INTERNATIONAL MONETARY FUND

IMF Country Report No. 26/193

# ITALY

July 2026

## 2026 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ITALY

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2026 Article IV consultation with Italy, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 17, 2026 consideration of the staff report that concluded the Article IV consultation with Italy.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 17, 2026, following discussions that ended on May 26, 2026, with the officials of Italy on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 30, 2026.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Italy.

The documents listed below have been or will be separately released.

Selected Issues
Financial Sector Assessment Program

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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**International Monetary Fund**
**Washington, D.C.**

# IMF Executive Board Concludes 2026 Article IV Consultation with Italy

**FOR IMMEDIATE RELEASE**

**Washington, DC – July 24, 2026:** The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Italy.[1] This also included a discussion on the findings of the Financial Sector Assessment Program (FSAP) for Italy.[2] The authorities have consented to the publication of the Staff Report prepared for this consultation.[3]

Italy's economy has continued to grow at a modest pace. Real GDP grew by 0.5 percent in 2025, in part supported by continued investment under the National Recovery and Resilience Plan (NRRP). Fiscal consolidation has continued to progress, with the primary surplus further strengthening. However, public debt remains too high and vulnerable to interest and growth shocks. Amid the increase in global energy prices, domestic inflation has picked up, reflecting Italy's dependence on imported fossil fuels. In addition, sovereign spreads, which had reached multi-year lows prior to the war, have faced renewed volatility, even as the net increase in spreads since late February has remained moderate. While employment in Italy has remained at around historic highs for the past several months, labor force participation lags peers, particularly among women and youth. The FSAP found that the financial system remains broadly sound with robust oversight and banks demonstrating resilience under severe adverse scenarios.

Growth is projected at 0.5 percent this year and in 2027. Implementation of NRRP-related investment is expected to continue to support growth. However, headline inflation is projected to rise to 2.9 percent in 2026 and remain elevated at above 2 percent next year. Over the medium term, rapid population aging and persistently weak productivity growth are expected to continue constraining growth. Moreover, uncertainty remains high, and the outlook is subject to adverse risks. For example, an escalation of geopolitical tensions could put additional upward pressure on prices, tighten financial conditions, and further weaken confidence and economic activity. Slower-than-planned fiscal consolidation or delays in public investment would weigh on market sentiment.  On the upside, faster productivity gains from

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] Under the FSAP, the IMF assesses the stability of the financial system, and not that of individual institutions. The FSAP assists in identifying key sources of systemic risk and suggests policies to help enhance resilience to shocks and contagion. In member countries with financial sectors deemed by the IMF to be systemically important, it is a mandatory part of Article IV surveillance. The last FSAP exercise took place in 2020.

[3] Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/italy page.

reforms, digitalization, and adoption of new technologies, including artificial intelligence, could provide a welcome impetus to growth.

**Executive Board Assessment**[4]

Executive Directors agreed with the thrust of the staff appraisal. They noted that the Italian economy is projected to continue to grow at a modest pace, weighed down by external headwinds and long-standing structural challenges. In the context of heightened global uncertainties, Directors concurred that rebuilding fiscal buffers and advancing growth-enhancing reforms, while safeguarding financial stability, are essential to strengthen resilience.

Directors welcomed progress in fiscal consolidation, supported by strong revenues and improved tax compliance. In this regard, they welcomed the authorities' commitment to fiscal discipline, and most Directors supported their planned gradual adjustment path that is aligned with the EU fiscal framework. Nonetheless, they noted that public debt remains high and vulnerable to shocks and emphasized that fiscal policy should ensure that debt is put on a decisively downward path while limiting adverse effects on potential growth. Directors observed that enhancing spending efficiency, including through digitalization and comprehensive spending review, would help limit the growth impact of consolidation. They underscored the importance of fully offsetting new spending measures with savings elsewhere. In addition, Directors emphasized that support amid higher energy prices should remain temporary, targeted, budget-neutral, and avoid distorting the price signal. They noted that further strengthening tax compliance, rationalizing tax expenditures, and broadening the tax base would support equity and consolidation. Recalibrating public guarantees toward pre-pandemic levels would further bolster resilience.

Directors welcomed the findings of the 2026 FSAP, showing the resilience of Italy's financial system and the progress made in strengthening financial sector oversight. They encouraged continued vigilance regarding sovereign-bank linkages, vulnerabilities at some less significant institutions, and cyber risks. Directors supported recommendations to further strengthen supervisory agility, expand the use of macroprudential tools, address concentrated sovereign exposures, and enhance crisis management and AML/CFT frameworks. They urged the authorities to complete ongoing reforms to improve insolvency and debt enforcement processes.

Directors emphasized that ambitious structural reforms are critical to raise productivity and medium-term growth and would also support fiscal consolidation. They observed that priorities include easing regulatory barriers, improving judicial efficiency, and deepening capital markets to foster innovation and risk capital. Addressing aging-related pressures requires boosting labor supply and enhancing skills through enhanced education, training, and school-to-work transitions. Directors acknowledged the authorities' steady implementation of the National Recovery and Resilience Plan (NRRP), and stressed that sustaining reform and investment momentum and accelerating the green transition will be key to enhancing economic resilience and energy security. They highlighted that a more integrated EU single market for goods,

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[4] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

services, capital, and labor would complement Italy’s domestic reform efforts and further incentivize investment, boost productivity, and strengthen resilience.

## Italy: Selected Economic Indicators

| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|
| | | | | Projections | | |
| **Real Economy (change in percent)** | | | | | | |
| Real GDP | 0.9 | 0.8 | 0.5 | 0.5 | 0.5 | 0.8 |
| Final domestic demand | 2.7 | 0.3 | 1.5 | 0.9 | 0.5 | 0.6 |
| Exports of goods and services | -0.2 | -0.4 | 1.2 | 1.5 | 2.1 | 2.0 |
| Imports of goods and services | -1.9 | -1.0 | 3.6 | 1.9 | 1.9 | 1.5 |
| Consumer prices | 5.9 | 1.1 | 1.6 | 2.9 | 2.4 | 2.3 |
| Unemployment rate (percent) | 7.7 | 6.6 | 6.1 | 5.6 | 5.9 | 5.9 |
| **Public Finances** | | | | | | |
| General government net lending/borrowing 1/ | -7.1 | -3.4 | -3.1 | -2.9 | -2.8 | -2.5 |
| Structural overall balance (percent of potential GDP) | -7.6 | -3.7 | -3.2 | -2.8 | -2.7 | -2.3 |
| General government gross debt 1/ | 133.9 | 134.7 | 137.1 | 138.2 | 138.2 | 137.5 |
| **Balance of Payments (percent of GDP)** | | | | | | |
| Current account balance | 0.2 | 1.1 | 1.1 | 0.5 | 1.1 | 1.5 |
| Trade balance | 1.6 | 2.2 | 1.9 | 1.3 | 1.9 | 2.2 |
| **Exchange Rate** | | | | | | |
| Exchange rate regime | Member of the EMU | | | | | |
| Exchange rate (national currency per U.S. dollar) | 0.9 | 0.9 | 0.9 | … | … | … |
| Nominal effective rate: CPI based (2000=100) | 108.2 | 110.1 | 112.6 | … | … | … |

Sources: National Authorities; Eurostat; and IMF staff calculations.

1/ Percent of GDP.

INTERNATIONAL MONETARY FUND

# ITALY

## STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION

June 30, 2026

## KEY ISSUES

**Context.** Italy's economy has continued to grow at a modest pace but faces a more challenging near-term outlook due to the war in the Middle East and heightened global uncertainty. In 2025, economic activity expanded by 0.5 percent, and continued strong fiscal consolidation helped strengthen market confidence, with sovereign spreads reaching multi-year lows. However, persistently high debt and dependence on imported energy are exposing Italy to tighter financial conditions and higher global energy prices, with adverse implications for inflation, real incomes, and confidence. Medium-term growth prospects remain subdued amid weak productivity and adverse demographics.

**Policy recommendations:** Rebuilding fiscal buffers and advancing growth-enhancing reforms, while safeguarding financial stability, are essential to strengthen resilience.

*Fiscal policy.* Fiscal consolidation is underway and should continue. A more front-loaded effort is needed to place high public debt firmly on a downward trajectory. Fiscal adjustment should prioritize broadening the tax base through tax simplification, stronger tax compliance, and rationalizing tax expenditures by reducing reliance on distortionary incentives, while bringing down public guarantees to contain contingent liabilities. Enhancing spending efficiency would help create room for growth-enhancing priorities while supporting debt reduction.

*Financial sector policies.* The 2026 Italy Financial Sector Assessment Program (FSAP) found that the financial system is resilient, supported by strong capital and liquidity buffers, and well-equipped to withstand external shocks. However, structural vulnerabilities and a challenging outlook call for greater proactivity and agility. Priorities include expanding the systemic risk buffer, continuing forward-looking focus on key risks, and completing insolvency reforms.

*Structural reform priorities.* Restoring productivity growth is urgent to revive growth and support fiscal consolidation. Progress requires steadfast reform implementation, including beyond the National Recovery and Resilience Plan. Priorities include facilitating firm growth, enhancing skills and labor force participation, and fostering innovation, including through deeper venture capital markets, and strengthening energy security. Complementing domestic reform implementation with progress at the EU level to complete the Single Market, the Savings and Investment Union, and Energy Union integration will add to the benefits.

Approved By
**Helge Berger (EUR) and Jacques Miniane (SPR)**

Discussions took place in Rome during May 13–26, 2026. The staff team comprised Ms. Lone Christiansen (head), Ms. Silvia Albrizio, Ms. Yueling Huang, and Ms. Yu Ching Wong (all EUR). Mr. Alain Kabundi (MCM) and Ms. Grace Jackson (LEG) attended some meetings virtually. Executive Director Riccardo Ercoli and Ms. Annalisa Korinthios (both OED) also participated. Ms. Naomi Griffin (head of FSAP mission) attended the concluding meetings. The mission met with Economy and Finance Minister Giancarlo Giorgetti, Labor and Social Policies Minister Marina Elvira Calderone, Bank of Italy Senior Deputy Governor Paolo Angelini, senior Italian and SSM officials, and representatives from the business community and trade unions. Ms. Jenny Lee, Mr. David Velasquez-Romero (both EUR), and Ms. Yao Deng (LEG) also contributed to the report. Ms. Emily Fisher (EUR) assisted in preparing the report.

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**TABLES**



**ANNEXES**

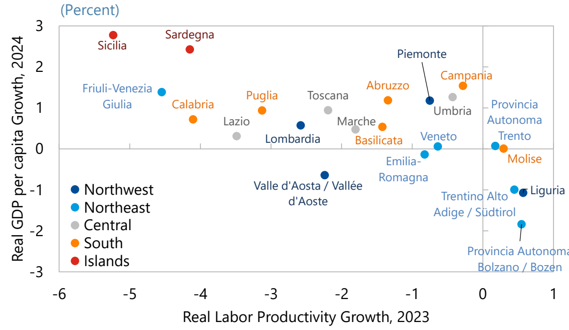
# CONTEXT

1. **External shocks are challenging Italy's already modest growth path.** Economic growth has remained broadly stable but at a rate below the euro area average, and with weak labor productivity widespread across regions, even as employment has remained at around an all-time high. Continued fiscal consolidation, which has delivered two consecutive years of overperformance relative to initial headline deficit targets, has helped strengthen investor confidence, and compress 10-year sovereign spreads versus German Bunds. However, Italy's economy is highly energy dependent and reliant on imported natural gas. With more than 70 percent of energy consumption generated from imported fossil fuels (compared to a euro area average of just above 60 percent), the recent surge in global energy prices following the war in the Middle East has put economic growth in jeopardy.

**Productivity Gaps and Exposure to Energy Price Shocks**

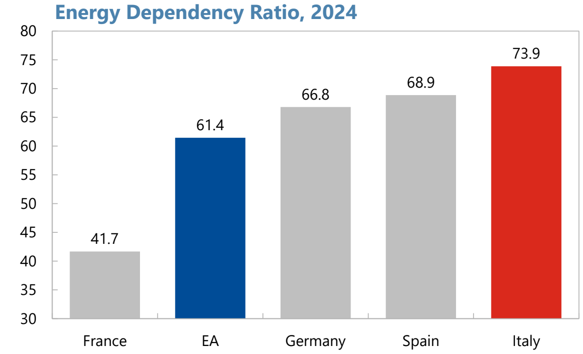
**Real GDP and Labor Productivity Growth**

(Percent)




Sources: ISTAT and IMF staff calculations.
Note: Productivity is measured as value added per hour worked. Latest data available are 2023.

**Energy Dependency Ratio, 2024**

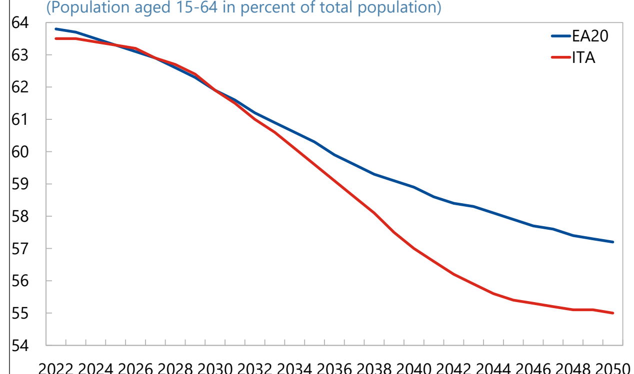



Source: Eurostat.
Note: Energy dependency rate is defined as the ratio of net energy imports divided by the total energy consumption of the country.

2. **The longer-term growth outlook remains constrained by structural obstacles.** Italy's working-age population has been shrinking for more than a decade, and the median age of the population at 49 years is the highest among the four largest euro area economies. In addition, persistent challenges are keeping Italy in a low-productivity, low-growth cycle, including amid limited risk capital, insufficient managerial and human capital to fully leverage technological change, and a cumbersome regulatory environment. As a result, employment is concentrated in small, older firms and low value-added sectors. Relatively low female labor force participation and regional disparities further constrain growth. At a time when public debt is already very high, aging-related pension and healthcare spending and commitments to increase defense spending put additional pressure on public finances.

**Working Age Population Projections**

(Population aged 15-64 in percent of total population)

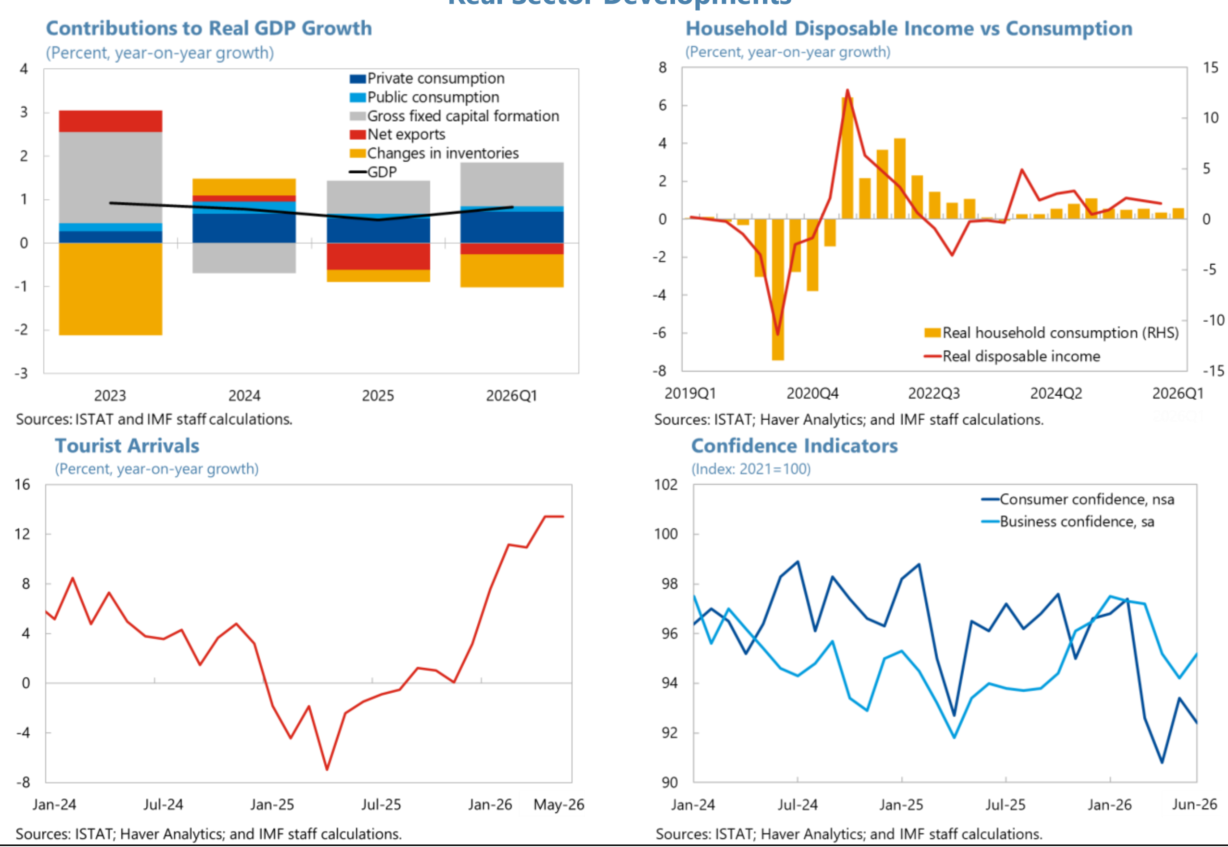



Source: Eurostat.

# RECENT DEVELOPMENTS

3. **Prior to the war in the Middle East, Italy's economy grew at a modest pace, with signs of slightly stronger growth going into 2026.** Real GDP expanded by 0.5 percent in 2025, mildly below the growth rate of the two previous years. The relatively subdued expansion of economic activity was driven mainly by construction—partly reflecting continued contributions from NRRP-related investment—and services, notably wholesale and retail trade and transportation. In addition, sustained growth in disposable income supported private consumption, while net exports contributed negatively to growth. Notably, the strong import-component of domestic demand more than offset volatile exports. Going into 2026, continued solid investment activity and the Winter Olympics in Northern Italy helped support growth of 0.8 percent year-on-year in the first quarter. Yet, the onset of the war in the Middle East heightened global uncertainty and renewed concerns about energy security and the impact on economic activity.

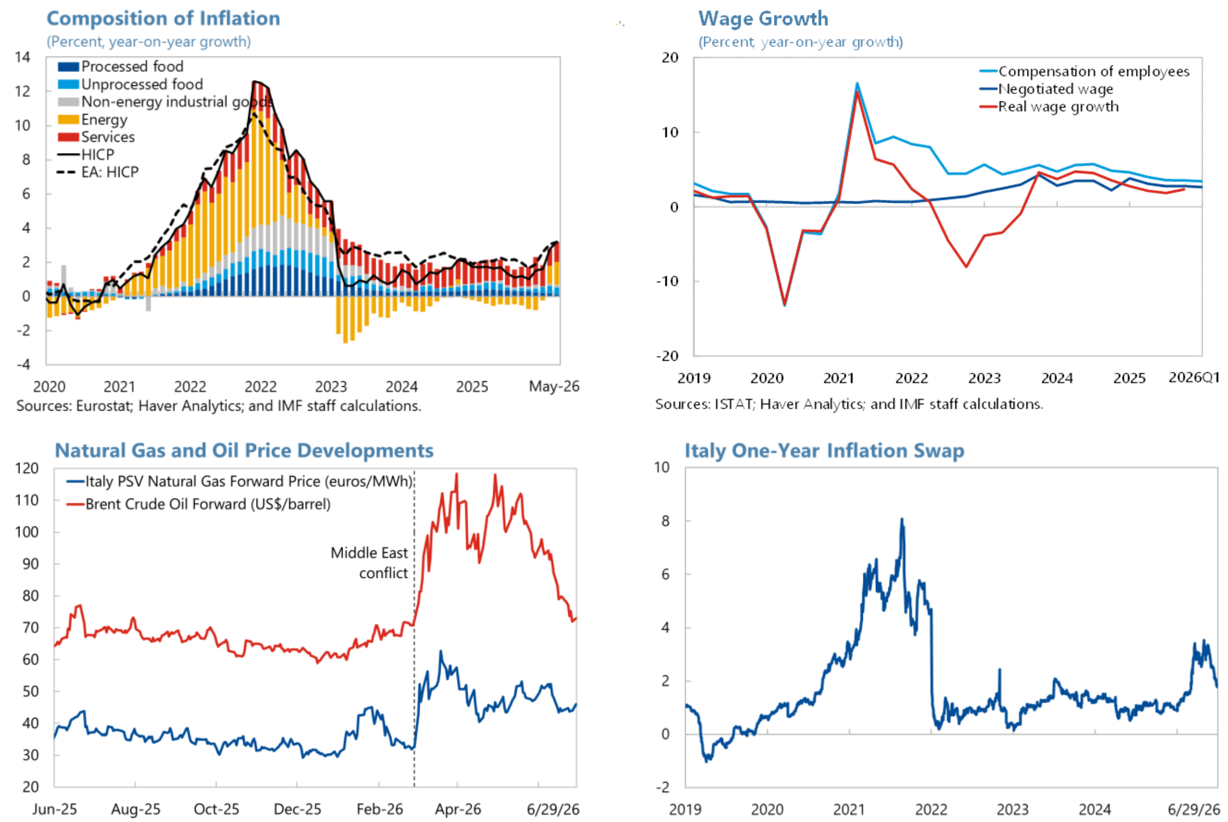
**Real Sector Developments**




4. **The war-induced sharp rise in global energy prices led to inflationary pressures.** After below-target annual inflation of 1.6 percent in Italy in 2025—still up from 1.1 percent in 2024, in part reflecting higher prices for unprocessed food and services—inflationary pressure emerged when the war in the Middle East led to a sudden surge in global oil and gas prices in March 2026. Italy's overall energy mix is heavily reliant on imported fossil fuels, and several key sectors (e.g., metals and chemicals) remain highly exposed to the increase in energy costs. Against this backdrop, market

inflation expectations picked up, with expected adverse impact on real living costs. At the same time, recently renewed collective agreements, imply average annual wage increases of just below 3 percent, limiting second-round wage-price pressures.

**Inflation and Wage Developments**




Sources: Eurostat; Haver Analytics; and IMF staff calculations.

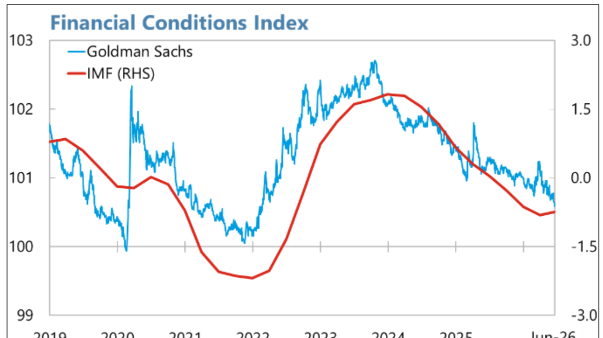
Sources: ISTAT; Haver Analytics; and IMF staff calculations.

Source: Bloomberg Finance, L.P.

Source: Bloomberg Finance, L.P.

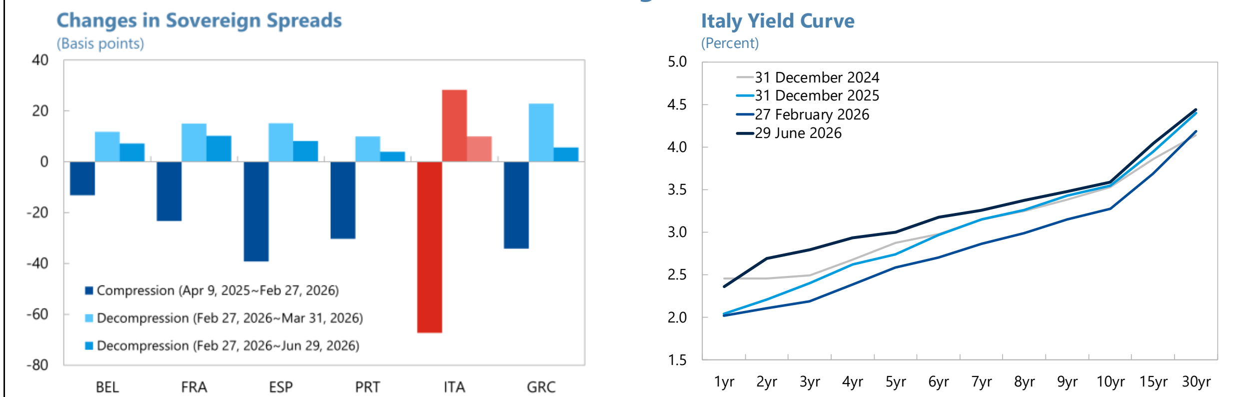
**5. In addition, steady improvements in financial market conditions came to a halt.** Ongoing fiscal consolidation efforts combined with a global search for yields had steadily contributed to a sizable compression in spreads on Italian 10-year bonds relative to German Bunds—with Italy leading the spread compression among its European peers. Since the post-pandemic peak in September 2022 and through February 2026, Italian spreads narrowed by close to 190 basis points, reaching a 15-year low in February 2026 at just below 60 basis points. Yields on 10-year Italian bonds also declined. However, following the onset of the war in the Middle East, spreads faced heightened volatility, underscoring the vulnerability to global shocks, even as the net widening in spreads remained moderate (Box 1). The yield curve also shifted up, including amid expectations of ECB monetary policy tightening.

**Financial Conditions Index**




Sources: Goldman Sachs; Bloomberg, LP; IMF, WP "Financial Conditions In Europe: Dynamics, Drivers, and Macroeconomic Implications" (WP/23/209); and IMF staff estimates.
Note: An increase (decrease) implies tightening (loosening) of financial conditions.

## Borrowing Costs

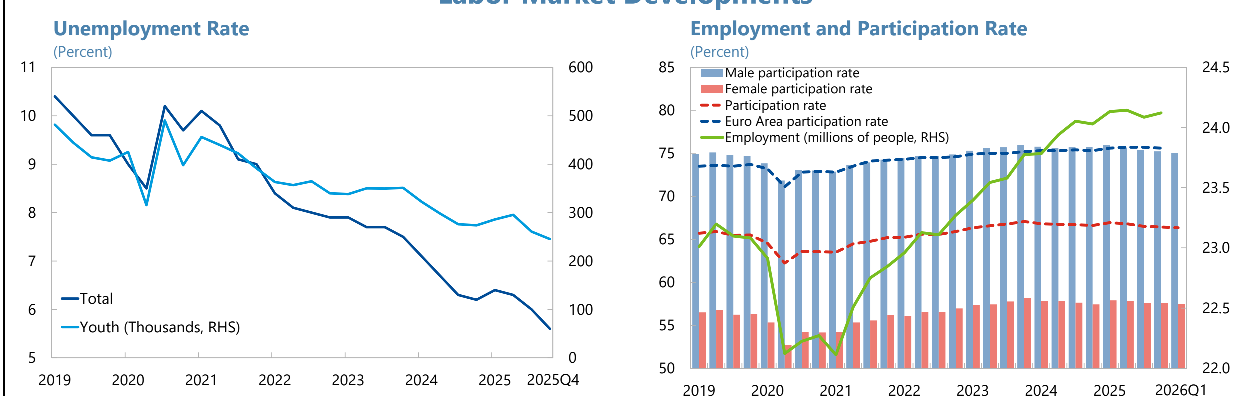



Sources: Tullett Prebon Information; Haver Analytics; and IMF staff calculations.

Sources: Tullett Prebon Information; Haver Analytics; and IMF staff calculations.

6. **The shock occurred as employment had flattened at around an all-time high.** After a steady increase in employment during the past few years (to a historic high in 2025, with more than 24 million people employed and supported by government incentives to hire workers on permanent contracts), employment growth slowed markedly during the year. Labor force participation, which had increased modestly, also moderated during the second half of 2025. While the unemployment rate had declined to 6.1 percent in 2025, the share of people employed (at 62.6 percent in 2025) nonetheless remained well below the euro area average. Notably, the female labor force participation rate was still about 13.4 percentage points below the euro area average, and youth unemployment remained high at 20.5 percent. Although the youth NEET rate has improved, its level remains high, suggesting that challenges in the transition from education to employment persist.

## Labor Market Developments



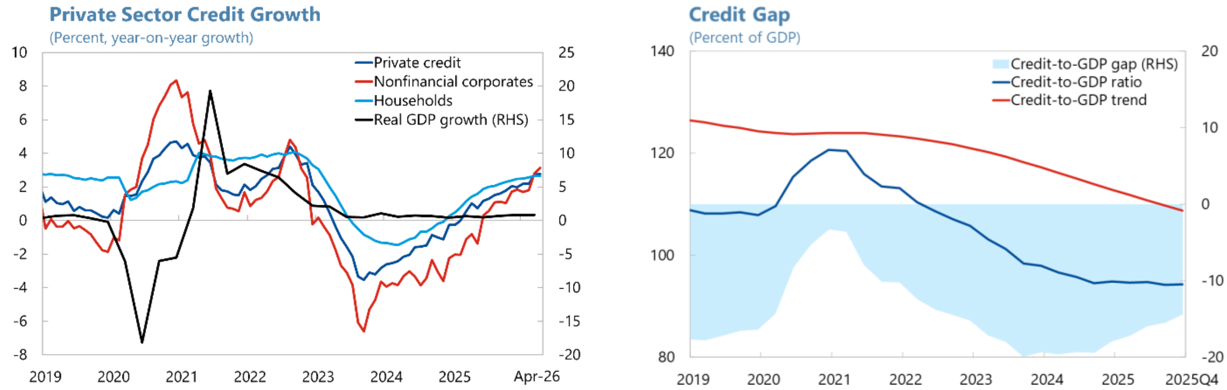

Sources: ISTAT; Haver Analytics; and IMF staff calculations.

Sources: ISTAT; Haver Analytics; and IMF staff calculations.

7. **Meanwhile, overall credit expansion has remained subdued, even as the recovery in private sector credit continued through early 2026 and broadened to the corporate sector.** ECB monetary policy easing in 2025 helped further reduce lending rates, and lending standards remained accommodative. Consequently, lending to households continued to expand, and after more than two years of contraction in corporate credit, growth in lending to nonfinancial corporates turned positive in June 2025. Nonetheless, indicators point to a still-negative credit gap, largely reflecting the still-weak demand. In addition, aggregate household debt and corporate leverage

remained well below the euro area average. With residential property prices increasing steadily at around 4 percent year-on-year in 2025, and with the price-to-rent ratio broadly unchanged, financial sector risks from real estate remained at a moderate level.

**Credit Developments**

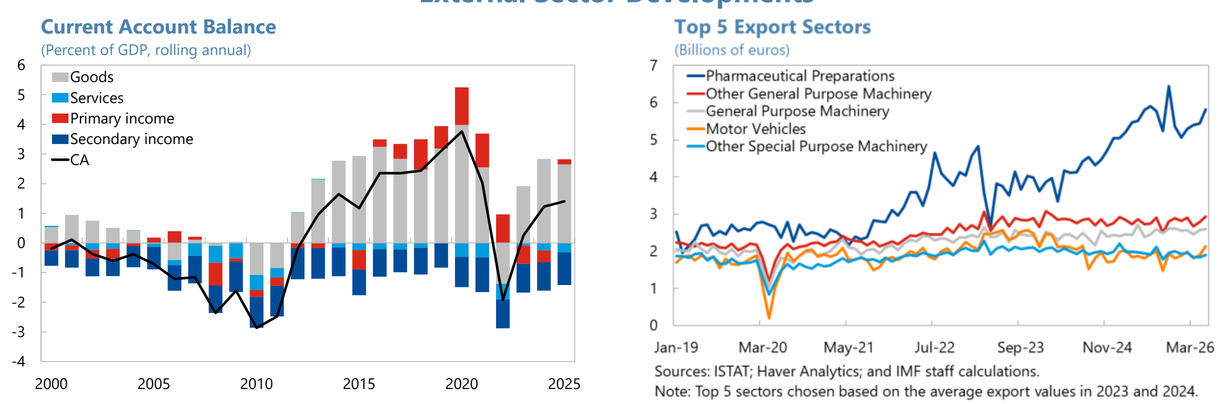



Sources: Bank of Italy; Haver Analytics; and IMF staff calculations.

