INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/201

ITALY

July 2025

2025 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 2025 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 18, 2025 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 18, 2025, following discussions that ended on May 28, 2025, 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 July 1, 2025.
- 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

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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IMF Executive Board Concludes 2025 Article IV Consultation with Italy

FOR IMMEDIATE RELEASE

- *Italy's economy has continued to expand at a moderate pace. However, the near-term outlook is clouded by elevated uncertainty, and structural challenges—including low productivity growth and population aging—are weighing on economic prospects.*

- *A better-than-expected fiscal outturn in 2024 enabled a return to a primary surplus. Continuing the strong fiscal performance will be essential to place public debt firmly on a downward trajectory and strengthen resilience.*

- *Raising productivity as well as boosting and upskilling the labor supply are key to durably lifting growth and offsetting the impact of population aging.*

Washington, DC – July 22, 2025: On July 18, the Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Italy.[1] The authorities have consented to the publication of the Staff Report prepared for this consultation.[2]

Italy's economy has continued to expand at a moderate pace. Real GDP grew 0.7 percent in 2024, supported by spending under the National Recovery and Resilience Plan (NRRP) and a positive contribution from net exports. Despite heightened global trade policy uncertainty, economic activity in the first quarter of 2025 remained resilient amid continued investment growth and a robust labor market. Headline inflation gradually increased to just below 2 percent in June, credit to households has turned positive, and the contraction in credit to corporates has eased. The 2024 public-sector deficit and debt ratios turned out better than projected and enabled a return to a primary surplus. But challenges remain. Public debt remains high, productivity growth is weak, the population is rapidly aging, female labor force participation remains well below the EU average, and regional disparities endure.

Growth is projected to moderate to 0.5 percent in 2025, before temporarily picking up to 0.8 percent in 2026 on the back of increased NRRP-related spending and positive trade spillovers from Germany. Headline inflation is expected to average 1.7 percent this year, before converging to the ECB's 2 percent target in 2026. There are upside risks, including from global

[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 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/en/Countries/ITA page.

growth acceleration and stronger gains from public investments and reforms, but downside risks remain significant. Productivity growth could disappoint, for example, because of a delayed implementation of the NRRP, trade tensions might escalate, regional conflicts could become more intense, global financial conditions might tighten and financing costs increase, and macro-critical climate-related shocks could disrupt economic activity.

Executive Board Assessment[3]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the resilience of the Italian economy, with strong policies supporting continued growth and record-high employment. At the same time, noting that structural challenges from weak productivity growth and rapid population aging have become pressing issues, Directors stressed that accelerating the reform momentum to strengthening Italy's growth trajectory is a key priority.

Directors commended the strong fiscal performance last year and the return to a primary surplus. They nonetheless noted that public debt remains persistently high and emphasized the need for sustained consolidation to place its trajectory on a clear downward path. In this regard, they welcomed the authorities' commitment to a medium-term fiscal plan that balances debt sustainability considerations and investment needs and aligns with the EU fiscal framework. To support these efforts, Directors called for continuing to improve tax compliance, rationalizing tax expenditures, and replacing inefficient subsidies with productivity-enhancing measures. Any new spending measures should be compensated with savings elsewhere. To solidify the reduction in debt-related vulnerabilities over the medium term, Directors highlighted the importance of containing pension-related pressures, improving the cost effectiveness of spending, and de-risking the public sector by reducing the amount of outstanding publicly guaranteed loans while also strengthening transparency and monitoring of contingent liabilities.

Directors welcomed the further improvement in banking sector soundness, with macroprudential policies that adequately balance stability requirements with the need to support credit provision. Amid an uncertain outlook, Directors called for continued vigilance in monitoring loan quality and links between the sovereign and the financial sector. They also underscored the need to address remaining vulnerabilities among some less significant institutions, and welcomed continued efforts to address the 2020 FSAP recommendations and strengthen the AML/CFT framework.

Directors emphasized that sustained reform efforts are essential to durably lift productivity and growth. They welcomed progress in implementing the National Recovery and Resilience Plan (NRRP) and stressed that full and timely completion remains a priority. Directors highlighted reform plans in the authorities' Medium Term Plan and noted that successor reforms, building on the design and implementation lessons from the NRRP, should focus on boosting productivity, innovation, the supply of skilled labor, and labor participation, while advancing the transition to renewable energy and resilient energy infrastructure. Directors also broadly supported staff's recommendations on the green transition and energy security. Better access

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[3] At the conclusion of the discussion, the Managing Director, as Chair 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.

to risk capital would also help revive private sector dynamism, and deepening EU-level integration would further improve access to finance. Directors stressed that industrial policies should be well-targeted to address market failures and be coordinated at the EU level.

It is expected that the next Article IV consultation with Italy will be held on the standard 12-month cycle.

Table 1. Italy: Selected Economic Indicators

	2022	2023	2024	2025	2026	2027
				Projections		
Real Economy (change in percent)						
Real GDP	4.8	0.7	0.7	0.5	0.8	0.6
Final domestic demand	4.8	2.3	0.6	0.9	0.9	0.5
Exports of goods and services	9.9	0.2	0.4	-2.4	0.2	0.6
Imports of goods and services	12.9	-1.6	-0.7	-2.0	0.9	0.5
Consumer prices	8.7	5.9	1.1	1.7	2.0	2.0
Unemployment rate (percent) 1/	8.1	7.7	6.6	6.6	6.7	6.8
Public Finances						
General government net lending/borrowing 2/	-8.1	-7.2	-3.4	-3.3	-2.8	-2.7
Structural overall balance (percent of potential GDP)	-8.7	-7.7	-3.5	-3.1	-2.6	-2.5
General government gross debt 2/	138.3	134.6	135.3	136.9	138.4	138.5
Balance of Payments (percent of GDP)						
Current account balance	-1.7	0.1	1.1	0.9	0.8	1.2
Trade balance	-1.8	1.5	2.6	2.0	1.9	2.1
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)	104.6	108.2	110.0	…	…	…

Sources: National Authorities; Eurostat; and IMF staff calculations.
1/ Eurostat.
2/ Percent of GDP.

INTERNATIONAL MONETARY FUND

ITALY

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

July 1, 2025

KEY ISSUES

Context. The Italian economy has remained relatively resilient. Economic activity in 2024 expanded by 0.7 percent for the second consecutive year, supported by investment under the National Recovery and Resilience Plan (NRRP) and net exports. Activity continued to hold up in early 2025 despite global trade tensions. Inflation neared 2 percent. However, the near-term outlook is clouded by elevated uncertainty, and structural challenges—including low productivity growth and population aging—weigh on economic prospects.

Policy recommendations: The policy agenda should focus on bringing down public debt and boosting productivity and growth, while safeguarding financial sector resilience.

Fiscal policy. Continued fiscal discipline is essential to reduce Italy's high public debt and strengthen resilience. Staff recommends reaching a primary surplus of 3 percent of GDP by 2027. Continuing to improve tax compliance, rationalizing tax expenditures, and phasing out inefficient incentives would support consolidation in the near-term with limited growth impact. Streamlining pension-related spending, further enhancing fiscal transparency, and de-risking the public sector by reducing the level of public guarantees would help bolster resilience over the medium-term.

Financial sector policies. Safeguarding financial sector resilience remains essential. The soundness of the banking sector improved, supported by strong profitability, adequate asset quality, and ample capital and liquidity buffers. The current countercyclical capital buffer at zero and the higher systemic risk buffer are welcome. Close monitoring of loan quality and links between the sovereign and the financial sector is warranted amid an uncertain outlook. Addressing vulnerabilities in some less significant institutions remains a priority.

Structural reform priorities. Full and timely implementation of the NRRP is essential and should be followed by further reforms, building on the design and implementation lessons from the NRRP. Reforms should focus on boosting productivity, labor supply, and innovation while advancing the transition to renewable energy and resilient energy infrastructure.

Approved By
Helge Berger (EUR) and Rishi Goyal (SPR)

Discussions took place in Rome during May 14–28, 2025. The staff team comprised Ms. Lone Christiansen (head), Mr. Thomas Elkjaer, Ms. Gee Hee Hong, Ms. Yueling Huang, Ms. Sylwia Nowak (all EUR), and Mr. Alain Kabundi (MCM). Ms. Carolina Claver (LEG) attended some meetings virtually. Executive Director Riccardo Ercoli and Ms. Annalisa Korinthios (both OED) also participated. The mission met with Economy and Finance Minister Giorgetti, Bank of Italy Senior Deputy Governor Signorini, senior Italian and SSM officials, representatives from the business community and trade unions, and other experts. Ms. Yao Deng (LEG) contributed to the report, and Ms. Emily Fisher and Ms. Jenny Lee (both EUR) assisted in preparing the report.

CONTENTS

TABLES

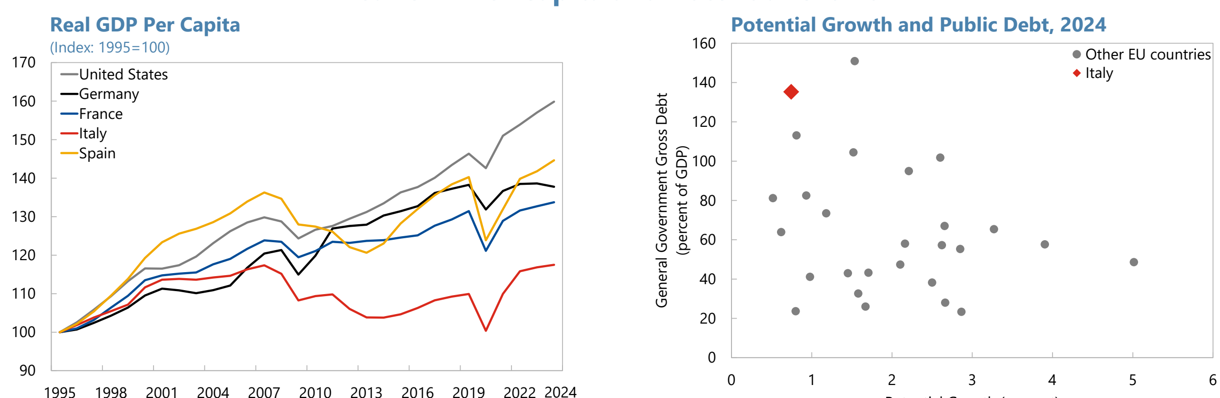
ANNEXES

CONTEXT

1. **Italy's economy has shown notable resilience, even as global uncertainty has increased.** Economic activity has continued to expand at a moderate pace, with output in 2024 surpassing pre-pandemic levels by 6 percent and employment reaching an all-time high. The increased prevalence of permanent jobs, particularly in Italy's southern regions, have helped improve the quality of employment. At the same time, the combined impact of ongoing efforts under the National Recovery and Resilience Plan (NRRP) and fiscal consolidation has provided support for growth and market confidence and helped strengthen economic resilience. Notably, the fiscal position turned out better than expected last year, with the government recording a primary surplus. However, global trade uncertainty has increased markedly, bringing new challenges for the export-dependent economy, even as Italy's diversified set of exports is a cushioning factor (Box 1).

2. **Nonetheless, structural challenges that were once considered medium-term concerns have become today's pressing issues.** Productivity growth is weak, including amid a slow rate of innovation, and Italy continues to wrestle with a shortage of high-skilled workers and below-EU average female labor force participation. As a result, real GDP per capita growth has fallen behind that of peer economies, and the combination of subdued overall growth, below-target inflation, and high public sector debt creates a challenge for public finances. Moreover, demographic headwinds are intensifying, following a prolonged period with a low fertility rate. According to the UN's low-fertility population projections, the old-age dependency ratio could increase sharply from 39 to 70 people aged 65+ per 100 working-age people (i.e., aged 15–64) during 2024–50. [1] Despite recent progress, regional disparities remain significant, with higher poverty and labor inactivity rates in the South than in the North. [2] A high reliance on imported energy is holding back energy security.

Real GDP Per Capita and Potential Growth



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

Source: World Economic Outlook.

[1] United Nations, Population Division.

[2] Three Selected Issues papers supporting this report discuss (i) the impact of adverse demographic trends on Italy's potential growth; (ii) policies needed to boost productivity; and (iii) climate risks and energy transitions.

