



Italy: Staff Concluding Statement of the 2026 Article IV Mission

May 27, 2026

A Concluding Statement describes the preliminary findings of IMF staff at the end of an official staff visit (or ‘mission’), in most cases to a member country. Missions are undertaken as part of regular (usually annual) consultations under Article IV of the IMF’s Articles of Agreement, in the context of a request to use IMF resources (borrow from the IMF), as part of discussions of staff monitored programs, or as part of other staff monitoring of economic developments. The authorities have consented to the publication of this statement. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF’s Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF Executive Board for discussion and decision.

Washington, DC: *An International Monetary Fund (IMF) mission, led by Lone Christiansen and comprising Silvia Albrizio, Yueling Huang, Alain Kabundi, and Yu Ching Wong, conducted discussions for the 2026 Article IV Consultation with Italy during May 13–26, 2026. At the end of the visit, the mission issued the following statement:*

- *Outlook:* Economic activity faces an increasingly challenging near-term outlook in the face of global uncertainty and higher energy prices. Medium-term growth prospects remain subdued, constrained by weak productivity growth and population aging.
- *Fiscal policy:* Continued fiscal consolidation has strengthened market confidence. Yet, public debt remains high. A more front-loaded adjustment, centered on tax base broadening, improved tax compliance, and gains in spending efficiency, would help rebuild buffers and enhance resilience.
- *Financial sector policy:* The financial system remains resilient, supported by record profits and strong capital and liquidity buffers. Further enhancing supervisory agility and a more proactive macroprudential approach would help continue safeguarding stability.

- *Structural policies:* In the face of successive global shocks, it is essential to continue with steadfast reform implementation to lift productivity growth and support public-sector debt reduction. Decisive progress on national reforms, along with efforts to deepen the EU's single market, would support firm growth, strengthen the supply of skilled labor, foster innovation, and enhance energy security.

Economic Outlook—Modest Growth Subject to Rising Downside Risks

The Italian economy is projected to continue to grow at a modest pace, weighed down by external headwinds and structural challenges. Real GDP expanded by 0.5 percent in 2025, supported by private consumption and continued investment under the National Recovery and Resilience Plan (NRRP). However, with the war in the Middle East, headline inflation picked up notably to 2.8 percent year-on-year in April, reflecting Italy's relatively high dependence on imported fossil fuels for energy generation. At the same time, sovereign spreads, which had reached multi-year lows prior to the war, faced renewed volatility though remain contained. In turn, amid the impact of the war, the April 2026 World Economic Outlook forecasts 0.5 percent GDP growth this year and in 2027, partly supported by ongoing implementation of NRRP-related investment. Over the medium term, rapid population aging and persistently weak productivity growth are expected to continue constraining potential growth of around 0.6 percent, including as labor force participation lags peers, particularly among women and youth.

Uncertainty around the outlook remains high, and downside risks to growth are accumulating. Since the latest projections, elevated global energy prices have contributed to weaker consumer confidence, increasing the likelihood of slower-than-projected growth. A prolonged conflict in the Middle East could put additional upward pressure on prices, tighten financial conditions, and further weaken confidence and activity. An intensification of trade tensions or a sharp AI-related market correction could further tighten financial conditions and weigh on growth. Domestically, slower-than-planned fiscal consolidation or further delays in public investment and reform implementation would weigh on market sentiment, creating the risk of an adverse feedback loop to economic activity. On the upside, faster productivity gains from reforms, digitalization, and AI adoption could provide a welcome impetus to growth.

Fiscal Policy —Reducing High Public Debt and Enhancing Resilience

Fiscal consolidation has continued to progress, but public debt remains too high. The headline deficit narrowed to 3.1 percent of GDP in 2025, reflecting an overperformance relative to the initial target for the second consecutive year. Notably, strong revenue performance and improved tax compliance helped lift the primary surplus to 0.8 percent of GDP. Despite these gains, public debt increased to about 137 percent of GDP at the end of 2025, and debt dynamics remain vulnerable to growth, interest rate, and confidence shocks.

A faster pace of debt reduction would greatly strengthen resilience. The authorities' planned gradual deficit reduction would slightly lower the debt ratio over the medium term. However, given elevated debt and high exposure to external shocks, accelerating fiscal consolidation would further reinforce market confidence. Based on the latest projections, additional fiscal efforts of about 1 percent of GDP during 2026–2027, beyond what is already planned, would help solidify debt reduction. Lower debt, in turn, would help generate a virtuous cycle of lower yields that crowd in private investment, boost growth, and reinforce the downward debt trajectory. Should growth disappoint, consideration could

be given to smoothing the recommended additional fiscal efforts over three years. But even in a severe downside scenario, it will be important to continue the planned reduction of the headline deficit to maintain market confidence. Complementary growth-enhancing structural reforms would ease the burden on fiscal policy to bring down the debt ratio. Scaling back still-elevated public-sector guarantees would strengthen fiscal resilience.

Enhancing spending efficiency would help limit the effect on growth of fiscal consolidation. Italy's high level of debt and aging-related spending pressures constrain options for growth-enhancing outlays. The reduction in early retirement schemes is welcome and will gradually lift labor supply, support growth, and reduce pressures on the pension system. In addition, strengthening spending efficiency, including through digitalization and comprehensive spending review to improve targeting, would support debt reduction without compromising growth. Any new spending, including for defense, should be fully offset to safeguard fiscal sustainability. Measures to mitigate the impact of higher energy prices should be budget neutral, temporary, well targeted, and not blunt the incentive to reduce energy consumption. In this respect, the recent broad-based reduction in excise duties on diesel and petrol to cushion the impact of the shock should be replaced with targeted cash transfers to the most vulnerable households.

