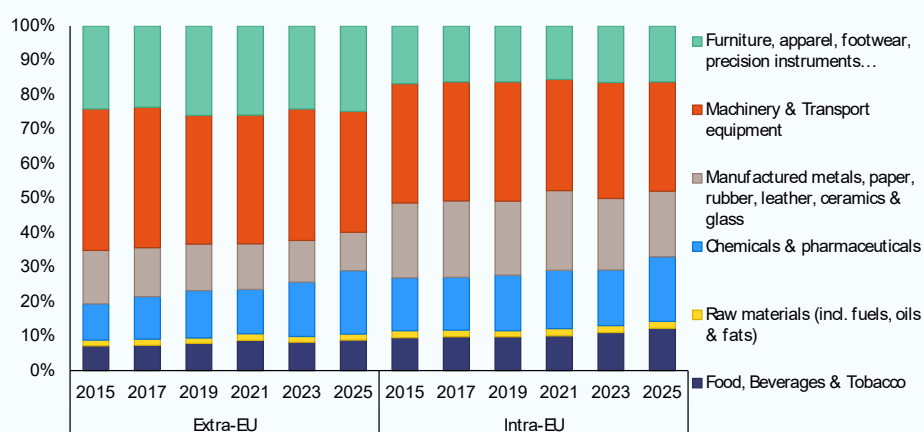
Export product specialisation has evolved somewhat over the decade, with increasing weights of foodstuff and pharmaceuticals in recent years, particularly to extra-EU markets, and decreasing relative value of traditional manufactured products such as metalworking, glassware, ceramics, etc. A recomposition also took place within the machinery segment, from automotive equipment to industrial machinery and parts.

<sup>(1)</sup> See IDR2025: [https://economy-finance.ec.europa.eu/publications/depth-review-2025-italy\\_en](https://economy-finance.ec.europa.eu/publications/depth-review-2025-italy_en)

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Box (continued)

Graph 2: Italy goods exports: % share by product category



Source: Eurostat

Taken together, the composition of goods exports by type of product and destination country helps explain the underperformance of Italy relative to global markets, while hinting at potential ways to recover or at least maintain market shares in the future. Italian exporters would benefit from specialising more in goods that are in greater demand in the most dynamic economies, either as intermediate goods (e.g. chemical and pharmaceuticals, manufactured materials, industrial machinery and tools) or as final consumer goods (e.g. apparel, footwear, furniture, motor vehicles, foodstuff).

## 2.3. LABOUR MARKET

### *Assessment of gravity, evolution and prospects of vulnerabilities*

**Unemployment has declined steadily, but low female labour market participation has kept labour potential underused.** Although the working-age population has already been falling for more than a decade, the labour force expanded for the fourth consecutive year, thereby increasing participation rates to historical highs. However, employment growth has slowed down during the year and participation has plateaued. Without further growth in participation and employment rates, which are still some 10 pps. below the euro area average, and with stagnant productivity, the Italian economy will not be able to achieve sustained growth. While male labour market participation, particularly among older cohorts, kept rising from already high levels, female and youth participation still show large gaps vis-à-vis the euro area average. Across Italy, the southern regions fare much worse in terms of both participation and employment rates. This regional disparity is visible also in unemployment rates, which have fallen to record lows at the national average, but remain more than twice as high in the south than in the north. In a context of scarce labour mobility across regions, these disparities have created labour shortages in some northern areas. Wage dynamics were steady in 2025, with a continuation of the relatively robust rises of the previous years, thus allowing employees to recover some of the purchasing power lost over 2021-23. Nevertheless, unit labour costs have grown less strongly and are projected to moderate further on the back of the wage restraint forecast for 2026-27.

### *Assessment of MIP relevant policies*

**Reform efforts continue to support participation and employability.** Reforms and investments in active labour market policies, vocational training and adult learning under the RRP have gradually started bearing fruit. The National Programme for the Guaranteed Employability of Workers (GOL) has offered training and job placement services to more than 3 million people, while RRF-funded projects support the overhaul of IT systems and training of staff in job centres. The RRF also funded the construction of childcare facilities in underserved areas, to support greater participation and work intensity of women, as well as initiatives to foster skill formation in disadvantaged areas. Efforts are ongoing to increase work-based learning in vocational education and training, including at the post-secondary level, which can improve the supply of skills needed by Italy's economy. Actions to encourage enrolment in tertiary STEM education and scholarships for students with a disadvantaged background, together with RRF-funded provision of additional student housing, aim at raising the share of higher educated youth.