Source: Bank for International Settlements.

8. **The current account surplus was broadly unchanged in 2025, recording a surplus of 1.1 percent of GDP despite tariff-related headwinds.** The outturn reflected a return-to-surplus on the primary income account amid lower investment outflows, which offset a slight narrowing of the trade surplus. Notably, new tariffs on European exports in 2025 and euro appreciation contributed to trade volatility, with export growth concentrating in pharmaceuticals and large ticket deliveries (e.g., aircrafts). A 16 percent increase in imports from China partly reflected the steady global supply chain reconfiguration. The net international investment position slightly strengthened to 15.4 percent of GDP at the end of 2025 (from 14.9 in 2024), and Target-2 liabilities further narrowed, including as non-residents increased their holdings of sovereign debt securities. Staff assesses the external position in 2025 as moderately weaker than implied by medium-term fundamentals and desirable policies, including amid an aging population and the need for productivity-enhancing reforms, complemented with efforts at the EU level, and continued fiscal consolidation (Annex I).

**External Sector Developments**



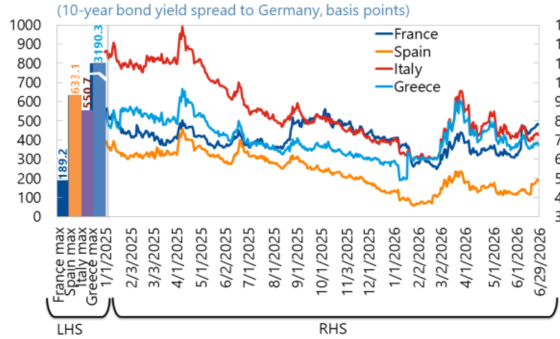

Sources: Bank of Italy; Haver Analytics; and IMF staff calculations.

Sources: ISTAT; Haver Analytics; and IMF staff calculations.
Note: Top 5 sectors chosen based on the average export values in 2023 and 2024. NACE Rev 2, 3 digit level disaggregation.

## Box 1. Drivers of Sovereign Spreads Compression[1/]

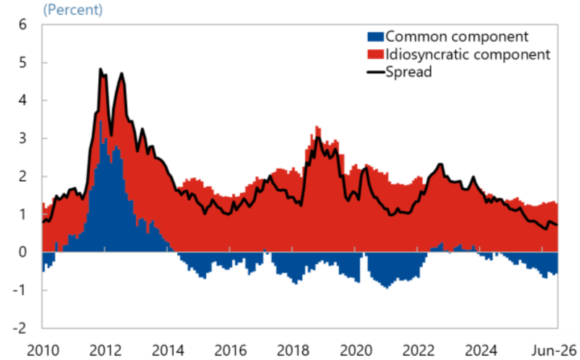
**After a sizable decline since the pandemic peak, Italian sovereign yield spreads widened in early 2026.** The steady narrowing of Italian yield spreads during the past few years occurred amid a broad-based compression in spreads across several euro area countries, including France, Spain, and Greece. At its trough, Italian 10-year spreads vis-a-vis the German Bund stood at 59.1 basis points, narrowing 190 basis points since its pandemic peak in September 2022. Since then, the March 2026 onset of the war in the Middle East led to a partial reversal of these gains. By June 2026, spreads hovered between 70 and 80 basis points.

**Selected Sovereign Spreads**
(10-year bond yield spread to Germany, basis points)




Sources: Bloomberg Finance L.P. and IMF staff calculations.
Note: Max shows highest spread between 2011-2012.

**Italy Spread Decomposition**
(Percent)




Source: IMF staff calculations.

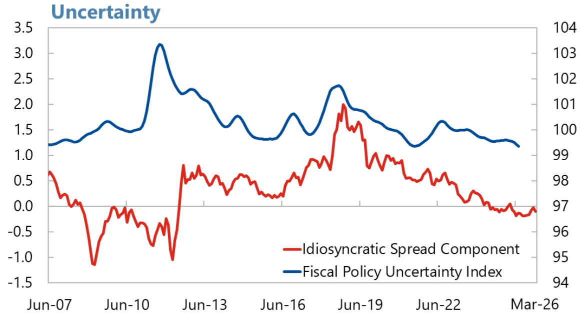
**Both domestic and external factors have been important drivers of the movement in Italian yield spreads.** A principal components decomposition of Italy's sovereign spread on 10-year bonds relative to German bunds illustrates that both country-specific and euro-area-wide common components have shaped Italian sovereign spread dynamics over the past decades.

- *The domestic, Italy-specific component explains about half of the spread compression trend since September 2022.* This idiosyncratic component reflects a range of domestic indicators, among which is a Fiscal Policy Uncertainty Index, a news-based indicator of uncertainty surrounding fiscal policy actions.[2] After 2012, periods of lower fiscal policy uncertainty have been associated with tighter spreads, while episodes of heightened uncertainty have coincided with wider spreads. A Lasso analysis confirms fiscal policy uncertainty as a strong predictor of the idiosyncratic component, reinforcing the benefits of Italy's fiscal consolidation and the importance of sustained fiscal commitments in anchoring market confidence.
- *The common component explains the other half of the spread compression.* The common component captures about 67 percent of co-movements in yields across ten euro area countries.[3] This component is highly sensitive to shifts in global risk sentiment, the euro area monetary policy stance and instruments, and revisions to the expected German fiscal deficit.[4] While Italy has benefitted from these favorable common factor dynamics alongside other euro area sovereigns, this also underscores the extent to which Italian spreads remain exposed to fluctuations in global risk sentiment and euro area-wide policy conditions.

[1/] This box was prepared by Jenny Lee, Silvia Albrizio, and Mustafa Saiyid.
[2/] Hong, Gee Hee, Shikun (Barry) Ke, and Anh Dinh Minh Nguyen. 2025. "The Macroeconomic Effects of Fiscal Policy Uncertainty around the World." AEA Papers and Proceedings 115: 182–87.
[3/] Sample includes Austria, Belgium, Finland, France, Greece, Ireland, Italy, Netherland, Spain, and Portugal.
[4/] Estimates are derived from a LASSO regression using monthly data spanning 2010–2025.

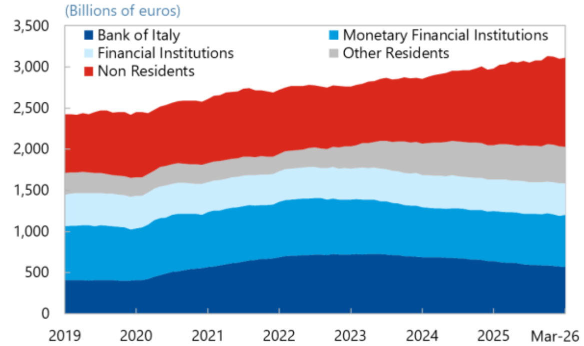
## Box 1. Drivers of Sovereign Spreads Compression (Concluded)

**Italy Idiosyncratic Component and Fiscal Policy Uncertainty**




Sources: Bloomberg Finance, L.P. and IMF staff calculations.
Note: The idiosyncratic component of the spread is normalized and the Fiscal Policy Uncertainty Index is HP filtered.

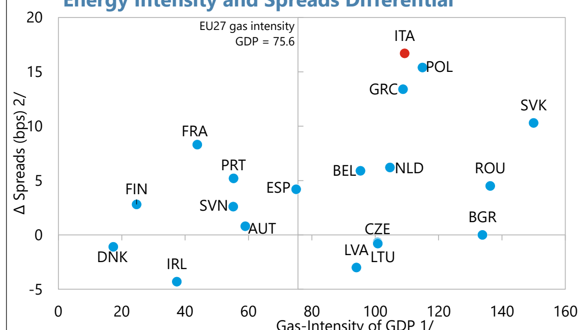
**General Government Debt by Holding Sector**
(Billions of euros)




Sources: Bank of Italy; Haver Analytics; and IMF staff calculations.
Note: Debt recorded at face value.

The recent widening of spreads amid heightened geopolitical tensions illustrates the importance of maintaining prudent fiscal policy. Italy's relatively higher sovereign spread sensitivity to the recent energy shock may partly reflect the economy's higher dependence on natural gas and energy imports, which heightens related inflationary and macro-fiscal risks. Moreover, while a growing share of foreign investors has supported market liquidity and helped reduce risks from sovereign-bank linkages, larger external bond holdings may have also increased sensitivity of the Italian bond market to changes in global risk sentiment, potentially exacerbating spread volatility during risk-off periods. Overall, given Italy's sensitivity to common global factors, maintaining narrow spreads from the domestic component is essential, highlighting the importance of adhering to steadfast fiscal consolidation and decisively reducing public debt.

**Energy Intensity and Spreads Differential**




Sources: Bloomberg Finance, L.P.; Eurostat; and IMF staff calculations.
1/ Natural gas consumption divided by real GDP in 2024.
2/ 10-year bond yield spread to Germany, change between April 13 and Feb 27 2026.

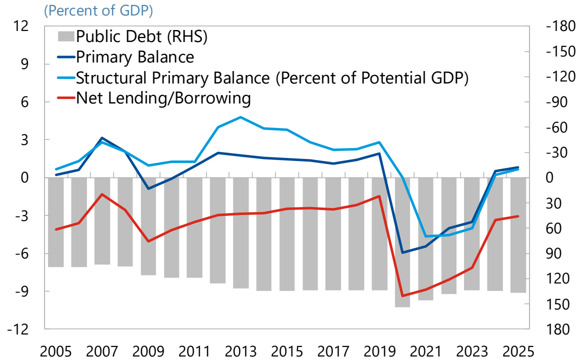
**9. Supported by continued fiscal consolidation efforts, the headline deficit further narrowed in 2025, though ended the year slightly above expectations.**

- *The headline fiscal deficit narrowed to 3.1 percent of GDP in 2025.* The outturn was 0.2 percent of GDP better than the authorities' April 2025 target (April 2025 DFP). The improvement reflected stronger-than-expected revenue from a strong labor market and improved tax compliance. That said, expenditures were also slightly higher than projected due largely to higher spending on public sector wages, gross fixed investment, and an unexpected surge in Superbonus tax credit claims (€8.4 billion or 0.4 percent of GDP).[1] Continued fiscal consolidation raised the primary surplus to 0.8 percent of GDP in 2025, well above the euro area primary deficit of 1.0 percent of euro area GDP.

[1] The Superbonus claims reflect a tax incentive to improve energy efficiency and earthquake resilience in residential building introduced in May 2020. For 2025, eligible projects could claim a 65 percent tax deduction, if administrative procedures had been completed by October 15, 2024. This likely prompted an acceleration in condominium renovations and recognition of incurred eligible expenditures before the scheme expired at end-2025. The unexpectedly large claims are currently under verification amid indications of irregularities.

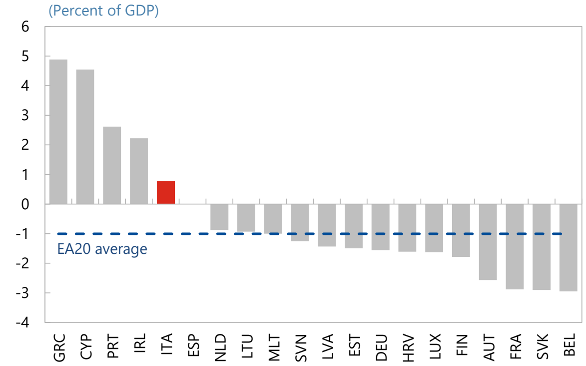
## Fiscal Developments

### Fiscal Balance and Public Debt
(Percent of GDP)




Sources: Bank of Italy and IMF staff calculations.

### Primary Balance, 2025
(Percent of GDP)

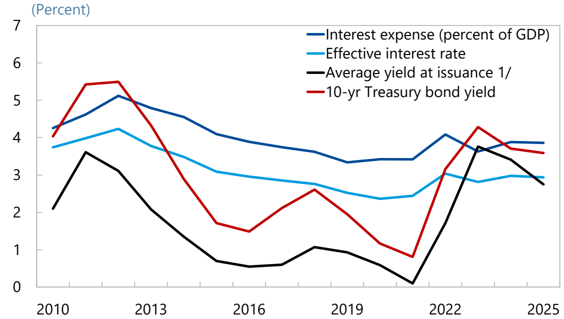



Source: European Commission.

- *The public debt ratio remained high and with sizeable contingent liabilities.* Even as the headline deficit improved, public debt rose to 137.1 percent of GDP in 2025—2.4 percentage points of GDP higher than in 2024, reflecting weak nominal GDP growth and stock-flow adjustments. Yet, interest expenses remained stable at 3.9 percent of GDP in 2025, aided by a sizeable drop (70 basis points) in the average yield at issuance amid spread compression. Sovereign-bank linkages continued to ease as households and non-residents increased their holdings of government bonds, while banks reduced their holdings amid portfolio diversifications. Average residual maturity on Italian debt securities remained at around 7 years in January-May 2026, compared with a lengthening average maturity structure to slightly above 8 years in the euro area. Despite a slight decline in the stock of public-sector guarantees, exposures remained elevated at 13 percent of GDP as of end-2025 (13.4 percent of GDP at end-2024).

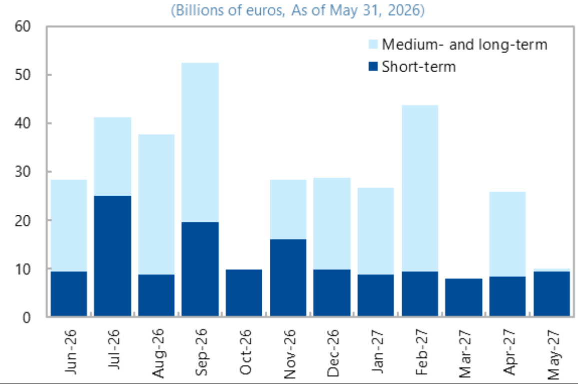
## Public Debt Management

### Interest Expense and Interest Rates
(Percent)



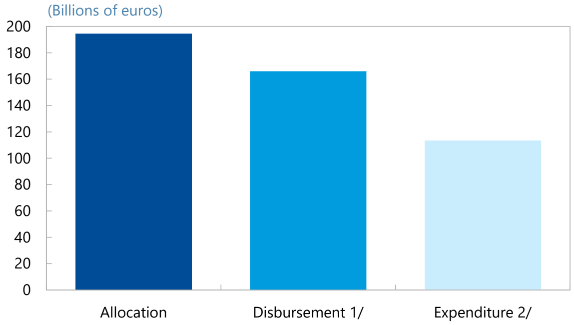

Sources: Haver Analytics; MEF; and IMF staff calculations.
1/ Average interest rate of government bonds calculated on the basis of the gross yield at issuance for securities issued at a single year.

### Central Government Bond Operations, Upcoming Redemptions
(Billions of euros, As of May 31, 2026)



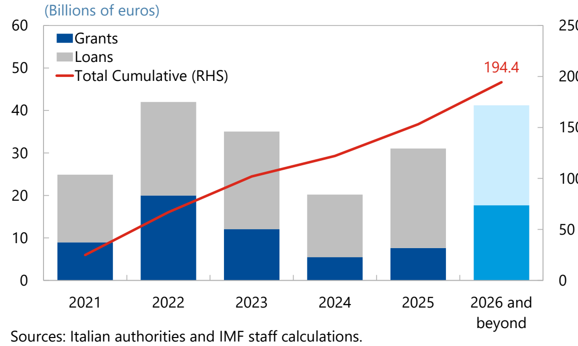
## NRRP Implementation

### NRRP Overview
(Billions of euros)



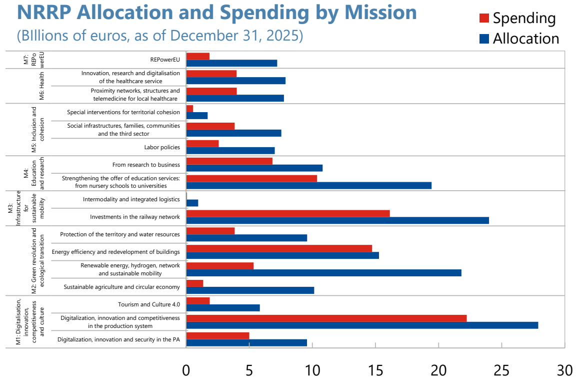

Sources: Italia Domania (Spesa per misura del PNRR); Italian authorities; and IMF staff calculations.
As of June 9, 2026: 1/ Data as of June 4, 2026.
2/ Data as of February 26, 2026.

### NRRP Disbursements from EC to Italy
(Billions of euros)



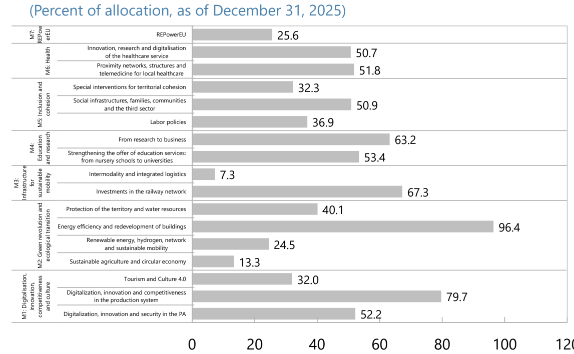

Sources: Italian authorities and IMF staff calculations.
Note: 2026 and beyond is estimated as total grants/loans allocation minus cumulative grants/loans disbursement up to 2025. Data received as of May 18, 2026.

### NRRP Allocation and Spending by Mission
(BIllions of euros, as of December 31, 2025)



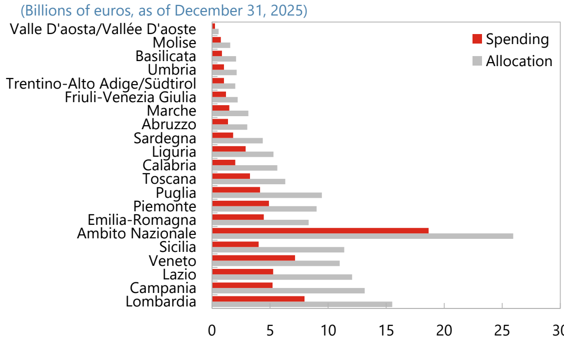

Sources: Italia Domania (Spesa per misura del PNRR) and IMF staff calculations.

### NRRP Spending Ratio by Mission
(Percent of allocation, as of December 31, 2025)



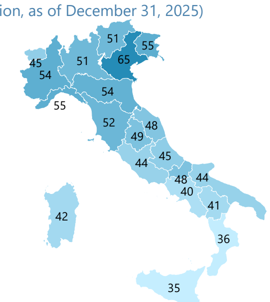

Sources: Italia Domania (Spesa per misura del PNRR) and IMF staff calculations.

### NRRP Allocation and Spending by Region
(Billions of euros, as of December 31, 2025)




Sources: Italia Domani (Spesa per misura del PNRR, Progetti del PNRR, Pagamenti dei progetti del PNRR) and IMF staff calculations.

### NRRP Spending Ratio by Region
(Percent of allocation, as of December 31, 2025)




Sources: Italia Domani (Spesa per misura del PNRR, Progetti del PNRR, Pagamenti dei progetti del PNRR) and IMF staff calculations.

**10. Implementation of NRRP reforms and investments accelerated in 2025 and 2026, though some projects experienced delays.**[2] By end-2025, Italy had completed 72 percent of the 575 milestones and targets agreed with the European Commission and received 85 percent (€166 billion) of allocated funds, putting Italy among the EU's top performers. As of end-March 2026, Italy had spent approximately 60 percent of allocated funds (€116.9 billion). While this reflects an acceleration in spending, a sizable absorption gap remains ahead of the original 2026 deadline, with

[2] The NRRP integrates investments and reforms under seven strategic missions, including targeting productivity growth, digitalization, environmental sustainability, and social inclusion. The plan entails a financial envelope of €194.4 billion, the largest among EU member states.

southern regions facing relatively more delays.[3] In turn, some milestones and targets have been modified in agreement with the European Commission. Combined with financial vehicles to extend financing beyond 2026, about 1 percent of GDP is now expected to be implemented after 2026. Importantly, near-term gains from the NRRP have become visible, including a reduction in legacy court backlogs and modernized school infrastructure. In addition, the authorities continue efforts to address the risks of transnational aspects of corruption (Annex II).

# OUTLOOK AND RISKS

**11. The war in the Middle East is weighing on Italy's fragile growth path.** Growth in 2026 is projected to benefit from the peak in NRRP-related investment.[4] However, the war in the Middle East represents a sudden headwind to growth through higher energy prices, tighter financial conditions, and a renewed increase in global economic uncertainty that is expected to hold back private investment and consumption. In turn, lower exports amid weaker foreign demand alongside higher energy import costs are expected to temporarily reduce the current account surplus this year. Under the assumption that the war remains limited in duration and scope, average real GDP growth is projected to remain at around 0.5 percent in 2026 and 2027. Over the longer term, as external shocks unwind and the trade balance returns toward pre-pandemic levels, the external balance is expected to gradually strengthen. However, economic growth prospects remain constrained by adverse demographics and structural rigidities holding back productivity growth.

**12. The external shock is expected to have a notable inflationary impact given Italy's dependence on imported energy.** Headline inflation is projected to rise to 2.9 percent in 2026 and remain elevated at above 2 percent in 2027. Underlying these developments, the pass-through of higher energy prices, especially for gas, is delayed due to existing multi-year wholesale contracts, gas storage, and regulated retail prices.

**13. Uncertainty remains high, and downside risks to the outlook dominate.** On the downside, a larger or more persistent increase in energy prices could further lift inflation and weigh on economic activity. Risks could also arise from an intensification of trade and other geopolitical tensions, including with implications for global supply chains, or financial market volatility from exuberance about the payoffs from AI-related investments. Domestically, a slower-than-planned fiscal consolidation, for example resulting from additional support measures amid the war in the Middle East or as elections are expected by late-2027, could adversely impact market perception of Italian debt, with an associated rise in risk premiums. Inefficient implementation of NRRP reforms and investment would further lower growth and weaken fiscal stability, as could extreme weather events. On the upside, renewed progress in global trade talks or stronger spillovers from Germany's domestic stimulus could support investment and growth.[5] Higher-than-expected productivity gains

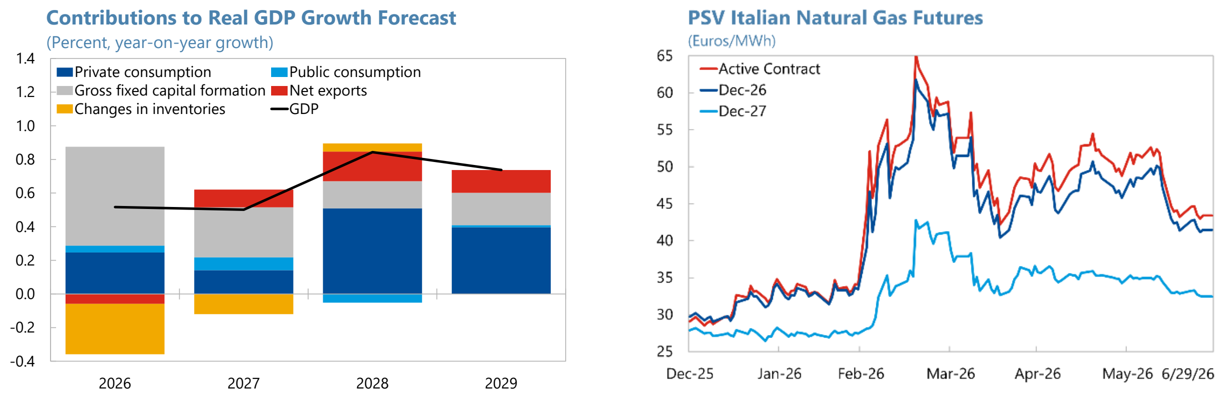
[3] At the project level, the Recovery and Resilience Information System (ReGiS) offers detailed data for monitoring NRRP implementation across ministries and local authorities.

[4] Macroeconomic projections are consistent with the July 2026 WEO assumptions and projections.

[5] See for example Germany: 2025 Article IV Consultation, Country Report No. 2026/036.

from public investment and reforms, including from faster digital adoption and deeper EU integration, could have lasting benefits, as could a faster green energy transition, for example in response to the impact of the war in the Middle East (Risk Assessment Matrix, Annex III).

**Real GDP Growth Forecast and Risks**




Sources: ISTAT and IMF staff calculations.

Source: Bloomberg Finance, L.P.

***Authorities' View***

**14. The authorities broadly agreed with staff's assessment of the outlook and risks.** They see the Italian economy as resilient, and assuming the energy shock remains contained, they added that they prudently project real GDP growth of 0.6 percent in both 2026 and 2027. They highlighted the increased market confidence from the ongoing fiscal consolidation and political stability and noted that implementation of the NRRP continues to be strong. While acknowledging downside risks, the authorities had a more balanced assessment, pointing to upside risks from a swift easing of tensions, stronger public spending on defense and infrastructure in large EU economies with positive spillovers, and faster productivity gains from reforms and AI adoption. On inflation, the authorities expect higher price pressures in 2026, with HICP approaching 3 percent, before easing back toward the target in 2027. From a structural perspective, they emphasized that the high quality of Italian products, together with ongoing supply chain reconfiguration and trade diversification, are supporting Italian exports. Regarding the external sector assessment, the authorities noted that revised quantification of demographics has reduced the estimated current account gap. They viewed the external position as broadly appropriate, adding that Italy's external sector continues to show resilience despite the headwinds arising from higher energy prices and global trade uncertainty. They viewed Italy's exposure to the Middle East as limited. While recognizing the need to continue fiscal consolidation to reduce public sector debt, they stressed that in order to maintain the investment momentum, further improvement of the cyclically-adjusted current account is not expected.

# POLICY DISCUSSIONS

*Amid external shocks, a weak growth outlook, and high public debt, a strong and multipronged approach is needed to lift Italy's economic prospects. Lifting productivity and growth while reducing public debt will require a combination of sustained fiscal consolidation and continued reform implementation, while safeguarding financial sector resilience. Structural reforms should focus on improving education outcomes, fostering emerging skills, further raising employment—in particular among women and youth—enhancing access to financing and technological advances, and reducing dependence on fossil fuels. The completion of the EU single market will further lift growth in Italy.*

## A. Decisively Reducing Public Debt

**15. The authorities project a gradual deficit reduction and plan to bring the headline deficit below 3 percent of GDP this year.** The Public Finance Document (DFP2026), released in late April, projected a slightly wider deficit than the 2026 Draft Budgetary Plan (DBP2026)—at 2.9 percent of GDP in 2026 (from 2.8 percent) and 2.8 percent of GDP in 2027 (from 2.6 percent), amid a weaker macroeconomic outlook. While the updated deficit path still targets a deficit below 3 percent of GDP to exit the Excessive Deficit Procedure, the revised projection implies greater reliance on macro conditions and less fiscal flexibility to absorb future shocks.

**16. The fiscal plans envisage support for households and businesses, including measures to cushion the impact of higher energy prices.** Amid general expenditure restraint to reduce the headline deficit, key measures in the 2026 budget include (i) a tax cut for middle income earners,[6] with gains for high-income taxpayers offset through reduced allowable deductions and financed by multi-year contributions from banks, other financial intermediaries, and insurance companies; (ii) outcome-focused tax incentives, including lower substitute taxation for specific wage components (contractual wage increases, productivity bonuses, and night/holiday work); (iii) increased support for working mothers, targeted transfers to low-income households, and a top-up on minimum pensions; and (iv) support for business investments through the reintroduction of enhanced depreciation allowances[7] and an extension of selected sectoral tax credits. Since March 2026, energy-price relief was introduced in the form of temporary fuel excise duty cuts (extended until July 3, while being partially scaled back) to mitigate the upward pressure on energy prices, and a one-off electricity bill top-up targeted to low-income households eligible for the social electricity bonus. Measures for businesses included tax credits for truck drivers and the fishing industry. These measures (with announced costs of below 0.1 percent of GDP) are intended to be temporary and budget neutral, financed by a combination of expenditure cuts, additional revenues from VAT

[6] The tax cut includes an IRPEF rate reduction from 35 to 33 percent on the second income bracket covering incomes between €28,000 and €50,000. The resulting tax relief is clawed back for taxpayers with total income above €200,000.

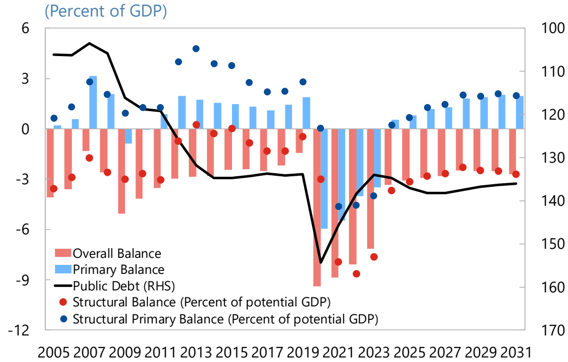
[7] Depreciation allowances for Industry 4.0 and 5.0 investments. The Transition 4.0 program (2020–2025) offered tax credits for investments in digital and advanced capital goods. Transition 5.0, introduced in 2024, extended support to projects combining digital upgrades with energy efficiency and decarbonization. The 2026 Budget Law replaces the Transition 4.0 and 5.0 investment tax-credit regime with a new hyper-depreciation regime for eligible capital investments made between January 2026 and end-September 2028.

buoyancy amid higher prices, a draw on the FISPE contingency fund, and reallocation of sectoral funds.

**17. Staff projects public debt to remain high over the medium term.** Staff's fiscal balance forecast broadly aligns with the authorities' revised plans through 2028—reflecting the final 2026 Budget and the public finance package for 2026-28 in the DFP2026, while projections are more stylized thereafter. Staff's baseline incorporates medium- to long-term aging-related spending pressures in pensions and healthcare but excludes a potential increase in defense spending (pending details after exiting from the EDP) and other medium-term spending pressures (e.g., from potential climate shocks). Fiscal multipliers are expected to be small as the gradual consolidation efforts rely mainly on expenditure growth containment and spending efficiency gains. Moreover, lower sovereign risk premia from improved fiscal credibility would help offset demand effects of consolidation. Correspondingly, staff forecasts a cumulative headline deficit reduction of 0.6 percentage points of GDP during 2026–2028, in line with the authorities' projection, with the primary surplus rising to just below 2 percent of GDP by 2028. However, the debt ratio declines only gradually amid sizable stock-flow adjustments in the near term (e.g., unwinding of previously accrued housing-related tax credits) and a projected positive interest rate-growth differential.

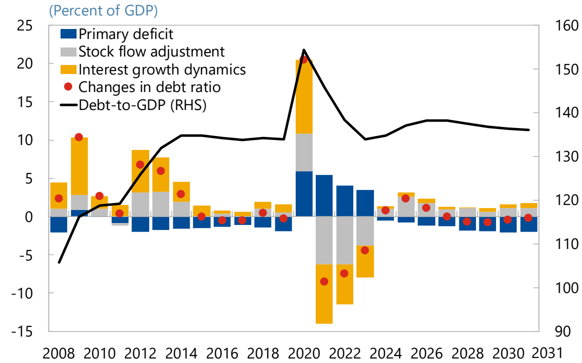
### Fiscal Balance and Public Debt Dynamics

**Fiscal Balances and Public Debt**
(Percent of GDP)




Sources: Haver Analytics and IMF staff calculations.

**Public Debt and Contribution to Changes in Debt Ratio**
(Percent of GDP)




Sources: Haver Analytics; MEF and IMF staff calculations.