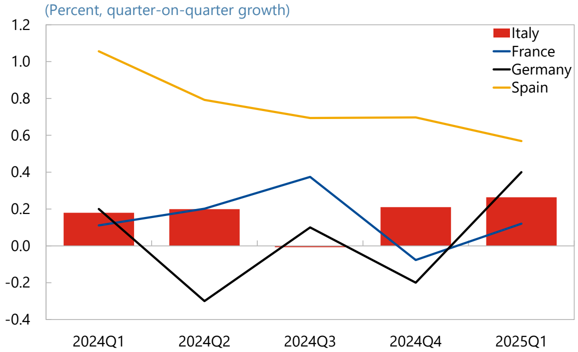
RECENT DEVELOPMENTS

3. The Italian economy expanded at a moderate pace in 2024, and economic activity remained resilient in early 2025. For the second consecutive year, real GDP expanded by 0.7 percent in 2024, with notable weakness in the second half of the year, in line with some other major euro area economies. NRRP-related infrastructure investment remained a key driver of growth and helped offset slower activity in the residential segment as Superbonus spending was curtailed.[3] Meanwhile, household precautionary savings weighed on private consumption growth and imports, while buoyant tourism supported export growth. Growth at 0.7 percent year-on-year in the first quarter of 2025—supported by investment and private consumption—helped deliver a relatively strong start to the year. Nonetheless, household and firm sentiment remained cautious amid heightened trade policy uncertainty. Industrial production recovered in the beginning of the year.

Real Sector Developments

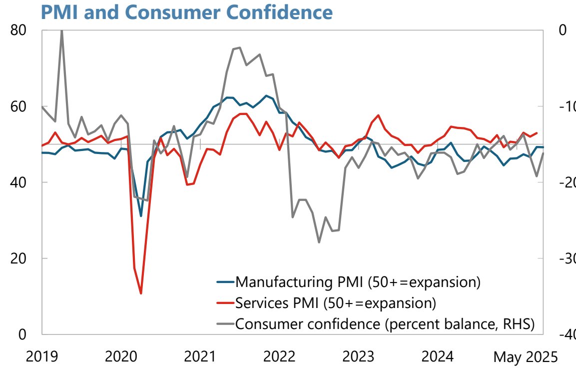
Real GDP Growth

(Percent, quarter-on-quarter growth)



Sources: Eurostat; ISTAT; and Haver Analytics.

PMI and Consumer Confidence



Sources: S&P Global; Hamburg Commercial Bank; European Commission; and Haver Analytics.

4. The labor market remained resilient in early 2025. Past labor market reforms and ongoing government incentives for permanent hiring have led to a marked rise in permanent contracts, lifting the employment rate to a record 62.7 percent in April. Gains were strongest among older workers (aged 50 and above) alongside a declining use of early retirement schemes, while employment declined slightly among the youngest cohort (aged 15–24), contributing to a modest increase in the youth unemployment rate to 19.2 percent. Female labor force participation edged up to 58.4 percent, though it remains well below the EU average. Nonetheless, a decline in vacancies, particularly in manufacturing, points to a potential cooling in labor demand. Wage growth remained moderate in 2024, with hourly compensation increasing by around 3 percent, amid increases in contractual wages and subdued labor productivity.[4] Reflecting earlier cuts in social security contributions and income taxes for lower-income workers, real disposable incomes have held up relatively well.

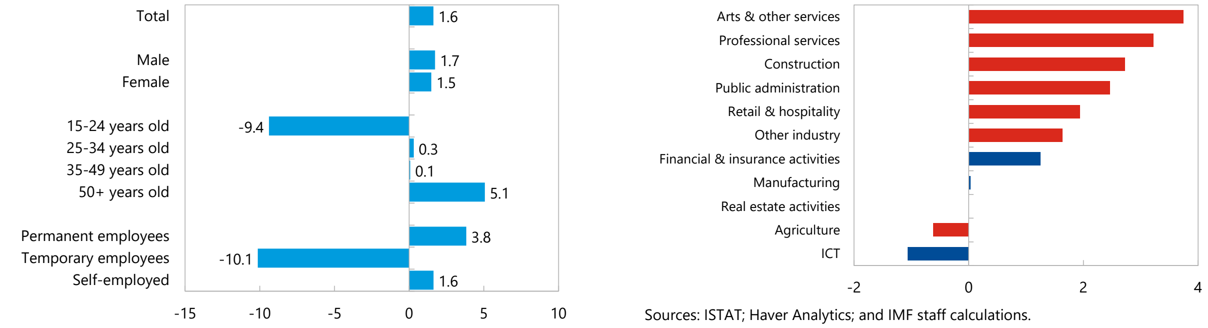
[3] See 2022 Italy Staff Report and 2024 Italy Staff Report, for details on the Superbonus and its growth impact.

[4] The Bank of Italy's wage tracker, which measures wage growth based on active collective bargaining agreements (excluding those expired), stood at 4.3 percent on average in 2024.

Labor Market Developments

Changes in Employment by Group
(Percent, April 2025 relative to end-2023)

Changes in Employment by Industry
(Percent, 2025Q1 relative to 2023Q4)



Sources: ISTAT; Haver Analytics; and IMF staff calculations.
Note: Employment refers to the number of people.

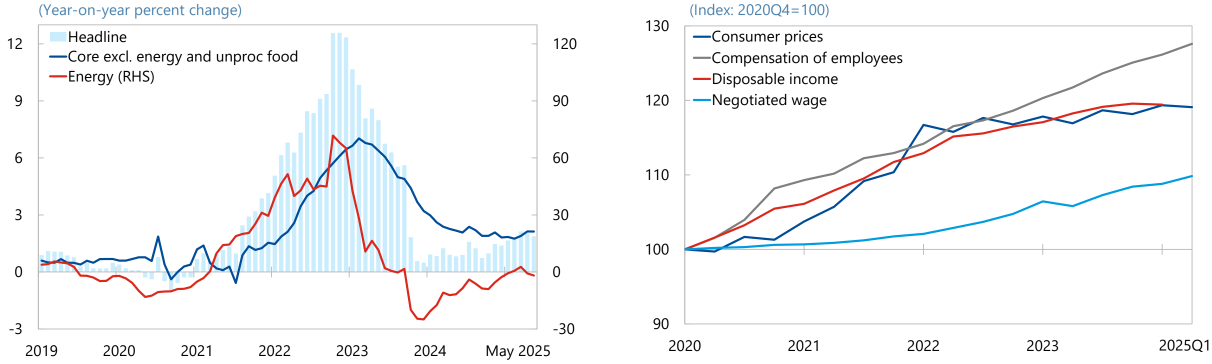
Sources: ISTAT; Haver Analytics; and IMF staff calculations.
Note: Employment refers to the number of people. Labor-intensive industries are highlighted in red.

5. After sustained low inflation last year, inflation is gradually returning toward the target. Headline inflation remained below 1 percent for most of 2024 on negative base effects from previous energy price increases and broad-based disinflation—with nearly half of the consumption basket recording inflation rates below 2 percent. However, headline inflation began to strengthen around the turn of the year, reaching 1.7 percent (year-on-year) in June amid a rebound in regulated energy prices and a pickup in food price inflation. Core inflation has remained relatively sticky at around 2 percent. The GDP deflator moderated to 2.1 percent in 2024 and eased further in 2025Q1, reflecting a decline in unit profits—the first since 2017—as firms partly absorbed rising wage costs, which outpaced weak labor productivity growth. Looking ahead, households and firms anticipate moderate price growth over the next 12 months, ranging from 1.7 to 2.9 percent.

Inflation and Wage Developments

HICP Inflation
(Year-on-year percent change)

Wages, Prices, and Disposable Incomes Per Worker
(Index: 2020Q4=100)



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

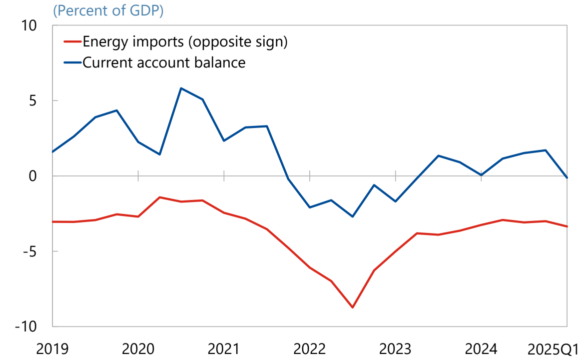
Sources: ISTAT; Haver Analytics; and IMF staff calculations.

6. The current account turned to a surplus in 2024. Despite a pick-up in exports of consumer goods and healthy contribution from tourism, weak exports of capital and intermediate goods led to broadly unchanged overall exports values in 2024. At the same time, imports declined, in large part because of a decline in the energy import bills amid lower prices. Consequently, the current account improved, registering a surplus of 1.1 percent of GDP last year. In early 2025, a pickup in export values points to signs of frontloading of exports amid increased trade policy uncertainty. The net international investment position continued to strengthen, reaching 15.3 percent of GDP at end-2024, and Target-2 liabilities declined, partly reflecting increased holdings of sovereign debt securities by non-residents. Staff assesses the external position in 2024 as weaker than the level implied by medium-term fundamentals and desirable policies, with the associated main policy recommendations reflecting the need for continued fiscal consolidation and productivity-boosting reforms (Annex III).

External Sector Developments

Current Account Balance and Energy Imports

(Percent of GDP)

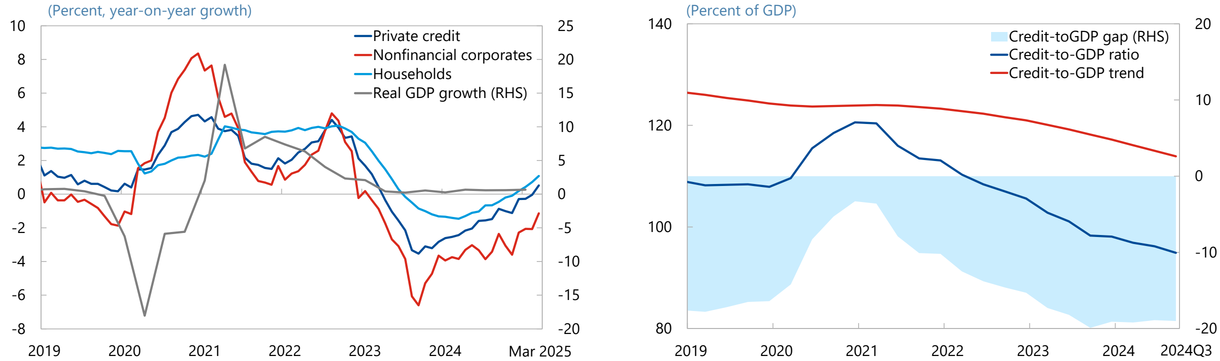


Sources: Bank of Italy; ISTAT; Haver Analytics; and IMF staff calculations.

7. Private sector credit growth has gradually improved even as overall credit extension remains subdued. ECB monetary policy easing has led to lower lending rates for both new and existing loans—the latter largely due to the prevalence of adjustable-rate loans among firms [5]—and banks have eased lending standards. Household credit growth turned positive, particularly for new mortgages, and residential property prices increased at a moderate rate of 4.5 percent year-on-year in the fourth quarter of 2024. The ongoing decline in credit to firms also eased, though the credit gap remained negative. [6] Increased savings supported household balance sheets, while corporate leverage fell to a 20-year low.

Credit Developments

Private Sector Credit Growth (Percent, year-on-year growth) | **Credit Gap** (Percent of GDP)



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

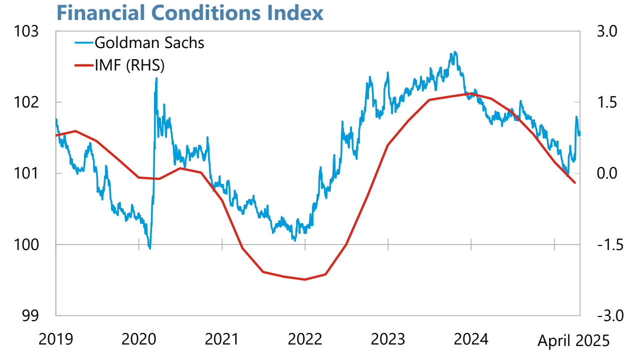
Source: Bank for International Settlements.

[5] Household mortgages are mostly fixed-rate (72 percent of outstanding mortgages as of December 2024).

[6] Credit gap estimates vary depending on the filtering approach used and are subject to uncertainty. In the case of Italy, despite differences in magnitudes, several estimates, including by the Bank of International Settlement and the Bank of Italy, indicate a negative credit gap, consistent with the subdued credit extension to the private sector.