**The 2026 Budget Law reduced Italy's high labour tax wedge and extended incentives for hiring.** It granted partial social contribution relief for hiring workers on open-ended contracts or for converting fixed-term contracts, and increased incentives to firms in Italy's Special Economic Zone (ZES) in the Southern and two Central regions. Several other measures are planned for the medium-term, including under the RRP and the MTFSP, to combat undeclared work, further expand the supply of affordable childcare, and better target the social safety net towards labour activation (see Table A).

## 2.4. FINANCIAL SECTOR

### *Assessment of gravity, evolution and prospects of vulnerabilities*

**The banking system is solid and has successfully disposed of its legacy NPL stock, but the sovereign-bank nexus is still comparatively high, especially for less significant institutions.** Over the last decade, non-performing loans (NPLs) in bank balance sheets have fallen sharply from a peak of 17.2% registered in Q3 2015, to 2.6% in Q3 2025, which is slightly above the EU median. Over the last year, the gross NPL ratio slightly decreased from 2.8% in Q3 2024 to 2.6% in Q3 2025 as did Stage 2 loans in Q3 2025. The banking sector has also recorded strong profitability and liquidity, with a return on equity (ROE) ratio at 13.6% in Q3 2025, an average liquidity coverage ratio (LCR) at 174.1% and a net stable funding ratio (NSFR) at 132.6% in September 2025 (Bank of Italy). Capitalisation was also adequate with a common equity tier 1 (CET1) ratio at 15.5% in Q3 2025, slightly below the EU average of 16.2%. Banks' exposure to the domestic sovereign remains above that of most euro area peers, with domestic sovereign bond holdings amounting to 9.9% of banks' total assets in December 2025 (and the overall exposure to the domestic sovereign standing at 15.2% when also considering loans to the general government), and more significant for cooperative banks. According to Bank of Italy, the share of loans to firms backed by government guarantees out of total loans continued to decrease from a peak of 32.8% in 2021 to 23% of

June 2025<sup>(8)</sup>. While this share remains significant, the overall risks are limited given the overall health of the corporate sector and the low private indebtedness. Finally, the recovery in bank lending to households and non-financial corporations (NFCs) has started to pick up speed in 2025, with the year-on-year credit growth rate improving from -1.5% for households and -3.9% for NFCs in March 2024 to +2.5% and +2% respectively in December 2025.

### *Assessment of MIP relevant policies*

**As part of the MTFSP, Italy committed to monitor the effectiveness of the insolvency framework reforms.** In recent years, Italy has made progress in reforming its insolvency framework and developing its NPLs market.<sup>(9)</sup> Under the MTFSP, Italy committed to assessing the reform's impact, strengthening data systems, and taking corrective actions where needed. Further cross-border integration of banking activities would help reduce domestic sovereign exposure concentrations and strengthen financial resilience. To address the sovereign-bank nexus, relaxing territorial restrictions on lending could assist cooperative banks in diversifying their assets and reducing their share of sovereign holdings which is currently more significant.

**Public guarantee schemes could be better targeted.** COVID-19 public guarantee schemes expired in 2022, but were subsequently refocused to promote access to finance for SMEs, industrial and infrastructural investments. Given the overall robustness of the banking system and the importance of bank selectivity in credit allocation, and the overall health of the firms' balance sheets, a gradual phase-out of existing schemes would be advisable. Finally, limiting guarantee schemes for bank lending while keeping such schemes for non-bank finance products could promote firms' demand for alternative financing solutions which is currently very limited.

Vulnerability	Policies	Implementation status
Public debt	Completion of the 2025 annual spending review cycle	Ongoing under the RRP
	Evaluation plan on one spending policy to be conducted by each ministry	Adopted in 2025 for implementation in 2026
	Permanent reduction of the tax wedge.	Adopted in 2025 for implementation in 2026
	Revision of tax expenditures, including environmentally harmful subsidies.	Adopted in 2024-2025 for implementation in 2025-2026
	Measures to fight tax evasion from omitted declarations: (i) integration of national short term rental codes in the databases for tax risk analyses;	Adopted in 2024 for implementation in 2025-2026

<sup>(8)</sup> The significant increase in guaranteed loans is mainly due to the emergency measures adopted to provide liquidity during the Covid-19 pandemic.

