

# OECD Economic Surveys: Italy 2026

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# Foreword

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This Economic Survey was prepared by Tim Bulman and Emilia Soldani, under the supervision of Sebastian Barnes, and includes contributions from OECD and IEA staff including Yvan Guillemette, Diana Hourani, Delphine Moretti, Andrew Reilly, and Daniel Wetzel. Research and statistical assistance was provided by Damien Azzopardi, administrative and editorial support by Jean-Rémi Bertrand and communication assistance by Laura Fortin and François Iglesias.

This Survey is published under the responsibility of the Economic Development and Review Committee of the OECD. The Committee discussed the draft survey on 24 February 2026 with participation of representatives of the government of Italy. The draft report was then revised in light of the discussions. The report does not necessarily reflect the official views of the Italian government. The cut-off date for data used in the Survey is 13 April 2026.

Information about this and previous Surveys and more information about how Surveys are prepared is available at <https://www.oecd.org/en/topics/economic-surveys.html>.

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## Basic statistics of Italy, 2025

(Numbers in parentheses refer to the OECD average)

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million, 2024)	59.0		Population density per km <sup>2</sup> (2024)	199.4	(39.6)
Under 15 (% , 2024)	11.9	(16.7)	Life expectancy at birth (years, 2023)	83.5	(81.2)
Over 65 (% , 2024)	24.6	(18.6)	Men (2023)	81.4	(78.6)
International migrant stock (% of population, 2024)	11.0	(15.7)	Women (2023)	85.4	(83.8)
Latest 5-year average growth (%)	-0.3	(0.5)	Latest general election	Oct-22	
ECONOMY					
Gross domestic product (GDP)			Value added shares (% , 2024)		
In current prices (billion USD)	2 551.3		Agriculture, forestry and fishing	2.2	(2.6)
In current prices (billion EUR)	2 258.0		Industry including construction	25.0	(26.0)
Latest 5-year average real growth (%)	3.1	(3.0)	Services	72.8	(71.4)
Per capita (thousand USD PPP, 2024) <sup>1</sup>	62.3	(62.3)			
GENERAL GOVERNMENT (Per cent of GDP)					
Expenditure (2024)	50.4	(42.7)	Gross financial debt (2024)	147.9	(112.5)
Revenue (2024)	47.0	(37.9)	Net financial debt (2024)	123.3	(65.8)
EXTERNAL ACCOUNTS					
Exchange rate (EUR per USD)	0.89		Main exports (% of total merchandise exports, 2024)		
PPP exchange rate (USA = 1)	0.61		Machinery and electronics	23.9	
In per cent of GDP			Chemicals	13.8	
Exports of goods and services	32.2	(29.9)	Transportation	9.2	
Imports of goods and services	30.3	(29.7)	Main imports (% of total merchandise imports, 2024)		
Current account balance	1.2	(-0.4)	Machinery and electronics	17.0	
Net international investment position	16.0		Chemicals	14.1	
			Fuels	12.6	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, % , 2024)	46.6	(58.0)	Unemployment rate, Labour Force Survey (aged 15 and over, % , 2024)	6.5	(4.9)
Men (2024)	55.3	(65.4)	Youth (aged 15-24, % , 2024)	20.3	(11.1)
Women (2024)	38.4	(51.0)	Long-term unemployed (1 year and over, % , 2024)	3.3	(1.0)
Participation rate (aged 15 and over, % , 2024)	49.8	(61.0)	Tertiary educational attainment (aged 25-64, % , 2024)	22.3	(41.8)
Average hours worked per year (2024)	1,709	(1 736)	Gross domestic expenditure on R&D (% of GDP, 2024)	1.4	(2.7)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2024)	2.2	(3.7)	CO <sub>2</sub> emissions from fuel combustion per capita (tonnes, 2024)	4.6	( 7.5)
Renewables (% , 2024)	21.2	(13.1)	Water abstractions per capita (1 000 m <sup>3</sup> , 1998)	0.7	
Exposure to air pollution (more than 10 µg/m <sup>3</sup> of PM 2.5, % of population, 2020)	83.5	(56.5)	Municipal waste per capita (tonnes, 2024)	0.5	(0.5)
SOCIETY					
Income inequality (Gini coefficient, 2023, OECD: latest available)	0.325	(0.315)	Education outcomes (PISA 2022 score)		
Relative poverty rate (% , 2023, OECD: 2022)	12.6	(11.5)	Reading	482	(476)
Median disposable household income (thousand USD PPP, 2023, OECD: 2022)	34.6	(31.9)	Mathematics	471	(472)
Public and private spending (% of GDP)			Science	477	(485)
Health care (2024)	8.4	(9.3)	Share of women in parliament (% , 2024)	32.3	(33.3)
Pensions (2021)	16.4	(9.9)	Net official development assistance (% of GNI)	0.3	(0.4)
Education (total spending, 2020)	4.2	(5.1)			

Note: The year is indicated in parenthesis if it deviates from the year in the main title of this table. Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.

1. OECD aggregate refers to weighted average.

Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank. Executive summary

# Executive summary

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## Key messages

Italy's economic growth has been resilient to the shocks of recent years, but the near- and longer-term challenges to growth prospects are increasing. The National Recovery and Resilience Plan and the Medium-Term Structural-Fiscal Plan are driving substantial structural reforms and public investment, and provide a path for fiscal consolidation. Looking ahead, Italy will need to maintain this reform momentum to lift growth rates while reducing government debt.

- Italy has committed to steady fiscal consolidation over the medium run to lower the debt ratio. Amidst growing spending pressures, achieving this will require continuing to improve the integrity and the efficiency of the public sector, curbing pension spending, improving tax compliance, and making the tax system more growth-friendly.
- While the population is ageing, many young Italians are not in work or training or leave the country. Pursuing and building on reforms to improve school-to-work transitions, adult and vocational training, as well as reforming labour market policies would help engage youth in the workforce.
- Switching energy generation to lower cost renewables and electrifying energy use will be central to improving energy security and competitiveness while reducing emissions. Achieving this requires accelerating investment while ensuring pricing policies encourage efficiency and stable supplies.
- Sluggish business dynamism and the high share of small and micro firms weigh on productivity growth and innovation. Continuing to streamline the regulatory and fiscal environment, scaling up direct public support to R&D, and improving managerial skills and practices would help raise productivity.

## Maintaining the reform momentum is key to address long-standing and growing challenges

Since the COVID-19 crisis, Italy has made important progress. The rise in employment has supported incomes, particularly for those with lower skills and in lagging regions. Reforms and investments driven by the National Recovery and Resilience Plan (NRRP) and being pursued by the Medium-Term Fiscal-Structural Plan (MTFSP) are improving infrastructure, education, active labour market policies, the climate for business and innovation, and the quality of public institutions. Growth is expected to moderate, partly due to the surge in energy prices. However, longer-term challenges remain – including high public debt, an ageing workforce and high pension spending, weak productivity growth, low employment rates among many groups and costly energy – while the changing global economy adds headwinds.

**Italy's diverse economy and sizeable public support have buttressed growth through the shocks of recent years.** GDP growth has been modestly higher since 2019 than in the previous five years (Figure 1). Real incomes have improved, supported by higher employment. The financial sector's health appears robust, and corporate and household balance sheets have been strengthened.

The reforms and investments driven by the NRRP and the MTFSP are addressing long-standing challenges and raising Italy's long-term growth potential. The modernisation of the state is progressing, with important advances in competition, the judicial system, digitalisation and in rejuvenating the public sector workforce. Infrastructure is being upgraded and investments are supporting the climate transition. Education is being strengthened from early childhood through to vocational and post-graduate levels. Retaining the most effective systems established to achieve the NRRP would permanently improve how the government designs, implements and assesses future reforms.

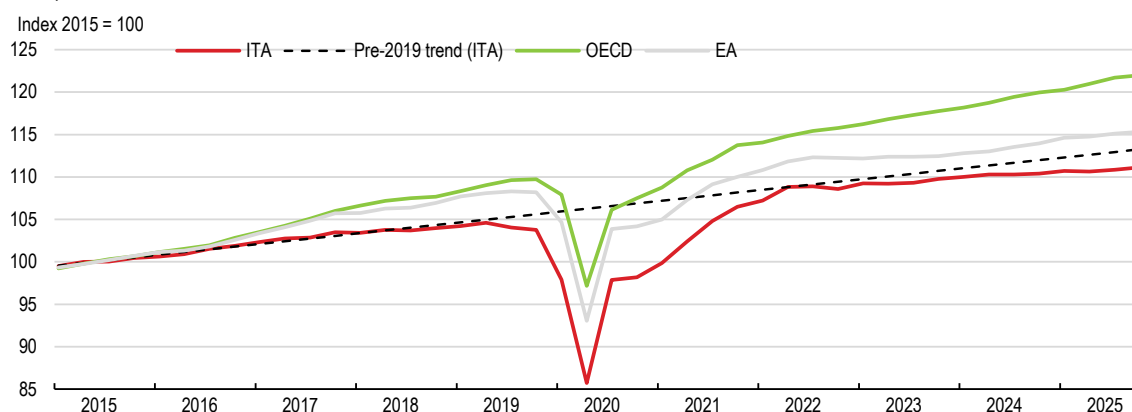
**Longer-term growth prospects, however, remain modest due to population ageing and structurally weak productivity growth.** Fertility rates are continuing to fall, despite policy efforts to better support families, and many young Italians are emigrating. Large shares of women remain out of the

labour force, in part due to the unequal division of care tasks in many households. The shocks to global trade from new policy restrictions, geopolitical frictions, heightened competition from emerging economies and the emergence of new technologies add significant challenges – and some opportunities – for Italy.

Pursuing a comprehensive and prioritised strategy that continues the momentum of the NRRP and builds on the MTFSP, is needed to address these challenges. The MTFSP extends the NRRP's reforms, including those to: improve the business environment and tax administration; speed up the justice system; reform the public administration; boost access to childcare; and raise labour market participation. Improving the integrity and effectiveness of the public sector is central. Despite recent progress, Italy continues to lag its peers across many dimensions of how effectively the public sector delivers public goods and services and regulates, and in perceived corruption risks. More public procurements are undergoing competitive processes, supported by e-procurement technologies. Further ambitious actions across many areas will be needed to reform the public finances, raise productivity growth, manage ageing and improve energy security and costs.

## Figure 1. Italy's growth has been resilient to recent shocks

Real GDP, indexed to 100 in 2015



Note: Data for 2025Q4 are estimates (Istat).

Source: OECD Analytical Database

StatLink  <https://stat.link/hsl7eq>

### After a period of job-intensive expansion, growth has moderated

The economy's growth was moderate in 2025, as global trade restrictions and uncertain external demand weighed on activity. After declining with the retreat in energy prices in 2024, inflation is picking up again and will rise further with the disruption to global energy supplies, setting back the recovery from the earlier loss in real incomes. Growth is projected to slow as the renewed surge in energy prices weighs on demand and real incomes are dragged by the surge in global energy prices, before recovering slightly as a stabilising international situation supports exports, household consumption and private investment.

**Rising investment, much driven by tax credits and the National Recovery and Resilience Plan (NRRP), has buttressed activity.** Industrial production stabilised in mid-2025 after over two years of broad-based falls. Global trade policy restrictions buffeted trade flows and weighed on confidence in 2025, while households sustained solid savings rates above pre-pandemic levels.

**Sustained employment growth has attracted an historically high share of adults into the labour force and boosted real incomes.** Much of this growth has been in permanent and full-time jobs, although many have been in lower-skilled and lower-wage jobs in tourism and consumer-focused services and in construction. Inflation moderated significantly since the peak in 2022 and underlying inflation has been around 2%, somewhat higher than in the decade prior to the pandemic, but renewed disruptions to energy supply are lifting inflation rates again.

**The global surge in energy prices in 2026 is expected to weigh on growth over the next two years.** Weaker growth in household consumption, production and investment is expected to slow GDP

growth to GDP growth 0.4% in 2026, a similar drag to growth as other OECD countries. Output growth is expected to pick up to 0.6% in 2027 with increasing capital formation and stabilising external conditions supports households' spending (Table 1). Growth prospects into the medium term can be lifted by implementing well-calibrated reforms that raise investment and employment, particularly by further reducing entry barriers to business services and improving young people's transition into work, alongside maintaining higher public investment and improved fiscal credibility.

**Risks to the outlook are significant and tilted somewhat to the downside.** Geopolitical tensions and energy market disruption remaining heightened, intensification of global trade tensions, weaker external demand or deeper shifts in activity due to structural changes or greater competition from emerging economies would weigh on production, exports and the broader economy. Financial risks in global markets and the non-bank financial sector could weaken external demand, raise the government's interest costs and limit firms' access to finance.

**Table 1. Growth is projected to remain modest**

Annual growth rates, %, unless specified

	2023	2024	2025 (p)	2026 (f)	2027 (f)
Real GDP	0.9	0.8	0.5	0.4	0.6
Unemployment rate (% of labour force)	7.7	6.6	6.0	5.6	5.7
Inflation (harmonized consumer prices index)	5.9	1.1	1.6	2.4	1.8
Government budget balance (% of GDP)	-7.2	-3.4	-3.1	-2.9	-2.8
Government primary budget balance (% of GDP)	-3.8	0.3	0.6	0.9	1.1
Public debt (% of GDP, Maastricht criterion)	133.9	134.7	137.1	137.5	137.4

Source: OECD, Economic Outlook database.

## Significant efforts will be required to put high public debt on a more sustainable path amidst high pension costs and growing spending pressures

The budget deficit fell towards the 3% of GDP threshold in 2025, after the primary balance returned to surplus in 2024, but public debt is high and will rise in the coming years. Italy's Medium-Term Fiscal-Structural Plan (MTFSP) provides for steady fiscal consolidation, putting the debt ratio on a more sustainable path, but requires restraining expenditure growth. Pensions' large share of spending and growing pressures from ageing, climate change and defence will require offsetting savings (Figure 2). A longer-term strategy is required that intensifies efforts to curb age-related spending, notably pension costs, raises spending efficiency and makes the tax system more effective and growth-friendly.

**The budget deficit fell from 3.4% of GDP in 2024 to slightly above 3% of GDP in 2025.** Much of the reduction was due to the further unwinding of costly building tax credits introduced over 2022-2024, while nominal income growth supported revenues. The budget returned to a primary surplus in 2024, interest spreads have narrowed and agencies have upgraded their credit ratings.

**Public debt exceeds 137% of GDP and would continue to rise under current tax and spending settings.** This debt ratio creates large ongoing re-financing needs and interest costs, while increasing the economy's vulnerability to shocks. With rising spending pressures, significant fiscal adjustment and reforms to spending and taxation will be needed (Figure 2, Panel B).

**The government's MTFSP sets out a steady fiscal consolidation to 2031.** This implies primary spending declining relative to the size of the economy each year to 2031, leading to a significant primary surplus and putting the debt ratio on a sustained declining path into the medium term. This will have a modest drag on demand in the coming years. Continuing and building on the reform momentum would help to raise growth and improve fiscal sustainability amidst these pressures.

Containing overall spending is challenging amidst growing pressures from health care, climate and defence costs, while skills and infrastructure needs remain significant. Pensions and other ageing costs are among the highest across OECD countries and will continue to rise until the mid-2030s before eventually falling as the transition to the reformed pension system advances. Pursuing a longer-term strategy for spending and tax policy to manage these pressures would improve fiscal sustainability.

**Spending should be prioritised and made more efficient.** Maintaining current rules that link retirement ages and accrual rates to changes in life expectancy and avoiding new incentives to retire early remain important for the pension system's sustainability. Mechanisms should be developed within constitutional limits to reduce the cost of first-pillar pensions, for example by reducing the value of high pensions that do not reflect recipients' contributions. Spending reviews can help contain and improve the effectiveness of other spending. Their role is growing in Italy and their scope can be further expanded and integrated into budget allocations.

The public administration's performance and management arrangements are improving, helped by NRRP reforms, but there remains great scope for

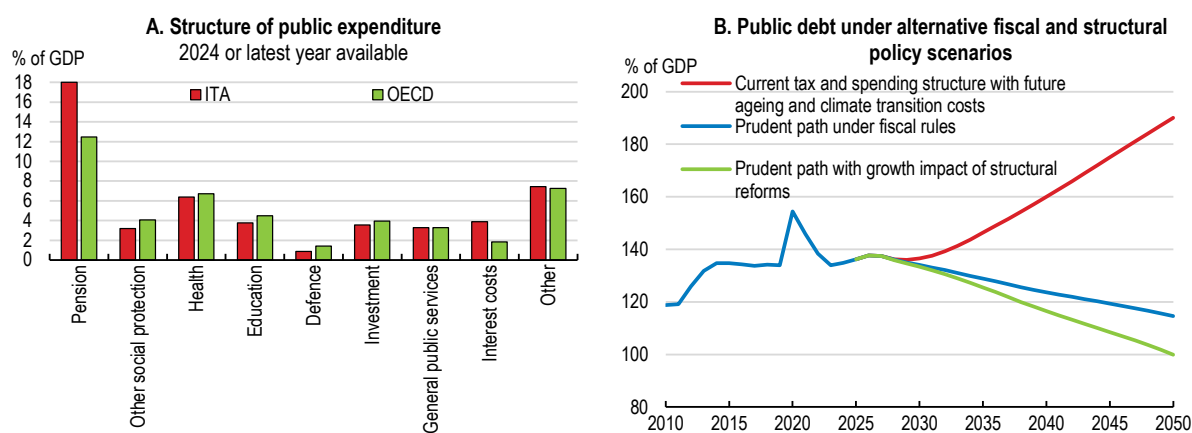
further progress. Ongoing reforms to recruitment, compensation, performance management and promotion are helping to rejuvenate the public workforce. Given the imminent waves of retirements, there is an opportunity to improve work practices and encourage stronger performance, while reducing costs. Addressing procedural and practical barriers to employees' mobility across all levels of the public sector would help fill skill gaps, and support employees' skills and service delivery.

**Large shortfalls persist in revenue collections, despite progress.** Planned reforms to simplify VAT legislation and expand digital tools can help address the ongoing collection gap, as would curtailing exemptions and aligning reduced VAT rates with the standard rate. A large collection gap remains among the many self-employed, and the simplified tax regime can encourage self-employment. Tightening eligibility for the simplified regime and reducing administrative burdens in the standard regime would

reduce the attractiveness of self-employment and the simplified regime. Encouraging digital payments instead of cash would help curb undeclared activity and support collections.

**Reforming the tax policy mix would encourage productive investment and employment, while sustaining revenues.** Taxes on labour are high, particularly social security contributions, and are likely to disincentivise formal work, especially at low wage rates. Shifting the tax burden from labour taxes to property and related taxes, while improving compliance, would help to rebalance the tax system. Expanding efforts to ensure that the cadastre is complete and reflects up-to-date values would improve the equity and efficiency of the property tax system. Inheritance and gift taxation are limited by generous exemptions and allowances. There is also scope to broaden the base for capital taxes and corporate income taxes, while phasing out the taxes on production.

**Figure 2. High pension costs and emerging spending pressures add to the challenge of fiscal consolidation and reducing high public debt**



Note: Panel A: interest costs and investments have been deducted from all other functions. Panel B: details of scenarios are described in Chapter 1. Source: OECD National accounts tables; and OECD calculations based on OECD Economic Outlook database and OECD Long-Term Model.

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## Population ageing underlines the importance of engaging young people in the labour market

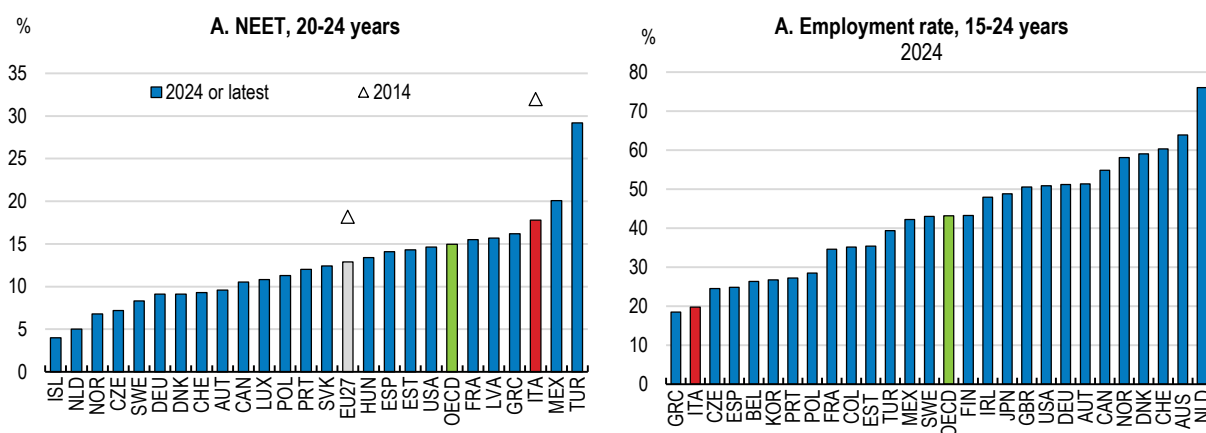
As its population ages, Italy is facing a shortage of workers. Low wages and the dualism of the labour market push many young individuals to stay out of work and training (Figure 3) or to emigrate. Supporting school-to-work transitions, boosting returns to higher education, and revising labour market regulations could improve young Italians' labour market prospects.

Despite important progress and significant policy interventions, the share of young people not in training or employment remains among the highest across OECD countries. School dropout rates have declined but remain high, and school-to-work transitions difficult. Stronger formal monitoring systems to identify and support youth with weak attendance records, behaviour and achievement would help further reduce school dropout rates. Skill mismatches are high and many young individuals leave school without adequate work experience and the practical skills that employers seek. Extending the use of high-quality internships within study programmes could reduce the skill mismatch between labour demand and supply, improve school-to-work transitions, and help students make informed decisions about their choice of studies at university.

**Returns to tertiary education are low, and the share of graduates is lower than in most of Europe.** Continuing to expand the network of ITS technical tertiary schools, especially in the South, would help offer a work-oriented alternative for secondary school graduates. Better resourcing public universities and strengthening their incentives to ensure graduates are ready for the labour market would help.

Relatively low wages, the high incidence of temporary contracts and the expectation of slow wage growth and career progression push many young Italians to emigrate or stay out of the workforce. High non-wage labour costs and uncertainty about the costs of dismissing workers make it risky for firms to hire workers, especially those new to the labour market. A series of reforms eased dismissal protections of permanent workers, and temporary incentives for permanent hiring put in place, yet employment protection in Italy remains strict, and the share of temporary contracts relatively high, while many young workers have temporary job contracts and are less likely to transition to permanent contracts than in many other EU and OECD countries. Labour market reforms can help retain and attract talent and improve living standards. Reducing the tax and social contribution wedge on low-income workers would support employment and net income for young workers. Restricting the use of temporary contracts and reforming employment protection legislation to reduce the uncertainty about dismissal costs, within the constitutional constraints, would help reduce the duality of the labour market and increase the use of permanent job contracts.

**Figure 3. Many young people remain out of employment, education or training**



Source: OECD Labour Force statistics database.

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## Accelerating the rollout of renewable energies will help achieve secure and competitive energy supply

The renewed disruption to global energy markets in early 2026 underscores the central role of reliable and low-cost energy supply for Italian firms' competitiveness and households' well-being (Figure 4). With the large share of energy sourced from imported fossil fuels, susceptible to global supply disruptions, and the need to meet emissions reduction goals, large shifts are needed in Italy's energy mix. Electrification and the shift from natural gas to renewables to generate electricity, making the most of Italy's natural endowment, will be key to reducing energy costs, fossil fuel emissions and reliance on fossil fuel imports, but require pursuing policy action, including to accelerate the development of generation, transmission and storage infrastructure.

Diversifying energy sources and shifting away from imported fossil fuels is central to reducing energy costs and achieving national emission reduction goals. Since 2022 Italy has achieved one of the largest shifts in its supply of natural gas, mobilising new sources and supply routes to replace Russian-sourced gas. But this has raised already-high energy costs, due to the large role of gas in Italy's energy consumption more broadly, and increased exposure to global LNG markets, weighing on industrial production and export competitiveness. The government is working with its neighbours including in northern Africa to develop new energy production and supply infrastructure, although resources are constrained and approvals to date have largely been for natural gas infrastructure rather than renewables.

Despite strong natural potential for renewables and strengthened policy efforts, new generation capacity and the associated grid infrastructure lag national objectives. Lengthy permitting processes, fragmented by Italy's multi-layered governance structure, create uncertainty for investors and delay projects. Approvals need to pass through multiple central government and subnational government agencies, with rules and processes in conflict at times. Better aligning the rules and spatial plans of subnational governments with the national energy development plans and strategies would help.

**Electricity transmission and distribution need substantial investment.** Renewable generation requires restructuring the transmission system given the dispersed nature of production and its distance from centres of demand. The existing infrastructure needs reinforcing as it ages and climate change brings more challenging weather conditions. Requests by renewable developers for connections have surged and need to be reprioritised based on

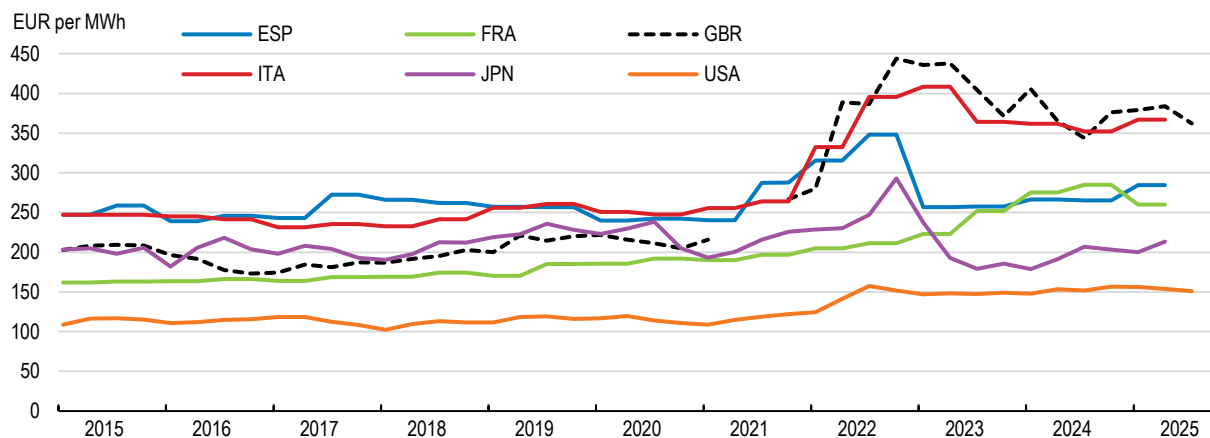
projects' maturity and contribution to the national energy plan. A more anticipatory approach to preparing and authorising transmission infrastructure development can help accelerate construction as needs develop. Increasing cross-border capacity can improve the system's resilience and reduce generation and storage investment needs. Despite these efforts, shocks to the energy system may still occur, requiring effective national contingency plans.

Electrifying fossil fuel uses in buildings, transport and industry is lagging the pace needed to meet emission reduction goals and to lower energy costs. The new Emission Trading System will help reduce the gap between the effective tax rate on natural gas and electricity and generate funds to support energy renovations, especially for capital-constrained households and businesses. Sector-specific measures can help, such as establishing national bodies to support public authorities at all levels to renovate public buildings and reducing the regulatory complexity facing investors developing vehicle charging networks.

**Recent reforms aim to make energy pricing more dynamic and market-based, but risks remain.** Public interventions in recent years have cushioned households and firms from price shocks, though some measures have been costly and inefficient. As markets deepen, reducing the use of publicly-backed instruments can limit risks for public finances and consumers. Strengthening regulatory oversight of energy markets will support transparency and reduce risks of market manipulation. Avoiding broad-based energy price subsidies and support, including generous tax credits, while providing targeted support measures for the most vulnerable, would improve spending efficiency.

**Figure 4. High electricity prices weigh on energy security and competitiveness**

Residential sector electricity prices



Source: OECD IEA Energy prices database.

StatLink  <https://stat.link/58210y>**Lifting barriers to the growth of small firms and boosting innovation will support productivity**

Italy has a large number of smaller firms, which contribute to diversified production and exports but tend to have lower productivity and investment. Despite some emerging positive trends, larger firms, which generally have high productivity, still make up a relatively small share of the economy. Making it easier for successful small firms to scale up would help accelerate labour productivity growth. Reforms are needed to streamline regulation, accelerate innovation and facilitate the deepening of capital markets.

**A more dynamic business environment is key to support productivity growth, competitiveness and living standards.** Labour productivity growth has been sluggish since the mid-1990s, despite recent signs of improvement. Italian firms compare well with others in their size class in peer countries, but the relatively low share of larger firms, with higher productivity, weighs on the economy's overall performance (Figure 5). Firms face challenges to scale up or merge. Further reducing barriers to business creation, especially in highly regulated professions and in retail, and to businesses consolidating and exiting, can help achieve this. Despite significant progress with recent reforms to the business insolvency, public support and justice systems, high regulatory burdens and compliance costs, including in the tax system, still weigh on productivity. Smaller and growing businesses are particularly affected as they reach size thresholds.

**Shallow capital markets limit non-bank financing and investment opportunities,** especially for

enterprises with high investment needs and low collateral, like innovative start-ups. The recent introduction of tax deductions on capital gains is expected to boost demand for venture capital investments.

**Corporate R&D and innovation are low, even in high productivity regions.** Low innovation and patent activity are at odds with excellence in basic research. Further increasing public support to R&D and the share of it delivered through direct support and grants to SMEs and innovative industry-academia clusters can improve knowledge transmission and help attract private investment.

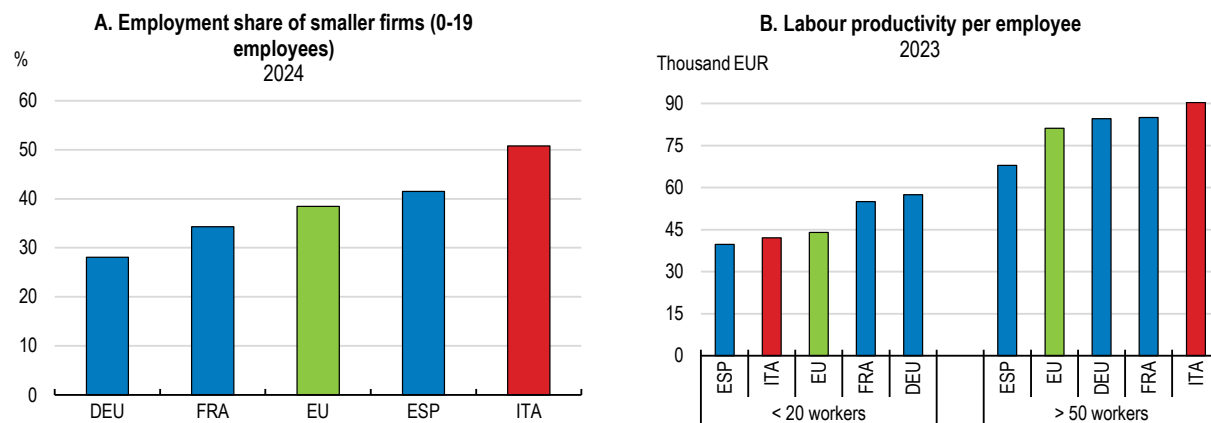
**A large array of temporary tax measures has been deployed to support innovation and investment.** Tax cuts and other support measures are often temporary and overlapping, making it hard for smaller firms to benefit. Sustaining current efforts to streamline support into a relatively small number of stable, targeted subsidies would help improve their effectiveness and reduce compliance and

administration costs. Such streamlining should be based on a proper assessment of the measures' cost effectiveness to identify those to extend.

The consolidation of small family-owned firms into larger, professionally managed firms can improve managerial practices, promoting productivity growth

and innovation. While inheritance tax exemptions and allowances encourage heirs to retain control of family business, this can be at the cost of the quality of their management or prevent bringing in outside capital to grow the firms into larger, more profitable and productive entities.

**Figure 5. Small firms employ most workers, but their productivity is generally low**



Source: Eurostat.

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MAIN FINDINGS	KEY RECOMMENDATIONS
<b>Ensuring fiscal sustainability amidst growing headwinds</b>	
<p>The fiscal deficit has been reduced in-line with the Medium-Term Fiscal-Structural Plan (MTFSP) and EU commitments, but the public debt ratio is rising.</p> <p>Public spending pressures from ageing, the climate transition and defence will rise, while investment needs remain significant.</p>	<p>Implement the steady fiscal consolidation set out in the MTFSP to reduce the debt-to-GDP ratio. Pursue a long-term strategy to manage the public finances by containing and off-setting emerging spending pressures, curbing pension costs, raising the effectiveness and integrity of public institutions and reforming the tax system.</p>
<p>The National Recovery and Resilience Plan (NRRP), ending in 2026, is helping address many of Italy's challenges, and the MTFSP provides further reform and investment priorities.</p>	<p>Develop a more comprehensive programme of reforms to raise productivity and employment, building on the NRRP and the MTFSP, supported by budget prioritisation.</p>
<p>The share of women in the workforce still lags most other OECD countries, despite efforts to raise fathers' take up of parental leave and care responsibilities.</p>	<p>Expand the parental leave earmarked to fathers and improve incentives to take them up.</p>
<p>Despite the work of anti-corruption and public audit bodies and the transparency of data, perceptions of the integrity of public institutions continues to lag.</p>	<p>Reduce thresholds for competitive procurement, particularly for public works contracts under national rules, and implement stricter controls to contain contract splitting and expand the use of e-procurement.</p>
<p>Pensions make up a high share of public spending, which will rise further in the coming decade due to ageing and the legacy regime.</p>	<p>Explore options within legal constraints to reduce over the medium term the cost of first-pillar pensions to contribute to the sustainability of the public finances amid rising spending pressures.</p>
<p>While recent efforts have reduced the tax collection gap, it remains large, partly due to the significant amount of under-declared activity.</p>	<p>Increase tax compliance by strengthening tax administration, better identifying undeclared activities, lowering the threshold for cash transactions and refraining from tax payment concessions.</p>
<p>The tax system remains skewed to labour income leading to a large tax wedge on Italian workers, despite the inroads made by recent reforms.</p>	<p>Over the medium term, consider reducing the tax wedge on low income earners, funded by improving broader tax compliance, reducing tax expenditures and by raising property taxes.</p>
<b>Improving school-to-work transitions and labour market conditions for young people</b>	
<p>Many high-school graduates struggle to find a job. Recent reforms aim at better aligning education pathways with labour market needs while maintaining strong academic skills.</p>	<p>Continue to expand the network of ITS technical tertiary schools. Further enhance work-based learning and mandatory work experience or high-quality internships in vocational and general education.</p>
<p>Low net wages negatively affect the returns to work for many entrants to the labour market. The labour tax wedge and the share of informal workers are high in Italy.</p>	<p>Replace existing temporary credits and bonuses with a permanent reduction in the tax and social contribution wedge at lower wage rates.</p>
<p>A high share of young workers has short-term job contracts due to restrictive employment protection and labour laws on permanent hires. Uncertainty on the costs of dismissing workers can deter hiring.</p>	<p>Reform employment protection legislation to further reduce the uncertainty regarding the costs of dismissal.</p>
<b>Securing sustainable energy and competitive electricity supplies</b>	
<p>Energy prices in Italy are higher and have risen by more than many of its main trading partners, largely due to the high share sourced from imported gas, and the 2026 Middle East conflict underscores Italy's exposure. Renewable energy investments and administrative procedures are progressing but delays in approvals persist, reflecting the complexity of the multi-layered governance, creating uncertainty for investors.</p>	<p>Accelerate the development of renewable generation, distribution and storage capacity by addressing barriers in planning and approval processes, including coordination across different levels of government.</p>
<p>Connecting new electricity generation and large users into the transmission and distribution grids has been slow, compromising capacity and production investment. Priority for connection requests now favours approved generation projects.</p>	<p>As the backlog of transmission construction is addressed, pursue an anticipatory approach in planning and approving cost-effective transmission and connection infrastructure.</p>
<p>Reforms are developing more dynamic pricing in energy markets. Some instruments expose the public sector to market pricing risks and could lead to long-term public subsidies.</p>	<p>Ensure that support for low-carbon technologies in electricity generation, transmission and storage do not mute market price signals and carefully manage risks for public finances and consumers.</p>
<p>Italy has used generous measures to support consumers and improve energy efficiency but much spending has been ineffective and electrification lags goals. While recent reforms reduce the price advantage of fossil fuels relative to electricity, some fossil fuel subsidies remain.</p>	<p>Curtail general energy support measures and fossil fuel subsidies, instead providing targeted support for vulnerable households and businesses' energy efficiency, and pursue implementation of the ETS2.</p>

Accelerating business dynamism and productivity growth	
Regulatory barriers remain high in service sectors, including some professional occupations, weighing on competition.	Ease regulatory barriers to entry and consolidation in retail and in those professional services where these are high.
New and innovative business creation and growth lags other countries. Business support measures are often temporary and overlapping between programmes and levels of government. Recent legislation aims at streamlining incentives.	Further streamline and provide stability to business incentives, to improve effectiveness and avoid distortive effects.
Complex and costly fiscal and regulatory compliance generate fixed costs, harming the competitiveness of smaller businesses and their incentives to grow.	Continue to identify and reform costly tax and other regulatory compliance burdens.
Managerial practices are particularly weak in family-owned and controlled companies, which tend to select managers within the family or network. The business inheritance tax system encourages heirs to retain control of businesses, discouraging consolidation, engaging with external investors and hiring of professional managers.	Reduce the inheritance tax-free thresholds and remove the requirement to maintain control for five years for smaller businesses or use other fiscal incentives to support business reorganisation.
Collaboration between firms and local universities has improved, including through the creation of academia-business clusters.	Strengthen the link between university funding and the performance of partnerships with businesses.
Managerial skills and practices compare poorly with other countries, weighing on productivity.	Support managerial training and one-to-one mentoring programmes.



# **1** Maintaining the reform momentum and strengthening the public finances

Tim Bulman

*Growth has been resilient in recent years, buoyed by generous tax credits and the National Recovery and Resilience Plan (NRRP), lifting employment and real incomes, although surging energy prices in early 2026 will weigh on demand. With long-term growth prospects remaining relatively weak, a comprehensive package of structural reforms and continued public investment, building on the Medium-Term Fiscal-Structural Plan (MTFSP), is needed to raise productivity, employment and maintain the momentum achieved under the NRRP. The budget deficit has narrowed towards 3% of GDP, but the debt ratio remains very high. Over the coming years, population ageing, climate change and defence needs will add to spending pressures. The MTFSP sets out a path of steady fiscal consolidation until 2031 that would put the debt ratio on a more sustainable path. Achieving this will require significant adjustments to taxes and spending, including curbing ageing-related spending in favour of growth-enhancing expenditure, while raising tax compliance and shifting the revenue policy mix to better support employment and investment*

## 1.1. Growth has been resilient, supported by fiscal stimulus

### 1.1.1. After the strong rebound following the pandemic, growth has moderated

The Italian economy has grown at an average annual rate near 1.2% since before the pandemic, a modest acceleration compared to less than 1% in the previous five years, and outperforming a number of other large advanced economies (Figure 1.1). Employment and real incomes have grown more strongly than in earlier periods. An easing of fiscal policy and government support measures buoyed demand: the ‘SuperBonus’ tax credit led to a surge in construction between 2022 and 2024, while NextGenerationEU grants and loans funding the National Recovery and Resilience Plan (NRRP) averaged 0.5% of annual GDP between 2021 and 2024. Growth is projected to be modest in the near term, weighed down by the surge in energy prices.

Italy has made important progress in its NRRP reform agenda, and the Medium-Term Fiscal-Structural Plan 2025-2029 (MTFSP) extends this agenda. By late 2025, near three-quarters of the NRRP’s 575 milestones had been achieved and three-quarters of the EUR 194.4 billion of EU funds available to Italy had been disbursed. These have tackled ‘horizontal’ issues in the public administration, justice system and regulatory issues, improving the business environment. To accelerate public investments, they have simplified approval processes, developed dedicated project designed and implementation bodies and sought to improve market contestability. More focused reforms have been directed towards priority sectors of digitalisation, the green transition, energy and transport infrastructure, and education and skills. The MTFSP extends and deepens key NRRP horizontal and sector-specific reforms and investments. The government estimates that the NRRP reforms and investments implemented by the end of 2025 will increase GDP by 3.9% by 2031, and that completing the agenda and implementing the investments laid out in the MTFSP will add a further 2.1% of GDP (Ministero dell’Economia e delle Finanze, 2025<sup>[1]</sup>).

#### *Growth has been moderate but resilient to external shocks*

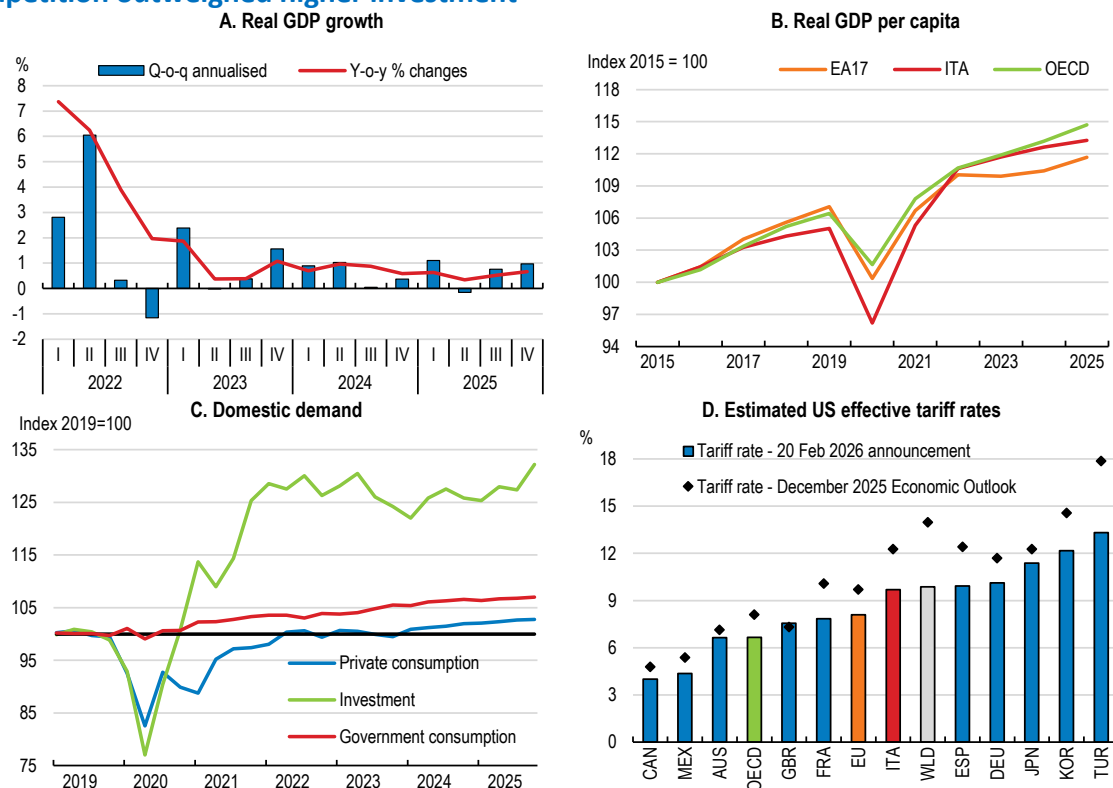
Italy’s economic growth has been moderate. It was 0.8% in 2024, easing to 0.5% in 2025 as global trade policy restrictions introduced in 2025 raised uncertainty for producers, exporters and households, who held back on retail and services spending (Figure 1.1), but resilient investment later in the year lifted growth. Industrial production suffered broad-based declines from mid-2022 to early 2025, before some recovery from later in 2025. This reflected weak external demand and challenges in the automotive, manufacturing and energy-intensive sectors in Europe (Box 1.1). Offsetting this drag was rising investment, construction activity remained near the historical highs last achieved before the global financial crisis, with work shifting in 2024 from tax credit-supported house building work to specialised infrastructure projects. Overall, across the economy, there is modest capacity and scope for activity to pick-up in many sectors without pushing on supply constraints.

The increase in US trade restrictions, uncertainty over US policy and any potential EU counter-measures, and diversion of other major producers’ output have created volatility in trade flows with the US and other markets and heightened uncertainty. Overall, merchandise export values rose in 2025 to make Italy the fourth largest exporter globally. Italy’s exports to the US were equivalent to 3.1% of GDP and 10.4% of total exports at the start of 2025. These rose by 7.2% over 2025 compared with the previous year, largely through the sale of maritime equipment, pharmaceuticals and some specialised machinery exports, but surveys of firms suggest this growth is yet to reflect the effects of higher tariff barriers. Italian firms brought forward some imports from the US ahead of the August 2025 agreement between the EU and the US. That agreement, accounting for the composition of Italy’s exports to the US, imposes an average tariff near the median of OECD countries (Figure 1.1, Panel D). Estimates across various studies suggest these restrictions are likely to reduce exports by at least 1¼% of GDP overall in the short-term, with the effect rising over longer horizons.

Italian producers are facing greater competition from other exporters, notably China, both in Italy and in Italy’s export markets. Italy’s imports from China increased by 16.4% in 2025 compared with the previous year, while


exports decreased by 6.6%. This trade reflects the significant and rising production capacity in China, and China becoming competitive in a growing number of sectors where Italy's had held a comparative advantage, notably in mechanical, electronics and semiconductor production.

**Figure 1.1. Growth has been modest as the drag from trade restrictions and rising import competition outweighed higher investment**



Note: Panels A and B: 2025Q4 data are preliminary estimates by Istat. Panel D Estimates based on trade policy announcements as of 8 September 2025 and calculated using weights based on product level data for US imports, by country in 2024. The net sector-specific adjustment change includes a 25% tariff for listed cars and parts; a 50% tariff on steel and aluminium products; zero-rated general goods as well as those related to semiconductors; and country-specific tariff rates. Europe, Japan and the United Kingdom face a maximum 15% tariff on cars and parts (7.5% for British cars within the annual quota) and 0% tariffs are applied to civil aviation products. The United Kingdom faces a 25% tariff on steel and aluminium. China, Brazil and India face additional country-specific tariffs, with varying application across products. Data classifications are based on product-level lists published by the US administration

Source: OECD Analytical Database; and United States International Trade Commission; US Census Bureau, and OECD calculations.

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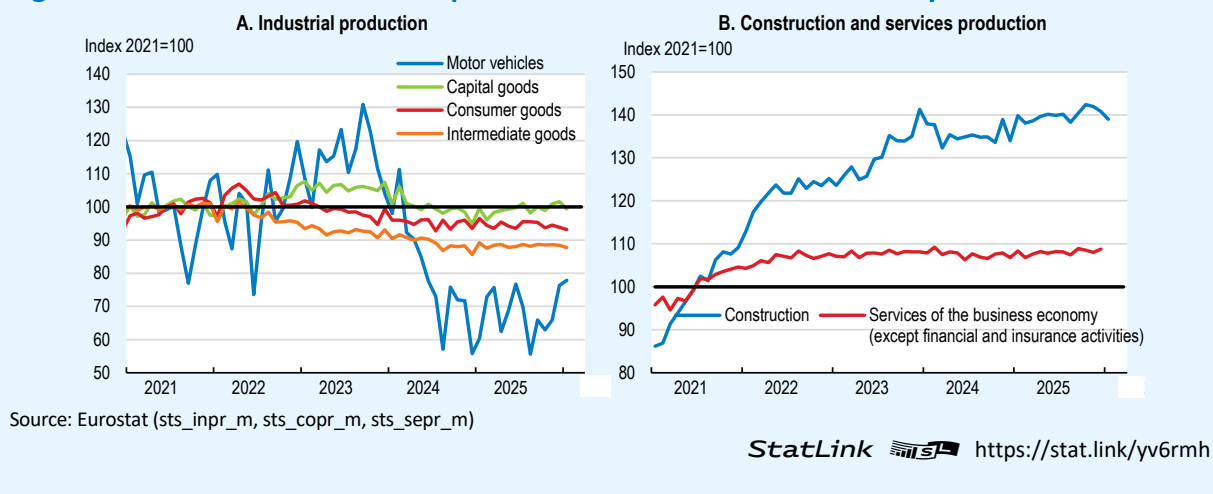
### Box 1.1. The varied factors contributing to the recent weakness in industrial production

Manufacturing generated about 15% of Italy's GDP, 16% of employment and 78% of exports in 2024. Activity is diversified across products and approximately 350 000 firms. A sequence of shocks that weakened demand and raised production costs contributed to broad-based falls in output between 2023 and early 2025.

External shocks include the surge in energy prices hampering energy-intensive production, such as chemicals and metals, weak conditions in key European trading partners, lower demand for machinery and other capital goods, a drop in Chinese demand for luxury goods harming textile and clothing production, and reduced US demand and uncertainty following tariff increases. Motor vehicle manufacturing volumes were about 40% lower in November 2025 compared with two years earlier, reflecting weaker demand and the challenges of adapting to low-emission vehicles. In contrast, pharmaceutical production became a

leading sector with sustained growth in production, and strong growth in exports supported by an exception for generic pharmaceuticals to the US general 15% tariff.

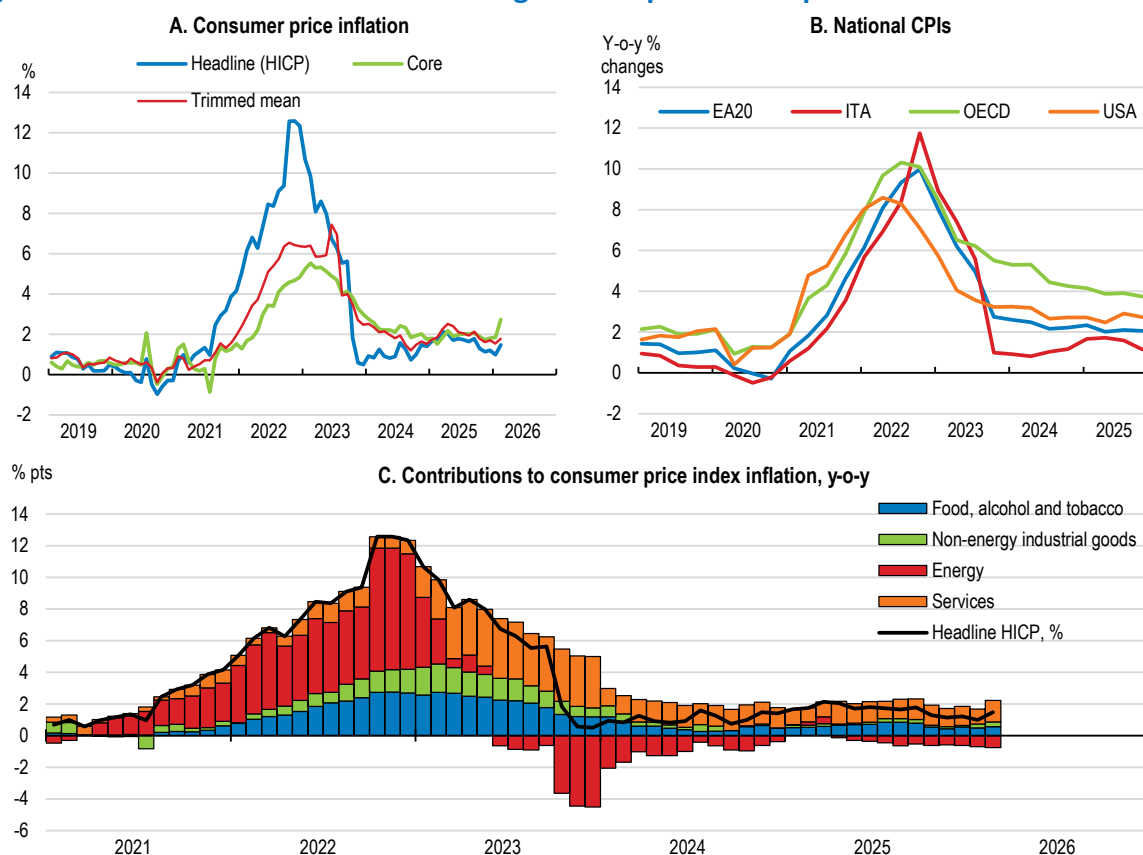
**Figure 1.2. Industrial and services production have stabilised since early 2025**



The current account balanced returned to surplus from 2023 with the decline in energy import values with lower gas prices. The surplus rose to over 1% of GDP in 2024 and 2025, supported by higher goods export values and reduced investment income debits. Italy's current account surpluses since 2013 have contributed to the shift to a positive net international investment position. This rose to 13.3% of GDP in the third quarter of 2025, supported also by increased valuation of Italian-held assets, notably its gold reserves.

While headline inflation peaked in 2022, core inflation fell steadily from early 2023 to around 2% from late 2024. Core inflation remains higher than the very low rates prior to the pandemic (Figure 1.3). Italy's price growth has been modest compared with other large euro area countries. Headline inflation was generally below core inflation over 2024 and 2025 due to cuts in regulated electricity and gas prices, and to slower growth of food prices (Figure 1.3, Panel C). However, it has risen again as energy prices increased with the 2026 Middle East conflict. The government in March 2026 introduced temporary reductions in fuel excise, following measures to reduce wholesale gas and electricity prices, towards reducing the inflationary effect of the surge in energy prices. The higher inflation compared with the pre-pandemic period largely reflected stronger growth in services prices. This was due to recovering nominal wage growth compared to very weak wage developments before 2019, with average wage growth running at around 3% annually compared to around 1% before the pandemic.

**Figure 1.3. Inflation has stabilised but is higher than prior to the pandemic**

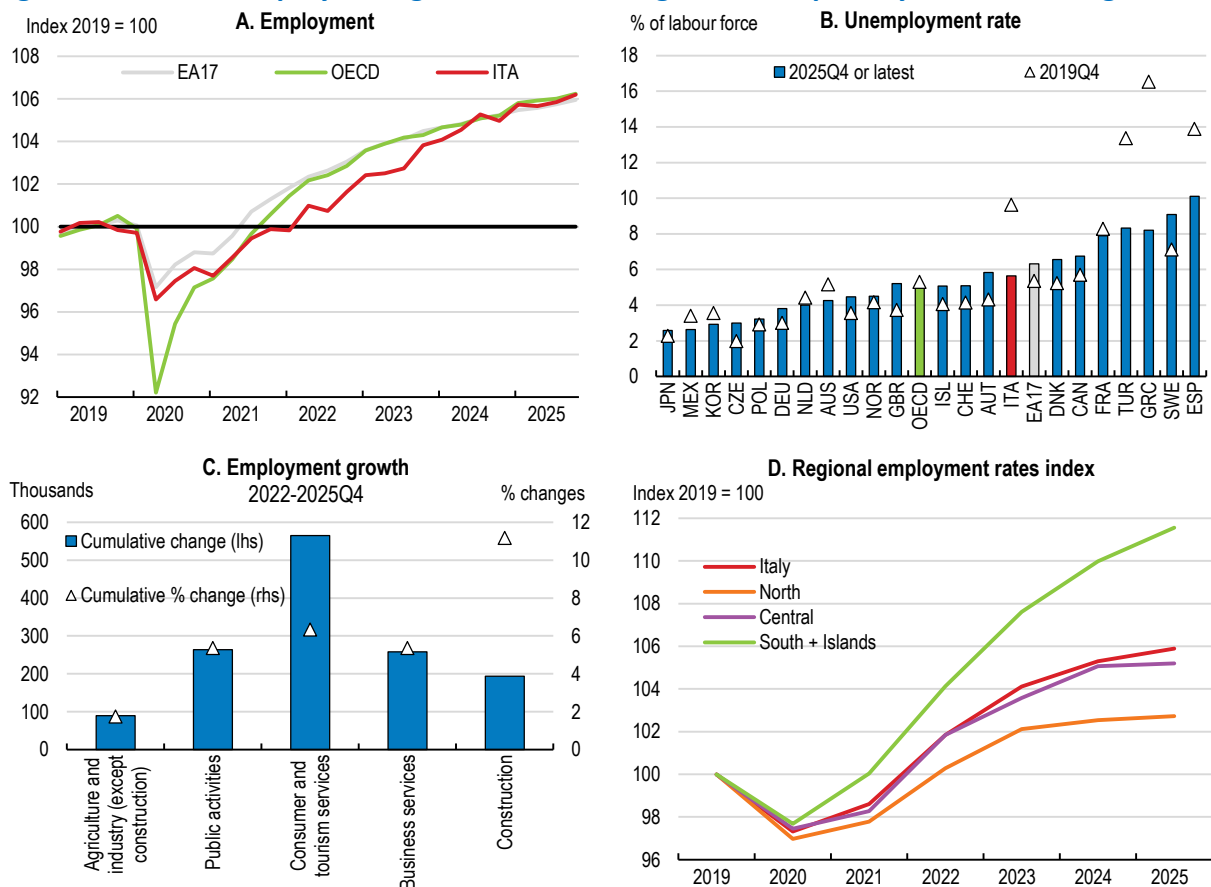


Source: OECD Analytical Database; and Eurostat HICP tables.

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### *Rising employment has supported incomes*

Employment growth was robust in the years following the pandemic, before the pace slowed from early 2025 along with the broader economy's (Figure 1.4). Total employment rose by 1.7% in the two years to the fourth quarter of 2025, outpacing real output growth over this period. The growth in employment reduced the unemployment rate to 5.1% in early 2026, the lowest rate since the 1990s and below the euro area average. It attracted more adults into the labour force, lifting the employment rate to 62.6% of the population aged 15-64 years, a record high, although some adults moved back into inactivity from mid-2025 as employment growth abated. Employment gains have been largely concentrated among adults aged over 50 as pension reforms encourage workers to work longer, raising the average effective retirement age to 64.8 years in 2024 (INPS, 2025<sub>[4]</sub>). Much of the employment growth has been in permanent contracts, while the number of workers with temporary contracts fell, reducing their share to 13% of workers, the lowest in 15 years. A large share of the new jobs has been lower-skilled, and in sectors such as labour-intensive tourism, consumer services and construction activities, but growth in higher-skilled and business services positions has been significant too (Figure 1.4). Jobs growth has been stronger in the South and the Islands, supporting incomes and well-being in these historically lagging regions.

**Figure 1.4. Recent employment growth has been significant, especially in southern regions**

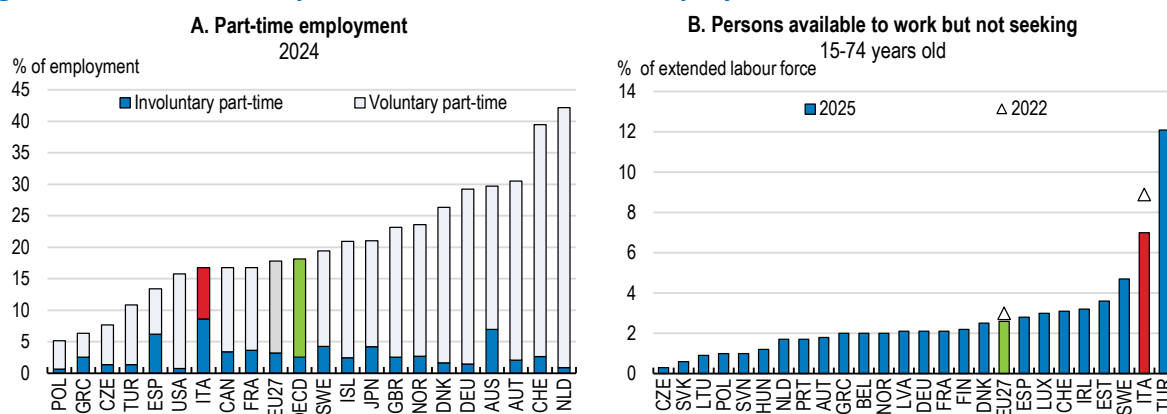
Note: In Panel C, 'Business services' include sectors J to N of the ISIC rev. 4 classification (information and communication, financial and insurance activities, real estate activities, and professional, scientific and technical activities; administrative and support service activities); 'Consumer and tourism services' include sectors G to I (wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities) and R to U (arts, entertainment and recreation; other service activities; activities of household and extra-territorial organizations and bodies).

Source: OECD Analytical Database; OECD Quarterly National Accounts database; and Istat.

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Significant potential remains to bring more people fully into the labour force, even if employers continue to report difficulties finding the needed skills, especially in the North. While average hours worked have risen in Italy, around half of part-time employment is involuntary, a higher rate than in other OECD countries although significantly less than prior to the COVID-19 pandemic. Progress in reducing the shares of the young and women remaining outside of the labour force has been slower than among those aged over 50, leading Italy to have one of the highest inactivity rates among OECD countries (see below and Chapter 2). Despite the recent rise in the employment rate among 55- to 64-year-olds, it is still 6.7 percentage points lower for this age group in Italy than in the average OECD country. Meanwhile, the number of Italians emigrating rose to 156 000 in 2024, 0.4% of the population aged between 15 and 74 and over one-third more than in 2023, while the number of Italians who had previously emigrated returning fell to 53 000 (Istat, 2025<sup>[6]</sup>). Emigrants who return can bring back skills and experience and help to develop cross-border economic networks. At the same time, Italy has one of the highest rates across EU and OECD countries of immigrants who are over-qualified for their jobs, despite the relatively high share with low levels of education (OECD/European Commission, 2023<sup>[5]</sup>). Measures are being taken to develop and recognise the skills of potential immigrants in their home countries, including under the Mattei Plan (discussed in Chapter and 4).

**Figure 1.5. Considerable potential remains to raise employment**

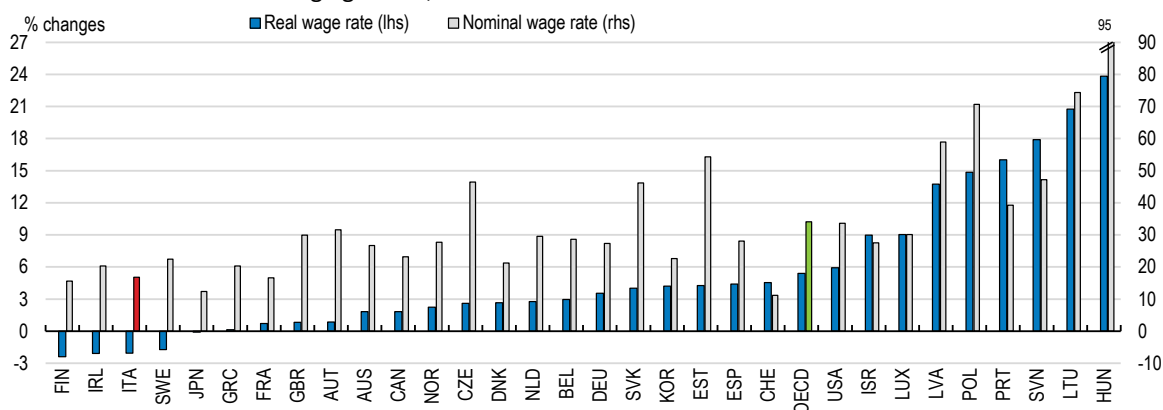


Source: OECD calculations based on OECD Data Explorer • Incidence of involuntary part time employment; and Eurostat (lfsl\_sla\_a)

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**Figure 1.6. Wage rates are rising but by less than in most countries and have not caught their pre-pandemic levels**

Cumulated nominal and real wage growth<sup>1</sup>, 2019Q4-2025Q4



1. Real wages denote wage compensation per employee deflated by the consumer price index.

Source: OECD Analytical Database.