8. Volatility in financial market conditions in early 2025, amid heightened external uncertainty, has largely subsided. While financial conditions tightened in early 2025, responding to various policy announcements in some major trading partners, including the German debt brake reform, they have since moderated. Spreads relative to Germany 10-year sovereign bonds have narrowed to below 100 basis points as of late June 2025, extending their steady decline since late 2022. Italian yields on longer-term maturities have also eased since their spike early in the year—and as of June 2025, long-term yields are broadly in line with those assumed in the authorities' October 2024 Medium-Term Fiscal-Structural Plan (MTFSP).

Financial Conditions

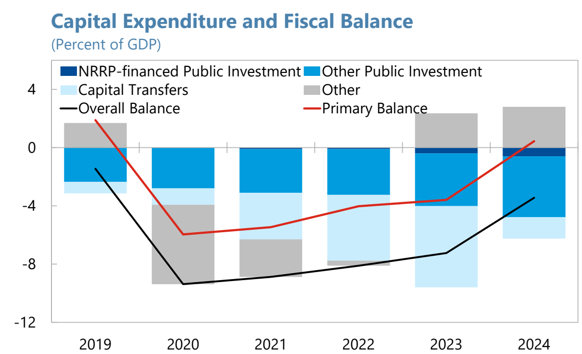


Sources: Goldman Sachs; Bloomberg, LP; IMF, WP "Financial Conditions In Europe: Dynamics, Drivers, and Macroeconomic Implications" (WP/23/209); and IMF staff estimates.
Note: An increase (decrease) implies tightening (loosening) of financial conditions.

9. Public finances improved markedly in 2024, with the fiscal deficit and public sector debt ending the year better than projected.

- *The headline fiscal deficit shrunk by more than half to 3.4 percent of GDP in 2024*. This was close to 1 percentage point of GDP better than the authorities' initial deficit target of 4.3 percent of GDP (April 2024 DEF) and about ½ percentage point of GDP better than projected in the MTFSP. While a sizable deficit reduction was expected amid lower spending on housing-related tax credits (captured as capital transfers), the better-than-expected outturn was supported by improved revenue collection from a strong labor market and increased tax compliance. Consequently, the primary balance turned to a surplus of 0.4 percent of GDP, compared to an average euro area primary deficit of 1.5 percent of GDP. On the back of NRRP-related infrastructure investments, public investment rose by 14.5 percent in real terms in 2024.

General Government Balance



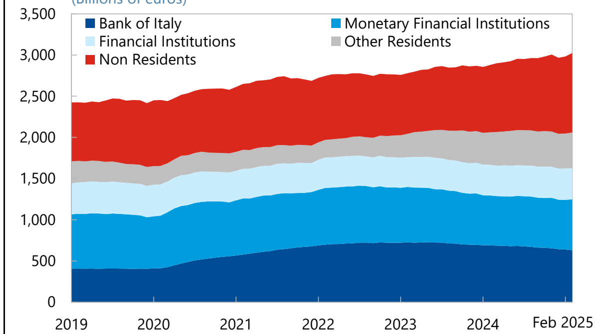
Sources: ISTAT; 2025 Italy's Public Finance Document; and IMF staff calculations.
Note: 'Other' refers to other budget items.

- *The public sector debt ratio ended 2024 lower than initially projected, though it remains high*. Owing to historical national accounts revisions and the over-performance, the public debt ratio ended the year at 135.3 percent of GDP, about 2½ percentage points of GDP lower than projected in the April 2024 budget. [7] Still, the debt-to-GDP ratio ended up slightly higher than in 2023, as previously-issued housing-related tax credits were claimed. Despite a slight decline in the stock of public-sector guarantees, exposures remained elevated at about €294 billion (13.4 percent of GDP) at end-2024. Meanwhile, the sovereign-bank nexus has steadily moderated, amid a continued increase in household demand for domestic government bonds and reduced holdings by Italian banks in line with the ongoing geographical diversification of their sovereign portfolios.

General Government Debt Holdings

General Government Debt by Holding Sector 1/

(Billions of euros)



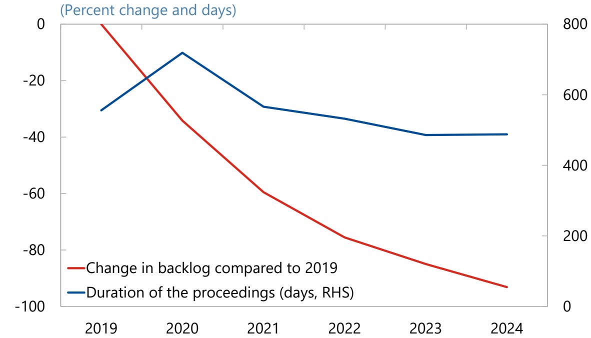
Sources: Bank of Italy; Haver Analytics; and IMF staff calculations.
1/ Debt recorded at face value.

10. NRRP implementation has accelerated following initial delays, though with significant spending still to be carried out. The NRRP aims to address Italy's structural gaps and chronic underinvestment and modernize the economy to foster stronger, sustainable growth, while also reducing regional disparities. By end-2024, Italy had achieved 54 percent of the NRRP milestones and targets agreed with the European Commission and received nearly two-thirds of allocated funds (€122.1 billion)—ranking among the EU's top NRRP performers. Reforms are advancing in several areas, including justice, public administration, competition, and taxation, with marked progress in reducing court backlogs and improving tax compliance. Nearly half of 292 thousand NRRP projects have been completed, mostly through tax credits for home renovations and digitalization and investments in rail and school infrastructure. However, spending remains sluggish: only 57 percent of the disbursed funds had been spent by end-March 2025. [8] To accelerate NRRP implementation, authorities have substituted some delayed projects—such as high-speed rail segments affected by archaeological and gas-related issues—with other projects for which on-time completion was deemed more feasible and shifted about 1 percent of GDP in grants and loans

Impact of Justice Reform

Backlog and Duration of Civil and Criminal Justice Proceedings

(Percent change and days)



Sources: Bank of Italy and IMF staff calculations.

[7] In the context of regular five-year revisions agreed at the European level, ISTAT conducted historical revisions of national accounts in 2024. For more details, see Major revision of national accounts in September 2024 – Istat.

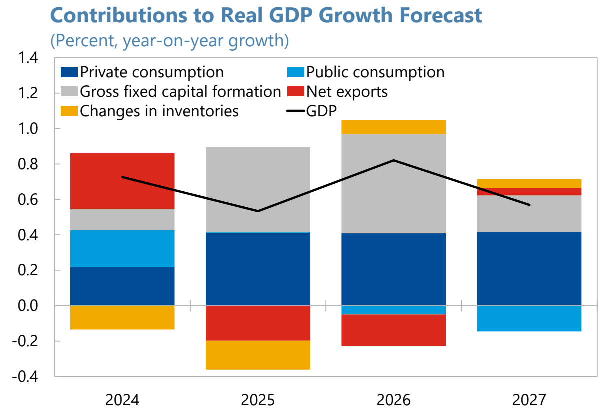
[8] Although the NRRP is a performance-based plan, with EU disbursements tied to the satisfactory achievement of qualitative "milestones" (linked to reforms and investments) and quantitative "targets" (linked to investments), monitoring actual spending is a critical metric as a real-time gauge of project execution and absorption capacity, particularly for investment-heavy components such as infrastructure and R&D.

intended for financing of public investment to tax credits aimed at supporting private investment. Several decree laws were introduced to strengthen local administrative capacity and ease liquidity constraints.

OUTLOOK AND RISKS

11. The near-term growth outlook is weighed down by uncertainty, with the acceleration of NGEU-related spending providing some offsets. While improvements in real disposable incomes and the continuation of NRRP infrastructure projects are projected to support near-term growth, uncertainty regarding potential new tariffs and global trade policy will likely provide a drag on exports, even as Italy's diversified product range and export destinations are expected to mitigate the impact. Consequently, growth is projected to moderate to 0.5 percent in 2025 before temporarily increasing to 0.8 percent in 2026, when most NRRP infrastructure investments are due and higher investment in Germany is expected to provide some support for external demand. 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.

Real GDP Growth and Forecast

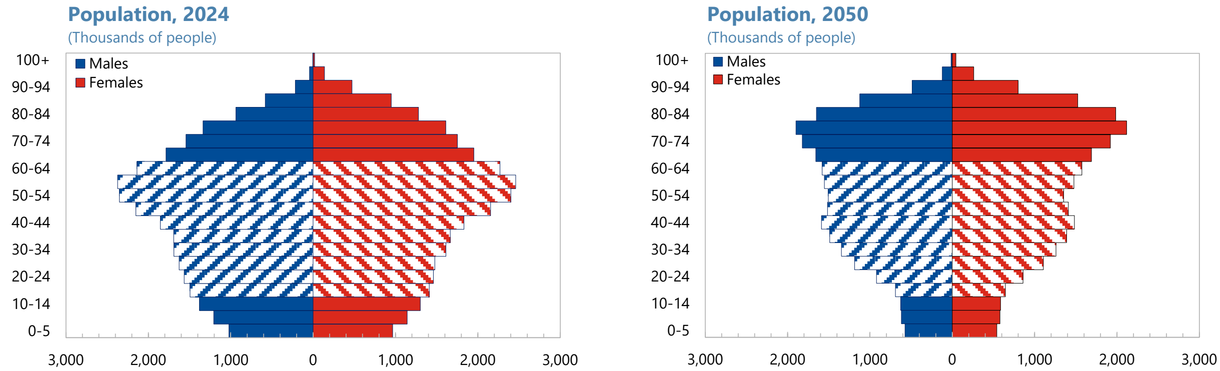


Sources: ISTAT and IMF staff calculations.

12. Longer-term growth prospects are constrained by structural rigidities and adverse demographic trends. Absent significant productivity-enhancing and employment-boosting measures, labor's effective contribution to growth is projected to decline steadily amid population aging. Assuming a moderate increase in capital deepening and modest productivity gains from full implementation of the NRRP, Italy's medium-term growth rate is projected at around 0.7 percent. Beyond the medium-term, the drag from the declining working-age population is expected to intensify and further constrain potential growth. [9]

[9] See accompanying Selected Issues Paper, "Potential Growth—Adjusting to Aging." Also, 2023 Selected Issues paper, "Population Aging in Italy: Economic Challenges and Options for Overcoming the Demographic Drag," discusses the implications of Italy's demographic challenges and measures to address them.

Population Forecasts



Sources: United Nations; and IMF staff calculations.
Note: Shaded bars denote working age population.

Sources: United Nations and IMF staff calculations.
Note: The low fertility scenario is used. Shaded bars denote working age population.

13. Uncertainty around the outlook is high, and risks are to the downside. On the upside, global growth acceleration, stronger-than-expected productivity gains from public investments and reforms, and deeper EU integration could boost investment, exports, and productivity. However, several downside risks could also materialize (Risk Assessment Matrix, Annex I). Globally, escalating trade tensions and additional tariffs could reduce growth through lower external demand and uncertainty-induced reduction in private investment. An intensification of regional conflicts could push up commodity prices and erode business profits and real incomes. Geopolitical and geoeconomic pressures could increase public spending needs and further strain high public debt. Higher interest rates could worsen financing conditions, growth, and public debt dynamics, reviving concerns about the sovereign-bank-corporate nexus. Macro-critical climate events such as extreme weather-related disasters could also reduce economic growth and further constrain fiscal space. As digitalization unfolds, cyberthreats could become more pervasive and disruptive, particularly for the financial system. [10] Domestically, inefficient or delayed implementation of the NRRP or tax reform could result in lower-than-expected growth and weaker fiscal consolidation.

Authorities' Views

14. The authorities broadly agreed with staff's assessment of the outlook and risks. They highlighted that the Italian economy remains resilient, underpinned by a recovery in industrial production and construction, improved business sentiment, and a robust labor market. Export-oriented firms are seen as benefiting from product and market diversification and a strong foothold in premium segments. While acknowledging downside risks—including from trade-related uncertainty and tighter global financial conditions—they project real GDP growth at 0.6 percent in 2025, rising to 0.8 percent in 2026. Medium-term productivity gains from the NRRP implementation are seen as supporting a gradual improvement of TFP growth over the longer term, which would help offset demographic pressures. On inflation, the authorities expect the disinflationary trend to continue, supported by declining energy prices and contained wage pressures.

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[10] According to the European Investment Bank (EIB) Survey, 71 percent of Italian firms have adopted advanced digital technologies in 2024, which is ranked in the middle among EU countries.