<sup>(9)</sup> [In-Depth Review 2024 Italy - Economy and Finance - European Commission](#); [In-Depth Review 2025 Italy - Economy and Finance - European Commission](#).

Vulnerability	Policies	Implementation status
	(ii) introduction of compulsory connections between automatic cash registers and electronic payments for all businesses; (iii) requirement of traceable payments for the tax deductibility of expenses for transport, food and accommodation; (iv) data from electronic invoicing shall be made available to the Revenue Agency; (v) tax offsettings shall be only allowed in case unpaid tax liabilities do not exceed EUR 50 000; (vi) the Revenue Agency shall be allowed to send communications to taxpayers in case electronic invoices were issued but no VAT declaration were presented for the same period.	
<b>Productivity and competitiveness</b>	The incentives code will streamline the rules to set up new incentive schemes	Adoption of the Code in the form of primary legislation
	The white book "Made in Italy 2030, per una nuova strategia industriale" represents a first step towards a coherent national industrial strategy	Publication of the report in January 2026
	The annual SME law introduce some provisions to facilitate the merge of micro-firms.	Primary legislation adopted
	The capital markets reform addresses crucial areas such as takeover bids, corporate governance, disclosure, shareholders' meetings, as well as mobility between regulated markets and multilateral trading facilities. It also facilitates the use of multiple voting rights and introduces both: (i) significant simplifications for newly listed companies and SMEs; and (ii), as well as the limited partnership legal form for venture capital and private equity investment vehicles.	Implementation ongoing, mandate law and primary legislation adopted.
	The budget law (Law 199/2025) strengthened the autoenrollment of workers in pension funds and set "life-cycle" investment strategies as the default investment option.	Primary legislation adopted
	The annual competition law 2024 made existing tax exemptions on qualified investment by pension funds conditional on the share of venture capital in their portfolios.	Primary and secondary legislation adopted
<b>Labour market participation and unemployment</b>	Investments in expanding childcare provision have been made under the RRP, with further commitments under the MTSFP to cover the recurrent costs of teachers.	Childcare coverage increased, but is still below target
	Delegated Act 144/2025 aims to incentivise timely renewal of national wage contracts.	Adopted
	The RRP's Reform of university degree courses aims to enable greater curriculum personalisation and alignment with emerging skills needs.	Rollout ongoing
	Enhance up- and re-skilling: under the RRP, the GOL reform has effectively trained more than 600	Completed, though effectiveness not assessed

Vulnerability	Policies	Implementation status
	000 jobseekers, of which more than 60% in digital skills.	
	New Skills Plan–Transitions	Adopted, though not yet implemented
<b>Financial sector</b>	As part of the RRF, the insolvency framework was revised in 2022. As part of the MTP, Italy further committed to assess the effectiveness of the reform and to take further actions, in case needed.	Complete.
	Italy successfully phased out COVID -19 public guarantee schemes, which however were redesigned and continued since 2023. (e.g. Archimede)	Completed