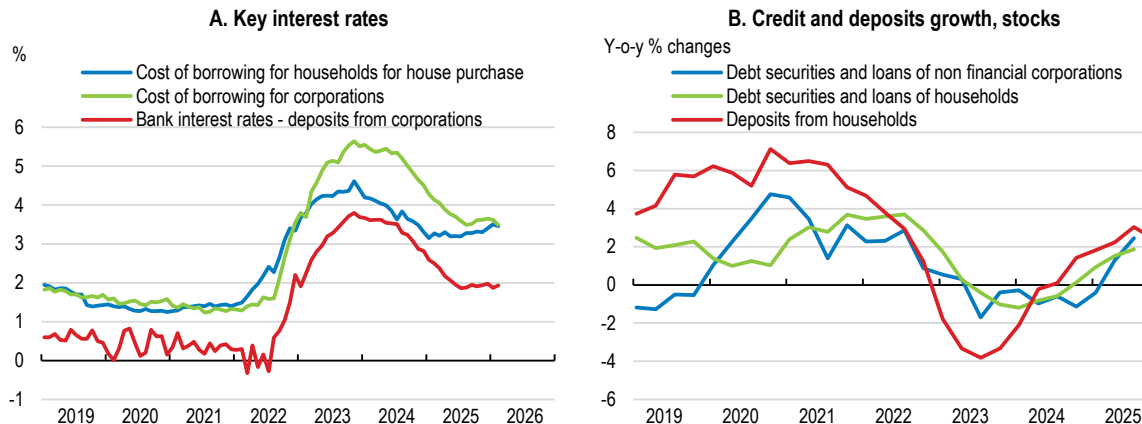
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Rising nominal wage rates have helped rebuild real incomes following the 2022 inflation shock. Nominal wage rates in collective agreements rose by 3.1% in 2025 compared with a year earlier, the same rate as in 2024, but real contractual wages were still 8.8% below their level of January 2021. While the rise in employment has particularly benefited lower-skill and lower-pay jobs, their gross wage rates have risen by less than those of higher income workers (Anastasia, 2025<sup>[34]</sup>). The prospects for further wage growth are mixed, with employment growth moderating and the collective agreements due for renewal covering a modest share of workers. Meanwhile, public sector wage growth has picked up, reflecting a new collective agreement, and helping to reduce the decline in wages relative to the private sector over recent years. Rising nominal wages combined with higher employment has lifted households' incomes to their highest level per capita in 15 years. Lower income households' disposable incomes have been further supported by adjustments in tax credits and social contributions and improvements to the social protection system.

### 1.1.2. The financial sector appears in good health despite heightened external uncertainty

Borrowing rates declined and credit standards eased in the first part of 2025, before stabilising from mid-year, in line with the evolution of euro-area monetary policy. Business borrowing rates fell from 5.6% in November 2023 to 3.5% in January 2026. Borrowing has risen at modest rates reflecting subdued growth in demand from businesses and households (Figure 1.7). A rising share of borrowing is for longer-term loans. Loan growth has lagged the broader economy's growth, and the credit ratio is about 9 percentage points below the trend rate and less than in most high-income OECD countries (Chapter 4). Many firms' ample internal liquidity limited their borrowing needs, with those borrowing doing so to refinance existing debt, and, positively for longer-term prospects, for investment. Firms' financial debt declined relative to their total non-financial assets from 2021 to 2024. Demand for housing picked up in 2025 with volumes and prices rising, but they are below levels that would suggest risks of overvaluation and a correction. Meanwhile, deposits have risen – by 2.3% in the year to December 2025 – with households sustaining solid saving rates. Rising real estate and financial market valuations lifted private sector wealth, with households' net wealth reaching EUR 11 732 billion at the end of 2024, equivalent to 532% of GDP.

**Figure 1.7. Interest rates have stabilised but credit growth remains modest**



Note: The cost-of-borrowing indicator for households for house purchase is calculated as a weighted average of MFI interest rates on short-term and long-term loans to households for house purchase, where the new business volumes used are smoothed with a moving average of the previous 24 months' observations. The cost-of-borrowing indicator for non-financial corporations is a weighted average of rates on short-term and long-term loans to non-financial corporations.

Source: ECB.

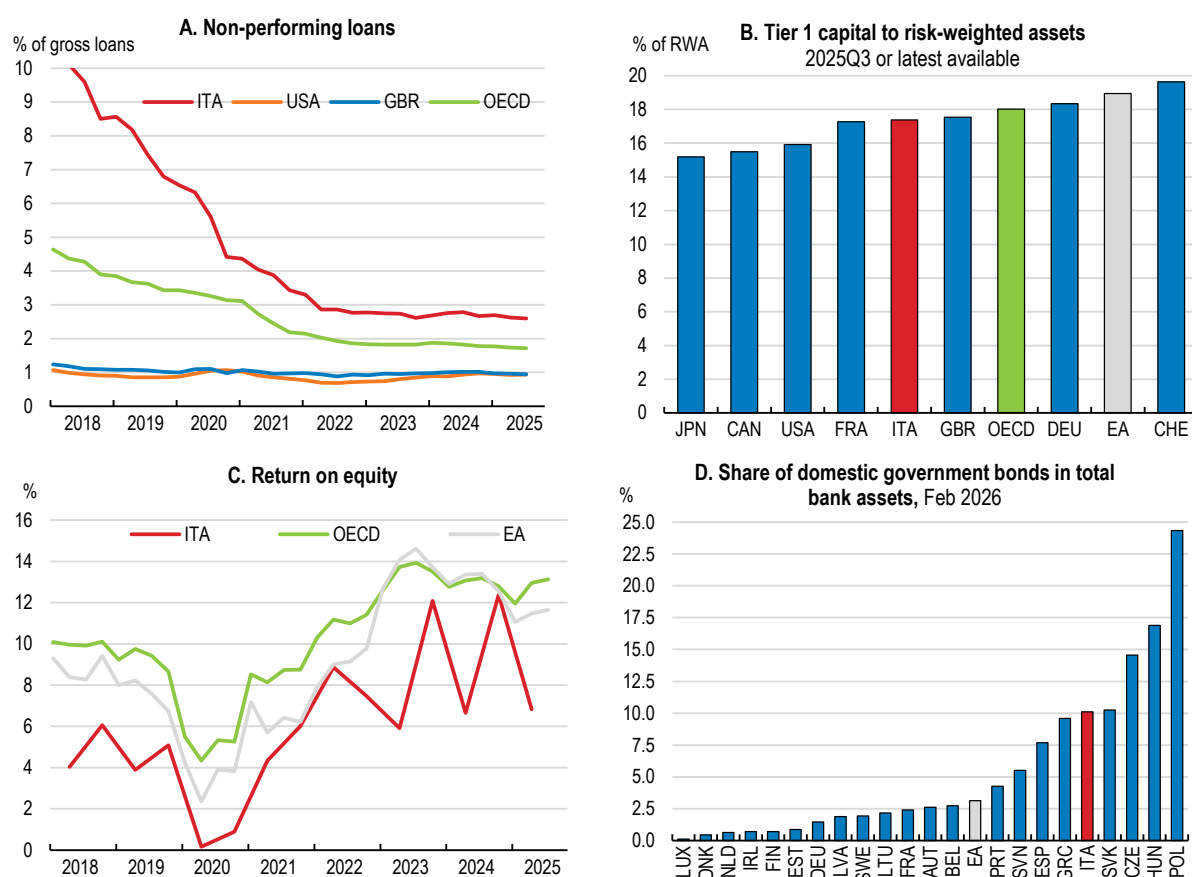
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The financial sector's health appears to have strengthened, with many indicators improving towards the average of OECD countries. Banks' capitalisation and profitability have improved (Figure 1.8). Non-performing loans (NPL) ratios are stable near historical lows, although this rate is still higher than in most other major economies, despite the level of non-performing loans being reduced by the public loan guarantees extended during the COVID-19 period (discussed in Chapter 4). Upstream indicators of asset quality improved over 2025 and liquidity ratios are healthy. For banks, forward-looking indicators suggest that this situation is likely to stabilise or may modestly deteriorate over 2026 and 2027. The decline in interest margins following the cuts in policy interest rates and slow growth in new lending (Figure 1.7) may slow the growth in banks' profitability, even as they seek to bolster their non-interest income. Banks have fully repaid the low-cost ECB TLTRO III funding, replacing these funds with bond issuance and drawing down excess reserves and liquidity. This increased cost of funding contributed to slower lending growth and increased competition for deposits. The modest pace of economic growth and risks to some sectors' activity from global trade disruptions may weaken banks' asset quality with increased loan defaults, and Banca d'Italia expects a modest increase in the NPL ratio

(Banca d'Italia, 2025<sup>[33]</sup>). Continued vigilance in monitoring vulnerabilities across the financial sector will remain critical, especially given the heightened risks of external financial market instability.

Some longer-standing issues remain. Holdings of government bonds and other government assets continue to make up a relatively large share of banks' assets (Figure 1.8, Panel D), with the average residual duration rising from below 4 years in 2023 to near 4.8 years in September 2025. This means banks remain exposed to a deterioration in the government bond market. The banking systems remains fragmented with the large number of regional and cooperative institutions. These generally operate with reasonable health – for example, 2025 stress tests found that in an adverse scenario, smaller banks holding 13% of total assets would not meet prudential requirements. Technological developments, especially the costs of digitalising operations and protecting from cyber risks, places a premium on scale. Merger proposals circulate among the larger banks, while the number of cooperative banks and banking groups has fallen following the completion of earlier cooperative banking sector reform.

**Figure 1.8. Banking system vulnerabilities appear limited**



Source: ECB; and IMF Financial Soundness Indicators (FSIs).

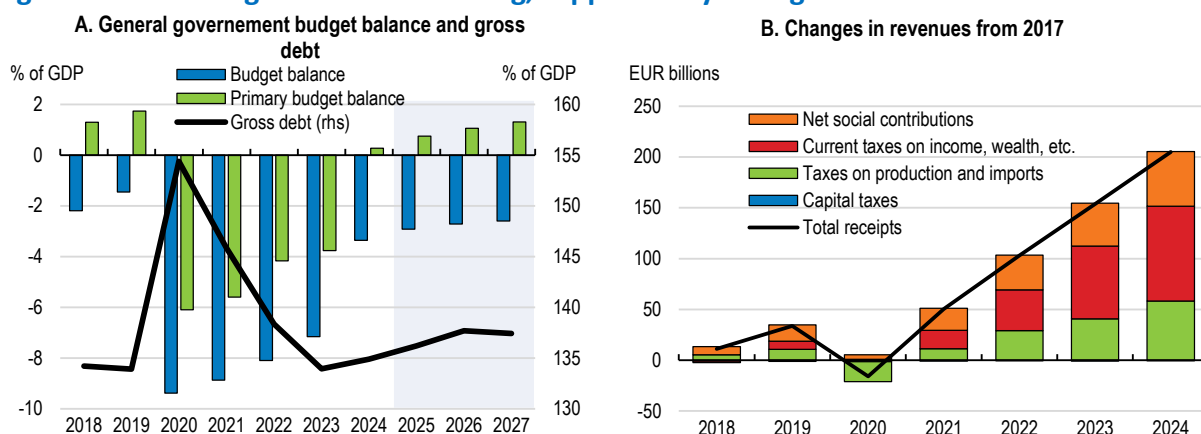
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Conditions also appear to be stable among non-bank financial institutions, which are absorbing a growing share of wealth management as in other economies. Insurance companies' profitability and investment funds' assets both rose in 2025. Supervisors are working with institutions to improve their preparedness for disruptions caused by climate events. The sector's potential liquidity mismatches – with the risk of increased redemptions against illiquid assets during periods of market stress – merits ongoing monitoring and robust stress-testing. Increased redemption scenarios may also bring stress to the sovereign bond markets, given that these are among many non-bank financial institutions' more liquid assets. Further, banks' exposure to non-bank financial intermediaries means that stresses in the latter could transmit to the banking sector.

### 1.1.3. While the budget deficit has been reduced, rising public investment has supported activity

While the deficit remains higher than prior to the pandemic, it has narrowed substantially compared to the COVID-19 peak in 2020 and the elevated levels recorded until 2023 (Figure 1.9). Following the expansion to the deficit due to the COVID-19 shock, the public deficit in Italy remained wide due to substantial support policies, notably the ‘Superbonus’ tax credit for building renovations. The withdrawal of these measures allowed the budget deficit to decline, and fell in 2025 to slightly above 3% of GDP, while the primary budget balance returned to surplus in 2024. Rising personal income tax revenues and social security receipts – reflecting the labour market’s strength – also contributed to this improvement. Under accounting rules, the government expects the effects of the renovation ‘Superbonus’ credits on the change in the public debt ratio to be exhausted by 2027.

**Figure 1.9. The budget deficit is declining, supported by strong revenues**



Note: Maastricht definition of gross debt shown.

Source: OECD Economic Outlook database; Eurostat (gov\_10a\_taxag)

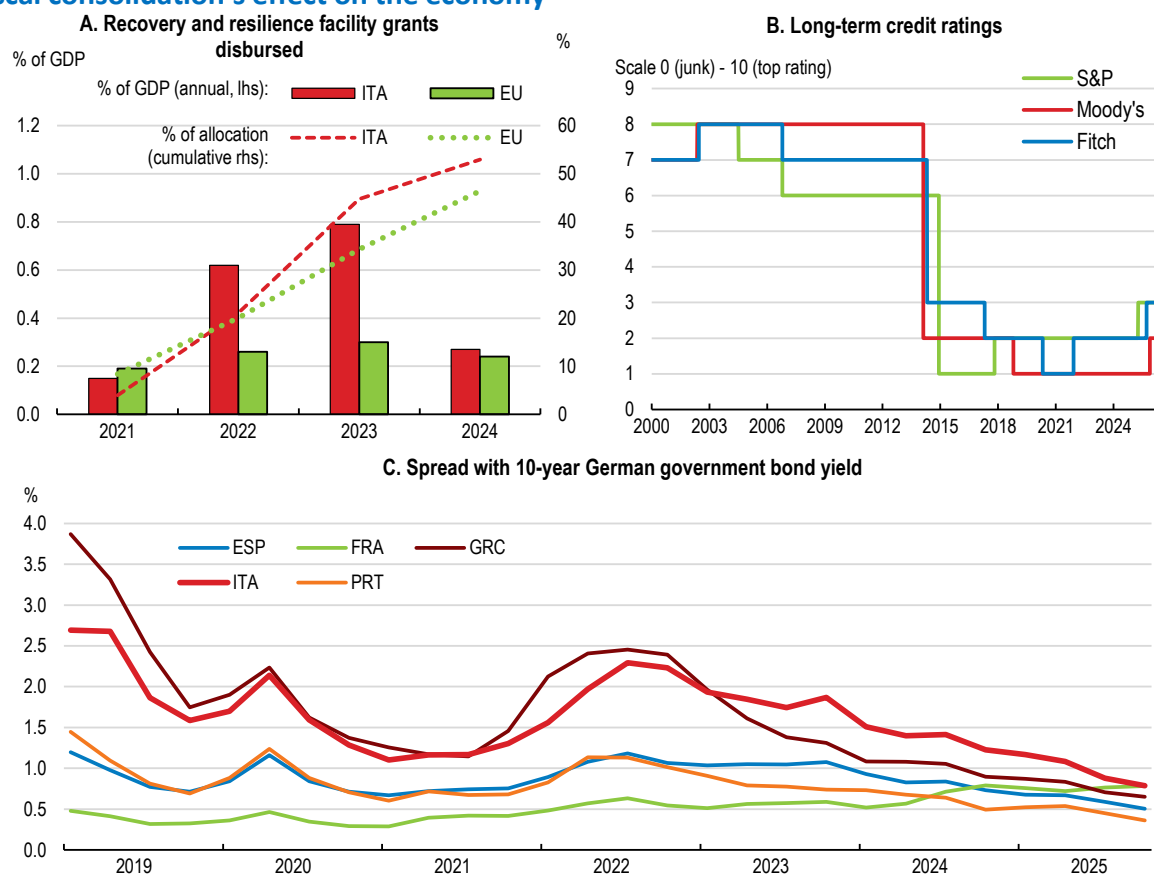
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Increased disbursement of public investment financed through grants from European programmes such as the NextGenerationEU facility has buffeted the effects on the economy of the support measures winding up (Figure 1.10). The disbursement of the NRRP is projected to accelerate ahead of its late 2026 deadlines for reforms and payment requests. The government agreed with the European Commission in late 2025 revisions to milestones and targets to support the Programme’s complete implementation in 2026. Some of these revisions provide for special-purpose financing facilities to enable work to continue into 2027, for example to construct student housing. Through the MTFSP, it also plans to pass from projects funded through the NextGenerationEU facility to other sources of financing to maintain the real value of public investment to 2027. Italy has been among the countries with the highest implementation rates of NRRP reforms. Disbursing investment funds has been more challenging, particularly in active labour market programmes, and in investments in net-zero emission technologies and in agricultural supply chains and these disbursements are expected to be prolonged. As the NRRP and other EU-funded public investment programme implementation schedules are adjusted, prioritising measures expected to bring the greatest economic benefits will better bolster Italy’s long-term economic prospects.

The path of declining budget deficits laid out by the MTFSP, along with the policy stability and progress in structural reforms have contributed to agencies upgrading their ratings of Italy’s sovereign debt default risk, and to reducing the premium on borrowing paid by Italian entities relative to entities in Euro-area jurisdictions (Figure 1.10, Panels B and C). The upgrading of the national government’s rating has allowed subnational authorities’ ratings to also be upgraded and reduced financing costs for large private borrowers. The support to investment and household finances from lower financing costs can more-than offset the contractionary

effects of the progress decline in the fiscal deficit, especially given the importance of both for Italy's growth prospects.

**Figure 1.10. NRRP disbursements and improved risk ratings and borrowing costs cushion the fiscal consolidation's effect on the economy**



Source: Bloomberg; and Eurostat (gov\_rrf\_use); and OECD Analytical Database.

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#### 1.1.4. Growth is projected to be modest in the near-term, weighed down by external developments

GDP growth is projected to remain modest at 0.4% in 2026 and 0.6% in 2027 (Table 1.1). While the economy's momentum was improving around the turn of 2026, the surge in energy prices and increased geopolitical uncertainty following the renewed Middle East conflict from early 2026 is projected to offset this, weighing on households' consumption and businesses' production. Government measures to reduce energy costs for low-income households and firms in sectors highly exposed to high fuel costs such as road transport, fishing and agriculture, absorb some of this shock. Support to growth will be provided by rising public investment with increasing disbursement of the NRRP funds, which will be maintained in 2027 under the MTFSP. In 2027, increased demand from Italy's main trading partners is likely to support growth, and can lead households to raise their consumption. Domestic private investment is also expected to be supportive, bolstered by Italy's improved credit rating and economic depth attracting private finance and reducing borrowing costs.

Employment growth is likely to moderate from recent rates with slower growth in the economy. The projected driving role of investment for overall GDP growth, the weaker growth in services exports following the exchange rate's appreciation and expected modest growth in private consumption are all likely to slow growth of jobs in services sectors. Further, uncertainty over the outlook is passing into firms' hiring plans. Slower

growth in employment is expected to induce fewer adults into the labour force, limiting the increase in the unemployment rate.

**Table 1.1. Modest growth is projected to continue in the near-term**

	2022	2023	2024	2025	2026	2027
	Current prices, EUR billion	Percentage changes, volume (2020 prices)				
<b>GDP at market prices</b>	1 998.1	0.9	0.8	0.5	0.4	0.6
Private consumption	1 166.5	0.5	1.2	1.1	0.4	0.5
Government consumption	376.4	1.0	1.5	0.6	0.6	0.6
Gross fixed capital formation	435.1	10.1	-3.1	3.5	2.4	0.9
Final domestic demand	1 978.0	2.7	0.3	1.5	0.9	0.6
Stockbuilding <sup>1</sup>	56.4	-2.4	0.3	-0.2	0.1	0.0
Total domestic demand	2 034.4	0.3	0.6	1.3	1.0	0.6
Exports of goods and services	701.3	-0.2	-0.4	1.2	0.8	1.2
Imports of goods and services	737.6	-1.9	-1.0	3.6	2.8	1.2
Net exports <sup>1</sup>	- 36.3	0.6	0.2	-0.7	-0.6	0.0
<i>Memorandum items</i>						
GDP deflator	–	6.3	2.0	2.0	2.2	2.3
Harmonised index of consumer prices	–	5.9	1.1	1.6	2.4	1.8
Harmonised index of core inflation <sup>2</sup>	–	4.6	2.2	1.9	2.6	1.9
Unemployment rate (% of labour force)	–	7.7	6.6	6.0	5.6	5.7
Household saving ratio, net (% of disposable income)	–	3.4	3.4	4.5	4.3	4.9
General government financial balance (% of GDP)	–	-7.2	-3.4	-3.1	-2.9	-2.8
General government primary balance (% of GDP)	–	-3.8	0.3	0.6	0.9	1.1
General government gross debt (% of GDP)	–	147.5	147.9	150.3	150.9	150.4
General government debt, Maastricht definition (% of GDP)	–	133.9	134.7	137.1	137.5	137.4
Current account balance (% of GDP)	–	0.2	1.1	1.2	0.2	0.9

1. Contributions to changes in real GDP, actual amount in the first column.

2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 118 database.

In the medium term, pursuing reforms and investments, building on those in the MTFSP, would help improve growth prospects and reinforce fiscal sustainability. Sustaining well-designed and economically cost-effective public investment at rates similar to other OECD economies would keep construction activity at its current high levels and boost productivity over time. Reducing non-wage labour costs would help encourage greater employment and raise disposable incomes, lifting consumption. Reducing barriers to entry for example for professional services can help deepen that sector, improve its competitiveness and reduce costs for other parts of the economy.

Risks to the outlook are substantial and are tilted somewhat to the downside. The 2026 Middle East conflict generates significant uncertainty regarding the supply and cost of energy and other inputs, and trading partners' demand (Box 1.2). In addition, trade policy restrictions, greater competition with any deflection of trade away from the United States towards Italy and its export markets, the euro's appreciation and uncertainty may create a deeper drag on exports, activity, investment and employment than anticipated, amplified by households increasing their precautionary savings. Potential volatility in global financial markets, following recent heightened valuations and significant inflows of external funds, could lead to an outflow from Italian financial assets, notably government bonds, raising borrowing costs. Recent improvements in fiscal management and the labour market may prove to be more ephemeral than expected, with negative consequences for private investment and household spending. Conversely, government reforms, ranging from improvements to the business environment and the public administration and investments from infrastructure to skill development, may encourage businesses to invest more than expected, making use of

their improved balance sheets and liquidity. An increase in geopolitical tensions in Europe could negatively impact the Italian economy. Table 1.2 outlines other potential risks to the medium-term outlook.

### Box 1.2. Italy's exposure to renewed energy market disruptions

The 2026 Middle East conflict and related blockages of major oil and gas shipping routes have renewed volatility in global energy markets. Despite progress in diversifying gas supply since 2022, Italy remains exposed by the heavy reliance on imported fossil fuels, although the Middle East supply makes up a relatively modest share of overall imports. With fossil fuels supplying about three-quarters of total energy use and 45% of electricity generation, higher global prices pass rapidly into domestic inflation, including through input costs in food and manufacturing. Energy-intensive industrial sectors generate approximately one-third of manufacturing value added and over one-fifth of employment. They have improved their efficiency since the 2022–23 shock but remain highly sensitive to price spikes, given limited short-term substitution possibilities. Higher energy prices reduce households' real incomes, as wage indexation is limited and multi-year collective agreements slow nominal wage adjustment. Higher energy import prices mechanically weaken the trade and current account balances, reflecting approximately four-fifth of Italy's net energy consumption being sourced from imports. Weaker economic activity plus any public support measures overall detract from the fiscal position, even if indirect tax receipts may be supported in the near-term by higher prices, with the government's temporary fuel excise tax reductions announced in April 2026 are partly financed by higher VAT receipts.

**Table 1.2. Events that could entail major changes to the outlook**

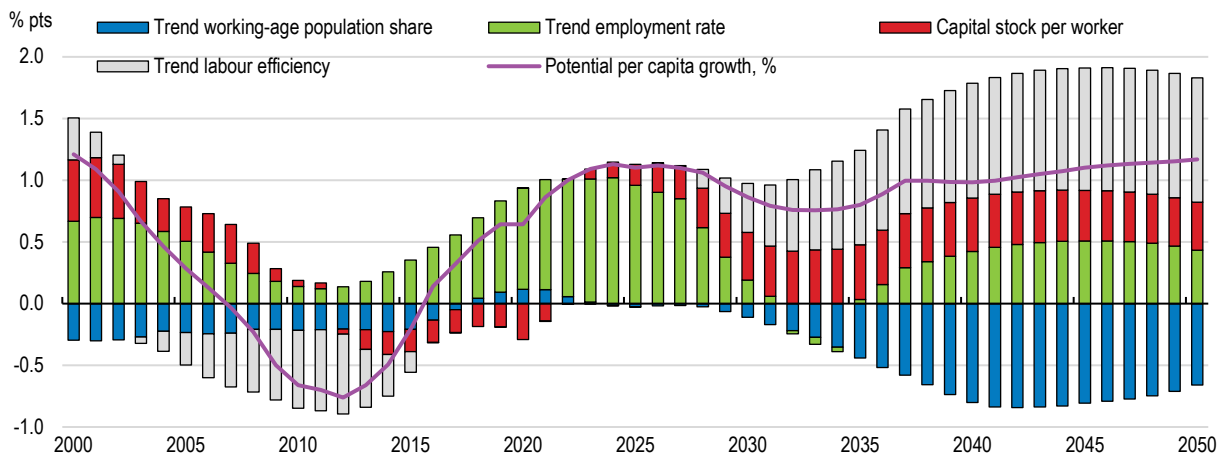
Shock	Potential impact	Policy response options
Fiscal consolidation slips or market pressures on sovereign debt increase.	Gross financing needs would rise, increasing the government's debt servicing costs, increasing interest costs for banks and other borrowers in Italy.	Pursue measures that would curb the expected increase in pension and other costs from ageing or that would broaden the revenue base. Pursue measures that improve the integrity of revenue collections and the quality of spending.
Continued trade policy uncertainty and restrictions limit market access and divert other producers to Italy's export and domestic markets.	Industrial activity continues weakening, detracting from employment, productivity and public revenues.	Accelerate efforts to reduce energy costs by developing renewable sources, and to improve the investment climate, such as by addressing regulatory burdens.
Geopolitical tensions in Europe or globally intensify.	Disruption to trade and economic activity in Europe, and tighter financial conditions. Increased fiscal pressures to accelerate the increase in defence spending.	Accelerate measures to strengthen defence preparedness, including developing defence procurement processes, and to protect key infrastructure from disruption including through scenario exercises and cybersecurity.

### **1.1.5. Raising growth into the long-term will require continuing ambitious reforms to encourage greater investment and employment**

Italy's longer-term growth prospects remain modest compared to many other advanced economies, despite a level of per capita incomes that is significantly below the best performing economies. OECD long-term projections suggest that GDP growth would average less than 1% per year over the next decade, supported by rising productivity, employment rate and investment. GDP per capita growth is projected to be modestly higher at close to 1.2%, as the overall population is projected to fall faster than the number in employment (Figure 1.11). This is slightly below its current growth rate. Raising productivity growth, as well as a higher employment rate are central to more sustained gains in living standards for Italians and would also help to improve the sustainability of the government debt and meet ageing and climate challenges. Achieving this will require improving business dynamism, such that the more productive medium-sized and larger firms grow and innovate. Shifting the tax mix away from employment and production and towards sources with a lower drag on activity will help raise employment while maintaining revenues.

### Figure 1.11. Raising productivity, investment and the share of adults in work can sustain income growth as the working age population declines

Contributions to projected potential growth in GDP per capita



Note: projections account for policy reforms introduced or planned through to 2026.

Source: Long-run scenarios using OECD **Invalid source specified**. Long-Term Model and OECD calculations.

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The priority policy recommendations set out in this and the previous *Economic Surveys* to improve productivity and employment are estimated to raise GDP substantially in the long run, in addition to the NRRP and structural plan measures. Table 1.3 presents the estimated effect on GDP over 10- and 25-year horizons relative to a baseline of the growth projections following the NRRP implementation, with respect to policy areas where modelling is available for the impact on GDP. While these estimates are uncertain, they underline the significant potential to raise growth and living standards in Italy through continued ambitious reforms.

### Table 1.3. Reforms to raise institutional quality, labour force participation and quality and research would lift growth prospects

Simulated effect of selected reforms on the level of GDP, %

Policy area	Reform measure	Cumulative impact, %	
		10 years	25 years
Institutional effectiveness and integrity	Rule of law indicator reaches the OECD third quartile by 2036.	1.1	2.8
Labour force skills	Increase the average years of schooling to the OECD average by 2036 Improving the quality of education, so as to raise adaptive problem-solving skills to the OECD average as assessed by PIAAC by 2050.	0.3	1.3
Employment incentives	Reduce the labour income tax wedge by 2036 by 2.3 percentage points for a couple with one earner at the average wage and one dependent child and by 2.9 percentage points for a single adult earning the average wage, aligning with the Euro area average.	1.1	3.0
Regulatory environment	Improve the regulatory environment by aligning the subindices on restrictiveness of barriers to entry in the services sector, state involvement in business operations in service sectors, and the interaction with stakeholders in regulation impact evaluation to the OECD averages, reducing the overall Product Market Regulation Index for Italy from 1.23 to 1.04.	0.7	1.1
Research and innovation	Increase research and development expenditure to the Euro area average by 2036.	0.5	2.3
<b>Total policy package</b>	<b>(All of the above reforms)</b>	<b>3.9</b>	<b>11.9</b>

Source: Long-run scenarios using OECD (2025<sub>[1]</sub>) Long-Term Model and OECD calculations.

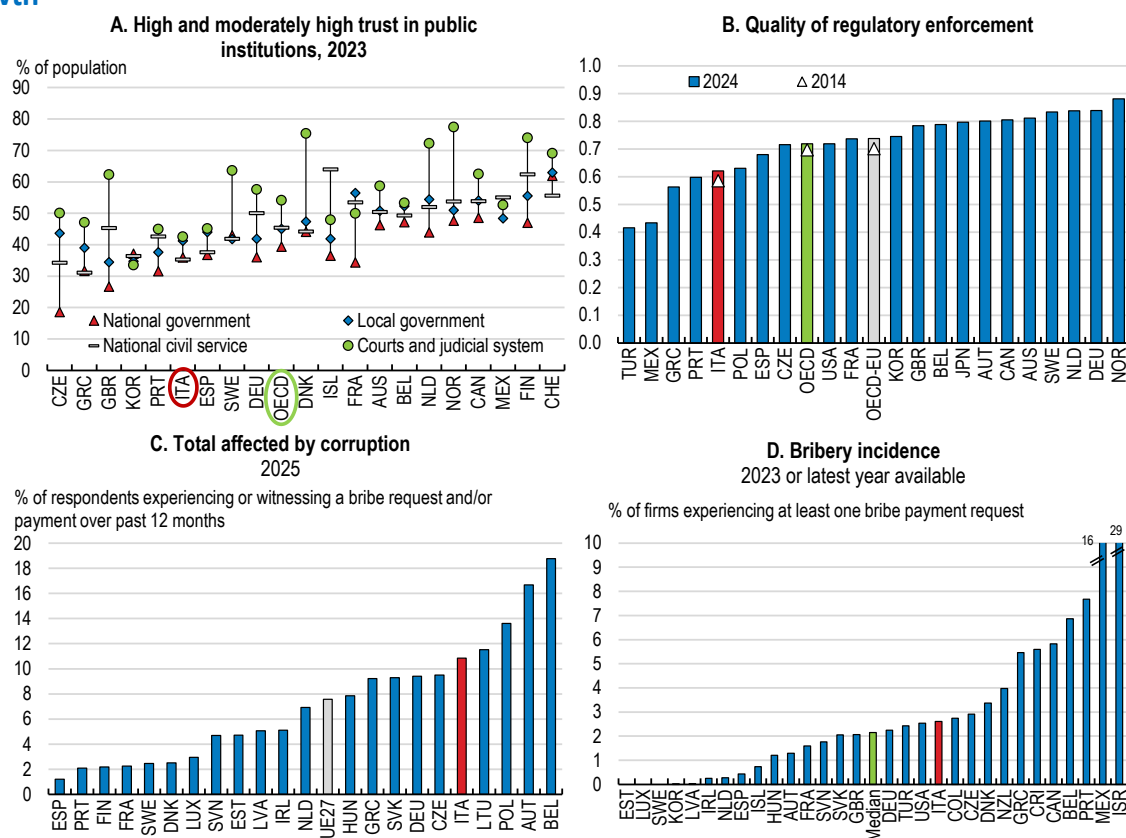
The full implementation of the NRRP will help raise longer-term growth prospects by addressing many of the long-standing barriers in Italy to raising GDP, including improving the functioning of the justice system, public administration, digitalisation, competition, and the business climate. The MTFSP (Ministero dell'Economia e delle Finanze, 2024<sub>[47]</sub>) lays out an agenda of reforms and investments for the years following the NRRP, including implementation of remaining NRRP measures and additional reform commitments building on the NRRP in the areas of education, research, labour market, public administration, justice and procurement. The

MTFSP maintains the average level of public investment under the NRRP until 2029. The government estimates that the NRRP’s reforms and investments implemented by the end of 2025 will provide a substantial boost to the level of GDP by 3.7% by 2030. The government projects the remaining NRRP reforms and investments to raise GDP by a further 2.3%, while it estimates that those provided in the MTFSP will add 0.4% to GDP. These substantial estimates underscore the importance of completing and ensuring full implementation of the NRRP reforms and pursuing the MTFSP, while also building on this Plan to continue the momentum of the NRRP into the medium-term.

Achieving substantially stronger growth into the longer-term requires a comprehensive reform package, that builds on the impetus of the MTFSP and the NRRP from recent years. This should include increasing the efficiency and re-orienting spending from pensions to innovation and education; strengthening efforts to raise tax compliance and reduce the tax burden from labour taxes to property, and broadening the tax base (as discussed below). As discussed in Chapter 4, pursuing measures to reduce regulatory compliance burdens, increase competition, improve innovation efficiency, streamline business support, and to increase access to finance and risk capital would help to make Italy’s business sector more dynamic, support the scaling-up of successful firms and raise investment and productivity. This package would build on the priorities of the MTFSP (Box 1.3).

Across the NRRP and MTFSP policy priorities, a cross-cutting issue is improving the integrity and effectiveness of how public institutions operate and regulate (Figure 1.12). On-going reforms including those driven by the NRRP are improving areas including the responsiveness of the judicial system and quality of public investment management and will be pursued through Italy’s MTFSP (Box 1.3). However, the large gaps with Italy’s peers indicate the importance of continuing these efforts to improve practices.

**Figure 1.12. Lifting institutional quality would help sustain higher investment and productivity growth**



Source: World Bank WDI; and OECD Government-at-a-Glance; Eurobarometer 2025 (QD9b).

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### Box 1.3. The reforms and investments of the Medium-Term Fiscal-Structural Plan

The Medium-Term Fiscal-Structural Plan 2025-2029 (MTFSP) incorporates 24 reforms and investments intended to raise growth potential while improving fiscal sustainability (Ministero dell'Economia e dell'Finanze, 2025<sup>[47]</sup>). Under the revised European fiscal framework, the approval of Italy's MTFSP allows for a fiscal adjustment over seven years rather than four, giving time to reduce the budget deficit while pursuing growth-supporting investments and reforms.

The reforms are both horizontal and targeted sectoral reforms. Many pursue the National Recovery and Resilience Programme (NRRP) reforms. They include reducing delays in the civil justice system, improving the public administration including through digitalisation and simplification, upgrading childcare, reforms to public procurement, competition and the investment climate to improve the business environment, tax collection reforms and streamlining fiscal incentives, strengthening active labour market policies and vocational training, and reforming social protection. The government expects these measures to add 0.4% to GDP by 2031.

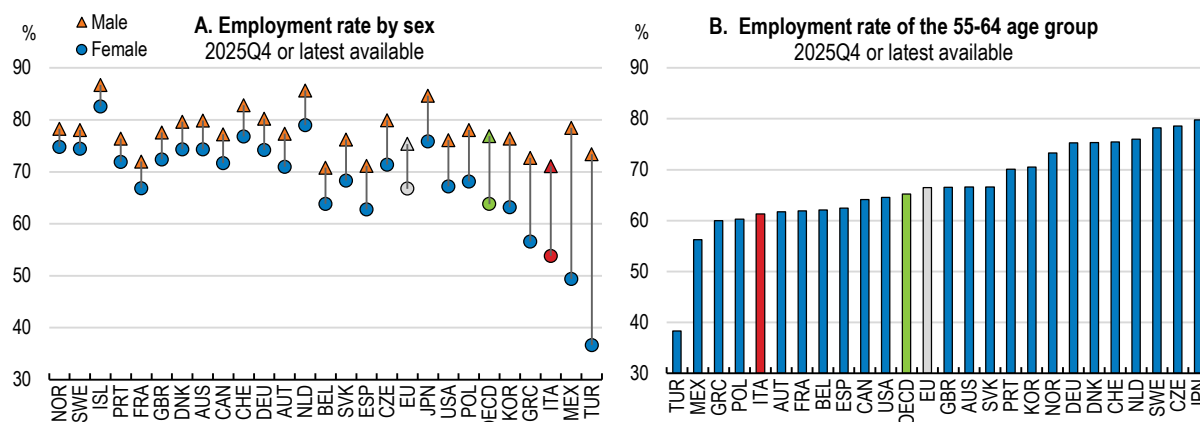
Regarding public investment, while the Plan does not follow the approach of the NRRP in providing specific amounts for each priority, it does provide for ensuring the NRRP resources are fully executed, and that public investment is sustained near the 3.5% of GDP levels achieved under the NRRP.

#### *Raising participation to reduce the drag from the ageing workforce on growth prospects*

Italy's ageing workforce and shrinking working age population are a headwind to growth. Raising the contribution of Italy's youth by increasing their employment rates, improving skills and reducing emigration through reforms to the school system, tertiary education, labour market and stronger efforts to help young people find high-quality jobs would help address this (Chapter 2). Raising the share of women in work, and keeping older people in work for longer, particularly the large cohort currently aged between 50 and the standard retirement age of 67 years (which rises to 67 years and 3 months in 2028), would help (Figure 1.13).

While the statutory retirement age in Italy is 67 for men and women since January 2025, the average age of labour market exit remains younger than the OECD average. Temporary early retirement schemes such as Quota 103 and Opzione Donna allowed people to exit the labour market early, but these ended in 2025. Other early retirement schemes remain for specific categories of workers, such as those with long career histories or those in arduous professions or for women who have had children. The criteria underlying early retirement schemes should be rationalised to encourage adults to remain attached to the labour market and improve equity across workers. Few workers combine working with a pension or work beyond the statutory retirement age, reflecting weak incentives to remain in work. Strengthening sickness and disability insurance and facilitating mobility to less physically demanding jobs through reskilling would help older workers remain in the workforce (OECD, 2025<sup>[38]</sup>). While age discrimination was explicitly prohibited in Italy since 2003, it remains very frequent, with 56% of workers older than 50 identifying as victims (PageExecutive, 2024<sup>[39]</sup>). Fiscal incentives were recently introduced for firms hiring and training older workers, as well as funds for training. To further facilitate occupational mobility and up-skilling, services and training programs offered by the public employment service could be extended to employed workers, as in the German WeGebAu (OECD, 2018<sup>[40]</sup>).

**Figure 1.13. Closing the gender and age gaps in employment rates would support growth and incomes**



Source: OECD Employment database.

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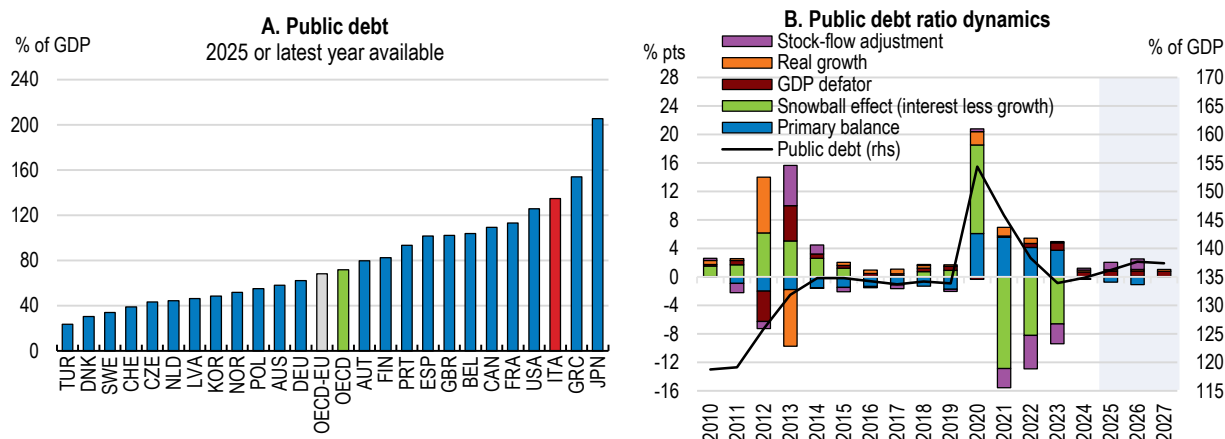
Despite significant progress, Italy's labour market could make better use of women's skills. Female participation is the lowest in the EU (Figure 1.13), lagging far behind men, and many women work part-time. Only around 55% of Italian women with children work, and only 35.3% in the South. Even 15 years after giving birth, working mothers earn on average 40% less than other women and work for fewer hours. Care for other dependents, including elderly family members, and other unpaid household work also weigh significantly more on women than men, limiting their ability to take jobs requiring more flexible working time or longer commuting or travel, a pattern seen in other OECD countries, especially where access to formal care has been limited. To strengthen childcare access, especially in the South, Italy planned to create about 150 500 new childcare places through the NRRP, offering spaces to an additional 9% of all 0- to 6-year-olds, and the MTFSP extends this ambition to ensure 33% coverage nation-wide. Yet progress so far has been slow, with objectives revised down and with a low share of the new childcare places available by the school year 2025/2026. More equitable sharing of care tasks will require changing household behaviour. Increasing fathers' role in childcare from the child's birth can help achieve this. Italy has compulsory paternity leave of 10 working days (20 days in case of multiple births), which must be taken around the birth and cannot be transferred to the mother. Use of parental leave is skewed and allocates only 20.5% of the full-rate equivalent leave to fathers (approximately 1.4 weeks, compared to 2.3 weeks across the OECD), while the rest is either earmarked for mothers or "shareable", although the allowance for the three months of optional parental leave, available to either parent, has recently risen from 30% to 80% of the salary. Further extending paternal leave and encouraging greater take-up by fathers of their parental leave could help, including by promoting visible role models within companies and in the broader community.

## 1.2. Putting the debt ratio on a more prudent path will require sustained fiscal consolidation and stronger growth


Italy has a substantial budget deficit and the third highest government debt ratio in the OECD, after Japan and Greece (Figure 1.14). Improving the sustainability of Italy's public finances, including lowering interest costs, remains central to Italy's broader prospects. The debt ratio rose above 137% under the Maastricht definition in 2025, and is expected to rise further in the coming years. It remains modestly above its pre-COVID levels, as high inflation boosted the nominal value of GDP, offsetting the effects of large budget deficits. The underlying debt dynamics are now unfavourable with the effective interest rate higher than economic growth, while the effect of the earlier 'Superbonus' housing renovation tax credit on cash receipts will raise the debt ratio further in 2026 and 2027. This high level of debt increases the sensitivity of the debt ratio to growth and interest rate shocks. While the risk premium on Italy's public debt has significantly narrowed in recent years

and agencies' have upgraded their ratings, these remain sensitive to developments in Italy. Further, Italian government debt ratings are only two or three steps above the investment grade threshold. The term structure of outstanding debt is near the average of Euro area countries at close to 8 years, but gross refinancing needs are currently near 25% of GDP. Increases in the market interest rate for Italian government debt would increase the cost and detract from access to financing for other Italian private and public entities, and would weaken the banking system through banks' significant government debt holdings.

**Figure 1.14. Italy's debt ratio is higher than that of most other OECD countries and its pre-pandemic levels**



Note: Gross government debt (Maastricht criterion for European countries).  
Source: OECD Economic Outlook 118 database; and OECD calculations.

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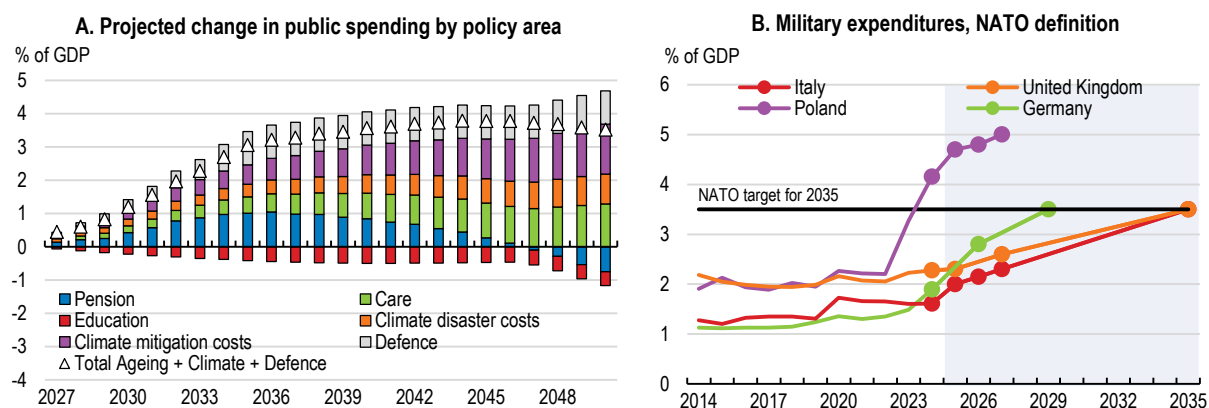
Continuing the expected reduction of the budget deficit to below 3.0% of GDP in 2026, Italy committed in its MTFSP to an ambitious fiscal consolidation that would keep net nominal non-interest spending growth financed by national sources to 1.5% annually until 2031, well below the nominal potential growth rate of the economy. The net spending measure excludes interest expenditure, cyclical unemployment spending, and one-off spending measures and is net of discretionary revenue measures. The path for net expenditure aligns with Italy's commitments under the revised EU fiscal rules (OECD, 2025<sub>[46]</sub>). It implies improving the structural primary budget balance by around 0.5 percentage points of GDP on average each year, which would raise the primary budget surplus to above 2% of GDP by 2030 and reduce the government debt ratio by at least 1 percentage point of GDP a year on average from when the Excessive Deficit Procedure is exited through to the early 2030s. If there are no tax changes, this path implies that primary expenditure would decline by 2 percentage points of GDP between 2025 and 2031. The 2026 Middle East conflict is likely to create further challenges for the planned consolidation. While the associated faster price growth with higher energy prices may support revenues in the near-term, the drag on activity from the crisis plus the cost of any additional support measures that follow the temporary reduction in fuel excise rates and support to road haulage, fishing and agricultural firms announced in March and April 2026 could slow the fiscal consolidation.

Achieving the fiscal objectives to limit spending growth, narrow the deficit and reduce the debt ratio as planned will need to be reconciled with the anticipated growth in spending pressures into the early 2030s:

- Ageing costs are projected to rise by at least 1% of GDP by the mid-2030s under current policies, especially due to higher pension expenditure, before abating from the late 2030s as the effects of past pension reforms kick in (European Commission, 2024<sub>[36]</sub>) (Figure 1.15).
- Health and long-term care costs are also projected to rise by ½ percent of GDP by the mid-2030s as the share of elderly in the population rises (European Commission, 2024<sub>[36]</sub>). Education costs are projected to decline modestly with fewer school-age children (Figure 1.15).

- Defence spending is projected to increase to reach the NATO target of 3.5% of GDP by 2035 (Figure 1.15, Panel B).
- Public investment is expected to remain near 3¾ percent of GDP from 2026, above Italy's historical rates and the OECD average (Table 1.6).

**Figure 1.15. Population ageing, climate change and defence create new spending pressures**



Source: EU 2024 Ageing Report, OECD calculations and estimates. Stockholm International Peace Research Institute, national budgets and planning documents and OECD calculations.

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Italy has committed to achieving the NATO defence expenditure target of 3.5% of GDP by 2035. Under European fiscal rules, the increase in defence expenditure can be excluded from net expenditure growth targets at least until 2028 if Italy requests the activation of the National Escape Clause, although it will still add to budget financing and debt reimbursement needs. The increase in defence spending would follow a rise from 1.5% of GDP to 2.0% of GDP between 2024 and 2025 under the NATO definition, which includes spending on defence personnel's pensions, which was largely achieved through reclassification of other spending. A stronger defence capacity can help maintain its Italy security and support its international partners in an increasingly complex geopolitical environment. The increased defence spending may need to focus on equipment and infrastructure spending as personnel payments currently make a higher share of defence spending in Italy than in most OECD countries. Italy's diverse industrial capacity and the spare capacity following recent years' subdued industrial activity suggest that increased defence equipment and infrastructure spending in Italy and its allies could help to boost Italian industry. Achieving this boost and increasing infrastructure and equipment spending will require strengthening procurement and management systems, including in coordination with other countries.

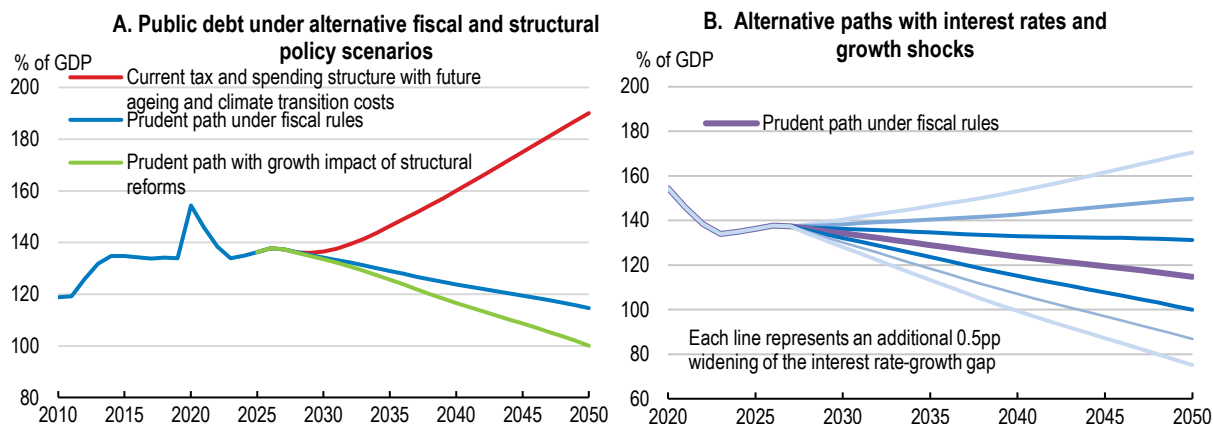
Climate change is likely to bring additional fiscal costs pressures. First, climate change mitigation efforts may require public investment and incentives. Second, social spending may need to increase to support specific groups through the energy transition. Third, while carbon taxes may bring additional revenues for a period, the shift to electric vehicles will lead to a substantial loss of revenues from motor fuels in the absence of an alternative distance charging system. Fourth, there will be costs to adapt the economy to climate changes. Fifth, Italy is more exposed to direct damages and extreme weather events than many OECD countries: the Parliamentary Budget Office estimates that these costs will reach 0.9% of GDP annually by 2050. A more comprehensive assessment of the fiscal impact of the climate transitions and risks should be a priority.

Under existing tax and spending setting, and assuming no further near-term fiscal consolidation, the public deficit and debt ratio would increase further (Figure 1.16, Panel A, red line). This reflects the size of the initial primary surplus, anticipated increases in age-related pension and health expenditure and education and net fiscal cost of climate change. Higher defence spending, in line with Italy's international commitments to respond to resurgent geopolitical risks, will also add to fiscal pressures, especially in the 2030s once the temporary exclusion from the expenditure growth rules expires.

A prudent path under the EU fiscal rules and consistent with Italy's MTFSP would see the debt ratio on a steady downward trend (Figure 1.16, Panel A, blue line). Accounting for expected ageing, health and climate costs and higher defence spending, this requires a medium-run fiscal adjustment of around 3½ percentage points of GDP between 2027 and the mid-2030s. Into the longer-term beyond the mid-2030s, to meet the full commitment to raise defence spending and if other pressures are greater than expected, a further adjustment in spending or revenues would be necessary to sustain this debt path.

The fiscal adjustment will be challenging. Given the gradual nature of the adjustment and provided that public investment is maintained, the impact on growth should be modest (OECD, 2024<sup>[21]</sup>). However, the primary budget surplus would reach 2½% of GDP from the early-2030s, compared with an average of 1.5% of GDP between 2011 and 2019 in Italy. Over the past 30 years only a few OECD countries – Italy among them – have maintained primary surpluses above 1½ percent of GDP for sustained periods (Eichengreen and Panizza, 2016<sup>[42]</sup>). These projections are sensitive to assumptions around interest rates, nominal growth rates and the size of the primary budget surplus (Figure 1.16, Panel B). If the 'snowball effect' of interest rates less the growth rate was 1½ percentage points higher from 2026 through the projection period, the public debt ratio in the prudent scenario would continue to rise into the mid-2030s, then fall only gradually in the absence of any additional policy efforts.

**Figure 1.16. Fiscal consolidation to offset looming spending pressures plus growth-boosting reforms would ensure the debt burden declines**



Note: Based on the methodology of the OECD Long-Term model, the long-term interest rate is assumed to rise to stabilise at 4.2% and the weighted average interest rate to rise to 3.2%, 0.6 percentage points higher than the weighted average rate in late 2025. The 'current tax and spending structure' scenario (red line) assumes that the structural primary fiscal balance before accounting for net ageing and climate-related costs remains constant at 2027 levels. Net ageing costs are defined as changes in expenditure on old-age pensions, health and long-term care and on education. The costs of climate change are based on the Parliamentary Budget Office's estimates of the cost of climate change-related disasters assuming a reduction in global emissions in line with the Paris Agreement by 2050 of 0.9% of GDP, plus an adjustment of 1.5% of GDP to reflect lost fiscal revenues and increased expenditures related to emission reduction measures. The increase in defence spending towards the 3.5% commitment by 2035 is projected to be limited over 2027-2029 then to rise towards the target with approximately one-third of the increase financed through special collective- or national-financing arrangements. The 'prudent path under fiscal rules' scenario (blue line) assumes that ageing- and climate-related costs are offset and that the headline budget deficit gradually decreases from 2027, in line with the adjustments outlined in Table 1.4, consistent with the path outlined in Italy's Medium-Term Fiscal-Structural Plan. The 'prudent path with growth impact of structural reforms' scenario (green line) follows the 'prudent path' scenario while accounting for the effects of the structural reforms reported in Table 1.3 on the level of GDP and on revenues.

Source: OECD calculations based on OECD Economic Outlook database and OECD Long-Term Model.

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Boosting growth through structural reforms, such as those recommended in the Survey, would help to reduce the debt burden while increasing employment, income and tax revenues (Figure 1.16, Panel A, green line). Table 1.3 above outlines the estimated boost to GDP of some of these recommended reforms. This boost would create a more positive dynamic for public finances, mechanically through faster growth in the volume of GDP, and by increasing public revenues as they raise employment and productivity, lifting wages and spending. This would help to moderate the required fiscal adjustment in later years, underscoring the importance of continuing to implement an ambitious reform agenda.

The scale of the required adjustment in spending and tax policies is historically large, while also addressing spending pressures and ensuring adequate levels of investment in infrastructure and in areas such as innovation, skills and labour market policies that also need to be better funded. Italy has the seventh highest ratio of spending to GDP in the OECD at close to 50% and headline tax rates are already high. Fiscal adjustment therefore should raise the efficiency of spending and prioritise where money is spent, notably the large share currently allocated to pensions, although tax collections may also need to rise – while becoming more growth-friendly – given the scale of the adjustment needs. Table 1.4 sets out an illustrative package that would achieve this consolidation while funding the structural reforms set out in this Survey and aiming to minimise the impact on long-term growth and on equity. This package relies primarily on spending measures, notably on curbing pension spending and reducing poorly-targeted tax expenditures, while providing further support of innovation. On the tax side, the main avenue for raising revenue is durable measures to improve compliance, and these can fund reforms to make the tax system more growth-friendly in a revenue-neutral way. Reforms to lift employment rates and skills would generate additional revenues alongside higher incomes. How spending and taxes could be made more efficient is discussed in the following sections.

**Table 1.4. Illustrative effect on fiscal balance of selected recommendations in this Survey**

Measure	Assumption	Impact on the annual budget balance, % of GDP (positive values improve balance)
<b>Spending measures<sup>1</sup>:</b>		<b>2.6%</b>
<i>Of which:</i>		
In the context of rising public workforce retirements leading to anticipated reduced staff numbers, while improving incentives for performance and allocation of staff resources, reduce the overall payroll.		0.4%
Cut fuel subsidies	2024 <i>Economic Survey of Italy</i>	0.4%
Use spending reviews to identify economies	MEF notes to 2026 Budget Law	0.5%
Raise R&D spending to reach the Euro area average by 2035, through both public and private efforts; increase spending on university education.	Reach the EA11 average R&D spending by 2035, through equal public and private sector efforts.	-0.5%
Lower the school entry age by 1 year, continue to increase the availability of early years education, and expand summer activities in schools.	Based on current expenditures on primary cycle education	-
Increase the presence of public employment services in the South and rural areas.	Match OECD average	-
Explore options within legal constraints to reduce over the medium term the cost of first-pillar pensions.		1.8%
<b>Revenue measures<sup>1</sup>:</b>		<b>0.5%</b>
<i>Of which:</i>		
Strengthen inheritance and gift taxes	Raise collections to the OECD average	0.5%
Reduce the labour income tax and social contribution wedge on lower wage earnings and replace existing temporary bonuses with more targeted permanent tax subsidies for hiring new entrants with low pay.		-1.4%
Reduce the VAT compliance gap		1.0%
Phase out costly tax expenditures that lack an economic justification		0.4%
<b>Net positive impact on revenue of labour market reforms</b>		<b>0.6%</b>
Effect of reforms to raise employment and skills:	Based on an elasticity of public revenues to GDP growth of 0.5	0.6%
<b>Total (positive value indicates change in balance):</b>		<b>3.7%</b>

1: Spending and revenue measure subheadings do not include pension-related measures.

**Table 1.5. Past recommendations to support growth and put public debt sustainability**

Recommendations	Actions taken since the last Economic Survey
Steadily consolidate the public finances starting in 2025 to put debt on a more prudent path.	The budget deficit has fallen faster than planned and is expected to have fallen to or below 3.0% of GDP in 2025. Fiscal management is following the Medium-Term Fiscal-Structural Plan.
Re-focus the NRRP on large and centrally managed investment projects that can be delivered, as foreseen by the revised NRRP. Continue expanding technical assistance to local administrations and the hiring of specialised personnel.	The government has repeatedly adjusted the NRRP reforms and investment priorities, and agreed with the European Commission the sixth renegotiation in 2025. These adjustments have dropped difficult-to-implement actions, reduced fragmentation, reallocated resources towards infrastructure and strategic investments, integrated energy-related measures, and added new priorities. Investment processes have been centralised, administrative processes simplified, and specialised personnel hiring has continued although often on temporary contracts.
Continue to closely monitor rising interest and credit risk as financial conditions tighten and activity slows. Continue to monitor the evolution of securitised NPLs.	Monitoring has continued, reported in Banca d'Italia's <a href="#">Financial Stability Review</a> and <a href="#">Activity and Sustainability Report</a> . The overall stock of NPLs has continued to decline. Looser Euro-area monetary policy has allowed lending rates to decrease and conditions to ease. Still, NPL ratios remain above those in other major economies. Regulators continue to apply stress tests to large and smaller banks. Reports are submitted to Parliament annually on developments in securitised NPLs supported by state guarantees.
Continue strengthening the links between judges' performance, career progression and pay, and ensure that performance evaluation is thoroughly implemented	Reforms have been made to the organisation of the court system to allocate more staff to areas with greater backlogs. The four-yearly performance evaluation assessment of judges has been strengthened. These are adapted to specific judicial operating contexts and seek to balance evaluation with judicial independence.

### 1.2.1. Containing spending pressures and improving spending efficiency and integrity

Containing and improving efficiency and prioritising of public spending will be required to maintain fiscal sustainability and the government's 1.5% average annual expenditure growth ceiling alongside the rising spending needs. Experience across OECD countries suggests that reducing the scale of overall public expenditure will be more sustainable than revenue-based measures (Pina, Hitschfeld and Miyahara, 2025<sup>[35]</sup>).

The scope to reallocate spending is constrained by the high share of old-age pensions, together with social payments and interest costs. Pensions account for close to 30% of the total spending and are subject to upward pressures in the coming decade. If this share continues to increase, required spending adjustments will need to be proportionately greater in other areas where Italy spends less relative to its peers, such as health, education and research. Low spending contributes to dissatisfaction with public services and waiting lists in areas such as health, and inadequate spending on pro-growth areas such as education, skills and research. Potential areas for savings alongside pension expenditure, while protecting service delivery, include improving procurement and investment spending effectiveness, and carefully using the coming wave of public service retirements to reduce the already modest and declining personnel costs.