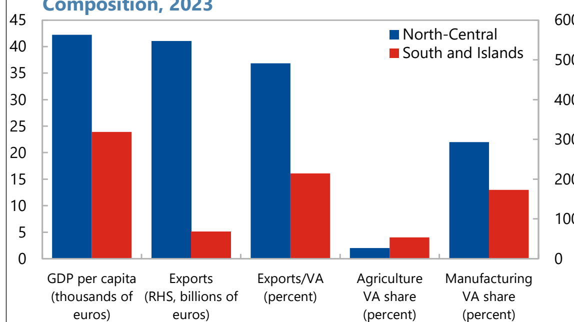
15. The authorities viewed the external position as broadly in line with fundamentals and desirable policies. They disagree with staff's external sector assessment on technical grounds and viewed the estimated current account norm as too high. Highlighting Italy's current account surplus and continued strengthening of the NIIP—now at 15.3 percent of GDP—they contended that a sizable further improvement in the current account is unwarranted given the country's investment needs to boost productivity and growth. Furthermore, they noted that the sizable contribution of demographics to the norm is sensitive to population projections, rendering the current account norm highly uncertain, and argued that the assessment does not factor in the composition of Italy's external balance sheet, with a larger share of debt liabilities than debt assets.

Box 1. Regional Differences in Trade Structure and Exposures[1]

Italy is highly integrated with global markets, but there are notable regional differences.[2] Northern Italy accounts for the largest share of exports, and while the region's exports tend to exhibit a higher degree of industry diversification, they also face higher trade elasticities than those from Southern Italy.[3] Trading partners also differ, but both regions are well-diversified geographically, helping to cushion the impact of potential adverse shocks.[4]

Northern Italy accounts for most of Italy's exports. Italy's overall exports amount to around 30 percent of GDP, with exports particularly sizable for machinery and equipment (16 percent), textile, apparels and leather products (10 percent), basic and fabricated metals (10 percent), and transport equipment (close to 9.5 percent). Northern Italy accounts for close to 90 percent of Italy's exports. Exports also accounted for a higher share of value-added in Northern Italy (40 percent of its value-added in 2023 compared to 16 percent in Southern Italy).

North vs. South: GDP per Capita, Exports, and Sectoral Composition, 2023

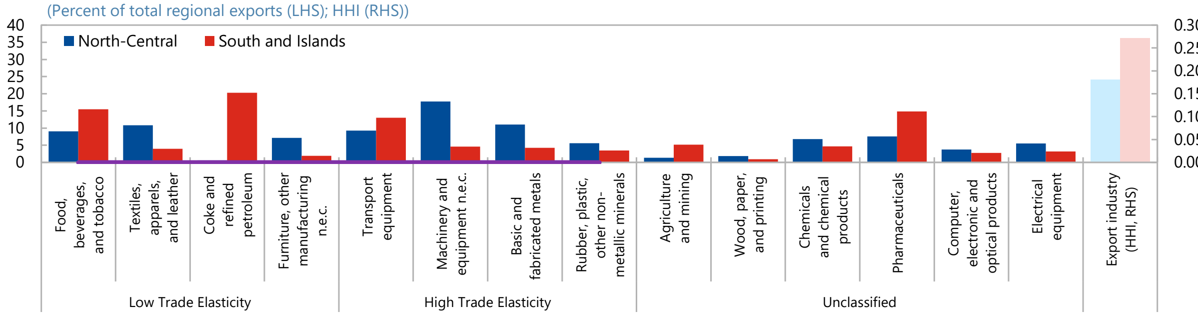


Sources: ISTAT and IMF staff calculations.
Note: VA indicates Value Added.

Goods exports are relatively more diversified in Northern than in Southern Italy, though Northern Italy is also more reliant on goods sensitive to changes in trade costs.

- *Northern Italy's export basket is relatively well-diversified but also exhibits higher trade elasticities.* Industry-level trade elasticity estimates show that Northern Italy's export composition is tilted towards industries that tend to have high trade elasticities (e.g., machinery and equipment, 18 percent of regional exports; basic and fabricated metals, 11 percent), rendering the region's exports more sensitive to changes in trade costs. That said, a well-diversified export basket could act as a mitigating factor in the event of shocks.

North vs. South: Export Industry, 2024
(Percent of total regional exports (LHS); HHI (RHS))



Sources: Fontagne and others (2022); ISTAT; and IMF staff calculations.
Note: X-axis ordered from least elastic to most elastic industry for the "Low Trade Elasticity" and "High Trade Elasticity" categories. Low (High) Trade Elasticity = trade elasticity below (above) the median under both WIOD2016 and TiVA industry classifications. Unclassified = trade elasticity either unavailable (pharmaceuticals) or not consistently below/above the median under both WIOD2016 and TiVA industry classifications. HHI = Herfindahl-Hirschman index (lower value = more diversified).

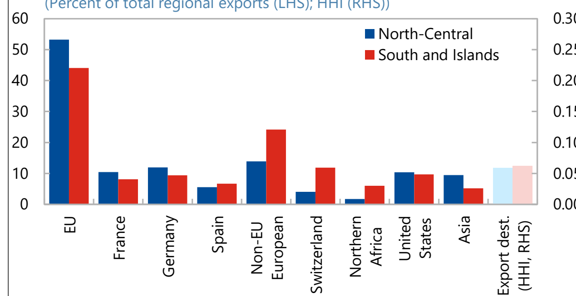
Box 1. Regional Differences in Trade Structure and Exposures (Concluded)

- *Southern Italy's exports are concentrated in relatively few industries, though several exhibit low trade elasticities.* Exports from Southern Italy are highly reliant on coke and refined petroleum (20 percent of regional exports) and food, beverages, and tobacco (15 percent)—both industries with relatively low trade elasticities and, hence, less sensitive to changes in trade costs. Transport equipment (13 percent of exports in the South; 9 percent in the North) is an exception to this pattern, exhibiting relatively high trade elasticity. Moreover, pharmaceuticals (for which elasticity estimates are unavailable) account for a relatively large share of Southern Italy's exports. While exports from Southern Italy are 50 percent more concentrated (less diversified) than those from Northern Italy—making it vulnerable to industry-specific shocks—the relatively higher reliance on low-elasticity industries is a potential mitigating factor.

The high degree of geographical export diversification for both regions provides some resilience. Based on the Herfindahl-Hirschman Index (HHI), both regions have well-diversified export destinations. While the United States, Germany, and France are key export destinations for both regions, each taking up around 10 percent of regional exports, the composition to other destinations varies.

- *In addition to the EU market, Northern Italy is more exposed to Asia.* Exports from Northern Italy are highly reliant on the EU market, particularly Germany and France, while non-EU Europe also receives a sizable share. In addition, Asia is an important export destination, reflecting the North's manufacturing-heavy industry composition.

North vs. South: Export Destination, 2024
(Percent of total regional exports (LHS); HHI (RHS))



Sources: ISTAT and IMF staff calculations.
Note: Given their importance in exports, France, Germany, and Spain (EU countries) are also listed separately, Switzerland (a non-EU European country) is listed separately. HHI = Herfindahl-Hirschman index (lower value = more diversified).

- *In addition to the EU market, Southern Italy is more exposed to the non-EU European market and North Africa.* While Southern Italy also trades with the EU (in particular Germany), the higher non-EU exposure reflects a closer link to Switzerland (11 percent of regional exports in 2024), in part as many Italian goods transit through Switzerland to arrive at their final destinations, and to a lesser extent North Africa (6 percent of regional exports in the South; 1.8 percent in the North).

[1] This box was prepared by Yueling Huang.
[2] Northern Italy ("North-Central"): Nord-ovest, Nord-est, and Centro. Southern Italy ("South and Islands"): Sud and Isoles. The box focuses on exports in goods, which account for around 80 percent of Italy's total exports in goods and services.
[3] Trade elasticities capture responsiveness of exports to changes in trade costs and are taken from Fontagné and others (2022). Despite their wide usage (e.g., Bank of Italy, 2025), some shortcomings are relevant. First, the identification relies on variations in bilateral tariffs, driven mostly by emerging market economies. Second, the estimates abstract from potential country-specific factors (e.g., quality). Third, for some key industries (e.g., pharmaceuticals, chemicals, agriculture and mining), estimates are either unavailable or not robust across different industry classifications.
[4] ISTAT (2025) show regional differences in terms of export-vulnerable firms (i.e., with high export-to-turnover ratios and concentrated export goods and markets) and find a higher share of export-vulnerable firms in Northern than Southern Italy.

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Bank of Italy, 2025. Bank of Italy Financial Stability Report, No. 1 2025.
Fontagné, Lionel, Houssein Guimbard, and Gianluca Orefice, 2022. "Tariff-Based Product-Level Trade Elasticities", Journal of International Economics, 137 (103593).
ISTAT, 2025. "Capitolo 3: La vulnerabilità all'import e all'export in una prospettiva microeconomica" in Rapporto sulla competitività dei settori produttivi - Edizione 2025.

POLICY DISCUSSIONS

A. Fiscal Policy—Maintaining Discipline to Reduce Debt

16. The authorities envision continued, gradual deficit reduction over the medium term. The better-than-expected fiscal deficit outturn in 2024 is welcome, as is the notable downward shift in the debt ratio. Looking ahead, the authorities' inaugural MTFSP and the 2025 Public Finance Document (DFP) outlined a gradual 7-year fiscal adjustment, underpinned by reforms and investment plans under the NRRP and beyond. The overall fiscal deficit is projected to narrow to below 2 percent of GDP by 2029, alongside an increase in the primary surplus to 2.4 percent of GDP, each improving by about ½ percentage point of GDP annually on average. In 2025, the primary balance is projected to increase to 0.7 percent of GDP, aided by an improvement in the structural primary balance of about ½ percentage point of GDP as required under the Excessive Deficit Procedure (EDP) and notwithstanding some deficit-expanding measures, including supports to household incomes. [11] Growth in net expenditure is expected at 1.3 percent, as agreed with the European Commission. In turn, the authorities project in their DFP public debt to peak in 2026—due to sizable stock-flow adjustments related to claims of housing-related tax credits.

Fiscal Balance and Public Debt Projections

Italy: Fiscal Projections

(Percent of GDP)

			Projections				
	2024	2025	2026	2027	2028	2029	2030
Overall balance							
Authorities (MTFSP)	-3.8	-3.3	-2.8	-2.6	-2.3	-1.8	-1.7
Authorities (DFP 2025) 1/	-3.4	-3.3	-2.8	-2.6			
Staff baseline	-3.4	-3.3	-2.8	-2.7	-2.4	-2.4	-2.5
Primary balance							
Authorities (MTFSP)	0.1	0.6	1.1	1.5	1.9	2.4	2.6
Authorities (DFP 2025)	0.4	0.7	1.2	1.5			
Staff baseline	0.4	0.7	1.2	1.5	1.9	1.9	2.0
Public debt							
Authorities (MTFSP)	135.8	136.9	137.8	137.5	136.4	134.9	133.9
Authorities (DFP 2025)	135.3	136.6	137.6	137.4			
Staff baseline	135.3	136.9	138.4	138.5	138.0	137.5	137.2
Memo:							
Annual net expenditure growth (MTFSP, percent)	-1.9	1.3	1.6	1.9	1.7	1.5	
Public debt (Staff baseline, 2024SR)	139.1	140.6	142.1	143.6	143.9	143.9	143.7

Sources: Medium-Term Fiscal Structural Plan, Documento di Finanza Pubblica (2025), ISTAT and IMF staff estimates.

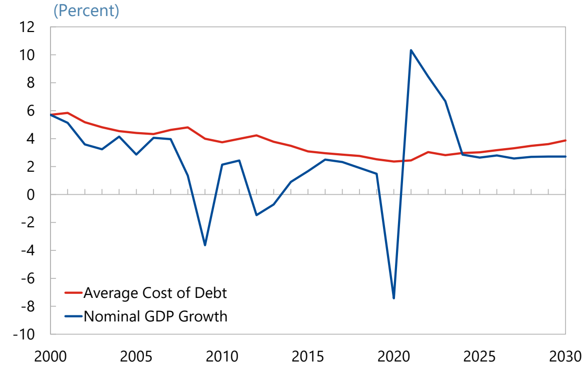
Note: 1/ DFP = Documento di Finanza Pubblica.