**18. Staff assesses Italy's overall sovereign debt risks as moderate, and fiscal space is at risk** (Annex IV).[8] Under the baseline, while near-term financing risks remain contained, public debt is still very high and vulnerable to growth and interest-rate shocks. For example, as described in Box 1, Italy's sovereign yield spreads are sensitive to shocks, including amid a highly liquid government bond market. Mechanical indicators signal high medium-term risk, largely driven by the high terminal debt-to-GDP ratio, and long-term risks are assessed as high amid rising aging-related and other spending pressures. The moderate overall risk rating reflects mitigating factors beyond the mechanical models, including (i) sustained retail demand for government securities; (ii) a positive net international investment position; (iii) a lower share of sovereign debt held by banks, reducing adverse feedback risks; (iv) a relatively long average debt maturity; and (v) the availability of

[8] Fiscal space is "at risk" where there are clear, but not imminent, risks to fiscal sustainability and at most marginal fiscal loosening is possible compared to the baseline.

potential ECB support (e.g., TPI) to stabilize markets against disorderly dynamics that could seriously threaten monetary policy transmission across the euro area.

**19. Bringing down the public sector debt ratio at a faster-than-projected pace would greatly strengthen resilience against shocks.** Accelerating public debt reduction would solidify the rebuilding of fiscal space, lower sovereign borrowing costs, and reduce vulnerability to risk premia spikes, including from external shocks. In turn, this would allow for a virtuous cycle that crowds in private investment, boosts growth, and further reduces the debt ratio and risk premia. Moreover, despite the energy price shock, the support for growth from NRRP-related investment renders this an opportune time for forging ahead with fiscal adjustment.

**20. The recommended debt reduction would benefit from strong growth-generating structural reforms but would also require additional near-term fiscal efforts.** As reform payoffs often take time to fully materialize, and considering the size of the current debt vulnerabilities, near-term debt reduction warrants an emphasis on fiscal efforts. Staff estimates that combined additional fiscal efforts of about 1 percentage point of GDP during 2026–2027, in addition to the cumulative baseline effort of about ½ percentage point of GDP that is already projected during the two years, would help ensure an earlier decline in the debt ratio. A third consecutive year of overperformance relative to the authorities' projection would not only help bring debt on a downward path, it would also provide a buffer below the 3 percent of GDP deficit threshold and further support market confidence amid a highly uncertain external environment. More broadly, ensuring that consolidation limits adverse impacts on growth would maximize the benefits of

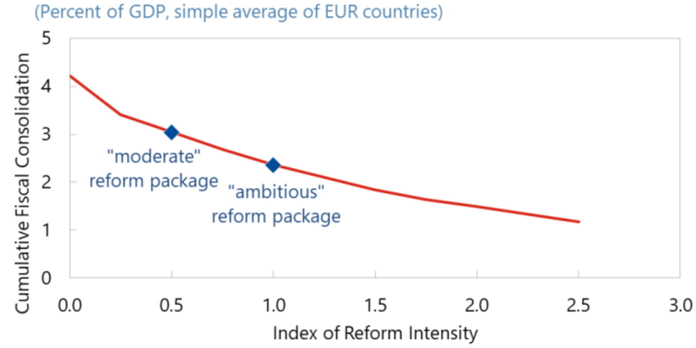
**Italy: Fiscal Projection and Recommended Debt Reduction**

| | | Projections | | | | | |
|---|---|---|---|---|---|---|---|
| | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
| **Overall balance** | | | | | | | |
| Authorities (MTFSP) | -3.3 | -2.8 | -2.6 | -2.3 | -1.8 | -1.7 | -1.5 |
| Authorities - Policy (DBP2026) | -3.0 | -2.8 | -2.6 | -2.3 | ... | ... | ... |
| Authorities - Policy (DFP2026) | -3.1 | -2.9 | -2.8 | -2.5 | -2.1 | ... | ... |
| Staff baseline (Current) | -3.1 | -2.9 | -2.8 | -2.5 | -2.5 | -2.5 | -2.7 |
| Staff recommended path | | -2.4 | -1.8 | -1.4 | -1.5 | -1.5 | -1.7 |
| **Primary balance** | | | | | | | |
| Authorities (MTFSP) | 0.6 | 1.1 | 1.5 | 1.9 | 2.4 | 2.6 | 2.9 |
| Authorities - Policy (DBP2026) | 0.9 | 1.2 | 1.5 | 1.9 | ... | ... | ... |
| Authorities - Policy (DFP2026) | 0.8 | 1.2 | 1.5 | 1.8 | 2.4 | ... | ... |
| Staff baseline (Current) | 0.8 | 1.2 | 1.3 | 1.8 | 1.9 | 2.0 | 2.0 |
| Staff recommended path | | 1.7 | 2.3 | 2.8 | 2.9 | 3.0 | 3.0 |
| **Public debt** | | | | | | | |
| Authorities (MTFSP) | 136.9 | 137.8 | 137.5 | 136.4 | 134.9 | 133.9 | 132.5 |
| Authorities - Policy (DBP2026) | 136.2 | 137.4 | 137.3 | 136.4 | ... | ... | ... |
| Authorities - Policy (DFP2026) | 137.1 | 138.6 | 138.5 | 137.9 | 136.3 | ... | ... |
| Staff baseline (Current) | 137.1 | 138.2 | 138.2 | 137.5 | 136.7 | 136.3 | 136.1 |
| Staff recommended path | | 138.0 | 137.6 | 135.8 | 133.9 | 132.5 | 131.2 |
| *Memo:* | | | | | | | |
| Annual net expenditure growth (MTFSP, percent) | 1.3 | 1.6 | 1.9 | 1.7 | 1.5 | ... | ... |
| Annual net expenditure growth (DFP2026, percent) | 1.9 | 1.6 | 2.2 | 1.7 | 1.5 | ... | ... |

Sources: Medium-Term Fiscal Structural Plan (MTFSP), Draft Budgetary Plan 2026 (DBP 2026), Public Finance Document April 2026 (DFP2026), ISTAT, and IMF staff estimates.

**Sustainable Combinations of Reform and Consolidation**

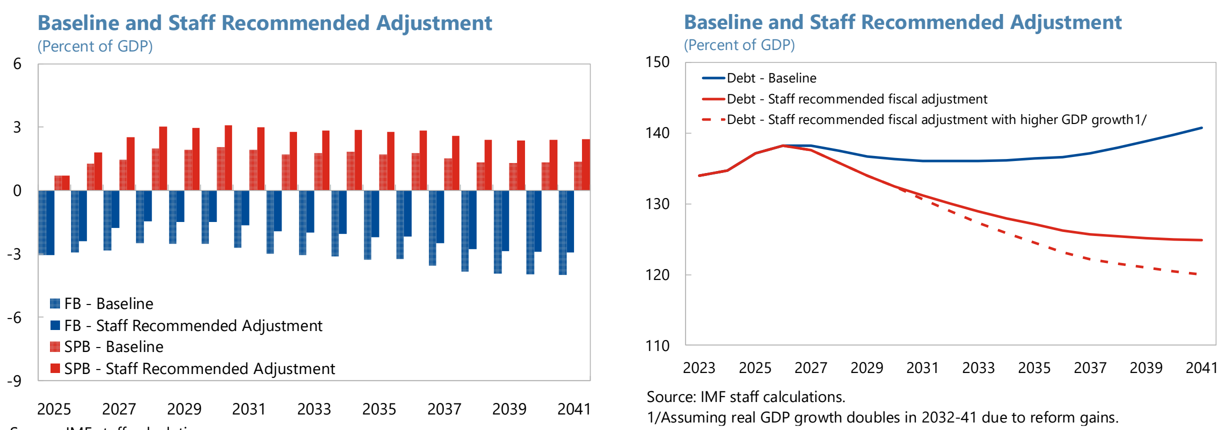
(Percent of GDP, simple average of EUR countries)




Sources: IMF, 2025 European Regional Economic Outlook (Fall); and IMF staff estimates.
Note: Fiscal consolidation is measured on a cumulative basis over 2026-30. The isoquant is computed using the constant sample of countries that need to adjust in the absence of reforms. No multiplier is assumed. Along the horizontal axis, more "intense" reforms have a progressively larger impact on growth and spending pressures. Index=1 for 'ambitious' reforms.

the adjustment, including by prioritizing reforms with relatively larger near-term growth impact (e.g., reducing regulatory barriers and streamlining administrative procedures). Subsequent adjustment efforts, in line with staff's baseline trajectory, would bring public debt below 120 percent of GDP by 2041. As the effect of growth-enhancing reforms take hold, the burden on fiscal policy to carry out the debt reduction could ease, or a larger debt reduction could be achieved with the same fiscal effort (as illustrated in the stylized combination of reform and consolidation over the long term for European countries). Complementing national reform efforts with EU single market reforms would further reduce fiscal adjustment needs. A larger EU Multiannual Financial Framework, focused on European public goods, and supported by common borrowing and new EU own resources would support economic stability.[9]

**Projected and Recommended Fiscal Adjustment Paths**




Source: IMF staff calculations.

Source: IMF staff calculations.
1/Assuming real GDP growth doubles in 2032-41 due to reform gains.

**21. On the expenditure side, the recommended debt reduction can be supported by strengthening spending efficiency, containing new spending pressures, and improving the targeting of support aimed at alleviating the impact of shocks.**

- *Enhancing spending efficiency.* General government spending is among the highest in the EU, concentrated in pensions and interest payments (included in "other spending" under general public services in text chart), while spending on education, health, and other productivity-enhancing areas lag peers. With already high debt, rationalizing and improving spending efficiency are critical. In education, better outcomes could be achieved within existing envelopes by reallocating resources toward early education and skill formation, reducing regional disparities, and strengthening links between vocational training and labor market needs.[10] Similar gains could be pursued in public administration through performance benchmarking, digitalization, and spending reviews. Improved spending efficiency would help limit the growth impact of adjustment while enhancing market confidence.

[9] Busse, M., Lin, H., Nabar, M., and Yoo, J., 2025. "Making the EU's Multiannual Financial Framework Fit for Purpose," IMF Working Paper (WP/25/114).

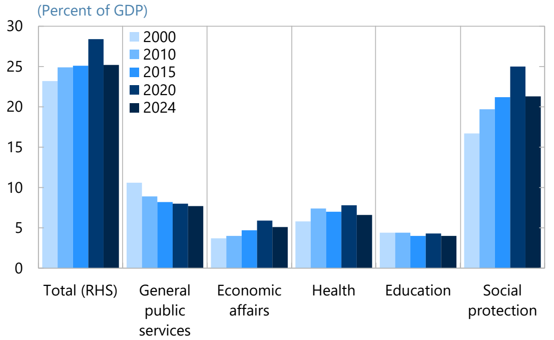
[10] For an analysis of regional differences, see for example Jirasavetakul and Zhang, 2022. "Productivity in Italy: Scope for Improvement," and Italy: Selected Issues, Chapter 1, IMF Country Report No. 22/256.

- *Strengthening the fiscal framework.* The budgetary framework could be strengthened through more effective use of the net expenditure path (NEP) as the operational limit of fiscal policy, and anchoring the budget process in a top-down approach. Priorities include translating the NEP into binding annual expenditure ceilings, aligning local government spending with the aggregate constraint, improving expenditure baselines, and strengthening the framework for discretionary revenue measures.[11]

- *Improving targeting of support related to the energy price shock and ensuring that any new measures are budget neutral.* The current cut to excise duties—while temporary and aimed at budget neutrality—benefits people across the income spectrum and distorts the price signal that would otherwise prompt adjustment in demand. Such measures should therefore be replaced with targeted cash transfers to vulnerable households. Any additional spending, including for defense and clean energy, should be fully compensated by lower spending, higher revenue, or both.

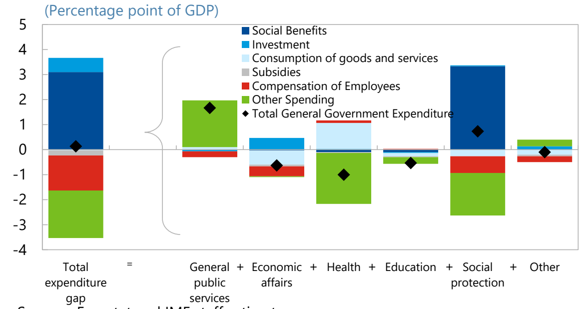
**Spending Gap**

**General Government Expenditure by Function**
(Percent of GDP)




Sources: Eurostat and IMF staff calculations.
Note: Germany and Spain data is 2023.

**Italy's Spending Gap vis-à-vis EU3, 2024**
(Percentage point of GDP)




Sources: Eurostat and IMF staff estimates.
Notes: EU3 includes France, Germany, and Spain. "Other" includes defense, public order and safety, environmental protection, housing and community amenities, and recreation, culture, and religion spending.

**22. On the revenue side, fiscal adjustment should prioritize simplification and revenue efficiency gains.** The ongoing multi-faceted tax reform[12] advances toward a more modern, transparent, and equitable system. Data so far point to a meaningful improvement in revenue collection through targeted and data-driven tax audits. Further expanding digital and coordinated reporting would raise efficiency. More broadly, it will be important that reform efforts continue in order to address long-standing structural weaknesses. In particular, the tax system remains complex amid numerous special regimes and tax expenditures. A simpler, more predictable tax system would reduce compliance costs, improve equity, boost competitiveness, and support fiscal consolidation. Reforms should focus on broadening the tax base, including rationalizing tax expenditures and implementing cadastral reform.

- *Rationalizing tax expenditures.* Revenue foregone due to tax expenditures are estimated at 5.7 percent of GDP (about €134 billion) in 2026, driven by 573 measures, notably personal income

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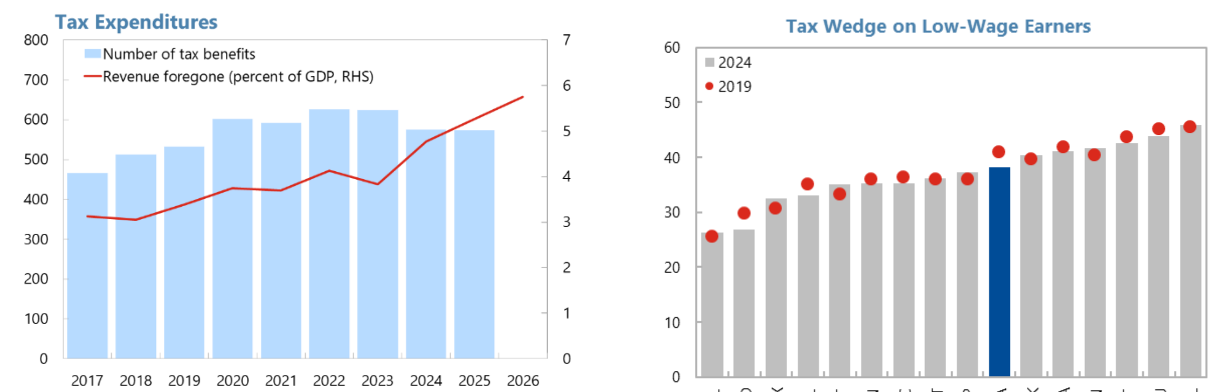
[11] Renteria, C., Tang, V., Tim, T., and Wendling, C., 2026. "Italy: Budgetary Frameworks and the Net Expenditure Path," High-Level Summary Technical Assistance Report No. 2026/029.

[12] Law No. 111/2023.

tax deductions and credits, housing incentives, and reduced VAT rates. Reduced VAT rates tend to benefit higher-income households, and generous housing and self-employment incentives can distort economic behavior. Eliminating the preferential flat-tax rate on self-employment income would improve equity and limit revenue losses. A comprehensive review, supported by systematic evaluation and the introduction of sunset clauses could replace less effective tax incentives with better-targeted spending. Over time, this could broaden the tax base, enabling lower statutory rates while remaining revenue neutral.

- *Implementing cadastral reform.* Outdated cadastral values reduce equity and revenue efficiency in property taxation and constrain local finances. Updating them to market-based assessments would broaden the tax base and improve equity. Reform could be phased in gradually, initially in a revenue neutral manner through offsetting rate adjustments, to avoid abrupt tax hikes, allowing lower rates over time. Relief should be targeted to vulnerable households, rather than through broad exemptions.

**Tax Expenditures and Tax Wedge**



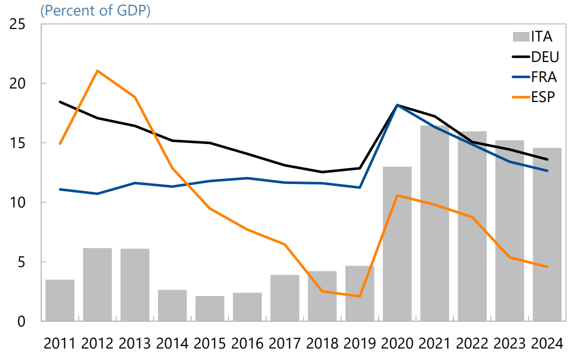

Sources: Annual Report on Fiscal Expenditures 2024; MEF; and IMF staff calculations.

**23. Additional effort is required to further reduce contingent liabilities.** While emergency guarantees are gradually amortizing, expansion of non-emergency targeted schemes (such as Fondo Centrale di Garanzia for SMEs and SACE guarantees for larger firms) have kept the overall public guarantee stock elevated. This creates significant contingent liabilities. Staff recommends a gradual but decisive recalibration of public guarantees to pre-pandemic levels, accompanied by stronger risk-based pricing, enhanced stress testing and provisioning, clearer governance arrangements, and full integration of contingent liabilities into medium-term fiscal planning. This approach would limit moral hazards, reduce sovereign exposure, and strengthen fiscal sustainability, while preserving targeted instruments to help address market failures. At the same time, industrial policies should be focused on addressing market failures, with a coordinated approach among EU member states mutually beneficial, and with gains enhanced by greater European integration.[13]

[13] See Hodge, A., Piazza, R., Hasanov, F., Li, X., Vaziri, M., Weller, A., and Wong, Y. C., 2024. "Industrial Policy in Europe: A Single Market Perspective," IMF Working Paper (WP/24/249), and Brandão-Marques, L., and Toprak, H., 2024. "A Bitter Aftertaste: How State Aid Affects Recipient Firms and Their Competitors in Europe," IMF Working Paper, (WP/24/250).

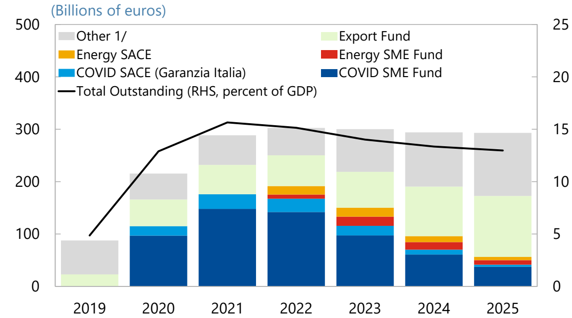
## Stock of Public Guarantees

**Stock of Government Guarantees**
(Percent of GDP)




Sources: Eurostat; and IMF staff calculations.

**Outstanding Stock of Public Guarantees**
(Billions of euros)

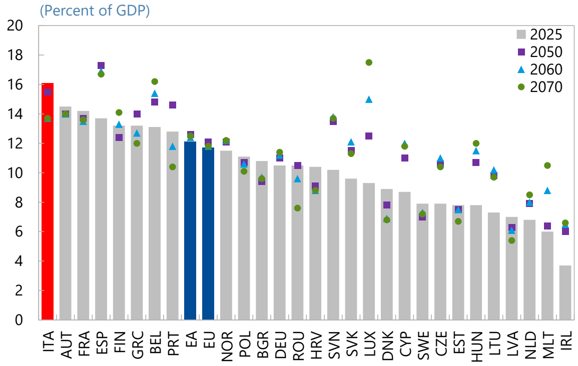



Source: MEF
1/ Other in 2025 includes the SME, First-Home Mortgage, GACS (NPL securitization), Green (green transition), and Archimede (structural investment) guarantee schemes.

**24. Actions to support pension contributions will help counter the impact of aging on public finances.** Italy's earlier pension reform that is gradually shifting the pension system from a defined-benefit scheme to a notional defined-contribution framework, combined with a gradual increase in the retirement age, and tighter early retirement rules are helpful in supporting pension sustainability. Auto-enrollment (with opt-out) in second pillar occupational/collective supplementary pensions to encourage additional savings introduced in the 2026 Budget Law will also be helpful. However, the fiscal gains only materialize gradually (workers entering after 1996 are the first to receive fully contributory pensions). In addition, while the pension replacement rate currently exceeds the euro area average—reflecting in part high contribution rates (around $^1/_3$ of wages)—and pension spending is projected to increase from 15.2 percent of GDP in 2025 to a peak of about 17 percent of GDP around 2040 before a gradual decline, replacement rates are likely to decline for future generations. Consequently, mitigating fiscal pressures will require reforms to broaden and stabilize the contribution base. Improving labor market participation among women and youth will be essential in this regard. Structural reforms that boost productivity growth and thereby support higher wages would help expand the contribution base and ease fiscal pressures. Additional priorities include stronger institutional safeguards to limit policy reversals.

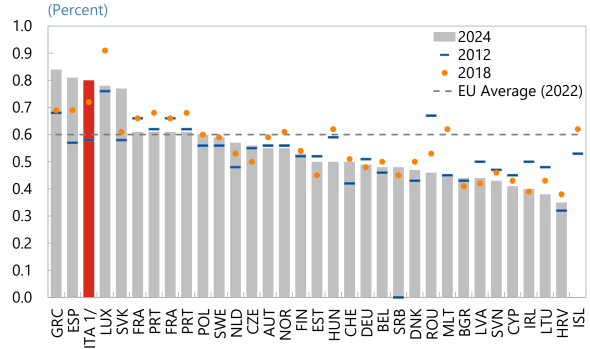
## Public Pension

**Gross Public Pension Expenditure**
(Percent of GDP)




Sources: European Commission and Economic Policy Committee.

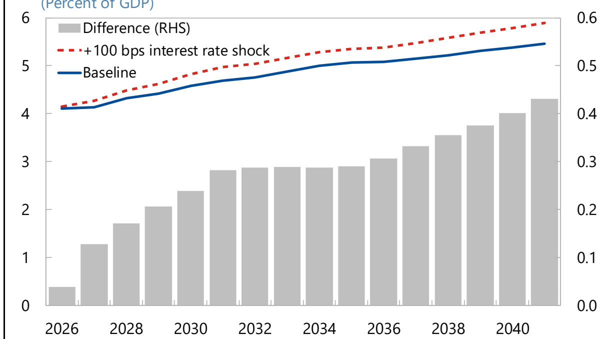
**Aggregate Replacement Ratio for Pensions**
(Percent)




Sources: EU-SILC Survey and Eurostat.
1/ 2025 data.

**25. In the event growth disappoints relative to the baseline projection, fiscal policy should be carefully calibrated to the severity of the shock.** Given high debt, the scope for economic stabilization in response to shocks is limited. Hence, while social safety nets should play a central role in cushioning shocks, fiscal consolidation and growth-enhancing reforms would need to continue to ensure market confidence. Under a mild growth shortfall, the recommended additional consolidation efforts could be smoothed over three years instead of two, to the extent it does not compromise the overarching debt reduction goal. Should a severe adverse scenario materialize, it will be important to continue the planned reduction of the headline fiscal deficit to maintain market confidence. The alternative of allowing a sizable deficit deterioration could prompt an increase in risk premiums and borrowing costs, creating an adverse feedback loop that in turn increases consolidation needs. For shocks impacting Europe more broadly, EU-level coordination would help limit adverse spillovers of the shock.

**General Government Interest Expenditure: Baseline and Illustrative Impact of an Interest Rate Shock**
(Percent of GDP)




Source: IMF staff calculations.

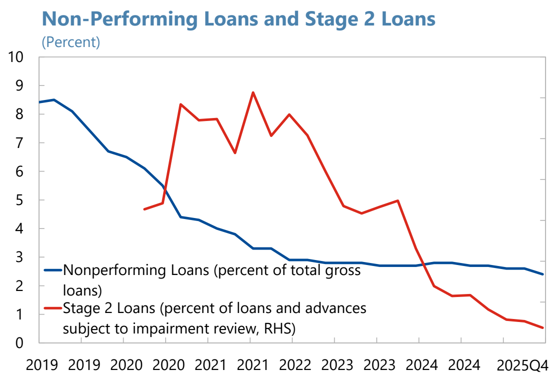
### *Authorities' Views*

**26. The authorities underscored the government's commitment to fiscal discipline.** They emphasized the plan to reduce the headline fiscal deficit to 2.9 percent of GDP in 2026 and continuing consolidation in 2027, while anchoring fiscal policy in the Medium-Term Fiscal-Structural Plan. They viewed that this approach, which is in line with the EU fiscal framework, would serve to reduce public debt without undermining growth, adding that the NRRP-related investment spending is supporting domestic demand and, going forward, it will have positive effects on aggregate supply as well. They noted that tax reforms are continuing to yield positive results, with improved compliance adding to revenues. In 2025, Italy recovered a record-high €36.2 billion from combating tax evasion, compliance, and collection activities. In addition, sustained policy efforts to address the impact of the demographic transition have contributed to preserving the overall sustainability of the pension system. Regarding energy-related support, the authorities reiterated that measures have been designed as temporary and budget neutral, and that the price-distorting excise duty cuts have been gradually scaled back. They stressed the need to maintain targeted support measures while energy prices remain elevated, particularly for highly exposed sectors, and argued that flexibility in the EU fiscal framework is essential. They agreed that Italy's overall sovereign stress risk is assessed as moderate, though they disagree with staff's assessment that risk is high in the medium term. While they agreed with the benefits of continuing to scale back public guarantees, they emphasized prudent provisioning for contingent liabilities, and the already ongoing post-pandemic normalization process. They added that the debt-to-GDP ratio is expected to decline more rapidly as the impact of housing-related tax credits dissipates and the primary surplus increases going forward.

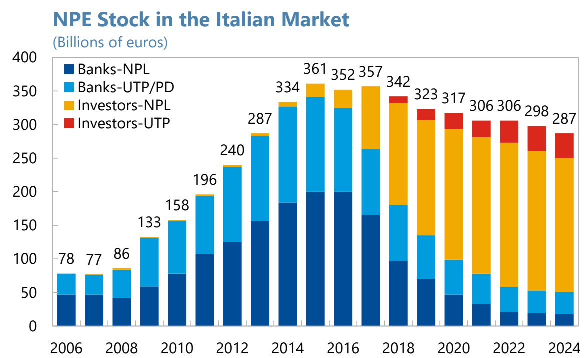
## B. Safeguarding Financial Sector Stability

**27. The banking system remains broadly sound, supported by record profits and solid capital and liquidity buffers.** Despite a moderation in net interest income from lower interest rates, banking sector profitability improved further in 2025, driven by strong non-interest income and cost-efficiency gains. As of December 2025, the regulatory Tier 1 capital position remained high at 17 percent of risk-weighted assets. Liquidity conditions were robust, with healthy liquidity coverage and net stable funding ratios. At the same time, non-performing loans (NPLs) stayed low at around 2.4 percent, and the NPL coverage ratio was high (at around 46 percent)—although new NPL inflows remain slightly higher in the construction sector. While Italian banks are relatively more exposed to U.S. tariffs than some other euro area banks—reflecting the stronger export orientation of Italian firms and higher exposure to the manufacturing industry—the credit impact has so far been limited given Italian firms' generally strong financial position.

### Non-Performing Loans




Sources: Bank of Italy; European Central Bank; Haver Analytics; and IMF staff calculations.




Source: PWC/AMCO.
Note: NPE = Non-performing exposures, NPL = Non-performing loans, UTP = Unlikely to Pay, PD = Probability of Default.

**28. Amid elevated global uncertainty, stress tests indicate that the banking system is well-equipped to withstand external shocks.** The 2026 Financial Sector Assessment Program (FSAP) stress tests[14] indicate that system-wide risks are contained, with the Italian banking system able to withstand adverse shocks from geopolitical tensions and a global recession, supported by strong capital and liquidity buffers alongside low private sector leverage.[15] However, as described in the 2026 Financial System Stability Assessment (FSSA) report, vulnerabilities are present in some segments: (i) While aggregate household indebtedness is moderate, lower-income households, renters, and borrowers exposed to variable-rate mortgages are more vulnerable. (ii) While corporate leverage is moderate, vulnerabilities are heterogeneous and higher among small and medium-sized

[14] The FSAP geopolitical adverse scenario features more severe shocks to GDP, employment, and credit spreads than in the severe scenario in the April 2026 World Economic Outlook.

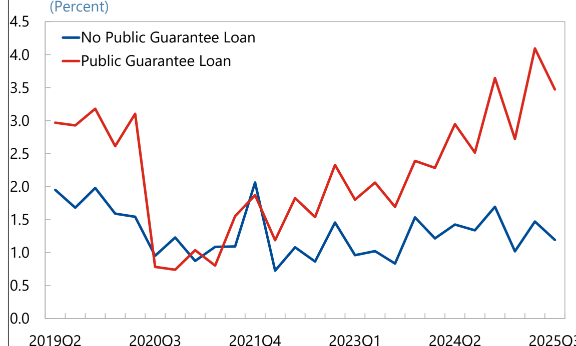
[15] The stress tests are conducted over the years 2026-2028. The geopolitical scenario features an escalation of geopolitical tensions that heightens commodity price volatility and disrupts global supply chains, generating severe trade, price, and tariff shocks. The recessionary scenario is a coordinated global downturn triggered by a combination of shocks, including euro area sovereign stress, widening credit spreads, higher term premiums, and eroding confidence that suppressed demand. See Italy 2026 Financial System Stability Assessment (FSSA) report and its accompanying Technical Note on Systemic Risk Analysis.

enterprises, in Southern Italy, and in specific industries (especially construction, transport, and low-skill services), and with stress tests pointing to a larger vulnerability to a geopolitical shock than a recessionary one, given associated higher short-term interest rates. And (iii), while bank capital is sufficient to cover losses under adverse scenarios, vulnerabilities are uneven, with a subset of Less Significant Institutions (LSIs)—such as those with specialized business models, higher NPL ratios, or dependence on less stable funding sources—exhibiting weaker resilience under adverse scenarios.

29. **Furthermore, the banking system is broadly resilient to climate risks arising from severe flooding, with limited effects on aggregate bank capital.** Larger capital impacts are concentrated among less significant banks. Results from stress tests show that losses are initially driven by sovereign valuation losses and, over time, through credit risk channels. While stronger post-disaster fiscal support can cushion near-term impacts on banks, it would raise public debt and sovereign yields, with potential adverse feedback loops, reinforcing the need for adaptation, resilience investment, and insurance.

30. **However, some vulnerabilities remain, including from the sovereign-bank nexus.** While exposures have declined, Italian bank holdings of domestic government securities remain high at 8.6 percent of total assets as of September 2025 (from 10 percent in 2020)—above the euro area average of 3.2 percent. Direct lending to the public sector is also substantial, representing around 6 percent of total assets. Linkages are further reinforced through contingent liabilities, with the stock of publicly guaranteed loans accounting for around 23 percent of performing corporate loans, and with rising default rates on publicly guaranteed loans relative to non-guaranteed ones. In addition, sizable stocks of unresolved NPLs persist outside the banking system, thereby continuing to weigh on capital reallocation. Moreover, some LSIs with specialized business models—such as NPL-specialized LSIs, those heavily reliant on public guarantees, and online deposit platforms—face longer-term sustainability challenges. At the same time, the financial sector remains exposed to cyber risks, including amid rapidly evolving AI-related technologies.

**Public Guarantee Loan Default Rate**
(Percent)



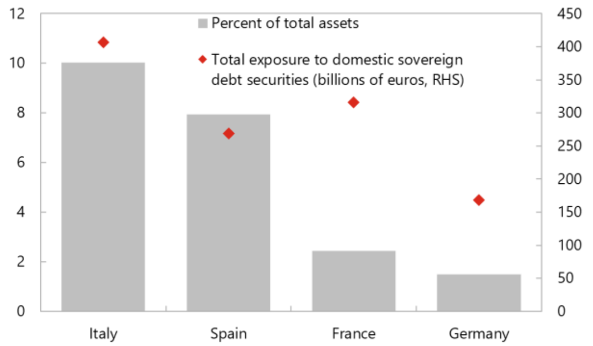

Source: Bank of Italy.