#### *Containing pension spending*

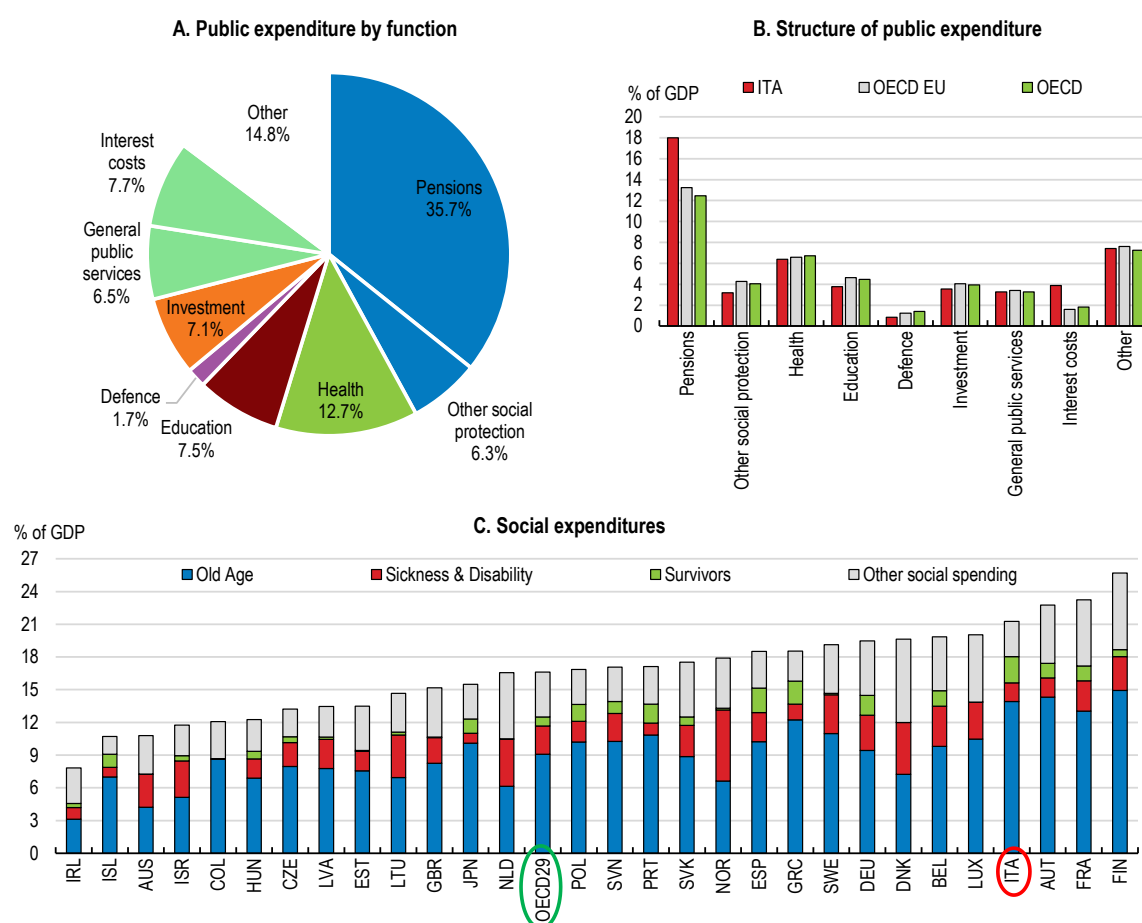
Italy has one of the highest ratios of social security spending to GDP across the OECD (Figure 1.17, Panels B and C). This reflects the high spending on old-age and survivor pensions, while expenditures on housing, social exclusion and health are lower than in most of the Euro area. At 6.2% of GDP in 2023, government health expenditures are relatively low compared to the OECD average of 6.5%, especially given Italy's older demographic profile, and Italy has recorded among the slowest growth rates in health expenditure across OECD countries since the pandemic. Long-term care spending is below the EU average at 1.6% of GDP, and is projected to rise by approximately ½ a percentage point of GDP over the coming decades.

Past pension reforms are extending working lives and contributing to keeping the rise in expenditures below the rate of the population's ageing. The increasing labour force participation among adults aged over 55 years reflects this and will support those workers' retirement incomes and the broader sustainability of the pension system and public finances. Reforms in the early 2010s increased statutory retirement ages and tightened

early retirement conditions, and linked changes in life expectancy to pension eligibility ages and to requirements for early retirement. They accelerated the transition from the more generous defined benefit scheme to the notional defined contribution calculation framework that was introduced in 1995. Nevertheless, pension payments remain more generous for many pension recipients than in most other countries, although the large number of small pension recipients reduce the average ratio of pension income to employment income (Figure 1.18). Meanwhile those outside the system suffer low old-age incomes. The shift to the post-2011 regime will only start to reduce pension expenditure from the late 2030s. Many current retirees continue to benefit from the more generous legacy defined-benefit regime solely in place before 1995, which provides pensions that are significantly above recipients' contributions.

**Figure 1.17. Interest and pension expenditure weigh on public expenditure**

2024



Note: In panel A and B, interest costs and investment have been deducted from all spending categories.

Source: OECD National accounts.

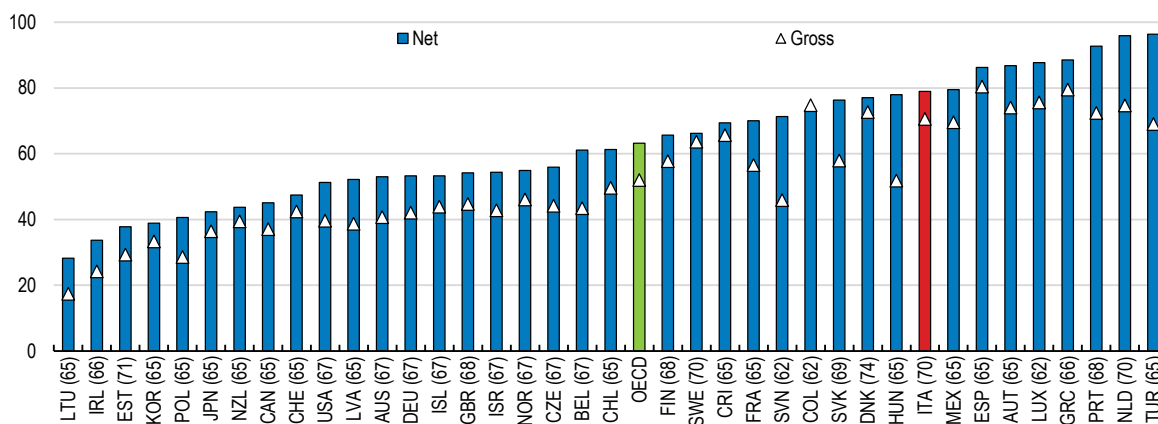
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There is nevertheless scope for further savings in pensions in the coming years and different options can be explored. Constitutional court decisions from the mid-2010s required pension reforms to meet some criteria. They permit reforms that improve the long-term sustainability of the system for future recipients even if they reduce current recipients' pensions, while requiring reforms to be 'not unreasonable', for example by being limited in time, justified by exceptional budgetary needs, and if they do not undermine pension adequacy or target a particular group. Several reforms approaches may meet these requirements. First, generous pensions under the legacy scheme could be scaled back. In 2024, pensions of over EUR 5000 per month made up 10.2% of total pension payments and 2.8% of recipients, while 28.1% of recipients received pensions below EUR 1000

(INPS, 2025<sup>[4]</sup>). A progressive social contribution applied to the portion of high pensions that do not reflect the recipients' contributions to the pension system would improve equality between generations and reduce the burden on today's workers (OECD, 2024<sup>[21]</sup>). A similar measure was introduced by Greece in the form of a social solidarity contribution, which has been retained even as its fiscal position has improved. By applying to pension income that does not reflect contributions, it may avoid the constitutional prohibition on curtailing acquired rights (Patriarca, Patriarca and Boeri, 2014<sup>[49]</sup>). This would reinforce recent measures that did not index the most generous pension payments when inflation was high, reducing their real value. Second, generous survivor pensions, costing 2½% of GDP include substantial payments to people of working age: 16.6% of new beneficiaries of survivor pensions were younger than 65 in 2022. Limiting the benefits available to adults who are able to earn an income, including those not in employment, would encourage employment among survivors for whom this is feasible, while support to other categories of vulnerable survivors, when appropriate, could be addressed through other forms of social protection (including *assegno di invalidità*).


### Figure 1.18. The average income of pensioners is comparatively generous

Gross and net pension replacement rates, % of pre-retirement earnings at 100% of the average wage, 2024



Note: The future replacement rate is calculated for workers with average earnings and a full career from age 22. Calculations are based on the normal retirement age indicated in brackets. The net replacement rate is the net value of the pension entitlement relative to individual net earnings, taking account of personal income taxes and social security contributions paid by workers and pensioners.

Source: OECD Pensions at a glance 2025.

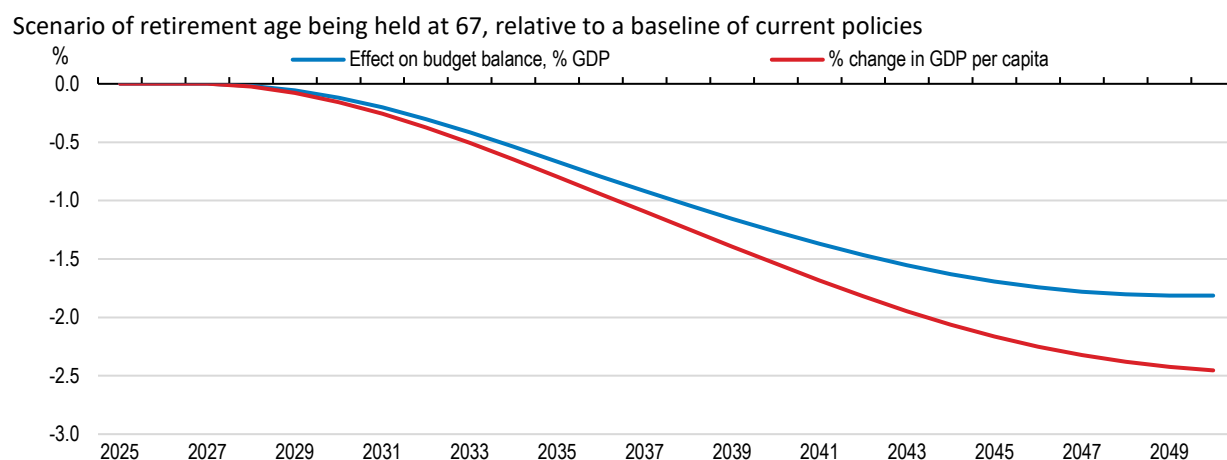
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Central to pension sustainability under the earlier reform is the increase in the retirement age including by linking the statutory retirement age to life expectancy. The 2025 budget temporarily extended the 'Quota 103' scheme that allows early retirement at age of 62 years with 41 years of contributions under the notional defined contribution rules. The 2026 budget did not extend this scheme nor the 'Opzione donna' scheme, while it maintains the planned increases in the statutory retirement age tied to life expectancy, with a one-month rise in 2027 and a total of three months by 2028. It exempted workers in strenuous or hazardous professions from this increase. These professions include construction, mining and nurses, along with primary school teachers, agricultural workers, seafarers, and shift workers among other categories. Narrowing the scope of early retirement schemes and maintaining the planned life expectancy-linked increases in the retirement age are welcome. Breaking the link between retirement age and life expectancy would create lasting additional fiscal pressures, and would reduce per capita incomes due to lower labour force participation (Figure 1.19). To ensure longer working lives are feasible, boosting access to adult education and skills can allow workers to shift professions or sectors as their interests and labour force demand evolve, and support more flexible and gradual transitions from work to retirement.

Supplementary pensions are developing although from a small base, creating a growing pool of capital and source of future retirement incomes. At the end of 2024, about 10 million workers were enrolled in

supplementary pensions, with total assets under management reaching 10.8% of GDP and 4% of Italian households' financial wealth. The reforms of 2012 and 2023, which introduced the automatic transfer of severance pay contributions (TRF) for private and public employees into private pension funds unless the worker opts out, have contributed to the growth of this sector. The 2026 budget strengthened these incentives, including for the self-employed. Participation remains limited and unequal, with low take-up among self-employed workers, women, young employees, workers in small firms, and in the South and higher coverage among people with higher financial and pension knowledge. The 2026 budget adds further incentives to contribute including increasing the tax-free contribution to EUR 5 300, strengthening the default participation in supplementary pensions including for workers in smaller firms, and expanding pension portability and benefit options. Further promoting private pension saving would support future incomes and reduce pressure on the state system.

**Figure 1.19. Breaking the link between retirement age and life expectancy would be costly**



Source: Scenarios using OECD (2025<sup>[7]</sup>) Long-Term Model and OECD calculations.

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Spending in other areas of social protection in Italy is generally low relative to European standards, with the exception of spending on short-time work schemes. Italy's social safety net remains relatively limited under the new inclusion allowance scheme (*ADI*). Access to social security is complicated by cumbersome bureaucratic processes, and differences in subnational administrative capacity and quality of governance lead to unequal accessibility and quality of services.

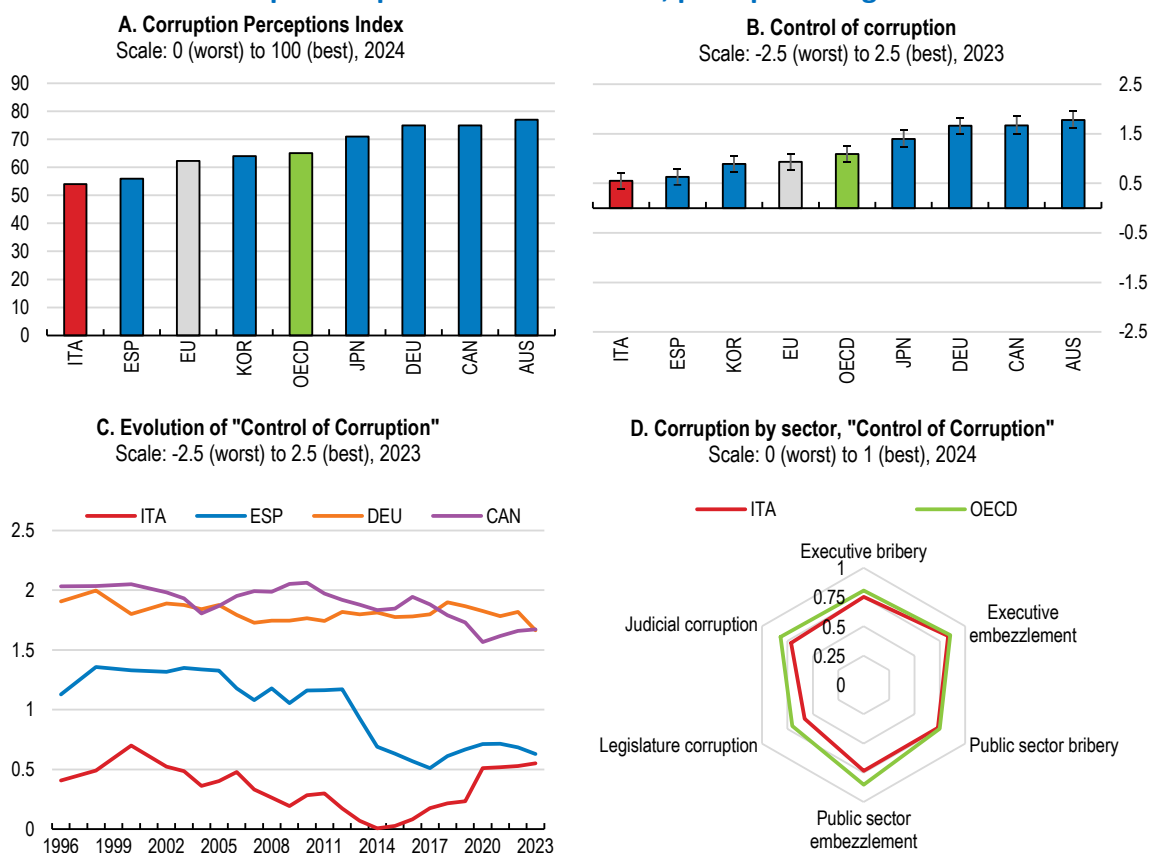
### *Raising the integrity of public spending and addressing corruption risks*

A long-standing issue weakening the effectiveness of public spending has been risks of corruption (Figure 1.20). The high public revenue mobilisation and importance of public measures in raising Italy's growth prospects underscores the importance of ensuring the integrity of how the state uses public resources. Increased public investment is welcome for longer-term growth prospects but also brings particular corruption risks. Across perception-based indicators, the overall levels and trends suggest that Italy lags most high-income OECD countries in ensuring the public sector operates with integrity, although such indicators can be influenced by differences between countries in the interpretations of what constitutes corruption and by media coverage of corruption around the date of the survey (Rizzica and Tonello, 2020<sup>[27]</sup>). The independent anti-corruption agency (ANAC) monitors and pursues corruption risks, within the framework of a national three-year anti-corruption plan. It plays an active role in putting in place robust practices and tools to fight corruption and in identifying corruption cases. There has been a substantial increase in the number of whistleblower cases it handles. Other bodies complement its work, including the Direzione Investigativa Anti-Mafia, the Court of Auditors, the Parliamentary Budget Office, and their analysis and reporting improve clarity

and can inform measures to address risks. Italy is particularly rich in open data, which can prevent resource misuse and encourage efficiency given the scope for analysis and reporting by official bodies and civil society.

Nonetheless, some policy actions can weaken perceptions of integrity and effectiveness. For example, overly formalistic procedures that give discretion to enforcement, temporary support measures, repeated adjustment of rules and regulations, generous allowances, or concessions on paying tax debt can contribute to a perception that rules are flexible rather than transparent, reliable and universally applied. These could be addressed through a comprehensive programme to review and reform the existing stock of regulations and their enforcement, simplifying government processes and continuing efforts to improve the responsiveness of the judicial system (Chapter 4), and the MTFSP includes measures in these directions among its priorities. To accelerate procurement and support NRRP implementation, the 2023-2024 reforms expanded the use of non-auction procedures for public works contracts of up to EUR 5.3 million and goods and services purchases of up to EUR 140 000. However, these bring risks of lowering competition and value-for-money, and of corruption, particularly where transparency and oversight are weak (Decarolis et al., 2025<sup>[29]</sup>). ANAC has documented a large increase in the number of contracts passing with non-competitive processes, and evidence of contract splitting so tenders can pass with less oversight (ANAC, 2025<sup>[31]</sup>). Lower thresholders for competitive processes can be reconciled with timely spending by making procurement processes more responsive.

**Figure 1.20. While corruption experience remains rare, perceptions lag other economies**



Note: Panel B shows the point estimate and the margin of error. Panel D shows sector-based subcomponents of the "Control of Corruption" indicator by the Varieties of Democracy Project.

Source: Panel A: Transparency International; Panels B & C: World Bank, Worldwide Governance Indicators; Panel D: Varieties of Democracy Project, V-Dem Dataset v12.

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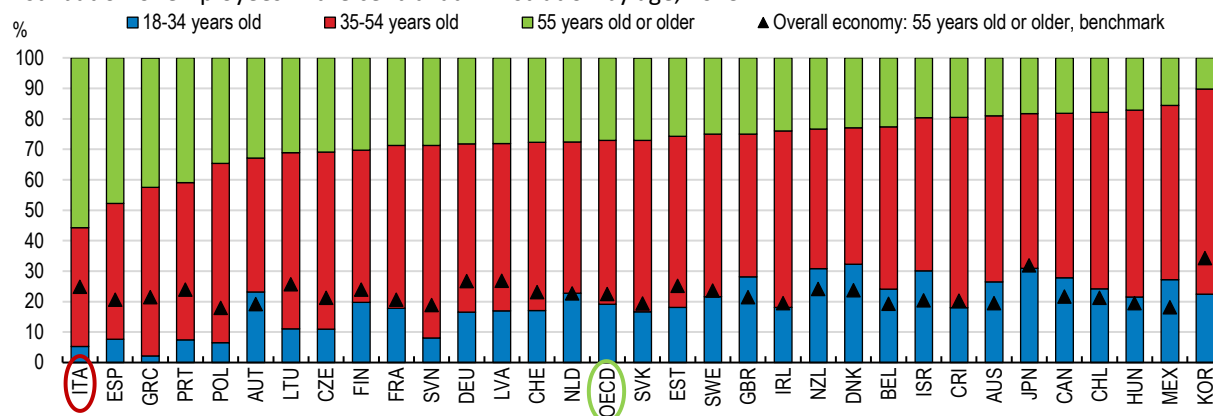
## Raising the effectiveness of public workforce spending amidst its demographic transition

Reforming the management of the public sector is ongoing (Table 1.6). The overall spending and size of the public workforce is smaller than in most OECD countries, but it is still sizable. The workforce is older than in any other OECD country – largely due to the hiring freezes of the 2010s – and almost half will reach retirement age over the coming decade, creating an important opportunity for change (Figure 1.21). This may help to change practices, including regarding performance management and digital skills, and creates an opportunity for personnel to move to fill skill gaps, including at the subnational level (OECD, 2025<sup>[24]</sup>). Measures implemented since 2022 under the NRRP and to be pursued under the MTFSP aim to strengthen the public workforce through hirings, technical and digital training and better linking salaries and performance. They have lowered the average age of the workforce and are attracting young talented graduates, enabled the roll-out of new performance management and training processes, and are expected to improve the public sector’s effectiveness over the coming years.

Improving public servants’ performance, rather than further reducing staff numbers, is central to reforms. A comprehensive review and adjustment of public servants’ pay was legislated in 2025, supporting renewal of collective agreements and harmonising pay rates across sectors. These measures can help close the gaps with private sector pay. If accompanied by stronger performance management, greater delegation in management processes and willingness to reduce the historically high compression in public pay rates – as planned under the NRRP and MTFSP reforms – can help improve the effectiveness of the public sector (Marcinkowski, Butnaru and Rabrenović, 2024<sup>[25]</sup>). Feedback on workers’ performance could be made more complete and linked to training (OECD, 2025<sup>[24]</sup>). Pursuing reforms to hiring and promotion processes, including to the demanding exam-based entrance and selection process, and other civil service protections can improve the flexibility and attractiveness of the public sector. To support performance and reallocation of staff resources, practical barriers to mobility across central government administration, currently permitted but not encouraged, could be addressed and mobility systematised. This can also help support integrity and reduce risks of nepotism, as discussed in the previous Survey.

### Figure 1.21. Revitalising the ageing public sector workforce will support its future performance

Distribution of employees in the central administration by age, 2023



Source: OECD *Government at a Glance* 2025.

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Coordination of personnel management reform efforts with sub-national governments is a further challenge, especially in decentralised areas such as healthcare. About two-thirds of public personnel spending is by subnational governments in Italy, given regions are responsible for example for healthcare workers, and municipalities for local services such as creche and police. Processes and capacity vary across these governments. The pressure of growing retirements is often greater for regional and local governments, given that in many locations the needed skills are scarce, especially in STEM-related subjects. The central

government can issue guidelines and standards towards improving efficiency and quality of personnel management, but implementation remains the purview of regional or local governments, leading to varying performance and holding back efforts to improve efficiency. Identifying and reforming barriers in existing laws and regulations across different subnational governments, such as procedural obstacles to staff moving between different administrations, or inefficiencies in payroll systems, could improve flexibility and help reallocate resources to fill gaps. Both support and incentives from the central government could improve subnational governments' personnel management, for example through training and exchanges between different personnel management areas, while developing and publicising performance relative to benchmarks and linking these to performance-based grants or earmarked intergovernmental transfers.

### *Improving procurement efficiency*

Procurement of public goods and services, at 12% of GDP in 2023, is a substantial fiscal commitment as in other OECD countries. Improving procurement quality and integrity is important for raising the returns from public investment within existing budgets. The largest share of procurement spending is related to health. Substantial reforms over 2023-2024 have address some of the challenges. Procurements above given thresholds are required to pass through qualified purchasing entities, and more than 60 000 public officials are undergoing special training to professional public purchasing. Still, key issues remain notably the fragmentation of responsibilities across numerous public entities and levels of government, as well as uneven administrative capacity.

The continued progress with e-procurement can partially mitigate these risks (Frigo and Mocetti, 2025<sup>[30]</sup>). The integration of e-procurement with broader digital government systems has improved the speed, traceability and transparency of procurement procedures, particularly in competitive tenders and in administrations with stronger technical capacity. NRRP measures have helped reinforce the administrative capacity of subnational governments, supporting project delivery. Implementing a competency model and a certification framework—drawing on the European Competency Framework (ProcurCompEU)—would help raise staff capacity. Certification could cover core skills such as knowledge of relevant legislation and regulations, market analysis, needs assessment and the application of policy objectives, including green and socially responsible procurement. Recognising procurement officials as a standalone profession could support the attractiveness of the activity and career progression, and help to overcome salary rates that can lag other civil service workstreams (OECD, 2025<sup>[23]</sup>). Making greater use of regional procurement centres, as envisaged by the 2023-2024 reforms, could help overcome the stretched human resources in many local authorities.

### *Sustaining higher public investment rates*

Following the NRRP-driven boost to public investment management capacity and spending, the government anticipates maintaining public investment at around 3.5% by 2028, near the average of OECD countries but above Italy's historical rates. Such rates will be required to maintain existing infrastructure, especially through more extreme weather events due to climate change – for example, between 2010 and 2021, subways and urban trains in major Italian cities were closed for a total of 83 days, while extreme weather conditions disrupted electricity networks for a total of 89 days. In addition, new infrastructure investment will be needed to support changing activities across the economy. A greater share of this investment will need to be financed through domestic resources once the NextGenerationEU facility expires and other EU-financed public investment programmes are completed.

To boost the efficiency of public investment spending, making permanent some of the measures established by the NRRP, such as the bodies that help subnational governments prepare and implement public investments, the simplified and standardised documentation, and stricter monitoring of deadlines for milestones, would be steps in the right direction. While building on the MTFSP to develop the pipeline of projects following the NRRP and improved implementation capacity, projects should be prioritised based on robust assessments of their long-run costs and benefits rather than the expected speed at which funds will be

disbursed (Banca d'Italia, 2025<sub>[28]</sub>). The central government can prepare projects with greater collaboration with subnational governments, especially local governments, even if this slows disbursements. Completing and publishing robust and independent evaluations of projects costs and benefits, especially for larger projects, both before concrete decisions are made and once the projects have been completed, would help ensure that public investment spending is sustainable and supports growth into the long term.

Public concessions, especially in the form of public-private partnerships (PPP) can help finance investments by bringing in private financing and management capacity. However, PPPs involve significant risk for the public sector, ranging from contingent fiscal liabilities and risks around project delivery to capture of regulators, conflict of interest and corruption. The PPP law was reformed in 2023 and 2024, improving transparency and strengthening the role of the Department for Planning and Coordination of Economic Policy in the Presidency of the Council of Ministers, towards helping PPPs contribute to achieving the NRRP goals. Contract templates have been standardised, providing public administrations with a clear and authoritative reference, improving clarity, consistency and the quality. These reforms have been applied in energy, waste, and infrastructure projects. A recent review highlighted the importance of ensuring accurate accounting treatment and robust assessments of fiscal implications in preparing and executing projects. The Court of Auditors and the anti-corruption agencies point to long-standing issues persisting, such as complex processes combined with ineffective monitoring contributing to inadequate risk assessment, underestimated cost, and weak post-award monitoring. Limiting the use of PPPs to cases where they pass OECD guidelines could improve delivery while protecting public finances. These steps include ensuring that all proposed PPP projects undergo careful cost-benefit, risk and public interest assessment and are assessed relative to traditional procurement. Effectively implementing PPPs requires strong institutional capacity and integrity. Despite the strengthened cross-sector Finance Technical Unit, decision-making power regarding PPP proposals rests decentralised to the authority responsible for awarding each contract. Italy could strengthen the decision-making role of its cross-sector PPP unit, in line with the approach in the United Kingdom, France or Korea. There, the central unit ensures PPP decisions are grounded in rigorous and standardised cost-benefit assessments, including reviews of risk transfers.

### *Strengthening budget processes to improve spending effectiveness*

The development in Italy of the MTSFP together with sectoral spending controls, are designed to improve medium-run management of public spending. They can provide a benchmark that guides priorities over five to seven years, which can improve implementing authorities' visibility over their resources and enabling them to plan and spend more effectively. In Italy, legislation provides for multi-year expenditure appropriations, but they are not enforced, with projections serving as indicative rather than actual spending limits. The regular revisions within the annual budget process to forecasts and medium-term plans provide for flexibility, but this weakens the effectiveness of the broader medium-term exercise and the predictability of resources. Implementing the legislated medium-term ceilings will become increasingly important as part of delivering the medium-run fiscal plan. Insufficiently detailed ministerial ceilings can lack credibility and avoid strategic choices about spending, potentially undermining investment and quality of public services over time (OECD, 2025<sub>[24]</sub>). Providing binding ceilings for the budget year plus the two-year forward estimates for components of spending within sectoral aggregates (including some headroom for contingencies) would help better manage spending. In the first instance, this can be at the national government level. As familiarity with binding ceilings develops, extending them to subnational governments' allocations would further support spending effectiveness, especially given subnational governments large share in Italy's public spending,

Spending reviews have a growing role in Italy's annual budget process but could be more ambitious. Each of the 16 central administration bodies is required to review or evaluate at least one major spending project annually. Reports are published. Their primary goal is to increase the quality and efficiency of public spending, with opportunities to cut spending identified in the process, with the goal of reforming at least 1% of total spending annually (Ufficio parlamentare di bilancio, 2025<sub>[48]</sub>). For example, spending reviews have identified potential savings from purchasing rather than renting properties, aggregating public procurement, or taking a

longer-term perspective on purchasing needs. Expanding reviews' ambition and coverage would help the government achieve its aggregate expenditure growth targets. The Ministry of Finance and Economy leads in the reviews, coordinating with the relevant ministries. Technical capacity is deepening, and reforms underway to public accounting regulations will help evaluate spending and its effectiveness and improve comparability across different agencies. While reviews are finalised early in the budget preparation process, implementation particularly by spending ministries, and monitoring progress on recommendations are ongoing challenges. A transparent scoreboard that communicates implementation of recommendations, linking recommendations to budget allocations and expenditure ceilings, could help improve take-up. Strengthening political will to implement the outcome for reviews is key. Deepening the central government's engagement with regional and local government on preparing spending reviews, within constitutional boundaries, can help improve the efficiency of subnational spending.

One example of where spending efficiency could be improved is health. Spending per capita is modest and indicators suggest that service quality and coverage, along with users' satisfaction, could be improved (OECD, 2025<sup>[43]</sup>). The system remains hospital-centric and costs could be reduced by shifting towards greater use of primary care, ensuring the wider use of diagnostic related groups (DRGs) across the whole system, including in those areas where it is not currently used, and ensuring robust gatekeeping systems for accessing services. The many layers of governance add to costs and inefficiency. Increasing the use of generic drugs towards the rates of some other EU countries would help contain public health expenditures.

**Table 1.6. Past recommendations to contain spending pressures**

Recommendations	Actions taken since the last Economic Survey
Phase out early retirement schemes. Introduce a solidarity contribution for high pensions that are not due to high contributions.	The 2025 budget aligned public administration employees' retirement with the general regime, and allows for individual employees to agree to work beyond age 67, up to age 70. The Quota-100 and subsequent early retirement schemes were not extended. Social pensions were extended to the end of 2025, and special arrangements lowering the age requirement for some women. No actions identified on solidarity contribution for high pensions.
Make the fiscal savings targets of the forthcoming spending reviews more ambitious.	Spending reviews have become more developed and institutionalized, and achieved a savings target of EUR 1.6 billion in 2024. They are required under the Medium-Term Fiscal-Structural Plan to cover 10% of expenditure annually. Their focus is largely on spending quality with small savings identified. They have addressed payment delays and risks to programmes. Reviews are being supported by reforms to accounting arrangements.
Continue strengthening the link between civil servants' performance, career progression and pay.	Public administration reforms driven the NRRP have introduced a new performance evaluation framework and supported career development, including by integrating individual and organisational objectives, and developing incentives. Skill development and training is better linked to performance assessments and the amount of training available expanded. A new collective agreement includes performance-related criteria and more closely link salary progress with performance. Implementation is at the early stages with further action required for ministerial decrees and for changes to management practices. A draft law before Parliament in 2026 pursues these measures and reforms appointments to public management positions, allowing for internal selection through a professional development procedure. An assessment board will assess applications among policy officers with a minimum number of years of experience, evaluating performance objectives and transversal capabilities. Evaluation scores will be benchmarked with maximum scores capped.
Mandate the mobility of public servants within their administration, including local administrations	The 2024 update to the 2022 National Anti-Corruption Plan strengthened the prevention framework, including prompting organisational measures such as rotation and management of incompatibilities conflicts regarding staff at local government level.

### 1.2.2. Strengthening the revenue base and improving the mix

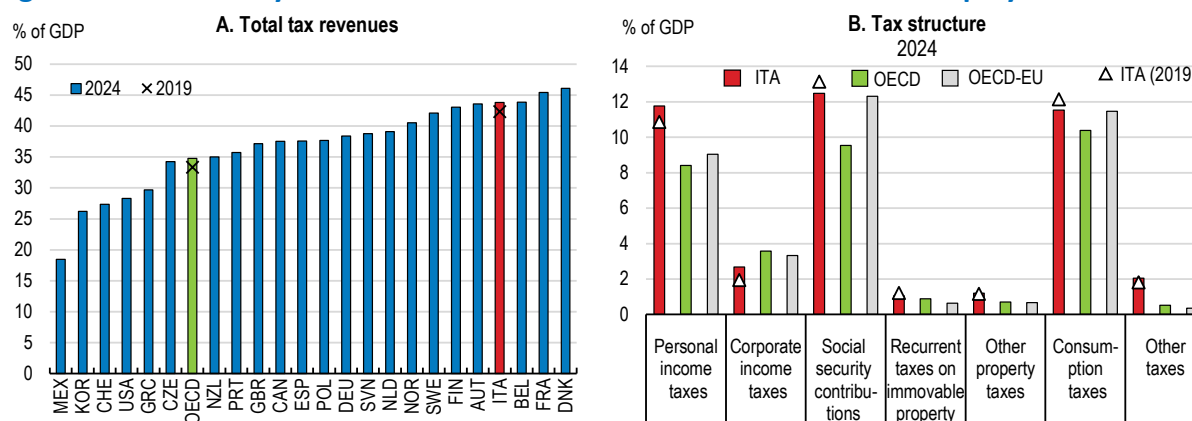
The revenue to GDP ratio is around 47% of GDP, placing Italy in the top third of OECD countries, and the system is skewed towards social contributions revenues, income tax and production and weighted less to property and capital income (Figure 1.22 and Table 1.8). Given a significant share of activity in the informal sector, non-compliance and extensive tax deductions and allowances, the distribution of the tax burden discourages stronger employment, investment and productivity. Rebalancing tax policies away from those that most penalise employment and investment would allow revenue to be raised in more growth-friendly and fair way. Italy's tax reforms over recent years have intended to simplify and improve compliance and reduced

disincentives for employment and investment. Continuing to improve compliance as has been accelerated by the NRRP, would help. However, extensive use of tax incentives, many of them temporary, add complexity, weaken public finances and risk distorting behaviour (Table 1.7) (discussed further in Chapter 4). The large fiscal adjustment facing Italy, together with slow growth, underline the case for deeper reforms of the tax system.


### *Further pursuing under-declared activity and reducing tax evasion*

Significant scope remains to improve tax collections, building on recent years' progress. Estimates suggest that evasion and under-declared activity have declined relative to the late 2010s, contributing to revenue gains and the better-than-expected budget performance. The revenue agency recovered EUR 24.7 billion (1.2% of GDP) of undeclared tax payments in 2023, an increase of 22% compared with 2022. Some earlier gains, however, appear to have moderated. Incentives created by generous tax credits—such as the ‘Superbonus’ for housing renovation—to declare transactions end as these schemes are phased out. The authorities estimate that around EUR 100 billion (4.7% of GDP) in tax and social-security contributions were lost to evasion in 2023 (Commissione per la redazione della Relazione sull'economia non osservata e sull'evasione fiscale e contributiva, 2025<sup>[12]</sup>).

**Figure 1.22. The tax system can be reoriented to reduce the burden on employment**



Source: OECD Global revenue statistics.

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The NRRP and the MTFSP include measures to improve tax compliance, although the goal in the initial NRRP to reduce tax evasion by 15% compared to 2019 levels was removed in the sixth revision approved in November 2025. Improved collection techniques at the revenue authority have boosted returns. Improved data analytics is allowing the tax authorities to conduct better-targeted controls. Experience across OECD countries, for example in Belgium (De Neve et al., 2021<sup>[8]</sup>), is that simplifying compliance processes, alongside credible deterrence, can further raise revenues. Simplifying payment processes also helps revenue collection efficiency. Reforms in 2025 and early 2026 to consolidate the legal compliance framework for value added tax are therefore welcome. Pursuing the consolidation of disparate payments, such as integrating regional business taxes into the overall corporate tax payment, as part of a broader reform of taxes on production would reduce compliance burdens for taxpayers. Other reforms include steps in 2024 to enhance the framework for taxpayers to develop cooperative arrangements with authorities, reforms to dispute resolution, and to reduce penalties related to VAT compliance so they are more proportionate. As a next step in supporting taxpayers, compliance processes could be reviewed towards identifying and reforming where they are excessively formalistic and rigorous relative to the administrative and legal needs for achieving compliance.

**Table 1.7. Extensive use of tax expenditures adds complexity to the tax system**

Scheme	Period	Benefit	Eligibility
Superbonus 110%	2020 to 2025 or 2026 for earthquake-affected areas.	110% tax credit (then 70% in 2024, 65% in 2025) equal to 110% of the expenditure, transferrable to banks and other businesses.	All interventions resulting in an improvement of a building's energetic standard by at least two class or its structural stability and resistance to earthquake damage, irrespective of residency, also available for second homeowners.
Ecobonus 50-85%	2024-2028	Tax cut on IRPEF/IRES	Interventions to improve energetic efficiency, with varying tax credit rate depending on the type of intervention. Tax credit is lower on second homes.
Super-EcoBonus	2020-2025	70% tax credit (65% in 2025)	All interventions resulting in an improvement of a building's energetic standard by at least two class (APE)
Bonus Facciate 90%, then 60%	2020-2022	90% tax cut or credit (60% in 2022) on IRPEF/IRES, transferrable to banks and other businesses.	Restoring, cleaning and painting of facades, balconies, only for buildings in specific areas
Bonus Tetti 50%			Roof repairs or replacement and windows
Bonus casa 50%			
Bonus verde	2022-2024	Tax cut of 36% on IRPEF, up to EUR 1,800	Interventions on gardens, pits, watering systems.
Bonus barriere architettoniche	2022-2025	Tax bonus on IRPEF equivalent to 75% of total expenditure (up to EUR 30,000 or EUR 50,000 in 2025, depending on building characteristics)	Interventions to remove architectonic barriers limiting the mobility of residents with recognized disability
Bonus prima casa		Tax cut on registry tax (2% instead of 9%) or VAT (4% instead of 10%), discounted administrative fees	Purchase of houses or apartments by individuals who do not own other dwellings.

The 2026 budget includes a significant 'rottamazione', or writing-off and rescheduling or reduced payment of overdue tax debts. It allows payments from tax debts worth over EUR 50 000 owed by certain taxpayers to be deferred into monthly instalments over 9 years with a 3% interest rate, allows low-income taxpayers with smaller tax debts to pay a portion of the amount due, and writes-off smaller tax debts and fines dating from the 2000s deemed uneconomic to collect. An online platform was launched in early 2026 to allow taxpayers to request a payment plan or cancellation of tax debts and fines. Even if the tax debt is ultimately paid, these arrangements reduce the cost of the debt for the taxpayer. These measures follow Italy's long history of fiscal amnesties – at least 80 in 150 years (OECD, 2015<sup>[11]</sup>). While writing-off, rescheduling or reducing the penalties on tax debts that are costly to collected or highly unlikely to be paid can reduce administrative costs and impediments to winding up defunct activities, as noted in past OECD Economic Surveys of Italy (2019<sup>[32]</sup>; 2021<sup>[22]</sup>; 2013<sup>[33]</sup>), repeated concessions on taxes due undermine tax collection as they can encourage delaying payment and they create inequities between taxpayers. While in other country contexts they may exceptionally generate a one-off boost in revenues, this requires that they are well-targeted, apply to voluntary disclosures and unintentional noncompliance, and are followed by strong enforcement. Future write-offs or concessional repayment of taxes due should be avoided with the focus on developing an environment of institutional integrity and credibility.

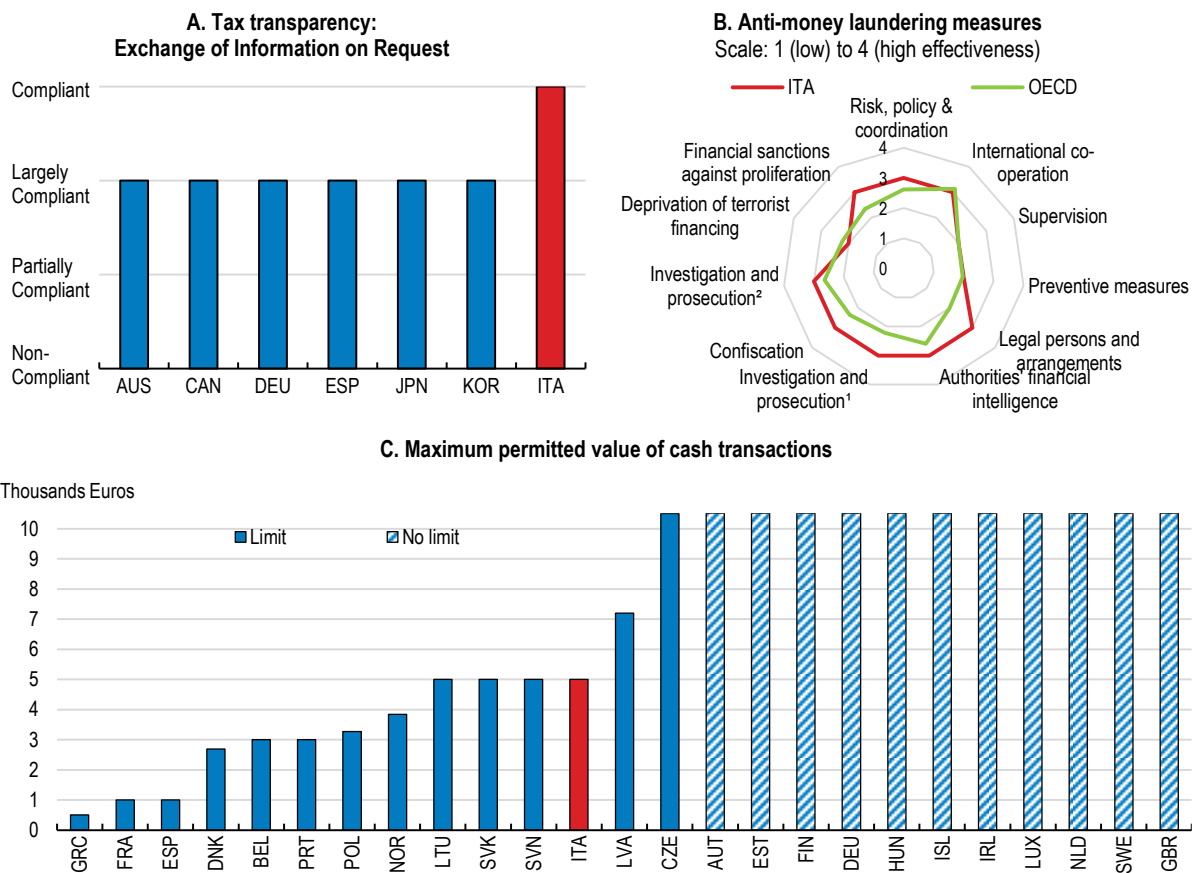
Undeclared activity remains a significant challenge for tax collection. Istat estimates that unobserved activity—including both undeclared and illegal activity—amounted to 10.2% of GDP in 2023. Over 3.1 million workers were unregistered in 2023, the equivalent of 13.3% of total registered employment. Ensuring that all workers contribute to the pension and social-security systems is essential for long-term sustainability and for guaranteeing adequate retirement incomes, as well as ensuring a favourable business climate (see in Chapter 4 and (Kosta and Williams, 2020<sup>[26]</sup>). Undeclared activity is associated with weaker governance and a prevalence of small firms especially in some service sectors and remain higher in southern regions than the North. As well as digitalisation and simplification of administrative procedures and developing routes to regularize activity, Italy has ramped up labour inspections. Innovative initiatives include the use of cultural mediators to inform and support third-country nationals to ensure that their employment arrangements are in order (European Labour Authority, 2023<sup>[9]</sup>). Further expanding programmes to help firms transition to formality, complemented by assembling fragmented information about non-compliers, for example through accessible public registries, could reinforce progress.

Limiting the scope for non-traceable transactions would help curb undeclared activity, money laundering and related criminal risks. Overall, international tax transparency and anti-monetary laundering measures compare well with peers (Figure 1.23). However, the ceiling for undocumented cash transactions exceeds the limits of several OECD countries with longstanding challenges in revenue collection since it was raised from EUR 2 000 to EUR 5 000 in 2023, (Figure 1.23, Panel C). Under forthcoming EU Anti-Money Laundering Regulations, all Member States will apply a EUR 10 000 limit and require identity verification for cash transactions above EUR 3 000 from 2027. Since 2023, Italian businesses may also request cash payments and refuse electronic payments for transactions below EUR 60. Aligning Italy's maximum values of transactions in cash with jurisdictions facing similar compliance challenges, and requiring acceptance of electronic payments for purchases above a low threshold, would help reduce incentives for under-declaration and support more effective tax enforcement.

### *Increasing VAT revenues*

VAT on consumption can be an efficient way of raising revenue. While Italy's headline rate of 22% is broadly in line with many other EU countries, revenue raised compared to consumer spending is relatively low (Figure 1.24, Panel A). This reflects a combination of compliance issues and the extend use of exemptions and lower rates. VAT compliance has improved since the late 2010s but in 2023 VAT revenues were still 15% lower than if compliance was complete. The growth of digital tools, such as electronic invoicing and mandatory e-invoicing, and digital cash registers, as well as the reverse charge mechanism and split payments have supported compliance. Indeed, Italy's development of electronic tools since the mid-2010s has been a model for other countries. Among recent developments, the Tax Authority has developed the role of AI tools to identify VAT discrepancies, helping to identify risks and target audits. A consolidated VAT law, which is pending final approvals and implementation, provides for greater use of electronic tools for VAT compliance and controls, increasing the transparency of e-invoicing and reporting electronically. It provides a basis for pre-filled VAT returns, which experience in countries such as Poland and Hungary suggest can reduce administrative burdens and improve the accuracy of VAT filings. E-filing, with pre-filled forms, will create stronger incentives for taxpayers to submit accurate information into real-time information systems to avoid disputes with the tax authorities regarding differences in the pre-filled amounts. A pragmatic approach and support especially for smaller enterprises with fewer resources to submit accurate data to the tax authorities will be important if these technologies are to lighten rather than add to compliance burdens. In a welcome rationalisation, a planned law unifies multiple current VAT legislation into one text, aligned with the EU VAT Directive, with the goals of simplifying compliance and increasing legal certainty. Limiting the scope for cash-based transactions would help reduce the compliance gap.

**Figure 1.23. Tax transparency and anti-money laundering measures compare well with peers, although the maximum value of cash transactions is relatively high**



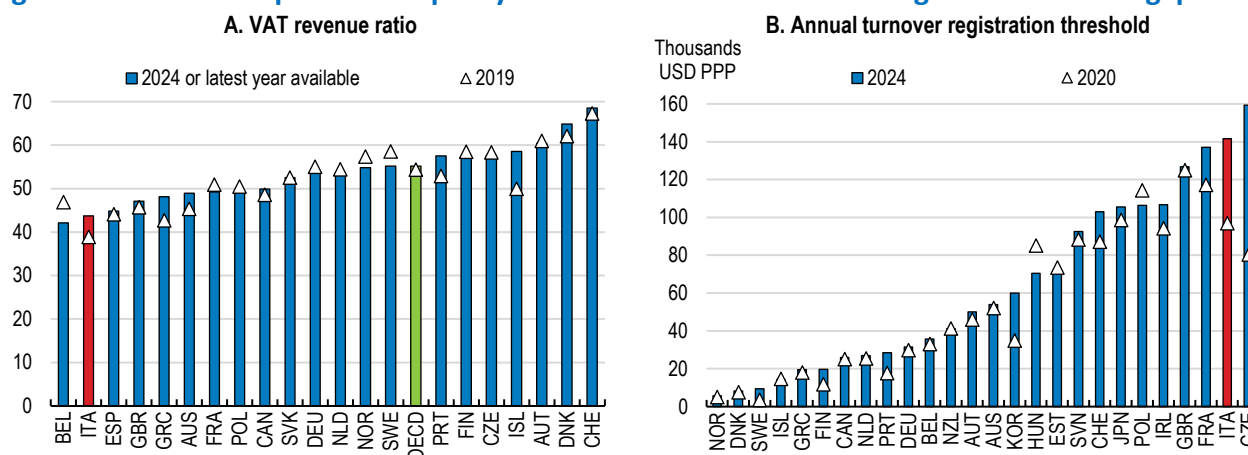
Note: Panel A summarises the overall assessment on the exchange of information in practice from peer reviews by the Global Forum on Transparency and Exchange of Information for Tax Purposes. Peer reviews assess member jurisdictions' ability to ensure the transparency of their legal entities and arrangements and to co-operate with other tax administrations in accordance with the internationally agreed standard. The figure shows results from the ongoing second round when available, otherwise first round results are displayed. Panel B shows ratings from the FATF peer reviews of each member to assess levels of implementation of the FATF Recommendations. The ratings reflect the extent to which a country's measures are effective against 11 immediate outcomes. "Investigation and prosecution<sup>1</sup>" refers to money laundering. "Investigation and prosecution<sup>2</sup>" refers to terrorist financing.

Source: OECD Secretariat's own calculation based on the materials from the Global Forum on Transparency and Exchange of Information for Tax Purposes; and OECD, Financial Action Task Force (FATF).

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The threshold below which businesses are not required to register and collect VAT is higher in Italy than most OECD countries (Figure 1.24, Panel B). It was increased to EUR 85 000 in 2023, from EUR 65 000, and aligns with the 'flat tax' presumptive regime (discussed below). The level of the VAT registration thresholds entails trading off between limiting compliance and administration costs for small businesses and tax authorities, against protecting revenue and avoiding distortions that encourage businesses to stay small or operate as sole traders. The lower thresholds in most countries suggest Italy could reduce its thresholds as VAT compliance processes are simplified. Businesses with revenues below the threshold can register for VAT on a voluntary basis, and Italy does not require these businesses to remain registered for a minimum period (OECD, 2024<sup>[13]</sup>). Imposing such a minimum period would help avoid fraud risks from operators without a history of economic activity registering, claiming refunds, then disappearing.

**Figure 1.24. Both compliance and policy weaknesses contribute to a large VAT collection gap**



1. VRR is a measure of the extent to which a VAT regime collects the VAT given final consumption expenditure. To achieve this, the VRR estimates the difference, if any, between the VAT revenue actually collected under a country's VAT regime and what would theoretically be raised if VAT was uniformly applied at the standard rate to the entire potential tax base and all revenue was collected.

2. Annual turnover thresholds expressed in USD purchasing power parity. In national currency: Italy values are EUR 85,000 (2024), and EUR 65,000 (2020)

Source: OECD calculations; and OECD Consumption tax trends 2024.

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The wide range of goods and services that are exempt or taxed at reduced rates hampers the effectiveness of Italy's VAT systems and weakens revenues by more than in most other OECD EU countries. Reduced rates add to the complexity of the VAT system, raising costs for businesses and revenue authorities (Highfield et al., 2019<sup>[14]</sup>). The policy goal of reducing the cost of essential items for those with lower incomes may be better achieved by supporting the incomes of low earners. Further, many of the reduced rates in Italy benefit wealthier or foreign consumers and business owners, such as the lower rates for tourism and hospitality services or for housing construction, or they mainly benefit wealthier consumers who consume more, such as reduced rates for energy. The consolidated VAT legal framework is intended to align and reduce the number of categories of goods and services subject to reduced rates to EU standards, but at the same time Italy has been among the leading countries seeking derogations from these standards, largely for the construction sector (European Commission, 2025<sup>[15]</sup>). Reviewing the reduced rates, identifying their costs and beneficiaries, towards eliminating those which are most costly and least effective at achieving their public policy goals, would improve the VAT system's effectiveness and the revenue mix.

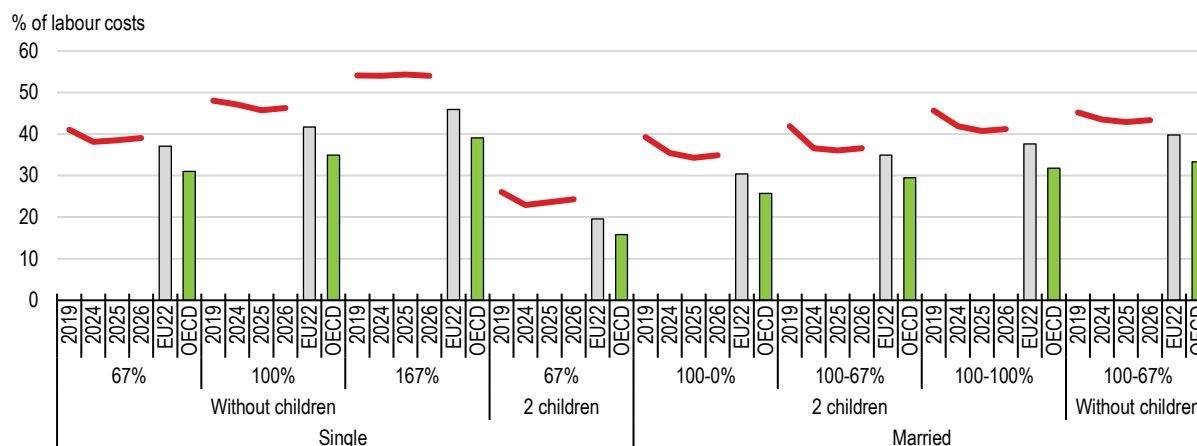
### *Reducing the tax burden on labour*

Italy has long placed a relatively high tax and social contribution burden on labour and personal income, which raises employment costs for employers, discouraging employment, and depresses disposable incomes for lower- and middle-income workers. Despite recent years' reforms the wedge remains among the highest in Europe and across OECD countries for many households, impacting labour costs and competitiveness for both firms and workers (Figure 1.25). To reduce this, the government has progressively adjusted the personal income tax system, reducing rates and expanding exemptions. The 2025 budget made permanent personal income tax changes, reducing the number of tax brackets and simplifying deductions. It estimated these reductions in personal income tax at the equivalent of 0.7% of GDP. The 2026 budget includes a cut in the personal income tax rate from 35% to 33% for incomes between EUR 28 000 and EUR 50 000 (the average salary was EUR 35 616 in 2024). The Parliamentary Budget Office estimates that this will reduce revenues by EUR 3 billion (0.1% of GDP), with 43% of this amount accruing to the relatively small share of taxpayers reporting incomes above EUR 50 000. The adjustment helps offset for many taxpayers some of the effects of non-indexation of income tax thresholds, which moves more wage earners into higher tax brackets when wage rates increase, although this effect of rising wage rates has unwound some of the effects of earlier reforms at some wage rates (Figure 1.25).

Most of the high labour income tax wedge is due to compulsory social security contributions. There are around 33% to 40% of the gross salary depending on wage rates, made up of a contribution of around 10% of the wage rate by employees and the remainder by employers. Social security contributions are largely applied to finance the pension system and help stabilise workers' lifetime incomes. A temporary measure in 2024 reduced the social security contribution rate for dependent workers by 6 to 7 percentage points. These high contributions rates impose high effective and marginal tax rates, including on low earners, and social security contribution rates are not progressive, notwithstanding the reduced overall tax and contribution wedge through reduced income tax rates at low incomes. High marginal rates on low earners provide incentives for undeclared work, although social security contributions can be easier to collect in some cases than income taxes.

### Figure 1.25. Despite recent improvements, the labour income tax wedge remains high

Income tax and social contributions less cash benefits, by household type and wage level, for Italy in year indicated, and 2024 for OECD and EU22 average



Note: Wage levels are expressed in % of average wage. Married 100-0% are single earner, other married couples are two earners.

Source: OECD Taxing Wages 2025, 2020 editions table 3.1 and OECD calculations).

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Consideration should be given to further reforms to reduce high social contribution rates. Efforts to reduce the cost of pensions would help create space to reduce the burden. Italy's social fund (INPS) is not self-financing, with approximately 40% of its revenues already funded through general taxation. A reform that reduced social contributions, funded through increased collections of other taxes, would create a more progressive structure relative to wage rates while broadening the tax base. In this context, strict rules to define the extent that INPS can draw on general taxation revenue to finance its pension and other benefit payments would help to maintain some discipline in spending. Extending social security contributions paid by employees at the 10% rate to pensions would further help to raise revenues.

In the medium term, indexing the personal income tax rate brackets, credits, deductions and other allowance eligibility thresholds to consumer price inflation would limit bracket creep and counter the rise in the tax wedge with wage growth, especially among lower- and middle-income workers. Analysis by the Parliamentary Budget Office indicates that the reforms to improve the income tax system's progressivity have also made it more sensitive to inflation (Ufficio parlamentare di bilancio, 2025<sup>[48]</sup>). Eighteen OECD countries have automatic indexation mechanisms in place, making their tax systems more predictable, less administratively burdensome, and fairer over time. Most of these countries index these thresholds to CPI inflation, in some cases modified to exclude certain items such as tobacco. Some countries include the effects of productivity growth in the calculation towards limiting bracket creep as wages grow with general productivity improvements, for example by adding an adjustment to inflation or by referencing the average or the minimum wage rate (OECD, 2023<sup>[17]</sup>).

Various personal income tax exemptions and reduced rates distort how workers' pay packages are structured and the effective tax rate between equivalent workers. These tax expenditures have been expanded in recent years. They include reduced rates on overtime, 'productivity bonuses' of up to EUR 3000 for incomes below EUR 80 000, and tax exemptions on fringe benefits of EUR 1000 rising up to EUR 5000 for some workers in certain situations, the revenue cost of which is estimated at up to EUR 3.5 billion (0.2% of GDP) (Ufficio parlamentare di bilancio, 2025<sup>[48]</sup>). The 2026 budget introduced a flat tax rate of 5% for salary increases linked to contract renewals signed between 2024 and 2026 for workers earning less than EUR 33 000, and a rate of 15% for the additional allowances for non-managerial public sector workers with incomes below EUR 50 000. Removing such reduced rates and exemptions would allow for a simpler, more transparent personal income tax system, increasing revenues and allowing overall rates to be lowered.

The high labour income tax wedge and advantageous arrangements for self-employment income creates incentives to work as self-employed, rather than as an employee. Self-employment is more common in Italy than in most OECD countries, contributing to a large share of small, typically low-productivity firms (discussed in Chapter 4). Self-employment income generates an usually large share of the highest-income individuals' income mix (Figure 1.27). Compliance among the self-employed is a long-standing challenge. Their tax and social contribution payments were estimated to be 40% of the amount due in 2023 (Commissione per la redazione della Relazione sull'economia non osservata e sull'evasione fiscale e contributiva, 2025<sup>[12]</sup>). To encourage declarations among self-employed and freelancers, a simplified 'flat tax' regime with a reduced income tax rate of 15% and of 5% during their first 5 years operating is available if they earn less than EUR 85 000 plus allowances for certain costs. This eligibility threshold is similar to that in other OECD countries near Italy's income level (Mas-Montserrat et al., 2023<sup>[19]</sup>). Italy's presumptive tax regime is unusual in its focus on the self-employed, even though certain professionals are in a position to comply with the standard income tax regime. A 'flat tax' regime requires balancing the stronger incentive to declare income, especially among small-scale taxpayers, with its effects of weakening the revenue base and encouraging workers to operate as self-employed rather than employees. Reducing the threshold for the 'flat tax' regime and reducing the periods a taxpayer can remain eligible for the regime would encourage participants to shift into the standard tax regime. Broader reforms to reduce the combined social security and income tax burden on lower earners and reduce regional production-based taxes would also help.

Lower effective taxation of some sources of capital income compared with labour income distorts how entrepreneurs structure their businesses and encourages drawing income through dividends or capital gains rather than as wages (Zawisza et al., 2024<sup>[41]</sup>). This can reduce the equity, efficiency and revenue potential of tax systems. The gap between the effective tax rate on labour and capital is significant. Various categories of business income amount to over half of the income of individuals earning in the top 1% of incomes in Italy (Figure 1.26, (Guzzardi et al., 2023<sup>[20]</sup>). The interaction between capital income and labour income taxation is complex, and reforms can bring risks of creating new arbitrage opportunities or distortions to business decisions. A first step would be to identify and address the more harmful and costly arbitrage opportunities. Reducing incentives for tax arbitrage by narrowing the gap between effective labour and capital income taxation rates would enhance the tax system's progressivity and efficiency.