17. Absent identification of additional measures, staff forecasts public debt to remain elevated over the medium term. Based on the DFP, staff's near-term fiscal projections are in line with those of the authorities. At the same time, key measures that underpin the

Drivers of Automatic Debt Dynamics

Average Cost of Debt and Nominal GDP Growth

(Percent)



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

[11] The main deficit-expanding measures in the 2025 budget are the personal income tax (IRPEF) reforms and tax deductions for employment income, amounting to €18 billion annually. The 2025 budget made permanent the IRPEF changes introduced in the 2024 budget, including the reduction in the number of tax brackets from four to three by merging the first two brackets and the reduction of the tax wedge for low- and middle-income employees. The cut in social security contribution was replaced by a tax relief (or a negative income tax for low-income taxpayers), thereby avoiding negative impact on social security accounts.

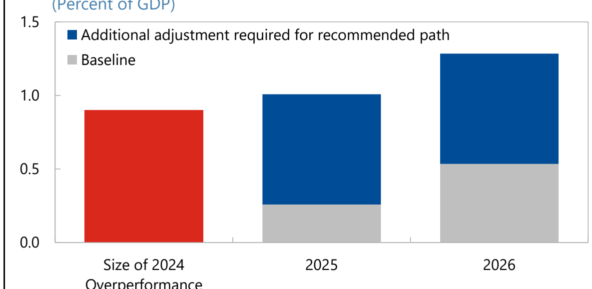
authorities' medium-term adjustment path remain to be identified. Hence, staff assumes that without the identification of underlying measures, the primary surplus will peak at 2 percent of GDP—broadly in line with historical patterns but below the authorities' path—with the overall fiscal deficit stabilizing at 2.5 percent of GDP by 2030. Furthermore, reflecting the uncertain global outlook, staff's baseline assumes a more adverse path for the interest rate-growth differential relative to that of the authorities. Consequently, public debt is projected to remain elevated over the medium-term.

18. Staff assesses Italy's overall sovereign debt risks as moderate, and fiscal space is at risk (Annex II).[12] The mechanical signals for the medium-and long-term horizons are high, owing to a still-elevated and rising public debt burden and sizable gross financing needs. Yet, the better-than-expected budgetary and debt outcome in 2024 has lowered the debt trajectory relative to previous projections. In addition, the moderate overall rating considers several mitigating factors outside the mechanical models, including (i) the availability of potential ECB support against unwarranted, disorderly market dynamics that could seriously threaten monetary policy transmission across the euro area; (ii) relatively long average debt maturity; (iii) continued healthy retail appetite for government bonds; and (iv) reduced sovereign-bank linkages—and hence a lower risk of adverse loops.

Fiscal Adjustment

Staff's Recommended Path: Primary Balance Adjustment

(Percent of GDP)



Sources: ISTAT and IMF staff calculations.
Note: The size of overperformance in 2024 is calcualted as the difference between the actual primary surplus in 2024 and the announced primary surplus target for 2024 in the 2024 DEF.

19. In view of a highly uncertain external environment and the need to reduce vulnerabilities related to high public debt and sizable gross financing needs, maintaining strong fiscal discipline is a priority. Staff recommends implementing additional measures in the near term to bring the primary surplus to 3 percent of GDP by 2027 to ensure that Italy's debt ratio is on a declining path starting 2027, as envisaged in the authorities' fiscal plan. This corresponds to a cumulative adjustment of around 2.6 percentage points of GDP during 2024–27. Considering the consolidation efforts of around 1.1 percentage points of GDP already embedded in staff's baseline, this would require an additional fiscal adjustment of 1.5 percentage points of GDP. Staff recommends that this additional adjustment be evenly spread between 2025 and 2026, with ¾ percentage point of GDP adjustment in each of the two years—an additional effort less onerous than the fiscal overperformance observed last year. The recommended path would bolster market confidence, help build buffers against adverse shocks, and further underpin external and domestic stability. Furthermore, timely adjustment would entail less overall adjustment over the medium-term than a more gradual one that would deliver the same level of debt in view of a worsening interest rate-growth differential. This would also be less challenging than a delayed one

[12] 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.

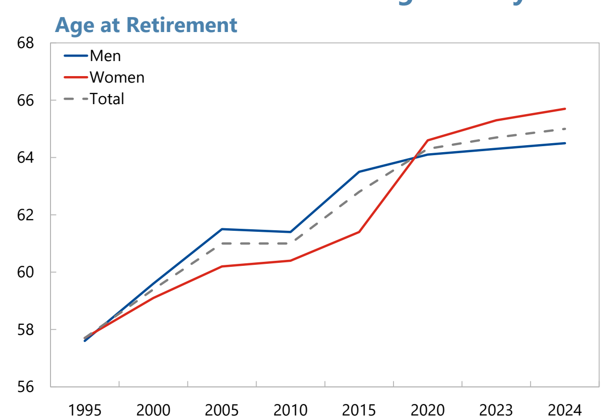
amid rising spending pressures stemming from population aging and investment needs in physical and human capital. The simultaneous ramp-up of NRRP-related spending during early adjustment would cushion any potential economic impact.

20. Several options are available for achieving the recommended fiscal adjustment while limiting the growth impact and improving distributional consequences. Further savings can be achieved in the areas of taxation and subsidies. Building on the progress made thus far, reform efforts on tax evasion and tax compliance should continue. In addition, rationalizing tax expenditures (currently at 6 percent of GDP) along with further strengthening of oversight and control would broaden the tax base, reduce complexity, and bolster revenue. [13] Eliminating the preferential flat-tax rate for income on self-employment would help address equity concerns and prevent revenue loss. Given the still-robust labor market and high corporate profits, hiring subsidies should be replaced with productivity-boosting measures, focusing on education and skill-upgrading. Updating the cadastre register, which has not been comprehensively revised since the 1980s, would not only yield higher revenues but also help improve equity by reducing the gap between taxable values and market values, particularly for higher-market-value properties. These measures, by addressing distortions, are expected to have limited effect on economic activity and rebalance policies toward more inclusive outcomes.

21. Beyond the near-term, additional effort is required to solidify the reduction in debt-related vulnerabilities. While maintaining a primary surplus of 3 percent of GDP to place debt firmly on a downward trajectory, fiscal efforts are required over the medium and longer terms to offset the expected worsening of Italy's interest rate-growth differential and rising spending pressures and to create room for growth-enhancing measures (see below).

- *Further streamlining pension-related spending.* Pension spending is currently above 15 percent of GDP, higher than the EU-average of 13 percent of GDP. Over the next decade, population aging is expected to lift pension-related costs to a peak of around 17 percent of GDP, despite the introduction of a notional defined contribution scheme and indexation of the statutory retirement age to life expectancy. In this respect, the recent tightening of requirements for temporary early retirement schemes is welcome, and new costly early retirement schemes should be avoided. Raising the effective retirement age to narrow the gap with the statutory age would boost labor supply.

Effective Retirement Age in Italy



Source: INPS

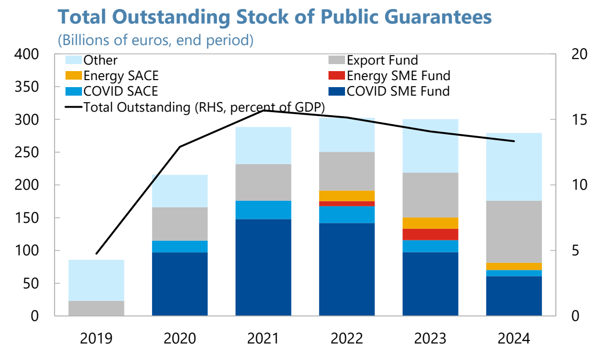
[13] The Annual Report on Fiscal Expenditures published by the Ministry of Economy and Finance shows that there were 575 tax expenditure measures in 2024, and the expected fiscal cost would amount to €118.9 billion in 2025.

- *Improving cost effectiveness of spending.* Ongoing demographic shifts imply greater demand for public services for older cohorts in areas such as health and long-term care. Maintaining an adequate provision for these services without compromising quality is critical. At the same time, there is a need for adequate and well-targeted spending for younger cohorts to ensure skill-upgrading to make the shrinking workforce more productive and avoid disincentives for participation. Across these areas, there is scope to improve the cost-effectiveness and impact of per-recipient spending, including through digitalization and by repurposing existing facilities and public sector workers. [14] In this context, ensuring that limited fiscal resources target growth-enhancing measures is essential, with education and on-the-job training helping to enhance labor's effective contribution to growth.

- *Enhancing transparency of the medium-term fiscal plan.* The MTFSP presents a shift from the traditional annual budget approach to a multi-year fiscal plan. To further integrate the national budget practice with the medium-term plan, it is crucial to establish robust monitoring and control systems to minimize adverse deviations from the agreed medium-term targets set on net expenditure. Continuing the practice of comprehensive reporting on fiscal balances and public debt ratios would also remain critical to prevent fiscal surprises.

- *Ensuring continued close monitoring of risks related to contingent liabilities.* Although the stock of public guarantees is gradually declining, it remains sizable, calling for continued prudent management, centralized monitoring, and adequate provisioning. Reducing the level of guarantees to pre-pandemic levels would help de-risk the public sector. Refraining from using new publicly-guaranteed loans as a substitute for on-budget spending is essential, as such measures undermine budgetary discipline and distort resource allocation. For existing guarantees, continuing close monitoring of exposures is important to limit potential spillovers to other sectors.

Stock of Public Guarantees



Sources: MEF and Italian Budgets.
Note: "Other" includes the guarantee schemes outside of COVID-19, energy-crisis programs and the Export Fund.

22. Growth-enhancing reforms alongside fiscal adjustment efforts would facilitate a more precipitous decline in the debt ratio, potentially alleviating fiscal adjustment needs. Implementing productivity-enhancing reforms would not only help lift potential growth, but would also support a faster, durable debt reduction. For example, if staff's recommended fiscal path is combined with reforms that lift annual growth by 0.3 percentage point above the baseline growth projection, the cumulative debt reduction would be 2 percentage points of GDP higher by 2030. Alternatively, the higher growth path would render staff's recommended debt reduction path

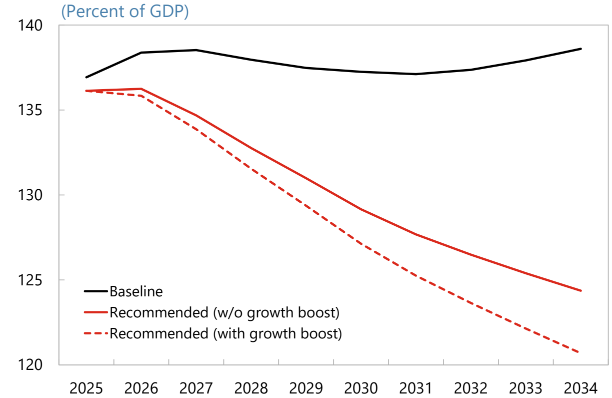
[14] See for example IMF, 2025. "Long-Term Spending Pressures in Europe," discussing latent spending pressures in Europe and measures to contain them.

possible with additional adjustment of ½ percentage point of GDP in 2025 and 2026 (compared to ¾ percentage point of GDP without the growth boost), allowing a narrower primary surplus of 2.5 percent of GDP (instead of 3 percent of GDP) from 2027 onwards.

23. Given current debt-related vulnerabilities, any new spending measures, such as for defense, should be fully compensated with savings elsewhere. With the need to bring down debt, should the authorities decide on increased spending in specific areas, including defense, such spending should be fully compensated for by additional efforts to increase revenues and/or through reduced spending elsewhere. Any tax reforms should aim to broaden the tax base, while increasing efficiency and equity. The alternative of a net deficit increase would come at the cost of higher overall debt, a possible delay in the turning point of the debt ratio, and increased risks of higher borrowing costs, with possible spillovers to the private sector.

General Government Debt Paths

Public Debt
(Percent of GDP)



Sources: IMF staff calculations.
Note: For the recommended scenario, the primary balance adjustment during 2025-26 is higher by 0.75 percentage points of GDP in 2025, compared to the baseline adjustment, reaching the primary surplus of 3 percent of GDP in 2027. The real GDP growth for the recommended paths assume a fiscal multiplier of 0.3, based on possible savings measures with limited growth impact (see Paragraph 20 for further discussion). The dotted lines assume further that the real GDP growth is higher than those used for the recommended scenario (solid red) by 0.3 percentage point each year, starting 2026. There is no feedback assumed from public debt levels to interest rates.