31. **In the context of heightened global uncertainty and strong bank profitability, a forward-looking and proactive approach is recommended to safeguard resilience.** Meaningful progress since the 2020 FSAP has helped strengthen financial sector soundness. Going forward, solidifying the already high-quality institutional framework would help reinforce supervisory effectiveness. As discussed in the 2026 FSSA, priorities for the macroprudential institutional framework include formalizing institutional practices, enhancing communication, and broadening external engagement. Adjusting macroprudential policy tools would further enhance their effectiveness. While maintaining a positive Systemic Risk Buffer (SyRB) under current macroeconomic projections remains appropriate, the SyRB should be extended beyond domestic credit and counterparty exposures to cover all residual systemic risks, with timely reassessment to

preserve flexibility in a highly uncertain environment. Proactively deploying policy tools (e.g., the Pillar 2 capital add-ons to address bank-specific risks and the SyRB to tackle system-wide risks from sovereign concentration exposures) is also essential.[16] A more pre-emptive approach to borrower-based measures (BBMs)—including revisiting legal constraints that delay activation[17] and more systematically integrating stress testing and granular data into policy calibration—would further enhance resilience.

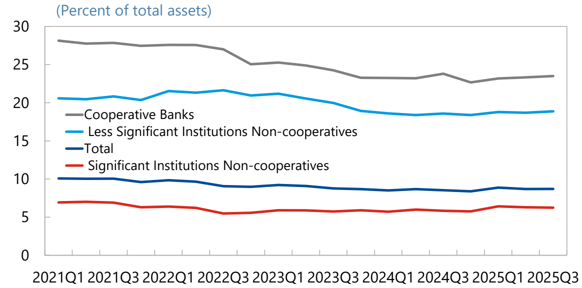
**Sovereign-Bank Linkages**

**Bank Holdings of Government Debt Securities, April 2026**
(Percent)




Sources: European Central Bank and IMF staff calculations.

**Exposure of the Banking System: Government Debt Securities Issued**
(Percent of total assets)




Source: Bank of Italy
Note: All public sector securities, including those issued by local authorities. Total is calculated as public sector securities/total assets

**32. Further efforts to strengthen financial sector oversight would help safeguard financial stability** (Annex V).

- *Continuing to focus banking supervision on governance, credit, and operational risks.* Early escalation and timely use of corrective and sanctioning actions remain essential, particularly to address business model vulnerabilities. Given the need to reduce public sector risks and distortions in the prudential framework arising from the extensive use of government guarantees—including through zero risk weighting—a time-bound strategy to reduce public sector guarantees is important and should be clearly communicated, while closely monitoring the impact on the most exposed LSIs.

- *Strengthening insurance supervision and resolution.* Fully integrating the Institute for the Supervision of Insurance (IVASS) into Banca d'Italia would help address structural resource constraints and ensure supervisory effectiveness. Introducing a floor on capital relief from internal models, extending International Financial Reporting Standards (IFRS) to all insurers, and establishing an effective resolution framework are also critical to strengthening the insurance regulatory framework.

[16] Pillar 2 in Italy does not directly address concentration risk for sovereign exposures. However, it captures sovereign-related risks. See the Italy 2026 Financial System Stability Assessment (FSSA) and its accompanying Technical Note on Banking Regulation and Supervision of Less Significant Institutions.

[17] The current Italian secondary regulation (Circular 285 of Banca d'Italia) requires that BBMs be activated only when vulnerabilities are high. Italy has not activated BBMs as the authorities consider that real estate risks are low.

- *Enhancing effectiveness for all financial authorities.* Full protection for supervisory and resolution authorities, particularly regarding legal defense costs, and greater use of targeted and thematic on-site inspections would support timely and decisive supervisory action. Rapid digitalization and reliance on third-party providers call for continuing to enhance cyber governance and oversight.

**33. In addition, fully aligning the financial safety net framework with international best practice would bolster its effectiveness.** While the current framework is robust and has been repeatedly tested, further reforms would be beneficial. In particular, the recurrent reliance on deposit guarantee schemes (DGS) to fund preventive recapitalization of non-systemic banks should be discontinued, given its adverse impact on market discipline and the availability of a more appropriate alternative through administrative liquidation, and active bankers should be removed from DGS governance. Other priorities include formalizing inter-agency crisis coordination and increasing transparency around Banca d'Italia's role as lender of last resort in resolution. Although most legacy NPLs have been transferred off bank balance sheets, more efficient insolvency and enforcement frameworks are critical to improve recovery rates and facilitate debt restructuring and capital reallocation. Moreover, such actions would complement broader growth-enhancing reforms.

**34. The authorities' progress in strengthening Italy's Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) framework should continue.** Italy remains exposed to money laundering/terrorist financing (ML/TF) risks, in part driven by the size and interconnectedness of its financial sector. In addition, cross-border flows warrant continued monitoring to assess broader financial integrity implications (Annex VI). Efforts across several dimensions are therefore welcome and should continue:

- *Improving preventive measures.* The authorities have continued to increase the effectiveness of risk-based supervision, grounded in a well-developed supervisory ML/TF risk assessment for the financial sector and the establishment of a dedicated Ministry of Finance directorate overseeing non-financial obliged entities. While a licensing and supervisory framework for virtual asset service providers has been established, continued efforts are required to further develop risk understanding and improve AML/CFT-preventive measures in this sector (including where virtual asset-related activities are facilitated through banks).
- *Strengthening supervisory effectiveness.* National authorities have strengthened coordination domestically and at the regional level (in support of the EU Anti-Money Laundering Authority) to enhance supervision of cross-border financial institutions. Continued efforts are warranted to further improve supervisory effectiveness, ensure more timely and dissuasive enforcement, maintain adequate resourcing, deepen the analysis of the impact of financial integrity on financial stability, and address key priorities identified in the 2026 Financial Action Task Force (FATF) Mutual Evaluation Report.

***Authorities' Views***

35. **The authorities broadly agreed with the FSAP assessment and recommendations and appreciated the recognition of the significant progress since the last FSAP.** They particularly concurred with the stress test results indicating that the banking system is resilient to severe macrofinancial shocks. While acknowledging that vulnerabilities are concentrated in a few LSIs, they emphasized the limitations of top-down stress tests in fully capturing the specificities of LSI business models and noted that their proactive supervisory approach has led to significant restructuring of the LSI sector. They highlighted that the gradual shift in the sovereign investor base from banks toward households and foreign investors is strengthening resilience. However, they concurred with staff that improvements in insolvency and enforcement processes remain essential for NPL recovery and efficient capital reallocation and agreed with key priorities for forward-looking supervision of LSIs and cybersecurity, noting alignment with ongoing supervisory work. The authorities emphasized that sovereign risks are already covered under the existing prudential framework, and in this context, they did not support extending the SyRB beyond the current scope. They also highlighted ongoing analytical work on borrower-based measures and their readiness to act should risks materialize. Separately, the authorities argued that, under EU and national law, DGS-funded preventive interventions are standard tools applied proportionately on a case-by-case basis and, hence, disagreed with the FSAP recommendation to restrict their use. The authorities welcomed the recommendations on enhancing legal protection of financial authorities. They reaffirmed their commitment to continue strengthening Italy's AML/CFT framework, building on the results attested by the latest FATF Mutual Evaluation Report.

## C. Boosting Productivity and Medium-Term Growth Prospects

36. **Breaking Italy's long-standing low-productivity, low-growth trajectory is a key policy priority that would help raise incomes and support the needed fiscal consolidation.** A distinctive feature of Italy's productivity malaise is the predominance of small, mature firms. Structural obstacles often hinder the expansion of small, productive firms, including regulatory barriers, gaps in human capital (e.g., shortages in skills and managerial capacity), and constraints in access to capital (especially risk capital). In addition, changes to incentive schemes weigh on investment planning. Moreover, the persistent wage gap relative to peer countries contributes to outward migration of skilled workers and weakens incentives for human capital development. These dynamics reinforce a self-perpetuating cycle of low productivity, low growth, and small firm size.

37. **Boosting productivity hinges on multiple, complementary actions.** Priorities include streamlining regulation, reinforcing policy predictability, and removing remaining barriers to competition. In addition, simplifying administrative and tax procedures, including by scaling back size-contingent incentives, would lower barriers to entry and support firm growth. Building on ongoing actions, continued efforts to strengthen civil justice, enforcement, and insolvency frameworks would speed up resolution and facilitate capital reallocation. Alongside, higher labor force participation, especially among women and younger people, can be obtained by improving work-life balance through stronger parental leave systems, expanded access to childcare, and more

flexible work arrangements. Reducing high tax wedges and benefit-related disincentives to labor market entry (notably for low-income and second earners) and easing school-to-work transitions and skill mismatches would further support employment. In turn, successful reforms that boost productivity would help support sustainably higher real wages.

**38. Strengthening education, vocational training, and lifelong learning can help harness the benefits from the ongoing wave of technological innovation to boost productivity.** Technologies such as cloud computing and generative AI are widely accessible and can help small firms improve management, automate processes, and upgrade operations. By accelerating the diffusion of innovation, new technology can help boost productivity and profitability while shifting employment toward higher-skilled jobs. However, Italy ranks near the bottom among advanced economies in both skill preparedness and demand for emerging occupations, reflecting its traditional sectoral structure and a relatively low share of STEM graduates, particularly in ICT.[18] More broadly, according to the EU Digital Skills and Jobs Platform, only 45.8 percent of the population has at least basic digital skills (e.g., compared to about 60 percent in France). In this regard, the allocation of 23 percent of NRRP resources toward digital transformation will be helpful, though progress will take time and significant gaps remain.

- *Preparing for adoption of technology.* Raising digital literacy and expanding targeted training are key to prevent technological gains from accruing only to a narrow set of frontier firms, further widening productivity gaps. Strengthening STEM and ICT education, expanding apprenticeships to improve school-to-work transitions, and reforming curricula to develop AI-complementary creative and technical skills will be essential. In turn, higher productivity growth that supports the skill wage premium would help retain and attract talent.
- *Investing strategically in human capital.* Amid fiscal constraints, focus should be on "doing more with less" by prioritizing high-impact interventions—early childhood education, stronger pathways to tertiary education, and vocational and technical training aligned with labor market needs—while extending and deepening education reforms under the NRRP beyond 2026. Strengthening lifelong learning by combining the repurposing of existing funds and leveraging private sector/employer co-financing with system-wide coordination for reskilling and upskilling would help raise the effective labor supply and support longer, more productive working lives.[19]

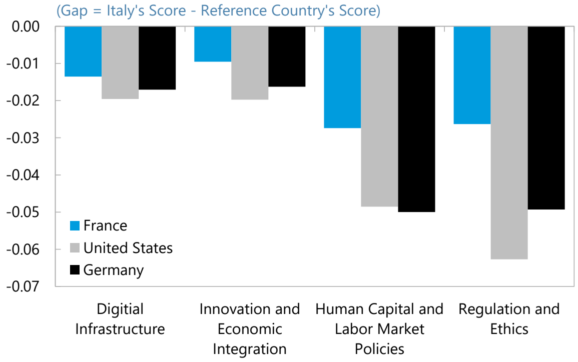
[18] For further cross-country details and comparisons, see Jaumotte and others, 2026. "Bridging Skill Gaps for the Future: New Jobs Creation in the AI Age", IMF Staff Discussion Note (2026/001).

[19] See accompanying Selected Issues Paper, 2026. "Closing Education and Skill Gaps in Italy under Fiscal Constraints through Efficiency Reforms."

## Supply and Demand of Skills

### Relative AI Preparedness Index Gap

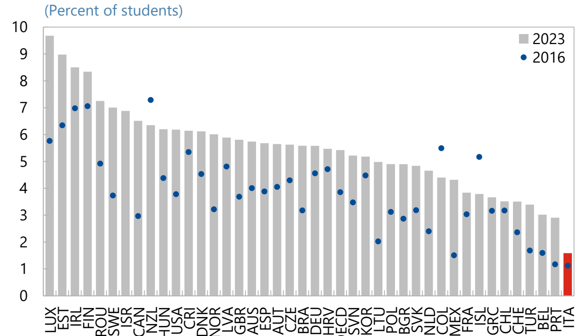
(Gap = Italy's Score - Reference Country's Score)




Source: IMF AI Preparedness Index (AIPI).

### Tertiary Graduates in Information and Communication Technologies

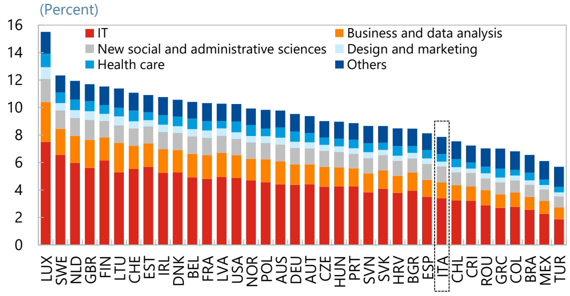
(Percent of students)




Source: OECD.

### Share of Employment Requiring New Skills

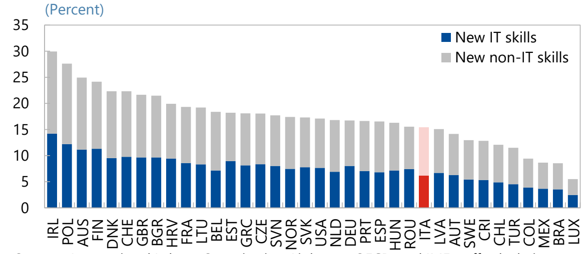
(Percent)




Sources: International Labour Organization; Lightcast; OECD; and IMF staff calculations.
Note: This reports the share of employment requiring new skills, assuming the US occupational distribution of new skill requirements. For simplicity, job postings containing multiple new skills are classified according to the most common skill. For example, a posting listing both IT and business and data analysis is classified under IT new skills.

### Share of Graduates with New Skills

(Percent)




Sources: International Labour Organization; Lightcast; OECD; and IMF staff calculations.
Note: This shows the share of graduates with new skills among the population aged 20–24 from 2013 to 2021. For 2022 and 2023 the same graduation rates as those for 2021 are assumed, then the US distribution of graduates with new skills by field of study is applied. Since the numerator is an annual flow of graduates while the denominator is the size of the five-year cohort (ages 20–24), the ratio is multiplied by 5 to place on a comparable annual basis.

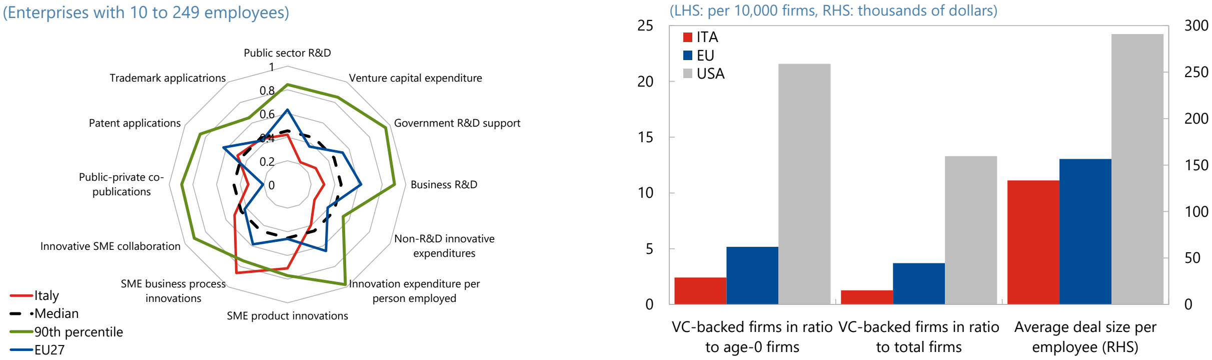
39. **Unlocking risk capital will help further boost innovation and enable Italy's small firms to grow and fully leverage the benefits from technological advances.** Although Italy's performance in process and product innovation improved markedly in 2025, innovation expenditure per employee (e.g., training, machinery and software acquisition, digitalization, among others) remains below the EU median, constraining the scale and diffusion of innovation. In this respect, strengthening financial literacy and expanding the availability of alternative financing, particularly venture capital (VC), could have an outsized impact on firm growth and innovation outcomes. Staff analysis shows a broad-based increase in VC funding across the economy equivalent to only 0.06 percent of GDP is associated with a 17 percent increase in the probability of patenting, a proxy for innovation effort, and a consequent one percent rise in sectoral TFP.[20]

[20] See accompanying Selected Issues Paper, 2026. "Leverage Technological Change to Boost Productivity."

**Innovation and Venture Capital**

**R&D and Other Innovations, 2025**
(Enterprises with 10 to 249 employees)

**Venture Capital in Italy vs EU vs USA**
(LHS: per 10,000 firms, RHS: thousands of dollars)




Source: European Commission - European Innovation Scoreboard.

Source: BDS, Dynemp, PitchBook, Huang and others (forthcoming).

**40. Improving capital allocation and expanding investable projects can deepen venture capital markets and boost innovation and growth.** Italy's venture capital (VC) investment remains very low, at around one-fifth of the level in France or Germany.[21] Adding to a lack of VC market integration across the EU, structural impediments in Italy limit the availability of investable projects and discourage VC investment in Italy.[22] Further progress requires easing administrative burdens and addressing skill shortages. As structural reforms boost growth and improve the business ecosystem, they ultimately will also lift the supply of risk capital. In addition, there is scope for Italy to strengthen the international visibility and geographic reach of innovation hubs, as VC is most effective where dense innovation ecosystems link research, entrepreneurship, and finance.

**41. Complementing national reforms with the completion of the European single market would have sizable growth benefits.** Staff analysis suggests that domestic structural reforms that fully close the gap in resource misallocation with the global frontier and lower intra-EU cross-border barriers to trade and labor mobility to the US levels could deliver about 20 percent productivity gains in the EU.[23] In addition, deeper financial integration in the EU could raise long-run EU GDP and amplify the gains from domestic structural reforms that improve business dynamism and innovation.[24] Progress on the broader EU reform agenda, including the Commission's Union of Skills initiative, could yield important supply-side gains by alleviating skill constraints and supporting wider adoption of productivity-enhancing technologies. Greater legal and regulatory integration, including through a voluntary EU-wide corporate and insolvency framework (i.e., the 28th regime)[25] would lower fixed costs for investors and firms and support deeper, more integrated VC and equity markets.[26] Pan-European instruments, including funds and co-investment platforms involving the

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[21] OECD; Banca d'Italia.

[22] See accompanying Selected Issues Paper, 2026. "Leverage Technological Change to Boost Productivity." Raffaele Gallo and others 2025 provide a comprehensive overview of the Italian venture capital market.

[23] See IMF Regional Economic Outlook, October 2025. Note 2: Making European Reforms a Success on the Ground.

[24] Luis Brandao-Marques and others, 2026. "Deeper Financial Integration to Foster Growth and Resilience in Europe."

[25] Allan Dizioli, Alexandra Fotiou, and Jose Garrido, forthcoming. "Toward a 28th European Enterprise Regime: A Single Rulebook to Enable Cross-Border Scale-Up in Europe."

[26] Luis Brandao-Marques and others, 2026. "Deeper Financial Integration to Foster Growth and Resilience in Europe."

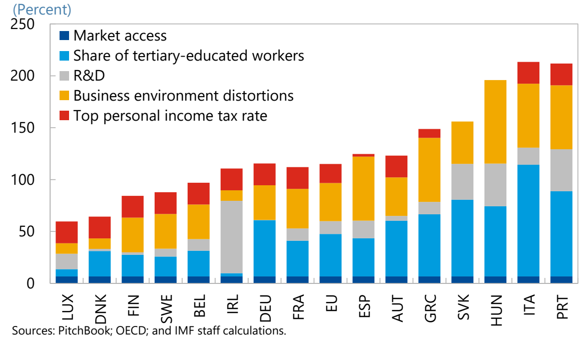
EIB/EIF [27] can play a catalytic role by reducing fragmentation, helping VC funds reach efficient scale, and diversifying risks across member states.

**Venture Capital: Regional Gaps and Reform Potential**

**VC Financing by Region**
(US Dollars, real)

Sources: Crunchbase; ISTAT; and IMF staff calculations.
Note: The size of the bubble represents the amount of venture capital funding received betsween 2010 and 2025. For reference, the Milan bubble (largest) is 7.49 billion

**Partial Equilibrium Effect of Reforms that Boost VC Demand**
(Percent)




Sources: PitchBook; OECD; and IMF staff calculations.
Note: The partial equilibrium effect is computed based on a panel gravity model that extracts the supply, demand, and cross-border components of VC investment flows. See Brandao-Marques and others (2026) for technical details.

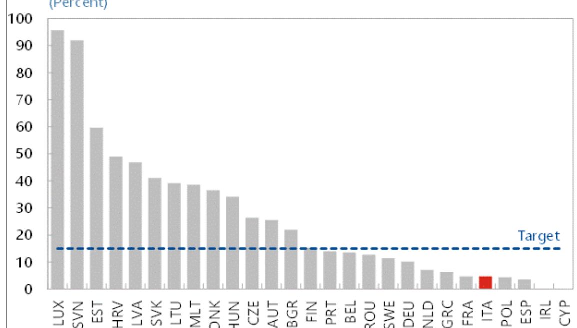
42. **Lessons from the NRRP experience should be leveraged in new reform efforts.** The NRRP aimed to address key gaps in the business ecosystem, including human capital, investment and digitalization, and institutional reforms. IMF staff estimates that the Recovery and Resilience Facility (RRF)[28] has helped lift EU annual GDP growth by 0.3 percentage point in 2025. With continued investment and reform efforts needed after the NRRP to support medium-term growth and resilience, it will be important to assess which instruments delivered measurable gains (such as higher investment uptake, faster project execution, stronger productivity growth) and embed these lessons in future plans. More broadly, performance-based frameworks could place greater emphasis on evaluating policy effectiveness beyond completion. These lessons, including the continued use of performance-oriented conditionality, should inform the reform agenda and the next Multiannual Financial Framework (MFF). Similarly, strengthening coordination across levels of government could enhance project-level execution capacity and ensure timely delivery. In this context, public investment data and monitoring systems should be preserved and consideration given to enhancing information sharing across ministries.

[27] Nathaniel Arnold and others, 2025. "Lifting Binding Constraints on Growth in Europe: Actionable Priorities to Deepen the Single Market".

[28] The Recovery and Resilience Facility is the financing instrument behind the NRRP.

**43. Along with reforms to boost productivity and growth, the recent surge in energy prices underscores the urgency to enhance energy security.** Despite progress in diversifying the gas supply, energy price volatility remains a key transmission channel for external shocks, with outsized effects on output and competitiveness. As highlighted in the 2025 Article IV staff report, a comprehensive policy package combining faster permitting for renewables, expanded energy storage, and deeper electricity market integration would be particularly effective.[29] At the national level, advancing electrification and decoupling wholesale electricity prices from gas, by fostering renewables, storage, and demand flexibility, can help contain currently elevated industrial energy prices. Staff analysis suggests that investment in EU electricity grid interconnections over the past five years has reduced electricity prices by about 5 percent on average, with consequent significant competitiveness gains, especially in energy intensive industries, everything else equal. Moreover, scenario analysis shows that combining stronger interconnection with greater reliance on low-carbon generation could materially reduce electricity prices.[30] An integrated EU energy market, supported by expanded cross-border interconnections, coordinated grid investment, and harmonized market design, can reduce price volatility, lower costs, and enhance supply security. EU-level initiatives such as the proposed Grids Package and scaled-up investment under the next MFF are therefore critical to provide efficient insurance against future shocks while avoiding costly, distortive national responses.

EU Electricity Interconnection, 2025
(Percent)




Sources: D'Arcangelo et al. (forthcoming) "Energy Prices, Market Fragmentation, and the Macroeconomics of Energy Market Integration in Europe."

***Authorities' Views***

**44. The authorities agreed that boosting growth is a priority alongside fiscal consolidation and emphasized the benefits of the NRRP.** While highlighting that employment has reached record levels, the authorities concurred that enhancing education outcomes and the availability of risk capital are important pillars for reducing skill mismatches, supporting firm growth, and lifting productivity growth. In this context, they underscored progress in education and skills reforms, notably the expansion of vocational pathways (including ITS) and improved education-to-work transition, the upskilling of teachers, the enhancement of student outcomes, and digital competencies. While acknowledging remaining skill mismatches and low labor force participation, they emphasized the introduction of tools that are expected to help address these issues, including digital platforms such as AppLI. They added that venture capital remains constrained by structural factors and highlighted ongoing efforts to strengthen financial literacy and promote supplementary

[29] See also the 2025 Selected Issues Paper, "Adapting Agricultural and Financial Sectors to the Changing Climate", for detailed analysis.

[30] D'Arcangelo and others, forthcoming. "Energy Prices, Market Fragmentation, and the Macroeconomics of Electricity Market Integration in Europe."

pensions to support a reallocation of household savings toward longer-term investment. More broadly, they emphasized that NRRP investments and reforms are important catalysts for growth and reaffirmed the Government's commitment to sustaining reform and evaluation efforts, while preserving momentum and investment in line with their MTFSP commitments. They highlighted improvements in public administration efficiency through digitalization and stronger monitoring. Moreover, they underscored that progress in the judicial system, including in reducing case backlogs and disposition time, will be sustained through NRRP process innovations to make these improvements permanent. Looking ahead, the authorities agreed on the importance of leveraging lessons from the NRRP for the ongoing reform and investment agenda, especially in terms of the benefits from coordination across ministries and levels of government. On energy security, they pointed to significant increases in renewable capacity and highlighted the introduction of mandatory insurance against natural catastrophes for businesses to enhance economic resilience against shocks. They viewed further European integration as beneficial for growth prospects.

# STAFF APPRAISAL

**45. The Italian economy is expected to continue to grow at a modest pace, weighed down by external headwinds and structural challenges.** Economic activity faces an increasingly challenging near-term outlook in the face of global uncertainty and the potential for renewed pressures from energy prices. Reflecting Italy's relatively high dependence on imported fossil fuels, domestic inflation has picked up. Sovereign spreads, which had reached multi-year lows prior to the war amid sustained fiscal consolidation, faced renewed volatility, although the net increase over the period remained moderate. Over the medium term, potential growth is expected to remain subdued, constrained by persistently weak productivity, an aging population, and relatively low labor force participation, particularly among women and youth. Moreover, the outlook is subject to significant adverse risks that could weaken growth and raise inflation beyond what is already assumed in the baseline forecast. The external position in 2025 is assessed as moderately weaker than implied by medium-term fundamentals and desirable policies, reinforcing the need for productivity-enhancing structural reforms and continued fiscal consolidation.

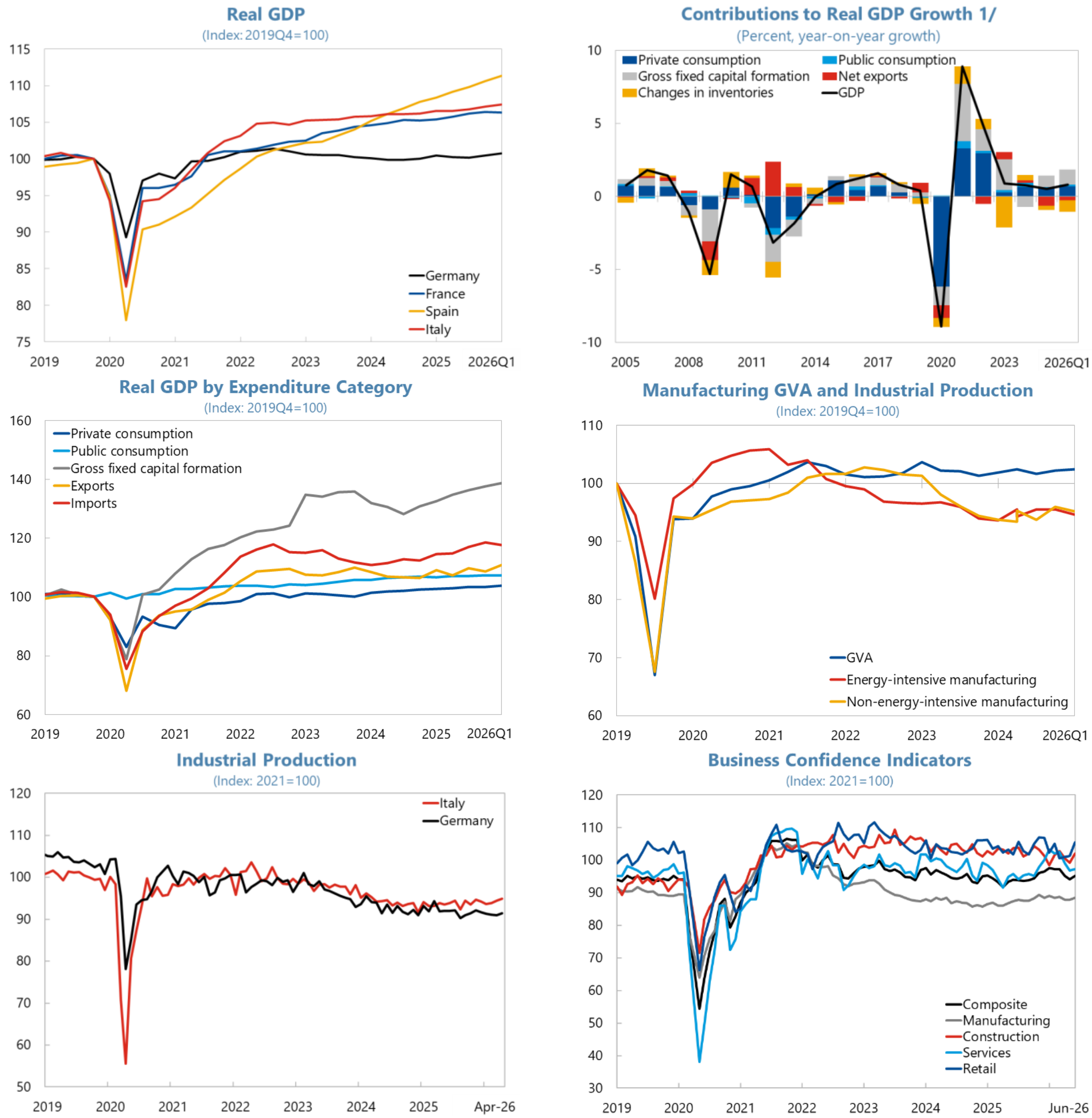
**46. A faster pace of debt reduction would greatly enhance resilience.** Fiscal consolidation has progressed, supported by strong revenues and improved tax compliance, but public debt is projected to remain high over the medium term and vulnerable to growth and interest rate shocks. A faster pace of debt reduction would rebuild buffers and bolster market confidence, supporting a virtuous cycle of lower yields, stronger investment, and higher growth. Enhancing spending efficiency is critical to limit the effect of consolidation on growth, including through digitalization and comprehensive spending review. Alongside, it will be essential to ensure that any new spending is fully offset, and that energy-related support remains temporary, targeted, and budget-neutral, including by replacing broad-based price-distortive measures with targeted transfers to vulnerable households. On the revenue side, continued improvements in tax compliance, expanding the use of digital tools, rationalizing tax expenditures, and broadening the tax base—including by eliminating preferential regimes and updating property values—would support equity and fiscal consolidation. Further enhancing budget transparency and monitoring around the net expenditure path within the medium-term fiscal framework would reinforce fiscal credibility. Recalibrating public guarantees toward the pre-pandemic level would further enhance resilience.

**47. A sustained and proactive policy approach will help preserve financial stability amid heightened global uncertainty.** The 2026 FSAP has found Italy's banking system to be resilient, supported by record profits, strong capital, ample liquidity buffers, and low non-performing loans. Stress tests indicate that the banking system can withstand severe adverse shocks. Nonetheless, vulnerabilities persist in some segments, including among certain LSIs with specialized business models, and sovereign-bank linkages continue to pose potential amplification channels for adverse shocks, even as exposures have declined. In turn, the FSAP recommends a sustained and proactive policy approach as an essential element of preserving resilience in an increasingly challenging environment. This includes further enhancing supervisory agility and broadening the use of macroprudential tools. The introduction of a positive SyRB is welcome and could be further strengthened by extending its scope to better capture residual systemic risks. Continued monitoring of sovereign-banking sector linkages and targeted use of policy tools (Pillar II capital add-ons and SyRB) would help mitigate risks. Further strengthening supervisory and crisis management frameworks—including enhancing legal protection for supervisory staff, fully integrating the insurance supervisor into Banca d'Italia, and reinforcing cyber resilience—would bolster safeguards. Continued efforts to strengthen AML/CFT frameworks and reduce remaining structural vulnerabilities would further support financial stability.