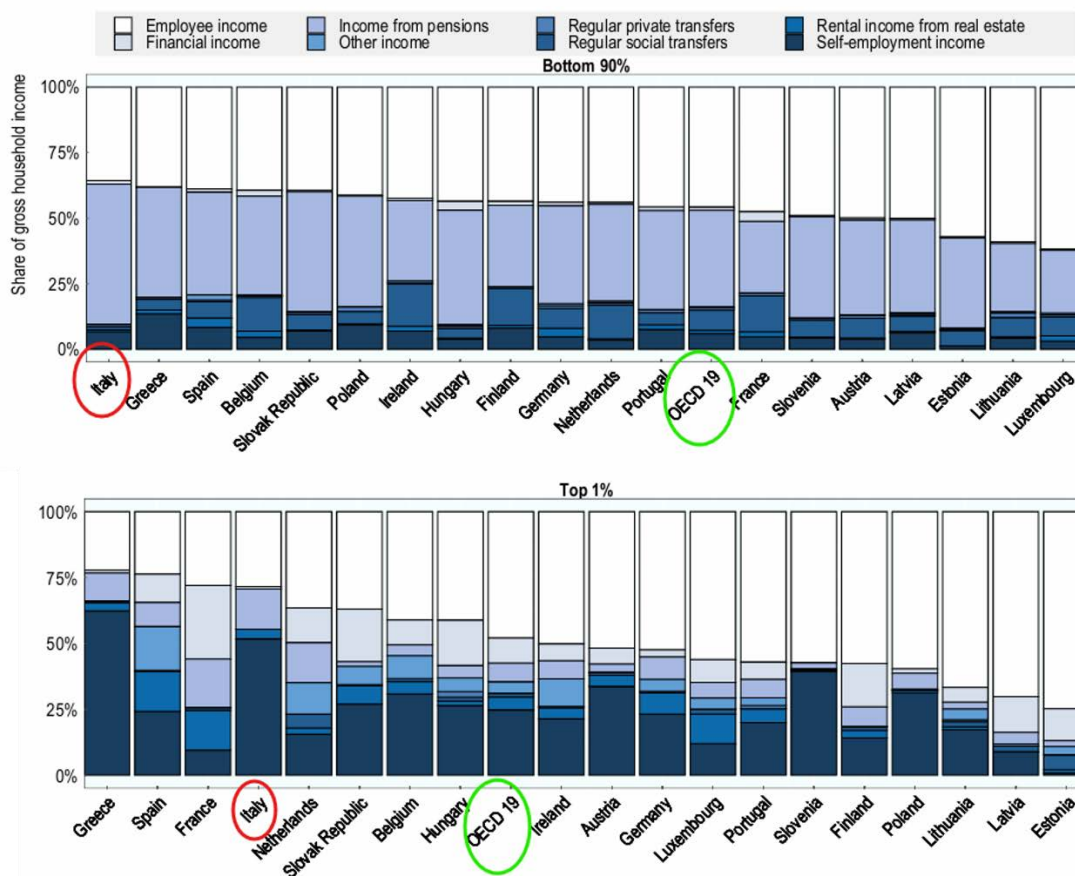
### *Shifting to taxing immovable property and other assets*

Increasing taxes on property and other assets would allow the tax on labour to be lowered, improving work incentives and shifting the burden from the less wealthy. Real property tax revenues weigh less on investment, employment and activity than other taxes, and so increasing their role in the overall tax system can support fiscal sustainability while limiting the economic drag. While revenues from property taxes as a share of GDP are above the OECD and EU averages, recurrent property taxes remain relatively modest sources of revenue in Italy, raising less than 1.5% of GDP (around the OECD average). The cadastral value provides the taxable base for recurrent property taxes, as well the inheritance tax liability on real estate. Legacy cadastre values are half or less of current market values and as many as one million properties are not registered, weakening property tax collection and other public functions like urban planning. Updating property cadastre values

(discussed in the (2024<sup>[17]</sup>) Economic Survey of Italy) is slowly advancing and is among the priorities in the MTFSP. The requirements that owners of properties that benefited from the ‘Superbonus’ and other public renovation subsidies update their registered cadastral value is leading to welcome progress, but applies to about 4.2% of the building stock. Streamlining and digitalising cadastre value documents and property tax reporting will start contributing to property tax receipts from 2026. Updating cadastre values should raise additional revenue and would provide a basis to review rates. Concerns over the distributional effects or difficulty for households with a high asset value but low incomes could be addressed, for example by allowing property tax liabilities, adjusted for inflation, to be met when the property’s title is transacted (for example through inheritance or sale) if the owner’s income falls below a threshold, as is done in OECD countries ranging from Ireland and Denmark to some US states and Canadian provinces (OECD, 2022<sup>[23]</sup>).

### Figure 1.26. Self-employment income makes up an unusually large share of high-income individuals’ earnings

Composition of gross household incomes – by percentiles of income earners



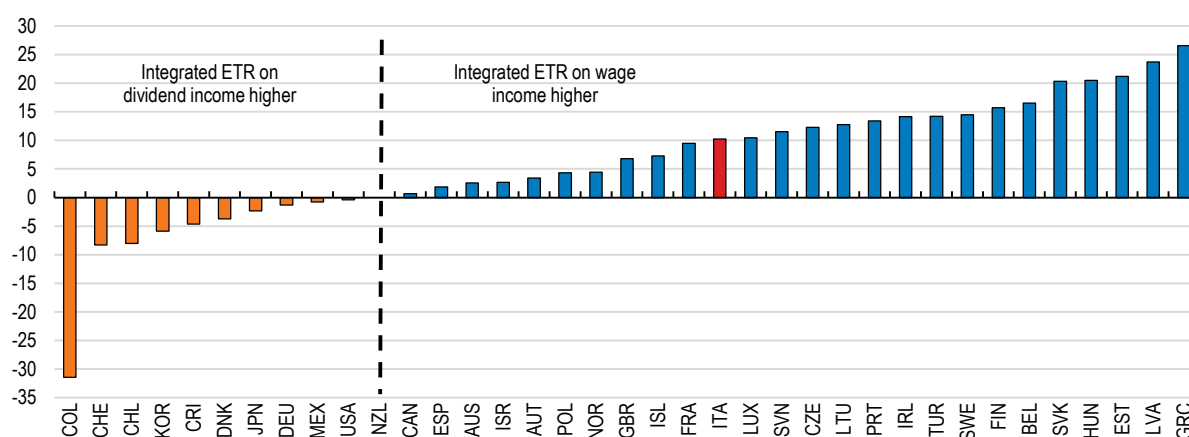
Note: Data on the composition of gross household incomes were available for Austria, Belgium, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, and Spain. Households with negative income were removed. Categories of income are defined as follows: employee income is total remuneration received from an employer in cash; self-employment income refers to the net operating profit or loss earned by a self-employed person from their unincorporated enterprise; rental income is rental income received net of costs such as mortgage interest repayments and maintenance; financial income refers to interest and dividends from publicly traded companies, interest from assets such as bank accounts or bonds, and any income from private businesses not derived from self-employment; income from pensions refers to income from public and private pension sources; regular social transfers includes transfers such as unemployment benefits, illness subsidies, maternity leave, and child benefits; regular private transfers comprises regular payments from private entities and/or other households, including child support; other income captures remaining income such as capital gains or losses from the sale of assets, severance payments, insurance settlements, etc. although this information is missing for some countries and may be underestimated for some households. As the tails of a distribution are typically under-represented in survey data, the composition of top 1% income earners may be less reliable than for the lower 90% of the income distribution.

Source: European Central Bank, Eurosystem Household Finance and Consumption Survey Wave 2017

The 2026 budget increases the flat tax imposed on income generated outside Italy by wealthy foreigners who move to Italy or Italians who return to EUR 300 000 annually for those who enter the scheme from 2026, while retaining the EUR 200 000 rate for those already in the scheme. In 2023 the regime applied to over 1500 individual taxpayers, although many of these are members of the family of the principal payer, so are charged a reduced amount. There are no investment or other obligations for those who participate in the scheme. As described by the Court of Auditors, revenue authorities do not collect data on foreign income and so cannot assess the potential liabilities if the taxpayer had been taxed under the standard regime, nor are able to assess any boost to economic activity and tax revenues from high wealth individuals relocating to Italy. Indeed, the experience across OECD countries is not clear whether such policies yield broader economic benefits (OECD, 2024<sup>[16]</sup>).


**Figure 1.27. A smaller difference between the effective tax rates of employment and capital income would reduce distortions**

Difference in integrated effective tax rates at total labour cost or shareholder profits five times the average wage



Note: Figure illustrates the difference between the integrated effective tax rate (ETR) on wage income and the integrated ETR on dividend income in the scenario of total labour cost or shareholder profits are five times the average wage, showing the difference in percentage points. Positive values indicate the effective tax burden on wages is higher than on dividends. Integrated effective tax rates are calculated per the methodology discussed in Annex A of (Hourani et al., 2023<sup>[18]</sup>). Data can be accessed at [oe.cd/taxation-labour-capital](https://oe.cd/taxation-labour-capital)

Source: (Hourani et al., 2023<sup>[18]</sup>).

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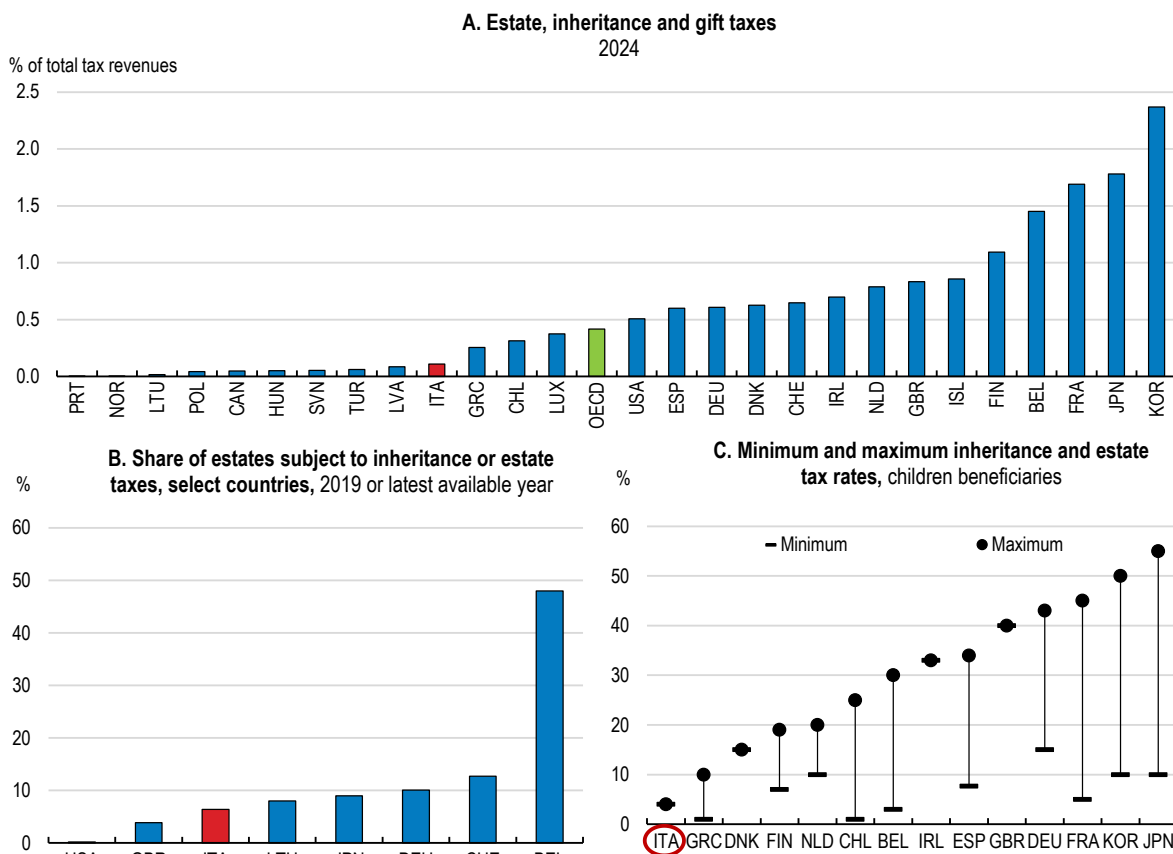
### *Boosting other sources of revenue*

Italy has extended the use of windfall taxation. For example, a windfall tax was imposed on energy companies' increased profits during the 2022 surge in European energy prices. In 2023, a windfall tax of 40% tax of banks' profits was applied following the increase in interest margins over 2021 to 2023. Following sharp drops in banks' share prices after the announcement (De Vito et al., 2023<sup>[21]</sup>), the plan was reformed and the value of the tax was capped at 0.1% of banks' assets. This was initially expected to raise of EUR 5 billion (0.2% of GDP). The windfall tax on banks was criticised for generating uncertainty for investors and banks through its rapid introduction and amendment, and in distorting banks' investment decisions and behaviour, detracting from their willingness to lend. The 2026 budget provides for an additional EUR 11 billion in tax revenues from the financial sector over 2026-2027 from banks and insurance companies by increasing a regional tax on the value of production and freezing the use of deferred tax assets to reduce tax liabilities. To maintain profit margins banks may expand their interest rate spreads. In general, when well structured, such windfall taxes may not significantly deter long-term investment, if they apply retrospectively to past profits and are not permanent corporate income tax increase. The experience across OECD countries is that even when windfall taxes can be designed to not distort investment and other operating decisions, they should be temporary and linked to

specific, transitory crisis situations, rather than be used to address ongoing revenue needs, which should be met through the standard tax system.


Improving the management of various fees and charges for access to public goods and services would generate additional revenues, encourage greater economic returns from these public assets and improve the competitiveness of various sectors in Italy. Assessments by the Court of Auditors find concession fees are far below market values based on businesses' turnover. Beach concessions have attracted much attention, with the 12 000 concessionaires paying on average EUR 8333 annually, while the sector's annual turnover is estimated at EUR 2.1 billion. Legal steps to review and retender existing tenders have been delayed until 2027.

**Figure 1.28. Inheritance and gift tax revenues are low due to limited coverage and low rates**



Note: Panel C, children are exempt in Hungary, Lithuania, Poland, Portugal, Slovenia, Switzerland. Belgium: refers to the Brussels-Capital Region. Switzerland: refers to the canton of Zurich.

Source: OECD (2021), *Inheritance Taxation in OECD Countries*, OECD Tax Policy Studies, No. 28, OECD Publishing, Paris, <https://doi.org/10.1787/e2879a7d-en>.

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Similarly, the income received by the State from motorway concessions is a small fraction of the revenues generated by operators (for example (l'Italia, 2025<sup>[37]</sup>)). The 2021-2022 and 2024 introduced national regulations regarding concessions on large hydroelectric projects and motorways towards improving their services and revenues for the state. Concessions for energy, water and other utilities are administered by subnational governments with varying fees and arrangements that may no longer reflect market conditions. Removing the right of pre-emption and opening tenders for concessions to competitive bidding, monitored by competition authorities, can increase public revenues and make better use of public assets. Tender auctions can be designed to allocate concessions to operators that both limit costs for users of the assets, improve the quality and sustainability of services, and raise the state's income.

**Table 1.8. Past recommendations to improve the revenue mix**

<b>Recommendations</b>	<b>Actions taken since the last Economic Survey</b>
Shift taxes from labour to property and inheritance, while ensuring that revenue is maintained or increases.	Reforms have reformed indirect taxes including succession, donation and registry and stamp duties. Taxation of trusts has been reformed. Labour income tax reforms have been implemented with a net revenue cost, including reducing tax brackets from four to three and reducing the tax wedge for wage levels of up to EUR 40 000. The 2026 budget lowers the second personal income bracket rate (for wage rates between EUR 28 000 and EUR 50 000) from 35% to 33%.
Update the property tax base calculations, taking into account distributional impacts.	In 2025, unregistered or “ghost” houses were mapped and operational procedures for issuing compliance letters to their owners developed and initial letters sent, and buildings that have benefited from public funds for energy improvements or renovations since 2019 were identified.
Continue to tackle tax evasion, including by continuing to promote the use of digital payments and reversing the increase in the ceiling on cash transactions.	The 2025 required payments qualifying for tax deductions to be traceable, eliminated some tax benefits, and integrated short-term rental data into the tax database. Digital tools are progressing in tax compliance and addressing evasion risks, including connection of electronic cash registers from 2026. Digital tools are improving database quality and cross checks, and AI tools are being used to identify risks and better target controls. Electronic payments are promoted and some benefits are conditional on traceable payments. The 2026 budget disallows fiscal benefits for taxpayers in arrears.
Phase out costly tax expenditures that lack economic or distributional justification, including, for instance, by limiting the coverage of the dependent spouse deduction.	Several particularly costly tax expenditures have been allowed to wind down. Rules on tax deductions for family members have been narrowed, for example removing the eligibility of non-resident members. The 2025 budget caps tax expenditures claimable by taxpayers with incomes above EUR 75 000.

**Table 1.9. Policy recommendations**

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
<b>Promoting economic growth and sustainability</b>	
The fiscal deficit has been reduced in line with the Medium-Term Fiscal-Structural Plan (MTFSP) and EU commitments, but the public debt ratio is rising.	<p><b>Implement the steady fiscal consolidation set out in the MTFSP to reduce the debt-to-GDP ratio.</b></p> <p><b>Pursue a long-term strategy to manage the public finances by containing and off-setting emerging spending pressures, curbing pensions costs, raising the effectiveness and integrity of public institutions, and reforming the tax system.</b></p>
The National Recovery and Resilience Plan (NRRP), ending in 2026, has helped address many of Italy's challenges and improve how the state operates, and the MTFSP provides further reform and investment priorities. Addressing long-standing and emerging challenges will require building on this momentum.	<p>Ensure effective and timely implementation of the NRRP investments.</p> <p><b>Develop a more comprehensive programme of reforms to raise productivity and employment, building on the NRRP and the MTFSP, supported by budget prioritisation.</b></p> <p>Make permanent systems and processes that have been effective at implementing the NRRP.</p>
The financial system is in robust health overall. Profitability and liquidity are strong and non-performing loan ratios low.	Maintain vigilance around credit quality given the risks to the broader economy stemming from global policy developments.
The share of women in the workforce still lags most other OECD countries, despite efforts to raise fathers' take up of parental leave and care responsibilities.	<b>Expand the parental leave earmarked to fathers and improve incentives to take them up.</b>
<b>Restraining spending and improving its effectiveness</b>	
Despite the work of anti-corruption and public audit bodies and the transparency of data, perceptions of the integrity of public institutions continue to lag.	<b>Reduce thresholds for competitive procurement, particularly for public works contracts under national rules, implement stricter controls to contain contract splitting.</b>
Pensions make up a high share of public spending, which will rise further in the coming decade due to ageing and the legacy regime.	<p><b>Explore options within legal constraints to reduce over the medium term the cost of first-pillar pensions to contribute to the sustainability of the public finances amid rising spending pressures.</b></p> <p>Maintain the link between retirement age and life expectancy.</p> <p>Avoid the introduction of new early retirement schemes and rationalise mechanisms allowing early retirements.</p>
The public administration is perceived as less effective than in most other OECD countries despite past and ongoing reforms. With a large share of public servants reaching retirement age, ongoing reforms aim to improve human resources management and attract young talent to the public service.	<p>Continue strengthening the link between civil servants' performance, career progression and pay.</p> <p>Introduce benchmarking and link grants to subnational governments to their personnel management performance.</p> <p>Address procedural and practical barriers, including interoperability in HR systems, and introduce incentives for public servants to move between administrations to raise the rate of mobility.</p>
The medium-term budget framework is being strengthened, which can support fiscal discipline and policy planning.	<p>Develop binding expenditure ceilings, as a first step at the central ministerial level within the two-year budget horizon, with a view to extending binding expenditure ceilings to other levels of government.</p> <p>Further develop the use of spending reviews, integrating their findings more directly into the medium-term budget process, and increasing their ambition in terms of spending coverage and measures to improve spending efficiency.</p>

Improving the integrity of tax collections and the quality of the revenue mix	
While recent reforms have reduced the tax collection gap, it remains large, partly due to the significant amount of under-declared activity	<b>Increase tax compliance by strengthening tax administration, better identifying undeclared activities, lowering the threshold for cash transactions and refraining from tax payment concessions.</b>
The VAT collection gap remains large, reflecting both collection and policy weaknesses	Reduce the VAT collection gap by reviewing and curtailing reduced VAT rates, implementing planned reforms to consolidate and simplify VAT legislation, and enhancing digital tools for VAT payments and compliance.
The tax system remains skewed to labour income, leading to a large tax wedge on Italian workers, despite the inroads made by recent reforms. Reduced rates and allowances for some income types have been introduced or expanded.	<b>Over the medium term, consider reducing the tax rates wedge on low income earners, funded by improving broader tax compliance, reducing tax expenditures and by raising property taxes.</b> Index thresholds of personal income tax rates, credit and allowance eligibility to inflation. Align the taxation of bonuses, benefits and other non-wage compensation with that of wages.
Large numbers of self-employed, and the high share of self-employment income among very high-income individuals benefiting from reduced rates, reflect distortions in the tax system that narrow the tax base and impact employment choices.	Encourage participants in the simplified tax system for self-employed to move to the standard tax system, including by limiting the time higher income earners can remain in the simplified system and reducing the compliance complexity of the standard system.
Recurrent tax receipts from capital and property are modest. Missing properties are being brought into the cadastre and property values for some are being updated.	Complete the cadastre's record of property valuations and ensure these reflect current market values, to ensure an equitable and complete base for assessing property taxes.
Revenue from the use of public assets, such as through concessions, can be developed further.	Require concessions be submitted to open public tenders at expiry.

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## **2** Engaging youth in the labour market amid population ageing

Emilia Soldani, OECD

*Italy's working age population is projected to shrink at a fast pace due to population ageing. At the same time, a substantial share of young Italians is not in work or training or emigrate. Building on ongoing reforms, investing in their skills and improving their prospects would help to mitigate the shrinking workforce through higher employment and productivity. Further improving outcomes in the education system through school and university reforms and strengthening school-to-work transitions would help. Permanently reducing labour taxes for those joining the labour market, reducing burdensome employment legislation to encourage permanent contracts and strengthening the public employment services would help more young people find good quality jobs.*

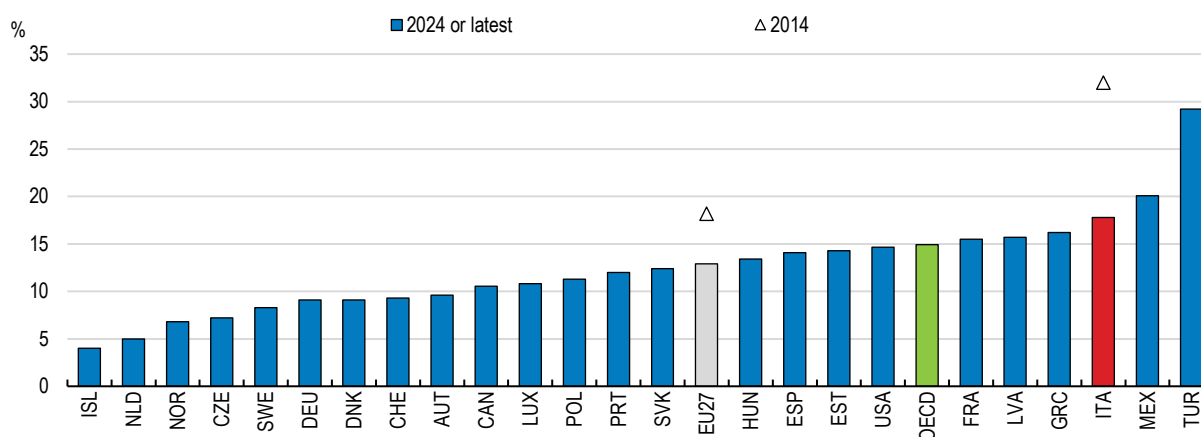
## 2.1. Amid an ageing population, young people are an underused resource

Italy's labour force is shrinking due to population ageing, amplified by emigration. The number of working-age individuals is projected to drop by five million by 2040 compared to its level in 2025 in ISTAT's median demographic scenario and by more than one-third by 2060 (ISTAT, 2024<sup>[13]</sup>), a pace much faster than the OECD average. This will add to labour shortages and weigh on growth, productivity and the public finances.

While young workers are becoming an increasingly limited resource in Italy, their potential remains underused. School dropout rates have improved significantly over the past decade, from 15% in 2014 to 9.3% in 2024, and tertiary education graduation rates risen, but these rates still lag other OECD countries. In 2025 over 15% of youths aged between 15 and 29 were not in employment, education or training (NEET), 11 percentage points lower than a decade earlier but still one of the highest rates across the OECD. Among those aged 20 to 24 years, an age when young individuals have completed their education and start entering the labour market, the share who have dropped out of employment or education increases to one-in-five, the third highest across the OECD countries with available data (Figure 2.1). The share of NEET is very high even among recent graduates of vocational upper secondary and post-secondary schools, at 22.5% compared to an average of 13.8% across the EU. This weighs on today's labour market and economy, contributes to intergenerational inequality and weakens social cohesion. In the longer run, the more time an individual spends out of employment or education, the worse their prospects of future employment, skills and earnings. NEET individuals are at greater risk of economic vulnerability, social exclusion and marginalisation and in the longer run are more exposed to mental and physical health risks (Stea et al., 2024<sup>[1]</sup>).

**Figure 2.1. The share of youth not in employment, education or training remains high**

Share of individuals not in employment, education or training (NEET), age group 20-24, %



Source: OECD, Distribution of young adults' education and work status, for a given level of educational attainment, age group and gender; and Eurostat. For USA, data refers to 2023.

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Additionally, the growing share of educated young people leaving Italy in search of better opportunities abroad is a huge loss of talent (Banca d'Italia, 2025<sup>[17]</sup>). In 2024, the migration rate reached the highest levels in 25 years, increasing by 36.5% compared with a year earlier, although the measured increase partly reflects stricter rules introduced in 2024 for Italians leaving abroad to register their departure. Between 2011 and 2024, a total of around 6% of the population aged between 18 and 34 years left Italy. Among young people leaving the country, half have a college degree, compared to only a third just a decade ago and well above the average qualification level of other young Italians, a phenomenon sometimes referred to as a brain drain. This exodus is only in part compensated by immigration. While the share of immigrants with a tertiary education degree has been steadily growing from a very low level, many migrant workers are overqualified for the occupation they take up (see Chapter 4).

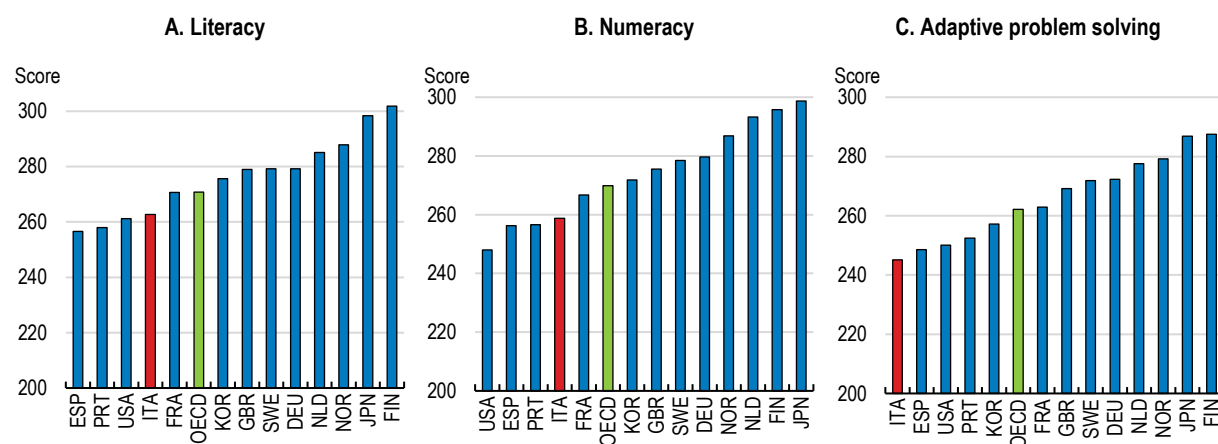
There is room to improve the engagement of Italian youth in the labour market and reduce their incentives to emigrate. Section 2.2 assesses the scope to further improve education outcomes and the transition from school to work. Section 2.3 discusses labour market policies to create better career opportunities for young workers. Other measures to mitigate the declining labour force by raising the employment of older people, women and immigrants are discussed in Chapter 1.

## 2.2. Improving education and the transition into work

The high NEET rate reflects, in part, challenges in the school and tertiary education systems and a complicated transition from school to work. While education has a broader social role, providing young people with job-relevant skills is very important and has been the focus of various recent policy interventions. School dropout rates have significantly improved, but there is great potential to improve young people’s transition from school to work, the take-up and completion of tertiary education and engagement in labour markets. Many young Italians leave the education system with relatively limited job-relevant skills. In 2024, the share of tertiary educated among 25–34-year-olds, at 30%, and among 25-64-year-olds, at 21.6%, was among the lowest across OECD countries, despite having nearly doubled since 2004 (OECD Adults' educational attainment distribution, by age group and gender). At age 15, students’ OECD PISA scores in maths and science are around the OECD average but, as in most other OECD countries, have declined in recent years. At ages 16-to-24, their skills, as measured by the OECD PIAAC Survey of Adult Skills, are below the OECD average, especially in problem solving (Figure 2.2). There are significant differences across students, reflecting an underlying lack of equality in the school system. In addition, significant territorial differences remain, with the share of pupils with competencies well below those expected after 8-years of school varying from below 10% in the northern regions of Lombardy and the Aosta Valley to over 25% in Sicily, Calabria and Sardinia in the South (OECD, 2024<sup>[31]</sup>). The Agenda Sud initiative aims at reducing the learning gap and improving learning opportunities for students throughout the country by funding tutoring and educational programs in over 2 000 schools in the South. Improving skills formation would improve young people’s prospects in the labour market, especially if combined with measures to improve economic activity and labour productivity growth (see the discussion on skill shortages and slow productivity growth in Chapter 4). Enhanced targeted measures for NEETs, building on existing efforts, would further contribute to ensuring that more young people are in employment or training.

**Figure 2.2. Young adults’ skills lag the OECD average in all domains**

Mean performance of 16- to 24-year-olds in PIAAC 2022-23



Note: Subnational entities for GBR (England).

Source: OECD, PIAAC 2022-23 Database, [Table A.2.1](#).

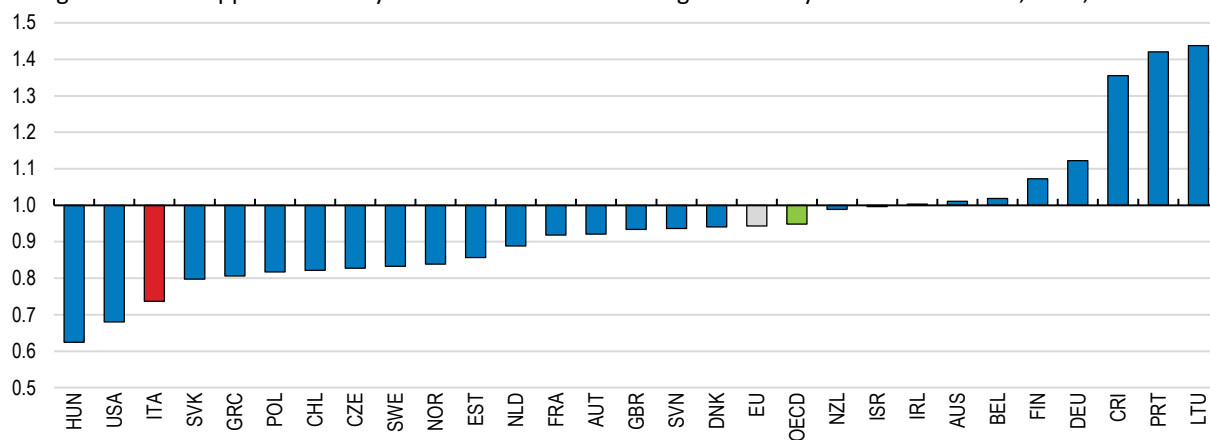
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### 2.2.1. Raising standards for all in the school system

The relatively weak outcomes of the school system, in terms of skills acquired and of dropout rates, can be addressed through stronger investment in the quality of teaching and by addressing structural issues. Italy is already taking action through a wide array of complementary reforms and interventions, although results may take time to materialise. Despite total spending per child being just below the OECD average, teachers' wages are low compared to the EU and OECD averages and to the wages of other tertiary-educated Italian workers (Figure 2.3) and the process to obtain a standard contract as teacher is cumbersome and lengthy, reducing schools' ability to hire and retain good candidates. The share of new teachers who report that teaching was their first career choice, 49%, is lower than the OECD average of 58% (OECD TALIS Database, 2024<sup>[4]</sup>). The teaching workforce is also relatively old, especially in southern regions where permanent teacher contracts are more frequent: more than half of the teachers were older than 50 in 2023, among the highest share across the OECD, although recent recruits have lowered this share from 70% a decade ago. This creates an opportunity to revitalise the workforce as half of the overall teaching workforce is approaching retirement age and will need to be renewed over the next decade, despite the projected decrease in the number of school students. The National Recovery and Resilience Programme (NRRP) includes policy actions and investments to strengthen the teacher workforce, including the hiring of over 58 000 new teachers through a competitive examination process. One-fifth of teachers were employed on contracts shorter than 12 months, compared to an average 12% across all countries participating in the OECD TALIS in 2024, and down from 25% in 2018 (resulting in Italy infringing the EU Council Directive 1999/70/EC). Ensuring that the new hires are integrated through long-term or permanent job contracts, as is already the case for the 70 000 hired through the NRRP, will help recruit and retain good teachers and ensure a lasting improvement in the quality of education. The implementation of the new teacher recruitment process introduced through the NRRP is expected to sustain progress in this direction.


**Figure 2.3. Teaching is not a well-paid occupation in Italy**

Average salaries of upper secondary teachers relative to earnings of tertiary-educated workers, ratio, 2022



Note: Data refer to ratio of salary, using annual average salaries (including bonuses and allowances) of teachers and school heads in general education public institutions relative to the earnings of workers with tertiary education. Data for Great Britain show England only and the Flemish Region for Belgium.

Source: (OECD, 2023<sup>[18]</sup>), Table D3.3. For more information see Education at a Glance 2023 Sources, Methodologies and Technical Notes.

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To strengthen quality education and rejuvenate the teaching workforce while containing expenditures, it will be key to link new hires' salaries to qualifications, while also acting on other dimensions to improve teachers' working conditions. The current salary scale is relatively compressed and mostly based on seniority rather than performance, offering limited incentives and often failing to retain younger and higher qualified teachers (OECD, 2025<sup>[19]</sup>). As older more senior teachers retire, resources will become available to offer new recruits more attractive contracts that better link salary with qualifications and performance. Improving the career

prospects, professional development, mobility and perceived role in society, which is generally worse than the OECD average (OECD TALIS Database, 2024<sup>[4]</sup>), would help attract and retain qualified teachers. Teachers' recognition in society and their working conditions can be improved through greater autonomy, more collaborative school environments, developing mentoring, and better engagement with broader society. Recent progress in these directions has been made with the 2025 reform of the evaluation protocol for school principals, which reinforced the focus on quantitatively assessed achievements (Ministero dell'Istruzione e del Merito, 2025<sup>[24]</sup>), and with the creation of Schools for Advanced Training in the Field of Education (SAFI) and of incentivised teacher training pathways, including through dedicated learning platform (*Scuola Futura*).

Italy is reforming school curricula in primary and secondary schools, which used to be generally focused on theoretical knowledge and centred around traditional structuring of instructional hours, rather than student-centred teaching strategies. The extent of this varies across schools, as they have autonomy in applying national guidelines to their own educational and instructional needs. Rethinking the curricula to improve students' engagement in their learning and demonstrate its career relevance may reduce school dropouts. To this end, Italy has recently adopted a strategy to enhance mathematical, scientific, technological and digital skills through innovative teaching methodologies through all levels of education (STEM Guidelines, 2023, School 4.0 and New Skills and Languages measures). While the use of AI in teaching (*Ministerial Decree 166/2025*) and upgrading classrooms and laboratories to next generation learning environments can support the personalisation of learning paths, careful monitoring and a continuous assessment of the risks and benefits of different approaches will be necessary. Building on recent reforms to technical education, strengthening learning environments that adapt to students' learning progress and engaging local businesses in work-based learning can support students' engagement. A shift towards developing technical skills, teamwork, problem-solving and workplace communication, alongside recruiting industry professionals to teach part-time courses can improve the job relevance of school curricula, especially but not exclusively in technical schools (OECD, 2024<sup>[3]</sup>). Job-search skills including training on how to prepare a curriculum vitae, how to perform well in job interviews and how job contracts work can help make students more employable and can be offered in schools, to complement the materials students can access online or at local employment services.

In 2023, Italy adopted a new framework to guide secondary school students in their choice of further education. The framework introduces dedicated orientation modules of at least 30 hours, to be documented in a digital portfolio (*E-portfolio*) and two new professional figures: the tutor teacher (*docente tutor*), who supports the development of personalised learning paths, and the mentor teacher (*docente orientatore*), who provides information and guidance on educational, vocational and employment opportunities. Beyond formal arrangements, continuing to strengthen guidance for career and educational choices in lower secondary schools can support students' engagement and their successful integration in society and the economy.

Improving the engagement and learning outcomes of students from disadvantaged socio-economic backgrounds and schools is a key challenge. As in other OECD countries, there is a strong link between social background and educational performance. In the Italian context, relatively high income inequality and differences between the North and the South are reflected in higher school dropout rates in the South. Early choice between general, technical or vocational educational paths, which in Italy happens at age 14, can further exacerbate social differences, as parents' educational attainment and socio-economic background are strong predictors of their children's educational choices, even in contexts, like Italy, where all students with an upper secondary degree can enrol in tertiary education (Égert, de la Maisonneuve and Turner, 2023<sup>[9]</sup>). Recent measures to increase flexibility in reorienting the educational pathways (*Law 164/2025*) or further postponing the choice between educational pathways to age 15 or 16, as it is in most OECD countries could help reduce inequalities without significant negative impacts on average performance.

A large body of empirical evidence suggests that early children education is important in determining children's learning outcomes and their engagement in school, especially for children with less educated parents. Compulsory education in Italy lasts 10 years, typically from age 6 to 16 (with eligibility for early enrolment at age five depending on the exact date of birth), slightly below the OECD average of 11 years. Increasing the take-up of early childhood education and care would help reduce inequalities in educational

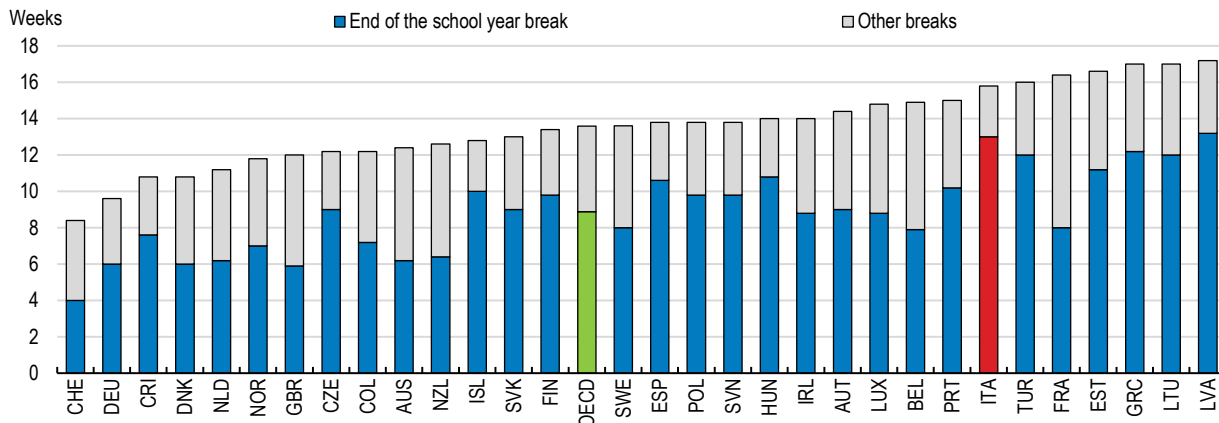
outcomes. Sustaining efforts to expand access to early childhood education under the NRRP and MTFSP will be key.

At 13 weeks, the average summer break in Italy is very long, leading to a drop in performance particularly for students from poorer backgrounds. Reducing the length of the summer break towards the OECD average of 9 weeks (Figure 2.4) would help improve continuity in education and reduce learning losses and keep young students engaged. If paired with measures to improve school cooling for the summer heat, these interventions may reduce the developmental and learning gaps experienced by children from disadvantaged households. Further strengthening the provision of extra-curricular activities, like sports, tutored learning and recreation, on-site after school hours and during summer breaks, would further help strengthening students' engagement and reduce inequalities. Preliminary evidence suggests a good impact on students' engagement and learning outcomes of various similar initiatives in both primary and secondary schools carried out on a small sample of school in 2022 (Azzolini et al., 2025<sup>[30]</sup>) and at larger scale, in part thanks to NRRP funding, between 2023 and 2025 (Piano Estate).

The high rate of school dropouts has historically contributed to the NEET rates, but significant progress has been made. While it remains just above the EU average (9.3% in 2024), the share of youth aged 18 to 24 abandoning school before completing upper secondary education decreased from 15% to 9.3% between 2014 and 2024, thanks to the strengthening of teacher training and school-work alternance and the investments in vocational training undertaken through *Agenda Nord*, *Agenda Sud* and the *Piano Nazionale Scuola e Competenze* (National Plan for Schools and Skills). Some of these measures have been temporarily financed by the NRRP and aimed at combining educational, social, and community-based interventions and promoting the role of schools as hubs within broader protective networks. They should be continued beyond the NRRP to avoid reversing the recent progress. Retaining and building on the policy measures that have been effective, such as the extension of school hours and the collaboration between schools and other local entities to raise parents' engagement in their children's education, would help to reduce the number of children leaving school without minimal qualifications. While educators can identify at-risk students, formal monitoring systems to activate providers of broader social support, like the newly established National Education Registry (ANIST), are expected to be more effective (Autorità garante per l'infanzia e l'adolescenza, 2022<sup>[15]</sup>). For example, within Latvia's '*Tackling early school leaving*' project, teachers assess the risk factors and create individual support plans for each student at the beginning of each school year (OECD, 2021<sup>[10]</sup>).


**Figure 2.4. The end-of-school-year break is very long**

School breaks, number of weeks, 2023



Note: Breaks exclude public/religious days, except if these days are included in longer breaks. Length of breaks may vary by region, by programme and/or by individual school.

Source: OECD Education at a Glance 2023.

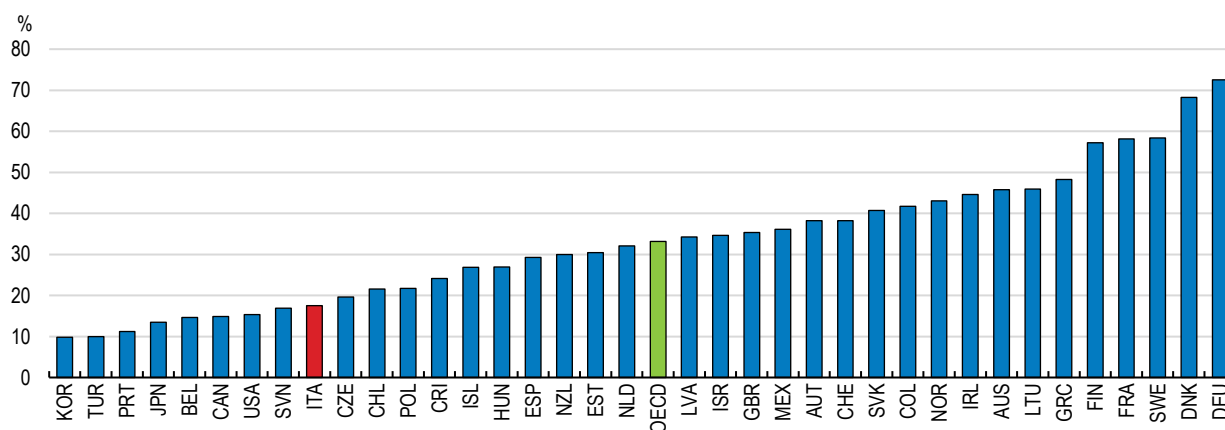
StatLink  <https://stat.link/pw0o2q>

## 2.2.2. Expanding the use of apprenticeships and curricular internships

There is a large gap between the education system and the world of work, which makes it harder for students to prepare and engage with the workforce or make appropriate career choices. Work experience, including internships and apprenticeships, can lead to better occupational outcomes. Across several OECD countries, like Germany, the US and UK, work experience has been linked to higher employment rates and to wage premia of up to 10% compared to individuals with similar academic achievements and socioeconomic background (OECD, 2025<sup>[7]</sup>). However, only 17.5% of Italian students in any school at the time of the 2022 OECD PISA Survey had completed an internship, compared to 33.2% on average across OECD countries (Mann, 2025<sup>[16]</sup>), with even lower shares among students in general education (Figure 2.5). Even in vocational and professional schools (FP), almost three-quarters of student completed no form of substantial work-based training. In fact, Italian upper secondary and post-secondary non-tertiary vocational schools are widely school-based programs, with relatively small work components (Eurostat, 2025<sup>[5]</sup>). In 2023, 30% of Italian students interviewed had never completed any job shadowing or work site visit, compared to an average of 22% across the OECD (PISA 2022 Dataset), but recent reforms aim to address this. To improve school-to-work transitions, Italy has introduced and repeatedly extended mandatory work-based learning in secondary schools (in the forms of *Alternanza Scuola Lavoro*, *Law No. 107/2015*, *PCTO Law in 2019*, and *Law Decree Formazione Scuola Lavoro in 2025*). In the current setting, depending on the school type, students must complete 90 to 210 hours over the final three years of upper secondary education. Extending the duration and ensuring the formative quality of curricular internships (*tirocini formativi*), which give students formative work experience and build their job skills, can help students transition into the labour force with better longer-term career prospects, in contrast with non-curricular internships or stages (*tirocini extracurriculari*), which are often work contracts with low pay rates, little employment protection and limited investment in the participants' skills. Job shadowing programs, where students visit workplaces for shorter periods, can further help youth explore careers. For instance, internships (*stage obligatoire en fin de seconde*) are mandatory in France for all tenth-grade students and some school degrees require additional paid internships of up to six months. Box 2.1 presents examples of successful interventions across several OECD countries. For example, Wales has favoured a targeted approach, offering work experience, strengthened by professional career advice, to students at high risk of becoming NEET, identified based on school attendance, attainment and behaviour (Mann and Diaz, 2025<sup>[6]</sup>).

**Figure 2.5. Very few students complete an internship**

Percentage of students at age 15 enrolled in general education who have completed an internship



Note: The chart is based on answers to the question ST330 "Have you done any of the following to find out about future study or types of work?".  
Source: OECD PISA 2022 Database.

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### Box 2.1. Some effective school-to-work transitions programs across the OECD

Many OECD countries have taken steps to help young people not in education employment or training to make the transition into work. The strategies generally involve the development of VET education and internships, with characteristics tailored to the country context.

- Denmark, Germany and Switzerland have large shares of students enrolled in dual VET upper-secondary schools, where they follow a mixed curriculum of school-based learning (30-40% of the total time) and paid firm-based apprenticeships (*Ausbildung*), regulated by formal employment contracts. Programmes are generally also open to foreigners with a residence permit. As students in dual VET programmes accumulate meaningful work experience, they tend to have better early employment outcomes than peers in school-based vocational tracks. In the case of Germany, by age 23-25 the individuals who had completed an internship in their teenage years were 0.24 times less likely to be NEET, reported higher job satisfaction and up to 10% higher earnings.
- High-quality career guidance can support smoother school-to-work transitions. Countries like Sweden, Denmark, and Finland have adopted the Youth Guarantee approach, which aims to offer school leavers a personalised action plan and pathway to apprenticeships, subsidised job or continued education. These programs typically involve the collaboration of municipalities, schools, public employment services, and social services.
- In 2022, Wales launched the ‘Tailored Work Experience’ programme for students aged 14 to 16 facing a heightened risk of becoming NEET, identified through low attendance, low attainment or challenging behaviour in the classroom. Within the programme, students engage in dual learning, with an alternance of theoretical learning and firm-based apprenticeships and receive one-on-one career guidance by professional advisers.

### 2.2.3. Improving the job-relevance of tertiary education

Higher tertiary graduation rates, especially in fields that are in high demand by employers, would help young people get better quality jobs and support innovation and productivity. Despite a significant increase, participation in higher education, especially in science, technology, engineering and mathematics (STEM) fields (Figure 2.7), is still low in Italy: in 2023 only 30.6% of individuals in the age group 25 to 34 had completed a tertiary degree, the third lowest value across the OECD and well below the OECD average of 47.6%. While Italy has several leading universities, the sector is generally underfunded, with poor infrastructure and conditions for academics and rigid procedures, although recent efforts are trying to raise performance and financial support for students. Many universities are not selective and there is a bias towards studying arts and humanities rather than STEM subjects. Effective time to complete the studies is typically long and there is a high rate of non-completion of degrees. In 2023, only 37% of the students enrolled in a bachelor’s degree had completed their studies within the theoretical duration of their programme, compared to an average of 43% in the OECD and 44% in the EU area (OECD, 2025<sub>[19]</sub>). While in the short run selection mechanisms, such as entry-tests could impact the university enrolment rate, they may in the longer run support the quality of the system, help contain drop-out and late completion rates, and improve the employability of graduates.

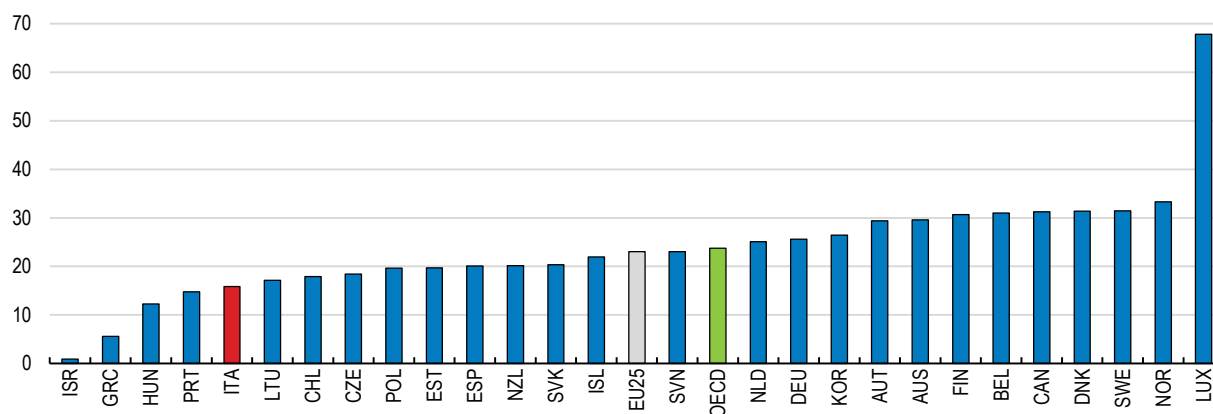
The low shares of tertiary graduates are linked to low average returns to tertiary education compared to high costs faced by students, in terms of living costs and of foregone income from working. Among 25- to 29-year-olds the gains associated with having a tertiary degree are significantly lower in Italy than the average of EU countries, both in terms of higher employment rates and higher wages. In 2022/2023, for example, bachelor’s degree graduates aged 25- to 34-years enjoyed a wage premium of around 45% relative to the earnings of workers who had completed less than upper secondary education in Italy, compared to the OECD average of 72% (OECD Education at a Glance data). While this is also linked to issues in the labour markets and to slow productivity growth, improving the job-relevance of tertiary education can improve its returns for graduates

and society. The poor availability of low-cost housing for students and early-career workers makes it harder for people to enrol in tertiary education or move to areas offering better study and work opportunities. Improving the funding of the existing system with means-tested subsidies for students from poorer backgrounds and expanding the availability of publicly or privately managed student housing, including by easing the procedures to obtain building permits for these developments in large cities, would help support higher enrolment in tertiary education. While progress has been achieved through the NRRP funds, the gap between student housing supply and demand remains substantial.

The low labour market returns to tertiary education are in part due to Italy having one of the highest mismatch rates across the OECD between the skills demanded by firms and the fields of study chosen by graduates, with many people ending up in jobs for which they are not well-suited (OECD, 2024<sup>[31]</sup>). Mismatches lead to over-qualification, underemployment and longer transitions from education to work as young people wait to find an appropriate position and risk being discouraged. This partly reflects imbalances between supply of students and demand by firms: very few students enrol in mathematics, statistics, IT and engineering, all fields in very high demand. Survey evidence suggests that high school graduates tend to choose their field of university studies based on personal considerations other than career prospects, often reflecting gender stereotypes or even their family's socio-economic status, with a risk of reinforcing inequality (Anelli and Peri, 2013<sup>[29]</sup>; Bleemer and Quincy, 2025<sup>[28]</sup>).

### Figure 2.6. University funding is lower than in most other OECD countries

Total expenditure per full-time equivalent student in bachelor's, master's and doctoral or equivalent, public institutions, 2022, thousands equivalent USD, PPP



Source: OECD Education at a Glance 2025 database.

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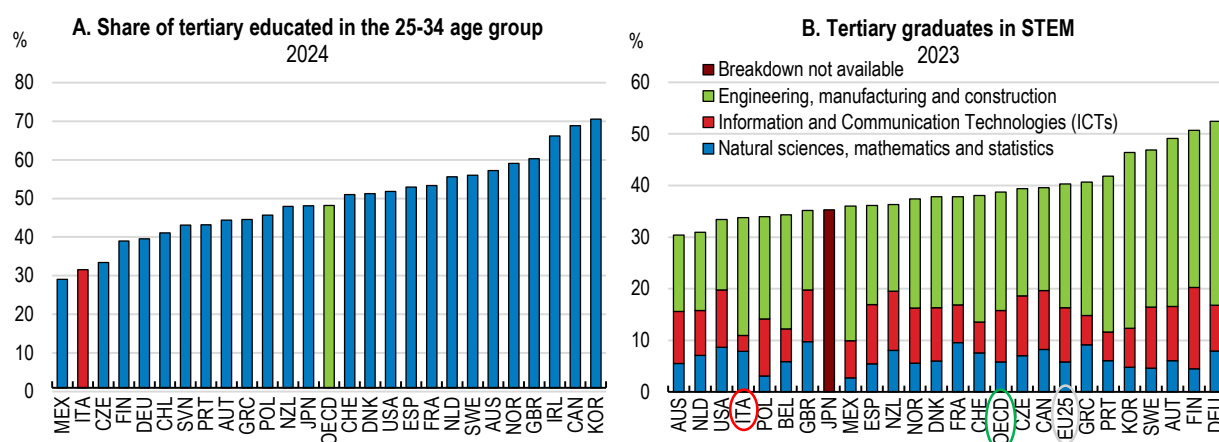
The platforms launched by the Ministry of Education and Merit (*Unica*) and jointly by Unioncamere, INAPP, *AlmaLaurea* and the OECD (*Competenze e Lavoro*) can help students make better-informed choices by offering accessible and up-to-date information on firms' demand for skills and qualifications, and on the alternative educational paths to secure such skills. Partnerships and collaborations between universities and enterprises and applied-research doctorates (*dottorati di interesse nazionale, dottorati innovativi*) can help align education with skill demand. However, deeper changes are needed to address imbalances in field choices, reduce skill mismatch, improve the university-to-work transitions and strengthen the private and public returns to tertiary education. This could be achieved through schemes to reward universities' job placement effectiveness or to adjust enrolment based on labour demand, while monitoring and maintaining the quality of teaching. For instance, many OECD countries have adopted funding mechanisms and enrolment controls to steer university students toward fields with stronger or emerging demand. Examples of funding mechanisms include direct grants, housing subsidies or scholarships for STEM students (a measure also adopted in Italy) and setting department funding loosely based on job placement and academic performance. In general, the public funding of tertiary education in Italy is lower than the OECD average (Figure 2.6). To improve university

funding, universities in about two thirds of OECD countries charge foreign students higher tuition fees than national students, without significant detrimental effect on international enrolment (OECD, 2025<sup>[19]</sup>). Adopting a similar approach could be an option, with due attention to maintaining the quality standards of education.

Since 2022, in the context of the NRRP and the Industry 4.0 program, Italy introduced 147 *Istituti Tecnologici Superiori* (ITS Academies), which are vocational tertiary education institutes. ITS academies are co-founded by the state and regional governments and can access European funding or accept private donations for laboratories, materials and scholarships. Within the context of the NRRP, their expansion was identified as a strategic objective. They offer two- and three-year post-diploma courses to develop technological skills through lectures and internships in collaboration with businesses, research centres and universities. This is a welcome development. Preliminary data from 2024 suggest that 84% of the participating students found employment within a year of completing the courses, yet the take-up has historically been very low, especially among young women, partly due to the scarce availability in many Central and Southern regions, and dropout rates in certain regions have been high. Vocational tertiary education remains relatively less common in Italy than in countries like France, Germany, Spain and Switzerland, where it accounts for over 30% of all tertiary education. The reform of technical institutes, which introduced the 4+2 pathway, aims to increase the take up of vocational tertiary education by strengthening its continuity with upper secondary education. Preliminary data suggest that from 2023 to 2025, the number of ITS programs and their take up cross the territory have increased significantly (from 450 to 947 courses and from 11,834 to 22,000 first-year students). Ensuring the stable availability of resources through a multi-year programming consistent with the training offer and further expanding the system of ITS Academies across the national territory would help maintain the progress achieved. Further strengthening the recognition of university formative credits (CFU) for ITS graduates who intend to continue their studies and obtain an additional tertiary degree would help to train people with advanced skills that match labour market needs. This will require close cooperation between the three ministries of Education, University and Research and Enterprises and Made in Italy, and with the regional governments.

Work experience completed in the early stages of upper secondary and tertiary education can help students identify the skills they should strengthen, in a country where qualifications and grades are not a good indicator of students' actual skills (OECD, 2017<sup>[25]</sup>). Closer cooperation between schools, universities and businesses could improve the skill-signalling power of educational qualifications, as already happens for universities characterised by particularly good professional and technical training curricula. The ongoing shift away from the traditional degree-based hiring to micro-credentials, agile occupational and training standards and a skill-first approach, based on specific skills and experience rather than qualification and degrees, should help better match people with jobs (OECD, 2024<sup>[1]</sup>).

**Figure 2.7. The share of new tertiary graduates is low, especially in STEM**



Note: Tertiary level graduates are individuals who obtained a degree at Levels 5 to 8 of the International Standard Classification of Education (2011) (i.e. bachelor, master, doctoral or equivalent qualifications as well as short-cycle tertiary courses) in 2023.

Source: OECD Education at a Glance [Database](#).

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### 2.2.4. Re-engaging those not in work, employment or training

Thanks to past policy initiatives, the NEET rate has fallen substantially over time. While some NEET have high educational attainment and relatively affluent economic backgrounds and live in highly developed Northern regions, the share of NEET is markedly higher among youth with low and middle education and those in the South or Islands (Figure 2.8). In the South and Islands, for example, over one-in-five young individuals is neither working nor studying. A key feature of the Italian system is a relatively underdeveloped social safety net, with young people relying on family support networks or informal work rather than engaging with public programmes for support that can entail training and work obligations.

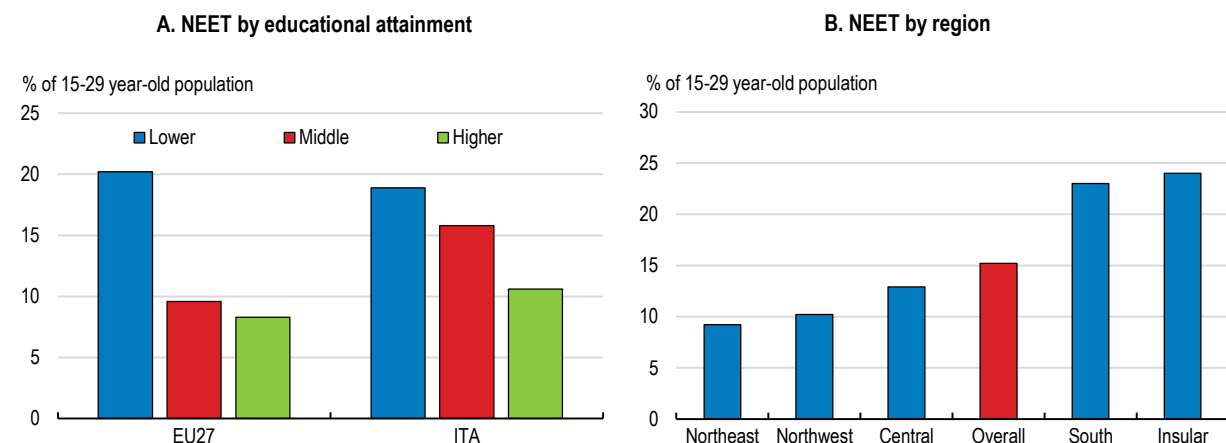
For young men, the main cause of becoming NEET is long-term unemployment, highlighting the need for training and career guidance programmes. For young women the leading reason for NEET status is inactivity due to family responsibilities, especially among foreign-born women, highlighting the need to strengthen family policies and access to childcare (Fondazione Gi Group, 2025<sup>[23]</sup>). Given the multi-faceted nature of the challenges faced by NEET individuals, a variety of institutions, including public employment centres, employers, local authorities, day-care centres, educational communities for minors, schools, urban civic networks, and sport and cultural centres can be activated. Such a multi-level approach, where the various stakeholders collaborate, can improve the chances to intercept and engage NEET youth and to best address their individual needs. The effectiveness and complementarity of different policies and initiatives can be improved through coordination and carefully monitoring and evaluation. In addition, national policies need to be integrated with place-based ones, as the incidence of NEET for both men and women is higher in the southern regions and in rural and suburban areas, where training opportunities and jobs are scarcer and gender norms stronger.

The main public offices to support Italian NEETs are the Public Employment Services (PES), and the Youth Offices. To facilitate young people's access to employment opportunities the Ministry of Labour and Social Affairs has recently launched an AI-powered platform (AppLI) offering career guidance, information on training and employment opportunities and practical tools. While such initiatives can certainly not substitute in-person services, they can integrate them and improve access, especially in remote areas. However, not all NEETs will reach out to or register with these offices and the platform, either because they cannot access them or are unaware of their existence or are uninterested in the services offered or not looking for a job or training (Rilevazione INAPP 2023). Differences in regional and local funding levels translate into gaps in access in several regions, not only in the South. Expanding state investments or the use of European funds for areas

with lacking service and high NEET rates could support access. Focal points or one-stop-shops, information stands and open days in schools and at public events, and the use of social and other media can help intercept and engage unregistered NEET individuals. Sweden and Bulgaria have successfully implemented projects to reach isolated and unengaged NEETs, many of whom had developed a distrust of government agencies, through the recruitment of young mediators or marketers with similar backgrounds who promoted and shared information about local public employment services at concerts, sport events, meeting points and schools and on social media (see (OECD, 2021<sup>[21]</sup>) for related policies across OECD member Countries).

**Figure 2.8. The risk of being not in work or training is greater among those with low education or those who live in the South and the Islands**

2024



Note: Youth not in employment, education or training (NEET) refers to the share of young people who are not engaged in any form of employment, formal education, or training activities.

Source: OECD and Eurostat.