24. Should adverse shocks to growth occur, automatic stabilizers should remain the primary counter-cyclical fiscal response. Given Italy's at-risk fiscal space, debt-reducing efforts combined with growth-enhancing reforms would need to continue even in the event of all-but-the-most-severe adverse macroeconomic shocks. Automatic stabilizers would therefore be the main tool to provide temporary relief. Adequate social safety nets will be crucial to buffer the effects of shocks. Any additional support measures should be budget neutral, temporary, and well-targeted to support the most vulnerable households and viable firms. To protect growth, NRRP-related spending should not be re-purposed for counter-cyclical support.

Authorities' Views

25. The authorities highlighted Italy's strengthened fiscal position, which has improved market confidence, and reiterated their commitment to the EU-agreed fiscal path. They highlighted that the stronger-than-expected performance in 2024 largely reflects structural gains in tax collection—driven by improved compliance and a broader tax base. Hence, these factors are expected to continue to support the government's fiscal adjustment efforts. The authorities remain committed to meeting this year's net expenditure growth target of 1.3 percent and return the overall fiscal deficit to below 3 percent of GDP by end-2026, with further gradual but firm deficit reduction. While they acknowledged the overall moderate SRDSF rating, they argued that the mechanical results of the medium-term risk assessment (unchanged from last year) do not fully reflect the positive impact of their medium-term fiscal plans nor the tightening of Italy's sovereign spreads and the improved assessment by credit rating agencies. The authorities highlighted that increases in defense expenditure should be largely offset by reductions in other spending items, including by exploiting synergies in security and infrastructure investment. They noted that in an adverse economic scenario, meeting net expenditure targets would take priority by allowing automatic stabilizers to fully operate instead of resorting to discretionary deficit-widening measures. In addition, they highlighted that efforts are underway to strengthen budget control and better align domestic budget practices with the medium-term fiscal framework. The authorities emphasized that fiscal costs stemming from contingent liabilities—particularly guarantees issued during the pandemic and energy crisis—have so far remained limited. Prudent provisions have been made, and banks have followed cautious lending practices. While the authorities agreed that reducing the stock of contingent liabilities close to pre-pandemic levels would help de-risk the public sector, they also underlined the potential role of public guarantees to crowd in new private financing to boost investment and address market failures.

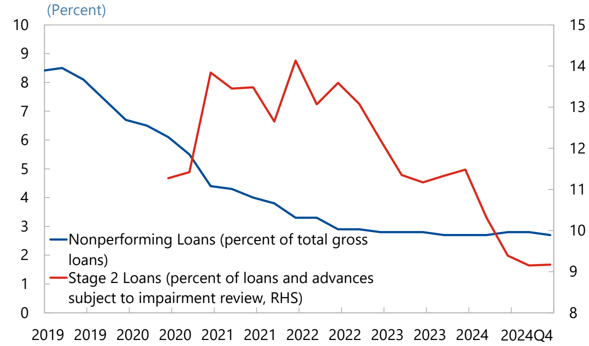
B. Financial Sector Policies—Safeguarding Stability to Reinforce Resilience

26. Banking system soundness has strengthened, with adequate capital and ample liquidity buffers. Profitability is high, with several major banks reporting record profits, driven by higher net interest income, fee revenue, and reduced loan loss provisions. Although continued monetary easing could erode profits due to lower interest income, the impact may be partly offset by an increase in fee income. In addition, asset quality is sound. Nonperforming loans (NPLs) remained low and stable at 2.7 percent of gross loans as of 2024Q4, slightly above the euro area average of 1.9 percent—with the net NPL ratio for significant institutions (SIs) holding steady and in line with the euro area average of 1.1 percent, and the ratio declining slightly to 2 percent for less significant institutions (LSIs) with traditional business models. [15] The share of stage 2 loans fell below 10 percent of total performing loans, with a higher ratio for LSIs. While risk-weighted assets have edged down, they remain elevated, and asset quality could deteriorate, particularly for loans extended to firms exposed to potential tariffs.

Banking Sector Loan Quality

Non-Performing Loans and Stage 2 Loans

(Percent)



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

27. While macroprudential policy settings are helping to strengthen resilience, continued vigilance is needed. Given the uncertain outlook, the increase of the Systemic Risk Buffer (SyRB) to 1 percent is welcome. [16] Similarly, maintaining the current countercyclical capital buffer (CCyB) at

[15] The NPL ratios were higher for other LSIs, including those specializing in pension-backed loans, asset management, and acquisition and management of NPLs.

[16] This buffer was introduced in 2024 and implemented gradually, with banks required to set aside 0.5 percent by December 31, 2024, and the remaining 0.5 percent by June 30, 2025.

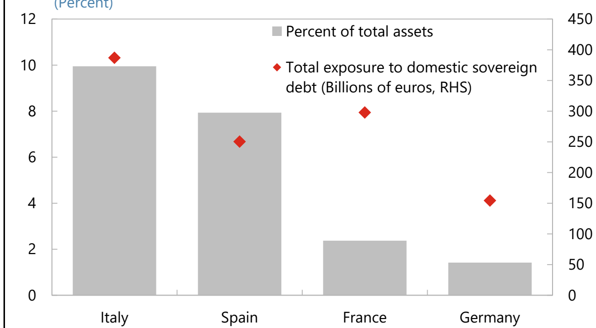
zero remains consistent with the negative credit-to-GDP gap. That said, although ample liquidity in the system may provide buffers, continued vigilance in monitoring vulnerabilities within the banking sector remains crucial, including as interest income—a key driver of recent high profitability—may decline with continued monetary easing by the ECB. More broadly, the authorities have continued efforts to address 2020 FSAP recommendations (Annex VII).

28. Continued monitoring of broader macro-financial linkages would support prompt action to address any potential buildup of vulnerabilities. For example, despite the decline in the aggregate banking sector's exposure to the Italian sovereign, sovereign-bank linkages remain sizable. In addition, the recent pick-up in new mortgage loans has increased the possible exposure of household balance sheets to real estate developments, and house prices have increased somewhat—though there are no signs of overvaluation, as price-to-rent and price-to-income ratios remain low, and overall risks to financial stability appear moderate. Tariff shocks may also adversely affect firms both directly through trade exposures and indirectly through the impact on growth, thereby deteriorating loan quality and bank balance sheets. [17] Continued monitoring of balance sheets in all sectors of the economy is therefore essential.

Sovereign-Bank Linkages

Bank Holdings of Government Debt Securities, as of April 2025

(Percent)



Sources: European Central Bank and IMF staff calculations.

29. Improving the financial and operational resilience and profitability of LSIs remains critical. Amid overall banking sector soundness, pockets of vulnerabilities exist among some LSIs. Further enhancing oversight of LSIs—through targeted inspections, in-depth reviews of credit risk management practices, and continued monitoring of NPLs—would help address these risks. Continuing to adopt corrective measures is essential in case of imprudent risk management, insufficient provisioning, or undue forbearance practice. Regulations on operational risk management and governance should be strengthened through targeted inspections reviews, including detailed requirements and enhanced supervisory capacity for IT and cyber risk. The ongoing inspection of these firms by the Bank of Italy to ensure compliance with IT security standards is therefore welcome. Consideration should be given to the timely escalation of corrective measures for weak banks to facilitate improvements in areas such as capital levels and operational efficiency. Measures should be taken to achieve consolidation or orderly wind-downs when necessary, ensuring that weaknesses do not persist or worsen if not addressed promptly.

30. NBFI-related risks to financial stability are moderate. The substantial rebound in life premium income in 2024 contributed to mitigating liquidity risks within the life insurance sector.

[17] The Bank of Italy (2025) finds that although more than half of the credit are to firms with estimated revenue drops below 1 percent from the US tariffs, Italian banks are relatively more exposed to firms vulnerable to the trade shock compared to other euro area banks, due to the economy's export orientation, large trade exposure with the US, and low CRE loans.

Despite a steep rise in premium income, the return on equity has continued to decline, while only a few insurers opted to temporarily suspend the impact of unrealized capital losses on their annual profitability. In this respect, it would be helpful to assess the effectiveness of the 2024 budget law, which established the Italian insurance guarantee scheme for the life sector. Monitoring vulnerabilities in the NBFI sector and conducting credit risk scenario analysis would help assess the impact of risks in the event they materialize. Enhancing NBFI-specific prudential tools and planning for stress tests would also bolster resilience. Additionally, closely monitoring non-bank exposures to sovereign entities—particularly in the insurance sector—continues to be crucial.

31. Italy has taken several steps to strengthen its AML/CFT framework. An updated National Risk Assessment (NRA) was adopted in November 2024, and a new directorate within the Ministry of Economy and Finance has been established to regulate and supervise non-financial obliged entities, facilitating inter-agency coordination. The Bank of Italy has bolstered AML/CFT supervision, including related to cross-border risks and through alignment with EU Directives. In addition, the authorities have made progress in addressing risks stemming from crypto-asset service providers and adopted a new licensing, supervision, and sanction regime.

Authorities' Views

32. The authorities noted their broad agreement with staff's assessment that financial system soundness has improved, amid effective supervision and close monitoring. They highlighted the robustness of the banking sector, with high profitability, sound asset quality, strong capitalization and stable liquidity, enhancing its resilience to heightened global uncertainty. They highlighted that the banking sector has been strengthened by accumulating the SyRB to one percent and that maintaining the CCyB at zero is in line with the current stage of the credit cycle. Regarding credit demand, they observed that a reduction in the policy rate has stimulated household credit demand, while the decline in firm credit demand has eased. Despite rising property prices, they observed that risks arising from the real estate sector are subdued, with low vulnerability of banks' exposures to commercial real estate. The authorities also highlighted that, even with weaknesses among some LSIs, their overall capital positions have improved, aided by supervision. They emphasized their commitment to tackling emerging challenges posed by the digital economy and climate change within the financial system. They highlighted a broad alignment of the AML/CFT framework with international standards and reaffirmed their commitment to tackling financial crimes and foreign bribery.

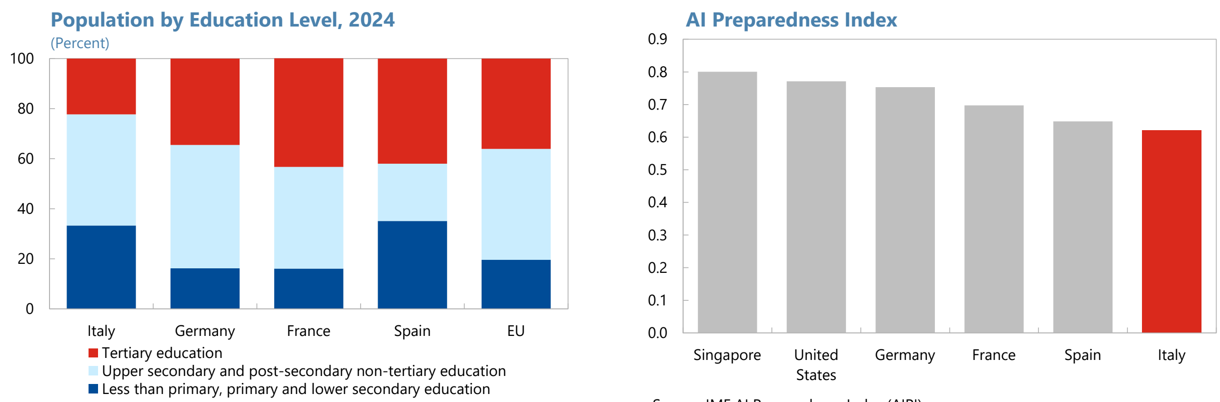
C. Structural Policies—Doubling Down on Reforms to Boost Productivity

33. Tackling Italy's productivity malaise through innovation and skills development is urgently needed to reinforce resilience and offset the impact of unfavorable demographics. Italy's labor productivity has been persistently weak, widening the gap with its peers. [18] The sluggish growth stems from, among other factors, limited productivity-enhancing investment and a shortage

[18] Bank of Italy - No. 422 - Productivity growth in Italy: a tale of a slow-motion change

of high-skilled workers. Italy also ranks below several other major advanced economies in terms of its preparedness to adopt artificial intelligence. To boost technological adoption and innovations, there is significant scope to increase intangible investment. In 2023, Italy's R&D investment amounted to 1.3 percent of GDP, well below the EU average of 2.2 percent of GDP and the 3–5 percent of GDP seen in other major economies, including Germany, the United States, and Korea.[19] Investment in Information and Communication Technology (ICT) (required for digitalization) stood at 2.3 percent of GDP, lagging France and the United States. These efforts should accompany investment in human capital. While some progress has been made in recent years, Italy continues to face a shortage of highly skilled workers, and nearly 16 percent of the youth population was neither in employment, education, nor training in 2024. Moreover, even though the supply of highly educated workers is falling short of demand, the wage premium on tertiary education is low, discouraging higher education and incentivizing emigration of highly qualified graduates.