**48. Structural reforms at the national and EU levels are urgently needed to revive productivity and medium-term growth and support fiscal consolidation amid successive shocks.** Easing regulatory barriers and enhancing policy predictability would strengthen the business environment, while continued improvements in the judicial system, including insolvency procedures, would facilitate capital reallocation. Deepening and better integrating capital markets would foster innovation and support the supply of risk capital and, in turn, help lift productivity. Complementing these efforts by strengthening financial literacy would help enhance the allocation of capital. Rapid population aging calls for raising the labor supply and skill levels and supporting the adoption of new technologies. In this respect, continued efforts are needed to close labor force participation gaps, particularly for women and youth, and to improve educational outcomes and school-to-work transitions. Targeted investment in education (especially in STEM and digital fields), vocational training, and lifelong learning will also be important. As NRRP reforms and investments are set to finalize soon, it will be critical to sustain the reform and investment momentum beyond the NRRP, leveraging lessons learned to ensure effective policy design and implementation. Accelerating the green transition, through expansion of renewables, streamlined permitting, and deeper electricity market integration, would enhance energy security, reduce price volatility, and support a more resilient and competitive economy.

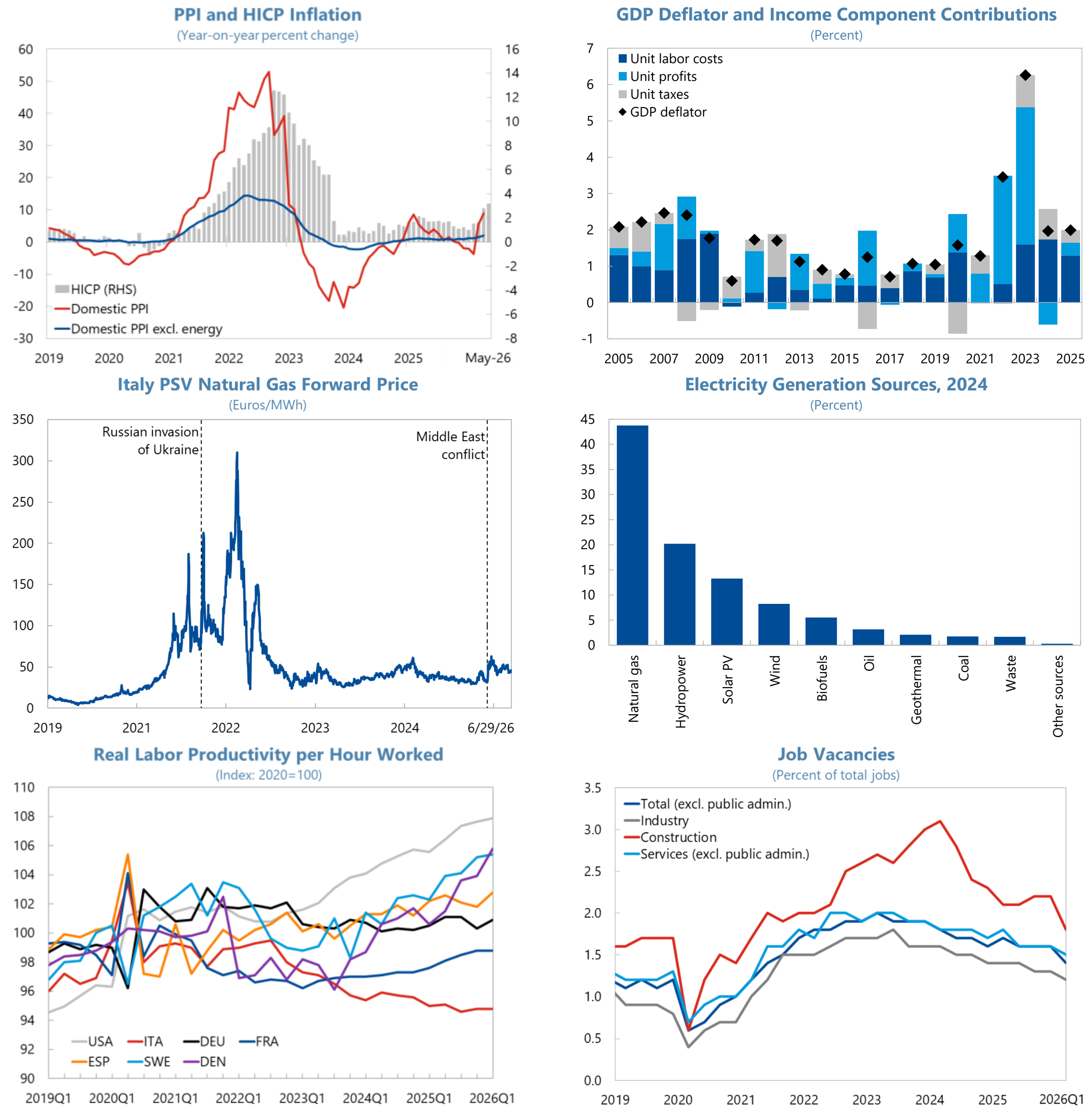
**49. It is recommended that the next Article IV consultation takes place on the standard 12-month cycle.**

**Figure 1. Italy: Real Sector Developments**



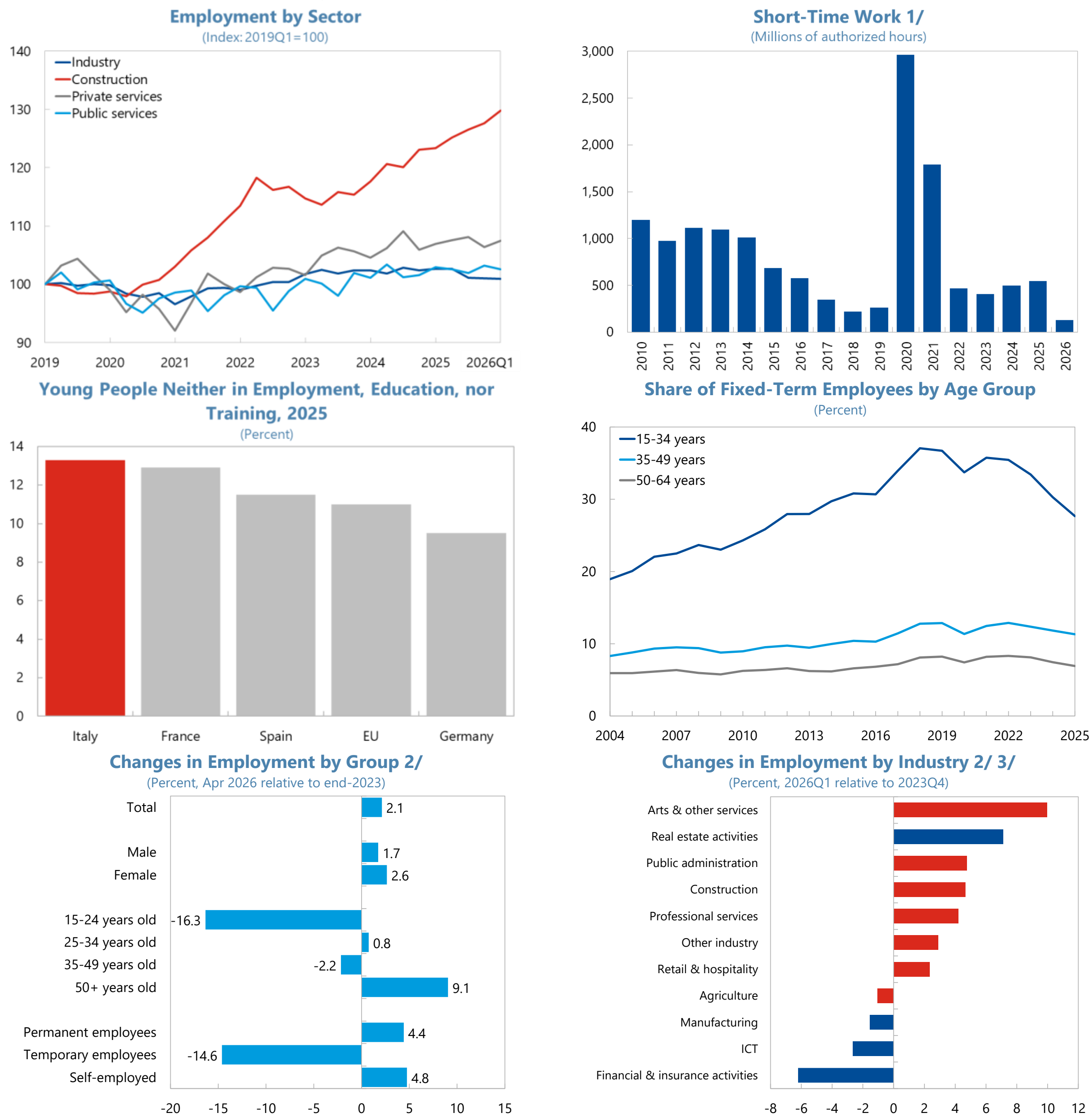

Sources: ISTAT; FSO; Haver Analytics; and IMF staff calculations.
1/ Annual data, except 2026, which reflects quarterly data.

## Figure 2. Italy: Inflation and Labor Market Dynamics




Sources: Bloomberg Finance, L.P.; BLS; Eurostat; IEA; ISTAT; Haver Analytics; and IMF staff calculations.

## Figure 3. Italy: Labor Market Developments



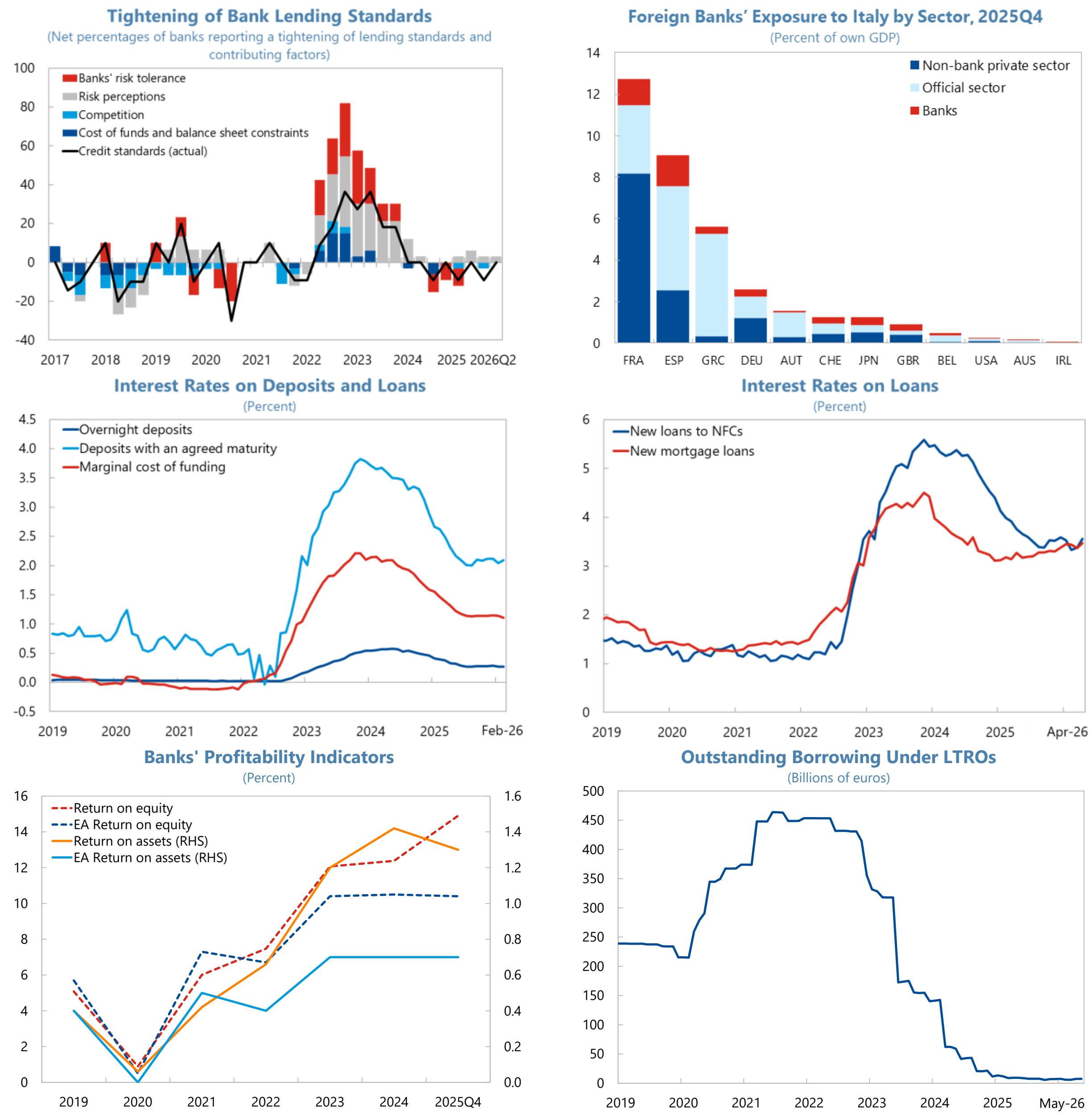

Sources: Eurostat; ISTAT; Bank of Italy; Haver Analytics; and IMF staff calculations.

1/ Italy's Cassa Integrazione Guadagni (CIG), a short-time work scheme, provides partial wage replacement to employees whose working hours are reduced or suspended due to temporary economic disruptions. 2026 reflects data through March only.

2/ Employment refers to the number of people.

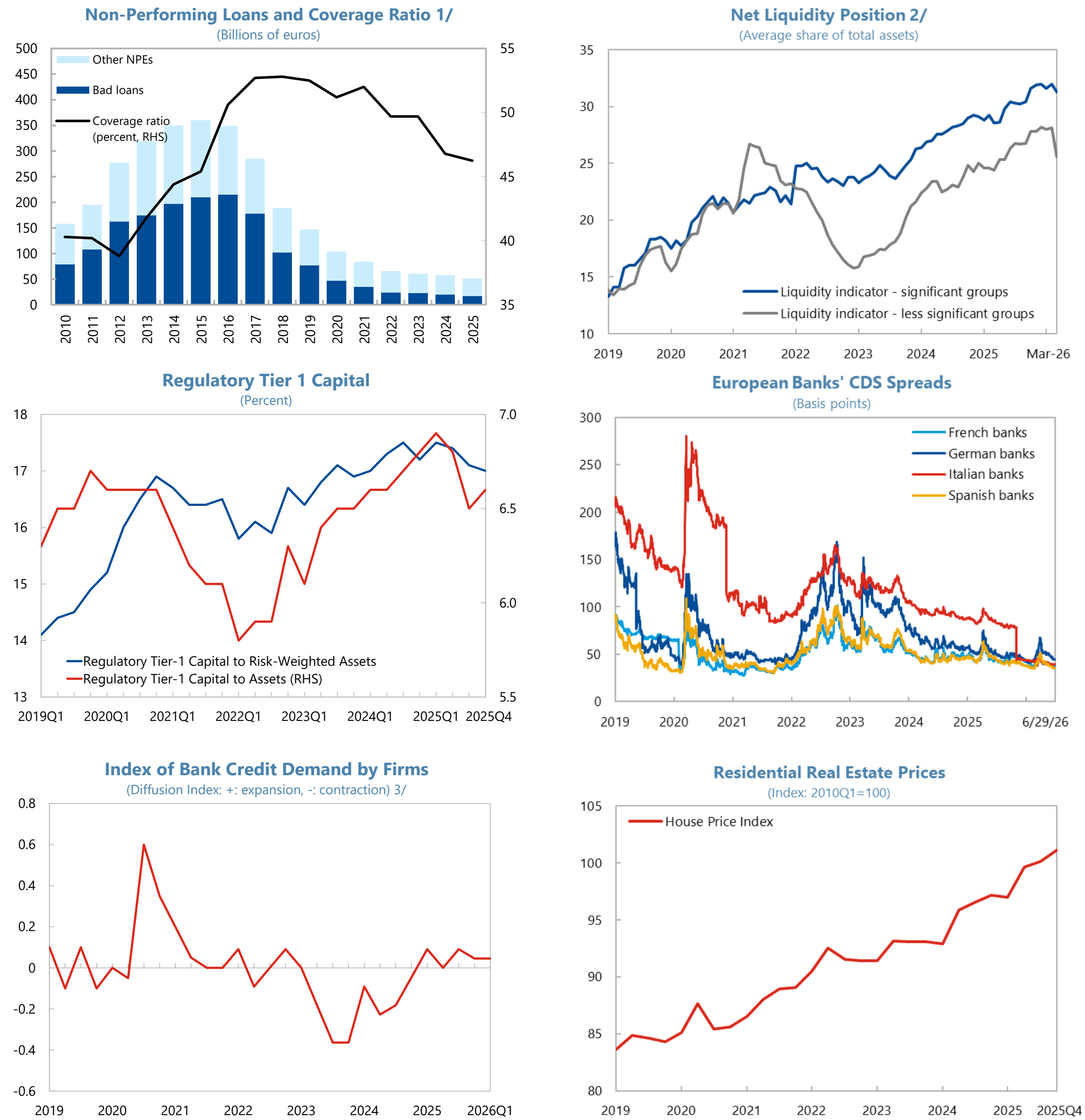
3/ Labor-intensive industries are highlighted in red.

## Figure 4. Italy: Financial Sector Developments




Sources: Bloomberg Finance L.P.; Bank of Italy; S&P Global Market Intelligence; European Central Bank; European Banking Authority; Bank of International Settlements; and IMF staff calculations.

## Figure 5. Italy: Financial Sector Indicators



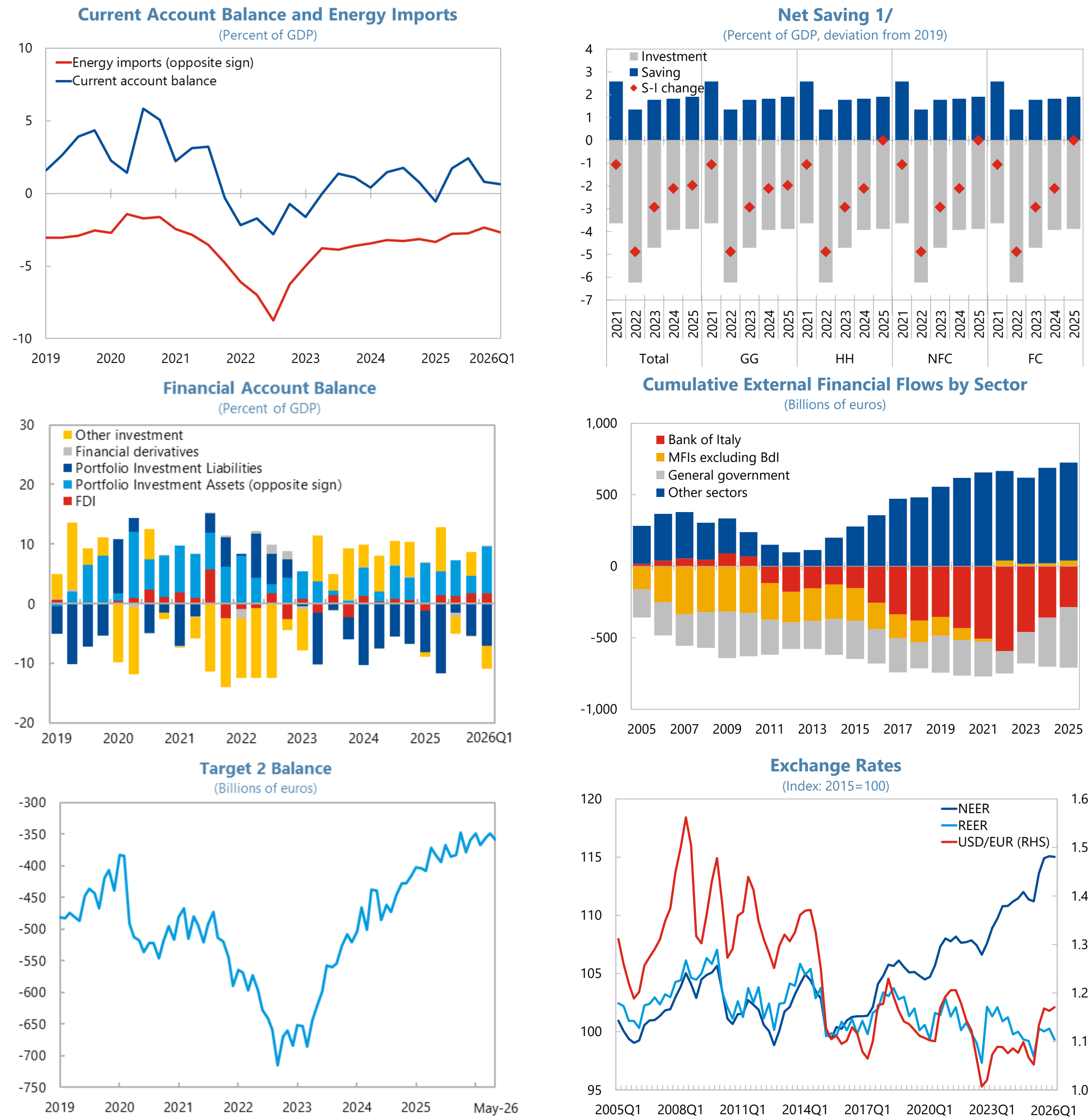

Sources: Bloomberg Finance L.P.; Bank of Italy; Bank of International Settlements; Haver Analytics; and IMF staff calcluations.

1/ Bank of Italy data starting from 2012.

2/ The net liquidity position is the difference between eligible assets for use as collateral for Eurosystem refinancing operations and cumulative expected net cash flows over the next 30 days.

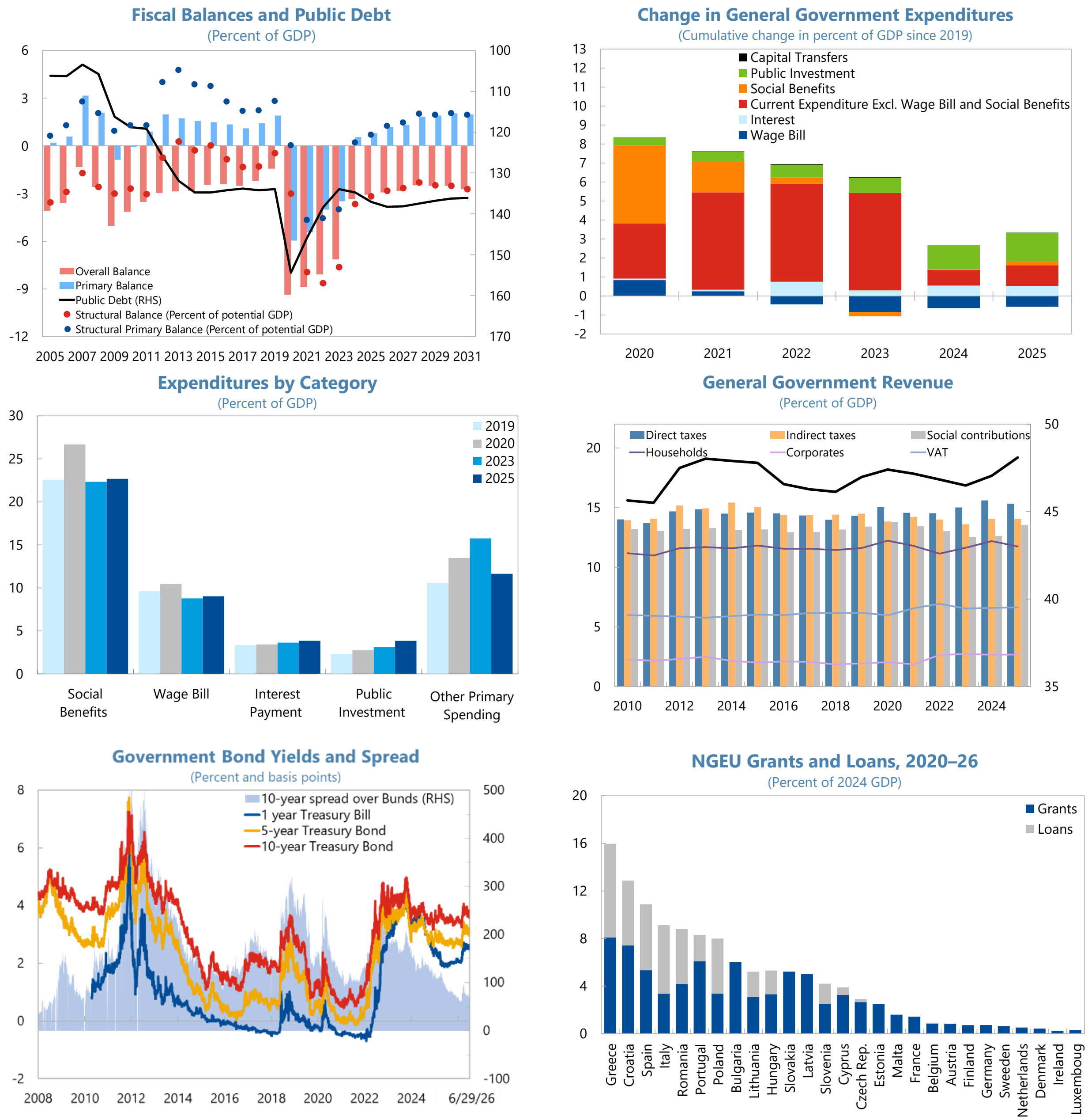
3/ The numerical values are the following: 1=increased considerably, 0.5=increased somewhat, 0=basically unchanged, -0.5=decreased somewhat, -1=decreased considerably. The range of variation of this index is from -1 to +1.

## Figure 6. Italy: External Developments



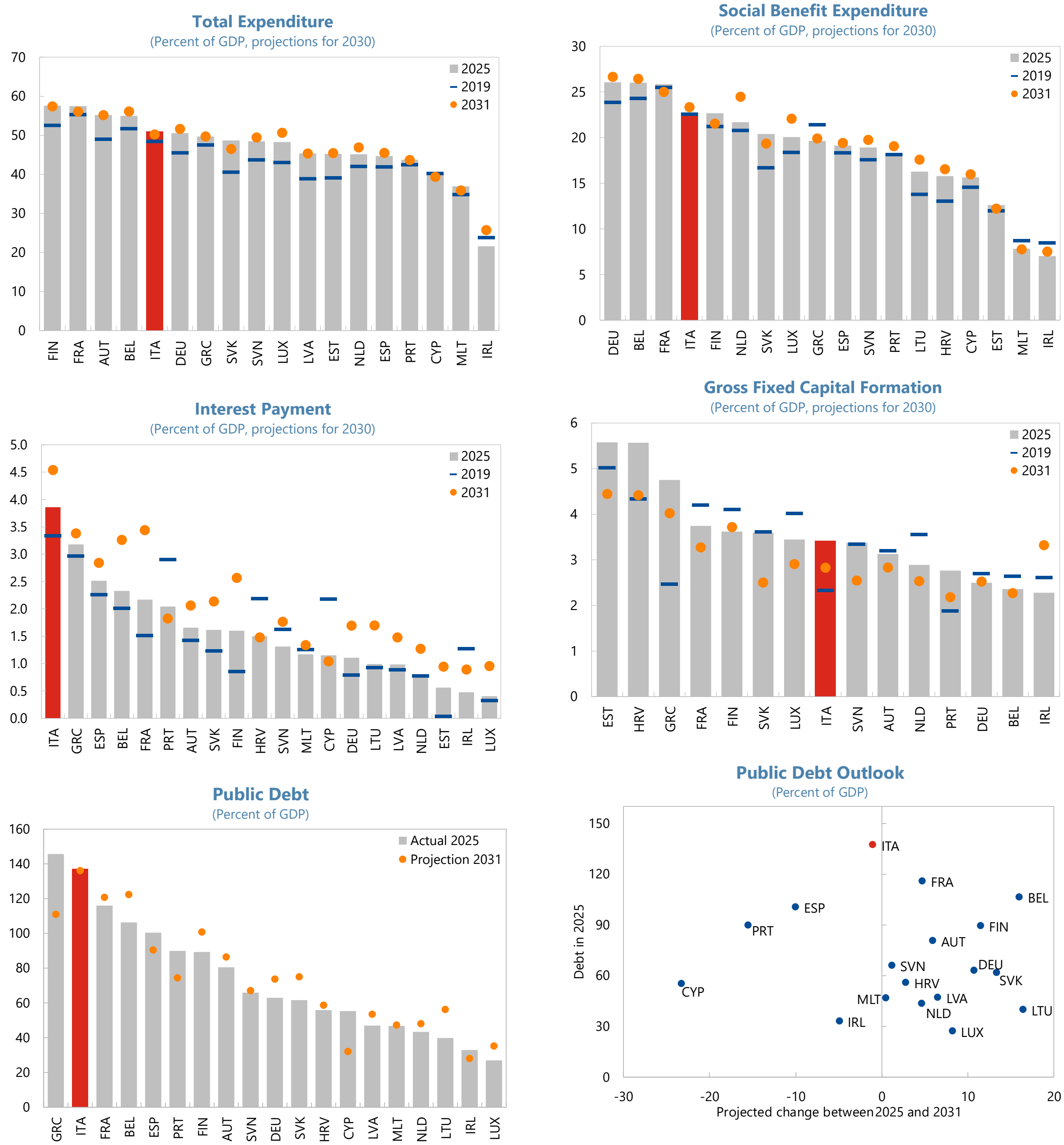

Sources: Haver Analytics; European Commission; European Central Bank; Eurostat; and IMF staff calculations.
1/ For investment, a negative number indicates an increase.

## Figure 7. Italy: Fiscal Developments and Issues I




Sources: European Commission; Eurostat; Bloomberg Finance L.P.; ISTAT; Italian Ministry of Finance; Bank of Italy; and IMF staff calculations.

## Figure 8. Italy: Fiscal Developments and Issues II




Sources: World Economic Outlook (April 2026) and IMF staff calculations.