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**Table 2.1. Past recommendations on the education system**

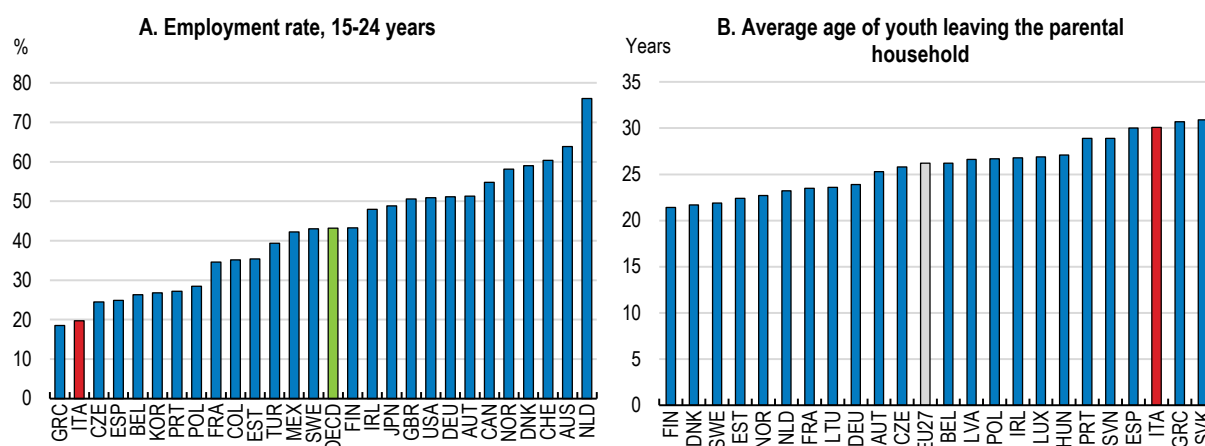
Past OECD Recommendations	Actions taken since 2024
Continue to expand technical tertiary schools (ITS Academy). Continue improving student orientation and aligning curricula with labour market needs.	Through the NRRP, Italy expanded funding and reformed the ITS Academies, which cover four main strategic areas: green transition, digital transition, Made in Italy and craftsmanship. At least 60% of the curricula must be taught by professionals, and 35% corresponds to in-company training. The new "Licei del made in Italy" aim to develop entrepreneurial skills. Take up so far has been limited.

### 2.3. Improving labour market conditions for young people in Italy

Despite recent improvements, the labour market conditions and the attractiveness of jobs for young people remain relatively weak in Italy. Young workers have been hit particularly hard by the stagnation of real wages, which on average remained below the 1990 level in 2025, reflecting stagnating labour productivity as well as inflation (Chapter 1). At the same time, the tax wedge on low-income workers, often new entrants to the labour market, is high, and many young people end up with temporary contracts or precarious or informal jobs. The low attractiveness of formal employment for lower skilled youth contributes to low youth employment rates and high NEET rates, despite the improvements observed over the past decade with the NEET rate declining by 12.7% between 2021 and 2025. At the same time, this leaves many young people at risk of poverty or dependent on their parents until their 30s (Figure 2.9) and encourages emigration.

**Figure 2.9. Many young Italians are not employed and live with their families**

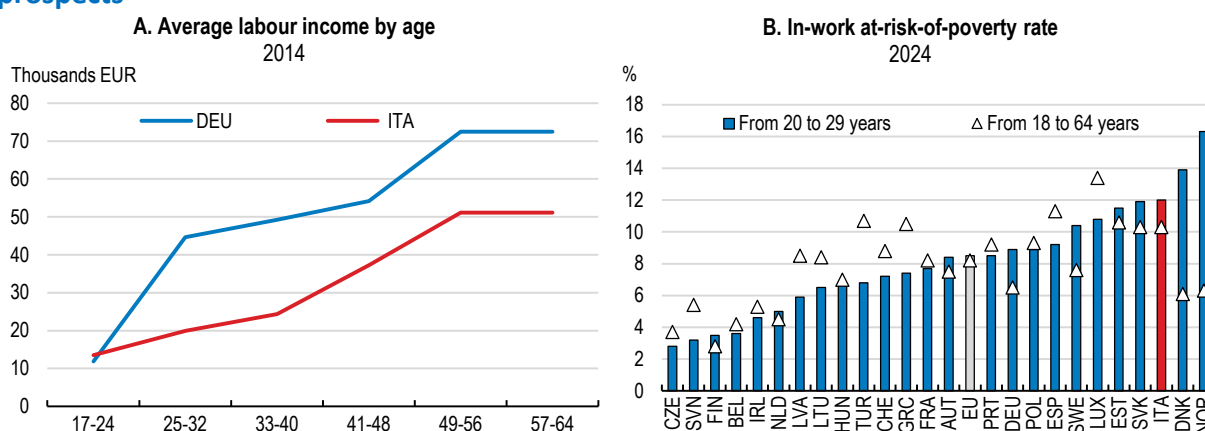
2024



Source: OECD Employment Statistics; and Eurostat (yth\_demo\_030).

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Italy lost over 400 000 youth aged between 18 and 34 years to emigration between 2012 and 2023, or 6% of the age group, many of whom appear unlikely to return to work in Italy. This reflects stagnating wages in Italy, growing intergenerational inequality and high shares of unemployment and precarious work contracts. Not only are wages generally low, they also tend to increase with tenure more than with performance or qualification and the increase happens relatively late in life. Compared to peers in Germany for example, workers in Italy on average face similar wages (around EUR 20 000 per year) at age 20, when first entering the workforce, but afterwards their wages remain flat, while those of their German peers more than double in the next ten years of work life (Figure 2.10). To reach the same average wage level of a German 30-year-old (around EUR 45 000 per year), an Italian worker on average has to wait till their late 40s (Grevembrock, Ludwig and Siassi, 2023<sup>[12]</sup>). This contributes to higher risks of poverty for youth relative to older generations (Figure 2.10, Panel B). In terms of foregone production and lost educational investments, the loss associated with brain drain has been estimated to be around 1% of GDP per year (Centro Studi Confindustria, 2017<sup>[2]</sup>). This outflow undermines the stock of human capital and accentuates the existing skill shortages, as nearly 60% of the 18- to 34-year-olds who emigrated to other EU countries took up jobs in occupations suffering large labour shortages in Italy, like technical professions and specialised workers.

**Figure 2.10. Flat lifetime earnings profiles and risk of poverty weigh on young workers' prospects**Source: (Grevembrock, Ludwig and Siassi, 2023<sup>[12]</sup>); and Eurostat in-work poverty dataset [ilc\_iw01].StatLink <https://stat.link/guxp0q>

### **2.3.1. Labour taxes fall heavily on young people starting their careers**

Labour income taxation and social security contributions make up a very high share of total labour costs in Italy, also for younger people starting their careers on relatively low wages. For instance, the tax wedge for single workers without children earning the average wage (47.1%) and for those earning 67% of the average wage (38.1%) are among the highest across the OECD (Chapter 1). This large gap between the cost of employing a worker and that worker's take-home pay contributes to low post-tax wages, reduces the attractiveness of working formally and can dampen labour demand. The relatively large size of the informal economy, estimated at about 10% of GDP, further contributes to the low attractiveness of formal employment when the tax wedge is high (tackling undeclared activity is discussed in Chapter 1).

A series of temporary bonuses and credits have been introduced to reduce this wedge and encourage employment of under-employed groups. The Bonus Giovani, introduced in 2024, offers a relief for employers' social contributions when hiring a person under 35 for their first permanent contract (substituting the former NEET23 scheme). The relief can be received for up to 24 months up to a maximum of EUR 500 per month, raised to EUR 600 in areas of high youth unemployment. The bonus requires an online application process and in 2024 only around 60% of new hirings of young workers benefitted from it, possibly due to difficulties in completing the application process within the allocated timeframe (Martino, 2025<sup>[11]</sup>). A careful evaluation exercise is needed to properly assess the overall effectiveness of this measure in supporting youth employment. The 2026 budget law introduced additional measures to reduce the tax burden on labour and attenuate the fiscal drag, including a reduced tax rate on the second tax bracket from 35% to 33% (see Chapter 1). While these measures reduce labour taxation, they only have a modest effect on the overall tax wedge and are not targeted to younger or lower skilled workers. Targeting the subsidies to lower-income individuals or those with longer spells of unemployment can improve their cost-effectiveness and help the most vulnerable young unemployed people into jobs. In the medium term, in light of the relative strong resilience of the labour market, measures to enhance productivity and reduce structural barriers to employment should be given priority over hiring subsidies and temporary tax reliefs. Temporary tax cuts, hiring incentives and bonuses to firms should be phased out and the focus should be on streamlining the tax system and permanently reducing the tax wedge (as set out in the MTFSP), especially on low paid employees, while increasing the tax burden on less distortive sources like property, business and inheritance taxes (Chapter 1).

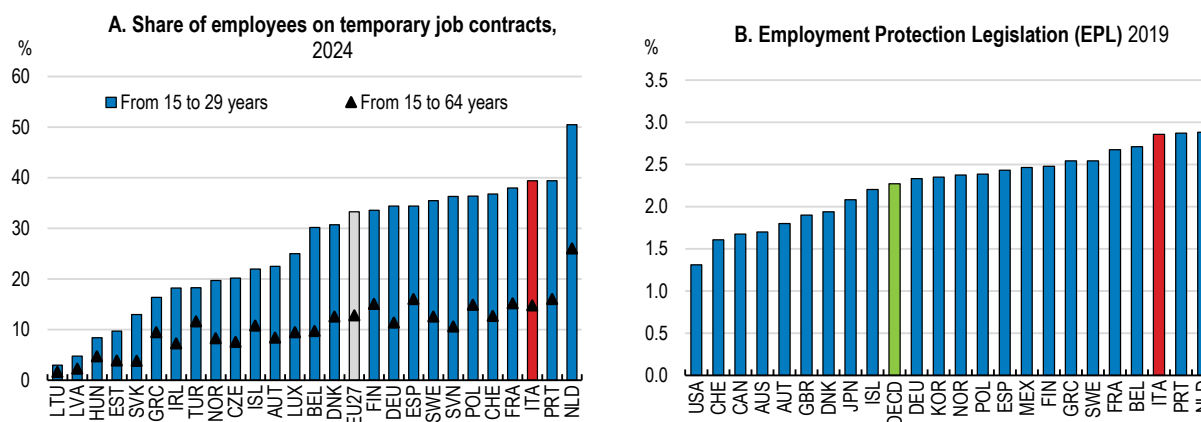
### **2.3.2. Job quality for young workers is low**

Contract instability, worktime inflexibility and the limited scope for career progression further contribute to making formal employment unappealing for young workers in Italy. While the overall share of temporary contracts in the workforce has recently fallen to its 15-year minimum, temporary contracts remain common among younger workers. Over 39% of workers in the age group 15-29 (and 53% of those in the age group 15-24, compared to 47% across the EU27) have a temporary job contract in Italy, compared to 33% across the EU, nearly three times the rate for older workers (Figure 2.11). Compared to other EU countries with high shares of temporary contracts, Italy has relatively high shares of involuntary temporary and part-time jobs and lower frequencies of transition to more stable forms of employment (Causa, Luu and Abendschein, 2021<sup>[32]</sup>), with many young workers stuck in a pattern of long-term precarious employment (ISTAT, 2024<sup>[33]</sup>). This creates unstable working relationships and makes it harder for young workers to acquire skills, not least as their employers have few incentives to invest in training. While improving economic conditions might help reduce the incidence of temporary job contracts, addressing the underlying structural issues would help prevent further increases in periods of lower labour demand.

While protecting workers' employment is important, excessively strict employment protection legislation on job contracts raises the costs and risks of hiring new workers and adds incentives to retain existing workers. Employment protection legislation in Italy is relatively strict. This discourages hiring workers on permanent contract, and contributes to an insider-outsider dynamic, disadvantaging younger new workers in favour of older more entrenched workers (Figure 2.11, Panel A). The procedures for severance are heavy, costs are high

and subject to uncertainty, and legal risks are significant. Despite a series of reforms aimed at increasing job flexibility (including the *Fornero Reform* in 2012, *Jobs Act* in 2016), in 2019 Italy still had one of the strongest employment protection legislations in the OECD (Figure 2.11, Panel B). Simplifying the severance arrangements for permanent contracts and reducing the gap in employment protection between permanent and temporary job contracts, for example by increasing the link between job tenure and employment protection, including severance pay, would help reduce the duality of the labour market. The Constitutional Court decisions through 2024 highlight the need to ensure that such reforms do not introduce discrimination and preferential treatment between workers and that they comply with both constitutional principles and the European Union Law and Social Charter. High uncertainty about the costs of dismissing workers can deter hiring. Excessive judicial discretion can lead to high transaction costs, delays and unpredictable outcomes. While the Constitution requires some discretion to remain in setting individual severance pay, reducing uncertainty regarding the costs of dismissing workers with permanent contracts could support employment and deter the use of temporary job contracts. One possibility would be to fix in law a narrow range of severance pay based on job tenure and, possibly, a small number of other criteria (such as the severity of violations which led to the worker's dismissal), to minimise uncertainty, while leaving some margin for judges to adjust the exact amount of compensation.

**Figure 2.11. Employment protection regulations are very restrictive in Italy, and many youths have temporary job contracts**



Source: Eurostat; and [OECD Data Explorer • Strictness of employment protection](#)

StatLink <https://stat.link/f1w0cy>

Alternatively, the government could extend the support to temporary workers or further constrain the use of temporary job contracts. Switzerland has for example introduced several guarantees and supports for temporary workers, like a dedicated training fund, a dedicated pension system and an effective job placement system. Other countries, like Spain, have restricted the use of temporary contracts by limiting how often they can be renewed or what share of an employer's workforce in a given sector they can cover (see Box 2.2), though overall employment effects must be carefully evaluated (OECD, 2025<sub>[20]</sub>). A more fundamental reform to support the re-employability of dismissed young workers would be to strengthen the conditionality of time-limited unemployment insurance (NASPI) on participation in activation measures. Countries like Belgium, Denmark, Luxembourg, and Sweden for example offer time-limited unemployment insurance to all youth, irrespective of their employment histories.

### Box 2.2. Spain's 2021 reform of employment protection

Spain's 2021 labour market reform significantly reduced contractual duality by sharply restricting the use of temporary contracts and promoting open ended forms. Prior to the 2021 reform, Spain had one of the highest incidences of temporary work across the OECD, while employment protection on open ended

contracts was very strong. The 2021 reform (RDL 32/2021) was the result of an agreement among social partners and its approval was one of the milestones of the Spanish NRRP to unlock one of the tranches of Next Generation EU funds disbursed in 2022.

The reform lowered dismissal costs for permanent contracts, strengthened the applicability of collective bargaining rules, and restricted the use of temporary contracts by narrowing the permissible grounds for their use, reducing their maximum duration and penalising successive renewals. The reform favoured the use of fixed-discontinuous job contracts, which grant the same protection as permanent contracts and hence provide more stability to workers, over temporary ones. The loss of flexibility due to the restrictions on the use of temporary contracts was compensated by expanded furlough and job retention schemes (ERTE and RED), which support employment through cuts in social security contributions for employers and special benefits paid to employees. The RED mechanism additionally allows firms to cut working hours in response to cyclical downturns.

### Impacts of the reform

Employment, especially in permanent contracts, increased sharply in Spain in the years following the reform, however this also coincided with a period of economic recovery. Within a year of the reform, the number of temporary contracts fell by about 30%, and the incidence of temporary employment dropped by nearly 10 percentage points, with especially large declines (over 20 percentage points) among young workers. Preliminary studies find strong increases in open ended and fixed discontinuous contracts in segments previously relying heavily on very short-fixed term hiring, suggesting that many temporary contracts were converted to open-ended. While overall turnover has declined, the impact of the reform on employment remains unclear due to the contemporaneous rise in economic activity.

Source: (OECD, 2025<sup>[20]</sup>)

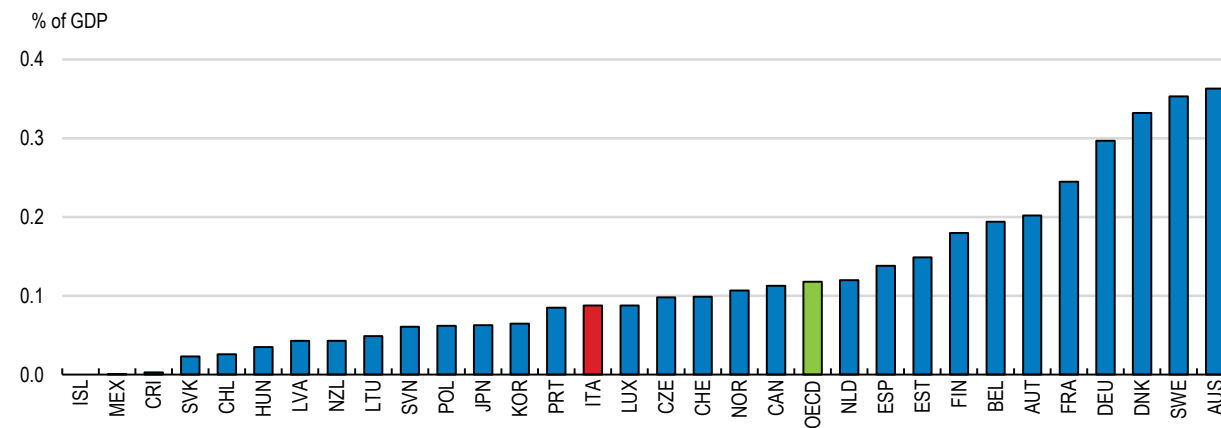
Italy has taken several steps to encourage businesses to offer permanent job contracts to young workers, and particularly young women, with mixed results. A number of incentives have come into force since 2021 (among others the *Programma Nazionale Giovani, Donne, e Lavoro*, from 2021 until 2027), for a total cost of around EUR 1.6 billion. Preliminary evidence suggests that such incentives mostly benefitted individuals who were already relatively strongly placed in the labour market, such as males with higher educational attainment, highlighting the importance of better targeting such incentives towards weaker workers (ANPAL, 2023<sup>[14]</sup>). The subsequent *Bonus Giovani* (youth bonus) and *Bonus Donne* (women bonus), launched in 2024, were associated with increased permanent youth employment, but the cost-effectiveness and causal impact of the intervention should be carefully assessed before extending these programmes.

Public employment services (PES) can play a key role ensuring that workers find the right jobs and acquire the skills and experience needed to secure them. The PES system has traditionally played a modest role in Italy, where jobs are often filled through informal networks and the limited social system reduces the scope to pursue an activation approach. In 2023, only 2.6% of jobseekers were helped by public employment services to find their job (compared to an average of 6.4% across the EU, based on EU-LFS data). Differences in regional and local funding to PES result in gaps in access. Improving the presence of public employment services through the territory, including by developing local public-private partnerships and scaling up the share of EU and state funds allocate to PES in struggling areas, would help improve access for job seekers and employed workers interested in switching jobs. This can be achieved by further developing the partnership with private providers or by increasing public funding to the service, which is one of the lowest across the OECD as a share of GDP (Figure 2.1). PES have undergone a series of reforms to improve their support to workers through career guidance, job placement and training. Within the NRRP framework, Italy has expanded the availability of PES across its territory by contracting-out employment services, including in southern regions, where access is lacking. This approach allows jobseekers to select their preferred provider and should allow them to obtain tailored support. Accelerating the accreditation of providers will help reduce fragmentation and improve access. In the case of Spain, the effectiveness of the reform of the PES system was enhanced by the

introduction of a digital career counselling tool (Send@) and an accountability framework to monitor and share good-practices and foster cooperation between regional PES.

**Figure 2.12. The funding for public employment services is low**

Public employment services and administration, 2023



Source: OECD Labour market policy (LMP) database.

StatLink  <https://stat.link/ae71dn>

Since 2014, Italy participates in the Youth Guarantee (YG) scheme, funded by the European Union and administered by regional authorities and the Ministries of Labour and Social Affairs, of Education and of University and Research. The scheme offers short vocational training courses (50 hours on average), career orientation, apprenticeships and internships for youth aged 15 to 29. It was then replaced by the analogous Employability Guarantee programme (GOL), which targeted all registered unemployed, and not just youth and was discontinued in 2025. In September 2025, women represented the majority of GOL beneficiaries. The YG/GOL programme also provided access to paid traineeships (*tirocini*) and internships. Registration in the YG scheme was required to benefit from some of Italy's temporary hiring incentive schemes, for example the *Incentivo NEET 2023*, which, for 12 months, covered up to 60% of the monthly gross wages for NEETs younger than 30 hired in 2023. Take-up of the YG programme and engagement among Italian youth remain lower than in other participating EU countries. For example, in 2024, about 25% of NEET individuals were registered in the YG scheme, compared to 40% across the EU. In Italy, young individuals need to express their interest through an online portal or by contacting the regional PES, and applications are then screened before formal registration. In most countries, registration is automatic when a young person registers as unemployed, and participants are required to attend regular interviews or regularly confirm that they remain unemployed. Simplifying the registration process and strengthening the requirement of participation in training and interviews would help engage more NEETs in training and internships.

### *Supporting mobility between jobs and regions*

Better job-to-job mobility can allow workers to relocate to better paid jobs, improving their earnings and careers and supporting productivity growth. The impact on earnings would be particularly significant for younger workers: not only are young workers most likely to change jobs based on wage considerations, but also the wage increases they gain through switching employers account for a significant share of their early-career wage growth (OECD, 2025<sub>[20]</sub>). Continuing to strengthen public job-search assistance and career guidance open to all individuals, irrespective of their working status, would help workers stuck in low-quality or low-pay jobs switch to better jobs.

While place-based interventions are needed to improve conditions and working opportunities in vulnerable territories, reducing the barriers to geographical mobility, such as low housing affordability, would enhance job-to-job mobility and the employment opportunities of new entrants in the labour market. This is

particularly important due to the strong regional differences in employment opportunities and costs of living. High rates of home ownership (among older generations), strong renter protection and low taxation of real estate (discussed in Chapter 1) limit housing options for young people. Accessing housing in high job opportunity areas is particularly difficult for new entrants to the job market and those with temporary job contracts, who are less able to rent a dwelling or obtain a mortgage. The severity of the issue is underlined by the fact that youth on average live with their parents until age 30, the second highest across the OECD and well above the EU average of 26.6 years (OECD, 2023<sup>[22]</sup>). Meanwhile, up to 30% of apartments are unoccupied (ISTAT *Censimento Permanente delle Abitazioni*, 2021). The fact that wages in Italy tend to be lower for new entrants and increase later in life adds to the issue. A recent study estimates that differences in rental market efficiency, captured by price-rent ratios, and in the age profile of wage income can explain a large share of the gap in home ownership between Italian and German youth (Grevenbrock, Ludwig and Siassi, 2023<sup>[12]</sup>). Policies aimed at reducing barriers to geographic mobility, including a reconsideration of the regulations and fiscal regime on real estate, short-term rentals and vacant flats, might help alleviate the geographical mismatch between workers and jobs. Expanding the stock of social rental housing, which between 2010 and 2022 declined from 4.2% of the total number of dwellings to 2.4%, compared to 7.1% across the OECD, would support these efforts. While exchange programmes for students between universities in the North and South (*Erasmus Italiano*) can support mobility, their effectiveness should be carefully assessed.

Young workers' ability to secure housing is significantly affected by their access to mortgages. While in late 2025 the average interest rate on mortgages in Italy, at 3.19%, was the lowest across the EU, new entrants into the labour market can still face difficulties and higher costs of borrowing for house purchases, if they have temporary job contracts and lack collateral. Recent schemes to support young homeowners include the *Bonus Prima Casa*, which grants a reduction of administrative registration fees, cadastre contributions and income tax (IRPEF). Linking the eligibility or at least the generosity of the Bonus to the recipient's overall income level (ISEE index) would help improve its progressivity and cost-effectiveness. In addition, the *Consap Fund*, introduced in 2013, grants buyers younger than 36 years a state guarantee of up to 80% of the principal amount on the mortgage, which facilitates access to credit and reduces the costs and initial downpayments. The guarantee is available for individuals younger than 36, large families, young couples or single parents with income and wealth levels below given thresholds (annual ISEE index below EUR 40,000). Through 2024, about one-in-five new mortgages benefitted from this public guarantee scheme, and the budget allocated to the fund for 2026 and 2027 is 270 million Euros in each year. When coupled with efforts to avoid the misuse of the acquired housing unit for short-term rental, this measure can support access to housing and improve geographical mobility.

**Table 2.2. Past recommendations on labour markets**

Past OECD recommendations	Actions taken since 2024
Reduce legal uncertainty for employers by linking the range of compensation for unfair dismissals to length of service.	In 2024, the constitutional Court reduced the scope of application of the rules linking the range of compensation for unfair dismissals to length of service. A Referendum held in 2025 to abolish the 2015 Jobs Act reform failed to meet the quorum.
Make the withdrawal of benefits under the ADI and SFL programmes more gradual in case of taking up employment.	No change. Tax cuts equivalent to the social contributions paid by the employer were offered in 2025 to firms hiring individuals receiving ADI or SFL.
Significantly expand coverage of early childhood education. Incentivise paternity leave by introducing a “father quota” or increasing the number of “bonus months” for leave taken by fathers.	Within the NRRP, Italy earmarked 3,78 billion EUR to the creation of 150.480 new spots for children in kindergarten and pre-kindergarten institutes (respectively age 3-6 and 0-3).

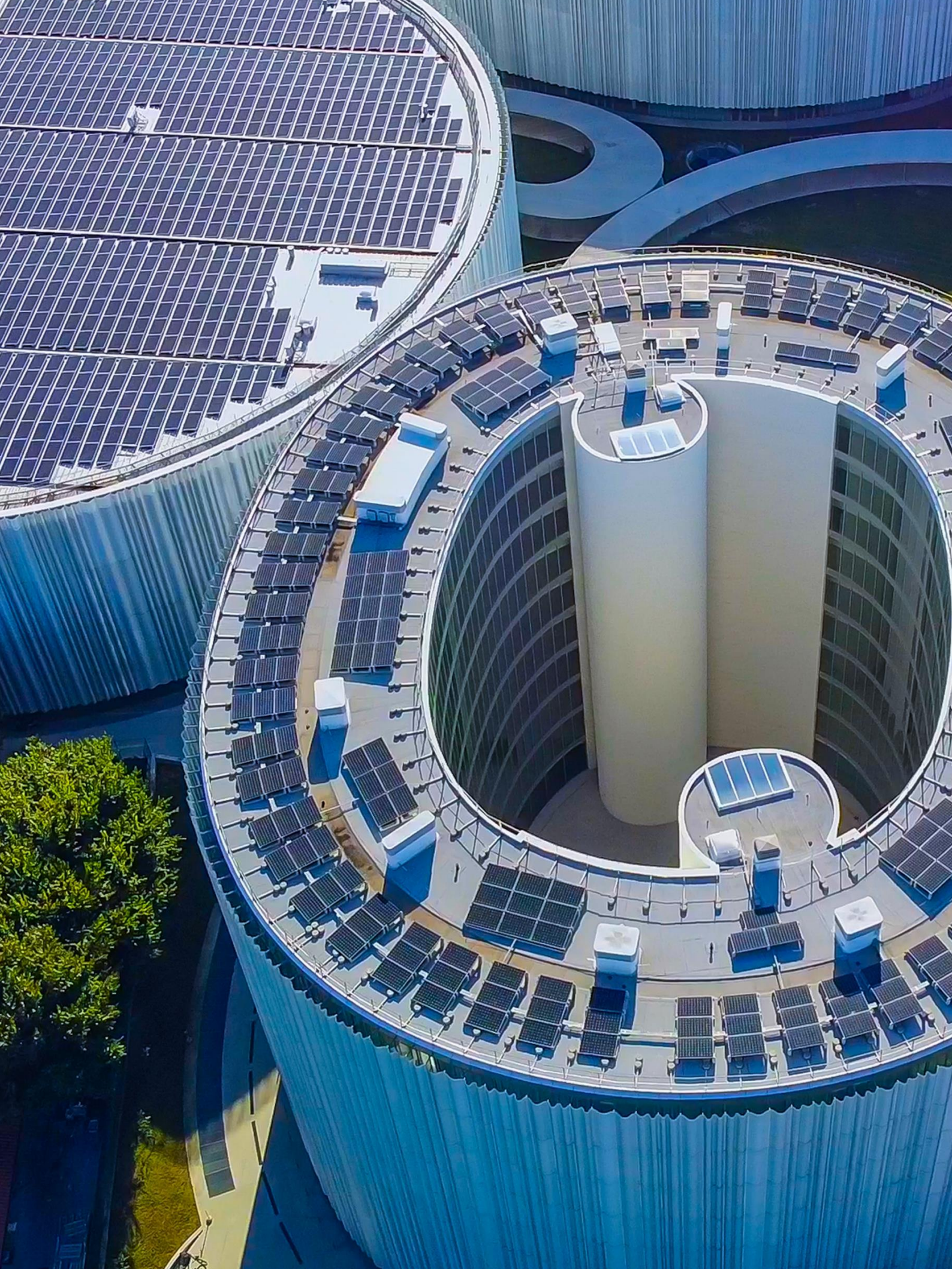
**Table 2.3. Policy recommendations**

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
<b>Improving education and the school-to-work transitions</b>	
Teachers’ salaries are low compared to the OECD average. NRRP reforms are addressing the lengthy hiring process. Pay rates have been increased by a new collective agreement but pay scales are compressed. Many new teachers work on temporary jobs contracts, despite progress made through the NRRP.	Continue improving the hiring process and attracting well-qualified new entrant teachers with a more performance-focused contractual framework and improved career prospects.
Recent reforms have increased enrolment in early education but it remains low, and long school summer breaks exacerbate inequalities.	Continue to increase the availability and quality of early years education. Expand summer activities in schools, ranging from supervised individual study to mentoring, career guidance and recreational activities.
Despite significant reductions in school dropouts and improvements in employment rates, Italy has a large share of individuals who are not in school, training or employment (NEET).	Further develop formal monitoring systems to identify youth with attendance, behavioural and achievement weaknesses and activate broader social support to prevent school dropout.
University funding as a percentage of GDP is low. The mismatch rate between the skills demand of firms and the fields of study chosen by university graduates remains high.	Increase university funding and strengthen the link between the funding amounts to individual universities and their job placement effectiveness, adjusted for local labour market tightness. Continue investing in platforms to inform students about the longer-term career and earnings implications of the choice of secondary and tertiary education field.
Many high-school graduates struggle to find a job. Recent reforms aim at better aligning education pathways with labour market needs while maintaining strong academic skills.	<b>Continue to expand the network of ITS technical tertiary schools. Further enhance work-based learning and mandatory work experience or high-quality apprenticeships in vocational and general education.</b>
<b>Improving labour market conditions for young people</b>	
Low net wages negatively affect the returns to work for many entrants to the labour market. While recent reforms have made inroads, the labour tax wedge and the share of informal workers remain high in Italy.	<b>Replace existing temporary credits and bonuses with a permanent reduction in the tax and social contribution wedge at lower wage rates.</b>
A high share of young workers has short-term job contracts due to restrictive employment protection and labour laws on permanent hires. Uncertainty about the costs of dismissing workers can deter hiring.	<b>Reform employment protection legislation to further reduce uncertainty regarding the costs of dismissal.</b>
Getting young people who are out of employment or education back into work is challenging given the range of needs. Substantial policy efforts have been deployed, but gaps remain.	Continue to increase the presence of public employment services in the South and rural areas and improve their outreach to NEETs by collaborating with a wider range of local stakeholders.

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# 3

## Securing sustainable energy and competitive electricity supplies

Tim BULMAN

*High energy prices, high dependence on energy imports, geopolitical uncertainty and the need to reduce emissions make improving energy security and electricity supply crucial to supporting activity, investment and real incomes in Italy in the long term. The electrification of carbon-intensive activities, especially transport and heating, will be key to reducing fossil fuel dependence and emissions, but will place new pressures on the electricity system. Despite earlier progress and Italy's great natural potential, new renewable electricity generation lags these needs and national goals. Streamlining permitting for renewables, transmission and storage would help achieve the transition to low-carbon electricity. Electricity pricing is being reformed to better reflect supply and demand conditions. Public interventions to support the electricity transition need to provide long-term stability for private investors but avoid distorting incentives and excessively transferring costs to the public budget.*

### 3.1. More secure, sustainable and competitive energy supply is needed to support growth and address climate change goals

Securing sustainable and competitive energy supply is needed to support growth, the competitiveness of Italian firms, the living standards and availability of affordable energy for households and to meet climate change mitigation objectives in the long term. Italy remains more reliant on fossil fuel – notably natural gas – than many EU and OECD countries, with fossil fuels accounting for more than half of electricity generation, as well as being used heavily in transportation, industry and for home heating (Figure 3.1, Panels A and B). The 2026 Middle East conflict underscores the importance for Italy of reducing its exposure to global energy supply disruptions and volatile prices. Italy’s national energy strategy provides for renewable energies becoming much more important in generating electricity (Figure 3.1, Panel D), as part of larger remission reduction goals, and achieving this will require accelerating progress.

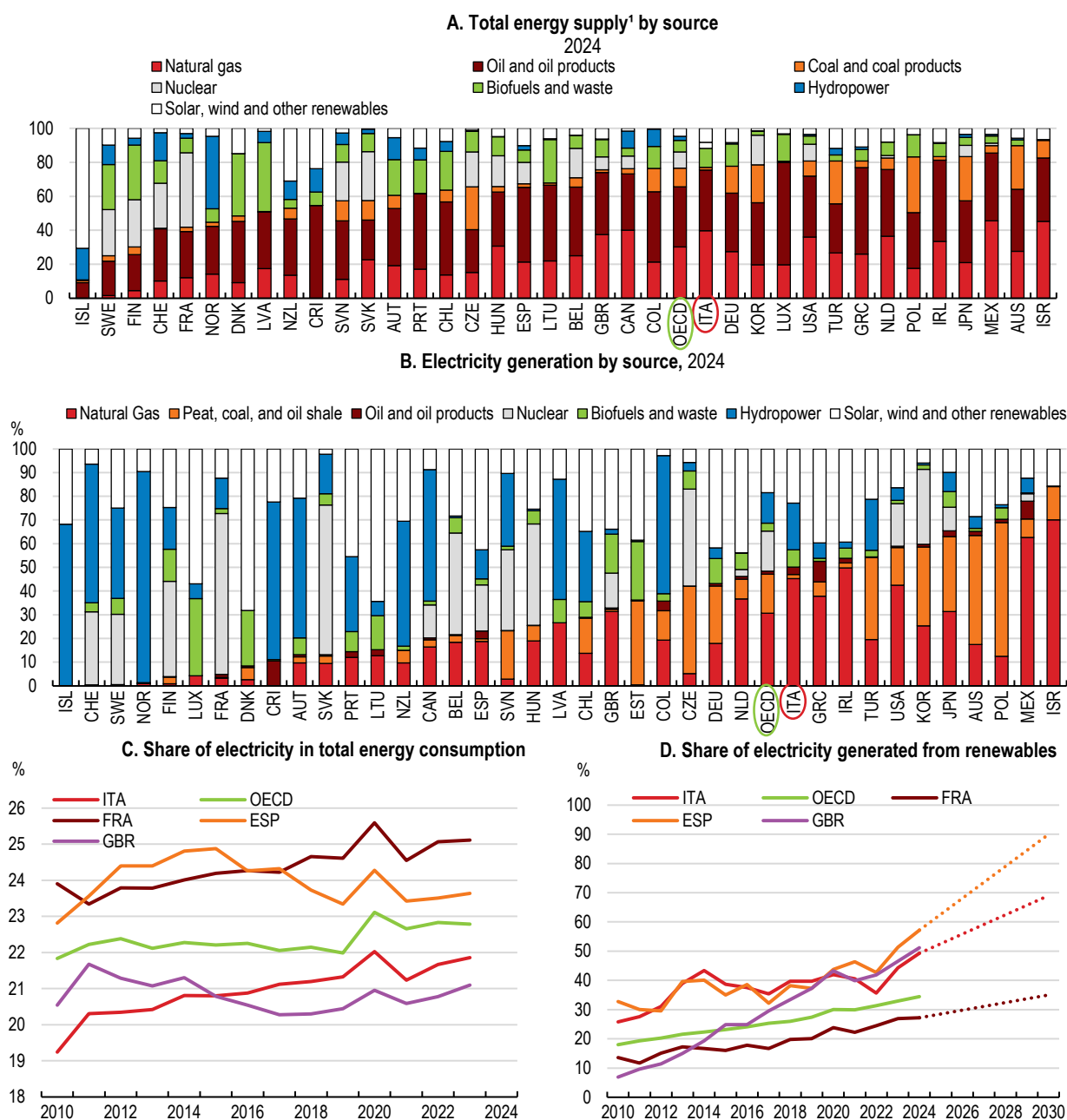
Reliance on fossil fuels, which Italy imports, creates an-going dependence on other countries, exposure to shocks in global energy markets and higher overall energy costs, even considering modest recent inroads into these challenges. Imported energy provided 74% of net total energy consumed in 2024, a share that has been broadly stable for over a decade. The surge in energy prices linked to the conflict in the Middle East underlines the risks to growth, security of supply and real incomes. Natural gas use is among the highest in Europe per capita. Following Russia’s 2022 full-scale invasion of Ukraine, Italy achieved one of the largest shifts among OECD countries from Russian-supplied pipeline gas to other suppliers. However, the large increases in natural gas prices contributed to a surge in wholesale electricity prices, rising by 120% between 2019 and 2025, and the premium in Italian electricity prices compared with the EU average increasing from 8% to 26% (Figure 3.2). The increase in gas prices subtracted over three percentage points of GDP from the current account balance, shifting it to deficit in 2022 for the first time in a decade. Up to 9% of households had difficulty paying energy costs (Istat, 2023<sup>[8]</sup>), despite Italy’s strong fiscal support measures. Industrial consumers cut production and employment and delayed investments, especially in energy-intensive metals and chemical manufacturing, while other Italian manufacturers were somewhat protected by their relatively high energy efficiency. Meanwhile, new challenges to energy security are emerging. The disruptions from the 2026 Middle East conflict have led to substantial downgrading in projected economic growth and to higher forecast inflation as higher energy prices weigh on household demand and firms’ production.

Electrification, together with increasing the share of solar and wind in electricity generation, would help in the longer run to increase energy security, lower energy prices and achieve greenhouse gas emission reductions’ goals. Adapting to the changing climate underscores the importance of these shifts: more frequent and intense heatwaves shift electricity demand from winter to summer and increase demand peaks, while reducing demand for heating and fuels, such as gas. Meanwhile, changing rainfall patterns and greater evaporation during warmer weather make hydroelectric sources less reliable, such as those in the Po Valley. Natural gas has a high share in Italian electricity generation compared to most EU countries (Figure 3.1, Panel B) and more strongly determines the marginal electricity price than in most EU countries, especially when production from solar or wind generation is low or during peak demand periods. However, the overall levelised cost of solar- and wind-generated electricity, accounting for associated transport and storage investments, is generally lower than that of fossil fuels (IEA, 2025<sup>[12]</sup>). Faster progress in electrification and shifting more rapidly to renewable generation in Italy’s energy mix would help reduce energy costs and improve energy security. The recent development of energy supply and costs in other OECD countries with similar climates shows the potential contribution of solar and wind generation (Box 3.1). Across European countries, a greater share of gas in electricity generation is associated with higher electricity prices, while the reverse is the case for the share of renewable energy sources, even outside the 2022-2023 period of exceptionally high gas prices (Figure 3.3).

The shift in energy usage towards electricity in Italy has lagged many other OECD countries (Figure 3.1, Panel C) and the transition to higher solar and wind generation could be accelerated. Electricity demand was lower in 2023 than in the late 2010s. Electrifying energy used for transport, heating, and industry more quickly would


help reduce the role of fossil fuels in Italy's overall energy mix. But high and volatile electricity prices, due to the high reliance of natural gas in generation, discourages users from switching from fossil fuels to electricity. While Italy has long benefited from significant hydroelectric generation, solar and wind electricity generation and transmission and storage capacity are growing (Figure 3.1, Panel D). In August 2025, renewables generated 48% of Italy's electricity needs, up from 40% a year earlier, following recent reforms and investments. Italy is reforming the institutional and regulatory environment for renewable energy generation, transmission and storage investment (Box 3.2).

**Figure 3.1. Oil and gas remain central to Italy's energy mix**



Notes: Panel A: TES here excludes electricity and heat trade. Coal also includes peat and oil shale where relevant. Panel D: the dashed lines indicate the national objectives for 2030.

Source: OECD, IEA Energy balance statistics.

StatLink  <https://stat.link/hf1tzo>

Growing solar and wind generation is supporting areas that have traditionally lagged, including much of the South and the Islands with their substantial natural resources, creating skilled technical jobs. Together with recent reforms to pricing, this can reduce energy costs in those areas. Developing interconnections across Italy and with its neighbours can enable broader access to low-cost, low-emission electricity and reduce risks of localised price increases in high-demand areas such as the North (Alessi, Bonaldo and Fontini, 2025<sup>[13]</sup>; Terna, 2025<sup>[17]</sup>). Nevertheless, there is scope to accelerate these developments and use Italy's high solar and wind generation potential by encouraging investment and more efficient energy use will require pursuing reforms that improve price signals' effectiveness and make the regulatory environment more supportive.

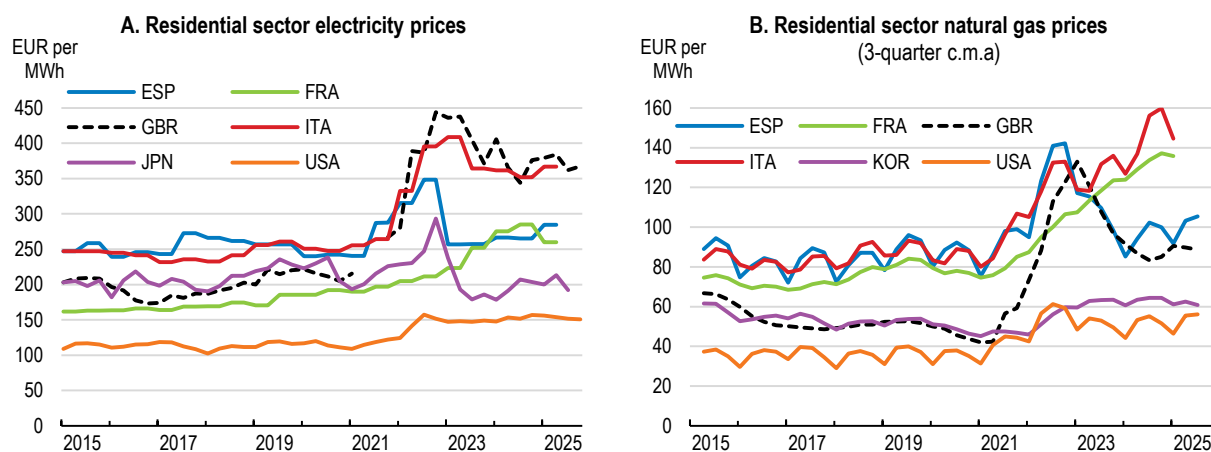
### Box 3.1. Spain's rising share of solar- and wind-generated electricity and its effect on prices

Spain leads among OECD countries in the share of energy generated by renewable sources. Solar and onshore wind generation as a share of total installed capacity rose from 40% in 2000 to over 65% in 2023, while the share of electricity they generated rose from 17.2% to 51.1% over the same period (Figure 3.1, Panel D). The difference between the shares of installed capacity and of generation reflects the intermittent nature of renewables production and the lack of storage capacity.

Onshore wind first led this expansion, then solar photovoltaic after 2019, due to a mix of allocations of new capacity, declining production costs, adoption of renewable energy targets, and rising self-consumption. Spain aims to increase the share of renewables to 80% by 2030.

The growth of renewables with their low marginal costs has lowered wholesale electricity prices by about 20%, allowing them to fall from above the European median between 2018 and 2021 to below since 2022. Electricity wholesale prices have become negative during some periods, notably when solar production has surged while demand has been low. Lower average prices do not appear to have deterred further investment, which have been supported by lower installation costs for renewables. Instead, issues such as constructing interconnections and storage capacity feature among the main challenges for expanding renewables capacity.

Figure 3.2. Italy's high electricity prices rose further when gas prices surged



Note: Panel B unit is EUR per MWh Gross calorific value (GCV).

Source: OECD, IEA Energy prices database.

StatLink  <https://stat.link/pwkvfs>

### Box 3.2. Reforms and investments underway for energy transmission and security

Reforms and investments to improve energy security absorb approximately one-third of the National Recovery and Resilience Plan (NRRP) resources. To improve Italy's energy independence and security, the

NRRP provides for investments in grid modernisation and the energy transition, including in renewable energy, energy efficiency, grid projects such as the Tyrrhenian Link between Sicily, Sardinia and the mainland, smart grid upgrades, diversifying gas sources, and support for energy communities and for vulnerable groups (Table 3.1). It allocates EUR 0.5 billion to improve the climate resilience of 4 000 km of transmission and distribution lines. The 2026 budget defers some of these projects to 2028 and reduces the public support for transmission projects. The 2025 budget includes a multi-year investment to support the high upfront investment costs of ‘smart grids’ technologies, which improve the use and security of existing transmission infrastructure. This complements the major distribution companies’ investments, such as Enel’s EUR 0.6 billion of smart grid projects.

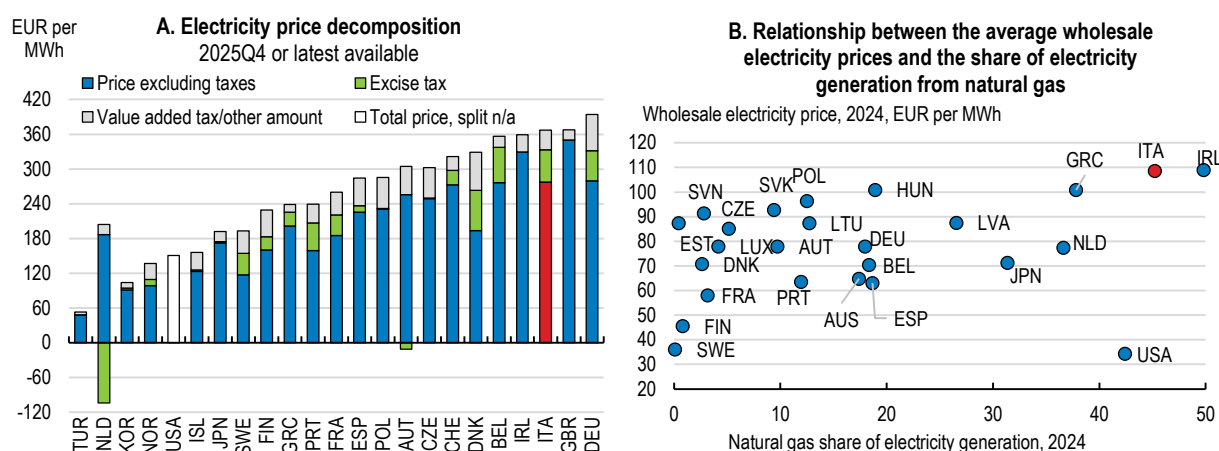
In addition, Italy’s national transmission grid owner, Terna, plans over EUR 23 billion in grid modernisation and expansion, notably between the South and Islands with their high renewable generation capacity and connections with North Africa, and the North with its high demand and connections to other EU countries.

**Table 3.1. The NRRP includes substantial investments in energy security**

Investment	Value (EUR billion)
Mission 2: Green Revolution/Ecological Transition	59.5
- Renewable Energy, Hydrogen, Smart Grids	21.9
- Energy Efficiency/Renovation of Buildings	12.6
- Sustainable Mobility	9.0
- Protection & Enhancement of Resources	9.4
Mission 3: Sustainable Transport (including electricity grid, Tyrrhenian Link)	20.6
Tyrrhenian Link (HVDC Cable)	0.5
Smart Grids (Enel Projects via REPowerEU)	0.6
New Gas Infrastructure (REPowerEU)	0.4
Superbonus (energy efficiency for households; new funds)	4.0

The NRRP’s policy reforms include simplifying authorisation procedures for renewable energy, reducing connection costs for biomethane production plants, and new legislation that promotes the production and consumption of renewable gas and that mitigates financial risks associated with power purchase agreements from renewable sources.

**Figure 3.3. The high cost of electricity in Italy reflects the high share generated by natural gas**



Source: OECD IEA Energy prices database.

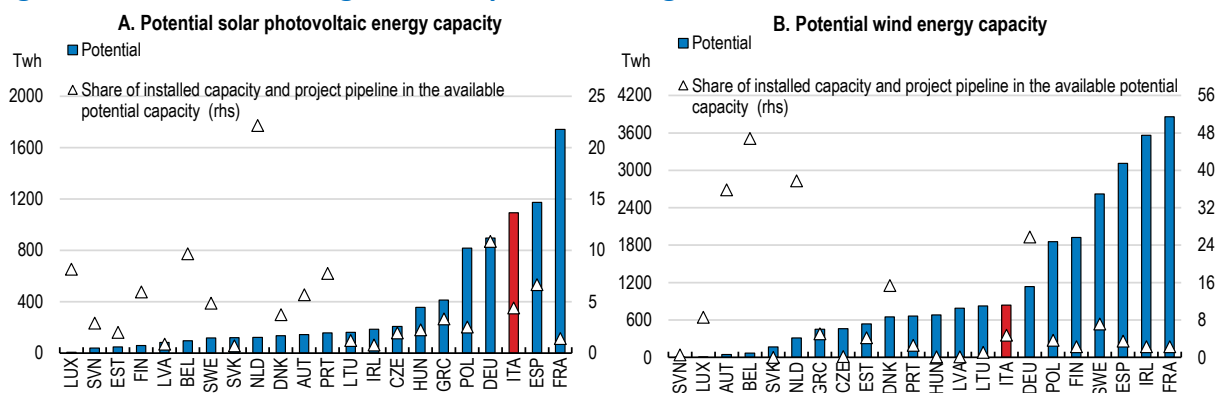
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## 3.2. Developing renewables' role in electricity supply

### 3.2.1. Raising investment in solar and wind generation

Italy has developed significant new solar and wind generation capacity, alongside the long-standing role of hydroelectric power that accounts for around 25% of capacity. The country's potential for these energies is significant (Figure 3.4). Solar and wind generation capacity has accelerated, notably since 2022. Over 2022 and 2023 this growth was led by small-scale photovoltaic systems, with households' and small businesses' investments motivated by the surge in energy prices and the 'Superbonus', 'Ecobonus' and other tax credits. National Recovery and Resilience Plan (NRRP) measures have supported the growth of renewable energy communities and collective consumption schemes for small-scale generation, although installations have fallen short of goals. With the end of tax incentives, the pace of growth in small-scale installations slowed in the first half of 2025, and utility-scale investments became the main source of increased renewable generation capacity.

**Figure 3.4. Solar and wind generation potential is significant**



Source: (OECD, 2025<sup>[11]</sup>), Castillo, C. P., et al., (2024). 'Renewable Energy production and potential in EU Rural Areas', EU Joint Research Council.

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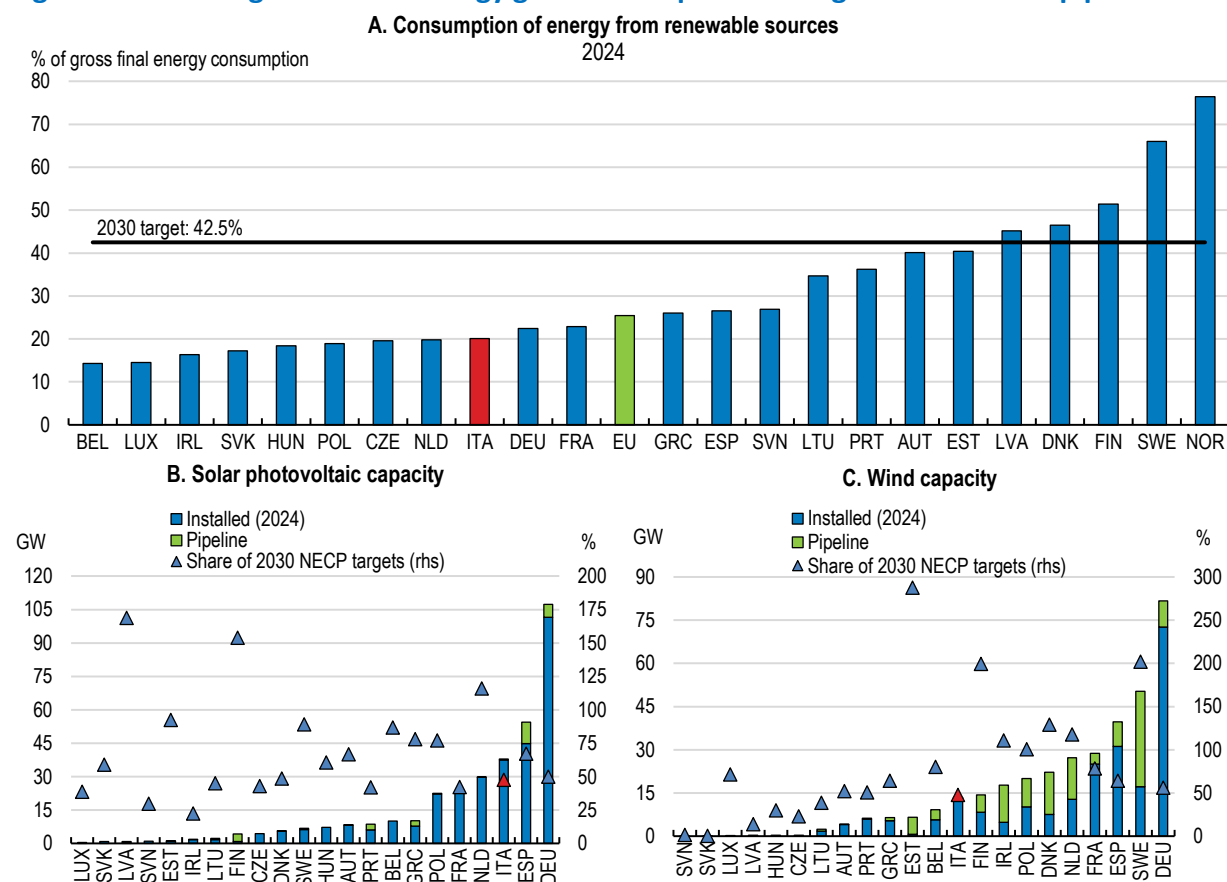
Even with recent progress, the pace of development needs to accelerate to achieve the shift away from fossil fuels and to meet the National Energy and Climate Plan (NECP) and EU targets (Figure 3.5). The NECP foresees Italy installing at least 10 GW of renewable capacity annually by 2030 – equivalent to 17% of total installed capacity from all sources in 2023 – if it is to achieve the targets of 42.5% of energy and 60% of electricity generated by renewable sources. This will require significantly expanding the pipeline of new investments (Figure 3.5, Panels B and C). However, even if its renewable generation growth goals are achieved, Italy will continue to source a larger share of its energy mix from imported natural gas than most other EU countries. Priority actions to strengthen solar and wind energy investment include removing bottlenecks in the planning and approval processes for new generation capacity, alongside continued efforts to enhance grid and storage infrastructure.

Regulatory fragmentation across agencies and levels of government continues to impede investment in energy infrastructure, and the growing volume of utility-scale projects adds pressures. Italy's land-use planning and authorisation system is decentralised. For the central government, the Ministry of Environment and Energy Security oversees large-scale generation and transmission projects, conducts Environmental Impact Assessments and coordinates environmental policy at the national level as well as investment incentives and market rules. Regional governments control territorial planning and the siting of new plants, including solar and wind generation, and issue construction and water-use permits. They also manage small-scale solar and wind and distributed generation projects. As a result, projects often require both national and regional approvals, creating delays and conflicts when regional planning or environmental standards exceed national requirements or diverge from national energy policy objectives. Although a 2024 law assigned regions the task

of designating suitable areas for solar and wind generation development, and a 2025 legislative decree strengthened the legal framework for these designations, progress has been slow and interpretations vary significantly across regions.

National frameworks are intended to identify areas suitable for renewable energy development by identifying zones where approval processes can be simplified and accelerated, such as former industrial sites or quarries. International experience suggests such framework can be effective. For example, in Germany, streamlined authorisation procedures for projects within pre-designated areas, coupled with presumptive approval mechanisms, can aid investment. Italy’s 2024 Decree on Suitable Areas introduced uniform national criteria to support regional and local authorities in identifying land eligible for solar and wind generation deployment. These criteria aim to ensure consistency across the country while protecting cultural, environmental, and agricultural assets. However, implementation has been uneven. Some regions have delayed preparing their plans due to stakeholder disagreement and legal challenges, contributing to uncertainty for investors. Enhancing consistency in spatial planning – especially by establishing technical criteria for defining “suitable areas” and acceleration zones – would reduce legal risks and improve investor certainty. Italy’s conferences of regional and provincial governments could play a stronger coordinating role in this process. The national government can also support local authorities in updating and aligning municipal plans with national renewable-energy objectives, while limiting the scope for discretionary interventions at the local level.

**Figure 3.5. Meeting renewable energy goals will require reviving the investment pipeline**



Note: Announced PV solar capacity, and PV capacity in the pipeline is exclusively focused on utility-scale. Member States whose combined installed capacity and total capacity from announced and pipeline projects through 2030 exceed the targets set in their National Energy and Climate Plans (NECPs) are represented in the figures on the right as having installed and pipeline capacity more than 100% of their NECP goals.

Source: [Approximated estimates for the share of gross final consumption of renewable energy sources in 2024 \(EEA 2024 RES share proxies\)](#), European Environment Agency (EEA). EMBER, Eurostat, IRENA, GEM, TZ-SAM. OECD calculations (see (OECD, 2025<sup>[1]</sup>)).

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Provinces and metropolitan cities are responsible for integrating regional land-use plans into municipal planning guidelines, which municipalities then operationalise through zoning and land-use regulations. A single project may require interaction with up to 30 authorities across national, regional, and municipal levels—and considerably more where multiple jurisdictions are involved, reflecting Italy’s multilayered governance system. While each authority fulfils important regulatory functions, overlapping competences and divergent decisions increase approval times and raise compliance costs, particularly for smaller investors. Conflicts between multiple applications for overlapping sites further drain administrative resources. Capacity constraints, especially in lagging regions with high renewable potential, also slow decision-making. For example, a 2024 study of solar and wind generation developments in Apulia identified regulatory barriers including decentralised governance of land use planning, outdated land use plans, conflicts between national and regional directives for approving projects, duplicate processes across different levels of government, and discretionary interventions by municipal decision-makers creating inconsistencies (OECD, 2025<sup>[1]</sup>).

Recent regulatory reforms aim to align Italy’s permitting procedures with EU requirements for accelerated deployment of all types of renewables, including heating, cooling, buildings, transport, and industry. These reforms seek to simplify authorisation procedures and introduce clearer time limits (Box 3.3). However, frequent changes have also generated new uncertainties for developers and authorities, magnified by judicial appeals that have suspended certain provisions. For example, in 2024 the Sardinia regional government adopted a temporary moratorium on new renewable projects in several areas and revoked previous authorisations, citing environmental and cultural considerations. This measure conflicted with national energy plans. The Constitutional Court ruled in 2025 that national legislation prevails, but the dispute delayed projects and added to costs. Clearer guidance to implementing authorities and developers, alongside strengthened coordination mechanisms, would help ensure that reforms translate effectively into accelerated investment.

### Box 3.3. Some of Italy’s efforts to simplify renewable energy project approvals

Italy is reforming the processes for approving solar and wind energy developments, towards reducing the time and costs for expanding generation capacity. Greatest progress has been made in reforms that allow certain types of investments to follow lightened planning processes. Among the more important reforms were 2025 legislative changes that streamlined permitting processes for projects in areas with minimal environmental impact, such as industrial zones or former quarries. For example:

- Procedures have been simplified for smaller and medium-sized photovoltaic systems (between 1 MW and 12 MW), and rooftop photovoltaic and thermal systems are exempted from permitting – except for buildings in areas of significant historical value.
- Wind projects can expand by up to 15% of their initial size without renewed authorisations, and projects smaller than 50 MW and that do not change the area occupied are not required to prepare new environment impact assessments.
- Floating photovoltaic projects in quarries, mines, and industrial areas zoned as “suitable areas” for solar development are exempt from full environmental impact assessments and have fast-track authorisation, significantly shortening approval timelines and helping to develop previously underused sites.

Source: (OECD, 2025<sup>[1]</sup>)

Streamlining and integrating permitting processes—particularly by consolidating environmental authorisation regimes into a single, transparent framework—would help reduce administrative burdens and shorten approval times. While establishing a fully centralised authority may not be feasible within Italy’s constitutional framework, a coordinating body could play a valuable role in supporting applicants, sharing information, identifying procedural bottlenecks, and facilitating inter-institutional cooperation. Italy has adopted a single platform to ensure the once-only principle and streamline permitting procedures. The ‘SUER’ platform implementing the “once-only” principle and streamlining permitting procedures was legislated over 2021 to

2024. It is managed by the state-owned energy services operator and provides a central entry point for applications and to track progress. However, it is yet to be fully operational. Standardising methodologies for environmental and landscape assessments and expanding the use of digital tools, such as GIS-based cumulative impact analyses, would further increase predictability, strengthen administrative capacity, and reduce the likelihood of legal appeals.

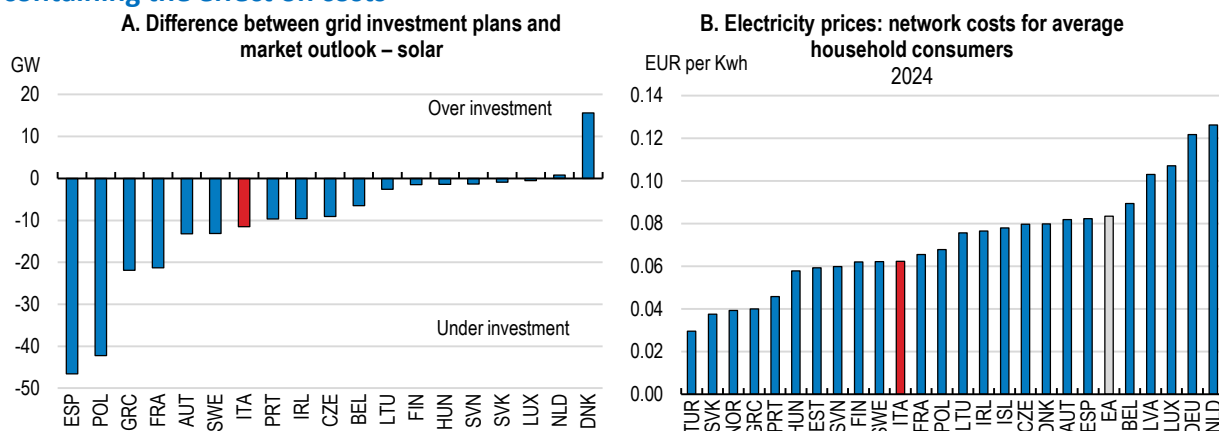
### **3.2.2. Investing in electricity transmission**

Higher demand for energy, more volatile demand and the rising share of electricity generated by solar and wind require a major upgrade of the capacity of the electricity grid and cross-border connections. Lack of connection capacity halts investments in renewable capacity and in energy-consuming activities, contributing to higher energy prices and more fragile energy supply. Much of Italy's solar and wind generation potential is in the South and the Islands, creating congestion where energy enters the transmission system, while the greatest demand is over 1000 kilometres to the north, especially where new IT facilities are congesting the grid where energy exits the transmission system. The historical split of the electricity market into seven geographical areas limited inter-regional connections, leading to congestion. Wind and solar generation require shifting from an approach based on large generation facilities supplying dispersed users, to both generation and users being dispersed and with flows potentially in two directions – by mid-2025 Italy had over 1.4 million “prosumers”. This requires significant investments in distribution networks, and in physical and operational infrastructure. Adding to these investment pressures are ageing infrastructure and the effects of more extreme weather on infrastructure.