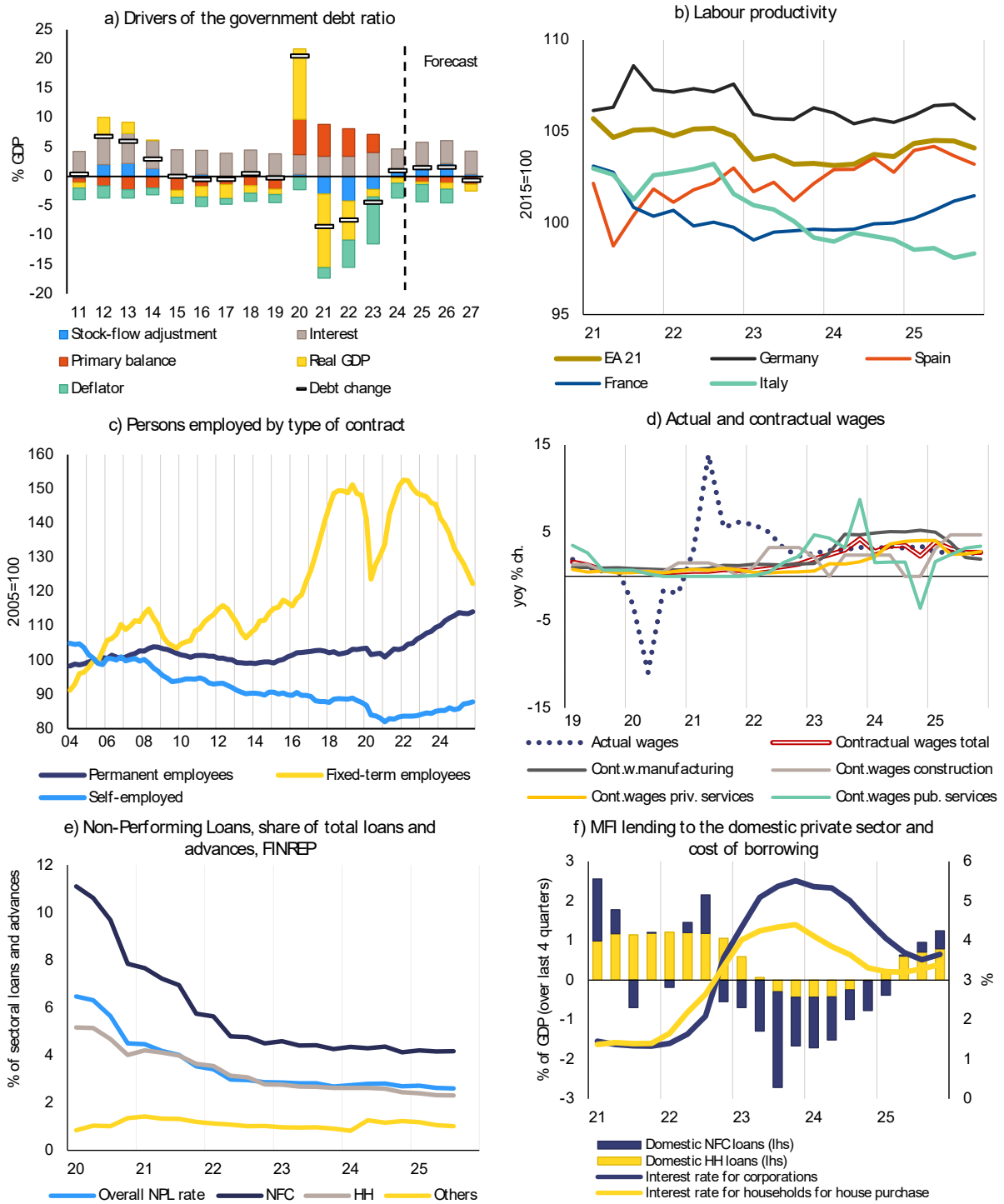
Note: This table lists the main measures that may increase or reduce the risks of macroeconomic imbalances. The measures are described more at length and reviewed in the text of this IDR.

## Conclusions

**Italy continues to face vulnerabilities related to high government debt and weak productivity growth.** 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. Meanwhile the government deficit continued to improve in 2024 and 2025 although it still remains above 3% of GDP. Sizeable debt servicing costs, projected to remain at around 4% of GDP in 2026 and 2027, together with a structure of public expenditure skewed towards pensions limit budgetary flexibility and constrain the scope for growth-enhancing expenditure. Overall, fiscal sustainability risks remain high over the medium term. While labour market indicators have continued to improve, with relatively robust, though slowing, growth in employment and moderate wage rises, further efforts to encourage women and young people to enter the workforce and find employment are warranted to exploit Italy's full labour potential and to improve the employment rate in the southern regions. Banks have significantly strengthened their asset quality and profitability and successfully disposed of legacy stocks of non-performing loans. The interconnection between banks and the government (the 'sovereign-banks nexus') is still comparatively high and is more relevant for less significant institutions and cooperative banks. Capital markets in Italy continue to play a limited role as a source of funding for firms, which constrains Italy's competitiveness.

