Italy: Staff Concluding Statement of the 2025 Article IV Mission

May 29, 2025

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 Thomas Elkjaer, Gee Hee Hong, Yueling Huang, Alain Kabundi, and Sylwia Nowak, conducted discussions for the 2025 Article IV Consultation with Italy during May 14–28. At the end of the visit, the mission issued the following statement:*

- *Outlook: The growth outlook remains highly uncertain amid ongoing global trade tensions. Persistently low productivity growth and demographic headwinds weigh on longer-term economic prospects.*
- *Fiscal policy: A better-than-expected fiscal outturn in 2024 enabled a return to a primary surplus. Continuing the strong performance will be essential to place public debt on a downward trajectory.*
- *Financial sector policy: The banking sector remains well-capitalized and liquid. Continuing to monitor asset quality and macro-financial linkages between the sovereign and financial institutions remains important to safeguard financial stability.*
- *Structural policies: Medium-term challenges that are weighing on growth have become today's pressing issues. A swift and effective implementation of the National Recovery and Resilience Plan will be key to support higher, lasting growth and should be complemented by a successor reform program to amplify the gains.*

Recent economic developments, outlook, and risks

The Italian economy has continued to expand at a moderate pace. For the second consecutive year, economic activity grew by 0.7 percent in 2024, supported in part by infrastructure investment under the National Recovery and Resilience Plan (NRRP) and a positive contribution from net exports. The current account strengthened to a surplus of above 1 percent of GDP. Despite heightened global trade policy uncertainty, economic activity held up well in the first quarter of 2025, with real GDP growing by 0.3 percent quarter-on-quarter and employment reaching a record high. Credit to households has turned positive, and the contraction in credit to corporates has eased. Headline inflation gradually strengthened, reaching 2 percent in April. Nonetheless, the female labor force participation rate remains well below the EU average, productivity growth is weak, and regional disparities endure, with labor inactivity rates significantly higher in the South than in the North.

Heightened uncertainty has dampened the near-term economic outlook, while subdued productivity growth and rapid population aging are expected to continue weighing on growth prospects. Timely and effective implementation of NRRP projects is expected to support near-term economic activity, while trade tensions are likely to provide a notable drag. Consequently, the April 2025 World Economic Outlook (WEO) projected growth to moderate to 0.4 percent in 2025 before temporarily picking up to 0.8 percent next year, amid the peak in NRRP-related investments and positive trade spillovers from higher investment in Germany. Headline inflation is expected to average 1.7 percent this year, on lower energy prices and moderate wage growth, before converging to the ECB's 2 percent target in 2026. Over the medium term, weak productivity growth and adverse demographics are projected to continue weighing on the outlook, keeping growth at around 0.7 percent.

The outlook is subject to substantial uncertainty and risks. On the upside, the stronger-than-expected preliminary outturn for the first quarter presents mild upside risks to the April 2025 WEO forecast. A faster-than-expected acceleration in global growth, stronger productivity gains from public investments and reforms, and deeper EU integration could further support investment, exports, and productivity. However, downside risks remain significant, including from escalating trade tensions, an intensification of regional conflicts, and a further tightening of global financial conditions. Climate-related shocks, including extreme weather events, could also dampen growth and further constrain fiscal space. As digitalization advances, cyberthreats could become more pervasive and disruptive, particularly for the financial system. Delayed or inefficient NRRP implementation could undermine growth.

Fiscal policy: Leaning into continued strong performance

Maintaining strong fiscal discipline along with growth-enhancing reforms is critical to reduce the public debt ratio and will help reinforce resilience. A better-than-expected fiscal outturn in 2024, owing to continued improvements in tax compliance and a strong labor market, is welcome. Overall, the headline deficit was halved, the primary balance turned to a surplus, and the authorities envision further gradual deficit reduction. Staff recommends continuing the strong performance and reaching a primary surplus of 3 percent of GDP by 2027 to decisively reduce the debt ratio and help contain related vulnerabilities. Achieving this goal would require additional near-term efforts compared to what is already built into the authorities' fiscal plans. However, the recommended cumulative adjustment path would entail a smaller effort over the medium term than a more gradual one in view of the projected worsening in the interest rate-growth differential and of spending pressures stemming from population aging. Along with such efforts, growth-enhancing reforms would help strengthen debt reduction and, over time, could reduce the needed adjustment.

Several measures could be considered. Building on the progress made, reform efforts on tax evasion and tax compliance should continue. Rationalizing tax expenditures would help broaden the taxbase, bolster revenue, and reduce complexity. Eliminating the preferential flat-rate for income on self-employment would address equity concerns and prevent revenue loss. Given the robust labor market and high corporate profits, hiring subsidies should be replaced with productivity-boosting measures. Updating property values in the cadastre would increase revenue and could ensure more equitable tax treatment. These measures, by addressing distortions, are expected to have limited adverse effect on economic activity.