Italy has significant investment and reform plans to strengthen its energy transmission and distribution system and cross-border connections (Figure 3.6, Panel A, and Box 3.2), but the construction backlog has become a barrier to developing new generation. The national electricity transmission operator, Terna, is responsible for grid connections. Requests to connect new renewable generation reached 350 GW by mid-2025, five times the government's 2030 renewables investment target. These requests were largely in southern regions, with almost half for solar connections, while 109 GW was for onshore wind and 89 GW for offshore wind, with many projects stalled in approval or due to changing investor priorities. Grid connections are slow and costly, at about EUR 150 000 to EUR 300 000 per project (OECD, 2025<sup>[1]</sup>), compared with the typical cost of EUR 550 000 to EUR 700 000 per MW of capacity for a utility-scale solar project of 2 MW to 5 MW capacity. This creates barriers especially for smaller producers and energy cooperatives. Alongside the connection requests for new renewable generation, Terna's 2025 10-year development plan expects energy exchange between regions to increase from 16 GW to 39 GW by 2030. Achieving this investment, while maintaining network charges at relatively modest levels (Figure 3.6, Panel B), will be central to improving energy security and cost competitiveness.


An important step for upgrading the transmission and distribution system is reprioritising connection projects. Requests had been prioritised on a first-come-first served basis. A decree published in January 2026 annuls connection requests for generation projects that have not been authorised or validated, eliminating connection requests for inactive projects, and divides Italy into 76 micro-regions to coordinate connections within each territory. These measures can enable the approval of connection projects that coordinate with and contribute to broader transmission and distribution network investments, rather than when the request was made. Complementing these reforms are targeted measures to accelerate connections for large users, such as data centres. It will be important to ensure that effective transition or legal arrangements are in place to avoid projects that had previously been partly approved but are cancelled by the reform making legal appeals that block the reform.

**Figure 3.6. Italy requires substantial additional investments in the transmissions system while containing the effect on costs**



Note: Panel A: Figure shows additions to grid capacity by projected by national transmission system operators in their ten-year plans relative to expected growth in photovoltaic generation (SolarPower Europe (2023), *EU Market Outlook for Solar Power 2023-2027*).

Source: Cremona, E., & Rosslowe, C. (2024). *Putting the mission in transmission: Grids for Europe's energy transition*. Eurostat (nrg\_pc\_204\_c).

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As urgent connection demands are addressed, progressively shifting to a more anticipative strategy to developing the transmission and distribution grid would provide greater certainty and reduce costs for generation capacity investments. Anticipating planning and regulatory approvals to develop connection capacity into areas prioritised for generation investments, building on Terna's decennial national transmission development plan, would reduce uncertainty and streamline planning and approval processes. The 2025 ten-year plan integrates territorial planning, which can help direct investments, for example, towards former brownfield sites such as disused industrial areas, avoiding the more contentious investment projects, such as in agricultural areas. This anticipatory approach will require making detailed information on infrastructure development plans, agreed with regional and municipal authorities, available to investors.

As it does for generation projects, Italy's multi-layered governance complicates the various authorisations required for connection projects, slowing major projects especially. Transmission and distribution plans are managed and coordinated at the national level, with the transmission plan approved by Ministry of Environment and Energy Security and the distribution plans assessed by ARERA. Once the biennial national transmission grid development plan has been prepared, it undergoes a strategic and environmental assessment before implementation. Individual projects then require environmental impact assessments. Until the overall plan's environmental assessment is complete, individual projects cannot start, leading to larger transmission projects taking up to eight years to build. While permitting for transmission projects remains the responsibility of the national government, municipalities' involvement can also slow and fragment the approval processes, as they influence siting decisions but, for example, their plans may be outdated with respect to national and regional strategies, or setback rules can vary between municipalities, leading to delays. Developing harmonised guidance for municipalities could accelerate and align approval processes across the multiple municipalities involved in a transmission project. The new PAI ([Piattaforma delle Aree Idonee](#), 'suitable area platform') digital tool, which assembles cartographic data regarding zones for renewable energy development, is helpful in this regard. Updating and aligning plans of the different levels of government, and ensuring local and regional governments' spatial plans include accurate information about substation locations and planned upgrading to infrastructure, could accelerate the approval process. Box 3.4 outlines some approaches in other decentralised countries to accelerating renewables investments.

### Box 3.4. Approaches to accelerating renewables generation in decentralised countries

Renewable generation development in decentralised countries, such as Australia, Germany or Spain, tends to be structured around a national vision for generation and transmission development framed in national policy goals and incentives, with subnational authorities – regions or states – responsible for most detailed planning and approval arrangements. Coordination mechanisms are used to align subnational planning with national objectives, for example by jointly agreeing on dedicated zones. Anticipating planning approvals, ahead of specific project proposals, can reduce project times while maintaining environmental and other safeguards. Coordination mechanisms can be implemented as in the form of formal bodies that involve multiple government bodies, meet regularly, and, in some cases, assume planning authority from subnational governments and streamline rules and processes for investment approval.

Source: (IEA, 2023<sup>[18]</sup>) (Banet and Donati, 2024<sup>[22]</sup>)

### 3.2.3. Expanding energy storage and back-up capacity to ensure stability

Increasing the role of renewable electricity generation in overall supply requires ensuring adequate storage and back-up supply capacity to balance supply and demand, including during poor weather conditions such as cold and windless winter evenings. Solar and wind generation responds to natural conditions (sun and wind) rather than to demand, requiring significant storage capacity to meet demand. For example, generation capacity is expected to fall 8 GW below a projected peak load of 62 GW in 2028, and 13 GW below the peak load of 67 GW in 2033. In addition, greater solar generation, as a direct current flow rather than a spinning turbine driving a generator, reduces the physical inertia in the electricity supply system, which works to stabilise volatility in demand and supply conditions. Addressing the intermittency challenge of renewables entails developing large scale storage, improving the grid's capacity to balance demand and supply across distances, developing 'smart grid' technologies to raise its efficiency and manage demand including through fast battery systems to provide synthetic inertia, and by maintaining flexible back-up generation capacity by maintaining legacy plants.

Italy is making important progress in developing electricity storage, supported by rapid falls in costs. By August 2025, 17.3 GWh of electricity storage had been installed, 55% more than a year earlier. This is equivalent to 7.1 GW of supply capacity and could supply 97 500 households for 24 hours, based on annual average household consumption. Italy has the largest pumped-based hydroelectric storage capacity in Europe, at 7.6 GW of capacity, and is investing to better use this resource and raise this capacity to 8 GW. Small-scale storage capacity, often associated with solar generation in homes and small businesses, is expected to reach 4 GW by 2030. Achieving the government's objective of 22.5 GW of storage capacity by 2030 will be important as renewables' share of generation capacity increases.

An innovative regulatory framework is helping to develop grid-connected large-scale battery-based storage and investment plans are surging. The 2030 strategy foresees this capacity rising to 11 GW. Italy's 'MACSE' (Meccanismo di Approvvigionamento della Capacità di Stoccaggio Elettrico) regulatory approach to energy storage treats it as part of its energy grid infrastructure, unlike in many OECD countries where it is treated similarly to energy generators. The typical, longer-standing approach to encouraging storage investments have been through auctions for supply projects for short-term capacity with returns linked to spot market price movements. Italy's framework has developed national auctions to provide storage capacity remunerated through long-term revenue contracts. These started in 2025. The first auctions provided for 15-year, indexed revenue contracts managed by the transmission entity, Terna. These induced large volumes of bids at low prices from investors, largely in developing battery storage located close to renewables generation in southern regions. 50 GW of the total capacity are planned to be auctioned through the latter mechanism by 2030. Ensuring that these storage projects can be implemented, cost effectively and as scheduled, will require addressing permitting and authorisation issues similar to those discussed above in relation to renewables capacity.

Reserve, back-up and redundant generation capacity complement solar and wind generation. Italy's 2030 electricity strategy sees conventional gas plants continuing to supply up to 27.5% of electricity in 2030. This capacity is financed through annual auctions of contracts to provide supply during peak demand periods, with supply bids open to all technologies, including renewables and storage, and the latter have won a growing share of these auctions. Achieving the ambition of net-zero electricity generation by the late 2030s will require sufficient renewable energy generation and storage that gas-fired generation is only called in exceptional cases rather than as a recurrent part of the energy supply mix. Pricing of conventional generation back-up capacity, given their long duration, will need to avoid encouraging excessive investments in conventional generators with the risk of stranded assets and ongoing payment obligations to the gas-fuelled generators.

Italy is pursuing measures to address the effects of climate change and increased security threats to energy supply, underscoring the importance of accelerating grid investment plans. Italy has developed a clear set of emergency response procedures for electricity supply disruptions, and various risk scenarios have been outlined in its Risk Preparedness Plan, including cyber-attacks, weather- and climate-related events, and physical attacks on electricity infrastructure. Accelerating planned grid maintenance and strengthening projects will add security. Investments are being made to prevent cyberattacks. Strengthening the national plan and response strategy to a large-scale event that affects multiple regions simultaneously could limit the damage of such events. Currently, a regional cooperation approach is taken, but a large-scale event may require national-level responses.

### **3.2.4. Supporting electrification of transport, buildings and industry**

The electrification of the Italian economy and switch away from direct use of fossil fuels in transport, homes and commercial buildings, and industry is central to addressing energy costs and security. It lags other major economies, and after accelerating with the surge in energy prices in 2022 and various subsidy schemes (Figure 3.1, Panel C), slowed in 2024 and the first half of 2025 as prices stabilised and support measures were withdrawn. Progress in reducing emissions from transport and buildings have lagged the broader economy or the pace required to achieve Italy's greenhouse gas reduction commitments. Achieving the National Energy and Climate Plan goals for renewables' share of overall energy consumption will require a strong rise in electrification, alongside increased use of non-fossil fuel energies for contexts that are hard to electrify.

The new Emission Trading System ('ETS2') gives a new impetus to electrification. It is set to extend from 2028 emission prices to fossil fuels used in buildings, road transport and non-energy intensive industries, such as small-scale district and industrial heating and SME emissions, raising the cost of these fuels. (The first emissions trading scheme already applies to electricity generation among other sectors, and is estimated to have fully passed through to electricity prices.) ETS2 will narrow the cost competitiveness gap of electricity-based devices, such as heat pumps or electric cars, relative to fossil fuel-based technologies. Currently the difference in taxation, levies and fees between electricity and gas is wider than the average of EU countries and limits the savings, for example, for a household replacing its gas boiler with a heat pump. If Italy fully implements ETS2, with national co-financing, Italy will have access to around EUR 9 billion (0.4% of 2026 GDP) over 2026 to 2032 through the Social Climate Fund. These funds can limit the distributional effects of higher fossil fuel costs by helping cash-constrained households and firms electrify their energy use, for example by funding insulation and energy renovation of social housing, or investing in electric vehicles and machinery to be leased to SMEs.

Sector-specific actions can help accelerate electrification or develop sustainable alternatives:

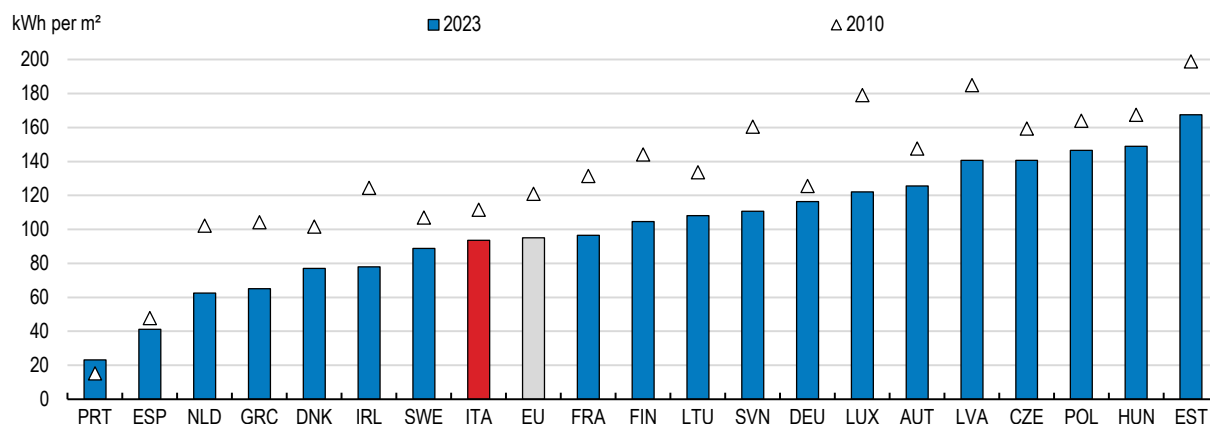
- In transport, despite the growth of electric vehicles, their take-up by both the private sector and public transport operators lags other EU countries. Car ownership rates are the third highest across OECD countries, in part reflecting significant public transport investment needs. The car fleet is older than in most OECD EU countries. Support for electric vehicles has varied and their high upfront cost is a barrier for low-income households. Social leasing can help low-income households change their vehicles. One brake for all users is the lack of charging infrastructure, alongside high electricity prices.

A public observatory is improving transparency and comparability of charging prices. Developing the network of chargers, including across motorways, is held back by complex regulatory processes. Aligning approval requirements across municipalities and allowing investors to access longer-term land concessions would help develop commercial charging points.

- Public buildings are often old and energy inefficient, and administrations lack the capital and human resources to undertake deep renovations. Financing arrangements need to address the high upfront costs of renovations and long timeframe of savings in a fiscally-constrained context. Italy's fragmented governance weakens procurement scale for electrification investments, such as heat pumps or photovoltaic generation and storage systems. Dedicated and adequately resourced national agencies with multi-year mandates can provide the technical and implementation capacity for energy efficiency and electrification renovations of public buildings even when they are the responsibility of different levels of government, as countries including Korea and France have pursued (OECD, 2022<sup>[14]</sup>). Dedicated financing agencies can help public agencies fund the renovations, financed through the energy cost savings and, where justified through economic and social considerations, subsidies. Estimating the lifetime costs of different energy sources, accounting for higher fossil fuel prices, can help ensure the economic case for investing in electrification.
- Substantial support for private housing and commercial building renovations, including the highly generous 'Superbonus' tax credit scheme (discussed in Chapter 1), has had limited effects and was not well targeted towards the least efficient and most fossil-fuel intensive buildings. While overall heating efficiency is near the EU average, improvements were limited between 2010 and 2023 (Figure 3.7). Recent public measures better encourage investments in heat pumps, allowing households to shift from gas to electricity for heating. For household and small business consumers, electricity is taxed more than natural gas, reducing the advantage of switching. ETS2 will help to close this gap. The end of reduced tax benefits for gas-fuelled boilers will also help. Limited fiscal resources would be more effective if provided through longer-term support mechanisms targeted towards low-income households and renters, rather than annually renewed measures.
- In industry, the cost and technical capacity of electrification can limit the shift away from gas. Still, Italy has achieved important progress in energy-intensive sectors, such as the shift of 89% of steel production to electric arc furnaces by 2024. Hydrogen, supported by the national hydrogen strategy and development of renewable hydrogen through 'hydrogen valleys', may provide solutions for replacing natural gas where electrification is not feasible, such as in ceramics and glass manufacturing. However, it will be important to ensure that subsidised alternatives to electrification do not delay electrification where that is economically feasible, such as for low-temperature heating.

**Figure 3.7. There is scope to further improve the efficiency of household heating**

Household heating consumption per m<sup>2</sup> (adjusted for differences in climate)



Source: Odyssee database.

StatLink  <https://stat.link/4x5nbm>

### 3.3. Ensuring stable energy supply at low prices

#### 3.3.1. Pricing to encourage investment in a secure and efficient energy system

Market design should play a key role in ensuring appropriate price signals in the electricity market, ensuring continuity of supply, avoiding excessive price fluctuations and driving an efficient energy mix. Pricing in the electricity market has long been challenging due to limited contestability in some areas, the dominant position of the legacy operators, information asymmetries, and competing policy goals, including lowering costs and ensuring access, while eliminating greenhouse gas emissions. Renewable generation without adequate storage complicates this given that production generally cannot respond to short-term price signals. During renewables' limited production hours, supply can be high, leading to low market prices, meaning that longer-term positive priced contracts, such as the contracts for difference being expanded in Italy, are necessary for investments to be viable.

Ongoing reforms to wholesale pricing are both developing finer price signals across time and geography, and providing greater certainty to investors. In 2025, the 'TIDE' (Integrated Text on Electricity Dispatching) reforms shifted balance settlements from hourly to 15-minute blocks, part of broader European harmonisation that can reduce balancing costs especially during peak demand periods. From 2026, Italy shifted wholesale electricity pricing from a uniform national price (Prezzo Unico Nazionale, PUN) to pricing in each of seven regions. Meanwhile, procurement of ancillary services (largely reserve capacity to build inertia in the system, correcting frequency deviations or maintain grid voltage levels) is on a market basis. These shifts can improve the efficiency of investment decisions throughout the energy production, distribution and use process. For example, they can encourage large users to locate near the growing, low-cost renewable generation in the South and the Islands, and in regions with more robust transmission and distribution grids, reducing the pressure on constrained transmission capacity. Regional pricing, by creating explicit and variable prices on grid congestion, can encourage investments in grid capacity. Electricity supplied through bilateral 'over-the-counter' contracts has declined to 18% of the total in 2024. 72% of electricity is now supplied via the day-ahead spot market and 12% on the intraday market. However, more pricing zones and more frequent price settlement may increase price volatility as prices will better reflect mismatches between supply and demand, and will place new technical and IT demands on grid operators and other market participants. Terna's 10-year investment plan anticipates these risks and envisages stronger inter-regional and cross-border connectivity to manage these flows and potential tensions. In the meantime, to manage these risks, regulators can undertake robust communication and ensure transparency among market participants, remaining vigilant for stresses. Sustaining backstop systems and reserves in case systemic issues emerge.

As the pricing system develops and producers and consumers become more familiar with divergent regional prices, Italy could consider developing dynamic bidding zones to adjust regional pricing borders as grid conditions and renewables expand and evolve. These can address persistent price gaps or market power concentrating among large producers or consumers. A further step for the longer-term would be to follow OECD countries as diverse as Chile, New Zealand, the United Kingdom, Mexico and Brazil in developing nodal pricing, whereby wholesale electricity prices are set by geographical location on the grid to reflect both the cost of producing the energy, the transmission cost of supply to that location and demand in that location. This internalises transmission congestion and losses within an area, rather than just between areas, reducing the need for explicit mechanisms to shift supply and manage congestion. Developing nodal pricing will require significant institutional and practical reforms, and the dominant position of Italy's legacy electricity producers will create challenges for ensuring markets are competitive. In the longer-term, these challenges are surmountable and nodal pricing can further strengthen price signals and investment efficiency (Eicke and Schittekatte, 2022<sup>[19]</sup>; Antonopoulos et al., 2020<sup>[6]</sup>).

The TIDE reforms permit negative pricing on the day-ahead market and this may become more common in regions with high renewable generation capacity and constrained demand, such as the Islands. Well managed, the TIDE reforms can improve the potential returns for investors in services, such as storage or in back-up or

callable option capacity and maintaining reserves of fossil-fuel generators and interconnections for periods when production falls short, supporting energy security. At the same time, predictable and stable prices encourage long-term investment. Pricing in the day-ahead market can be distorted by large suppliers' market power and the withholding of supply capacity, requiring ongoing vigilance and reactivity by the regulator.

Reforms since the 2022 energy price crisis have sought to develop longer-term contracts with more stable prices than in the short-term or spot market. Electricity supplied under publicly-supported pricing arrangements made up 17.1% of total consumption in 2024, at a cost of EUR 9.3 billion, 27% more than in 2023. Much of these costs are the legacy of earlier support measures which provided a premium on energy production to encourage investments. These public measures can support stability and long-term investment, but may also dull or distort price signals. The government is seeking to shift its approach to develop support mechanisms that complement market-based power-purchase agreements and renewable energy auctions and that evolve with the energy system. Calls for tender for 20-year government production subsidies in the form of two-way contracts-for-difference for solar generation have drawn high volumes of bids. Under these contracts, the government guarantees producers a minimum price in return for price caps limiting producers' revenues, with the government receiving revenues above the agreed cap. As discussed in the OECD *Economic Survey of the EU* (2025<sup>[10]</sup>), this may reduce incentives for producers to enter commercial power purchase agreements with consumers and exposes the public sector to risk. As renewable capacity grows and prices fall below the agreed price more often, the financial burden on the government will rise (Heussaff and Zachmann, 2024<sup>[4]</sup>). As the markets develop and deepen and market participants' experience with the various instruments grows, curtailing the role of subsidised instruments such as contracts-for-difference in favour of unsubsidised agreements can reduce fiscal risks while sustaining investment and lowering prices. In practice this may take some time to develop – for example, even in the German market, liquidity for contracts longer than one year is low and minimal for contracts beyond three years (ACER, 2024<sup>[3]</sup>).

### **3.3.2. Improving support for vulnerable consumers and encouraging energy savings**

For consumers, investments and reforms over recent years have created the environment for competitive pricing. There are many participants in the electricity resale market. Smart meters, which allow dynamic pricing, have been broadly installed. However, retail markets could become more dynamic. The historical incumbent operator remains dominant across the market and fewer consumers have shifted operators using, for example, web platforms, than in comparable markets (IEA, 2023<sup>[20]</sup>). About half of household contracts are market-based regulated price contracts, a lower proportion than in other countries. More dynamic pricing signals can encourage households to economise energy during periods when supplies are scarcer and shift demand to lower price periods. To develop contestability in the retail market, giving retailers greater access to user billing and consumption data, or encouraging consumers to use accessible platforms to compare different operators such as [ilportaleofferte.it](https://www.ilportaleofferte.it), would reduce the incumbent operator's advantage, help innovative suppliers develop customised products, and reduce consumers' energy costs.

Price signals tend to have a relatively larger impact on lower-income households' energy use, and large price increases can harm lower-income and rural households' well-being (Faiella and Lavecchia, 2021<sup>[23]</sup>). Cash constrained households may be unable to make investments that would reduce their energy needs. Italy implemented the largest energy price support mechanisms of major OECD countries over 2021-2024. Among measures directly addressing energy costs, almost half were in the form of price support (OECD, 2024<sup>[9]</sup>). In early 2025 as gas and electricity prices rose again, measures to reduce VAT and system charges worth an additional EUR 3 billion (0.13% of GDP) were announced, with the benefits split between smaller businesses and households. Measures included reducing the VAT rate on natural gas for civil, industrial and transport uses from 21% to 5%. The extended Bonus Energia, introduced in 2021, also provide grant incentives for SMEs investing in renewable energy systems, and for households charging electric cars overnight. These were expected to provide approximately eight million households with average annual savings of EUR 300 on electricity bills and EUR 200 on gas bills. Meanwhile, very large tax credits (up to 110% of costs) worth EUR 220 billion or about 3% of GDP per year over 2021-2024 were provided for household energy efficiency renovations, although it benefited only 4% of housing units. Very little of these untargeted supports benefited

poorer households and Italy had among the lowest shares of household reporting improving energy efficiency in the five years to 2023 (Carfora, Minervini and Scandurra, 2025<sup>[24]</sup>). Shifting to well-targeted income support for vulnerable households, potentially linking to measures to improve the energy efficiency of their homes, would more effectively support vulnerable households while limiting fiscal costs and better encouraging energy efficiency (Hemmerlé et al., 2023<sup>[10]</sup>).

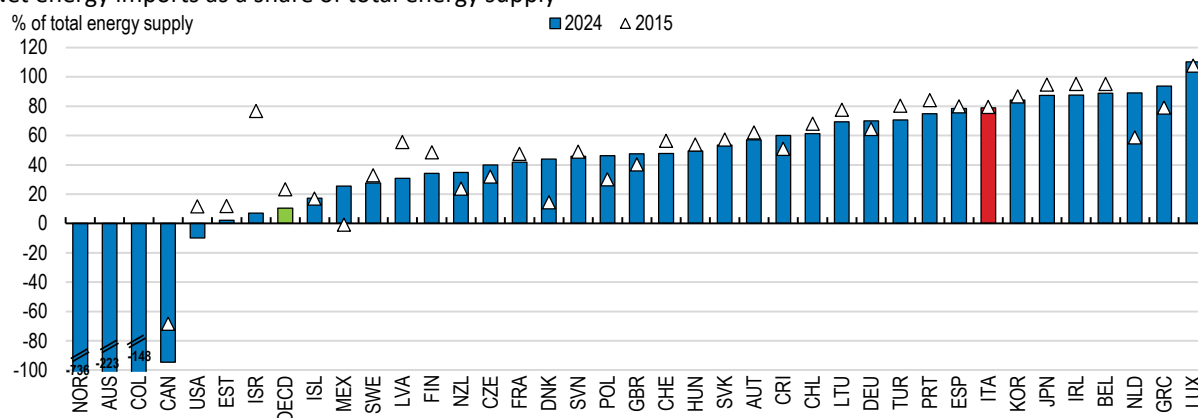
Electricity charges for the largest volume consumers, such as large industrial users, are about 45% of those for the smallest volume category. The difference reflects all components of the final electricity tariff, including the cost of energy supply, network charges, and many of the taxes and levies imposed. While lower tariffs are common across OECD countries, and reflect in part lower supply costs for large consumers and their greater negotiating power, the difference is also due to higher per-unit taxes, VAT rates, and contributions to public service obligations for smaller consumers. This difference can be justified by the need to ensure large, energy-intensive businesses remain competitive in the global market. Still, the difference in prices paid by larger and smaller consumers in Italy is larger than in most countries – it compares with around 61% on average across EU countries. These discounts can reduce the incentive for large consumers to improve their energy efficiency, while any cross-subsidy from smaller consumers, including smaller businesses, harms the latter’s competitiveness and raises their cost structure. In the longer-term, reducing prices across the energy system, notably by efficiently developing renewable energy production and electrification, will reduce the role of this discount. In the meantime, shifting part of the expenditure on reduced tax rates or other reductions to supporting firms’ investments in energy efficiency can better secure their competitiveness and Italy’s energy security.

### 3.4. Ensuring a diverse, efficient and reliable energy supply mix

Fossil fuels have provided around three-quarters of Italy’s total energy supply on average since the mid-2010s, only slightly less than prior to the global financial crisis. Lack of domestic resources means over 92% of fossil fuel supplies are imported (Figure 3.8). Use of coal in particular, as well as crude oil, fell over the decade from the mid-2010s, although the closure of the last coal plants has been suspended given uncertain energy import reliability. In contrast, natural gas use in 2023 was near the levels of the mid-2010s, despite the large rise in natural gas prices in 2022. Italy has been among the OECD countries which achieved the largest shift in fossil fuel supply sources in 2022 and 2023, replacing natural gas piped from Russia by piped and liquified natural gas from other suppliers. The share of natural gas sourced from Russia fell from 40% in 2021 to 5% in 2023, although gas imports from Russia rose in 2024 and the first months of 2025, due to some imported liquified natural gas being originally extracted in Russia.

**Figure 3.8. Italy’s reliance on imported energy remains high**

Net energy imports as a share of total energy supply



Source: OECD IEA World summary energy balances.

StatLink  <https://stat.link/f5ruk0>

Italy will need to ensure a balanced mix of generation capacity across energy sources as part of ensuring stable supply, even as the share generated by renewables increases. While pricing mechanisms may help to achieve this, the government will likely need to play a role in ensuring that an appropriate mix of capacity is in place, including through appropriate long-term contracts with producers maintaining reserve capacity. This mix is likely to include a continued but limited role for natural gas, focussed on meeting peak demand or when periods of stress for lower cost supply. Development of biogas and consideration of nuclear power may help in this context.

To improve the security and lower the cost of natural gas supply for electricity generation and other uses, Italy is developing alternative suppliers and supply routes for natural gas and expanding liquid natural gas (LNG) import facilities. LNG import and regassification capacity is being increased from 16.1 billion cubic metres (bcm) in 2022 to 28 bcm in early 2026 (the equivalent of 45% of 2023 gas demand), with 10 bcm provided through floating plants. These investments develop Italy's role in the European energy network as a hub supplying central European economies. Developing this infrastructure is helping to reduce the price premium of liquified natural gas over pipeline-delivered gas. In 2024-2025 this premium fell from as much as 100% to between 15% and 30%, although it can be significantly greater when supply chains are disrupted or demand high. Expanding LNG import and regassification facilities is costly but can reduce the difference between wholesale prices in Italy and those near other major European import hubs, and can serve as an insurance against uncertain supplies. At the same time, national energy and climate strategies provide for a progressively declining role for natural gas in the energy mix of Italy and of other European countries supplied through Italy's import facilities. Pursuing infrastructure investment plans, while remaining vigilant against over-investment in capacity or renewed reliance on one energy type or source, will be important for ensuring these investments are viable, contain energy costs, and support the competitiveness of the Italian economy (Draghi, 2024<sup>[2]</sup>). Complementing this, transport and import capacity constraints and risks with international natural gas supplies underscore the importance of raising the share of domestic sources in Italy's energy mix.

Contributing to efforts to diversify Italy's energy sources, the Mattei Plan is developing energy transmission infrastructure and production facilities and deepening cooperation with African countries. The Plan's initial funding of EUR 5.5 billion for a five-year horizon from 2025 is modest. It is largely sourced from the Italian Climate Fund plus resources from the cooperation budget. Additional resources are being mobilised through multilateral development banks and cooperation with other EU states, and in conjunction with private finance. The 2025 annual report describes 33 projects underway, many of which build on pre-existing initiatives (Presidency of the Council of Ministers, 2025<sup>[5]</sup>), rising to 60 by the end of 2025, of which 14 focused on energy. The Plan's goals of scaling-up and diversifying energy sources and types are welcome and merit pursuing. Making the most of the Plan's funds and ensuring it supports large-scale diversification of energy types and sources, including those required for the transition to low-emission energies, will require ensuring priority is given to projects for renewable generation and connections. The Prime Minister chairs the Plan's steering committee, and a task force coordinates activities. Achieving the Plan's objectives will require that, beyond ensuring effective coordination among implementing bodies, the funded projects and their outcomes are subject to robust oversight.

Development of biofuels from waste could help boost energy security, lower costs and reduce net emissions. Italy has the fourth largest biogas production capacity in the world, making use of agricultural biomass, livestock manure, organic waste and agro-industrial by-products. Historically this has largely been directed to electricity generation. Nevertheless, biogas makes up less than 4% of overall gas use. The potential is significant, and the government targets large expansion in capacity up to 2030 (Italian Ministry of the Environment and Energy Security, 2024<sup>[21]</sup>). Italy's biogas development has been strongly linked to support measures and slowed when support was lowered after 2012, (Benato and Macor, 2019<sup>[7]</sup>). The National Recovery and Resilience Plan (NRRP) provides significant investment incentives, with the goal of more than doubling biogas production from waste between 2023 and 2030. Italy's 'Biogas Done Right' concept uses anaerobic digestion 'reactors' to generate gas while breaking down waste matter from food production: these reduces greenhouse gas emissions – for example, capturing the methane generated by animal manure

generates energy. The energy generated can be sufficient to reimburse the investment costs even before accounting for carbon credit benefits. The value generated through biogas can help Italy address long-standing challenges in the treatment of physical waste, especially in the South (discussed in past OECD *Economic Surveys*).

The production of biomethane from fermenting organic waste is growing but dependent on government support. In Italy, most biomethane supplies the domestic gas grid, primarily for transport and heating, and Italy has been leading across OECD countries in the use of biomethane for transport. Biomethane production capacity is supported through a grant of up to 40% of the construction costs incurred with a support tariff providing an operating incentive. Various feed-in tariff arrangements are to be phased out by 2027, replaced by a Guaranteed Minimum Price or Contracts-for-Difference, which can reduce the fiscal cost of subsidies while providing investors with stable revenue projections. This scheme expanded the support to sectors using biomethane, including transport (including maritime), industrial and residential users. Support was allocated through public tenders building on REDII and REDIII regulations. Requirements that transport operators blend biofuel with fossil fuels has the effect of financing biomethane production. Converting existing biogas plants to biomethane can extend the plants' life and improve their revenues. Developing larger-scale plants that combine supplies from multiple biogas plants would reduce production costs, but requires greater coordination in a relatively fragmented sector. As biomethane capacity develops and the production market deepens and matures, Italy will be able to reduce the explicit public support and allow a stronger role for market incentives to encourage investment (Dechezleprêtre et al., 2024<sup>[25]</sup>).

Italy is considering returning to developing nuclear energy, after it closed its reactors in the 1980s and early 1990s and national referenda in 1987 and 2011 rejected allowing nuclear power development. Nuclear energy has been assessed to offer stable, low-carbon and cost-competitive electricity in several OECD countries. Legislation went to parliament in 2025 to allow the government to regulate nuclear power, create a safety authority, strengthen research and skills, and implement an information campaign. Policy discussion focuses on the plans for small modular reactors, which are also being considered in several other OECD countries, such as Estonia. However, this technology remains unproved at scale. Its levelised costs are currently higher than conventional nuclear power reactors and are projected to remain so until the 2030s, while the cost of new renewable sources can be one-third to one-half of nuclear plants (IEA, 2025<sup>[12]</sup>). Nuclear power can contribute to improving energy security, and nuclear electricity production is more stable over time compared to intermittent renewables while also being low-carbon, although concerns involve high-impact negative risks in case of severe nuclear accidents as well as waste storage. It is important for nuclear projects, as well as any other energy project, to be underpinned by transparent and comprehensive life-cycle cost-benefit analyses that, inter alia, account for the cost of constructing power plants, storing nuclear waste and decommissioning disused power plants. Such analysis must also consider the (direct and indirect) subsidies granted through the entire production cycle.

**Table 3.2. Past OECD recommendations on energy security**

Past OECD Recommendations	Actions taken since 2024
Issue the implementing decrees of the 'suitable areas reform'.	A decree was passed in 2024, partially annulled in May 2025 by the Lazio regional administrative court and revised regulations approved in 2025. Some regions have approved regional framework laws but most, including economically large regions, are still undergoing technical processes.
Devise additional policies in the National Energy and Climate Plan (NECP) to allow Italy meeting its emissions reduction targets.	The NECP was revised in 2024 to give a greater role for the electrification of transport in achieving emission reductions goals. It also provides for the growth of biofuels and hydrogen and the electrification of ports.
<b>Increase the ceiling below which installations in suitable areas can be authorised through the 'simplified enabling procedure' and maintain the environmental impact assessment exemption for low-capacity installations in suitable areas beyond July 2024.</b>	2024 and 2025 legislative decrees reintroduced the rules governing areas suitable for the installation of renewable energy plants and provide for the identification of suitable offshore areas. They raised the project size threshold before an environmental impact assessment is required, and allow for projects in accelerated development areas to be exempted from preparing impact assessments.
Quickly approve the maritime spatial plans.	The plans were approved on 25 September 2024.
Subject each phase of the environmental impact assessment and the 'single authorisation' to the tacit consent principle	The silence-is-consent rule has been introduced and strengthened around parts of the renewables permitting chain via the new Testo Unico FER and related acts, but its application is restricted to prescribed circumstances.
Continue efforts to streamline key investments identified in the National Energy and Climate Plan.	To streamline investments outlined in the NECP, energy decrees simplify and support aligned investments and multi-year investment plans by key network operators.
Phase out tax credits for the installation of gas-powered boilers.	From 1 January 2025 tax credits were no longer available for the installation of traditional gas-fired boilers.
<b>Offer financial incentives for the scrapping of old cars, irrespective of new car purchases.</b> Keep raising the taxation of car fringe benefits, particularly for polluting cars. Encourage the establishment of city-level congestion charges. <b>Continue strengthening public transport and regional train networks. Refocus car purchase support towards entry-level EVs and phase out subsidies for the purchase of cars with internal combustion engines.</b> Ramp up the roll out of electric charging stations.	The draft Social Climate Plan allocates approximately half of its EUR 9.35 billion budget to support sustainable public mobility for vulnerable families and vulnerable transport users, including measures to strengthen public transport services. The NRRP allocates EUR 1.2 billion to support purchases of the lowest category of electric vehicles, and for the construction of electric vehicle charging points.
Expand the mandate of the existing Interministerial Committee for the Ecological Transition to make it responsible for steering the climate policy agenda. <b>Set up an independent climate council for policy evaluation and advice.</b>	The Interministerial Committee for Ecological Transition (CITE) is now exercising its new functions regarding critical raw materials and strategic projects.
<b>Follow up on plans to gradually raise excise taxes on fossil fuels when they are low, including by removing exemptions and rebates.</b>	The 2025 budget addresses the reduced VAT rate on waste disposal and introduced a differential in the personal income tax treatment of company car expenses based on their pollution.
<b>Complement tax incentives for building retrofitting with targeted subsidised long-term loans and grants.</b>	The 2025 budget aligns rules for tax incentives for building renovations with those in place prior to the 'Superbonus'.
Swiftly adopt and implement the National Climate Adaptation Plan. <b>Ensure appropriate funding for measures to reduce the risk of floodings and landslides.</b>	The Ministry of the Environment and Energy Security approved the National Plan for Adaptation to Climate Change in 2024. The Plan does not currently have its own financial allocation, but possible funding sources are to be identified. Funding for adaptation actions is currently provided through the Experimental Programme of Interventions for Adaptation to Climate Change in Urban Areas. A national observatory for climate adaptation - Osservatorio Nazionale per l'adattamento ai Cambiamenti Climatici - has been established.

**Table 3.3. Policy recommendations**

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
<p>Energy prices in Italy are higher and have risen by more than many of its main trading partners, largely due to the high share sourced from imported gas, and the 2026 Middle East conflict underscores Italy's exposure. Renewable energy investments and administrative procedures are progressing but delays in approvals persist, reflecting the complexity of the multi-layered governance, creating uncertainty for investors.</p>	<p><b>Accelerate the development of renewable generation, distribution and storage capacity by addressing barriers in planning and approval processes, including coordination across different levels of government.</b></p>
<b>Developing renewables' role in electricity supply</b>	
<p>Plans for large increases in renewables energy generation capacity have been slowed by delays in approval processes, complicated by the multi-layered governance, creating uncertainty for investors. Information on planned and proposed projects can be lacking, leading to overlapping proposals.</p>	<p>Strengthen the digital one-stop-shop 'SUER' to coordinate renewable energy investment project planning and approval processes across regional and national levels. Ensure different levels of government coordinate in incorporating designated suitable and non-suitable areas for renewables generation and transmission into spatial planning rules. Support local governments in updating their spatial planning and aligning them with national energy development plans.</p>
<p>Connecting new electricity generation and large users into the transmission and distribution grids has been slow, compromising investments in capacity and new production. Priority for connection requests now favours generation projects that have been approved.</p>	<p><b>As the backlog of transmission construction is addressed, pursue an anticipatory approach in planning and approving cost-effective transmission and connection infrastructure.</b> Provide harmonised guidance to subnational governments on assessing energy transmission and distribution projects.</p>
<p>System emergency response plans are coordinated at the regional level.</p>	<p>Ensure that the risk preparedness plan and exercises provide for coordination across national and regional crisis response plans.</p>
<b>Ensuring stable energy supply and lower prices</b>	
<p>Reforms are developing more dynamic pricing in energy markets. Some instruments expose the public sector to market pricing risks and could lead to long-term public subsidies. Electricity markets can be subject to manipulation especially by large producers and consumers.</p>	<p><b>Ensure that support for low-carbon technologies in electricity generation, transmission and storage do not mute market price signals and carefully manage risks for public finances and consumers.</b> Ensure regulators remain vigilant and sanction any cases of market manipulation, and support greater market transparency.</p>
<p>Italy has used generous measures to support consumers and improve energy efficiency but much spending has been ineffective and electrification lags goals. Support measures for businesses are seen as critical in ensuring their ongoing viability given Italy's high energy prices. While recent reforms reduce the price advantage of fossil fuels relative to electricity, some fossil fuel subsidies remain. Institutional arrangements are in place for the second phase of the European Emission Trading Scheme (ETS2), which will help raise fossil fuel prices toward electricity prices. The National Energy Efficiency Agency (ENEA) supports the implementation of the Social Climate Plan, with dedicated programmes for the renovation of public buildings.</p>	<p><b>Curtail general energy support measures and fossil fuel subsidies, instead providing targeted support for vulnerable households and businesses' energy efficiency, and pursue implementation of the ETS2.</b> Use the Social Climate Fund resources to support electrifying and improving the energy efficiency of low-income housing, transport and for smaller businesses. Strengthen the role of ENEA as a national agency with a medium-term remit and resources to support public building energy renovation projects across government bodies.</p>

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Item	Q1	Q2	Q3	Q4	YTD	Target	Variance
Item 001	100	120	110	130	460	450	10
Item 002	200	180	220	190	790	800	-10
Item 003	50	60	70	80	260	250	10
Item 004	300	280	320	310	1210	1200	10
Item 005	150	160	140	170	620	630	-10
Item 006	80	90	100	110	380	370	10
Item 007	120	130	110	140	500	510	-10
Item 008	60	70	80	90	300	290	10
Item 009	400	380	420	410	1610	1600	10
Item 010	90	100	110	120	420	410	10
Item 011	250	240	280	260	1030	1020	10
Item 012	70	80	90	100	340	330	10
Item 013	110	120	130	140	500	490	10
Item 014	350	340	380	360	1430	1420	10
Item 015	80	90	100	110	380	370	10
Item 016	130	140	150	160	580	570	10
Item 017	60	70	80	90	300	290	10
Item 018	450	440	480	460	1830	1820	10
Item 019	90	100	110	120	420	410	10
Item 020	140	150	160	170	620	610	10

# 4

## Enhancing business dynamism to raise productivity

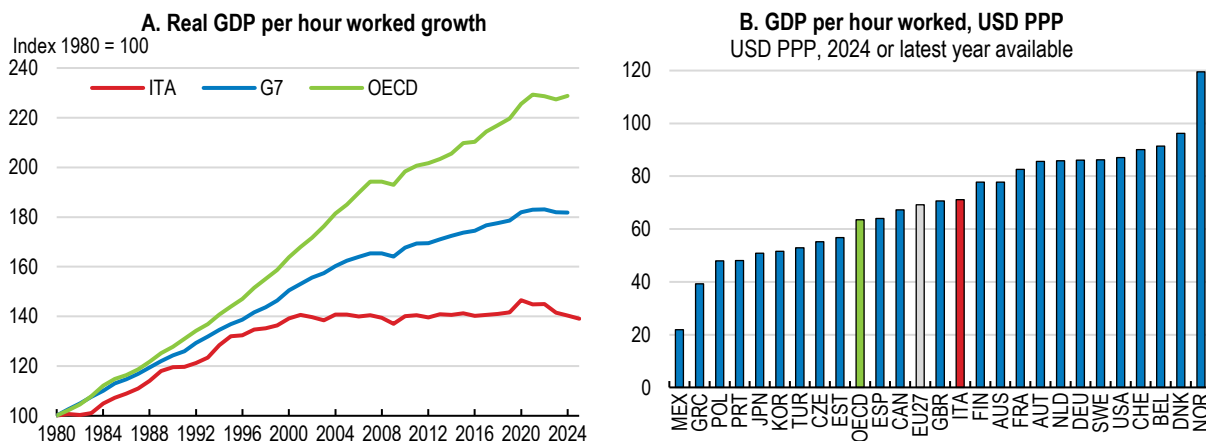
Emilia Soldani

*Labour productivity in Italy is lower than in most high-income OECD countries and productivity growth has lagged the euro-area average since the mid-1990s. While productivity varies significantly within firm size classes, the low aggregate productivity level is largely linked to the high share of small, low-productivity firms, which struggle to grow and expand. While medium- and large-sized firms in Italy are as productive as their peers in other large economies, their share of activity and employment is relatively small. Productivity growth can be revived by creating better conditions for businesses to grow and innovate. On-going efforts to increase the efficiency of the legal system and improved financial conditions will help. Fully implementing the NRRP reforms and investments and continuing these efforts beyond 2026 will be crucial. Reducing regulatory barriers to entry, easing the regulatory burden and simplifying tax compliance would support competition. Increasing public support for R&D would strengthen the innovation system. Upskilling and training managers and employees would contribute to raising firm performance.*

## 4.1. Productivity growth has been weak

Italy's labour productivity growth has lagged other OECD countries in recent decades, weighing on output and competitiveness (Figure 4.1). Labour productivity growth has been below the euro-area average since the mid-1990s and stagnated after 2010, although it picked up between 2019 and 2022. The level of multi factor productivity declined between 2000 and 2022 (OECD Productivity Database). While in the decade to 2024 the expansion of hours of work has been an important driver of GDP growth, the demographic outlook highlights the need to raise productivity to support economic growth and well-being (see Chapter 1 for a discussion of growth dynamics and Chapter 3 for demographic trends).

**Figure 4.1. Labour productivity levels and growth lag other high-income economies**



Source: OECD Analytical Database; and desk calculations.

StatLink  <https://stat.link/6fp4tz>

The reforms and investments undertaken through the National Recovery and Resilience Plan (NRRP) have started to address some of the economy's structural weaknesses, and recent data show some modest but encouraging improvement. Supported by the large fiscal stimulus and overall improving macroeconomic conditions, real GDP grew faster in Italy (6.4%) than in the euro area (+6.3%) between 2019 and 2025. Despite slowing down during the Covid-19 pandemic, the value added of the private sector increased by about 10% between 2019 and 2025, supported by strong employment growth, especially in the lower-productivity service and construction sectors (Chapter 1).

There is substantial potential to raise productivity and incomes by tackling long-standing barriers to business dynamism (MIMIT, 2026<sup>[81]</sup>). Section 4.2 shows how Italy's slow productivity growth can be traced to three main characteristics: a high share of small firms with low productivity, low investment despite recent improvements, and weak business dynamism. Productivity growth could be best supported by a coherent array of measures to make the business sector more dynamic, help businesses scale up, increase innovation and improve skills including: removing fiscal and regulatory barriers to firms' entry and growth (Section 4.3); deepening capital markets (Section 4.4); supporting investments in innovation and technology adoption (Section 4.5); and strengthening the adoption of managerial practices and reducing skill mismatches (Section 4.5.3). Full implementation of existing interventions in the National Recovery and Resilience Plan (NRRP) and Medium-Term Fiscal-Structural Plan (MTFSP) and a more comprehensive set of measures to improve the dynamism of the Italian business sector would support innovation, productivity and wages.

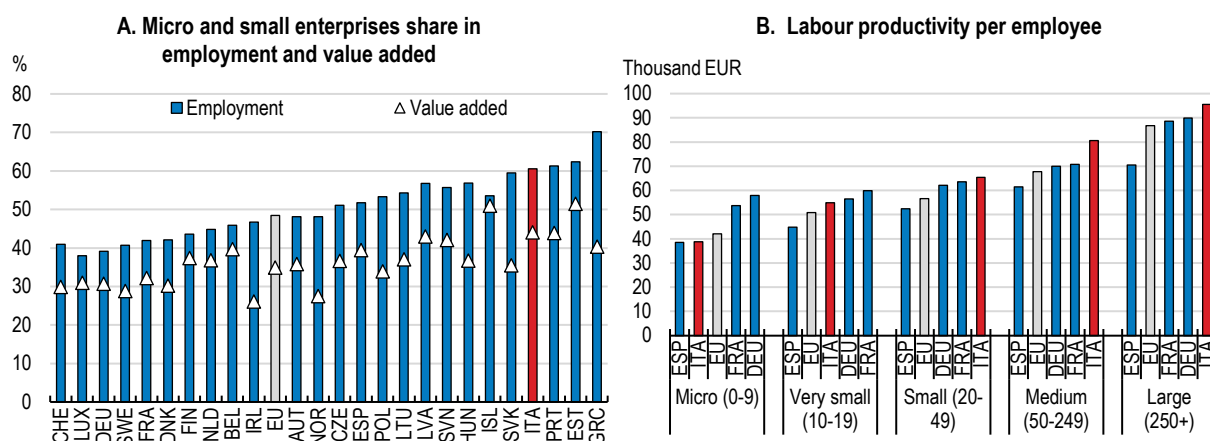
## 4.2. Barriers to firm growth, investment and innovation weigh on productivity

### 4.2.1. Smaller less productive enterprises make up a large share of the economy

Despite the recent ongoing reallocation of employment from smaller to larger firms (Accetturo et al., 2025<sup>[36]</sup>), small and micro enterprises with low productivity still make up a large share of Italy's productive fabric, weighing on the overall level of productivity and counterbalancing the strong performance of larger firms (Figure 4.2). In terms of exports and labour productivity, Italian medium-sized (with 50-249 employees) and large (over 250 employees) firms, mostly located in the North, perform similarly or even better than their counterparts in France or Germany. However, smaller firms are on average less productive than their larger counterparts, and this gap is larger in Italy than in other large European economies. Despite recent increases in average firm size, micro and small firms still account for more than 60% of employment in Italy, compared to around 40% in France and Germany. This is not only driven by service industries. Also in the manufacturing sector, which is the second largest in Europe and the eighth largest globally in terms of value added, large firms are smaller and fewer than in Germany or France. While many smaller firms excel in the production and export of high-quality products, when compared to larger firms on average, they have lower economies of scale, invest and innovate less, and often struggle to attract and retain talent, as lower labour productivity levels constrain their ability to offer competitive wages. This is gradually changing: in the manufacturing sector, the number of firms with fewer than ten workers has decreased by 12% between 2014 and 2024 (Centro Studi Confindustria, 2025<sup>[39]</sup>).

The low share of larger business reflects in part weaker business dynamism whereby fewer successful firms grow into larger enterprises, and fewer low performing firms exit, and in part the weak productivity improvements within firms. Weak dynamism is reflected in generally high entrenchment, the stability of the identity and market shares of the largest firms within industries. There are some signs in recent years of the business sector becoming more dynamic with more productive firms expanding compared to others, although this has yet to be reflected in terms of aggregate productivity. The performance of top-performing firms, in term of productivity as well as investment and wages, has improved with respect to median firms, a pattern which could indicate an underlying reallocation of resources towards more productive firms (Accetturo et al., 2025<sup>[36]</sup>).

**Figure 4.2. The large share of smaller firms weighs on productivity**



Note Industry, construction and market services (except public administration and defence; compulsory social security; activities of membership organisations). Both panels based on 2023 data, except employment in Panel A, which is 2024.

Source: Eurostat (sbs\_sc\_owv).

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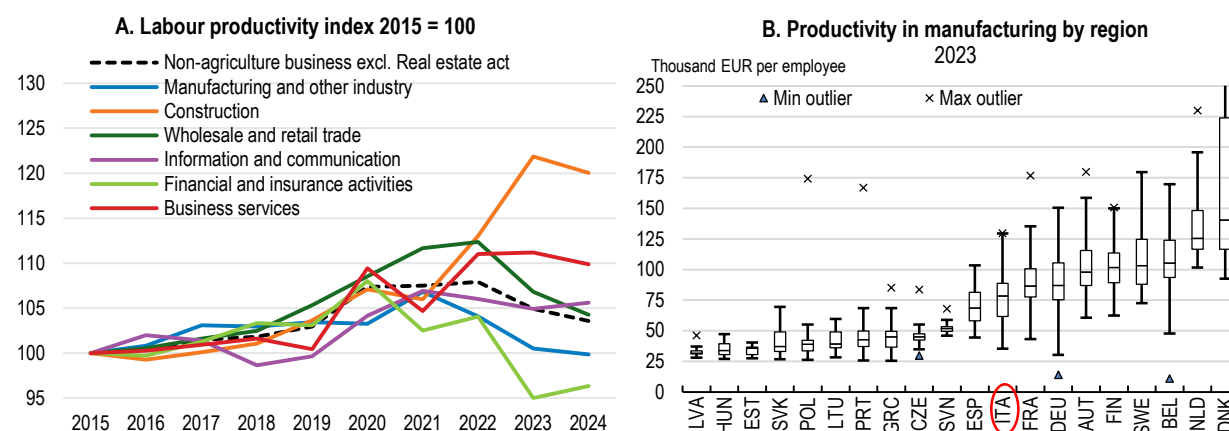
Productivity tends to be lower in the South and the Islands, where, with a few notable exceptions, it declined by around 10% between 2000 and 2020. In recent years, however, supported by the large NRRP investments

in the area, southern regions have performed relatively well, with labour productivity growing at similar rates in the South to those in the North and Centre. Regional differences largely reflect differences in composition. The Lombardy region, which has the highest labour productivity, also has a composition skewed towards larger firms and higher productivity sectors, with a strong start-up activity and a relatively low share of micro firms (in industry construction and market services, for example, the share of firms with fewer than 10 workers in Lombardy is 83%, compared to 86% in Italy). Firms in the South tend to be more concentrated in sectors with below-average productivity such as retail, hospitality, construction and agriculture, and to be smaller than in the North. Firms in the South were less affected by the selection process taking place after the global financial crisis (GFC), further accentuating geographic disparities in the level and growth rate of productivity. In addition to compositional effects, significant North-South productivity gaps of around 20% on average persist even within economic sectors and firm size categories, which are associated with differences in the availability of skilled workers, digital and physical infrastructure and public sector efficiency (Menon and Vermeulen, 2025<sup>[71]</sup>). To mitigate the North-South gap, about 40% of the NRRP resources were allocated to the South, and the 2026 Budget Law has strengthened and extended the tax credit for investments in the Single Economic Zone, and directed a broad set of measures under the Cohesion Fund toward supporting research and innovation in these regions. Assessing the effectiveness and concrete outcomes of these efforts will help to identify opportunities to sustain productivity growth across the territory.

#### 4.2.2. Aggregate productivity and investment growth have been slow


The sectoral composition of the economy contributes to low aggregate levels of productivity and investment, as the employment share of low value-added sectors - like accommodation, food services, tourism and personal care, but also branches of the manufacturing sector characterised by low technological intensity - is larger than elsewhere. Over the past decade business services and ICT have had stronger productivity growth than the average, although weaker than in many other EU countries. Productivity has improved in construction, supported by the *Superbonus* tax support scheme. Similarly, the overall negative trend in labour productivity in the manufacturing sector masks some within-sector heterogeneity, both within and across the categories of product. However, productivity growth has been sluggish across most sectors (Figure 4.3).

**Figure 4.3. Productivity growth has been sluggish in many sectors and productivity levels differ across regions**



Note: In panel A, productivity is per hour worked. In Panel B, the whiskers indicate the 25<sup>th</sup> and 75<sup>th</sup> percentiles.

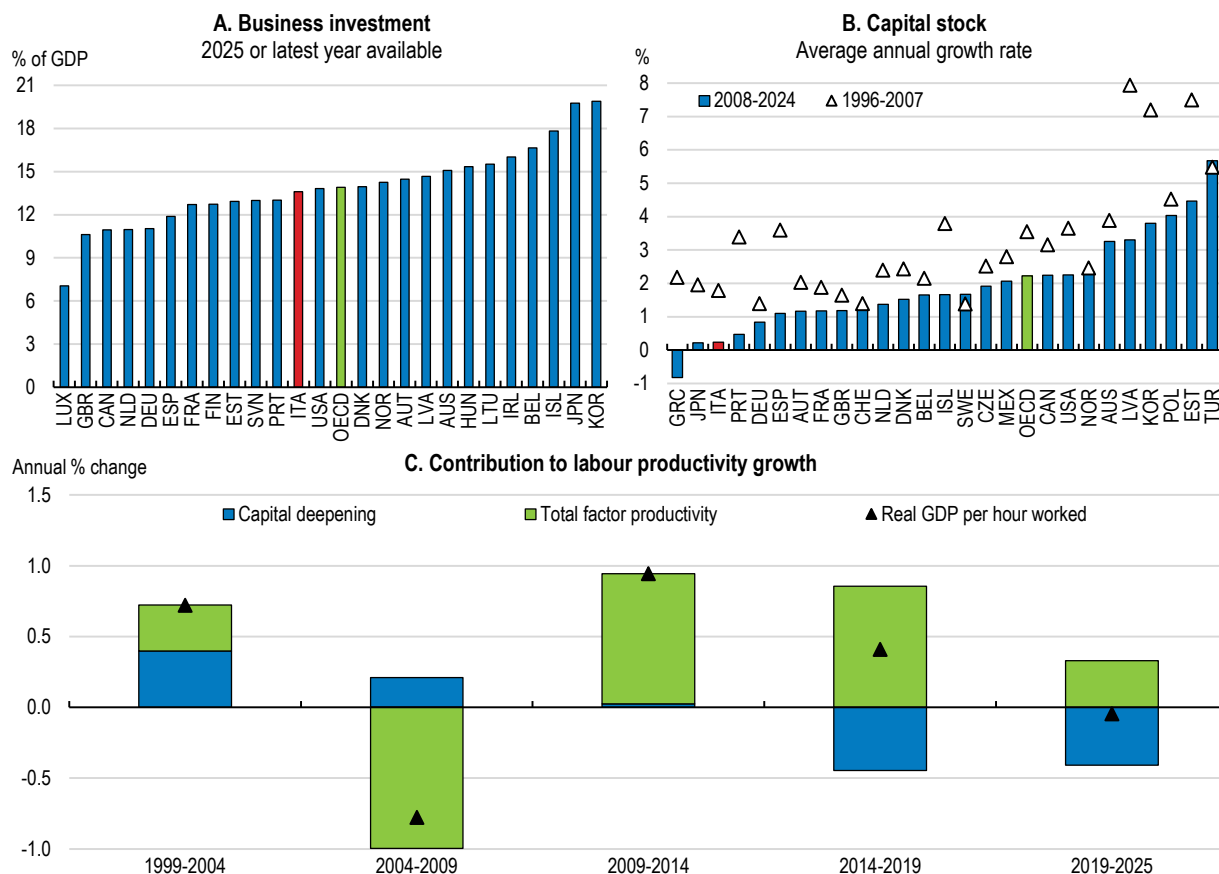
Source: OECD National accounts tables; and Eurostat (nama\_10r\_3gva, nama\_10r\_3empers).

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Business investment and the growth of the capital stock are lower than in many OECD economies (Figure 4.4). This is in part due to the orientation of the manufacturing sector, which accounts for 35% of total capital investment and 50% of R&D, towards low-technology activities. In terms of value added, for example, the sectors with medium and high technological intensity account for only about 40% of manufacturing, compared

to 60% in Germany (Eurostat Structural Business Statistics). The growth of the capital stock has been close to zero on average since 2008, well below even modest rates in other large EU economies. Even in Italy’s best performing regions, gross fixed capital formation relative to output is lower than the average in France or Germany. The investment-to-value added ratio has been below the OECD median and generally below the rates in France and Germany over past decades, particularly after 2010 when the Italian banking sector faced significant challenges. Between 2019 and 2025 the capital stock, supported by the improved financial health of Italian firms and by public incentives, started to grow again for the first time since the GFC, but at a slower pace than employment, resulting in declining capital per worker.

**Figure 4.4. The slowdown in capital accumulation holds back growth**



Source: OECD Analytical Database; ISTAT and OECD calculations.

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Like in many other OECD economies, capital formation is concentrated in real estate, which is less conducive to productivity growth. The predominance of real estate and tangible investments over ICT and intangibles, like R&D and intellectual property, which generally have the highest impact on productivity, is particularly marked in services but also affects the manufacturing sector (OECD, 2025<sup>[49]</sup>). This can be explained in part by the small size of the ICT sector in Italy, which despite the expansion of the last 10 years continues to employ a smaller share of employment than in other advanced OECD economies. Investments in intellectual property, including research and development (R&D) and ICT, however, remain among the lowest across the euro area in all sectors (including in ICT).

Slow investment growth is the result of longstanding structural issues, including access to finance and the large share of small firms, combined with temporary factors. In recent years, tighter monetary policy and energy price shocks were passed through to investment costs, while wage growth lagged. These developments reduced incentives for firms to invest in fixed capital formation, innovation and organisational improvements,

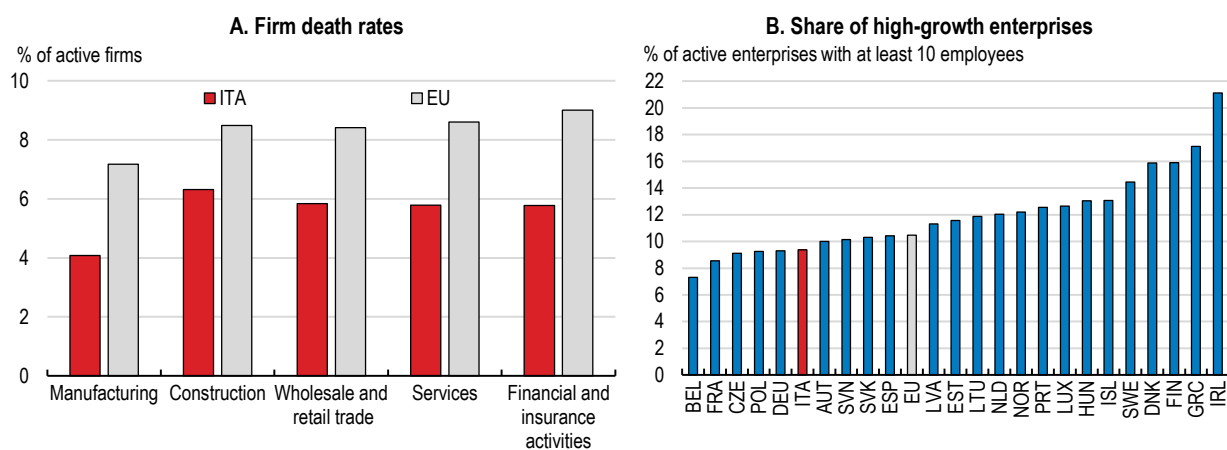
and encouraged them to maintain highly labour-intensive production processes, exploiting the significant slack in labour markets, especially in lower skilled occupations. This phenomenon may have contributed to low capital deepening and a decrease in labour productivity (Colonna, Scoccianti and Viviano, 2025<sup>[1]</sup>). Reducing businesses' exposure to energy price shocks through improved energy security may help protect their ability and incentives to invest (Chapter 3 discusses strategies for energy security).