**Several measures have already been implemented, but keeping a prudent fiscal stance and continuing to effectively implement growth-enhancing reforms and investments are crucial.** The government has implemented several policies to foster fiscal sustainability, including enhancing the annual spending reviews, making public finances more growth-friendly by permanently reducing the tax wedge, and revising tax expenditures. To strengthen the labour market, RRP-supported reforms and investments have focused on labour activation, skills enhancement, and increased provision of childcare and have started bearing fruits. Reforms have also led to significant progress in the insolvency framework and NPL market. Implementation of the medium-term fiscal-structural plan commitments should further strengthen the insolvency framework, while a better targeting of guarantee schemes could further improve firms' access to capital markets. The reform agenda and targeted investment commitments over the next few years seems to aim to create the conditions for faster productivity growth. Italy's MTFSP extends several reforms and investments started under the RRP and comprises new policy measures. In order to raise productivity growth and competitiveness, Italy needs to intensify its reform efforts and sustain investment in R&D, innovation and human capital. It should also continue implementing measures to make the justice system more efficient, including for insolvency proceedings. There is also significant scope to make the public administration more effective and the business environment more competition-friendly. Moreover, further policy actions should be directed at promoting business growth, including through the merger of SMEs where a larger scale of operation could support productivity gains, increase capacity to invest and innovate, and improve access to international markets. Efforts should continue to support the deepening of capital markets and attract institutional investors into growth-enhancing asset classes such as venture capital, private equity, and infrastructure. The supplementary pension reform represents a first step in this direction, and needs to be implemented in full.