Skill Shortage

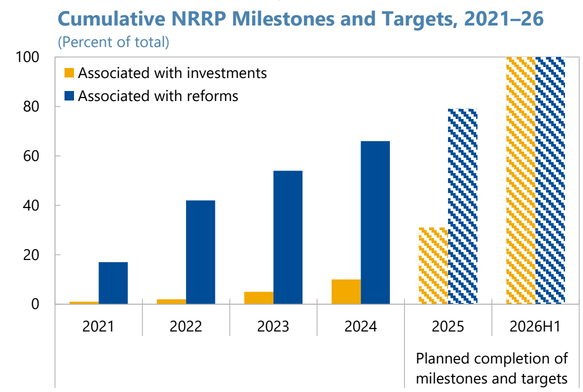


Source: Eurostat.

Source: IMF AI Preparedness Index (AIPI).

34. To fully leverage opportunities to boost urgently needed growth, it is now or never for the NRRP. The window to implement the NRRP has shrunk to just over a year, and the main challenge is the on-time completion of substantial infrastructure projects, scheduled towards the last phase of the plan.[20] The authorities' continued commitment to the NRRP's execution is welcome, including through the ongoing efforts to accelerate implementation and address bottlenecks. Nonetheless, it remains green technologies (about €5 billion remains

National Recovery and Resilience Plan



Sources: Italian Court of Auditors; and IMF staff calculations.

[19] Eurostat – Gross Domestic Expenditure on R&D; OECD – Gross Domestic Spending on R&D

[20] The infrastructure investment portion of the NRRP is intended to be toward the end of the horizon with the underlying reforms occurring first (two thirds of milestones and targets associated with the reforms have been achieved by end-2024, compared with only 10 percent of milestones and targets associated with investments). The deadline for meeting NRRP milestones and targets is mid-2026; some spending is expected to take place in 2027.

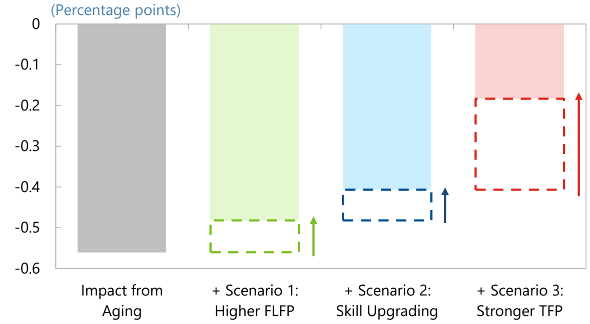
available for expenditures incurred by end-2025). If successful, the full implementation of the NRRP should help narrow Italy's long-standing structural gaps in public sector efficiency, infrastructure, labor market participation, and human capital, while supporting productivity growth—with gains extending beyond 2026 owing to the streamlining of administrative layers, improved business investment, and enhanced critical infrastructure (see also chapter 1 of Selected Issues). However, further actions are needed to ensure a strong and lasting boost to productivity and growth. To maximize the impact of new infrastructure, adequate and sustained funding for staffing and maintenance will be needed beyond the NRRP's horizon.

35. To materially lift potential growth beyond what the NRRP will deliver, additional comprehensive reforms should be implemented. Low productivity and population aging are intensifying the need for a broader reform agenda. Future reform plans should build on the design and implementation lessons from the NRRP and continue to incorporate well-defined milestones and targets, ongoing monitoring, and performance-based disbursements. In this respect, the longer-term reform and investment plans outlined in the MTFSP through 2029 are welcome. That said, further details are needed to ensure continued reform momentum in the years ahead. Reforms should focus on boosting human capital, increasing the labor supply, and reviving private sector capacity to produce and adopt innovations. Upgrading skills to improve labor quality is crucial to offset the drag from a declining working-age population and to meet the high-skilled needs of firms and public administration. These efforts should be accompanied by initiatives to raise the participation rate, especially among women, by expanding access to childcare and removing policy-induced disincentives (e.g., tax credits for dependent spouses). Such measures would support both growth and pension sustainability. [21]

Scenario Analysis: Impact of Reforms

Contribution to Growth After Reforms, 2025-50 Average

(Percentage points)



Source: Accompanying Selected Issues Paper.

Note: Scenario 3 includes also the impact of higher private and public investment on TFP.

36. Reviving private sector dynamism through innovations requires greater access to finance, particularly in risk capital, and predictability of policy measures. Italian firms have long struggled to scale up and innovate. Mature Italian firms are significantly smaller than in other countries, and there are few new entrants that eventually become market leaders. [22] Such weak business dynamism points to broader inefficiencies in resource allocation. Key actions needed to enhance business dynamism and allow high-growth firms to expand include continued progress on the implementation of the insolvency reform and elimination of size-based tax incentives. Deepening capital markets—particularly by broadening access to risk capital—and ensuring a more

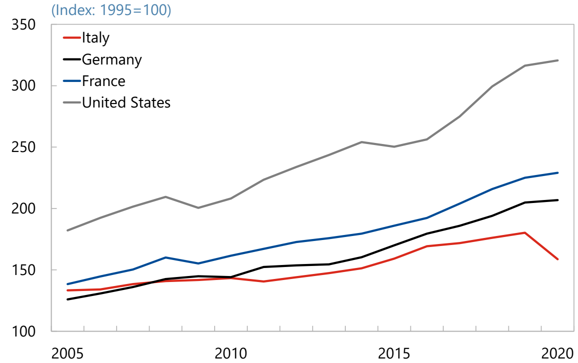
[21] See 2024 Selected Issues Paper, "The Paradox of Italy's Low Fertility and Low Female Labor Force Participation," IMF Country Report No. 2024/241.

[22] See Bank of Italy (2021) and Adilbish and others (2025), as well as accompanying Selected Issues Paper, "Unlocking the Productivity Potential of Italian Firms."

predictable regulatory environment are also crucial to support the investment needed for technological upgrades and the digital transition.[23] 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. Efforts to address risks of transnational aspects of corruption should continue (Annex V).

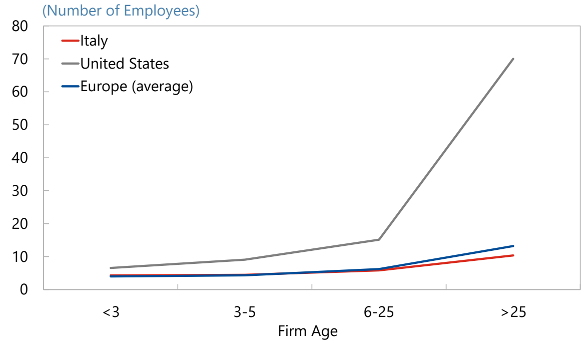
Firm Size and Financing

Intangible Investment
(Index: 1995=100)



Sources: EU-Klems & IntangProd and IMF staff calculations.

Average Employment Size by Firm Age
(Number of Employees)



Sources: CompNet and IMF staff calculations.
Note: Average between 2010-2020.

37. Industrial policy should be used cautiously to address market failures and be coordinated at the EU level. Like some other advanced economies, Italy announced new industrial policy measures in 2024 and early 2025, many of which target dual use products, raw materials, technology, and low-carbon products.[24] In general, given the large fiscal costs and unintended cross-industry and cross-country spillovers, industrial policies should be deployed cautiously and targeted to specific objectives where externalities or market failures prevent effective market solutions. In addition, they should be time-bound, underpinned by rigorous cost-benefit analysis, consider spillovers and complementary policies, and avoid distortionary discriminatory measures. Structural reforms and a coordinated approach among EU member states generally offer greater benefits and strengthen the link between industrial policy and economic performance.[25]

38. Accelerating the transition to renewables could bolster energy security and enhance resilience.[26] Climate and energy security are macro-critical issues for Italy, considering its economic structure, importance of the agricultural and tourism sectors, and higher, more volatile energy prices

[23] Draghi, M. (2024). The Future of European Competitiveness—A Competitiveness Strategy for Europe and Bank of Italy (2025) discusses the limited venture capital investment in Italy.

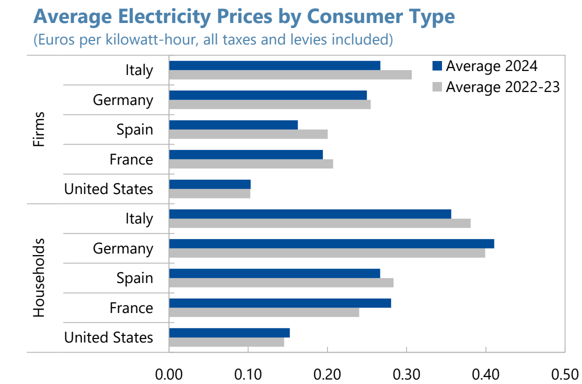
[24] The New Industrial Policy Observatory (NIPO) records that Italy announced around 100 distortive state interventions affecting foreign commercial interests during 2024 and the first five months of 2025. NIPO is collected by the Global Trade Alert (GTA) team and tracks the evolution of new industrial policies that are likely to alter the relative treatment of foreign commercial interests. The data are compiled by trade policy experts. The compilation process relies on judgment in some borderline cases.

[25] See Baquie and others (2025) on structural reforms and Brandão-Marques and Toprak (2024) and Hodge and others (2024) on a coordinated approach among EU member states.

[26] See the accompanying Selected Issues paper on climate for more details.

faced by Italian households and firms compared to other countries.[27] Extreme weather events such as heatwaves, droughts, and floods can devastate crops. As a major energy importer, Italy is also vulnerable to foreign supply disruptions and energy price volatility. Investing in renewable energy infrastructure can reduce import dependency and enhance energy resilience. However, challenges remain, including related to grid infrastructure limitations, construction bottlenecks, community engagement issues, and insufficient energy storage. To address these challenges and meet its climate objectives, Italy's strategy combines both mitigation and adaptation. The *Fit-for-55* package and Italy's Nationally Determined Contribution aim to reduce greenhouse gas emissions by 55 percent by 2030 relative to 1990 levels, with *Fit-for-55* providing binding, sector-specific measures to support this goal. The National Energy and Climate Plan and the National Climate Change Adaptation Plan will guide implementation, with the latter focused on strengthening resilience to climate impacts. Increased efforts are needed, however, to meet the 2030 targets. A comprehensive policy package that includes accelerated permitting for renewables, expanded energy storage, and deeper electricity market integration would be helpful in this regard.

Electricity Prices



Sources: Eurostat; U.S. Energy Information Administration; and IMF staff calculations.

Authorities' Views

39. The authorities emphasized that the NRRP and the MTFSP form a coherent and forward-looking reform agenda aimed at addressing Italy's long-standing structural challenges. They noted that all milestones and targets due through 2024 have been met, with 2025 objectives on track, and implementation now at an advanced stage—over half of the milestones and targets have been achieved, and a large share of projects are either completed or underway. The authorities highlighted the flexibility, agreed with the European Commission, to substitute delayed measures with equivalent budget-funded actions to ensure timely milestone completion and disbursements. This approach has already been applied, for instance, where infrastructure works faced delays due to archaeological findings or asbestos removal, with only minor reallocations to date. They also pointed to the effectiveness of recent measures to improve governance and accelerate implementation, including enhanced monitoring, improved data quality, and stronger support for local authorities. Progress in key reform areas—justice, public administration, business climate, and tax administration—was underscored, alongside the authorities' intention to maintain reform momentum through the well-developed MTFSP. They highlighted that growth-enhancing public investment is expected to continue beyond the NRRP, in line with the requirements of the seven-year fiscal adjustment. While acknowledging staff's concerns about weak productivity growth, the authorities emphasized their ongoing efforts to raise productivity and labor force participation.

[27] Heavy reliance on imported natural gas for power generation contributes to relatively high energy prices in Italy than in other countries. The Dutch Title Transfer Facility (TTF) gas prices, a benchmark for Europe, significantly influence wholesale electricity prices, with increases passed onto consumers.

They viewed industrial policy as a strategic tool, including to enhance innovation and competitiveness and advance the digital and green transitions. They remain steadfast in mitigating risks of transnational aspects of corruption.