### 4.2.3. Small firms rarely scale up

Low productivity growth in Italy is closely linked to weak business dynamism, particularly the weak scale up of successful firms and the slow exit from the market of less productive companies. Business dynamism is essential to promote innovation and support productivity growth. On the one hand, a healthy degree of market entry can facilitate the adoption of new technologies and organisational structures, as new firms add competitive pressure and are often more likely to innovate. On the other hand, competition from new entrants can induce incumbents to invest in productivity-enhancing innovations or process improvements or induce reallocation of resources to more productive businesses. Business dynamism in Italy is low, with lower start-up rates than in similar economies, especially in services (OECD, 2025<sup>[49]</sup>), lower exit rates across economic sectors, and weak scale-up dynamics, captured by the relatively low share of high-growth enterprises (Figure 4.5), though the latter may in part be attributed to differences in industrial structure.

**Figure 4.5. The rate of business exit and the share of high-growth enterprises are low**

2023



Note: high-growth enterprises with at least 10 employees in the beginning of their growth and having average annualised growth in number of employees greater than 10% per annum, over a three-year period.

Source: Eurostat (bd\_size; and bd\_hg)

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Small and medium-sized enterprises in Italy are less likely to grow into large firms than in other large OECD economies. This is true not only in terms of growth in the number of workers (Figure 4.5, Panel B) but also their capitalisation (McKinsey Global Institute, 2024<sup>[80]</sup>). In Italy, multiple factors, rather than one single determinant, hinder firms' expansion. Key factors include implicit regulatory incentives to remain small, the limited access to credit and the fact that most firms are owned and managed within the family. For example, the simplified tax regime, with its lower reporting requirements, encourages firms to maintain revenues below its eligibility thresholds. A large-scale survey in 2022 found 81% of all firms with at least 3 workers were owned by a single person or family, with higher shares in services, especially food and accommodation, and retail (ISTAT 2022 Census of Italian Enterprises). In addition, sectors that in Italy make up large shares of aggregate value added and employment have relatively low returns to scale, limiting firms' incentives to grow.

### 4.3. Revitalising competition and reducing the compliance and regulatory burden on businesses

Bureaucratic and structural barriers hinder the market entry of new firms, the scale-up of existing successful ones and the exit of low performers. While regulations are necessary to address market failures, a cumbersome legal and regulatory environment can create uncertainty, discourage market entry and divert existing enterprises' resources from more productive activities (OECD, 2025<sup>[28]</sup>). Significant progress has been made over the past decade and in recent years through the NRRP, particularly in improving the insolvency framework and in reducing the length of judicial proceedings by leveraging administrative and digital innovations and strengthening human resources. As the NRRP reaches its conclusion, it will be important to consolidate these improvements and maintain the momentum by reaching the objectives outlined, at a general level, in the MTFSP. In particular, continued efforts in addressing regulatory barriers, improving legal certainty and reducing delays in the justice system and insolvency procedures are key to boost both innovation and productivity growth. Measures to tackle existing labour market rigidities, in the respect of the constitutional constraints and of the social dialogue, could support the reallocation of human resources to more productive enterprises. Containing the costs of compliance with taxes and regulations would reduce the costs of doing business and support economic activity.

**Table 4.1. Past recommendations to revitalise competition and improve the efficiency of the judicial system**

Recommendations	Actions taken since the last Economic Survey
Continue strengthening the links between judges' performance, career progression and pay, and ensure that performance evaluation is thoroughly implemented.	To strengthen the performance evaluation of judges Italy has introduced four-yearly professionalism assessments by the High Council of Judiciary and a performance-based career and pay advancement system. The multi-level assessment process and office-specific performance standards, help balance independence and accountability.
Implement the competition reform legislated in 2022, including by submitting concessions to public tenders at expiry. Reduce the scope of "fair compensation" rules in professional services.	Procedures for public tender have been started. Fair compensation principles have been extended to other professionals, including journalists, to provide a reference point for judicial disputes.

#### 4.3.1. Removing barriers to competition

The OECD indicators for Product Market Regulation (PMR) and Services Trade Restrictiveness identify higher-than-OECD-average restrictions to firm entry in non-financial services. While the overall PMR score is below the OECD average and indicates a relatively pro-competitive regulatory environment, the barriers to entry in service sectors and highly regulated occupations covered by the PMR indicators (accountants, architects, civil engineers, real estate agents, retail and pharmacies) are among the highest across the OECD (Figure 4.6). Reducing these barriers, by facilitating the accreditation process for new professionals, would support competition in the services sector and help to raise overall performance. For instance, Italy is currently considering alternative pathways for entry in the real-estate agent profession. As Italian manufacturing firms have outsourced an increasing share of their activities, including accounting and legal services, to the business sector, improving competition and productivity in the latter could have beneficial spillover effects to the manufacturing sector. For instance, between 2003 and 2019, a series of reforms facilitated entry into network and services industries and reduced the complexity and length of administrative procedures to obtain the permits to start-up a business, leading to increased competition and lower final prices, with further gains in value added and productivity elsewhere in the value chain (Lanau and Topalova, 2016<sup>[4]</sup>).

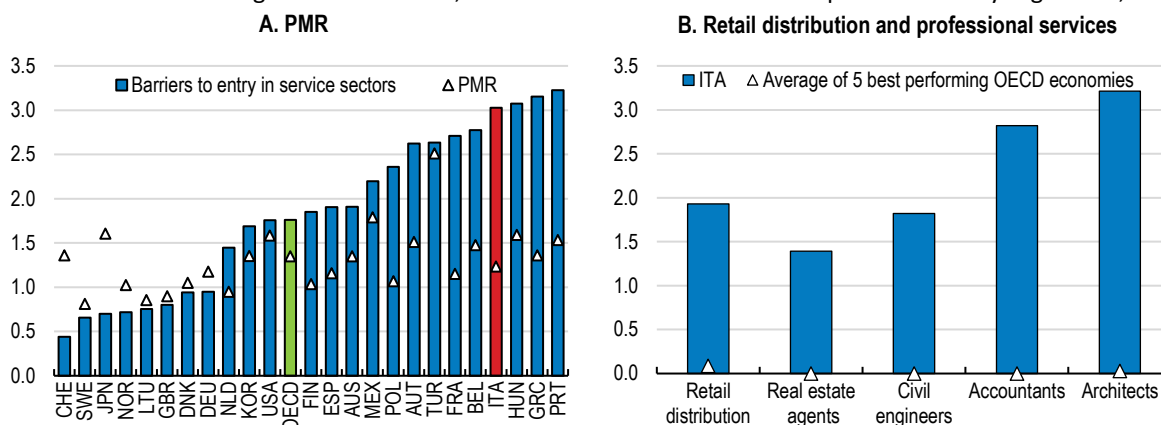
While occupational licensing regulations can help reduce information asymmetries, ensure public safety and protect consumers by ensuring the professionalism and quality of work of licensed professionals, they can also stymie competition and risk benefitting already licensed professionals more than their clients. The barriers to competition in retail distribution are also higher in Italy than in other OECD countries (Figure 4.6), with a risk of hindering competition and generating monopoly rents. Further easing regulations in retail and in professional services without compromising quality standards could further support productivity growth in

affected sectors as well as those downstream (Andrews and Égert, forthcoming<sup>[29]</sup>; Di Marzio, Mocetti and Roma, 2024<sup>[37]</sup>).


To improve the design and support the enforcement of competition law, Italy in 1990 created an independent competition authority (AGCM). By driving the design and enforcement of laws that improve the contestability of markets, this body supports business dynamism and can lead to significant benefits to consumers. The authority prepares yearly competition policy enforcement recommendations and advocacy activities, conducts in-depth analysis to assess the impact of acquisitions and mergers on market concentration and competition, and can impose sanctions to punish abuses of market dominance and anti-competitive agreements. A whistleblower platform introduced in 2023 is expected to further strengthen antitrust and anticartel surveillance and the enforcement of competition law. Since 2017, Italy has envisaged the adoption of an annual competition law as part of the yearly competition policy agenda submitted to Parliament (*Legge annuale per il mercato e la concorrenza*). Italy remains committed to pursuing these objectives under both the NRRP and the MTFSP, with actions planned to continue through 2029. The continued implementation of the annual competition law is expected to help steadily reduce restrictions to firm entry in services and benefit consumers through more competitive pricing and quality and encouraging firms to improve their productivity in affected services and in downstream industries (OECD, 2025<sup>[48]</sup>). In particular, operational decrees (*decreti attuativi*) are at times necessary to translate pro-competitive annual reforms in key sectors like local public services, highways, concessions for public services, energy, waste, health, telecoms and digital platforms into actual changes in requirements on market behaviour and procurement practices. Ensuring that all due operational decrees are swiftly ready and published would help ensure successful implementation.

### Figure 4.6. Barriers are high to entering services markets

OECD Product Market Regulation indicators, index 0-6 from most to least competition friendly regulation, 2023



Note: In Panel A, services include six professions (accountants, architects, civil engineers, estate agents, lawyers, and notaries), as well as two sectors in retail distribution (general retail trade and retail sales of medicines). In panel B, the average of top 5 performers is measured within each activity. Source: OECD PMR 2023 database.

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### 4.3.2. Reducing legal uncertainty, delays and costs

Clear, well-drafted legislation and implementing regulations give certainty to enterprises regarding their obligations and rights and reduce compliance and enforcement costs for the administration. Trust in public institutions and perceptions of the quality of public services is among the lowest across OECD countries (Chapter 1). The scope for a court decision to be overturned by higher-instance courts is an important characteristic of modern judicial systems. In Italy, however, appeals to higher courts are relatively frequent and the probability of appealed decisions being modified or overturned is particularly high at around 12%, and even higher for legislative decrees and more complex legislation, and for criminal cases (30%). At the same time, poorly drafted legislation and the scope for alternative interpretations lengthen the duration of legal

proceedings, weighing on public sector efficiency, firms' operating costs and the certainty around returns from private investments. A recent empirical study suggests that improving the quality of legal drafting and reducing legal uncertainty in Italy could boost private investment and support entrepreneurial activity and innovation (Giommoni et al., 2025<sup>[7]</sup>). The use of simple language in legislation and administrative acts can make it easier for citizens and enterprises to understand and comply with regulations. For example, in Norway the requirement for all public bodies to communicate in a clear and correct language adapted to their target group (Language Act), and the introduction of courses and of a web-based toolbox to help civil servants make written language more user friendly (*Klarsprak* project) have been shown to lead to fewer complaints from citizens and fewer requests for information and help (Johannessen, Berntzen and Ødegård, 2017<sup>[53]</sup>).

The costs of complying with legislation and regulations do not solely depend on their stringency and clarity, but also on their potential contradictions or by apparent overlaps with pre-existing norms at the local, national or European level. The Italian legal framework minimises overlaps by virtue of the clear hierarchy of legal sources, by which European norms prevail on national and regional ones and new provisions prevail on superseded legislation. Nonetheless, concurrent legislations create uncertainty and lead firms to consult legal advisers or courts. Addressing this would help reduce the compliance and administrative costs.

The delay between the adoption of general legislation and the implementing executive decrees (*decreti attuativi*) contributes to legal uncertainty, hampering investment or inducing enterprises to postpone business operations until decrees are published. In the Italian legal framework, primary laws represent general frameworks, while executive decrees detail how primary laws are to be applied. Ensuring the prompt adoption of decrees would improve legal certainty and support private investment. Overly complex regulation and decrees hinder businesses' understanding of the requirements and their scope to pursue the most efficient means. The need to provide unambiguous and precise restrictions and indications on how a given rule should be applied should be weighed against the risk of making it overly prescriptive and complex. Analyses in other OECD countries, such as the United States, identify significant losses from higher regulatory compliance costs for productivity and business dynamism (OECD, 2025<sup>[28]</sup>). Reforming how regulations are designed and applied can reduce the compliance costs (OECD, 2025<sup>[48]</sup>):

- Monitoring the costs and challenges of the application of legislation and regulations can inform their periodic review and revision to reduce these losses. Italy's existing impact assessment practices for new regulations compares well with other OECD countries, according to the OECD's iREG indicator, although it scores relatively low on the transparency index (Figure 4.7), which captures the extent to which government decisions and regulatory impact assessments of primary laws (RIA) are made publicly available.
- Early engaging stakeholders, businesses and consumers in the design and review of legislation can ease compliance costs, and improve cost-benefit assessments and the quality of regulation (OECD, 2025<sup>[48]</sup>).
- Conducting targeted consultation during the design and before the adoption of new regulations, with the depth and timeframe for the process adjusted to the significance and likely impact of the regulations, can help contain the costs of consultation, as demonstrated by experience in Australia.

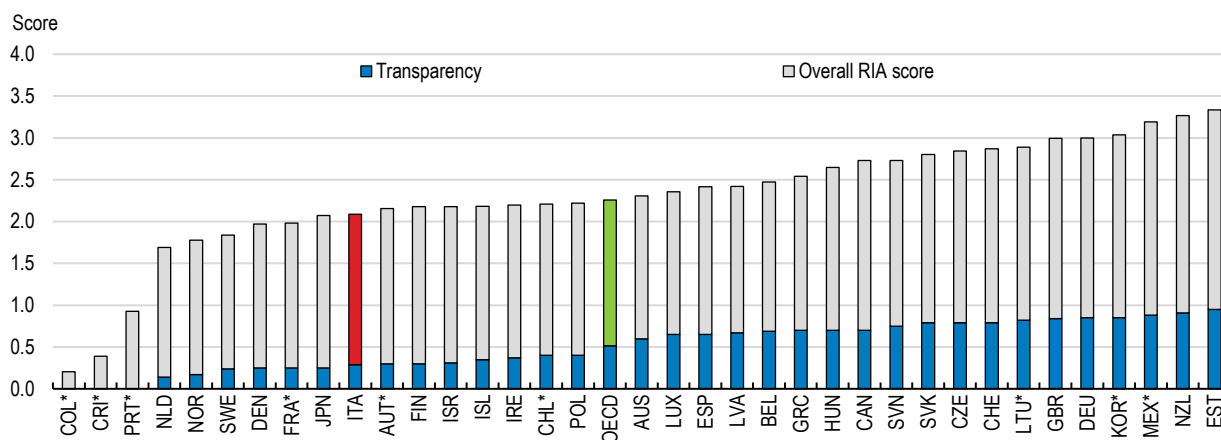
Complex and costly regulatory compliance generate fixed costs, harming the competitiveness of smaller businesses. To offset this, in Italy, firms with revenue or turnover below certain thresholds often benefit from exceptions or simplified regulations. However, this approach can discourage firms from growing above those thresholds and distort the efficient allocation of workers across firms and occupations (Di Marzio, Mocetti and Roma, 2024<sup>[37]</sup>). Granting expanding enterprises a temporary grace period to adapt to the stricter regulations for larger firms could mitigate such distortions.

In the context of the NRRP Italy has undertaken a large reform of its public administration system, with the goal to simplify and digitalise hundreds of administrative procedures. It has also created a complete, up-to-date public catalogue of all procedures and related administrative regimes across the country. The recent commitment to introduce an annual simplification law (*Law 167/ 2025*) could potentially further improve the

quality and clarity of legislation and regulation and help reduce the compliance burden for enterprises, but this benefit should be balanced with the risk of adding to legal uncertainty. In practice, this requires the relevant ministries to identify a series of legislative provisions to be simplified, after consulting with stakeholders. This is a welcome step, as consulting local governments and representatives' bodies for consumers and businesses can help identify priority areas to reform and support the effectiveness of this simplification effort.

**Figure 4.7. Transparency of regulatory assessment processes lags most other OECD countries**

Regulatory impact assessment for primary laws, 2024



Note: Only covers practices in the executive. In most OECD countries primary laws are mostly initiated by the executive. Asterisks (\*) denote countries where a greater share of primary laws are initiated by the legislature.

Source: OECD Indicators of Regulatory Policy and Governance (IREG) Survey 2024.

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### *Improving the efficiency of the legal system*

The high costs of resolving commercial disputes are a burden on commercial relations and hinder business growth. Resolving a commercial dispute took an average of over 1100 days and costed about 30% of the disputed amount across a sample of large cities in Italy in 2019, which, taking into account differences in data gathering methodologies, can be compared to 600 days and 24% across the OECD (World Bank, 2020<sub>[30]</sub>). Recent reforms are expected to reduce this gap in performance. Speeding up commercial dispute resolution should support businesses transacting and working together, supporting growth. Across Italian provinces, resolving commercial disputes can range between 860 and 1750 days on average. Cross-regional comparisons suggest that in regions with weaker contract enforcement and lengthier judicial proceedings, firms face higher uncertainty and operational risks, including contract breaches, and tend to remain smaller and be more risk averse (Giacomelli and Menon, 2016<sub>[5]</sub>). The costs of monitoring compliance and resolving disputes can divert resources from core business development and scaling up. At the same time, weak enforcement favours family control and dynastic inheritance of firms, as firms try to rely on reputation and relationship-based transactions and limit exposure to outside contractual risks (Caselli and Gennaioli, 2012<sub>[6]</sub>).

Recent NRRP-related reforms and those laid out in the MTFSP aim to reduce the backlog in courts also through the extraordinary hiring of support personnel for the office of trial and of technical administrative personnel. The NRRP sets targets for Italy to reduce the stock of open civil cases (backlog) and the average disposition time, which refers to the expected duration of judicial proceedings. While Italy has made significant progress along the first dimension and met its midterm target, reducing the stock of open civil cases by 93.2% at the Courts level and by 99.4% at the Courts of Appeal between 2019 and the end of 2024, sustained efforts will be required to meet the final targets for the disposition time in civil justice. Between 2019 and 2025 the average disposition time decreased by 27.8% for civil causes and by 37.8% for criminal ones (based on the

Ministry *Datawarehouse della Giustizia Civile* data). These data confirm the significant progress made so far and underline the need for an acceleration in civil courts to meet the target reduction of 40% by June 2026. The MTFSP confirms the general commitment to maintain this positive momentum to streamline civil and bankruptcy proceedings, promote alternative means of dispute resolution and out-of-court instruments, and increase the efficiency of civil courts and the justice system as a whole. Pursuing ongoing and planned efforts to further improve the efficiency and responsiveness of the judicial system, through the hiring of judges and technical staff where necessary and through the stronger links between careers and performance (including through the updated provisions for vertical and horizontal progressions and the new multi-level assessment process), could help accelerate legal proceedings and reduce uncertainty, supporting investment and productivity. Addressing staff shortages in some jurisdictions by allowing judges in other regions to engage through digital technologies is a welcome, pragmatic step. The use of NRRP funds for the hiring, mostly on temporary contracts, of technical staff has been key to accelerate the work of the courts and achieve the midterm targets (Cannella et al., 2024<sup>[38]</sup>). Ensuring continuity after the NRRP, including through converting some temporary hirings of personnel for the office of trial and of the technical administrative personnel to permanent job contracts, would be key to fully reap the benefits of the reforms and increase the capacity of the courts system. To further support these improvements, Italy should continue the digitalisation effort, including through online dispute resolution. Leveraging auxiliary technical experts (including notaries) for arbitration and alternative dispute resolution could further help pursue quicker legal decisions.

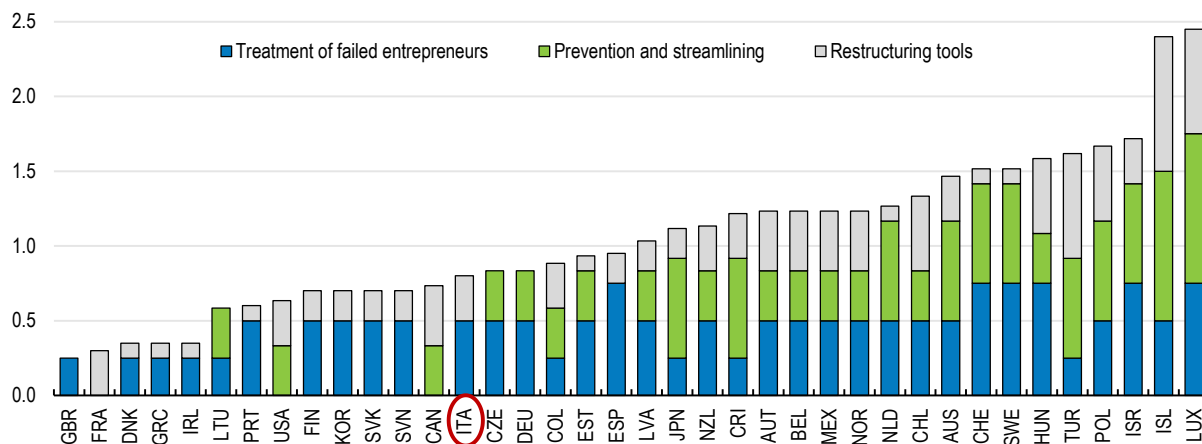
Scarce information, administrative complexity, and high costs can deter businesses, and particularly SMEs, from using legal services and dispute resolution procedures, opting for suboptimal informal dispute resolution (OECD, 2025<sup>[68]</sup>). The recent expansion of the scope of alternative dispute resolution mechanisms, like mediation and arbitration, is expected to reduce the burden on traditional courts while making justice more accessible to SMEs. Building on ongoing revisions to commercial law and regulation and of the justice system, the creation of SMEs-oriented points of access to offer clear and simplified guidance to dispute resolution systems could help relax such constraints and encourage firms' investment and growth.

### **4.3.3. Improving insolvency procedures**

Firm closures and reorganisations should play a key role in reallocating resources to more productive firms, contributing to raising the average size of firms. Firm turnover in Italy is around two-thirds of the OECD average, weakening resource reallocation through so-called creative destruction, and lowering productivity growth (Decker et al., 2020<sup>[10]</sup>). The low turnover and exit rates are in part due to complex and lengthy administrative procedures for insolvency and liquidation, with high compliance costs. In general, bankruptcy laws must strike a difficult balance between protecting creditor's invested capital – which facilitates their investments and discourages excessive risk taking by borrowers – and avoiding excessive penalties for defaulting entrepreneurs to avoid discouraging business creation and experimentation. The recent revision of insolvency procedures can facilitate firms' exit from the market and the reallocation of scarce human, physical and entrepreneurial capital to other more productive enterprises, reducing inefficiencies and boosting aggregate productivity growth. The revised framework improves early-warning mechanisms and introduces simplified liquidation for small firms to encourage out-of-court settlements. This is expected to accelerate bankruptcy procedures, facilitate corporate restructuring and strengthen contract enforcement, resulting in more efficient market exit and turnover and supporting business creation (Calvino, Criscuolo and Menon, 2016<sup>[73]</sup>). The MTFSP indicates the plan to carry out an impact assessment of these reforms and adopt corrective actions where needed. Preliminary evidence suggests that the reforms may have induced firms to address financial distress at earlier stages, resulting in lower risks of entering judicial liquidation. While Italy's barriers to insolvency now compare relatively well with other economies, there is scope to further improve the prevention of insolvencies and the treatment of failed entrepreneurs by strengthening the pre-insolvency regimes and by reducing the time to discharge insolvencies (Figure 4.8). Supporting second-chance entrepreneurs through coaching and legal guidance, as in Australia's ABERA Restart Smart programme, can encourage entrepreneurs to build on their experience and create more successful businesses.


**Figure 4.8. Delays in insolvency procedures hinder the reallocation of productive resources**

OECD insolvency indicator main sub-components, 2022



Note: The scores for the three main sub-categories are scaled from zero to one, with lower scores indicating more favourable frameworks.

Source: André, C. and L. Demmou (2022), "Enhancing insolvency frameworks to support economic renewal", OECD Economics Department Working Papers, No. 1738, OECD Publishing, Paris, <https://doi.org/10.1787/8ef45b50-en>.

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#### 4.3.4. Reducing the implicit regulatory and fiscal barriers to firms' expansion

Regulatory barriers to workforce adjustments increase the risk for firms of hiring new workers and make it harder for them to adjust their workforces and achieve productivity gains, while high non-wage labour costs impair competitiveness and weaken incentives for businesses to expand and develop. In particular, small firms in Italy benefit from a simplified regime for labour regulation and for accounting obligations. In such context, firms face an implicit incentive to contract out some of its projects and operations to external consultants or firms, rather than expanding their headcount. About 65% of Italian SMEs see labour regulations as an obstacle to investment (EIB Investment Survey, 2023). Employment protection is generally high in Italy for both temporary and regular contracts (Figure 4.9).

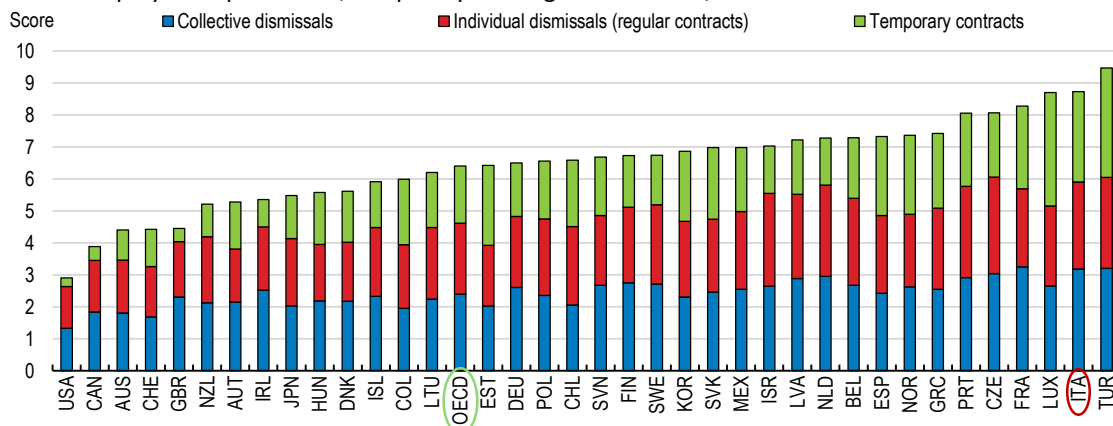
Job dismissal regulations in Italy tend to vary with firm size, with a risk of creating undesirable threshold effects. For example, firms below 50 employees are eligible for simplified labour regulations. The *Jobs Act* reform of 2014 introduced progressive schemes to mitigate sharp policy changes based on firm size cutoffs. In particular, it abolished the requirement for firms with 15 or more workers to reinstate unjustly dismissed workers, substituting it with a progressive compensation system. This reform, which *de facto* reduced the discontinuity in job protection legislation between firms with fewer and more than 15 workers, might have supported business growth, especially for firms around the 15-employee threshold, and lifted labour and total factor productivity (Ciminelli and Franco, 2025<sup>[9]</sup>). Within the limits allowed by the Constitution and in the respect of social dialogue, reducing uncertainty regarding job dismissal costs and gap in job protection between larger and smaller firms without amplifying the gap between standard and temporary job contracts would help improve hiring conditions for firms without creating large distortions or increasing labour market duality (see Chapter 2).

High non-wage labour costs, which include payroll taxes, regional and local sur-taxes, social security contributions and mandatory benefits, can deter firms, especially smaller ones, from expanding their workforce (Guo and Wallskog, 2025<sup>[8]</sup>) and can favour informal employment or the use of (dependent) self-employment. In addition, they can negatively affect entry wage rates and salary scales, further limiting businesses' ability to attract and retain qualified workers in a context of relatively low labour productivity. In Italy, these costs are very high (Figure 4.10) and can be especially challenging for small firms due to their lower

economies of scale. The high labour tax and social contribution wedge also weighs on the attractiveness of formal employment.

**Figure 4.9. Employment protection legislation is restrictive**

Strictness of employment protection, temporary and regular contracts, 2019



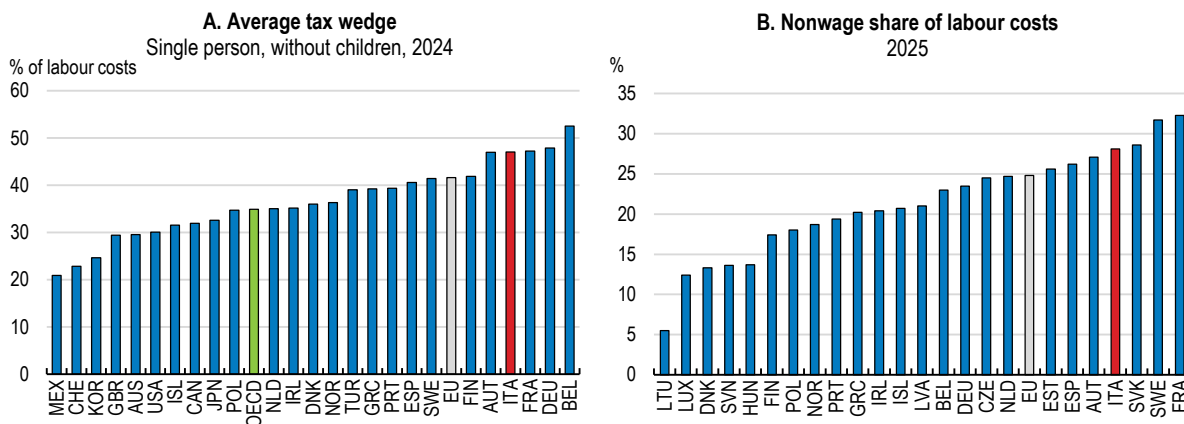
Note: The EPL index is a score ranging from 0 (no protection) to 6 (highest protection).

Source: OECD Indicators of Employment Protection.

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To stimulate employment growth, especially among underrepresented groups such as women, young people and individuals undergoing work transitions or living in disadvantaged areas in the South, Italy has been using temporary incentives schemes that reduce the employer’s social security contributions when hiring targeted groups, including younger workers and women (among others *Bonus Donna*, *Bonus Giovani*). The use of temporary schemes contributes to the general uncertainty about policy and temporary tax reliefs and adds to the complexity of the tax system. As discussed in Chapters 1 and 2 of this *Survey*, a permanent reduction of non-wage labour costs that brings Italy towards the average of OECD EU countries, especially for low-wage workers, would lower business costs and provide greater certainty.

**Figure 4.10 Non-wage labour costs and the tax wedge are high**



Source: OECD Taxing wages 2025; and Eurostat(lc\_lci\_rev).

StatLink <https://stat.link/wbvkut>

### 4.3.5. Reducing the complexity of tax incentives

To reduce the tax burden on enterprises and stimulate business activity, Italy has introduced numerous tax allowances and penalties that vary across categories of investment, types of work contracts and with different

compliance deadlines scattered throughout the year. While the various penalties and allowances aim to meet diverse policy objectives, the range of measures raises the costs of compliance and may blunt the different measures' effectiveness, while further eroding the relatively low levels of corporate income and capital tax revenue compared with other countries (see Chapter 1). On the one hand, targeted support for small and medium enterprises is necessary due to the centrality of small firms in the Italian economy and the fact that they are often perceived as more vulnerable to external shocks. On the other hand, very strong support to small firms and the inclusion of firm size as a qualifying characteristic for eligibility for incentive programmes and regulatory waivers can deter firms from expanding, as doing so would result in losing access to such privileges. The stratification of rules and procedures over the years has made access to business support complex. This complexity also subjects businesses to uncertainty regarding the final amount of taxes to be paid, detracting from the effectiveness of the incentives.

A number of temporary subsidies and special tax regimes aim to support smaller firms. Some of these schemes address temporary shocks, including the COVID-19 restrictions in 2020-2021 and the surge in energy prices starting in 2022, while others attempt to offer temporary relief from the structural issue of high tax and compliance costs. For example, new micro-businesses with revenues of up to EUR 85 000 are subject to a simplified lump-sum tax regime of 5% of revenues and are exempted from regular VAT compliance requirements (*regime forfettario*, see Chapter 1). Evidence from Finland and other OECD countries suggests that sharp size-based thresholds in tax incentives can create adverse cliff-edge effects and induce firms to stay small, slowing growth (IMF, 2017<sup>[67]</sup>). To limit such adverse effects and to contain their ongoing costs for public revenues, the incentives and eligibility criteria are often temporary in Italy, adding to financial uncertainty for businesses and weighing on investment and business expansion. Addressing the burden of tax and compliance costs through a systematic and permanent reform of the tax system would reduce the need to intervene with temporary and often overlapping corrections, incentives, exemptions and tax relief measures, improving the business environment and bolstering investment (Chapter 1 discusses how such an effort can be financed through other tax policies and improved tax collection). Overall, the use of incentives should be moderated, as excessive artificial support for inefficient incumbents may limit contestability and the entry of new businesses and stall productivity growth (Acemoglu et al., 2018<sup>[15]</sup>).

Under the NRRP Italy has introduced a reform to simplify and rationalise the national incentives system and facilitate access to information through the creation of digital platforms (*incentivi.gov.it*). The approval in November 2025 of the Incentive Code aims at rationalising the existing incentive schemes and strengthen coordination among granting authorities. The Code aims to introduce a standard call for tenders and application procedures (*bando-tipo*), and to create a stable forum for coordination between the State and the Regions (*Tavolo permanente degli incentivi*). Timely implementation of these measures, assessing their effectiveness and, as outlined in the MTFSP, further streamlining the incentives schemes would help reduce administrative and compliance costs, increase tax certainty and support business activities.

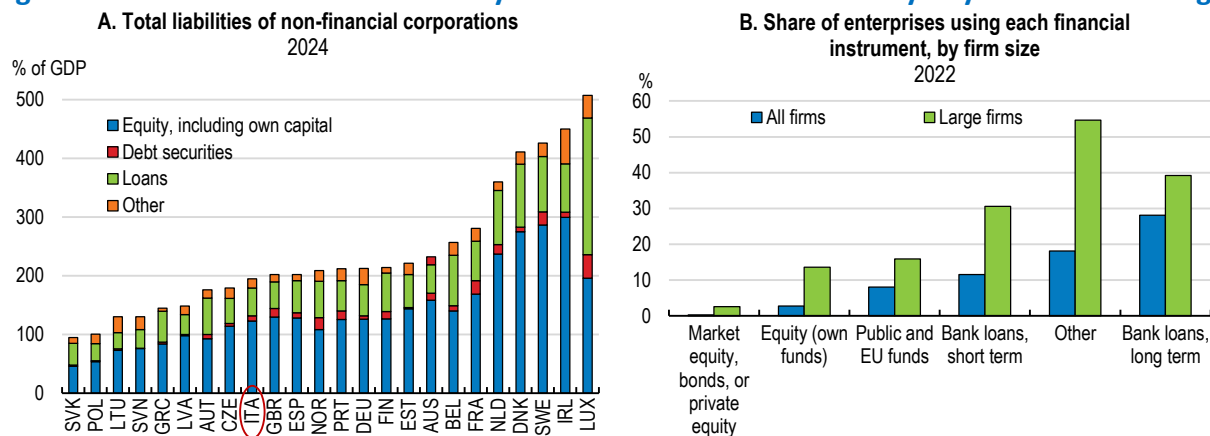
#### 4.4. Improving access to finance

Prolonged low investment by firms in Italy has in part reflected constrained access to finance. The past difficulties in the banking system negatively affected employment, wages, investment and value added in the years after the GFC (Barone, de Blasio and Mocetti, 2018<sup>[45]</sup>). The improvements in the banking system's health and in fiscal management have contributed to Italy's improved sovereign risk rating (Chapter 1), which has reduced the premium and expanded access for Italian borrowers. Despite the substantial progress, firms' balance sheets remain small and external financing remains heavily dependent on bank lending, while access to equity market is used mostly by large firms, which in Italy are relatively few.

The overall balance sheet of Italian non-financial corporations is relatively small compared to other large European economies and debt and loans still represent a higher share (Figure 4.11), despite the share having significantly decreased since the GFC. Only 3.9% of all non-financial corporations and 18.7% among larger


firms with over 250 employees are financed through equity markets, according to the 2022 ISTAT Census of Enterprises. This reflects demand- and supply-side factors that are difficult to disentangle. On the demand side, the large share of small traditional firms and the structurally low levels of investment create less need for working capital and long-term investment. On the supply side, the Italian capital market still lags those of many other advanced economies, hindering the creation of innovative startups and the growth of firms. The mobilisation of household savings into capital markets is limited and the asset management sector and venture capital (VC) and private equity markets are underdeveloped.

**Figure 4.11. Italian firms have relatively small balance sheets and many rely on debt financing**



Notes: Panel B only covers firms with at least three employees. Large firms indicate enterprises with 250 or more employees. Most firms (75% among large firms, and over 80% overall) also use self-financing, not shown. Short loans: below 12 months, long-term: above 12 months.

Source: OECD Annual Financial Balance Sheets (stocks), consolidated. Panel B: ISTAT Censimento delle Imprese 2023, Tav. 39.

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The Italian Parliament is currently examining a legislative decree, approved by the government in October 2025, to implement a comprehensive reform of the financial system (as generally outlined in the Legge Capitali, 2024). The decree aims at enhancing the attractiveness and depth of national capital markets, modernise the financial regulatory framework and facilitate firms' access to equity financing. Maintaining the reform momentum and identifying further margins of improvements will be key to ensure that Italian firms can intensify investment in innovation and strengthen their position on international markets. Further harmonisation and a deepening of capital markets at the EU level could improve Italian firms' investment and promote productivity growth. Like in Italy, financial systems in the EU are underdeveloped and predominantly bank-based relative to other large OECD economies. Reviving competition in savings and investment products not only within Italy but also across EU member states could support the deepening of long-term capital (Borowiecki and Giovannelli, 2025<sup>[57]</sup>).

Access to risk capital and equity, in addition to bank borrowing, is an important driver of the growth of firms with high productivity potential. For example, start-ups investing in intangibles like software, patents and intellectual properties have difficulties raising financing from banks, given the low collateral value of these types of capital investment. Start-ups in their first years also often have negative or highly volatile cash flows and higher risk profiles due to high investment costs for product development, marketing and operations. In addition, firms of all sizes need longer-term oriented investments to innovate, scale-up, and compete with firms in international markets (OECD, 2020<sup>[60]</sup>).

#### 4.4.1. Improving access to bank-based financing

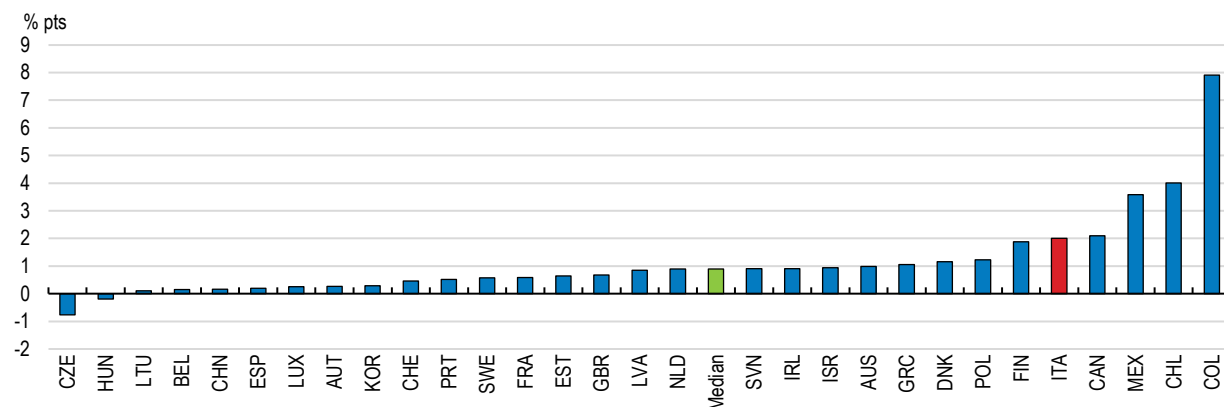
The solidity of the banking sector has improved significantly since the GFC, yet challenges persist in access to credit, especially for smaller firms and start-ups. The improvement in the ability to lend is in part due to banks having strong balance sheets. At the same, tighter prudential standards can weigh on banks' willingness to

lend, especially to higher risk or low-collateral borrowers, such as more innovative or new enterprises. In particular, the enforcement of Basel III leverage ratio requirements has strengthened banks' incentive to shift their portfolio towards lower-risk borrowers and away from those who, based on new requirements, are assessed as being riskier (Galardo and Vacca, 2022<sup>[11]</sup>). This has negatively affected firms' ability to borrow and invest, particularly for small and micro firms that are generally regarded as riskier and face higher interest rates than their larger peers (Figure 4.12).

Recent measures to address non-performing loans (NPLs) will improve banks' lending capacity. NPLs tend to limit banks' ability and willingness to extend new loans, due to higher required capital and elevated funding costs. The volume of NPLs on banks' balance sheets have declined from nearly EUR 360 billion in 2013 to about EUR 60 billion in 2023, reducing the share of non-performing loans towards the euro-area average (discussed in Chapter 1). Additionally, the on-going revisions of the insolvency framework have supported the development of a secondary NPL market through the introduction of a government guarantee scheme on securitisation of banks' bad loans (*GACS*). These measures and the streamlining of the procedures for out-of-court and in-court restructuring and insolvency processes are expected to improve businesses' access to bank credit. The MTFSP includes commitments to monitor the outcome of these reforms, take further corrective action where needed and identify remaining bottlenecks. Continuing to monitor and foster the secondary market for NPLs will be key to continue recent progress and to ensure the efficient reallocation of capital and funds from defaulting businesses. The establishment of securitisation platforms (*piattaforme di cartolarizzazione*) to market financial products pooling the loans and debt held by financial institutions could further improve access to credit for firms of all sizes.

#### Figure 4.12. The interest rate spread faced by SMEs in Italy is higher than elsewhere

Interest rate spreads between loans to SMEs and to large firms, nominal rates, 2023



Source: (OECD, 2024<sup>[52]</sup>)

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In recent years, public guarantees of loans (*SACE, MCC, FRI-Tur, European Investment Fund*) have been introduced to support bank lending, investments, economic activity and employment in the aftermath of the macroeconomic shocks linked to COVID-19, energy prices and trade restrictions (Asdrubali and Signore, 2015<sup>[75]</sup>). The stock of active public guarantees in 2025 was estimated at around 14% of GDP, a share almost three times higher than in 2019 (Unimpresa, 2025<sup>[46]</sup>; MEF, 2025<sup>[43]</sup>). Public guarantee schemes add to the government's contingent liabilities and risk distorting incentives and benefitting banks' balance sheets more than intended. Since they also do not necessarily address the underlying issues that limit businesses' access to credit, the use of such guarantees should be reduced, and their costs and benefits carefully monitored.

#### **4.4.2. Further developing the corporate bond market**

The corporate bond market has expanded significantly over the past twenty years, owing in part to favourable liquidity and monetary conditions, targeted incentives like the minibonds incentive for unlisted issuers and the creation of a separate market for minibonds (Extramot-Pro). The expansion allowed firms to diversify their source of funding and strengthen their financial structure, reducing their overall indebtedness level (Meucci and Parlapiano, 2021<sup>[19]</sup>). Nonetheless, the corporate bond market remains relatively small, accounting for less than 10% of GDP, compared to 25% in France, 19% in the Netherlands and 14% in the UK.

The appeal of corporate bonds in Italy is limited by the complex regulatory frameworks and high issuance costs. The strongest regulatory barrier, an article in the Civil Code preventing non-listed joint-stock companies (S.p.A.) from issuing bonds exceeding twice the value of their capital and reserves, was partially removed in 2012 and completely dropped in 2024. Similar prudential restrictions still apply to limited liability enterprises (S.R.L.), which can only issue bonds to professional investors and are therefore limited in their ability to use these financial instruments to finance their activities and investments. The documentation and procedures required for bond issuance (including for prospectuses) have been simplified in 2024 and this is expected to significantly lower the cost and burden of issuance. The adoption of further simplified procedures for companies that have already issued bonds to issue additional bonds on the same market could further reduce administrative burdens without compromising the prudential, financial stability and due diligence requirements or generate significant additional integrity risks (OECD, 2025<sup>[16]</sup>).

The relatively small size of the Italian capital market further limits its attractiveness not only for investors, but also for domestic non-financial businesses looking to issue bonds. In 2024, for example, 88% of all Italian corporate bonds were listed on a foreign market. Strengthening the participation of qualified individual investors and collective investment schemes may boost the liquidity and sustainability of the Italian corporate bonds and mini-bonds markets (OECD, 2020<sup>[60]</sup>). Two recent interventions, one at the national and one at the EU level, mark progress in this direction. First, the minimum investment threshold for non-professional investors' access to reserved funds was reduced from EUR 500 000 to EUR 100 000 (2021 amendment to *Article 14 of Ministerial Decree (DM) 30/2015*). Second, at the EU level, the quantitative minimum limits on retail investment in European Long-Term Investment Funds (ELTIFs) have been removed (*EU ELTIF 2 Regulation*, 2023). Further support for retail participation may stem from the measures envisaged under the EU Retail Investment Strategy (*EU RIS*) to enhance the transparency of retail investment, and from the forthcoming amendment to the Consolidated Law on Finance (TUF), which will allow reserved funds to introduce partial early redemptions for certain categories of investors. To enhance their effectiveness, national measures would need to be complemented by EU-level initiatives to foster cross-border investment by European retail and institutional investors and enhance the overall attractiveness of EU financial markets.

#### **4.4.3. Developing credit markets to support investment**

Further improving access to credit markets for Italy's non-financial corporations would help boost investment and business growth. Despite recent progress, alternative financing sources, including market and private equity VC, are still relatively underdeveloped in Italy, and many firms resort to self-financing. The OECD 2023 *Recommendation on SME Financing* encourages developing alternatives to bank lending, including equity and related instruments, and attracting a wide range of investors, including institutional investors, in SME assets. During the 2010s, non-bank financing opportunities significantly expanded, thanks to a series of reforms and to public investments in early-stage businesses and smaller firms with high-growth potential (*Fondo di Garanzia per le PMI*). The main recent reforms are the introduction of individual saving plans (PIR), incentives to issue corporate minibonds, the creation of a separate market for start-ups and SMEs' equity and the ELITE programme to help companies access capital and scale up. The legislative decree of October 2025 proposes a simplification of the rules governing public offerings and issuers' governance, the creation of limited partnership companies for collective investments in the form of private equity and VC and a simplified registration procedure for asset managers of alternative investment funds. Some of the reforms and their

implementation are still in progress and, while they address some of the issues highlighted in the *Capital Market Review of Italy* (OECD, 2020<sub>[60]</sub>), an assessment of their effectiveness will only be possible in a few years.

The reliance on bank credit or self-financing, as opposed to capital market options, is particularly high for smaller firms (Figure 4.11, Panel C) and for business owners with low financial skills (ISCE, 2025<sub>[22]</sub>). A significant share of Italian SMEs relies on factoring to turn assets and receivables into immediate cash flows. Other forms of credit that allow firms to finance their investments, like crowdfunding and leasing, have been growing in Italy since 2015, especially among SMEs, yet their use remains below other large EU economies like Germany, Spain or France, despite the use of public incentives (*New Sabatini Law*, hyper-amortisation under Industry 4.0). A careful assessment of the effects and possible limitations of past incentives schemes can inform and guide the design of alternative solutions in the future.

At the same time, large shares of household savings remain untapped for productive investments, as savings mostly concentrate in real estate, deposits and government-issued securities. In particular, the second pillar pension system, which in other EU economies provides private equity and VC investments, is largely underdeveloped. Fewer than 12% of households invest in life insurance or voluntary pension products in Italy, compared to around 40% in France, Belgium and Germany. Low use of relatively sophisticated saving instruments is linked to the very low levels of financial literacy and the relatively high gap between the fees of active and passive funds. To boost participation in Italian supplementary pension schemes, the 2026 Budget Law (*Law 199/2025*) introduces an automatic enrolment system, with an option to opt-out, and increases the tax-deductibility threshold for contributions. To incentivise pension funds to increase the share allocated to equity, the Budget Law also substitutes the previous guaranteed minimum return mandate with a life-cycle approach. In addition, in 2024, Italy introduced financial education as part of the teaching of civic education in the first and second cycles of education to provide students the tools to understand the concepts of savings and investments (Box 4.1 discusses examples of policy interventions to improve financial literacy and mobilise savings). This is a welcome intervention as Italian students score below the OECD average in financial literacy and 14% of 15-year-old students report having learnt about diversification or exchange rates and 9% of compound interests in the 2022 OECD PISA survey.

#### **Box 4.1. Raising financial literacy to mobilise savings**

Large shares of households' savings in Italy are locked in real estate, checking accounts, deposits and government-issued securities. Households' low take-up of financial investments has been linked to very low levels of financial literacy. For instance, Italy scores last among OECD peers in the OECD/INFE 2023 international survey of adult financial literacy, and last among EU peers in the World Bank Global Financial Inclusion index and in its household participation sub-index (Figure 4.13).

Across the OECD, several types of interventions have been used to help mobilise households' savings and deepen capital markets, ranging from public educational campaigns to tax incentives and automatic enrolment of workers in private pension funds.

##### **Improving financial literacy**

Public campaigns to improve financial literacy, including in schools, may help give households the skills and confidence to better diversify their saving instruments according to their needs, reduce over-indebtedness, use credit responsibly, make informed and prudent financial decisions and capital markets investments, including saving for the long-term and retirement, and improve their financial well-being.

- Many countries incorporate financial education in school curricula to build early-life competencies, informed by PISA assessments and OECD competency frameworks. Evidence from the US suggests that young adults in states with mandates for financial literacy education have higher credit scores

and are less likely to make late payments. Through its *Yrityskylä* project, Finland complements school-based financial learning with hands-on learning in make-believe business villages where children practice cash payments, business management and saving decisions.

- Governments often partner with central banks, financial regulators, NGOs, and industry, including commercial banks, to build on their technical expertise for the delivery of financial education.
- Countries like Greece, Ireland, Poland and Portugal are developing or implementing national financial literacy strategies with technical support from the OECD.

### Other interventions to mobilize savings

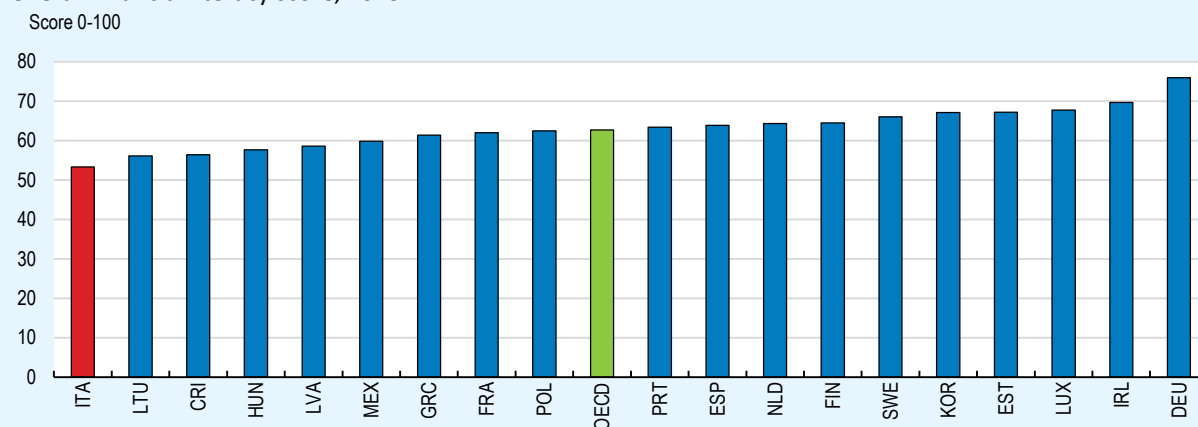
Several OECD countries have used tax incentives to incentivize households' take-up of private insurance funds.

- The UK and France incentivize individuals to invest in equity by offering tax reliefs on the capital gains from specific investments plans (ISAs in the UK, and *Plan d'Épargne en Actions* in France).
- The UK and New Zealand auto-enrol workers in private pension systems (nudging) and require employers to match their employees' contributions in private pension investments.
- Long-term saving can be encouraged by deferring the payment of taxes on returns on investments in retirement savings till the withdrawal (like in Mexico and France).

As part of its NRRP commitments, Italy has recently adopted a similar strategy with a direct target to support VC, offering a complete tax relief from the capital gain tax of “qualified investments” of pension funds that have a sufficiently high share allocated to VC (at least 3%, increasing to 5% in 2026 and to 10% in 2027, as per the *Decreto Economia 2025*).


**Figure 4.13. Financial literacy in Italy lags other EU countries**

Overall financial literacy score, 2023



Note: The score, from 0 to 100, captures aspects of financial knowledge, behaviour and attitudes, see (OECD, 2023<sup>[35]</sup>) for details.

Source: OECD/INFE 2023 international survey of adult financial literacy (OECD, 2023<sup>[35]</sup>).

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### Strengthening Italy's equity markets

Well-functioning markets can support productivity growth and business expansion (Duval; Hong; Timmer, 2017<sup>[31]</sup>). While equity markets are still relatively underdeveloped in Italy, their expansion would play an important role in financing business investment especially among larger firms. In Italy, market capitalisation as a share of GDP was 19% in 2024, far below the levels recorded in other advanced economies. Large firms are under-represented in the equity markets compared to their peers in other major economies and rely more

heavily on bank loans. In 2024, for example, Italian firms represented only 6% of the MSCI Europe Index, up from 3.6% in 2021, while both Germany and France exceeded 15% and the UK was around 22%. Low public equity market capitalisation is even more severe among smaller firms, due to the high cost of funds and to the burdensome regulatory processes of equity markets. While necessary and in large part in line with European regulation, requirements like the underwriting costs for initial public offerings (IPOs), the administrative and legal fees, the reporting obligations, and the need to disclose financial balance sheets often deter smaller firms from issuing equity. The introduction of a new simplified opt-in regime for newly listed companies and SMEs with a market capitalization not exceeding EUR 1 billion, proposed in the Legislative Decree under revision at the Parliament, is a welcome step in supporting SMEs' market access.

Improving transparency, simplifying issuance procedures and reducing the cost of issuance and compliance would encourage the development of Italian capital markets. The 2024 *Capital Markets Law* and the ongoing reform to the Consolidated Law on Finance (*TUF and DFAR*) introduce provisions to facilitate firms' access to capital markets and improve the transparency and attractiveness of the Italian financial markets to international investors. For example, they strengthen the voting rights of founders and long-term shareholders to encourage listings (OECD, 2025<sup>[12]</sup>). The comprehensive reform of the Consolidated Law on Finance and the Civil Code governing listed companies is expected to reduce the administrative burden on listing companies and to streamline the authority's (CONSOB) supervisory processes. In the context of the TUF reform, further revising prudential regulations may encourage pension funds, insurance companies and mutual funds to increase their purchases of corporate equity and bonds, improving the depth of the market and businesses' ability to raise non-bank credit.

The creation of a dedicated stock exchange for small- and medium-sized Italian businesses (*Euronext Growth Milan, EGM*), with simplified listing requirements and lower fees and minimum access requirements, has made some inroads into these costs. In 2011, Italy introduced the possibility for all corporate taxpayers to deduct a notional return on new equity from the corporate income tax base (*Aiuto alla Crescita Economica, or ACE*). While the regime, active until 2023, applied to all companies, its primary objective was to lower the cost of equity financing by mitigating the preferential tax treatment of debt over equity. To further support the new listing of SMEs on the EGM market, in 2018, Italy introduced a tax incentive to partially cover the listing costs (*Credito d'Imposta*, covering up to 50% of the legal fees up to EUR 500 000), which can be cumulated with additional regional incentives (for example in Liguria and Lombardy). While these various measures have contributed to the growth of the equity market, the *Euronext Growth Milan* still lags its French and UK counterparts (*Euronext Growth Paris* and *AIM UK*) in terms of number and total value of IPOs. In light of their costs and the risk of asymmetries and distortive effects, it is important to periodically evaluate the effectiveness of the incentives and assess whether they should be re-focused on the needs of operators, investors and companies, extended or repealed. Facilitating the transition, through simplified regulatory requirement, from the EGM to the main stock market for companies meeting suitable reporting and listing criteria may support businesses' scale-up. To this end, Italy has recently authorised companies listed on SME growth markets, including the EGM, to submit their financial statements according to the International Financial Reporting Standards (IFRS), typically required for admission into regulated markets. The reform of the Consolidated Law on Finance, currently under discussion, provides a more flexible governance regime for new entrants into regulated markets and for issuers with a market capitalization below EUR 1 billion. This reform is expected to further reduce the regulatory gap between growth markets and regulated markets, facilitating the transition of smaller companies into the regulated market.

Italian firms are delisting from the main public equity market. In 2024 the number of companies of all sizes leaving the Milan stock exchange exceeded the number of new listings (CONSOB, 2025<sup>[13]</sup>), a tendency common to other European markets, including Paris and London. When leaving the main public equity markets, firms in theory have the option to either delist altogether or move to a lower cap market, characterised by a less prescriptive regime (such as *Euronext Growth Milan*). In practice, the option of downlisting to smaller-caps markets remains mostly unregulated in Italy, reflecting the lack of a harmonized EU-wide regulation and making it harder for enterprises to choose this option. Empirical analysis suggests that

the lack of a clear path to downlisting can favour delisting, which is on the rise in Italy as well as across the EU, and even discourage firms from going public altogether markets (Balp, 2024<sup>[72]</sup>). By simplifying the downlisting procedure, the ongoing reform of the laws governing the financial sector (*TUF*) is expected to help struggling firms move from more heavily regulated but deeper markets (such as Euronext Milan) into more agile ones (like Euronext Growth Milan) and to deter them from delisting. This in turn may encourage new listings and retain already listed companies, deepening the Italian capital market. To further discourage firms from delisting, the tax incentives already introduced could be reformed to require firms to remain listed on public equity markets for a minimum time. Additional action will however be required to identify and address the root causes of delisting. The latter may include firms' failure to meet listing conditions and their preference for greater operational freedom, including from environmental, social, and governance (ESG) requirements, at the cost of reduced transparency. Regulatory simplification and a contemporaneous effort to train and coach managers and entrepreneurs would help them comply with regulations and organisational challenges.

In recent years, the Italian equity market has increasingly attracted foreign funds, which between 2014 and 2023 represented about 68% of the total value of the equity market (AIFI, 2024<sup>[20]</sup>). This provides better access for Italian businesses to capital and typically increases their internationalisation, innovation and adoption of international best practices. The capacity to attract international investors has also been facilitated by the Capital Markets Law reforms discussed above and by the acceptance, since 2024, of digital submissions of prospectus approvals in English language. Additionally, in 2023, Italy introduced regulations for the issuance and circulation of financial instruments based on distributed ledger technology (DLT, or blockchain), to facilitate companies' access to the capital market and reduce the costs of issuing and circulating financial instruments (*Legge Fintech*).

Public investment and co-investment schemes can help attract equity market investors in smaller firms. To catalyse equity financing to small and medium enterprises listed on public equity markets, Italy has recently launched several state-backed investment initiatives (through the funds *Fondo Nazionale Strategico Indiretto*, *Fondo Nazionale Made in Italy*). These are funds-of-funds that aim to act as anchor investors (i.e., first investors in an offering) to improve private investors' confidence in the Italian SMEs equity market. To strengthen their role, they are mandated to maintain an investments portfolio composed by at least 70% of Italian SMEs listed on an Italian equity market. While in the short term such measures can increase investment, they do not directly tackle the underlying issue of limited attractiveness of such stocks, which is often linked to the low productivity of smaller Italian firms. In evaluating the effectiveness of the programs, the quantity and quality of patents, successful spin-offs, job creation and retention, market share gains, and digitalisation in targeted industries will be key indicators.

### *Creating markets for risk capital*

Business angels, private placement vehicles, private equity funds and venture capital funds are generally better positioned than banks to finance technological innovation and productivity growth. They tend to invest in fast-growing companies with large market potential and disruptive business plans in sectors that heavily rely on intangible assets and innovative business models, such as ICT, healthcare and energy sectors. VC investors support nascent firms' investment in R&D, technology, and international expansion through their expertise and reputation, connecting the firm to their networks or supporting technical and managerial training ahead of sale through stock exchange listing or to other investors (Michelacci and Suarez, 2004<sup>[14]</sup>). In Italy, these types of financing are relatively undeveloped, despite the sector's rapid expansion over the past decade (Gallo et al., 2025<sup>[54]</sup>).

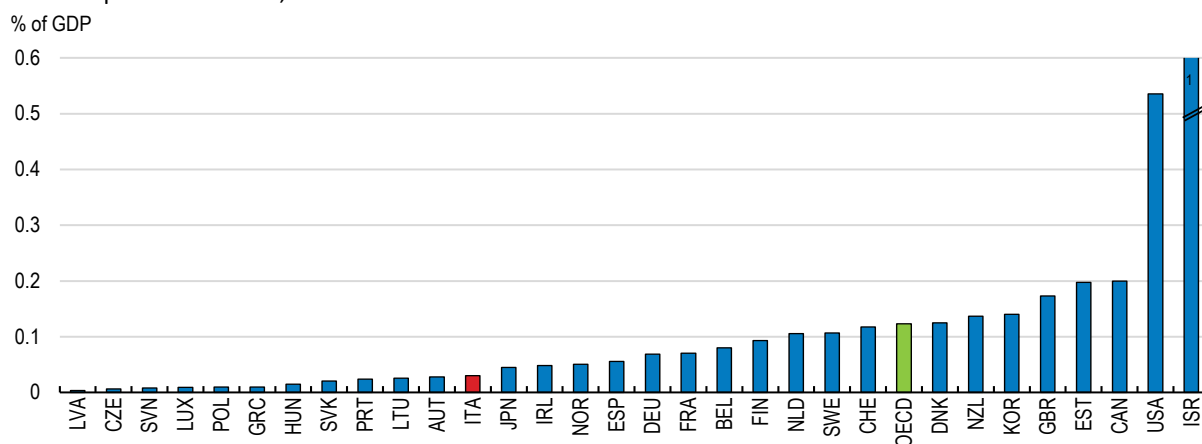
The development of deeper VC markets can support start-up creation and expansion. The sector has grown rapidly in Italy in the past decade with a five-fold increase in VC investments between 2011 and 2023 but remains much smaller than in other countries (Figure 4.14). In 2024, for example, the share of VC funding to SMEs amounted to 0.02% of GDP in Italy, compared to 0.09% in France and 0.12% in the Netherlands. Italy's VC financing makes up only 4% of the total EU VC investments. The median size of VC investments in 2024 was

around EUR 0.54 million compared to EUR 1.0 million in Spain or EUR 2.2 million in France. The small size of VC financing understates their returns to the broader economy (Poelhekke and Wache, 2023<sup>[17]</sup>). Italy's underdeveloped VC market has often led innovative companies to relocate to other countries like the US, which offer a larger market and a more developed VC environment. VC financing is highly concentrated geographically in Italy, which brings the risk of accentuating geographical disparities. About half of the firms receiving credit through VC are in Lombardy and 76% in the Northwest.