## Table 1. Italy: Summary of Economic Indicators, 2024–31

(Annual percentage of change, unless noted otherwise)

| | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
| Real GDP | 0.8 | 0.5 | 0.5 | 0.5 | 0.8 | 0.7 | 0.7 | 0.7 |
| Real domestic demand | 0.7 | 1.2 | 0.6 | 0.4 | 0.7 | 0.6 | 0.6 | 0.6 |
| Final domestic demand | 0.3 | 1.5 | 0.9 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 |
| Private consumption | 1.2 | 1.1 | 0.5 | 0.3 | 0.8 | 0.7 | 0.6 | 0.6 |
| Public consumption | 1.5 | 0.6 | 0.5 | 0.3 | -0.3 | 0.1 | 0.3 | 0.4 |
| Gross fixed capital formation | -3.1 | 3.5 | 2.3 | 1.0 | 0.9 | 0.7 | 0.7 | 0.7 |
| Stock building 1/ | 0.4 | -0.3 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net exports 1/ | 0.1 | -0.6 | -0.1 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 |
| Exports of goods and services | -0.4 | 1.2 | 1.5 | 2.1 | 2.0 | 2.2 | 2.2 | 2.1 |
| Imports of goods and services | -1.0 | 3.6 | 1.9 | 1.9 | 1.5 | 2.0 | 1.9 | 1.8 |
| Savings 2/ | 23.4 | 23.4 | 23.0 | 23.1 | 23.4 | 23.6 | 23.7 | 23.8 |
| Investment 2/ | 22.3 | 22.2 | 22.5 | 22.0 | 21.8 | 21.8 | 21.6 | 21.5 |
| Nominal GDP (billions of euros) | 2,202 | 2,258 | 2,320 | 2,381 | 2,441 | 2,499 | 2,558 | 2,618 |
| Resource utilization | | | | | | | | |
| Potential GDP | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 |
| Output gap (percent of potential) | 0.2 | 0.0 | -0.2 | -0.3 | -0.2 | -0.1 | -0.1 | 0.0 |
| Employment | 1.5 | 0.8 | 0.1 | -0.7 | -0.6 | -0.7 | -0.9 | -1.0 |
| Unemployment rate (percent) | 6.6 | 6.1 | 5.6 | 5.9 | 5.9 | 5.9 | 5.9 | 5.9 |
| Prices | | | | | | | | |
| GDP deflator | 2.0 | 2.0 | 2.2 | 2.1 | 1.7 | 1.7 | 1.7 | 1.7 |
| Consumer prices | 1.1 | 1.6 | 2.9 | 2.4 | 2.3 | 2.0 | 2.0 | 2.0 |
| Consumer prices (core) | 2.2 | 2.0 | 2.2 | 2.2 | 2.0 | 2.0 | 2.0 | 2.0 |
| Hourly compensation 3/ | 3.2 | 3.9 | 1.3 | 0.3 | 2.4 | 1.8 | 1.1 | 0.8 |
| Productivity 3/ | -1.6 | 1.3 | 0.4 | 0.7 | 0.5 | 0.5 | 0.5 | 0.5 |
| Unit labor costs 3/ | 4.8 | 2.6 | 0.9 | -0.4 | 1.9 | 1.3 | 0.6 | 0.3 |
| Fiscal Indicators | | | | | | | | |
| General government net lending/borrowing 2/ | -3.4 | -3.1 | -2.9 | -2.8 | -2.5 | -2.5 | -2.5 | -2.7 |
| General government primary balance 2/ 4/ | 0.5 | 0.8 | 1.2 | 1.3 | 1.8 | 1.9 | 2.0 | 2.0 |
| Structural overall balance (percent of potential GDP) | -3.7 | -3.2 | -2.8 | -2.7 | -2.3 | -2.5 | -2.5 | -2.7 |
| Structural primary balance (percent of potential GDP) 4/ | 0.2 | 0.7 | 1.3 | 1.5 | 2.0 | 1.9 | 2.1 | 2.0 |
| General government gross debt 2/ | 134.7 | 137.1 | 138.2 | 138.2 | 137.5 | 136.7 | 136.3 | 136.1 |
| Exchange Rate Regime | | | Member of the EMU | | | | | |
| Exchange rate (national currency per U.S. dollar) | 0.9 | 0.9 | ... | ... | ... | ... | ... | ... |
| Nominal effective rate: CPI based (2010=100) | 110.1 | 112.6 | ... | ... | ... | ... | ... | ... |
| Financial sector | | | | | | | | |
| Bank loans to the private sector (change in percent of GDP) | -0.9 | 1.0 | 0.0 | 0.5 | 0.9 | 0.9 | 0.9 | 0.9 |
| External Sector 2/ | | | | | | | | |
| Current account balance | 1.1 | 1.1 | 0.5 | 1.1 | 1.5 | 1.8 | 2.1 | 2.3 |
| Trade balance | 2.2 | 1.9 | 1.3 | 1.9 | 2.2 | 2.4 | 2.6 | 2.8 |
| Capital account balance | 0.0 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |

Sources: National Authorities; and IMF staff estimates.
1/ Contribution to growth.
2/ Percent of GDP.
3/ In industry (including construction).
4/ Primary balance: net lending/borrowing excluding interest payments.

## Table 2. Italy: Statement of Operations–General Government, 2024–31

| | 2024 | 2025 | Projections 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
|---|---|---|---|---|---|---|---|---|
| | | | (Billions of euros) | | | | | |
| Revenue | 1,036.0 | 1,085.9 | 1,108.1 | 1,136.3 | 1,169.3 | 1,196.7 | 1,226.8 | 1,255.1 |
| Taxes | 654.4 | 666.6 | 683.3 | 698.3 | 710.7 | 724.3 | 738.2 | 751.8 |
| Direct taxes | 343.6 | 346.0 | 353.0 | 359.3 | 363.2 | 368.4 | 374.0 | 378.9 |
| Indirect taxes | 309.6 | 317.5 | 327.2 | 335.8 | 344.2 | 352.5 | 360.8 | 369.3 |
| Social contributions | 278.1 | 305.9 | 315.1 | 322.4 | 335.1 | 344.9 | 357.2 | 368.8 |
| Grants | 9.0 | 11.7 | 18.6 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Other revenue | 94.4 | 101.7 | 91.0 | 111.5 | 119.4 | 123.4 | 127.4 | 130.5 |
| Expenditure | 1,109.8 | 1,155.3 | 1,176.0 | 1,203.7 | 1,230.3 | 1,259.8 | 1,291.6 | 1,326.4 |
| Current Expenditure | 992.0 | 1,021.4 | 1,051.1 | 1,080.3 | 1,106.2 | 1,134.5 | 1,165.3 | 1,198.1 |
| Compensation of employees | 197.5 | 203.8 | 209.4 | 215.4 | 217.8 | 220.1 | 225.2 | 230.6 |
| Use of goods and services | 128.3 | 133.0 | 137.5 | 134.5 | 134.5 | 137.8 | 141.0 | 144.3 |
| Interest | 85.5 | 87.1 | 95.2 | 98.5 | 105.4 | 110.5 | 117.1 | 122.8 |
| Social benefits | 496.9 | 512.2 | 529.4 | 550.1 | 564.7 | 580.3 | 594.0 | 610.5 |
| Capital Expenditure | 117.8 | 133.9 | 124.9 | 123.5 | 124.0 | 125.4 | 126.3 | 128.3 |
| Gross fixed capital formation | 80.3 | 88.4 | 87.2 | 92.0 | 94.3 | 98.6 | 98.9 | 100.3 |
| Capital transfers | 30.7 | 37.8 | 30.3 | 26.5 | 24.6 | 21.5 | 22.0 | 22.5 |
| Net lending/borrowing | -73.8 | -69.4 | -67.9 | -67.5 | -61.0 | -63.1 | -64.7 | -71.3 |
| | | | (Percent of GDP, unless otherwise indicated) | | | | | |
| Revenue | 47.0 | 48.1 | 47.8 | 47.7 | 47.9 | 47.9 | 48.0 | 47.9 |
| Taxes | 29.7 | 29.5 | 29.5 | 29.3 | 29.1 | 29.0 | 28.9 | 28.7 |
| Direct taxes | 15.6 | 15.3 | 15.2 | 15.1 | 14.9 | 14.7 | 14.6 | 14.5 |
| Indirect taxes | 14.1 | 14.1 | 14.1 | 14.1 | 14.1 | 14.1 | 14.1 | 14.1 |
| Social contributions | 12.6 | 13.5 | 13.6 | 13.5 | 13.7 | 13.8 | 14.0 | 14.1 |
| Grants | 0.4 | 0.5 | 0.8 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Other revenue | 4.3 | 4.5 | 3.9 | 4.7 | 4.9 | 4.9 | 5.0 | 5.0 |
| Expenditure | 50.4 | 51.2 | 50.7 | 50.6 | 50.4 | 50.4 | 50.5 | 50.7 |
| Current Expenditure | 45.0 | 45.2 | 45.3 | 45.4 | 45.3 | 45.4 | 45.6 | 45.8 |
| Compensation of employees | 9.0 | 9.0 | 9.0 | 9.0 | 8.9 | 8.8 | 8.8 | 8.8 |
| Use of goods and services | 5.8 | 5.9 | 5.9 | 5.6 | 5.5 | 5.5 | 5.5 | 5.5 |
| Interest | 3.9 | 3.9 | 4.1 | 4.1 | 4.3 | 4.4 | 4.6 | 4.7 |
| Social benefits | 22.6 | 22.7 | 22.8 | 23.1 | 23.1 | 23.2 | 23.2 | 23.3 |
| Capital Expenditure | 5.4 | 5.9 | 5.4 | 5.2 | 5.1 | 5.0 | 4.9 | 4.9 |
| Gross fixed capital formation | 3.7 | 3.9 | 3.8 | 3.9 | 3.9 | 3.9 | 3.9 | 3.8 |
| Capital transfers | 1.4 | 1.7 | 1.3 | 1.1 | 1.0 | 0.9 | 0.9 | 0.9 |
| Net lending/borrowing | -3.4 | -3.1 | -2.9 | -2.8 | -2.5 | -2.5 | -2.5 | -2.7 |
| Memorandum items: | | | | | | | | |
| Primary balance 1/ | 0.5 | 0.8 | 1.2 | 1.3 | 1.8 | 1.9 | 2.0 | 2.0 |
| Structural primary balance 1/ 2/ | 0.2 | 0.7 | 1.3 | 1.5 | 2.0 | 1.9 | 2.1 | 2.0 |
| Change in structural primary balance 1/ 2/ | 4.2 | 0.5 | 0.6 | 0.2 | 0.5 | -0.1 | 0.1 | -0.1 |
| Structural balance 2/ | -3.7 | -3.2 | -2.8 | -2.7 | -2.3 | -2.5 | -2.5 | -2.7 |
| Change in structural balance 2/ | 4.0 | 0.5 | 0.3 | 0.2 | 0.4 | -0.2 | 0.0 | -0.2 |
| General government gross debt | 134.7 | 137.1 | 138.2 | 138.2 | 137.5 | 136.7 | 136.3 | 136.1 |

Sources: National Authorities; and IMF staff estimates.

1/ Primary balance: net lending/borrowing excluding interest payments.
2/ Percent of potential GDP.

## Table 3. Italy: Summary of Balance of Payments, 2024–31

| | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
|---|---|---|---|---|---|---|---|---|
| | | | Projections | | | | | |
| | (Billions of euros) | | | | | | | |
| Current account balance | 24.1 | 25.0 | 10.8 | 25.4 | 37.5 | 44.8 | 53.1 | 61.2 |
| Balance of goods and services | 48.5 | 43.7 | 30.5 | 45.0 | 54.3 | 60.5 | 66.7 | 73.1 |
| Goods balance | 54.7 | 51.5 | 43.3 | 52.1 | 61.7 | 68.0 | 74.4 | 80.9 |
| Exports | 571.0 | 580.2 | 624.6 | 649.8 | 675.3 | 700.6 | 728.9 | 757.9 |
| Imports | 516.3 | 528.7 | 581.3 | 597.7 | 613.7 | 632.6 | 654.6 | 676.9 |
| Services balance | -6.2 | -7.8 | -12.8 | -7.1 | -7.3 | -7.5 | -7.7 | -7.9 |
| Credit | 142.3 | 148.6 | 147.3 | 154.7 | 158.6 | 162.4 | 166.3 | 170.2 |
| Debit | 148.5 | 156.4 | 160.1 | 161.9 | 166.0 | 169.9 | 173.9 | 178.0 |
| Primary income balance | -6.5 | 1.1 | 1.5 | 2.2 | 5.4 | 7.2 | 9.4 | 11.7 |
| Credit | 130.7 | 129.1 | 133.0 | 137.2 | 143.8 | 148.9 | 154.4 | 160.1 |
| Debit | 137.3 | 128.0 | 131.5 | 135.0 | 138.3 | 141.7 | 145.0 | 148.4 |
| Secondary income balance | -17.9 | -19.7 | -21.2 | -21.8 | -22.3 | -22.8 | -23.0 | -23.6 |
| Capital account balance | 0.3 | 3.9 | 1.3 | 1.4 | 1.4 | 1.4 | 1.5 | 1.5 |
| Financial account | 51.3 | 27.9 | 12.1 | 26.8 | 38.9 | 46.2 | 54.5 | 62.7 |
| Direct investment | 16.0 | 18.5 | -8.0 | -8.0 | -7.9 | -7.8 | -7.7 | -7.6 |
| Portfolio investment | -78.0 | -33.3 | -8.7 | -1.8 | -17.8 | -6.6 | -25.8 | -15.1 |
| Other investment | 107.8 | 43.9 | 30.0 | 37.0 | 64.6 | 60.4 | 87.8 | 85.0 |
| Derivatives (net) | 3.4 | -3.0 | -1.3 | -0.4 | 0.0 | 0.2 | 0.3 | 0.4 |
| Reserve assets | 2.1 | 1.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net errors and omissions | 26.9 | -1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | (Percent of GDP) | | | | | | | |
| Current account balance | 1.1 | 1.1 | 0.5 | 1.1 | 1.5 | 1.8 | 2.1 | 2.3 |
| Balance on goods and services | 2.2 | 1.9 | 1.3 | 1.9 | 2.2 | 2.4 | 2.6 | 2.8 |
| Goods balance | 2.5 | 2.3 | 1.9 | 2.2 | 2.5 | 2.7 | 2.9 | 3.1 |
| Services balance | -0.3 | -0.3 | -0.5 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 |
| Primary income balance | -0.3 | 0.0 | 0.1 | 0.1 | 0.2 | 0.3 | 0.4 | 0.4 |
| Secondary income balance | -0.8 | -0.9 | -0.9 | -0.9 | -0.9 | -0.9 | -0.9 | -0.9 |
| Capital account balance | 0.0 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Financial account | 2.3 | 1.2 | 0.5 | 1.1 | 1.6 | 1.8 | 2.1 | 2.4 |
| Direct investment | 0.7 | 0.8 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 |
| Portfolio investment | -3.5 | -1.5 | -0.4 | -0.1 | -0.7 | -0.3 | -1.0 | -0.6 |
| Other investment | 4.9 | 1.9 | 1.3 | 1.6 | 2.6 | 2.4 | 3.4 | 3.2 |
| Derivatives (net) | 0.2 | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reserve assets | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net errors and omissions | 1.2 | (0.0) | - | - | - | - | - | - |
| Gross external debt | 120.3 | 125.1 | 127.8 | 128.4 | 128.7 | 128.1 | 128.1 | 127.6 |
| Public sector | 64.4 | 66.1 | 67.8 | 68.3 | 69.1 | 69.2 | 69.9 | 70.1 |
| Private sector | 55.9 | 59.0 | 60.0 | 60.0 | 59.6 | 58.9 | 58.2 | 57.4 |

Sources: National Authorities; and IMF staff estimates. BPM6 presentation.

## Table 4. Italy: Monetary Survey, 2021–25
(Billions of euros)

| | 2021 | 2022 | 2023 | 2024 | 2025 1/ |
|---|---|---|---|---|---|
| Net foreign assets | -153.1 | -265.4 | -136.3 | 54.0 | 228.2 |
| Claims on Nonresidents | 754.1 | 764.3 | 806.0 | 923.3 | 1129.8 |
| Liabilities to Nonresidents | -907.2 | -1029.8 | -942.2 | -869.3 | -901.5 |
| Net domestic assets | 2771.6 | 2944.1 | 2751.6 | 2719.6 | 2624.5 |
| Net Claims on Central Government | 1293.1 | 1178.1 | 1156.0 | 1130.5 | 1077.0 |
| Claims on State and Local Government | 70.5 | 71.1 | 66.3 | 65.1 | 63.0 |
| Claims on Public Nonfinancial Corporations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Claims on NBFIs | 443.1 | 532.3 | 473.3 | 595.1 | 656.9 |
| Claims on private sector | 1400.4 | 1390.4 | 1352.6 | 1328.0 | 1349.2 |
| Capital and Reserves (-) | 501.1 | 382.4 | 459.1 | 543.9 | 681.4 |
| Other items, net (-, including discrepancy) | -65.7 | -154.6 | -162.6 | -144.8 | -159.7 |
| Broad Money | 2094.8 | 2103.7 | 2046.6 | 2070.4 | 2117.5 |
| Currency in Circulation | 236.0 | 240.9 | 238.3 | 228.9 | 233.8 |
| Transferable Deposits | 1506.5 | 1490.6 | 1369.0 | 1385.2 | 1439.9 |
| Other Deposits | 348.0 | 367.1 | 424.7 | 442.6 | 432.6 |
| Securities | 4.2 | 5.2 | 14.6 | 13.7 | 11.2 |
| Other Liabilities | 523.8 | 575.0 | 568.8 | 703.2 | 735.2 |

Sources: IMF, International Financial Statistics; and IMF staff estimates.
1/ 2025 data are preliminary.

## Table 5. Italy: Financial Soundness Indicators for Banks, 2020–25 1/

(Percent, unless otherwise noted)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| | Core FSIs for Deposit-taking institutions | | | | | |
| Regulatory capital to risk-weighted assets | 19.3 | 18.8 | 19.2 | 19.4 | 19.7 | 19.4 |
| Regulatory tier 1 capital to risk-weighted assets | 16.9 | 16.5 | 16.7 | 16.9 | 17.2 | 17.0 |
| Nonperforming loans net of provisions to capital | 20.2 | 16.5 | 13.8 | 12.7 | 12.9 | 11.8 |
| Nonperforming loans to total gross loans | 4.4 | 3.3 | 2.8 | 2.7 | 2.8 | 2.4 |
| Growth of bank loans to private non-MFI | 4.7 | 2.1 | 2.1 | -2.8 | -0.3 | 2.0 |
| Nonfinancial corporations | 8.4 | 1.7 | -0.2 | -3.7 | -2.3 | 1.8 |
| Households | 2.3 | 3.7 | 3.3 | -1.3 | 0.3 | 2.5 |
| Return on assets | 0.1 | 0.4 | 0.7 | 1.2 | 1.4 | 1.4 |
| Return on equity | 0.9 | 6.0 | 7.5 | 12.1 | 12.4 | 13.5 |
| Interest margin to gross income | 49.5 | 46.4 | 51.5 | 60.4 | 58.5 | 54.2 |
| Net open position in foreign exchange to capital | 0.8 | 0.0 | 4.0 | 4.2 | 2.9 | 3.8 |
| Liquid assets to total assets | 21.3 | 23.1 | 18.3 | 17.6 | 15.5 | 15.2 |
| Liquid assets to short-term liabilities | 97.7 | 96.9 | 86.7 | 107.8 | 124.0 | 127.5 |
| Liquidity coverage ratio | ... | ... | 188.1 | 186.5 | 175.0 | 175.7 |
| Net stable funding ratio | ... | ... | 132.4 | 132.2 | 132.5 | 131.8 |
| | Encouraged FSIs for Deposit-taking institutions | | | | | |
| Capital to assets | 6.6 | 6.1 | 5.9 | 6.1 | 6.3 | 6.3 |
| Gross asset position in financial derivatives to capital | 38.4 | 34.3 | 48.9 | 35.8 | 33.5 | 35.8 |
| Gross liability position in financial derivatives to capital | 40.2 | 36.1 | 48.9 | 37.8 | 34.9 | 35.4 |
| Personnel expenses to noninterest expenses | 54.2 | 53.1 | 52.0 | 52.4 | 53.7 | 53.5 |
| Customer deposits to total (noninterbank) loans | 68.5 | 90.6 | 78.1 | 80.1 | 85.7 | 86.6 |
| Foreign-currency-denominated loans to total loans | 6.3 | 7.1 | 6.9 | 6.4 | 7.4 | 7.9 |
| Foreign-currency-denominated liabilities to total liabilities | 11.6 | 12.1 | 7.0 | 6.8 | 7.4 | 6.9 |

Sources: IMF, Financial Soundness Indicators

1/ Data from the IMF Financial Soundness Indicators database have been updated, when possible, with Bank of Italy's or ECB's data.

# Annex I. External Sector Assessment

<table>
<tr><td colspan="7">Overall Assessment: The external position in 2025 was moderately weaker than the level implied by medium-term fundamentals and desirable policies. The CA balance was broadly unchanged, recording a surplus of 1.1 percent of GDP, with a return-to-surplus on the primary income offsetting a narrowing of the trade surplus. Italy is reliant on imported energy. Hence, the surge in global energy prices following the onset of war in the Middle East is likely to weigh on the CA, before gradually increasing over the medium term. The CA is projected to remain below the CA norm, reinforcing the need for additional fiscal consolidation and productivity-enhancing structural reforms.<br><br>Potential Policy Responses: Additional comprehensive reforms would boost productivity, competitiveness, and potential growth. In addition, EU single market deepening would raise productivity and resilience through greater scale, internal diversification, and improved risk sharing, thereby strengthening economic stability and reducing the risk of negative spillovers to the rest of the world. Reforms that boost the labor force participation of women and the youth would further boost economic activity and savings. Simultaneously, strengthening the external position would require an increase in public sector savings, supported by decisive public debt reduction. Industrial policies should be deployed cautiously, remain targeted to specific objectives where externalities or market failures prevent effective market solutions, be coordinated at the EU level, and minimize trade and investment distortions.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="6">Background. The NIIP continued to steadily increase, ending 2025 at 15.4 percent of GDP (from 14.9 in 2024). Sizable gross external positions, with gross foreign assets amounting to 193.5 percent of GDP and liabilities at 178.0 percent of GDP in 2025, render the NIIP sensitive to valuation effects. Bank of Italy's TARGET2 liabilities to other Eurosystem central banks, which are short term and remunerated at the European Central Bank policy rate, declined notably from their peak of 34 percent of GDP in 2022 to 16 percent of GDP at the end of 2025. Public sector (general government and Bank of Italy) external liabilities make up around 50 percent of total external liabilities, corresponding to 66 percent of GDP. 70 percent of public sector external liabilities are long term.<br><br>Assessment. Further strengthening public sector balance sheets and undertaking structural reforms would lessen vulnerabilities associated with the high public debt, reinvigorate productivity and economic growth, and reduce the potential for negative feedback loops between the debt stock and debt-servicing costs.</td></tr>
<tr><td>2025 (% GDP)</td><td>NIIP: 15.4</td><td>Gross Assets: 193.5</td><td>Debt Assets: 77.3</td><td>Gross Liab.: 178.0</td><td colspan="2">Debt Liab.: 124.8</td></tr>
<tr><td>Current Account</td><td colspan="6">Background. The CA balance averaged a surplus of 1.4 percent of GDP between 2019 and 2024, with surpluses in all years, except in 2022 due to the adverse energy price shock. The CA surplus in 2025 was broadly unchanged from the previous year, recording a surplus of 1.1 percent of GDP (1.1 in 2024). From a saving-investment perspective, the external position reflected broadly unchanged savings and investment as a share of GDP. Looking ahead, fiscal consolidation is expected to support the CA surplus.<br><br>Assessment. The cyclically adjusted CA is estimated at 1.2 percent of GDP for 2025, 1.2 percentage points of GDP below the EBA estimated CA norm of 2.4 percent of GDP. Considering uncertainty around the estimate, IMF staff assesses the CA gap to be in the range of –1.7 to –0.7 percent of GDP, with a midpoint of –1.2 percent of GDP. The total estimated policy gap is +1.0 percent of GDP, partly reflecting: (i) a +0.4 percent of GDP positive contribution from a fiscal policy gap, reflecting a larger needed fiscal consolidation in the rest of the world relative to Italy, despite a domestic policy gap of –0.5 percent; and (ii) a +0.5 percent of GDP positive contribution from the credit gap, reflecting the still-subdued credit extension. Demographics remains a key driver to the norm amid Italy's aging population. A sizable unexplained residual of –2.3 percent of GDP suggests that the model may not fully capture all relevant Italy-specific characteristics and structural impediments, including factors such as labor market rigidities and relatively low labor market participation among some segments of the population.</td></tr>
<tr><td>2025(% GDP)</td><td>CA: 1.1</td><td>Cycl. Adj. CA: 1.2</td><td>EBA Norm: 2.4</td><td>EBA Gap: –1.2</td><td>Staff Adj.: 0.0</td><td>Staff Gap: –1.2</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="6">Background. During 2019–25, the CPI-based REER appreciated by 1.1 percent, while the ULC-based REER appreciated by 0.5 percent. During 2025, the CPI-based REER appreciated by 0.6 percent due to the strengthening of the euro. As of March 2026, the CPI-based REER was 0.2 percent above the 2025 average.<br><br>Assessment. The model-based CA gap implies a REER gap of 4.8 percent in 2025 (with an estimated elasticity of 0.25 applied). The level and index CPI-based REER models suggest an overvaluation in 2025 of 2.6 percent and 3.3 percent, respectively. Based on the IMF staff's CA gap, the REER gap is in the range of 2.6 to 6.8 percent, with a midpoint of 4.7 percent.</td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="6">Background. The capital account was broadly unchanged at around 0.2 in 2025 (0.0 in 2024). The financial account posted net outflows of 1.2 percent of GDP in 2025 (from net outflows of 2.3 percent of GDP in 2024), with a reduction in TARGET2 liabilities and increase in other financial investment inflows.<br><br>Assessment. Large refinancing needs of the sovereign and the banking sector suggest Italy remains vulnerable to market volatility. The private sector, which is a net creditor, is mainly exposed to equity risk-rewards.</td></tr>
<tr><td>FX Intervention and Reserves Level</td><td colspan="6">Background. The euro has the status of a global reserve currency. Italy's reserves increased by 31 percent in 2025, in part owing to valuation effects.<br><br>Assessment. Reserves held by the euro area are typically low relative to standard metrics. The currency is freely floating.</td></tr>
</table>

# Annex II. Progress on Past IMF Recommendations

| 2025 Article IV Recommendations | Policy Actions |
|---|---|
| **Fiscal Policy** | |
| Maintain strong fiscal discipline to decisively reduce the public debt ratio, anchored by a credible medium-term fiscal framework. Staff recommended achieving and sustaining a rising primary surplus, with a target of about 3 percent of GDP over the medium term. | The 2025 fiscal deficit narrowed to 3.1 percent of GDP, below the original 3.3 percent target. The headline deficit is expected to narrow to 2.9 percent in 2026. Advancing fiscal consolidation and prudent fiscal management helped lift market confidence. Yield spreads on 10-year bonds relative to Bunds narrowed to around 60 bps before the onset of war in the Middle East. |
| Continue to improve tax compliance, rationalize tax expenditures, and phase out inefficient incentives to support consolidation in the near-term with limited growth impact. | Improved tax compliance supported revenue overperformance. Progress was made in phasing down housing-related tax credits, notably the "Superbonus". Actions against tax evasion have continued to make progress, with a recovery of €36.2 billion in 2025, up 8.2 percent from 2024. |
| Streamline pension-related spending to help bolster resilience over the medium-term. | No extension of Quota 103 and Opzione Donna in the 2026 Budget Law, except for individuals who had already met eligibility criteria in earlier years. This tightened temporary and ad-hoc exit routes, which had tended to raise pension outlays and generate inequities across cohorts. |
| Gradually reduce the stock of public guarantees to pre-pandemic levels. | Public guarantees have started to decline but remain high at about 13 percent of GDP as of end-2025. Maturing COVID-related guarantees are offset by new issuances, notably the Export Fund (€116 billion exposure). |
| **Financial Sector Policy** | |
| Closely monitor bank asset quality and sovereign–bank linkages and address vulnerabilities in less significant institutions (LSIs). | Authorities have strengthened asset quality monitoring, supported by low NPL ratios, high coverage, and regular stress tests.<br>The sovereign–bank nexus is closely monitored and stress-tested but remains a key vulnerability, especially for cooperative banks and LSIs.<br>LSI risks are actively managed through targeted stress tests, enhanced resolution planning, and preventive safety nets, though risks vary across institutions. |

| 2025 Article IV Recommendations | Policy Actions |
|---|---|
| Strengthen macroprudential oversight. The current countercyclical capital buffer at zero and the higher systemic risk buffer are welcome. | The authorities took further steps to reinforce banking sector resilience. A systemic risk buffer (SyRB) of 1 percent was activated, with phased implementation, while the countercyclical capital buffer remained at zero, reflecting subdued cyclical risks. |
| Enhance supervision and regulatory oversight of LSIs. | Supervisory oversight of LSIs was further strengthened, with supervisory practices increasingly aligned with ECB methodologies. |
| Advance insolvency and debt-workout frameworks, | Progress continued on insolvency and civil justice reforms under the NRRP, supporting more efficient debt resolution. |
| Continue efforts to enhance AML/CFT effectiveness in line with international standard | The authorities updated the national AML/CFT risk assessment, enhanced supervisory coordination, and expanded oversight of non-financial obliged entities and crypto-asset service providers. |
| **Structural Reforms** | |
| Ensure full and timely implementation of the NRRP to lift productivity and medium-and long-term growth; follow with a credible post-NRRP reform agenda. | By end-2025, Italy completed about 72 percent of 575 agreed milestones and targets and received €166 billion (85 percent of €194.4 billion), ranking among the EU's top performers. It submitted 9 of 10 payment requests. Spending has picked up but lags disbursements, with €116.9 billion spent by end-March 2026, about 70 percent of funds received. |
| Focus reforms on boosting productivity, labor supply, and innovation while advancing the transition to renewable energy and resilient energy infrastructure. | Structural reforms are progressing. Employment has reached record highs, supported by policies boosting female labor participation, skills development, and childcare. The Transition 5.0 framework builds on Industry 4.0 by combining productivity and decarbonization incentives to aid firms. Resilient energy infrastructure is advancing through grid investments, expanded transmission links, and growth in solar and wind deployment. |
| Address foreign bribery risks under the voluntary assessment of transnational aspects of corruption.[1] | The authorities reported progress on developing a national strategy to counter foreign bribery, providing related technical assistance to other countries, and fostering integrity standards among Italian businesses operating abroad. Additional efforts to enhance enforcement include the organization of a training course to equip prosecutorial and judicial officers with specialized expertise for effective enforcement of foreign bribery offences. |

Sources: IMF staff; and IMF Country Report.
1/ Italy volunteered to have its legal and institutional frameworks assessed in the context of bilateral surveillance on supply and facilitation of corruption. IMF staff and Italy have provided additional views and information whose accuracy have not been verified by the OECD Working Group on Bribery (WGB) or the OECD Secretariat, and which do not prejudice the WGB's monitoring of the implementation of the OECD Anti-Bribery Convention.