Graph 2.1: Selected graphs, Italy



Source: ECB, Eurostat, ISTAT and European Commission calculations

Table 2.1: Key economic and financial indicators, Italy

	average 2017-2019	average 2020-2022	2023	2024	2025*	forecast	
						2026	2027
<b>Output and Prices</b>							
Real GDP (1 year % change)	0.9	1.3	0.9	0.8	0.5	0.8	0.8
Real GDP per capita (1 year % change)	1.2	1.7	1.0	0.8	0.6	0.9	0.9
GDP deflator (1 year % change)	0.9	2.1	6.3	2.0	2.0	1.8	1.9
Harmonised index of consumer prices (1 year % change)	1.0	3.4	5.9	1.1	1.7	1.3	2.0
Core inflation (HICP excluding energy, food, alcohol and tobacco) (1 year % change)	0.6	1.5	4.5	2.2	1.9	2.0	1.8
<b>External position</b>							
<b>Current account balance, balance of payments (% GDP, 3y average)</b>	<b>2.4</b>	<b>2.5</b>	<b>0.1</b>	<b>-0.2</b>	<b>0.8</b>	<b>1.0</b>	<b>1.0</b>
Current account balance, balance of payments (% of GDP)	2.7	1.3	0.2	1.1	1.1	0.9	0.9
of which: trade balance (% GDP)	2.8	1.2	1.6	2.2	1.9		
of which: income balance (% GDP)	-0.1	0.1	-1.4	-1.1	-0.8		
Current account norm (% of GDP) (1)	1.1	1.3	1.4	1.4	1.3	1.3	1.3
Current account req. to reach fund. NIP (% of GDP) (2)	1.0	1.1	1.2	1.2	0.0		
<b>Net international investment position (% of GDP)</b>	<b>-6.1</b>	<b>4.4</b>	<b>8.9</b>	<b>14.9</b>	<b>15.4</b>	<b>12.3</b>	<b>13.4</b>
NENDI - NIP excluding non-defaultable instruments (% of GDP)	-5.9	2.0	6.7	13.5	19.6		
Net lending-borrowing (% of GDP)	2.7	1.5	1.0	1.1	1.3		
<b>Competitiveness</b>							
<b>Nominal unit labour cost index per hour worked (3y % change)</b>	<b>1.6</b>	<b>3.8</b>	<b>4.3</b>	<b>8.5</b>	<b>11.4</b>	<b>10.4</b>	<b>8.1</b>
Nominal unit labour cost index per hour worked (1 year % change)	1.0	0.9	3.3	4.2	3.4	2.4	2.0
<b>Real effective exchange rate - 42 trad. part., HICP defl. (3y % change)</b>	<b>0.3</b>	<b>-1.0</b>	<b>0.7</b>	<b>0.0</b>	<b>2.9</b>	<b>-3.6</b>	<b>-2.0</b>
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)	0.1	-0.6	3.4	-1.2	0.6	-0.9	-0.1
<b>Export performance against advanced economies (3y % change)</b>	<b>-1.0</b>	<b>-4.3</b>	<b>2.7</b>	<b>-0.8</b>	<b>2.3</b>	<b>-0.6</b>	<b>0.9</b>
Export performance against advanced economies (1 year % change)	-0.6	-1.4	4.2	-2.3	0.4	1.1	-0.5
Core inflation differential vis-à-vis the euro area (pps.)	-0.4	-0.5	-0.5	-0.6	-0.5	-0.2	-0.2
<b>Corporations</b>							
<b>Non-financial corporate (NFCs) debt, consolidated (% of GDP)</b>	<b>65.6</b>	<b>67.2</b>	<b>57.9</b>	<b>55.9</b>	<b>55.0</b>	<b>54.6</b>	<b>54.3</b>
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	-0.1	3.1	-1.4	-1.6	1.5	2.2	2.4
<b>Households and housing market</b>							
<b>Household debt, consolidated (% of GDP)</b>	<b>40.9</b>	<b>42.3</b>	<b>36.9</b>	<b>35.9</b>	<b>36.0</b>	<b>36.0</b>	<b>36.0</b>
Household debt, consolidated (% of GDI)	52.6	53.5	49.1	47.8	47.9		
<b>Household credit flow, consolidated (% debt stock t-1)</b>	<b>2.5</b>	<b>2.7</b>	<b>-0.6</b>	<b>0.6</b>	<b>2.7</b>	<b>2.7</b>	<b>2.6</b>
House price index, nominal (1 year % change)	-0.6	2.7	1.3	3.2	4.0	3.0	3.0
House prices over/undervaluation gap (3)	-11.2	-11.1	-13.3	-13.3	-12.6		
Standardised price-to-income ratio	92.5	91.3	85.7	85.8			
Building permits (m <sup>2</sup> per 1000 inh)	79.6	83.3	79.7	79.7			
<b>Government</b>							
<b>General government gross debt (% of GDP)</b>	<b>133.9</b>	<b>146.2</b>	<b>133.9</b>	<b>134.7</b>	<b>137.1</b>	<b>137.9</b>	<b>137.2</b>
General government balance (% of GDP)	-2.1	-8.8	-7.1	-3.4	-3.1	-2.8	-2.6
<b>Banking sector</b>							
Return on equity of banks (%)	5.9	5.3	12.7	13.2			
Tier-1 capital ratio banking sector (% risk-weighted assets)	14.4	16.7	16.9	17.2			
Gross non-performing loans, domestic and foreign entities (% gross loans)	8.8	3.6	2.7	2.7	2.6		
Cost of borrowing for households for house purchase (%), new loans	1.9	1.7	4.2	3.8	3.3		
Cost of borrowing for NFCs (%), new loans	1.8	1.6	4.9	5.2	3.8		
<b>Labour market</b>							
<b>Unemployment rate (% labour force Y15-74)</b>	<b>10.6</b>	<b>9.0</b>	<b>7.7</b>	<b>6.5</b>	<b>6.1</b>	<b>6.1</b>	<b>6.0</b>
<b>Labour force participation rate - % pop. aged 15-64 (3y change in pp)</b>	<b>1.5</b>	<b>-1.0</b>	<b>3.2</b>	<b>2.1</b>	<b>1.2</b>	<b>0.5</b>	<b>1.1</b>

\*If actual data were unavailable at the cut-off date, forecast or nowcast data are presented instead

(1) Current accounts in line with fundamentals (current account norms): derived from reduced form regressions capturing the main determinants of the saving-investment balance, including fundamental determinants, policy factors and global financial conditions. See Coutinho, Turini, and Zeugner (2018), "Methodologies for the Assessment of Current Account Benchmarks", European Economy, Discussion Paper 86, DG ECFIN, European Commission