Government interventions to support the development of the VC market or address regulatory barriers could help break the cycle. The tax treatment of capital gains or losses strongly affects the risk appetite and investment decisions of prospective investors. The design of tax incentives is, however, complicated by the need to strike a balance between promoting uptake and preserving investment quality without picking winners, for example through performance-related tax relief. To attract institutional investors into the VC market, Italy has recently introduced tax exemptions for social-security and pension funds that allocate a share of their portfolios (3% in 2025, 5% by 2026, 10% by 2027) to VC, with tax exemptions on capital gains granted for compliance, building on previous tax breaks (*Decreto Economia*). This measure is expected to support the development of VC markets, and its effectiveness can be enhanced by carefully monitoring costs, uptake and impact on risk exposure.

**Figure 4.14. Venture capital activity lags most other OECD economies**

Venture capital investment, 2024



Source: OECD Venture capital investments (market statistics).

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Recent regulatory measures to simplify the processes to establish new VC funds that are below the European size thresholds (AIMFD) are expected to aid market entry of foreign and domestic investors, improving the depth of the VC market. These measures are also expected to help diversify the market by attracting non-banking investors in VC, like pension funds, insurance companies and high-net-worth individuals (*business angels*), all of which are under-represented in Italy compared to other markets like France, the US or Spain (p101, n.d.<sup>[61]</sup>). Improved integration across capital markets in the EU would further contribute to attracting investment.

The recent increase in public direct investments could support the development of the VC market. This approach has long been followed in several other OECD countries in Europe, with direct public investments, government VC (GovVC) or asset management umbrella structures through which institutional investors like pension and insurance funds can invest. It is particularly suitable to fund innovation-driven firms that might otherwise not attract traditional VC investment, hence improving innovation output in terms of patents (Berger, Dechezleprêtre and Fadic, 2024<sup>[58]</sup>). The creation of a public investment arm of the Italian public investment bank CDP (*Cassa Depositi e Prestiti CDP Venture Capital SGR*, in 2019) aimed at boosting the native start-up ecosystem through direct VC investments goes in the right direction and evidence suggests it might

have supported the recent partial catch-up in the size of Italian VC to other EU markets. Additional support to the development of VC markets in Italy may have come from the creation under the NRRP of dedicated VC funds managed by the Ministry of Enterprises and Made in Italy (MIMIT) to finance green and digital innovation (*Green Transition Fund, Digital Transition Fund*). The funds operate by providing direct or indirect support in the form of equity, quasi-equity, debt, or quasi-debt instruments. In 2024, direct public-administration investments accounted for about 22% of total VC fundraising in Italy, compared to 16% in Germany, where they are channelled through public development banks like the *Kreditanstalt für Wiederaufbau* (KfW), and 23% in France (OECD, 2025<sup>[12]</sup>), mostly through the *Banque publique d'investissement* (BPI, see Figure 4.14 Panel B). Including the subscriptions of public investment funds sponsored by CDP, this share rises to nearly two-thirds of the total VC fund raising. To limit exposure to risk and issues of conflicts of interest, public investments can be limited to a minority share in participated funds and companies. A rigorous assessment of the realised returns of past public investments and their effects on the size of the VC market and the dynamics of firms receiving investments can inform future investments decisions and selection criteria. Focusing future investments on growth- and late-stage development will improve the support to business scale-up.

Italy generally offers limited opportunities for VC investors to profitably liquidate their positions through acquisitions, buyouts and IPOs. This is in part due to the small size of the market, which has fewer large investors and firms potentially interested in acquiring start-ups, and in part to structural barriers. Barriers include complex exit procedures and approval requirements, administrative delays and high costs of compliance that hinder exits. The new cooperative compliance model, whereby financial firms can obtain advanced assessments from the Bank of Italy and the financial markets regulator, Consob, on transactions they are considering, is a good step in this direction and is expected to help reduce compliance costs and legal uncertainty (Reuters, 2025<sup>[69]</sup>). Strengthening public equity markets will also improve exit opportunities for VC investors, as suggested by empirical studies (Michelacci and Suarez, 2004<sup>[14]</sup>). This could also improve the attractiveness of VC for firms seeking financing, as an exit through public offer (IPO) allows the entrepreneur to regain independence and control of the company, as opposed to the VC investor exiting through selling the business to a larger competitor (Schwienbacher, 2008<sup>[51]</sup>).

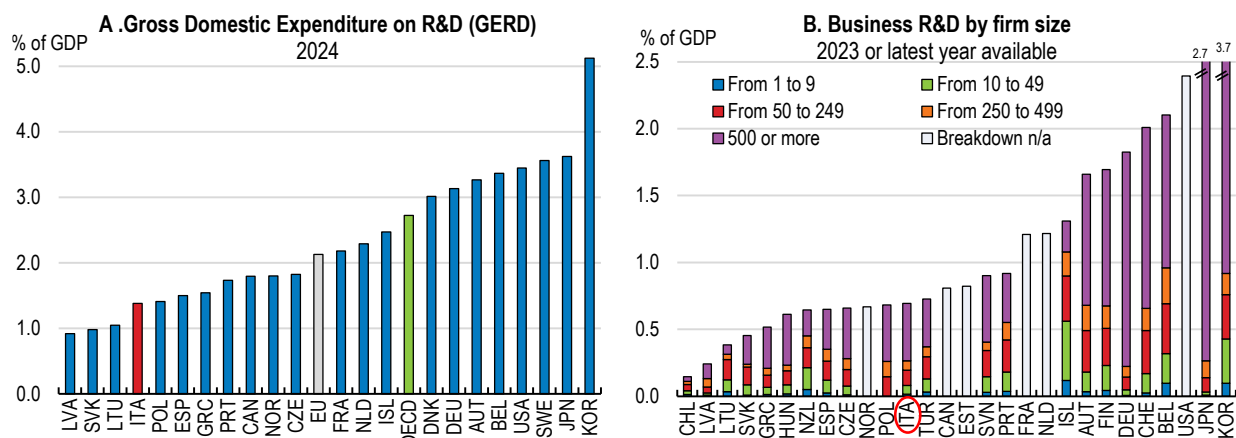
## 4.5. Bolstering innovation and investment in research and development

Low innovation spending and gaps in efficiency undermine firms' productivity and competitiveness. Despite an increase of nearly 40% since 2014, the number of patents posted by Italian residents still lags comparable statistics for other large economies. Between 2000 and 2020 only 6.6% of all EU patents were Italian (EPO, 2024<sup>[21]</sup>). Investments in intellectual property, including R&D and ICT, remain among the lowest across the Euro area in all sectors and especially in the information and communication technology industry, where they are central. Gross domestic expenditure on R&D amounted to only 1.4% of GDP in 2024, one of the lowest values across OECD countries, where the average is 2.7% (Figure 4.15). One of the main factors explaining low investment in innovation is the small share of large firms, yet at the same time firms of all sizes spend less than comparable firms across the OECD. Large firms, which employ less than 24% of all employees, account for over 44% of all R&D expenditures, followed by universities (25%) and the public sector (14%) in 2022 (ISTAT, 2023<sup>[70]</sup>). Focusing on business R&D, over 80% of total expenditure is undertaken by firms belonging to multinational corporations.

Business R&D investments are concentrated in sectors and technologies where they have lower disruptive potential. For example, while most Italian firms invest in green innovation, this is often in waste management and recycling, which can improve environmental outcomes and efficiency but have a lower impact on productivity and production processes. Across economic sectors, the highest R&D investment between 2023 and 2025 was in sectors producing motor vehicles, machinery and other transport equipment (with these three sectors accounting for nearly 40% of total business R&D investment), electronics, IT and

pharmaceuticals. Revising the structure of public support in favour of direct grants and patent boxes may help direct investment towards innovation.

**Figure 4.15. Low R&D investment by firms of all sizes restrains productivity growth**



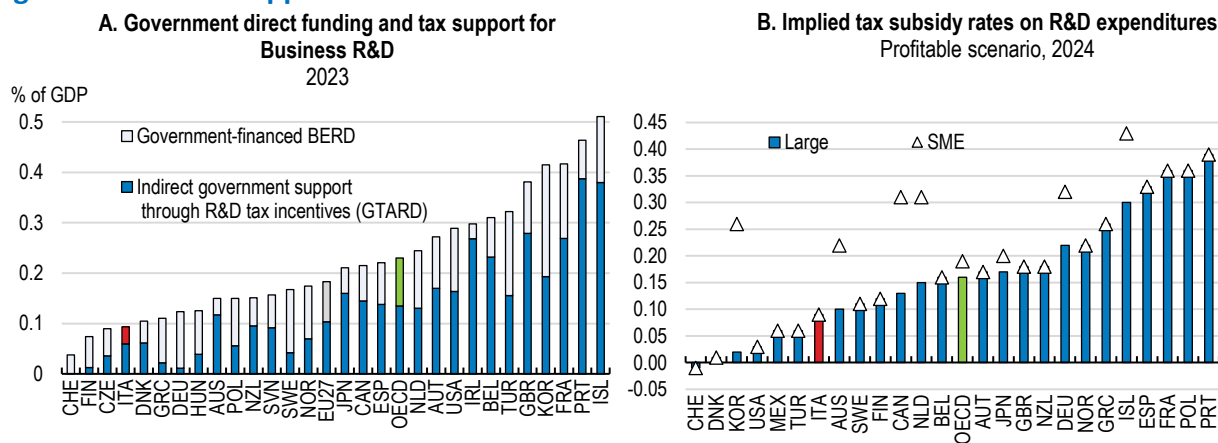
Source: OECD Main Science and Technology Indicators (MSTI database).

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#### 4.5.1. Directing public support to innovation

Public support to R&D is low in Italy at 0.09% of GDP, compared to 0.23% across OECD economies (Figure 4.16, Panel A). Increasing public support to R&D, especially in terms of direct investment, could have positive crowding-in effects by attracting private investments. On average across OECD countries, one euro of either tax or direct support is estimated to result in EUR 1.40 worth of business R&D (Appelt et al., 2016<sub>[56]</sub>).

**Figure 4.16. Public support to R&D is low**



Note: The implied marginal subsidy rates specify the notional level of subsidy (pretax) on one additional unit of R&D outlay. See source for details.  
 Source: EC, 2024; and OECD R&D tax expenditure and direct government funding of BERD.

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Public R&D support in Italy, more than in other OECD countries, is mostly paid out in the form of expenditures-based tax incentives (*Transizione 4.0*, *Transizione 5.0*). For example, in 2023 tax incentives accounted for 64% of total government R&D support in Italy, and 58% on average across OECD countries. As there are advantages to both direct support and tax incentives schemes, a more balanced mix of the two could improve the effectiveness of public spending on R&D. Compared to other forms of support like direct grants, tax incentives are easier to administer and leave firms more flexibility in the choice of projects, with good results in term of increased R&D expenditures (Appelt et al., 2016<sub>[56]</sub>). However, the flexibility comes at the cost of a limited

ability to target the incentives to the desired projects and firms. When R&D support is paid out in the form of tax incentives, it tends to be used to expand existing processes and so-called experimental development rather than funding new applied research, which is virtually unaffected by tax incentives and responds better to directed support (OECD, 2024<sup>[34]</sup>).

R&D tax incentives risk benefitting incumbent larger firms more than newer, smaller, credit constrained enterprises (OECD, 2024<sup>[34]</sup>). The reason why smaller firms tend to benefit less from R&D tax incentives is that they may face challenges mobilising the necessary know-how and financial and human resources to scale up their R&D activities and benefit from tax incentives. Larger firms, which tend to invest more in R&D, therefore often end up receiving a larger share of R&D tax incentive funds than smaller firms, in Italy as well as in most other OECD countries. To incentivise the participation of smaller firms, many OECD countries offer them specific targeted tax incentives or grant more generous supports on smaller investments (see Box 4.2). From 2021 to 2024, public support to R&D and investments was mostly delivered through the *Transizione 4.0* scheme and the related *Credito d’Imposta Investimenti in Beni Strumentali*. In 2024, the Italy added the *Transizione 5.0* scheme, offering tax credits to firms that undertook investments to reduce their energy consumption, including investments in personnel training, software, and physical capital in 2024-2025. Depending on the projected reduction in energy consumption, the tax credit could be as high as 45% on investments up to EUR 10 million and 15% on larger investments, irrespective of the size of the firm. To address the initially low take-up and better support green investments, the eligibility requirements, application process and other details of the scheme were revised through 2025. Despite the generally high take-up, this delay might have induced some enterprises, especially among the most credit constrained ones, to postpone investments. In designing future schemes, closer consultations with representatives from the business sector could reduce ambiguity and help reduce the needs for late adjustments. The 2026 Budget Law substitutes the *Transizione 4.0* and *5.0* tax credit schemes with a super amortisation scheme, which is expected to favour firms running a larger profit and those subject to higher tax rates. Targeting support to smaller firms and start-ups, granting them higher tax credit rates or allowing the possibility of rolling unused credits over to subsequent years would help support their investments and R&D activities more effectively, and stability in the support measures would enhance their effectiveness.

#### Box 4.2. Effective public support to R&D

##### Effective tax incentives

Across the OECD, 23 countries spend more on tax incentives to R&D than on direct R&D funding (2024 data from OECD INNOTAX portal). Effective tax incentives schemes tend to offer refunds for companies that lack sufficient tax liabilities, such as start-ups and credit-constrained firms, which tend to be very responsive to such schemes (OECD, 2024<sup>[34]</sup>). Tax support should be relatively easy to administer and compliant with trade and competition rules that regulate the use of state aid. Several countries, like Canada and the United States, have provisions to target directly SMEs, or, like Australia and Iceland, provide higher tax credits. In 2024, SMEs received on average a 19% tax subsidy on R&D expenditures, compared to 16% for large profitable firms.

##### Effective public support to R&D beyond tax credits

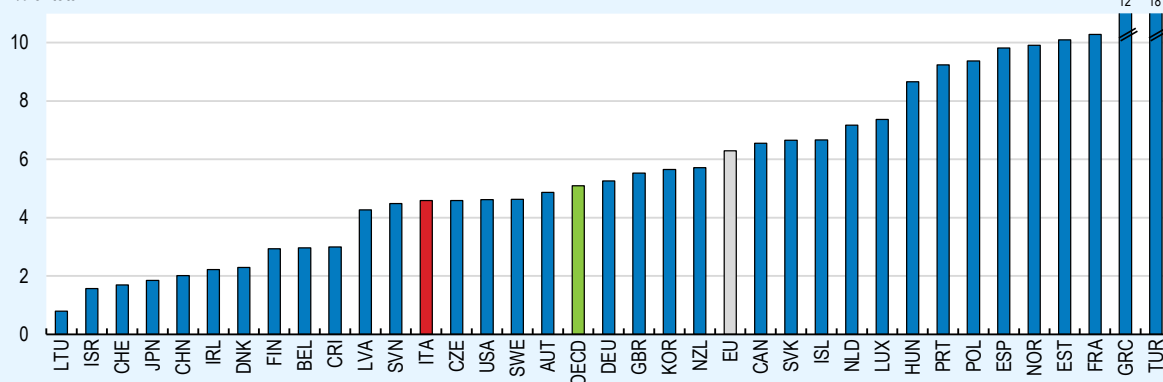
Direct funding through grants, subsidies, and R&D contracts can complement tax incentives and be more easily targeted towards specific sectors and technology areas. It can better support early-stage research and radical innovation with uncertain commercial outcomes, which tax incentives may not adequately encourage. In Italy, direct funding to business R&D is very low (Figure 4.17). Many OECD countries have established large programs to directly fund R&D activities. For example, in Finland, the Business Finland programme provides grants typically reaching 50% of project costs (40% for midcap and larger firms) or low-interest loans up to 70% of costs (50% for midcap and larger firms). Larger companies receive lower

grants (up to 40% of project costs) and loans (50% of costs) and can obtain more generous support if they create consortia with Finnish SMEs or midcaps.


#### Figure 4.17. Italian direct government funding and tax support for business R&D is low

Direct funding of business enterprise expenditure on R&D (BERD), 2023

% of total BERD



Source: OECD R&D Tax Incentives Database, <https://oe.cd/rdtax>.

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Redirecting parts of the public innovation supports to direct grants and loans could improve the cost-effectiveness of public support to R&D. Direct grants and subsidised loans tend to work best for larger higher-risk projects with higher potential to lead to disruptive innovation (Appelt et al., 2016<sup>[56]</sup>), as they partially shield businesses from the risk. In addition, these instruments can be more directly targeted to areas of interventions and to projects that are perceived to have higher potential disruptive effects.

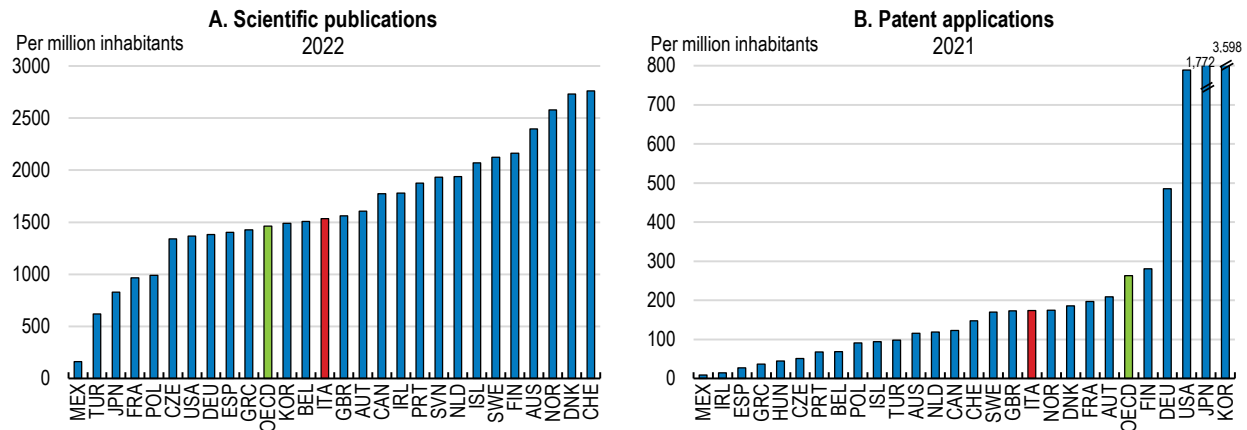
Support measures have been changing frequently in Italy over the past decade. On the one hand, this reflects an effort to progressively learn from experience, respond to transient shocks and improve targeting. On the other hand, fragmentation and excessively frequent changes in support policies, subsidies and eligibility criteria make participating in the schemes more costly for firms and administrative processes more burdensome for authorities. This may deter firms, especially smaller ones, from taking up the programmes (OECD, 2025<sup>[2]</sup>; Dlugosch et al., 2025<sup>[76]</sup>). In addition, using temporary subsidies as an ongoing, recurrent solution may distract from the need to tackle the underlying structural issues. Assessing the effectiveness of existing and new proposed R&D funding programmes in terms of investments, patents and value added, rather than solely take-up and disbursement, would help guide the design of future measures. The estimated compliance and administrative costs should be also included in the evaluation in order to assess whether the support measures may be too cumbersome or fragmented and whether excessively frequent changes in policies may be holding back investments.

#### 4.5.2. Strengthening firms' links to universities and building clusters

Italian universities and research institutions perform strongly in fundamental research yet struggle to translate this into commercialised innovations and patents (Figure 4.18). In 2022, for example, they contributed 2.7% of all scientific publications globally and 15% within the EU (European Commission, 2024<sup>[66]</sup>), including in innovative fields like biotechnology. However, Italian universities struggle to attract and retain researchers in many scientific fields and especially in the ICT field, where in 2022 there were fewer researcher than in 2018. The NRRP funds allowed universities to temporarily reverse this trend by hiring around 12 000 extra fixed-term researchers. The Budget Law for 2026 allocates EUR 50 million to co-finance the stabilization of these fixed-term contracts. Ensuring that sufficient funds continue to be allocated to keep attracting and retaining researchers will be key to maintain the progress made and avoid jeopardising the returns to the NRRP

investments (CNR, 2025<sup>[59]</sup>). Developing a concrete strategy to extend the contracts of successful researchers currently employed on temporary contracts or make the contracts permanent would help maintain the competitiveness of Italian research centres and universities and support research and innovation activities.

**Figure 4.18. Despite its universities' successes, Italy is a moderate innovator**



authority at the ministerial level (OECD, 2024<sup>[47]</sup>). Networks of smaller universities in remote areas could be created to share resources and knowledge, like the German University Excellence Consortia.

The laws and policies governing the ownership of intellectual property rights generated with public research funds (such as the US Bayh-Dole Act) are key in driving research-based innovation and determining its profitability. The recent transfer to universities and research centres of the ownership and rights to intellectual property generated by publicly funded research (abolishing the so-called professor's privilege) is expected to facilitate the transfer of new technologies to the production system. The new regulatory regime provides greater legal certainty for firms interested in exploiting research results, lowers transaction costs for partners and encourages more formal and efficient channels for knowledge and technology transfer. These improvements could be complemented by strengthening the legal protection for forms of intellectual property applicable to non-technological innovation, such as trade secrets to protect industrial know-how.

While the National *Industria 4.0/Transizione 4.0* plan involved significant investments to support industry-university collaborations, the plan was rather complex and fragmented, limiting its effectiveness. The plan led to the establishment of eight competence centres (partnerships among universities and local firms offering training and information to firms, specially SMEs), 277 digital innovation hubs (local entrepreneurial associations initiatives to support the adoption of new digital technologies) and 89 digital points for firms (similar to the digital innovation hub, but ran by local Chambers of Commerce and covering not only digital but also green technologies). The effectiveness of these structures can be improved by promoting their strategic coordination, at the local and national level. If these structures are deemed strategic and impactful, their involvement could be considered among the eligibility criteria for the award of public funding.

University researchers often still lack the career incentives to engage in commercialised innovation. Hybrid careers between universities and the surrounding economy for researchers, managers and administrators can improve such incentives, strengthen the managerial structure of public universities, and facilitate collaborations with the local economy. In Italian universities, the lack of recognition and career incentives for university personnel involved in knowledge exchange and collaboration activities hinders collaborations (see the OECD ITA.CON Survey and Interviews, 2022). Many recent measures, like the reform of the external evaluation body (ANVUR), the requirement to include external non-academic members in university boards and the creation of industrial and innovative Ph.D. programmes can help in this direction. The reform of the external evaluation body should strengthen the effectiveness of funding programmes and the use of performance-based incentives. The PhD programmes are co-designed and co-funded by universities, regional governments and local enterprises and can be a way to foster collaboration and incentivize researchers and universities to engage in commercialised innovation. While the participation of smaller firm has so far been limited, the increase in public funding, introduced in 2024, is expected to help by reducing the initially high participation costs. Other steps aimed at strengthening universities' and researchers' incentives to engage in commercialised innovation are the creation, in 2022, of new research positions that may be co-funded by private entities and the extension of the eligibility for public research investment to private companies and no-profit bodies (2026 Budget Law). There is scope to assess the effectiveness of all recent programs and involve industry, students and academic representatives in improving their design.

Several policy actions have been undertaken in recent years to support basic and applied research by attracting and retaining academic talent. For instance, Italy has launched a series of direct calls to appoint distinguished scholars, identified among the leaders of highly qualified research programmes or among the winners of excellence projects. The effectiveness of such measures can be strengthened through general improvements in the research ecosystem and funding.

Public funding can foster innovation by encouraging universities to engage with businesses and broader society. Public funding to universities is in large part (70%) based on their expenditures, to a lesser extent on their teaching and research outputs and only minimally (1.5%) on their knowledge exchange performance, despite an increase in 2025. This limits the incentives for universities and their staff to invest budget and time in development, joint projects, and outreach activities compared to a more balanced approach, such as the

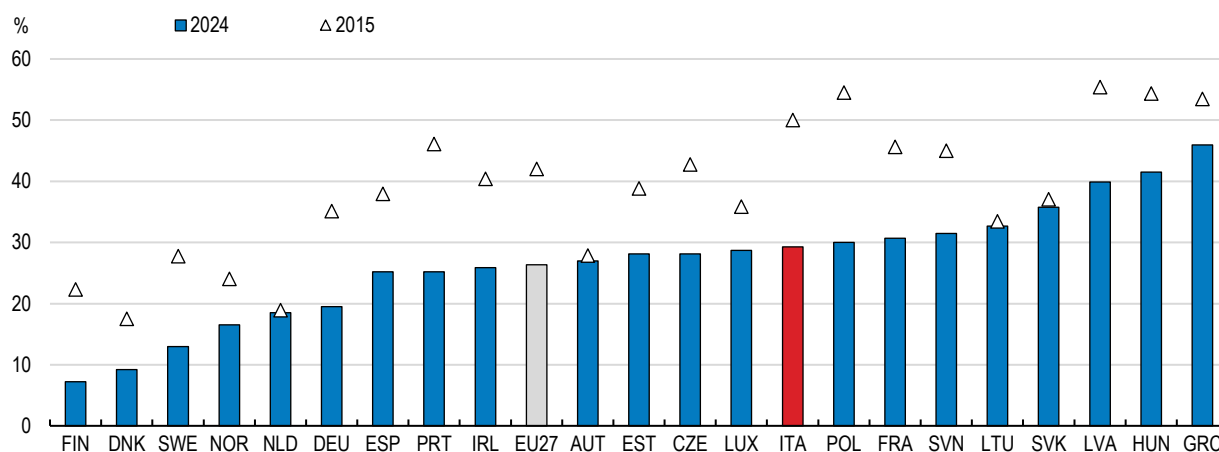
UK REF. Undergoing changes in the criteria and procedures for the evaluation of research quality (VQR 2020–24) are expected to increase the incentives for universities and research entities to engage in technology transfer. The *Industria 4.0* plan and the NRRP M4C2 “From research to business” pillar increased the investments in competence centres, national digital innovation points and technological hubs connected to universities and in scholarships, grants and equity funding for start-ups, projects led by young researchers and university-industry partnerships. However, the implementation of NRRP projects in R&D is lagging behind its schedule, with only 16.6% of the funds spent by July 2024. While the impact of such investments in terms of research output, patents and innovation should be carefully monitored, the key challenge will be the identification of the most promising projects in terms of their potential to generate jobs and income. Competitively assigned public-sector projects, such as the German Fraunhofer-Gesellschaft, can provide an additional form of innovation-enhancing funding.

### 4.5.3. Accelerating the adoption of digital technologies, including AI

While Italy has made consistent progress in adopting digital innovation, the progress so far has been mostly driven by the public sector, with a lag in the private sector. The adoption of digital technologies by business remains relatively low, as captured for example by Eurostat’s index of digital intensity, which measures the use of different technologies (including e-commerce, internet, e-business processes, cloud computing, robotics and data analytics) by enterprises. Among Italian firms with more than 10 employees, around 29% have very low digital intensity, compared to 26% in the Euro area (Figure 4.19). Recent progress in terms of development of digital infrastructure, roll-out of optical fibre connections and the digitalisation of public services is expected to bolster private enterprises’ adoption of AI and digital technologies. The key drivers of low digitalisation in Italy however lay in the lack of workforce and managerial skills and the low investment in complementary intangible assets, especially among micro and small firms (Calvino et al., 2022<sup>[32]</sup>). To support adoption, targeted tax incentives for training and investments (*Digital Transition Fund* and *Transizione 4.0*) should be complemented by direct measures to boost workers and managers skills, in line with Italy’s 2024-2026 Strategy for Artificial Intelligence.

**Figure 4.19. Despite progress, digital intensity in Italian businesses remains relatively low**

Enterprises with very low digital intensity index, %



Note: The definitions for the two periods are not the same, allowing for a comparison across countries but not across time periods. Firms with 10 employees or more, all activities (except agriculture, forestry and fishing, and mining and quarrying), without financial sector.

Source: Eurostat (isoc\_e\_dii).

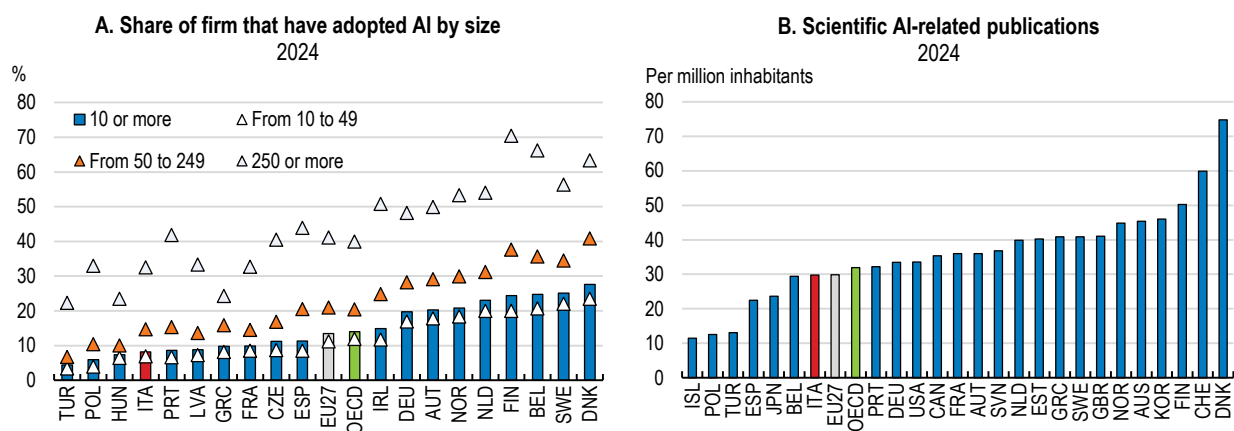
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Despite the relative lag in AI adoption, Italy has a good potential to reduce the gap with the top performing OECD economies thanks to high volumes of AI-related scientific publications and investments. In 2024, Italy

was ninth in the world and fourth in Europe for total number of AI-related scientific publications, and around the OECD and EU averages in publications per capita. Italy is among the global leaders in strategic technologies like semiconductors and quantum computing, with large investments in high-performance computing (HPC) and quantum technologies and five active supercomputers. The establishment of research clusters can bolster the effective exchange of knowledge and the collaboration between industry, academia and research centres. In mid-2025, the volume of total AI investments, mostly by large firms and public institutions and mostly in data and equipment, was about double the EU average, also thanks to EU New Generation Recovery and Resilience Facility (NGEU RRF) funding. Improving the skills of managers and the general workforce will be key to ensure that these investments contribute to upgrading technology and practices.

In smaller firms AI adoption has been relatively low so far (Figure 4.20) and mostly aimed at preventing digital attacks, rather than, for example, automating productive processes, machinery maintenance or logistics. The *OECD/BCG/INSEAD Survey of AI-Adopting Enterprises* finds high costs to be the main obstacle to increasing adoption of AI technologies in smaller Italian businesses. Public support, R&D and digitalisation tax incentives can help businesses overcome this challenge. For example, Luxembourg has supported the adoption of digital technologies in SMEs through vouchers, while Germany supports the adoption of digital technologies in SMEs through various hub initiatives (e.g. Mittelstand-Digital), loans and other innovation or investment funding schemes.

**Figure 4.20. AI adoption lags other large economies**



Note: Panel B reports the number of fractional publications. For details see <https://oecd.ai/en/elsevier>.

Source: OECD ICT Access and Usage by Businesses database; and OECD.AI (2025), data from OpenAlex, last updated 2025-09-30, <https://oecd.ai/>.

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Adoption of other digital technology is mixed. The latest available figures of the European Commission Digital Economy and Society Index (DESI) data, for 2021, highlighted high adoption rates of cloud services and high use of e-invoices, the latter also due to legislative obligations. At the same time, fewer than one-in-ten firms use big data and while e-commerce sales represent about 14.0% of total turnover compared to the EU average of 12.4%, the share of SMEs selling online is among the lowest across large EU countries at 14.7%, well below the EU average of 20.1%, despite the expansion induced by the Covid-19 pandemic.

## 4.6. Strengthening managerial quality and workforce skills

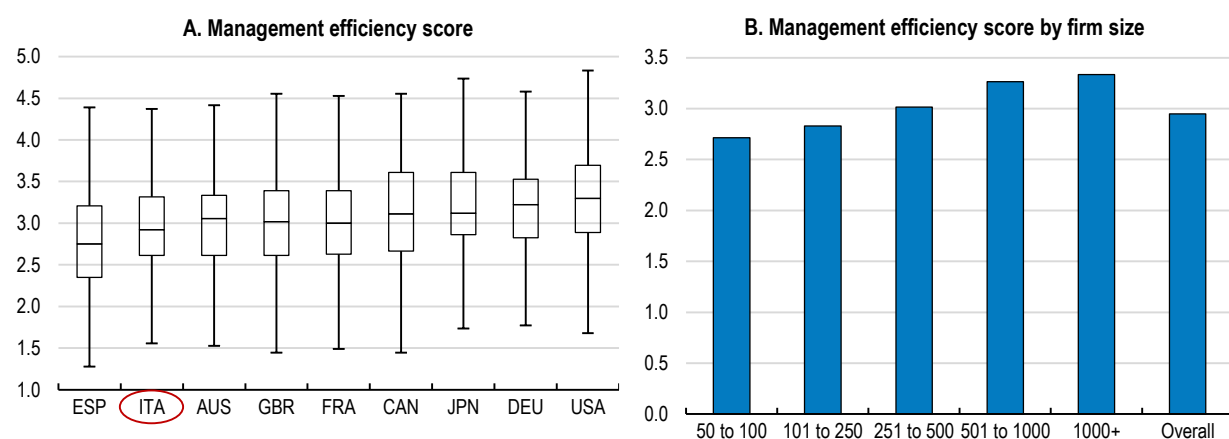
Management quality and workforce skills in Italy appear to lag many other OECD countries, and they are generally lower in smaller Italian firms than in larger ones (Figure 4.21). This holds back innovation, business expansion, and productivity gains. For example, only 16% of Italian workers have high ICT skills, compared to about 30% in Germany and France. The relatively low qualifications of managers reflect the lower average educational attainment of adults in Italy compared to other OECD countries. The emigration of many young

and high skilled workers in search of better job opportunities further depletes the talent pool (Chapter 2). Strengthening the skills of managers could boost their ability to lead companies to economic success and promote a learning culture, encouraging staff training and using the workforce skills effectively.

The adoption of good managerial practices can complement workers' and managers' skills. Italian firms lag their peers in the US and Germany in using well-established managerial practices, especially in people management. For example, the systematic evaluation and rewarding of employees' performance is less common and often not built in the organisational structure, especially in SMEs. Raising managerial skills and practices to the OECD median could reduce skill mismatch in Italy by around seven percentage points and improve labour productivity by 2.5 percentage points (Adalet McGowan and Andrews, 2015<sup>[55]</sup>).

**Figure 4.21. Management quality, especially in smaller firms, lags other OECD economies**

Management efficiency scores, 2015



Note: Panel A shows the 5th, 25th, 50<sup>th</sup>, 75th and 95th percentiles. The sample includes only medium and large firms with 50 to 5000 employees. Panel B only shows data for Italy.

Source: World Management Survey.

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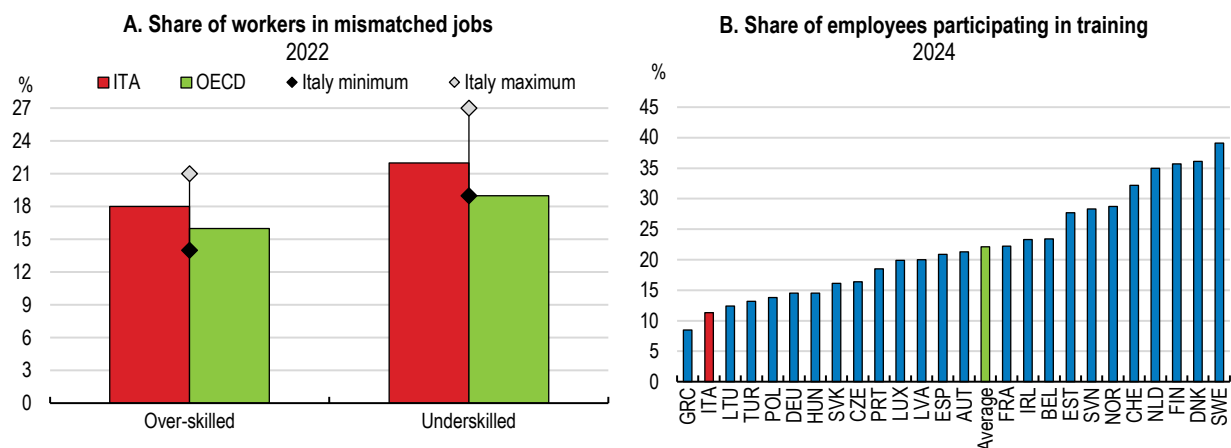
#### 4.6.1. Addressing the workforce's skill gaps

Italian workers' literacy, numeracy and adaptive problem-solving skills lag most high-income OECD countries (Chapter 2), according to the 2022-23 wave of the OECD Survey of Adult Skills (PIAAC). In particular, 46% of adults struggle with multiple steps or complex problems, with even higher percentages among the older cohorts. For cohorts already interviewed a decade earlier, individuals' scores have significantly deteriorated. This highlights the importance of strengthening the education and training system. Despite the significant progress made over the past decades, Italy still has one of the lowest shares of tertiary-educated individuals in the OECD, and a vocational education system in need of further expansion (Chapter 2). Skill gaps not only affect productivity, but can also limit innovation and technological adoption, including in the digital, AI and green domains, potentially hindering Italy's competitiveness in these growing sectors. Italy is particularly committed to invest in the skills related to the development and use of quantum technology, AI, HPC, and CHIPS. To this end, it has created an intra-ministerial board and developed a broad roadmap (Italian Strategy for Quantum Technologies) guiding its investment in basic and applied research, laboratories, feasibility studies and various innovative projects spanning from aerospace and AI to supercomputers.

Meanwhile, there is a large mismatch between firms' skill needs and the education and training adults complete, contributing to low labour productivity. A smaller share of the workforce has graduated with STEM subjects or have ICT and digital or green skills than in most OECD countries and the share of the population that has basic digital skills is strikingly low at around 46%. In recent business surveys, 25.5% of Italian companies (just above the OECD average) report facing severe labour shortages (Filippucci et al., 2025<sup>[42]</sup>),

with higher shortages in the northern, higher labour productivity regions. Mismatches include both overqualified and underqualified workers, which correspond respectively to 18% and 22% of all workers, compared to 16% and 19% across the OECD (Figure 4.22). While in the medium term the labour market and educational policies discussed in Chapter 2 (including the expansion of ITS Academies, vocational education and apprenticeships) can help address skill shortages, the short term calls for complementary measures.

**Figure 4.22. Skill mismatches are high and training participation low**



Note: Panel B: Participation rate of employees in education and training (last 4 weeks).

Source: Job Creation and Local Economic Development 2024 - Country Notes: Italy | OECD; and Eurostat (trng\_ifs\_07).

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An increase in adult training can help adapt the skill sets of older adults to the changing needs of employers and society. In 2015 adult training participation was so low in Italy that a back-of-the envelope simulation suggests that increasing it to the OECD median would significantly reduce the skill mismatch by 6 percentage points and increase productivity by about 2 percent (Adalet McGowan and Andrews, 2015<sup>[55]</sup>). In 2024, about 11% of adult employees participated in education or training in Italy, about half the EU-OECD average (Figure 4.22). Across educational levels, the lag in participation with respect to other EU countries is largest among the low educated and lower skill occupations. The size distribution of Italian firms plays again an important role in explaining the gap in training participation and supply with respect to other European countries. Not only is the provision of training in SMEs lower than in larger firms, but the gap in participation between workers in small and large firms is large compared to many other EU-OECD countries (Figure 4.23).

Italian workers indicate high costs and scheduling conflicts with work (especially men) or family (mostly women) commitments as the main obstacles to training participation (Cedefop/ISTAT Adult Education Survey). Subsidised training delivered in close collaboration with the employer could mitigate both obstacles. The introduction, in 2003, of Joint Interprofessional Funds for Continuing Education (Funds in short) was a first step in that direction. The Funds are promoted by employer organisations and trade unions and partially funded through compulsory employer contributions (0.3% of payroll). The impact so far has been limited: 3-in-4 businesses do not belong to any Fund, and the Funds are often used to finance compulsory safety and health training, with little impact on productivity-enhancing skills (OECD, 2019<sup>[77]</sup>). France has a similar system, but the levy on employers, which is higher than in Italy especially for larger firms, is used to fund individual learning accounts and businesses must also provide training leave. The higher levy implies higher funding and stronger incentives for firms to design and offer relevant training, and the mandated training leave supports employees' participation in the scheme. The share of firms offering vocational training to their employees and the share of participating employees are both higher in France than in Italy. The effectiveness of the Funds in Italy could be improved by increasing public funding and employers' contributions and forbidding their use to fund compulsory training. In addition, providing more modular courses might help address the scheduling conflicts and high costs barriers, making it easier for a wider

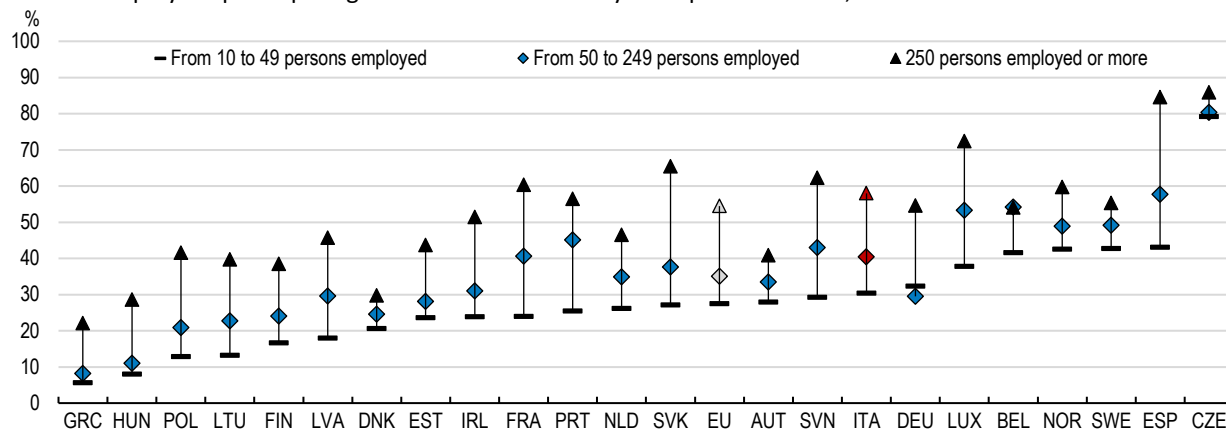
number of employees to participate. The need for flexible, personalised and certifiable training programs is explicitly recognised in the new guidelines for the Interprofessional Funds, published in 2026. In this respect, the launch of the public e-learning platform EDO, which offers users the possibility to acquire specific job-oriented skills and obtain a certification, could help support participation to training.

The effectiveness of, and access to, adult training programs could be enhanced by improving the presence of employment services offices through the territory, especially in the South and rural areas. Ongoing reforms of adult training programmes aim to provide more accurate and accessible information concerning available training options. Funding workers' training directly through vouchers, subsidies, and individual learning accounts (along the lines of the French CFP and Dutch *STAP* schemes), rather than funding training providers could boost participation. Funding employees, or selected categories, rather than employers is also generally associated to lower deadweight loss (OECD, 2019<sup>[63]</sup>). Cost-effectiveness, efficiency and responsiveness to changing demand can be improved by better matching learners and programmes, prioritising the skills required in occupations affected by labour shortages as in the Austrian *Arbeitsstiftungen* and strengthening the quality assurance processes. The recent creation of an information system and of a multi-purpose platform (SIISL and AppLI, discussed in Chapter 2) could enhance the matching of workers and jobseekers to training opportunities.

By reducing participation costs, training subsidies targeted to lower educated workers in smaller firms can help improve the availability and take-up of training and reduce skill gaps. In recent years, Italy has improved targeting to SMEs. For example, the tax credits offered to businesses to partially cover the direct costs of training and the indirect costs for foregone hours of work are generally higher for SMEs (*Credito d'Imposta Formazione 4.0, Formazione 5.0, Fondo Nuove Competenze*). The targeting has so far not been effective. For example, the take-up of the *Fondo Nuove Competenze* between 2021 and 2023 was high but participation was skewed towards medium and large firms (ANPAL, 2023<sup>[44]</sup>). Individual learning accounts could be more effective to the extent that they can more easily be targeted to selected categories of workers who tend to participate less in training, like women, older workers and those with lower qualifications and educational attainments.

### Figure 4.23. Participation in training is lower in smaller firms

Share of employees participating in vocational courses by enterprise size class, 2020



Note: The chart shows the share of employees participating in continued vocational training (CVT) courses in firms with at least 10 employees.

Source: Eurostat (trng\_cvt\_12s).

StatLink  <https://stat.link/g80eta>

Skills anticipation activities can provide information on current and expected future skills needs and guide students, education providers, employers and workers make education, training or employment related decisions. Advanced intelligence tools can be used to collect granular, timely data on regional occupations and skills demand and present data-driven insights about trends in skills demand in an easy to access way for schools, universities and workers of all ages and skill levels. Existing national and local platforms could serve

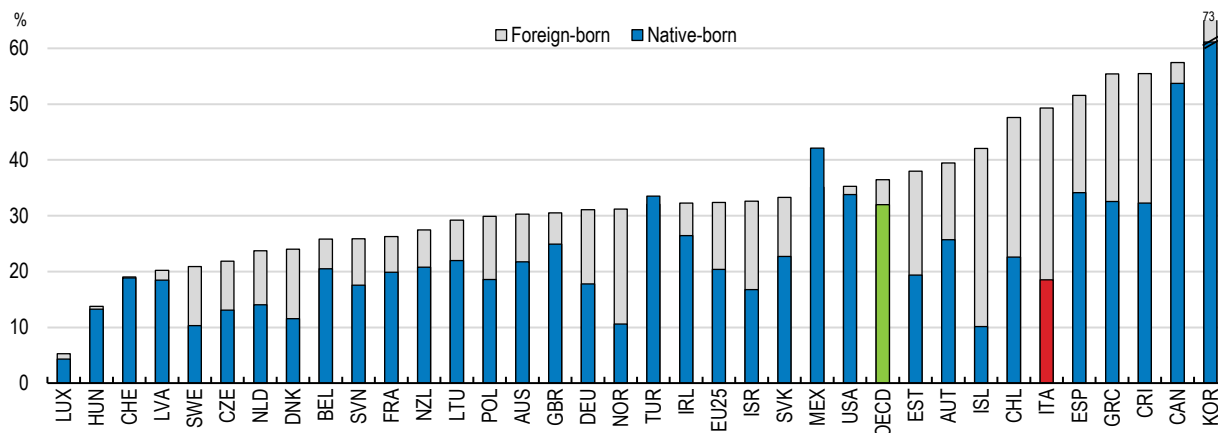
as a starting base (for example, *Excelsior*, *AlmaLaurea*). The data could also help identify the root causes of shortages and guide the design of targeted, place-based skills and labour market policies to ease the shortages.

Despite the general shortage of skilled workers, immigrant workers' skills are underused, reflecting both formal barriers, such as recognition of foreign qualifications, and informal barriers related to language and cultural adaptation (Figure 4.24). In 2024 Italy had the second lowest share of migrants with a university degree across the EU-OECD economies, less than 12% compared to 28% in the EU27. Improving the recognition of foreign qualifications could help make better use of the skills of foreign-born workers. For instance, Belgium adopted a digital application process, cutting down the processing times for the recognition of foreign qualifications from several months to a few weeks. Norway's fast-track service automatically recognizes qualifications earned in partner countries, and assesses the qualifications earned in other places within five working days. Italy's recent efforts have rather focused on the creation of pilot programmes, co-funded by employers, to identify, train and certify third country nationals in their country of origin before offering them a working visa to take up employment in Italy. This strategy can complement other efforts, although it does not help make better use of the foreign workers who are already in Italy, and it does not offer a direct short-term solution to the shortage of skills in Italian firms.

Participation to open calls for positions in Italian universities or public administration bodies often requires an Italian university degree. To participate, applicants with foreign degrees and qualifications are required to obtain their formal recognition. Recognition of foreign earned university degrees (*equipollenza*) can be lengthy, costly and complex as it often requires the applicant to obtain sworn and certified translations of academic documents. Alternatively, an individual who has obtained a degree abroad can apply at a university of their choice to obtain a degree of the same level (*equipollenza*), the validity and value of which clearly extends beyond single recruitment procedures, yet this often requires enrolling in the university and taking some exams, with considerable costs and delays. Processing times and administrative fees vary significantly across universities, with overall costs, including sworn translations and fees, ranging from a few hundred to over one thousand Euros. While some recruitment mechanisms, like direct calls, allow universities to work around this issue, they do not directly address the underlying complexity of the recognition procedures and the resulting economic inefficiencies. A decisive simplification of the procedures for the recognition of foreign earned university degrees, including by better leveraging digital technologies, would support Italian universities and research centres in their ability to attract talent. Careful design and supervision will help maintain robust safeguards and limit the risk of frauds.

**Figure 4.24. Many workers, especially among the foreign-born, are overqualified for their job**

Overqualification rate, employed individuals with higher education, 2021 or latest year



Source: OECD/European Commission (2023), Indicators of Immigrant Integration 2023: Settling In.

StatLink  <https://stat.link/9oqypv>

#### 4.6.2. Improving managerial quality

The relatively low quality of Italian management is likely to significantly constrain firm performance. Inefficient management practices have been estimated to account for around 30% of total factor productivity (TFP) dispersion across manufacturing firms across and within countries (Bloom, Sadun and Van Reenen, 2016<sup>[23]</sup>). The OECD Survey of Training SMEs finds that firms led by a tertiary-educated CEO are more likely than others to innovate and to invest in intangibles and in R&D. This amplifies the productivity effect of good managers during periods of fast technological innovation. For example, managerial inefficiencies have been estimated to explain up to 28% of the productivity gap between Italian and German firms between 1995 and 2008, as lower managerial efficiency in Italy resulted in lower returns from IT technologies and lower adoption (Schivardi and Schmitz, 2019<sup>[24]</sup>). According to other studies, Italy's low propensity to hire, promote and reward managers based on merit could explain up to 73% of its TFP growth gap between and 1996 and 2006 (Pellegrino and Zingales, 2017<sup>[50]</sup>).

Almost 90% of firms report difficulties in recruiting managers with the right skills, especially soft skills and leadership (OECD, 2021<sup>[25]</sup>). While improving participation in higher education could help, the age composition of the workforce and of managerial occupations calls for targeted training to address the shortage of managerial and leadership skills. Managers tend to have lower formal dedicated training and skills development in Italy than in France, Germany, and the UK, especially in SMEs. For example, only 39.6% of Italian managers reported receiving training in the OECD PIAAC 2023 survey, compared to 70.5% across the OECD, and to 44% across EU countries in a similar Eurostat survey (Figure 4.25). This could be linked to the high share of small firms, where access to training is generally lower, due to lower cost-effectiveness, stricter time or liquidity constraints, and lower know-how or managerial capacities. Beyond general training, experience across OECD countries suggests that managerial skills can be improved through subsidised certifiable management education programs for SMEs managers, including through public e-learning platforms (such as Akademia PARP in Poland), and one-to-one mentoring programmes (UK's *Help to Grow: Management* programme), where the latter help managers identify and address their skills gaps. Managerial training and shadowing programmes can ease technology adoption and have long-lasting effects on productivity. For example, Italian firms participating in the US Productivity Program (1952-1958), whereby managers from Italian enterprises were offered machinery and management-training trips to the US, have been shown to perform significantly better than their peers in terms of productivity, employment and sales (Giorcelli, 2019<sup>[41]</sup>).

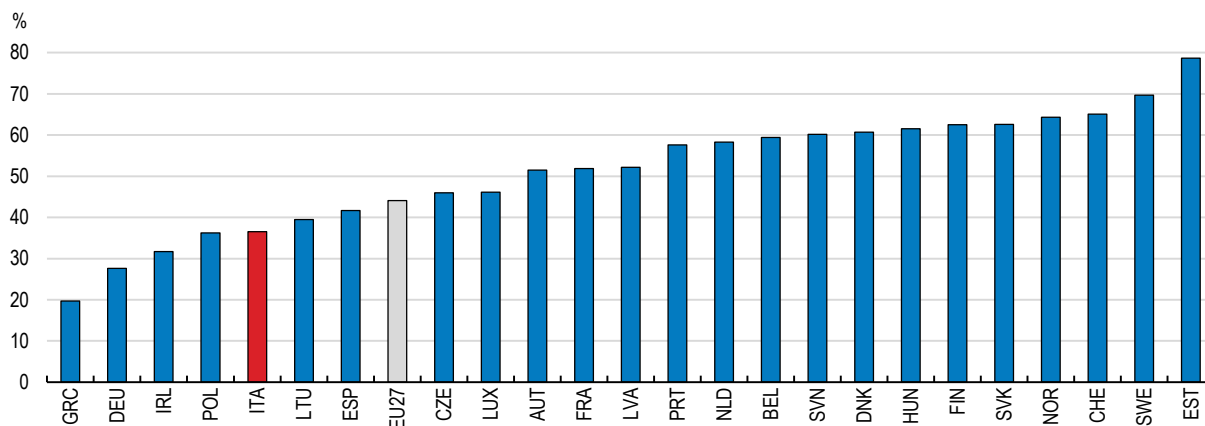
Limited financial literacy and skills can hinder business expansion. In recent surveys, micro-entrepreneurs demonstrate slightly better financial skills and abilities to select and use financial products and services than the general population, but lower than peers in other OECD economies (Banca d'Italia, 2022<sup>[82]</sup>). At the same time, the intermixing of owners' personal and business accounts can complicate tax compliance and financial planning. In this context, the incentives to expand one's business may be hindered by the fact that it would lead to higher levels of tax scrutiny and accounting complexity. Financial education training and technical assistance could support business expansion while also helping the transition to more digitalised business models, improving financial planning and strengthening the resilience to external shocks. In the context of the COVID-19 shock, for example, micro firms led by better financially educated entrepreneurs had larger liquidity buffers prior to the crisis and were better able to access government aid during the crisis (Banca d'Italia, 2022<sup>[78]</sup>).

The lack of external pressure that comes from using capital markets to finance firms, or from robust and responsive judicial systems contribute to weaker management practices. In weak institutional frameworks, companies' success may depend on connections and loyalty more than on managerial talent. Managers hired and promoted based on loyalty and connections rather than merit are better able to navigate the financial and bureaucratic constraints of environments with relatively high degrees of informality and patronage (Pellegrino and Zingales, 2017<sup>[50]</sup>). As a result, well-connected managers can support firms' survival or even expansion in employment and revenues, while failing to support productivity growth (Akcigit, Baslandze and Lotti, 2023<sup>[40]</sup>). Expanding capital markets and reinforcing the institutional setting would further incentivize


the hiring of managers based on talent. At the same time, SMEs tend to prefer bank financing and are reluctant, especially among family-owned firms, to share ownership and control with external investors, contributing to a cycle of low VC demand, low VC supply and loyalty-based management.

#### Figure 4.25. Participation in management training is relatively low

Participation rate of managers in education and training (last 12 months) aged 25-54 years-old, 2024



Source: Eurostat (trng\_lfs\_25).

StatLink  <https://stat.link/kgbav0>

Only 40% of young people in Italy say that their school education helped them to develop an entrepreneurial attitude, compared to an EU27 average of 53%. Among entrepreneurs, financial literacy and digital skills are low, especially in micro firms (OECD/INFE survey). Improving management and entrepreneurial attitudes, skills and competencies in the population may ease the transition from loyalty-based to merit-based management and improve companies' openness to innovation. For example, elementary financial education and more advanced digital competencies could be strengthened in school curricula.

#### 4.6.3. Professionalising the management of family businesses

The adoption of professional management practices is particularly low in businesses that are owned and run by families. These represent 83% of all firms with fewer than 10 employees and a non-negligible share of medium and large-size firms (*ISTAT Censimento delle Imprese*, 2023). Family-owned businesses often recruit managers within the family or close network (loyalty-based or dynasty management) rather than recruiting external high-qualified professionals based on merit or qualifications, weighing on innovation and productivity (Bandiera et al., 2017<sup>[26]</sup>). Empirical studies link the prevalence of loyalty-based management to Italy's poorly-functioning credit markets and weak legal enforcement (Pellegrino and Zingales, 2017<sup>[50]</sup>).

The generosity of the fiscal regime on inherited businesses incentivises generational continuity in ownership and management. Italy is one of five OECD countries where the inheritance of businesses by direct descendants is fully exempt from taxes (Legislative Decree 346/1990), provided the heirs maintain control and continue operations for at least five years. While many OECD countries have introduced preferential inheritance tax treatment for inherited businesses, this is usually limited to tax cuts, rather than complete waivers (OECD, 2021<sup>[62]</sup>). The tax waiver approach creates strong incentives to maintain control of family businesses and hinders business consolidation. Reducing the thresholds or the exemption or removing the requirement to maintain control for 5 years could reduce these distortions and favour mergers of micro and small firms and the adoption of professional managerial practices.

The ownership and control of some of Italy's largest and most successful companies, such as in the automotive and food industries, accrue to the same individual or family, both among unlisted and listed companies. Legally independent firms are often controlled by the same entrepreneur through a chain of ownership relations, known as pyramidal groups. Pyramidal groups can relax financial constraints by sharing finances across the

various companies in the pyramid. They are associated with lower management quality, especially if contestability of control is low, as in family-owned and controlled companies (Bianco and Casavola, 1999<sup>[27]</sup>). More developed capital markets, supported by stricter regulatory protection of minority shareholders' interests such as in the common law regimes of the UK and US, can mitigate agency issues by encouraging dispersed ownership. Higher inheritance taxes on corporation and stronger enforcement of anti-trust regulations can provide further incentives to break up large pyramidal industrial groups.

**Table 4.2. Policy recommendations**

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
<b>Addressing regulatory and compliance barriers to business creation and growth</b>	
Regulatory barriers remain high in service sectors, including some professional occupations, weighing on competition.	<b>Ease regulatory barriers to entry and consolidation in retail and in those professional services where these are high.</b>
Limited competition, especially in service sectors, limits market pressures to raise productivity and innovate.	Accelerate the process of full implementation of annual competition laws, by expediting the issuance and entry into force of implementing decrees.
Resolving commercial disputes is often costly and slow and can entail multiple judicial reviews. The recent expansion of alternative dispute resolution, and ongoing improvements in resourcing and reforms to court processes are reducing average disposition times.	Convert some of the temporary hirings of technical staff in judiciary offices to permanent appointments. Further extend online dispute resolution and the employment of auxiliary technical experts to support judges' work in first instance cases.
The creation and growth of new and innovative businesses lags other countries. Business support measures are often temporary and overlapping between programmes and levels of government. Recent legislation aims at streamlining incentives.	<b>Further streamline and provide stability to business incentives, to improve effectiveness and reduce distortive effects.</b> Reduce the use of subsidies to incumbent firms. Strengthen the business and investment support framework and coordination bodies to improve information sharing and cooperation across ministries and authorities.
Complex and costly fiscal and regulatory compliance generate fixed costs, harming the competitiveness of smaller businesses and their incentives to grow.	<b>Continue to identify and reform costly tax compliance and other regulatory compliance burdens.</b> Ensure one-stop shops help new businesses surmount legal, financing, and regulatory challenges and access public support and advice.
Lengthy and ambiguous laws contribute to business uncertainty and compliance burdens, despite ongoing simplification in a number of areas.	Enhance the quality and clarity of new and existing legislation, with a focus on secondary legislation. Swiftly adopt implementing decrees.
<b>Financing businesses' innovation and growth</b>	
Businesses mostly rely on bank financing. Despite recent progress, capital markets are shallower than in Italy's peers.	Continue to simplify the regulatory requirements for firms to transition from the small-cap equity market to the main market as their activities expand, and from the main market to the small cap one when needed.
Venture capital is developing, but from a low base.	Increase the focus of public venture capital funding on start-ups that have developed revenues and proven their growth capacity.
Business R&D investment is low and concentrated in sectors and technologies where it has relatively low disruptive potential. Public support to R&D is mostly delivered through tax credits.	Expand public support for R&D beyond tax credits and introduce effective levers, like loans and grants, to crowd-in private investment.
Collaboration between firms and local universities has improved, including through the creation of academia-business clusters.	Increase the targeting of R&D funds to SMEs and innovative academia-business clusters. <b>Strengthen the link between university funding and the performance of partnerships with businesses.</b> Use the simplified legal frameworks and procedures set up for the NRRP as a model for collaborations between universities and local public administrations.
<b>Improving workforce skills and the quality of management</b>	
Managerial skills and practices compare poorly with other countries, weighing on productivity.	<b>Support managerial training and one-to-one mentoring programmes.</b> Strengthen the teaching of fundamental management and entrepreneurial skills in all secondary schools.
Managerial practices are particularly weak in family-owned and controlled companies, which tend to select managers within the family or network. The business inheritance tax system incentivises heirs to retain control of inherited businesses, discouraging consolidation, engagement with external investors and the hiring of professional managers.	<b>Reduce the inheritance tax-free thresholds and remove the requirement to maintain control for five years for smaller businesses or use other fiscal incentives to support business reorganisation.</b>
The Italian workforce achieves strikingly low scores in international tests of literacy, numeracy and adaptive problem-solving, and skill mismatches are high. Immigrant workers are often overqualified for the job they do.	Increase targeting of adult training support to lower-educated workers and those in SMEs. Facilitate the recognition of foreign qualifications.

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Italy's economy has proved resilient in the face of recent global shocks. Nonetheless, medium-term growth prospects are weighed down by high public debt, population ageing, and rising uncertainty linked to global trade policy, geopolitical tensions and stronger international competition. Reforms and investments under the National Recovery and Resilience Plan are helping to address long-standing structural weaknesses and support fiscal consolidation, and the Medium-Term Fiscal-Structural Plan continues many of these efforts. Ensuring that public debt declines durably will require improving spending efficiency, containing pension-related pressures, strengthening tax compliance and making the tax mix more supportive of growth. Population ageing heightens the need to improve labour market outcomes for young people, many of whom are out of training or work, or emigrate, by strengthening school-to-work transitions, expanding high-quality vocational and technical education, reducing labour market duality and supporting their disposable incomes. Reducing energy costs and volatility through faster deployment of renewable generation, transmission and storage would strengthen competitiveness and household well-being. Enabling firms to grow by easing regulatory and tax compliance burdens, improving access to finance, strengthening innovation support and managerial capabilities, and reducing disincentives to scale up would help raise productivity and resilience.

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