In the event of new spending pressures or macroeconomic shocks, debt-reducing efforts should continue. Given the limited fiscal space, any new spending measures, including for defense, should be fully compensated by further savings elsewhere. Fiscal consolidation efforts combined with growth-enhancing reforms would need to continue even in the event of all-but-the-most-severe adverse macroeconomic shocks, rendering automatic stabilizers the primary counter-cyclical response. Resources from EU funds should be safeguarded for productivity-enhancing investments.

Beyond the near term, it will be important to contain latent spending pressures. Pension-related spending pressures could be contained by avoiding costly early retirement schemes. At the same time, raising the effective retirement age would help boost labor supply. There is also scope to enhance transparency and monitoring of the net expenditure path within the Medium-Term Fiscal-Structural Plan (MTFSP), while maintaining comprehensive reporting of key fiscal indicators. Although the stock of public guarantees is gradually declining, it remains sizable, calling for continued prudent management, centralized monitoring, and adequate provisioning. In addition, publicly guaranteed loans should not substitute for on-budget spending, as such measures undermine budgetary discipline and distort resource allocation.

Financial sector policy: Protecting financial sector resilience

Continued vigilance will be important to safeguard financial sector soundness. Strong profitability, sound asset quality, and adequate liquidity and capital positions have helped strengthen the banking sector. In this respect, amid a still-negative credit gap, maintaining the current neutral countercyclical capital buffer remains appropriate, as does the continued implementation of the systemic risk buffer at 1 percent. In addition, maintaining close monitoring of loan quality is warranted, particularly given the uncertain outlook and risks to firms exposed to the potential impact of trade tensions. Regarding non-bank financial institutions, the rebound in life insurance premium income has helped mitigate risks in the life sector. While financial sector exposures to the domestic sovereign have declined from previous highs, they remain sizable and, hence, pose a vulnerability that requires continued monitoring.

Continuing to address weaknesses among some less significant institutions (LSIs) remains a priority. Within the overall soundness of the banking sector, vulnerabilities exist among some LSIs. Further enhancing oversight—through targeted inspections, in-depth reviews of credit risk management practices and governance, and continued monitoring of nonperforming loans—would help address these risks. In this regard, the ongoing inspection program by the Bank of Italy to ensure compliance with IT security standards is welcome, and LSIs should continue to integrate cyber risks into their governance and risk management frameworks. Timely escalation of corrective measures for weak banks would support further improvements in capital adequacy and operational efficiency.

Structural policies: Implementing reforms to boost growth

To tackle persistent productivity challenges and unlock stronger potential growth, comprehensive and sustained reforms are crucial. The authorities' ongoing efforts to advance their reform and investment agenda through the NRRP are welcome, as are their longer-term commitments under the MTFSP. With the NRRP window rapidly closing, continued efforts to ensure its full and timely delivery will be essential. Looking ahead, leveraging the design and implementation lessons from the NRRP will support successful execution of future reforms and help secure a durable lift to growth. More broadly, reforms should be clearly specified and prioritize strengthening human capital, expanding labor supply, and revitalizing the private sector's capacity to innovate and adopt frontier technologies. Enhancing the workforce is vital to mitigate the impact of a shrinking working-age population and to meet the growing demand for high-skilled labor. Policies aimed at increasing female labor force participation—such as enhancing access to childcare and removing disincentives like tax credits for dependent spouses—should be further strengthened and would support both economic growth and pension system sustainability.

Reviving private sector dynamism and innovation requires improved access to finance, especially risk capital, and greater policy predictability. Italian firms have long struggled to scale up and innovate. Eliminating tax incentives that favor small firms and facilitating the exit of unproductive firms, including through the timely implementation of the new insolvency code, would promote more efficient resource allocation and enable high-performing firms to grow. Deepening national capital markets—particularly by broadening access to risk capital—and ensuring a more predictable regulatory environment are crucial to support the investment needed for technological upgrades and the digital transition. At the European level, advancing the single market and making progress towards the savings and investment union will further help firms achieve economies of scale and improve access to capital. Industrial policies should be deployed cautiously, be targeted to specific objectives where externalities or market failures prevent effective market solutions, be coordinated at the EU level, and avoid favoring domestic producers over imports to minimize trade and investment distortions.

Accelerating the transition to renewables, adapting to a changing climate, and investing in resilient energy infrastructure are essential to reduce extreme weather impacts and energy import dependence. Climate-related risks and energy security are macro-critical for Italy, given the reliance on agriculture, tourism, and foreign energy supply. The 2024 National Energy and Climate Plan provides a strategic foundation but more ambitious action is needed to meet 2030 climate targets and improve energy security. Strengthening grid infrastructure, expanding storage capacity, and streamlining permitting processes are critical to support renewable integration. Deeper integration into EU electricity markets would enhance resilience, reduce price volatility, and improve the efficiency of renewable energy use.

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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.