To further reduce public sector debt, revenue measures should focus on simplification and base broadening. Ongoing tax reform has been effective in improving tax compliance, and continuing these efforts, including with intensified use of digital tools, will be essential for a durable revenue mobilization. Moreover, the tax system is complex, and further rationalizing tax expenditures would be instrumental in enhancing transparency and efficiency. Eliminating the preferential flat-tax rate on self-employment income and updating property values in the cadastre would expand the tax base, improve equity, and support consolidation efforts. In addition, further enhancing budget transparency and monitoring related to the net expenditure path within the Medium-Term Fiscal-Structural Plan (MTFSP) would reinforce fiscal credibility.

Financial Sector Policy — Preserving Stability Amid Heightened Global Uncertainty

The 2026 Financial Sector Assessment Program (FSAP) finds that Italy's banking system is resilient in the face of external shocks. The health of the banking system is supported by record profits, good credit quality, solid capital, and ample liquidity. In addition, stress tests indicate that the banking system can withstand severe adverse shocks. Nevertheless, vulnerabilities persist in some segments, particularly among certain less significant institutions (LSIs) with specialized business models. In addition, outside the banking system, legacy non-performing loans remain sizable. Although Italian bank holdings of domestic government bonds have declined, adverse shocks could still be amplified through tight sovereign-financial sector linkages.

A sustained and proactive policy approach will help preserve the resilience of Italy's financial system in an increasingly challenging environment. The Italian authorities have made meaningful progress to strengthen financial sector soundness since the 2020 FSAP. Looking ahead, emerging risks and remaining vulnerabilities call for a recalibration of priorities toward greater supervisory agility, and a broader, more proactive use of macroprudential tools. In this respect, the introduction of a positive Systemic Risk Buffer (SyRB) is welcome as it provides a helpful cushion against shocks that could undermine credit provision. Extending the scope of the SyRB, beyond domestic credit and counterparty exposures, would help better capture residual systemic risks. In addition, continuing to monitor sovereign-financial sector linkages and address risks arising from

sovereign concentration exposures through targeted policy tools, including Pillar 2 capital add-ons for bank-specific risks and SyRB for system-wide risks, would further strengthen the resilience of the financial system.

Further enhancing financial sector oversight and crisis-management frameworks would bolster overall safeguards. Supervisory effectiveness would benefit from stronger legal protection for staff in supervision and resolution, integration of the insurance supervisor into Banca d'Italia, and continued forward-looking focus on risks in LSIs, supported by timely escalation. Other beneficial actions include further enhancing cyber resilience, limiting the recurrent use of deposit guarantee scheme resources for preventative recapitalizations, and continuing to reduce gaps in natural catastrophe insurance coverage. Ongoing efforts to enhance the effectiveness of the Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) framework should continue.

Structural Policies — Reviving Productivity and Medium-Term Growth

In the face of successive adverse shocks, restoring productivity growth through domestic and EU-level reforms is urgent to revive growth and support fiscal consolidation. Easing regulatory barriers and enhancing policy predictability would help strengthen the business environment. Improvements in the judicial system should continue, including insolvency procedures to facilitate capital reallocation. Deepening and better integrating capital markets at the national and European levels would help foster innovation. In this regard, the ongoing initiatives to promote supplementary pension schemes can help expand the supply of risk capital. Efforts to strengthen financial literacy would improve the allocation of savings. Reducing size-contingent tax incentives would help small productive firms scale up. At the EU level, broad progress on the Single Market, including by advancing the Savings and Investment Union, could further improve financing and amplify productivity gains.

Raising labor supply and skill levels is essential to counter adverse demographics and help Italy reap the benefits from technological change. The authorities' focus on lifting labor force participation, improving educational outcomes, and enhancing worker skills is welcome. Going forward, sustained efforts will be needed to close persistent participation gaps, especially for women and youth, and in lagging geographic areas. Durable progress will require continued, concerted policy efforts, including on early childhood education and school-to-work transitions. Targeted investment in the quality of education, vocational training, and lifelong learning, especially in STEM and digital fields, is critical for the adoption of new technology.

Leveraging NRRP lessons for future reforms and accelerating the green transition will enhance competitiveness and energy security. Continued implementation of NRRP reforms and investments remains important to lift productivity. For the reform and investment agenda, closer coordination and information sharing across ministries would support systematic assessment of policy effectiveness and more evidence-based policy planning. Embedding successful instruments into the implementation of the MTFSP and a well-calibrated post-NRRP reform agenda would, in turn, help sustain momentum. Moreover, recent energy price shocks underscore the need to accelerate the green transition. Expanding renewables and storage, streamlining permitting, and deepening electricity market integration domestically and at the European level would help reduce energy price volatility and enhance energy security. Together, comprehensive efforts would support a more resilient, competitive, and sustainable economy.

We are grateful to the Italian authorities and our other counterparts for their time, frank and open discussions, and warm hospitality.

Desideriamo esprimere la nostra gratitudine alle autorità italiane e a tutti gli altri interlocutori per il tempo dedicatoci, per la franchezza e la disponibilità dimostrate nel corso dei colloqui e per la calorosa ospitalità.