(2) Current account required for a specific NIP target: calculations make use of Commission's T+10 projections. See Coutinho, Turini, and Zeugner (2018), "Methodologies for the Assessment of Current Account Benchmarks", European Economy, Discussion Paper 86, DG ECFIN, European Commission

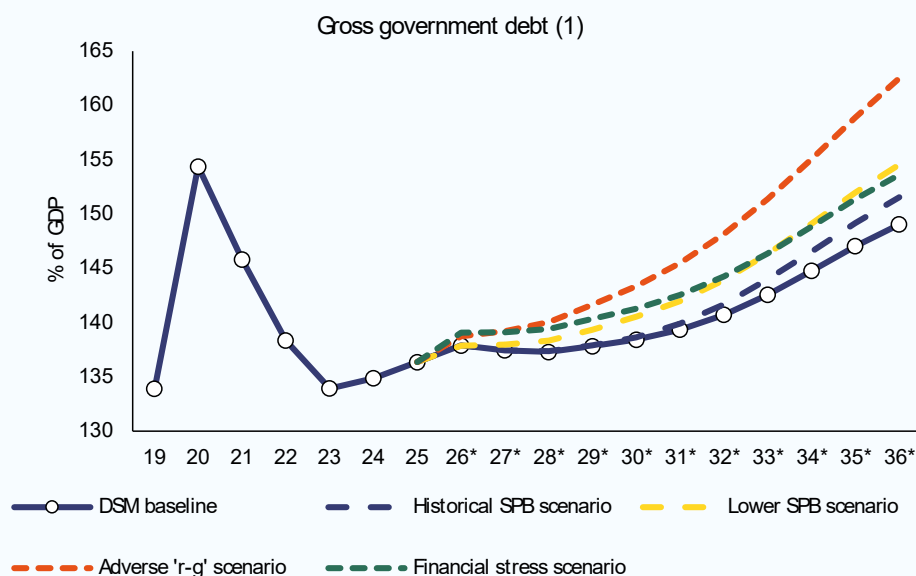
(3) House prices over/undervaluation gap: is the simple average of the price-to-income, price-to-rent and model valuation gaps. The model valuation gap is estimated in a cointegration framework using a system of five fundamental variables: total population, real housing stock, real disposable income per capita, real long-term interest rate and price deflator of final consumption expenditure. Based on Philippon and Turini (2017), "Assessing House Price Developments in the EU", European Economy, Discussion Papers 48, DG ECFIN, European Commission

**Source:** Eurostat and ECB; European Commission for forecast figures (Autumn Forecast 2025).

### Box 2.2: Medium-term government debt projections

**Medium-term fiscal sustainability risks for Italy are high, whereas long-term fiscal sustainability risks are low<sup>(1)</sup>.** The debt sustainability analysis carried out by the Commission indicates that, under the baseline scenario, the government debt-to-GDP ratio is projected to increase to around 138% in 2030 and to around 147% in 2035 (Graph 1); the increase in the government debt ratio is mainly driven by an increasingly unfavourable snowball effect. To assess the impact of changes in key assumptions, the baseline scenario is stress tested against alternative deterministic scenarios; by the end of the projection period, the debt ratio would exceed the baseline the most in the case of the adverse interest rate-growth differential scenario, in which the interest rate-growth differential permanently deteriorates by 1 pp. compared with the baseline (Graph 1).

Graph 1: Government debt projections, based on scenario analysis for Italy



1) The projections for government debt are taken from the Debt Sustainability Monitor 2025. The DSM baseline is stress-tested against alternative deterministic scenarios to assess the impact of changes in key assumptions: the 'historical structural primary balance (SPB)' scenario, in which the SPB returns to its historical 15-year average of +0.7% of GDP; the 'lower SPB' scenario, in which the SPB is 0.5 pp. lower than in the baseline; the 'adverse interest rate-growth differential' scenario, in which the interest rate-growth differential is 1 pp. higher compared with the baseline; and the 'financial stress' scenario, in which market interest rates temporarily increase by 3.8 pps. compared with the baseline.

Source: Debt Sustainability Monitor 2025

<sup>(1)</sup> The sustainability risks and debt projections presented here are based on the European Commission (2026), Debt Sustainability Monitor 2025, [European Economy Institutional Paper 332](#).