# Annex III. Risk Assessment Matrix

| Sources of Risk | Relative Likelihood[1] | Impact If Realized | Policy Responses |
|---|---|---|---|
| **Global Risks – Conjunctural** | | | |
| **Geopolitical tensions and intensification of conflicts.** Rising geopolitical tensions, and a weakening of multilateralism, raise the risk of an escalation in military conflicts, accompanied by damage to key physical and financial infrastructure, disruptions in major transit routes and supply chains, higher migration pressures, additional financial frictions and market volatility. | High | **High:** Higher energy and food prices given Italy's energy dependence. Input shortages negatively impact the manufacturing sector. Financial market volatility and increasing debt service costs. Defense needs may increase. A refugee influx could further stretch domestic absorption capacity. Tourism inflows could benefit from rerouting; however, jet fuel shortages could limit these gains and amplify the negative impact. | • Ensure any support is budget neutral, temporary, and well-targeted, and does not distort price signals from higher prices.<br>• Scale up renewable energy generation, expanded energy storage, and deepen electricity market integration domestically and at the European level, scaling up investment to meet the 2030 electricity integration target.<br>• Consider strategies to increase resilience to shocks, such as increasing inventories and diversifying suppliers of critical commodities.<br>• Improve labor market integration of foreign workers. |
| **Commodity price volatility.** Supply and demand imbalances—triggered by geopolitical tensions, coordinated production decisions, shifts in investor preferences, or structural changes in demand—fuel commodity price swings, amplifying external and fiscal pressures, social unrest, and macro instability. | High | **High:** Italy is a large commodity importer, including energy products. Supply disruptions and/or price spikes could significantly impact business profitability and output, real incomes, and the current account. | • Allow domestic commodity prices to increase to encourage energy conservation, while providing budget neutral, temporary, and well-targeted support to the most vulnerable.<br>• Encourage inventory accumulation and more efficient consumption.<br>• Promote investment in innovative energy systems, including renewables, battery storage, and associated grid infrastructure. |
| **Trade-related risks**<br>• **Protectionism and trade disruptions.** Tariff and nontariff measures disrupt global supply chains, weighing on activity while increasing inflation. Trade diversion triggers broader protectionism.<br>• **New trade agreements.** Tangible progress in trade talks reduces uncertainty and trade barriers. Wider cooperation on services, FDI, and taxation boosts investment and bolsters public finances. | High<br><br>Low | **Medium:** Given Italy's openness, integration in the global value chains, and importance of the manufacturing sector, higher trade barriers negatively impact export growth both directly and indirectly through adverse impacts on trading partners. However, these adverse effects can be mitigated if trade within the EU and with the rest of the world remains open. | • Continue support for reducing barriers to trade and enhancing investment within the EU and with the rest of the world; ensure opportunities to diversify export products and destinations.<br>• Accelerate the structural reform agenda to boost productivity and competitiveness.<br>• Facilitate worker reallocation and reskilling/upskilling, while providing an adequate social safety net. |

| Sources of Risk | Relative Likelihood[1] | Impact If Realized | Policy Responses |
|---|---|---|---|
| **Fiscal vulnerabilities and higher interest rates.** Higher public debt and deficit levels put further upward pressure on long-term interest rates, sharply tightening global financial conditions, amplifying currency volatility, and reducing consumption and investment that exacerbate adverse debt dynamics. Disruptions are amplified by increased role of price-sensitive investors and leveraged NBFIs in sovereign debt markets, limited market absorption capacity when NBFIs offload debt securities, higher roll-over needs on shorter sovereign debt maturities, and strong sovereign-financial nexus. Concurrently, capital outflows from emerging and developing economies elicit a sharp increase in short-term rates. | High | **High:** Higher sovereign borrowing costs and a shift in risk sentiment would cause repricing of government, bank, and non-financial corporate bonds, curtail credit activity, and strain leveraged corporates and households. Loan quality would deteriorate. Insolvencies would increase, deteriorating bank balance sheets and profitability. An increase in sovereign borrowing costs would further deteriorate public debt dynamics. | • Ensure commitment to a credible medium-term fiscal consolidation path that embeds structural reforms and productivity-boosting investments.<br>• Stay agile in reassessing the appropriateness of the Systemic Risk Buffer. Rely on bank resolution systems to address unsound banks.<br>• Closely monitor banks' loan classification practices, including for publicly guaranteed loans. |
| **Policy uncertainty.** Elevated and wide-ranging policy uncertainty weighs on sentiment and holds back consumption and investment. Political interference in independent economic institutions erodes public confidence and trust and raises the risk of policy mistakes. | High | **High:** Precautionary saving would rise and durable spending delayed despite increasing disposable income. Uncertainty also depresses investment and hiring, weakening growth. | • Strengthen policy predictability and communication (medium-term fiscal/structural plans with clear timelines) to reduce uncertainty premiums.<br>Safeguard the independence of economic institutions and preserve transparent, rules-based decision-making. |
| **Disorderly AI correction.** An abrupt revision in expectations of strong AI-led productivity gains causes<br>a sharp market correction, investment decline, and wealth loss, which suppress demand and tighten financial conditions globally. | High | **Medium:** The main channels would be (i) household wealth effects (e.g., indirect exposure via funds/ pensions/insurance products) and (ii) tighter global financial conditions and weaker external demand in a broader risk-off episode. Overall impact is highly uncertain but could increase if accompanied by a generalized repricing of risk that widens sovereign spreads and tightens credit. | • Financial stability monitoring: Intensify monitoring of household/NBFI exposures (investment funds, unit-linked products) and liquidity risks; ensure banks maintain prudent provisioning and capital planning, and be ready to deploy macroprudential tools if stress broadens. |

| Sources of Risk | Relative Likelihood[1] | Impact If Realized | Policy Responses |
| --- | --- | --- | --- |
| **Global Risks – Structural** | | | |
| **Labor shortages and remittances.** Tighter immigration policies exacerbate labor shortages in aging destination economies, reducing potential output, fueling inflation, and straining fiscal balances through lower revenues. Origin countries see depressed remittances and incomes, and worsening external balances, though a larger labor force could partly offset the remittance decline over the medium term. | **High** | **Medium:** Immigrant labor shortages would significantly amplify existing demographic headwinds, posing risks to medium-term growth and potential output. Worsening labor shortages would constrain production capacity, add to inflationary pressures, and weaken fiscal balances through lower employment and revenue bases. | • Enhance coordination at the EU level on immigration policies to better align labor supply with demographic and sectoral needs.<br>• Ensure faster and more effective labor market integration of immigrants, including recognition of skills, language training, and targeted active labor market policies.<br>• Facilitate labor reallocation across sectors and regions to ease bottlenecks and raise aggregate productivity. |
| **Cyberthreats.** Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability. | **High** | **High/Medium:** While digitalization is advancing in Italy, cyberattacks could still impair the functioning of the financial system, public services, and overall economic activity. | • Raise awareness and enhance monitoring of cyberattacks.<br>• Urge businesses and institutions to have robust cyber defenses and business continuity plans.<br>• As per the FSAP recommendation, continue to strengthen the Bank of Italy's monitoring and oversight of the financial sector's IT resilience and cyber risk defenses. |
| **Climate change.** Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability. | **Medium** | **Medium:** Climate-related losses could reduce real GDP and increase fiscal costs. EU member states may experience increased migration flows from economies severely affected by climate disruptions. | • Leverage EU funds to make infrastructure more resilient to natural disasters.<br>• Work with EU partners on region-wide response to migration.<br>• Scale up renewable energy generation, expanded energy storage, and deeper electricity market integration domestically and at the European level, scaling up investment to meet the 2030 electricity integration target. |
| **AI acceleration.** Rapid AI adoption significantly improves productivity, boosts growth, and revives business dynamism. Realizing these gains requires complementary policies to manage energy constraints, scale critical inputs, and support labor market transitions. | **Medium** | **Medium:** Rapid AI adoption in Italy would raise productivity and potential growth, supporting business dynamism and fiscal sustainability in an aging economy. Gains may be uneven across firms and regions, while rising energy demand and skill mismatches could limit the aggregate payoff absent complementary policies. | • Accelerate AI diffusion, especially among SMEs.<br>• Address energy and infrastructure constraints to support higher digital demand.<br>• Support labor market transitions through reskilling and worker reallocation. |

| Sources of Risk | Relative Likelihood[1] | Impact If Realized | Policy Responses |
|---|---|---|---|
| **Domestic Risks** | | | |
| **Lack of a post-NRRP reform strategy.** Failure to assess and build upon NRRP policy instruments and strategies could weaken the reform and investment momentum needed to sustain medium-term growth after NRRP funding ends. | Medium | **High:** Loss of NRRP-related productivity and growth gains. Ineffective or fiscally costly instruments persist, while successful reforms are not scaled up. Weak continuity in outcome-based conditionality could lower investment efficiency and weigh on fiscal sustainability. | • Conduct targeted ex-post evaluations of NRRP instruments and reforms.<br>• Embed NRRP lessons in the next MFF, preserving outcome-based conditionality and aligning resources with administrative capacity, supported by technical assistance.<br>• Maintain and strengthen NRRP public investment data and monitoring systems to support transparency and effective project selection. |
| **Ineffective tax reform.** A more regressive tax system or one that relies on ad hoc rate cuts while preserving large policy gaps. | High | **High:** Relying on a supply-side response from tax cuts to boost revenue could disappoint, particularly in the context of the current strong labor market. Reducing progressivity would further raise inequality and raise the need for costly social transfers. Inability to raise revenues risks resulting in under-delivery on much-needed fiscal consolidation. | • Ensure reforms are guided by the principles of reducing complexity and broadening the tax base to promote vertical and horizontal equity.<br>• Reduce tax expenditures and continue to strengthen tax compliance. |
| **Failure to put public debt firmly on a downward path.** Debt-to-GDP and gross financing needs are expected to remain elevated. More acute spending pressures on defense and energy security amid ongoing geopolitical tensions. Proliferation of public loan guarantees. | Medium | **High:** With already elevated public debt and gross financing needs, any further macro-financial shocks would increase Italy's already high borrowing costs, potentially triggering the need for a sharp fiscal adjustment. High borrowing costs could also lead to financing constraints for banks and a credit crunch. The increasing use of public loan guarantees is adding to contingent liability and medium-term fiscal risks. | • Lean into continued fiscal overperformance.<br>• Promote high-quality public investment and comprehensive fiscal and structural reforms to secure a stable source of revenues and lift potential growth. |

| Sources of Risk | Relative Likelihood[1] | Impact If Realized | Policy Responses |
|---|---|---|---|
| **Stronger spillovers from European infrastructure and defense spending.** Larger-than-expected infrastructure and defense spending in Europe, especially Germany, could generate stronger positive spillovers to Italy through tightly integrated industrial supply chains. | Low | **High:** Given Italy's strong production linkages with Europe, particularly Germany, higher public investment could boost Italian industrial output, exports, and investment, particularly in manufacturing and capital goods. Stronger external demand would support growth, employment, and fiscal revenues, improving the near-term outlook. | • Facilitate firm participation in cross-border supply chains linked to European countries' public investment.<br>• Address domestic bottlenecks (skills, logistics, permitting) to maximize growth spillovers.<br>• Save revenue windfalls during stronger-than-expected growth and avoid procyclical fiscal easing. |

[1]The Risk Assessment Matrix shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more).

# Annex IV. Sovereign Risk and Debt Sustainability Analysis

## Annex IV. Table 1. Italy: Risk of Sovereign Stress

| Horizon | Mechanical Signal | Final Assessment | Comments |
|---|---|---|---|
| **Overall** | … | Moderate | Italy's overall risk of sovereign stress is assessed as moderate. The public debt ratio is high, and gross financing needs remain sizable over the medium term, w ith both expected to rise significantly in the longer term due to increased aging-related and other spending pressures, a shrinking w orking-age population, and less favorable debt dynamics. This assessment incorporates several mitigating factors beyond the mechanical models, including the ECB's tools to counter unw arranted and disorderly market dynamics, the relatively long average maturity of government debt, strong retail demand for government bonds, and reduced sovereign-bank linkages. |
| **Near term 1/** | | | |
| **Medium term** | High | High | Medium-term risks are assessed as high, in line w ith the mechanical signal. This assessment reflects the elevated public debt level and a high probability that debt may not stabilize. While gross financing needs are sizable they are partly mitigated by market absorption capacity, supported by increasing demand from retail and nonresident investors. |
| Fanchart | High | … | |
| GFN | Moderate | … | |
| Stress test | | … | |
| **Long term** | … | High | Long-term risks are assessed as high. This is due to increasing medium to long-term spending pressures, including aging-related costs amid a shrinking w orking-age population, such as pension obligations from the legacy defined-benefit scheme, and new additional spending needs such as in defense spending. Less than favorable debt dynamics, in particular rising interest rates and low grow th, could drive the public debt ratio onto a rapidly rising trajectory. |
| **Sustainability assessment 2/** | Not required for surveillance countries | Not required for surveillance countries | |
| **Debt Stabilization in the Baseline** | | | Yes |

### DSA Summary Assessment

Commentary: Italy's overall risk of sovereign stress is assessed as moderate. Medium-term risk is high, reflecting persistently elevated public debt levels and sizable gross financing needs. Long-term risks are high, driven primarily by rising aging-related expenditures and a shrinking working-age population, which pose significant challenges to debt sustainability. The moderate overall risk rating reflects a balanced assessment across all time horizons and incorporates several mitigating factors. These include potential ECB support in disorderly market dynamics, reduced bank-sovereign linkages, and improved market confidence in fiscal management. These factors provide some buffer against potential shocks but do not eliminate structural risks inherent in Italy's fiscal profile.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress w ithout its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases w here there is a disbursing IMF arrangement. In surveillance-only cases or in cases w ith precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases w here there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases w ith IMF arrangements w ith normal access, the qualifier indicating probability of sustainable debt ("w ith high probability" or "but not w ith high probability") is deleted before publication.

## Annex IV. Figure 1. Italy: Debt Coverage and Disclosures

| | | | | | | Comments |
|---|---|---|---|---|---|---|
| **1. Debt coverage in the DSA: 1/** | CG | GG | NFPS | CPS | Other | |
| **1a. If central government, are non-central government entities insignificant?** | | | | | n.a. | |
| **2. Subsectors included in the chosen coverage in (1) above:** | | | | | | |

| CPS / NFPS / GG: expected / CG | | Subsectors captured in the baseline | Inclusion | Comments |
|---|---|---|---|---|
| | 1 | Budgetary central government | Yes | |
| | 2 | Extra budgetary funds (EBFs) | No | Not applicable, consolidated as a part of the general government debt |
| | 3 | Social security funds (SSFs) | Yes | |
| | 4 | State governments | Yes | |
| | 5 | Local governments | Yes | |
| | 6 | Public nonfinancial corporations | No | |
| | 7 | Central bank | No | |
| | 8 | Other public financial corporations | No | |

| | | | | | |
|---|---|---|---|---|---|
| **3. Instrument coverage:** | Currency & deposits | Loans | Debt securities | Oth acct. payable 2/ | IPSGSs 3/ |
| **4. Accounting principles:** | Basis of recording | | Valuation of debt stock | | |
| | Non-cash basis 4/ | Cash basis | Nominal value 5/ | Face value 6/ | Market value 7/ |
| **5. Debt consolidation across sectors:** | | Consolidated | | Non-consolidated | |

**Color code:** chosen coverage | Missing from recommended coverage | Not applicable

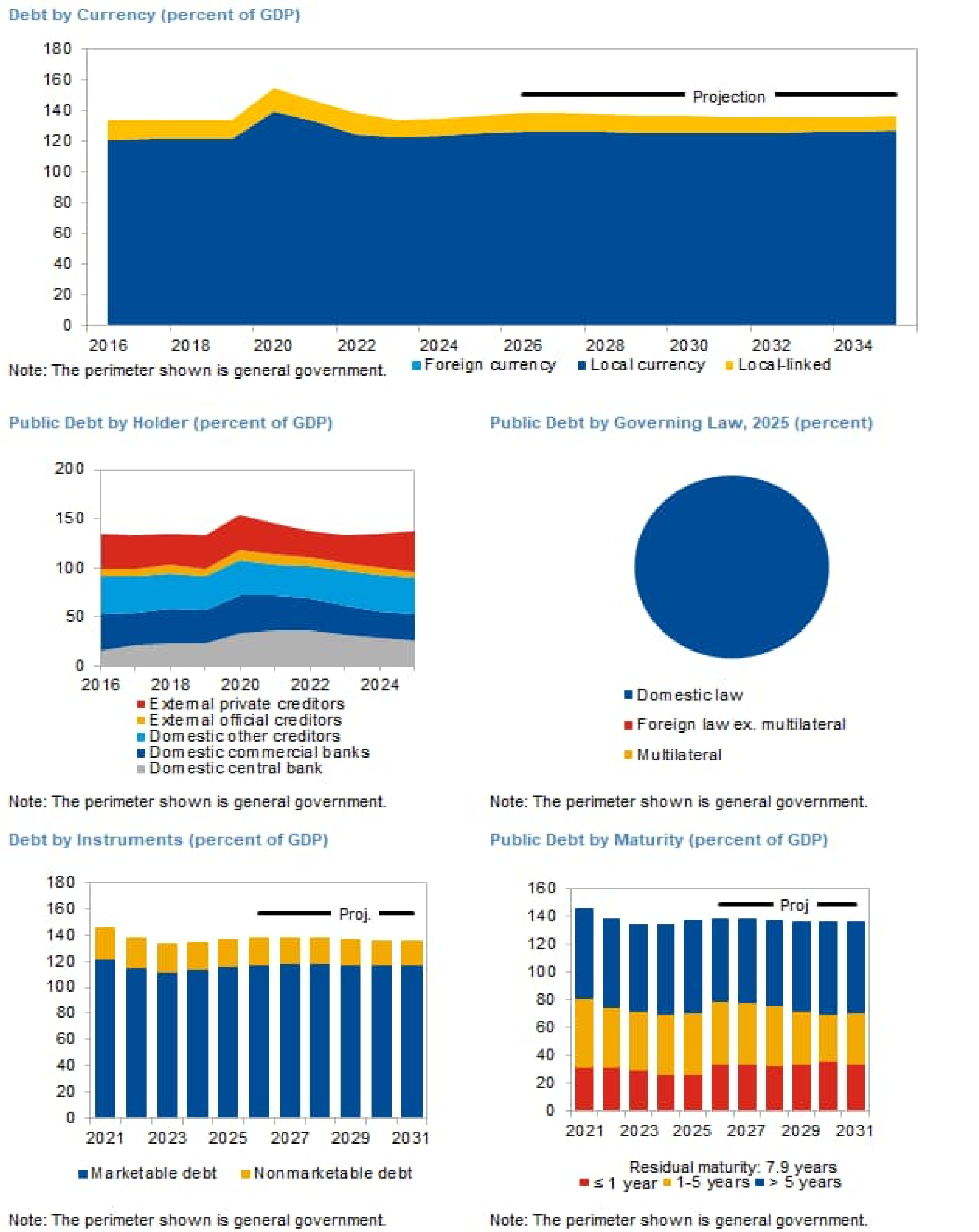
**Reporting on Intra-government Debt Holdings**

| Issuer \ Holder | | Budget. central govt | Extra-budget. funds (EBFs) | Social security funds (SSFs) | State govt. | Local govt. | Nonfin. pub. corp. | Central bank | Oth. pub. fin corp | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Budget. central govt | | | | | | | | | 0 |
| 2 | Extra-budget. funds | | | | | | | | | 0 |
| 3 | Social security funds | | | | | | | | | 0 |
| 4 | State govt. | | | | | | | | | 0 |
| 5 | Local govt. | | | | | | | | | 0 |
| 6 | Nonfin pub. corp. | | | | | | | | | 0 |
| 7 | Central bank | | | | | | | | | 0 |
| 8 | Oth. pub. fin. corp | | | | | | | | | 0 |
| | Total | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: Italy's debt coverage and disclosure are consistent with standard recommendations and remain unchanged from recent Article Ivs, while most debt is issued by the central government. Debt guaranteed by the government is not included in public debt, unless the guarantee is called.

## Annex IV. Figure 2. Italy: Public Debt Structure Indicators




Commentary: Debt is predominantly in domestic currency and marketable. About two-third of public debt is owned by residents with close to one-fifth of the debt held by the Bank of Italy. Inflation-linked bonds constitute about 10 percent of the total stock of the Italian government bonds. The average residual maturity of the general government debt is 7.9 years (BdI).

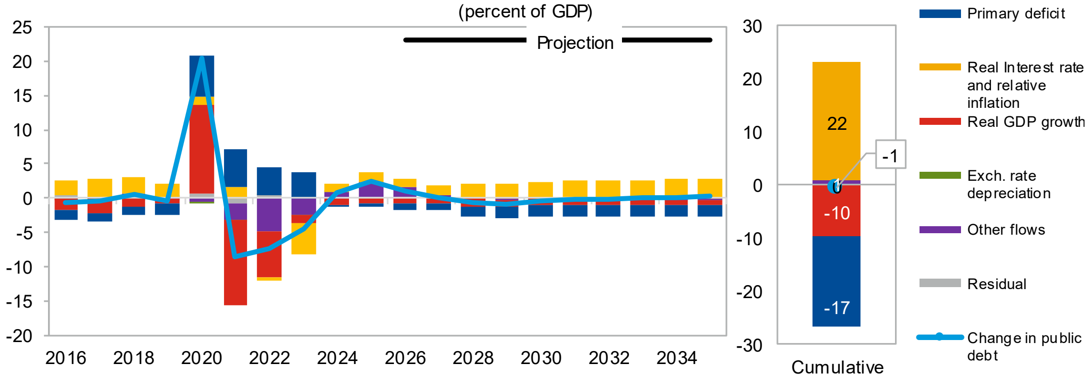
## Annex IV. Figure 3. Italy: Baseline Scenario

(Percent of GDP unless indicated otherwise)

| | Actual | Medium-term projection | | | | | | Extended projection | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 |
| Public debt | 137.1 | 138.2 | 138.2 | 137.5 | 136.7 | 136.3 | 136.1 | 136.0 | 136.1 | 136.2 | 136.4 |
| Change in public debt | 2.4 | 1.1 | 0.0 | -0.7 | -0.8 | -0.4 | -0.2 | -0.1 | 0.0 | 0.1 | 0.3 |
| Contribution of identified flows | 2.3 | 1.0 | -0.1 | -0.7 | -0.8 | -0.4 | -0.2 | -0.1 | 0.0 | 0.1 | 0.3 |
| Primary deficit | -0.6 | -0.9 | -1.1 | -1.6 | -1.7 | -1.8 | -1.8 | -1.6 | -1.6 | -1.7 | -1.6 |
| Noninterest revenues | 47.8 | 47.5 | 47.5 | 47.7 | 47.7 | 47.7 | 47.7 | 47.7 | 47.9 | 48.2 | 48.3 |
| Noninterest expenditures | 47.2 | 46.6 | 46.4 | 46.1 | 46.0 | 45.9 | 46.0 | 46.1 | 46.3 | 46.5 | 46.7 |
| Automatic debt dynamics | 0.5 | 0.4 | 0.6 | 0.9 | 1.2 | 1.4 | 1.5 | 1.7 | 1.9 | 2.0 | 2.0 |
| Real interest rate and relative inflation | 1.2 | 1.1 | 1.3 | 2.1 | 2.2 | 2.4 | 2.5 | 2.5 | 2.7 | 2.8 | 2.8 |
| Real interest rate | 1.2 | 1.1 | 1.3 | 2.1 | 2.2 | 2.4 | 2.5 | 2.5 | 2.7 | 2.8 | 2.8 |
| Relative inflation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Real growth rate | -0.7 | -0.7 | -0.7 | -1.1 | -1.0 | -0.9 | -0.9 . | -0.9 | -0.8 | -0.8 | -0.8 |
| Real exchange rate | 0.0 | … | … | … | … | … | … . | … | … | … | … |
| Other identified flows | 2.4 | 1.6 | 0.4 | 0.0 | -0.3 | 0.0 | 0.0 | -0.2 | -0.2 | -0.2 | -0.2 |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| (minus) Interest Revenues | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 |
| Other transactions 1/ | 2.6 | 1.8 | 0.7 | 0.2 | -0.1 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Contribution of residual | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | | | | | | | |
| Gross financing needs | 22.5 | 19.6 | 22.3 | 22.7 | 19.8 | 20.1 | 20.5 | 21.5 | 24.1 | 23.4 | 17.3 |
| of which: debt service | 23.3 | 20.8 | 22.3 | 22.5 | 21.7 | 22.1 | 24.5 | 23.3 | 21.5 | 18.3 | 19.0 |
| Local currency | 23.4 | 22.2 | 22.7 | 22.1 | 21.4 | 21.8 | 24.2 | 23.1 | 21.3 | 18.1 | 18.9 |
| Foreign currency | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memo: | | | | | | | | | | | |
| Real GDP growth (percent) | 0.5 | 0.5 | 0.5 | 0.8 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 |
| Inflation (GDP deflator; percent) | 2.0 | 2.2 | 2.1 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| Nominal GDP growth (percent) | 2.5 | 2.7 | 2.6 | 2.5 | 2.4 | 2.4 | 2.4 | 2.3 | 2.3 | 2.3 | 2.3 |
| Effective interest rate (percent) | 2.9 | 3.0 | 3.1 | 3.2 | 3.3 | 3.4 | 3.5 | 3.6 | 3.7 | 3.8 | 3.8 |

### Contribution to Change in Public Debt

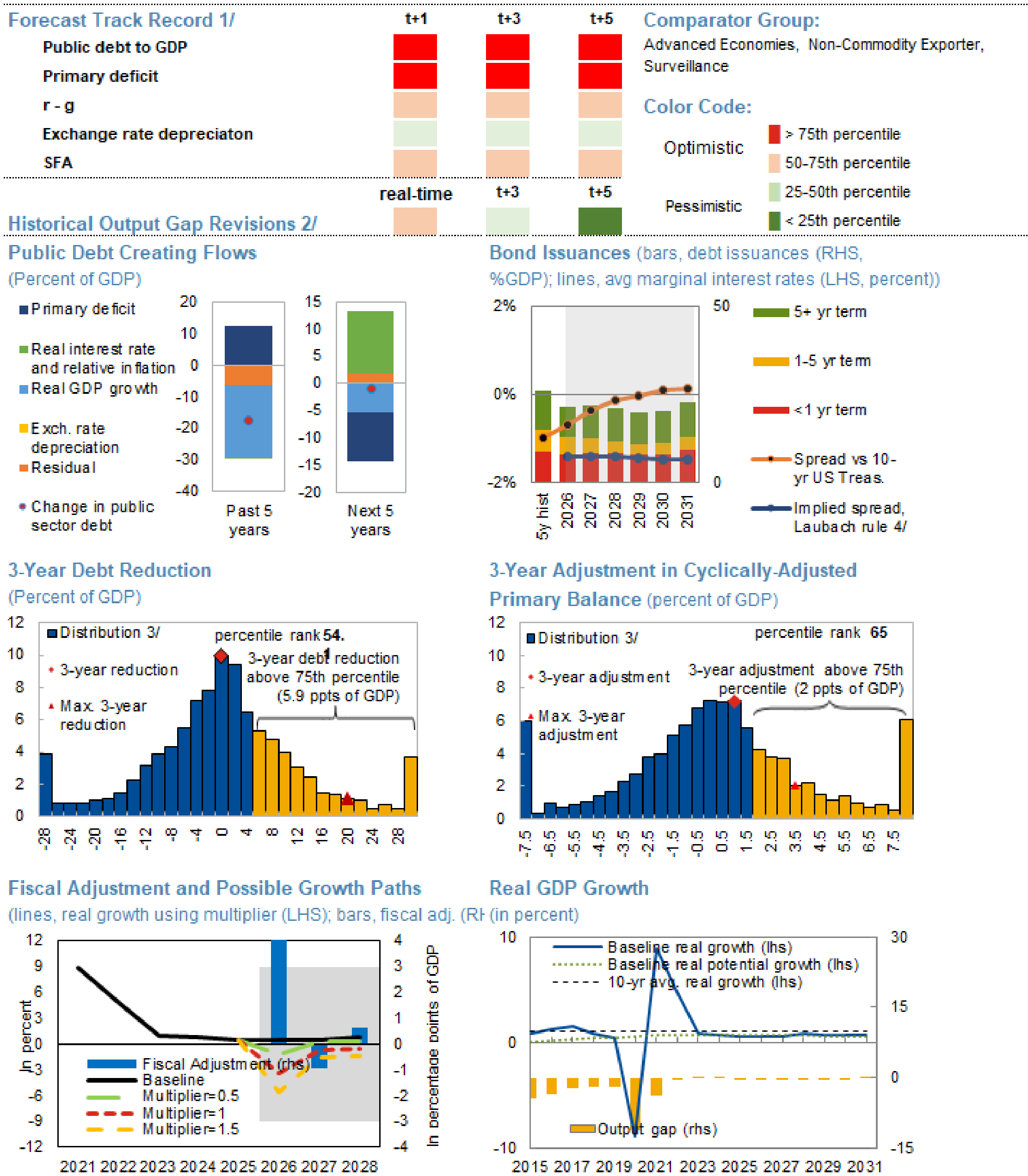
(percent of GDP)




Commentary: Italy's public debt is projected to remain at high levels due to positive interest-growth differentials and stock-flow adjustments, including claims on tax credits already granted. However, projected improvements in the primary balance are expected to partially offset these pressures over the medium term. Primary surpluses are anticipated to moderate beyond 2031, driven by rising age-related expenditures, due mainly to an influx of new retirees covered under the legacy defined-benefit pension system.

1/ These transactions include claims of tax credits that increase borrowing requirements, although their impact on the primary balance was recognized in 2023 and earlier years. The estimates are consistent with projections up to 2029 in the Public Finance Document (2026).

## Annex IV. Figure 4. Italy: Realism of Baseline Assumptions




Commentary: The realism analysis reveals a large median forecast error for the medium-term primary deficit and debt, indicating an optimism bias, while errors for the ( r - g ) projections and stock-flow adjustments are more moderate. Key public debt-increasing flows over the next five years stem from rising interest payments and residual stock-flow adjustments related to previously issued tax credits. The projected improvements in debt and the primary balance remain within norms, reflecting the phase-out of the Superbonus and other housing-related tax credits.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

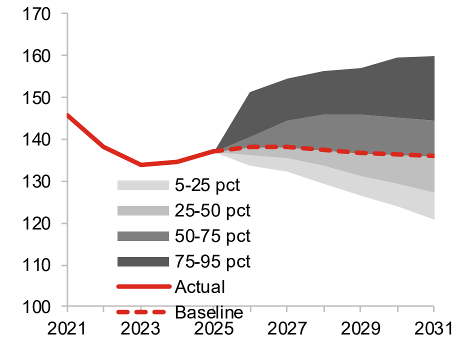
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

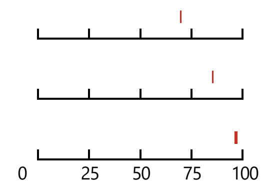
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

## Annex IV. Figure 5. Italy: Medium-Term Risk Analysis

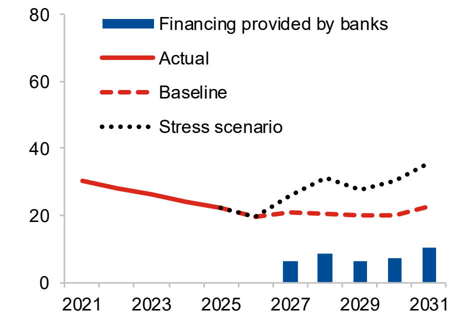
**Final Fanchart (pct of GDP)**



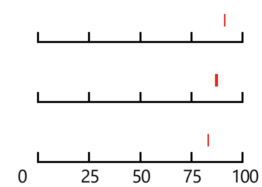

| | Value | Contrib 1/ | Percentile in peer group 2/ |
|---|---|---|---|
| **Debt fanchart module** | | | |
| Fanchart width *(percent of GDP)* | 39.3 | 0.6 | |
| Probability of debt non-stabilizaiton *(percent)* | 48.0 | 0.4 | |
| Terminal debt-to-GDP x institutions index | 58.3 | 1.2 | |
| **Debt fanchart index (DFI)** | | 2.2 | |
| **Risk signal:** 3/ | | **High** | |




**Gross Financing Needs (pct of GDP)**



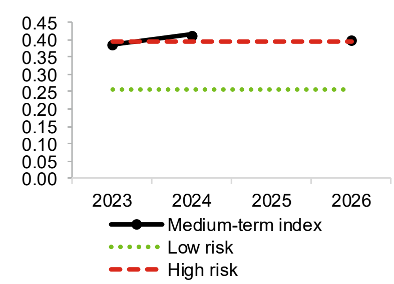

| | Value | Contrib 1/ | Percentile in peer group 2/ |
|---|---|---|---|
| **Gross financing needs (GFN) module** | | | |
| Average baseline GFN *(percent of GDP)* | 20.6 | 7.0 | |
| Initial Banks' claims on the gen. govt *(pct bank assets)* | 15.4 | 5.0 | |
| Chg. In banks' claims in stress *(pct banks' assets)* | 11.4 | 3.8 | |
| **GFN financeability index (GFI)** | | 15.8 | |
| **Risk signal:** 4/ | | **Moderate** | |




Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

**Medium-term Index (index number)**




Medium-term risk analysis

| | Value | Value (normalized) | Weight | Contribution |
|---|---|---|---|---|
| Debt fanchart index | 2.2 | 0.5 | 0.5 | 0.2 |
| GFN finaceability index | 15.8 | 0.3 | 0.5 | 0.2 |
| **Medium-term index** | | 0.4 | | |
| **Risk signal: 5/** | | **High** | | |
| **Final assessment:** | | **High** | | |

Prob. of missed crisis, 2026-2031, if stress not predicted: 54.5 pct.

Prob. of false alarms, 2026-2031, if stress predicted: 9.1 pct.

Commentary: Medium-term risk is assessed as high, consistent with the mechanical signal. This reflects elevated public debt level and sizable gross financing needs. The "Debt Fanchart" module indicates high risk, due to a wide fan chart, a high probability of debt non-stabilization, and a high terminal debt-to-GDP ratio. The GFN module indicates moderate risk, given the sizable average baseline gross financing needs.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is advanced economies, non-commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

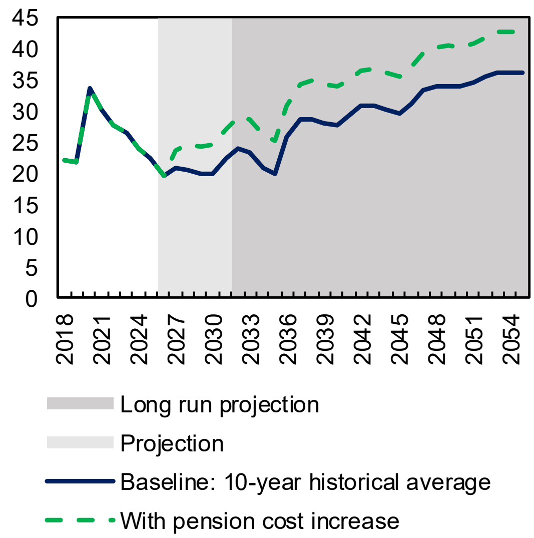
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

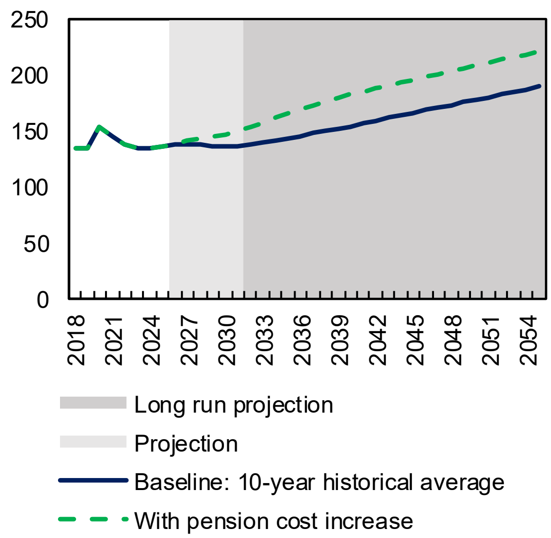
## Annex IV. Figure 6. Italy: Long-Term Risk Analysis: Pensions and Health

### Pensions

**GFN-to-GDP ratio**

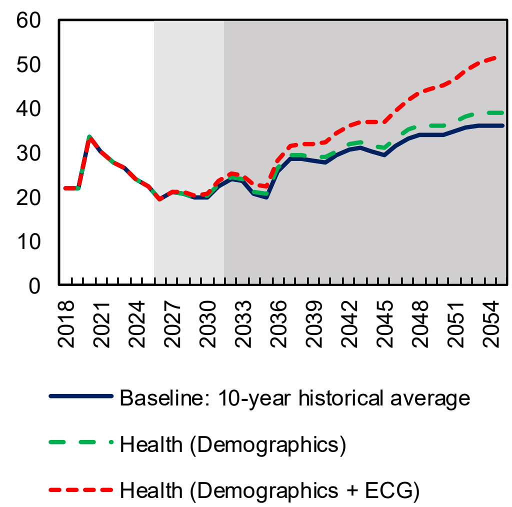



**Total public debt-to-GDP ratio**

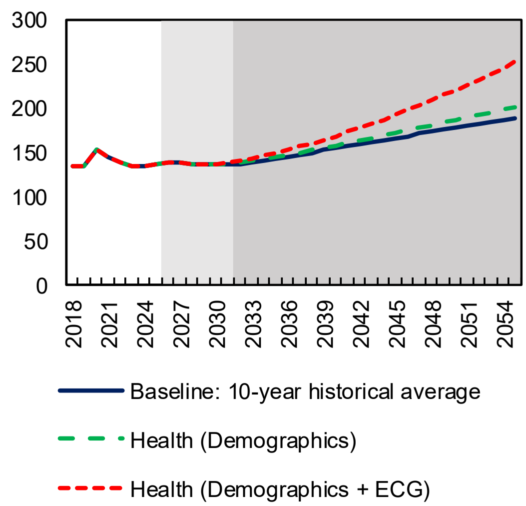



### Health

**GFN-to-GDP ratio**




**Total public debt-to-GDP ratio**




**Commentary**: Long-term risk is assessed as high. This reflects under the baseline, rising pension obligations under the defined -benefit scheme from about 15.3 percent of GDP in 2024 to peak at 16.4 -16.6 percent of GDP at around 2040 and increasing healthcare expenditure from 6.3 percent of GDP in 2024 to 7.3-7.4 percent of GDP in 2040 (MEF Medium-Long Term Trends for Pension and Healthcare System).

# Annex V. Key Recommendations from the 2026 FSAP

| Recommendations | Authorities | Timeline[1] |
|---|---|---|
| **Systemic Risk Monitoring and Macroprudential Policies** | | |
| Extend the Systemic Risk Buffer (SyRB) beyond domestic credit and counterparty risk exposure to cover all residual systemic risks. | BdI | I |
| Deploy targeted policy tools to address risks from sovereign concentration exposures—such as Pillar 2 capital add-ons for bank-specific risks and SyRB for system-wide risks—while clearly differentiating their objectives to minimize overlap. | BdI | ST |
| Further strengthen the macroprudential institutional framework through greater formalization of institutional practices, enhanced public communication, and broader external engagement. | CMP/BdI | I/ST |
| Revise regulations to allow the early deployment of borrower-based measures (BBMs) and adopt a proactive approach to build resilience. | BdI | ST |
| More actively integrate analytical tools into macroprudential policy calibration and implementation, while continuing to develop system-wide stress testing and strengthening data on banks' market risk sensitivities and hedging strategies. | BdI | ST |
| **Cross-Cutting Issues** | | |
| Adopt a time-bound plan to significantly reduce the public guarantees on bank lending, while closely monitoring the impact on the most exposed LSIs. | Government, BdI | ST |
| Amend primary legislation to ensure effective legal protection for supervisory and resolution authorities' staff, including full coverage of legal costs from the onset. | Government | ST |
| Prioritize risk-based on-site inspections for LSIs, insurance companies and other NBFIs, expanding targeted inspections and streamlining processes. | BdI, IVASS, CONSOB | I |
| **Banking Sector Regulation and Supervision** | | |
| Grant BdI the explicit power to require LSIs to adjust their asset risk classification and increase provisioning levels for prudential purposes. | Government | ST |
| Continue prioritizing corporate governance supervision to strengthen board oversight, independent directors' role, and risk management and control functions. | BdI | ST |
| Proactively conduct supervisory work to strengthen LSIs' operational resilience and increase supervisory capacity for IT and cyber risks. | BdI | ST |
| Further strengthen preventive supervision through earlier and more active use of corrective powers within the escalation ladder, including timely action to address business model-driven vulnerabilities. | BdI | ST |

| Recommendations | Authorities | Timeline[1] |
|---|---|---|
| **Insurance Sector Regulation and Supervision** | | |
| Complete the integration of IVASS into BdI to address structural resource constraints and ensure supervisory effectiveness. | Government | ST |
| Introduce a floor on capital relief from internal models and apply a consistent approach to the risk of sovereign bonds across internal model users. | IVASS, EIOPA | ST |
| Fully implement the Insurance Recovery and Resolution Directive and extend the Life Insurance Guarantee Scheme to cover all insurers and intermediaries operating in Italy. | Government, IVASS | MT |
| Extend the use of International Financial Reporting Standards to all insurance companies. | Government, IVASS | MT |
| **Financial Market Infrastructures** | | |
| Ensure that Euronext Securities Milan (ES-MIL) effectively manage competing priorities within the Euronext group and across CSDs, safeguarding its independence in risk management and maintaining an adequate staff level. | CONSOB, BdI | ST |
| Strengthen FMI governance by improving board performance evaluations, establishing a direct reporting line from the Chief Risk Officer to a non-executive board director at ES-MIL, and reinforcing conflict-of-interest policies at ES-MIL. | CONSOB, BdI | MT |
| **Cybersecurity Regulation and Supervision** | | |
| Update the national cybersecurity strategy for the financial sector, explicitly incorporating insurance and pension fund supervisors. | BdI, CONSOB, COVIP, IVASS | ST |
| Strengthen cyber governance, including board-level oversight and the designation of accountable executives (e.g., CISOs) in proportion to institutional risk profiles. | BdI, CONSOB, COVIP, IVASS | MT |
| Expand simulations and cyber stress tests to cover payment disruptions, supply chain attacks, and cross-sector scenarios involving energy and telecom infrastructures. | BdI, CONSOB, COVIP, IVASS | C |
| **Financial Integrity** | | |
| Continue strengthening risk-based AML/CFT supervision, notably through dissuasive enforcement, greater emphasis on preventive measures for certain NBFIs, adequate supervisory resourcing, and assessing financial stability implications of financial integrity failures. | BdI | C |
| Enhance geographic ML/TF risk analysis to better assess the economic rationale of cross-border flows and maintain support for regional supervisory cooperation efforts. | BdI | ST |

| Recommendations | Authorities | Timeline[1] |
|---|---|---|
| **Financial Safety Net and Crisis Preparedness** | | |
| Reinforce the DGS by removing active bankers and considering its eventual transition to the public sector, discontinuing the recurrent reliance on preventive interventions for non-systemic failing banks, and publishing valuation methodologies. | Government, BdI, DGS | ST |
| Incorporate well-defined indicators to inform BdI's decision-making on the assessment of failing or likely to fail (FOLTF). | BdI | ST |
| Strengthen inter-agency crisis coordination by establishing a forum for coordination on crisis-management. | BdI, DGS | ST |
| Improve disclosure of the policy framework on the possible central bank role as lender of last resort for banks that have been stabilized in resolution. | BdI | ST |
| Continue operationalizing ongoing reforms to enhance the efficiency of insolvency and enforcement procedures. | Government | ST |
| [1] C = Continuous; I = Immediate (within one year); ST = Short Term (within 1–2 years); MT = Medium Term (within 3–5 years) | | |

# Annex VI. Transnational Aspects of Corruption

*Italy volunteered to have its legal and institutional frameworks assessed in the context of bilateral surveillance on the supply and facilitation of corruption. This annex updates on facilitation-related issues, based on findings from Italy's 2026 Financial Action Task Force (FATF) assessment against the international Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) standards.*

## Facilitation Side

1. **Italy's AML/CFT framework helps mitigate the risk of laundering proceeds of foreign corruption through risk-based preventive measures, financial intelligence, transparency, and international cooperation**.[1] The 2026 FATF mutual evaluation report highlights Italy's comprehensive understanding of its money laundering (ML) risks, including corruption as a key predicate offense, and notes that proceeds from corruption and tax offenses give rise to cross-border money laundering through complex structures. Preventive measures include customer due diligence and politically exposed persons (PEP) controls, with effectiveness varying across sectors, while beneficial ownership arrangements support transparency but are constrained by limitations in access and effectiveness, including the suspension of the central beneficial ownership register.[2] These are complemented by extensive use of international cooperation mechanisms, including mutual legal assistance and asset recovery tools, which are broadly aligned with Italy's risk profile. Financial intelligence produced by the Financial Intelligence Unit (Unità di Informazione Finanziaria or UIF), supported by law enforcement analysis, contributes to the detection, investigation, and disruption of complex laundering schemes and the identification and recovery of illicit assets.

2. **Efforts should continue to further mitigate the risk that Italy's financial and non-financial sectors could be misused for the laundering of proceeds of foreign corruption.** Strengthening the understanding of geographic risk would further support risk-based prioritization within national assessments and supervisory activity. Weaknesses in preventive measures persist, including implementation limitations in customer due diligence and PEP frameworks, particularly outside the banking sector, as reflected in supervisory findings. The effectiveness of beneficial ownership transparency is constrained by limitations in access to information, which may affect the ability to trace assets. Supervisory effectiveness is uneven across sectors, particularly among Designated Non-Financial Businesses and Professions (DNFBPs) and Virtual Asset Service Providers (VASPs), with risk-based prioritization not fully consistent. Weaknesses in monitoring and data—particularly the absence of systematic tracking of mutual legal assistance activity and cross-border asset recovery outcomes—limit the ability to fully assess alignment with Italy's risk exposure. In addition, supervisory enforcement measures can be subject to delays, which may affect their overall deterrent impact.

---

[1] See 2026 Italy Mutual Evaluation Report [Italy's measures to counter money laundering, terrorist financing and proliferation financing]

[2] Although Italy established a beneficial ownership register pursuant to EU requirements, its operation was suspended for a substantial part of the period under review owing to ongoing court proceedings, including proceedings before the Court of Justice of the European Union.

# Annex VII. Data Issues

## Annex VII. Table 1. Italy: Data Adequacy Assessment for Surveillance

| Data Adequacy Assessment Rating[1] | | | | | | | |
|---|---|---|---|---|---|---|---|
| A | | | | | | | |
| Questionnaire Results[2] | | | | | | | |
| **Assessment** | National Accounts | Prices | Government Finance Statistics | External Sector Statistics | Monetary and Financial Statistics | Intersectoral Consistency | Median Rating |
| | A | A | A | A | A | A | A |
| Detailed Questionnaire Results | | | | | | | |
| **Data Quality Characteristics** | | | | | | | |
| Coverage | A | A | A | A | A | | |
| Granularity[3] | A | | A | A | A | | |
| | | | A | | A | | |
| Consistency | | | A | A | | A | |
| Frequency and Timeliness | A | A | A | A | A | | |

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.

[1]The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

[2]The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).

[3]The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of Financial Soundness indicators.

| | |
|---|---|
| A | The data provided to the Fund are adequate for surveillance. |
| B | The data provided to the Fund have some shortcomings but are broadly adequate for surveillance. |
| C | The data provided to the Fund have some shortcomings that somewhat hamper surveillance. |
| D | The data provided to the Fund have serious shortcomings that significantly hamper surveillance. |

**Rationale for staff assessment.** Data provision is adequate for surveillance. Italy's economic and financial statistics are comprehensive, of high quality, and are provided to the Fund in a comprehensive manner. The authorities regularly publish a full range of economic and financial data, as well as a calendar of dates for the main statistical releases. Italy is also subject to the statistical requirements of Eurostat and the European Central Bank, including the timelines and reporting standards, and it had adopted the European System of Accounts 2010. Also, Italy has completed the core requirements in relation to the Data Gaps Initiative 2 recommendations for which data templates have been defined, including on data to better monitor risks in the financial sector as well as on data to measure vulnerabilities, interconnectedness, and spillovers.

**Changes since the last Article IV consultation** N/A

**Corrective actions and capacity development priorities** N/A

**Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff.** N/A

**Other data gaps.** Italy has made some progress on addressing the data gaps identified under Data Gaps Initiative 3: some greenhouse gas emissions and energy accounts are now available; and work is progressing on the remaining twelve recommendations which cover climate; financial innovation; household distribution, and data sharing.

## Annex VII. Table 2. Italy: Data Standards Initiatives

Italy adheres to the Special Data Dissemination Standard (SDDS) Plus since February 2015 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

## Annex VII. Table 3. Italy: Table of Common Indicators Required for Surveillance

(As of June 17, 2026)

| | Data Provision to the Fund | | | | Publication under the Data Standards Initiatives through the National Summary Data Page | | | |
|---|---|---|---|---|---|---|---|---|
| | Date of Latest Observation | Date Received | Frequency of Data[7] | Frequency of Reporting[7] | Expected Frequency[7,8] | Announced Frequency[9] | Expected Timeliness[7,8] | Announced Timeliness[9] |
| Exchange Rates | 2026-06-17 | 2026-06-17 | D | D | D | D | ... | 1D |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1] | 2026-04 | 2026-06 | M | M | M | M | 1M (1W encouraged) | NLT 1M |
| Reserve/Base Money | 2026-04 | 2026-06 | M | M | M (W encouraged) | M | 2W (1W encouraged) | NLT 1W |
| Broad Money | 2026-04 | 2026-06 | M | M | M | M | 1M | 1M |
| Central Bank Balance Sheet | 2026-04 | 2026-06 | M | M | M (W encouraged) | M | 2W (1W encouraged) | NLT 1W |
| Consolidated Balance Sheet of the Banking System | 2026-04 | 2026-06 | M | M | M | M | 1M | 1M |
| Total assets of other depository corporations[2] | 2026-04 | 2026-06 | Q | Q | M | M | 1M | 1M |
| Total credit from other depository corporations[2] | 2026-04 | 2026-06 | Q | Q | M | M | 1M | 1M |
| Interest Rates[3] | 2026-06-17 | 2026-06-17 | D | D | D | D | ... | 1D |
| Consumer Price Index | 2026-05 | 2026-06 | M | M | M | M | 1M | 2W |
| Revenue, Expenditure, Balance and Composition of Financing[4]-General Government[5] | 2025-12 | 2026-03 | Q | Q | Q | Q | 12M | 4M |
| Revenue, Expenditure, Balance and Composition of Financing[4]-Central Government | 2025-12 | 2026-03 | Q | Q | M | M | 1M | 30D |
| Stocks of Central Government and Central Government-Guaranteed Debt[6] | 2025-12 | 2026-03 | Q | Q | Q | Q | 1Q | NLT 1Q |
| Total stock of General Government Debt[5] | 2025-12 | 2026-03 | Q | Q | Q | Q | 4M | NLT 50D |
| External Current Account Balance | 2026-03 | 2026-05 | Q | Q | Q | M | 1M | 1M |
| Exports and Imports of Goods and Services | 2026-03 | 2026-03 | Q | Q | M | M | 8W (4-6W encouraged) | NLT 7W |
| GDP/GNP | 2026-03 | 2026-05 | Q | Q | Q | Q | 1Q | 10W |
| Gross External Debt | 2025-12 | 2026-03 | Q | Q | Q | Q | 1Q | 1Q |
| International Investment Position | 2025-12 | 2026-03 | Q | Q | Q | Q | 1Q | 85D |

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Other depository corporations include all deposit-taking corporations (except for the central bank) and money market funds.

[3] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

## Annex VII. Table 3. Italy: Table of Common Indicators Required for Surveillance (Concluded)

[4] Foreign, domestic bank, and domestic non-bank financing.

[5] The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments. The total stock of general government debt is required for SDDS Plus countries and encouraged for SDDS and e-GDDS countries.

[6] Including currency and maturity composition.

[7] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semi-annual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[8] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan. Indicators that are not in the IMF Data Standards Initiatives are shown as "...".

[9] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

INTERNATIONAL MONETARY FUND

# ITALY

June 30, 2026

## STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX


Prepared By | European Department


## CONTENTS

# FUND RELATIONS

(As of May 31, 2026)

**Membership Status:** Joined March 27, 1947; Article VIII.

| **General Resources Account:** | **SDR Million** | **Percent of Quota** |
|---|---|---|
| Quota | 15,070.00 | 100.00 |
| Fund holdings of currency | 11,134.94 | 73.89 |
| Reserve Tranche Position | 3,935.07 | 26.11 |
| Lending to the Fund | | |
| New arrangements to borrow | 13,797.04 | |

| **SDR Department:** | **SDR Million** | **Percent of Allocation** |
|---|---|---|
| Net cumulative allocation | 21,020.03 | 100.00 |
| Holdings | 21,696.26 | 103.22 |

**Outstanding Purchases and Loans:** None

**Financial Arrangements:** None

**Projected Obligations to Fund** (SDR million; based on existing use of resources and present holdings of SDRs):

| | **Forthcoming** | | | | |
|---|---|---|---|---|---|
| | 2025 | 2026 | 2027 | 2028 | 2029 |
| Principal | | | | | |
| Charges/Interest | | 0.10 | 0.10 | 0.10 | 0.10 |
| **Total** | | 0.10 | 0.10 | 0.10 | 0.10 |

**Exchange Rate Arrangements:** The currency of Italy is the euro. The exchange rate arrangement of the euro area is free floating. Italy participates in a currency union (EMU) with 20 other members of the EU and has no separate legal tender. The euro, the common currency, floats freely and independently against other currencies.

Italy accepted the obligations under Article VIII, Section 2, 3, and 4 of the IMF's Articles of Agreement, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, except for the exchange restrictions imposed by Italy solely for the preservation of national or international security that have been notified to the Fund pursuant to Executive Board Decision No. 144-(52/51).

**Article IV Consultations:** Italy is on the standard 12-month consultation cycle. The previous consultation discussions took place during May 14-28, 2025; the staff report (IMF Country Report No. 25/201) was discussed by the Executive Board on July 18, 2025.

**FSAP.** The 2026 FSAP missions were held in November 2025 and March 2026. The findings were discussed with the authorities during the Article IV consultation discussions in May 2026 and were presented to the Executive Board for discussion alongside the Article IV staff report on July 17, 2026. The previous FSAP was discussed by the Executive Board on March 18, 2020 (IMF Country Report No. 20/81).

**ROSCs/FSAP:**

| **Standard Code Assessment** | **Date of Issuance** | **Country Report** |
|---|---|---|
| Fiscal Transparency | October 9, 2002 | No. 02/231 |
| Data | October 18, 2002 | No. 02/234 |
| Fiscal ROSC update | November 2003 | No. 03/353 |
| Fiscal ROSC update | February 2006 | No. 06/64 |
| FSAP | September 2013 | No. 13/300 |
| FSAP | March 2020 | No. 20/81 |
| FSAP | July 2026 | |

**Technical Assistance:**

| **Year** | **Department/Purpose** |
|---|---|
| 2007 | FAD: Public Expenditure Management |
| 2012 | FAD: Tax Policy |
| 2015 | FAD: Tax Administration |
| 2025 | FAD: Public Financial Management |

**Statement by Riccardo Ercoli, Executive Director for Italy, Guido De Blasio, Senior Advisor to Executive Director, and Annalisa Korinthios**

**July 17, 2026**

*The Italian authorities welcome staff's balanced assessment and appreciate the Fund's continued engagement. We thank Ms. Christiansen, Ms. Griffin and their teams for the high-quality reports and for the constructive policy dialogue during the Article IV consultation and the Financial Sector Assessment Program (FSAP).*

*This Article IV comes at a particularly important juncture, coinciding with the final phase of the National Recovery and Resilience Plan (NRRP), almost four years after the Government took office. Together with the FSAP, it provides a timely opportunity to take stock of the progress achieved and draw some broader conclusions.*

*Despite a decisive fiscal consolidation effort undertaken amid a heightened external uncertainty, the Italian economy has continued to expand, albeit at a moderate pace. This demonstrates that sound public finances and economic resilience can reinforce each other when supported by credible policies and structural reforms.*

*The hard-won macroeconomic stability achieved provides the essential foundation for sustainable long-term growth. Building on this progress, Italy remains firmly committed to staying the course, guided by prudence and responsibility while continuing to advance an ambitious reform agenda aimed at fostering the competitiveness of the Italian economy. The authorities view the end of the NRRP not as a final destination, but as a significant milestone in a broader transformation process that will continue through the Medium-Term Fiscal-Structural Plan and the next Multiannual Financial Framework, ensuring continuity in both investment and reforms.*

*The FSAP showed that the Italian banking system remains sound and resilient, even under severe macro-financial stress scenarios. The FSAP's positive assessment reflects the substantial progress achieved since the previous exercise, including marked improvements in asset quality, profitability, capital and liquidity buffers. This is yet another testament to the resilience built through previous crises. The authorities remain vigilant and stand ready to adapt their supervisory and regulatory frameworks to a rapidly evolving financial landscape shaped by technological innovation, new forms of intermediation, and artificial intelligence.*

**Fiscal Policy**

*Issues we would like to emphasize in line with staff's appraisal:*

**Recognizing that financial stability is a prerequisite for sustainable growth, particularly in high-debt countries, the Government has worked tirelessly to reduce the deficit and protect the soundness of public finances, while at the same time ensuring that consolidation did not come at the expense of economic growth. As noted in the Staff Report, this hard work has paid off.** Remarkably, the authorities were able to deliver a sizable fiscal consolidation while maintaining economic growth and record-high employment. **When the current Government**

**took office in 2022, it inherited a deficit-to-GDP ratio of 8.1 percent; notwithstanding a succession of external shocks, the 2025 deficit has been reduced to 3.1 percent.** This reduction of 5 percentage points of GDP would likely have come at a much greater cost to economic activity in the absence of the NRRP: a simple counterfactual exercise shows that real GDP growth would have hovered around zero percent, while the debt-to-GDP ratio would have been nearly 2 percentage points higher by 2026.

**Therefore, any assessment of Italy's modest pace of growth should be viewed against the backdrop of an extraordinary fiscal adjustment.** Moreover, potential growth estimates may not yet fully reflect the effects of the reforms implemented under the NRRP, thereby understating the economy's underlying strength and medium-term growth prospect. As the authorities have repeatedly emphasized, fiscal consolidation must be growth-friendly and sustainable. Consistent with this approach, they have pursued consolidation while protecting productive investment, supporting vulnerable households, and advancing growth-enhancing reforms also through the NRRP. What many considered unattainable—a sizeable fiscal adjustment without undermining growth—has become a reality. These efforts have also reinforced confidence in Italy's economic outlook.

The authorities' fiscal consolidation strategy has combined stronger revenue collection with a continued focus on expenditure efficiency. On the revenue side, Italy has continued to reduce tax evasion and strengthen tax compliance through a combination of digitalization, data-driven controls, and enforcement measures, with tax recovery and compliance-related revenues reaching a record €36.2 billion in 2025. The Government's decision to phase out the temporary fuel excise tax relief introduced in response to the energy crisis testifies once again to a responsible and disciplined fiscal strategy that provides support when needed while avoiding the permanent entrenchment of emergency measures, in line with the IMF's advice. On the expenditure side, the authorities have undertaken sustained efforts to rationalize expenditure, eliminate inefficiencies, and create room for growth-enhancing investments.

The NRRP remains a cornerstone of this strategy, supporting high-impact investments and structural reforms and laying the foundations for higher productivity, greater competitiveness, and stronger potential growth over the medium term. And, as with any ambitious reform agenda, many of the benefits will continue to materialize gradually over time. These findings underscore the important contribution of the NRRP in supporting economic activity while improving debt sustainability.

Indeed, Italy has seized the opportunity offered by the NRRP, and translated it into tangible reforms, investments, and stronger economic performance. Beyond reforms and investments, the performance-based nature of the NRRP has strengthened the public sector's governance. This approach will continue under the new Multiannual Financial Framework.

*Issues where we have different or more nuanced views, compared to staff's recommendations:*

The authorities consider that staff's recommendation for a more front-loaded adjustment of 1 percent of GDP in 2026-27 does not fully reflect the broader economic policy considerations relevant at the current juncture. As staff recognize, the current strategy is already delivering meaningful consolidation and is consistent with the EU fiscal framework. A significantly larger adjustment could risk weighing on the recovery just as the economy is still facing repeated external shocks and heightened uncertainty. While the authorities share the objective of maintaining a prudent fiscal stance and continuing to overperform fiscal targets, they believe that the magnitude of the proposed adjustment would be self-defeating at this stage. Looking ahead, the authorities remain firmly committed to fiscal discipline and will continue to be guided by the prudent philosophy championed by Minister Giorgetti: committing conservatively while aiming to outperform.

Furthermore, while the authorities concur with staff's overall assessment that sovereign debt risks are moderate, they disagree with the characterization of medium-term debt risks as high. This assessment does not fully reflect the substantial fiscal consolidation already achieved, the continued commitment to prudent fiscal policies, and several important mitigating factors, including the long maturity profile of public debt, the strength and diversification of the investor base, and the reduction in bank-sovereign linkages. In addition, the ongoing implementation of the NRRP is already supporting economic modernization and, although macroeconomic models struggle to take this into account, it is expected to strengthen medium-term growth prospects. Taken together, these factors provide important safeguards for debt sustainability and support the view that medium-term risks remain manageable.

**Structural Reforms**

*Issues we would like to emphasize in line with staff's appraisal:*

**As the NRRP enters its final phase, Italy is advancing an ambitious reform agenda on multiple fronts at once, making substantial progress in areas that have long represented structural weaknesses.** Under the NRRP, Italy has been implementing an unprecedented set of reforms in taxation, justice, public administration, education, research, and innovation. Important steps have also been taken to address long-standing weaknesses in the business ecosystem. At the same time, Italy has strengthened the State's administrative capacity to ensure that implementation continues through the final stretch. General government gross fixed capital formation as a share of GDP has not been so high since 2010. Employment has reached record levels, female labour force participation has continued to increase, and the share of young people not in employment, education, or training (NEET) has declined markedly. Results are beginning to emerge. Of course, reforms do not produce their full effects overnight. '*Rome was not built in a day*', and neither is a stronger, more competitive economy. But the direction is clear, the effort is real, and the commitment is sustained.

While these achievements provide a strong foundation, continued efforts will be needed to fully unlock their long-term economic benefits and break Italy's long-standing low-productivity, low-growth trajectory. There remains considerable scope to further increase labour force participation, especially among women and young people, reduce regional disparities, strengthen skills, and ensure that employment gains translate into stronger productivity growth over the medium term. In this regard, the Fund's continued focus and policy advice are especially valuable.

Against this background, perhaps the most important legacy of the NRRP is not only the investments and reforms it has delivered, but also the demonstration that ambitious policy objectives can be achieved when clear targets, strong governance, and effective coordination mechanisms are aligned.

In that sense, the NRRP can be seen as the starting point of a broader and enduring transformation. Its priorities are being carried forward through Italy's Medium-Term Fiscal-Structural Plan, which embeds many of the same policy goals—productivity-enhancing reforms, investment, fiscal sustainability, digitalization, and administrative modernization—within a longer-term policy framework.

Looking further ahead, these objectives are expected to remain firmly embedded in Italy's reform and investment agenda under the next Multiannual Financial Framework. As a result, the horizon of the NRRP extends well beyond its formal conclusion, having established a policy roadmap that will continue to guide reforms, investment, and modernization efforts for many years to come.

**Financial Sector and FSAP**

*Issues we would like to emphasize in line with staff's appraisal:*

**The FSAP finds that the Italian banking system remains sound and resilient, even under severe macro-financial stress scenarios. This positive assessment reflects the substantial progress achieved since the previous FSAP, including marked improvements in asset quality, profitability, capital and liquidity buffers, as well as the successful restructuring of the banking sector over the past decade.**

The authorities' proactive approach to crisis prevention and management has helped address vulnerabilities in weaker institutions, contributing to the concentration of residual risks in a limited number of less significant institutions (LSIs). At the same time, the gradual diversification of the sovereign investor base away from banks and toward households and foreign investors has reduced concentration risks and further weakened bank-sovereign linkages. In the area of cyber resilience, continued advances in supervisory capabilities, enhanced inter-agency coordination, and the implementation of the Digital Operational Resilience Act (DORA) have significantly strengthened the overall framework. Finally, the FSAP confirms that the Italian banking sector remains broadly resilient to physical climate risks, even under extremely severe assumptions regarding climate-related damages.

The authorities are fully aware that these positive developments leave no room for complacency. The financial system is evolving rapidly, reflecting the rise of innovation, the emergence of new forms of financial intermediation, and the transformative impact of artificial intelligence. The Government, the Bank of Italy, as well as the other regulatory and supervisory authorities are closely monitoring these developments and adapting their frameworks accordingly. Their objective is to ensure that effective risk management goes hand in hand with enhancing the financial system's capacity to provide credit to households and businesses, thereby supporting sustainable economic growth.

**Conclusions**

**The authorities wish to reiterate their appreciation for the Fund's candid and constructive policy advice. Italy has consistently attached great importance to its dialogue with the Fund, viewing it as a valuable opportunity to challenge assumptions, enrich policy discussions, and strengthen policy frameworks. As evidenced by the progress reported in Annex II, many of the reforms and policy actions undertaken in recent years have been broadly aligned with recommendations put forward by the Fund.**

The authorities particularly welcome the Fund's increasing emphasis on the structural drivers of productivity and long-term growth and greatly appreciate the thoughtful choice of topics for the Selected Issues Papers (SIPs), which provided valuable analysis and constructive input on issues central to Italy's economic transformation and growth agenda.

This evolution reflects an important recognition that overcoming Italy's long-standing challenges requires not only sound public finances, but also sustained efforts to strengthen human capital, foster innovation, raise labour force participation, support investment, and enhance competitiveness.

While differences in views naturally remain on some issues, the authorities look forward to continuing their close and constructive engagement with the Fund in pursuit of stronger, more resilient, and more sustainable growth.