STAFF APPRAISAL

40. The Italian economy has continued to expand at a moderate pace and fiscal consolidation has advanced well, while structural challenges persist. Growth has performed at around the level of potential for the second consecutive year, supported in part by infrastructure investment under the NRRP and a positive contribution from net exports. Despite heightened global trade policy uncertainty, economic activity has remained resilient in the first quarter of 2025, and the employment rate has reached a record high. Credit to households has turned positive, the contraction in credit to corporates has eased, and headline inflation has gradually increased to just below 2 percent. In addition, the 2024 public-sector deficit and debt ratio turned out better than projected. Staff assesses overall sovereign debt risks as moderate. The external position in 2024 is assessed as weaker than warranted by medium-term fundamentals and desirable policy settings. Looking ahead, Italy's long-standing structural challenges—sluggish productivity growth, rapid population aging, below EU-average female labor force participation, and regional disparities—have become today's pressing issues.

41. The outlook is dampened by heightened uncertainty, with risks tilted to the downside. Growth is expected to slow to 0.5 percent this year, before temporarily picking up to 0.8 percent next year on the back of peak NRRP spending and positive trade spillovers from Germany. Headline inflation is projected 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. While upside growth surprises are possible, downside risks dominate, including from escalating trade tensions, an intensification of regional conflicts, a further tightening of global financial conditions, macro-critical climate-related shocks, cyberthreats, and delayed or inefficient NRRP implementation.

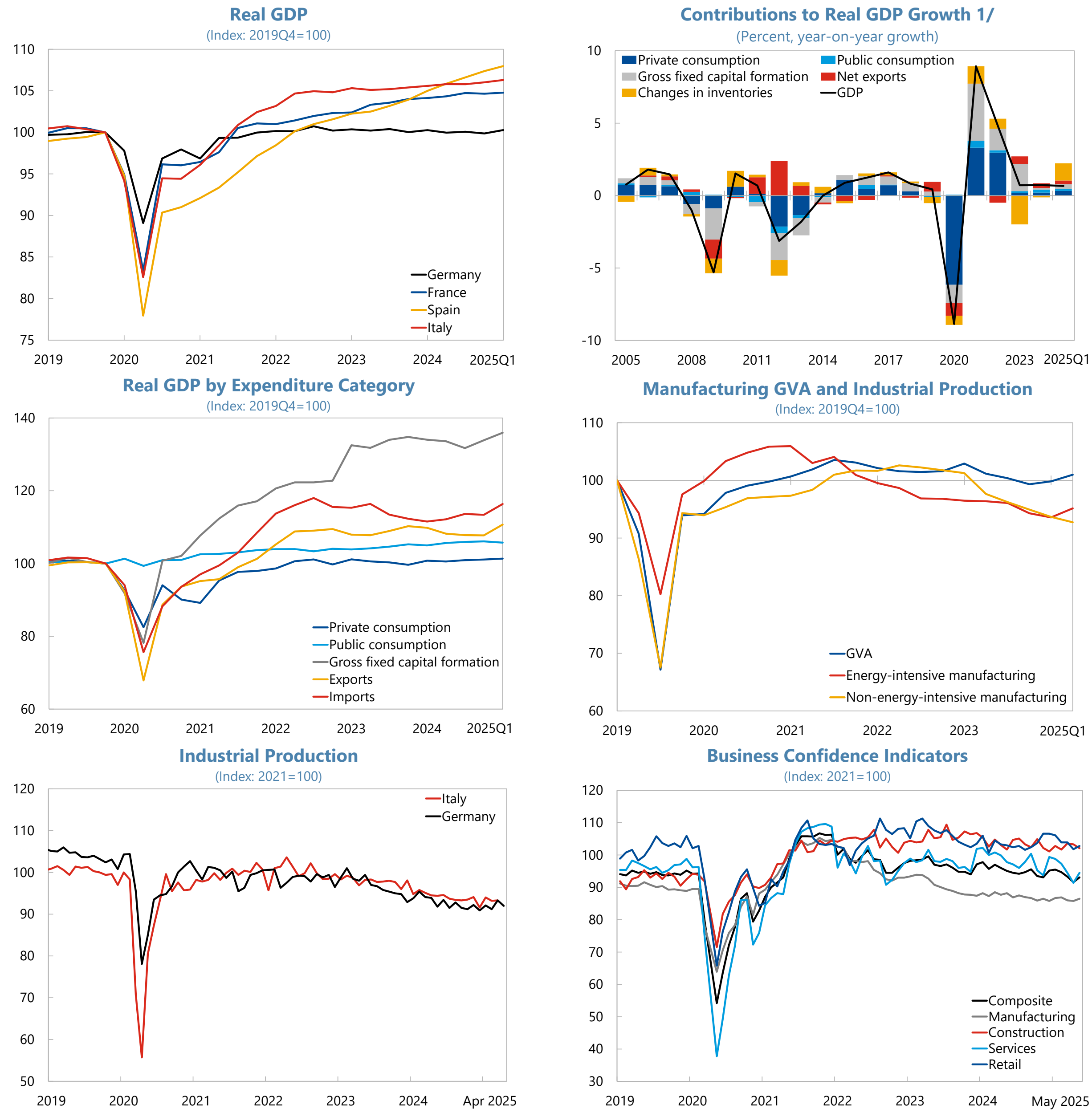
42. Maintaining strong fiscal discipline alongside growth-enhancing reforms is needed to reduce the public debt ratio and related vulnerabilities. Last year's better-than-expected fiscal outcome, driven by improved tax compliance and a strong labor market, strengthened Italy's fiscal position, and a further gradual deficit reduction is planned. To decisively reduce the still-high public debt ratio and contain related vulnerabilities, staff recommends maintaining the strong performance and reaching a primary surplus of 3 percent of GDP by 2027. Rationalizing tax expenditures, including by reducing preferential treatment of self-employment income, would support the adjustment and help broaden the tax base and improve progressivity. Given the robust labor market and high corporate profits, hiring subsidies should be replaced with productivity-enhancing measures. These measures, by addressing distortions, are expected to have little adverse effect on economic activity while improving distributional consequences. Moreover, they would occur during the expected ramp-up in NRRP spending. Given Italy's at-risk fiscal space, any new spending should be fully compensated by savings elsewhere. Over the longer term, it is essential to contain pension-related pressures and further strengthen resilience by avoiding new costly early retirement schemes, boosting labor supply and skill levels, and ensuring a steady decline in public guarantees through continued prudent management, centralized monitoring, and adequate provisioning.

43. **Safeguarding financial sector stability requires continued vigilance.** The banking sector's soundness improved, benefiting from strong profitability, sound asset quality, and adequate liquidity and capital buffers. Given the still-negative credit gap and heightened global uncertainty, maintaining the current countercyclical capital buffer remains appropriate, and the increase in the systemic risk buffer to 1 percent is welcome. Close monitoring of loan quality is essential, especially amid risks to firms arising from trade tensions. In the non-bank financial sector, exposures to domestic sovereign debt—while reduced—remain significant and warrant ongoing attention. Addressing vulnerabilities among some LSIs is a key priority. Amid the ongoing inspection program to enforce IT security standards by the Bank of Italy, LSIs should further integrate cyber risk into their governance and risk frameworks. Timely escalation of corrective measures for weak banks would support further improvements in capital adequacy and operational efficiency.

44. **Comprehensive and sustained reform efforts remain critical to address persistent productivity challenges and unlock stronger potential growth.** Continued efforts to ensure a full and timely delivery of the NRRP are essential. Beyond the NRRP, further reforms are needed to raise productivity and offset adverse demographic trends, building on the design and implementation lessons from the NRRP. These reforms should focus on measures to strengthen human capital and expand labor supply, including by enhancing workforce participation, particularly among women. Better access to risk capital and a more predictable policy environment would help revive innovation and private sector dynamism. Eliminating tax incentives favoring small firms and continuing the implementation of the new insolvency code would enhance resource allocation and support high-performing firms. Deepening EU-level integration—such as the single market and the savings and investment union—would further improve access to finance. Industrial policies should be well-targeted to address market failures, time-bound, underpinned by rigorous cost-benefit analysis, consider spillovers and complementary policies, avoid protectionist measures to limit market distortions, and be coordinated at the EU level. As climate-related risks and energy security are macro-critical for Italy, accelerating the transition to renewables, strengthening climate adaptation, and investing in resilient energy infrastructure are critical.

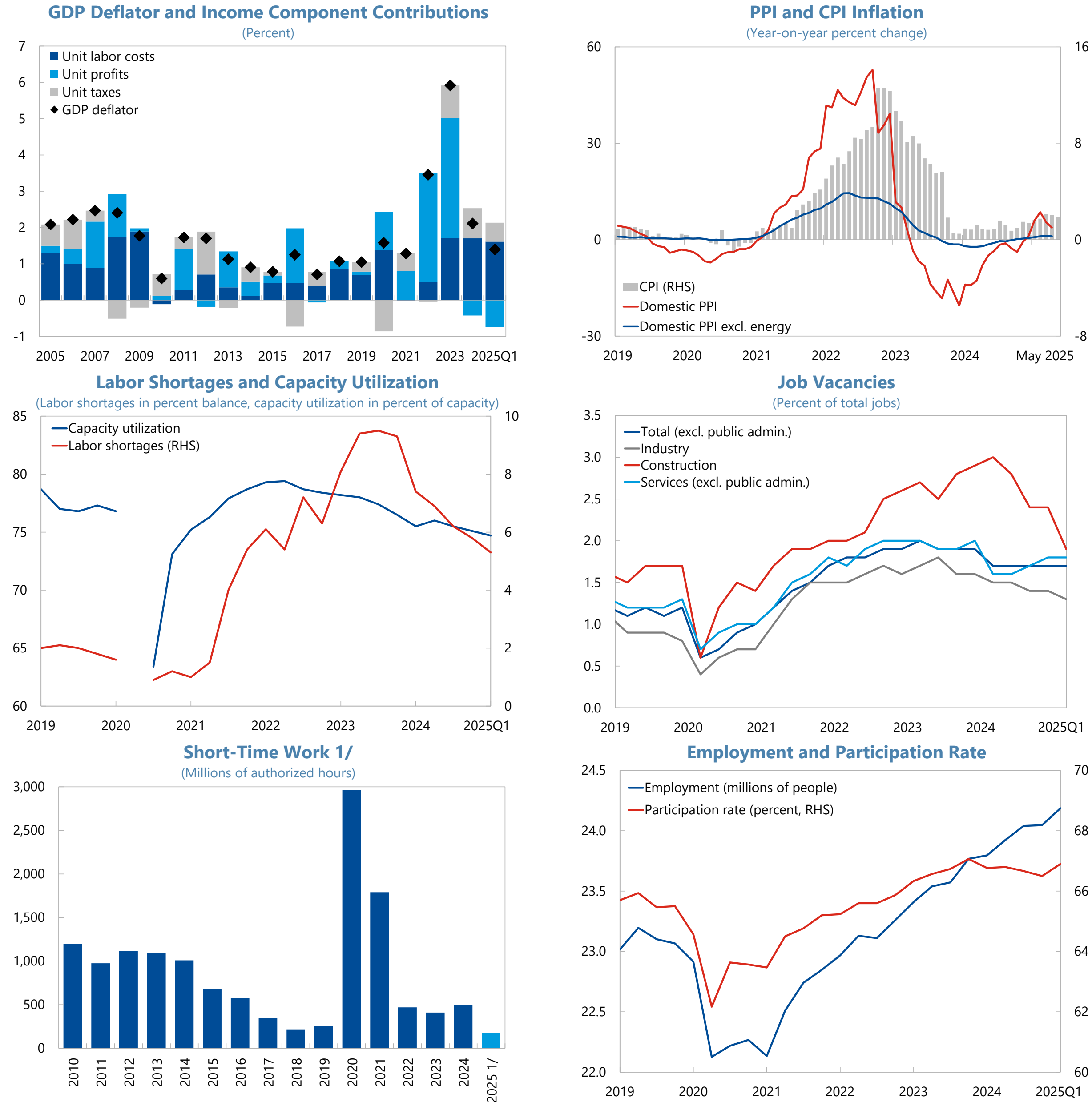
45. **It is recommended that the next Article IV consultation take place on the standard 12-month cycle.**

Figure 1. Italy: Real Sector Developments



Sources: ISTAT; FSO; Haver Analytics; and IMF staff calculations.
1/ Annual data, except 2025, which reflects quarterly data.

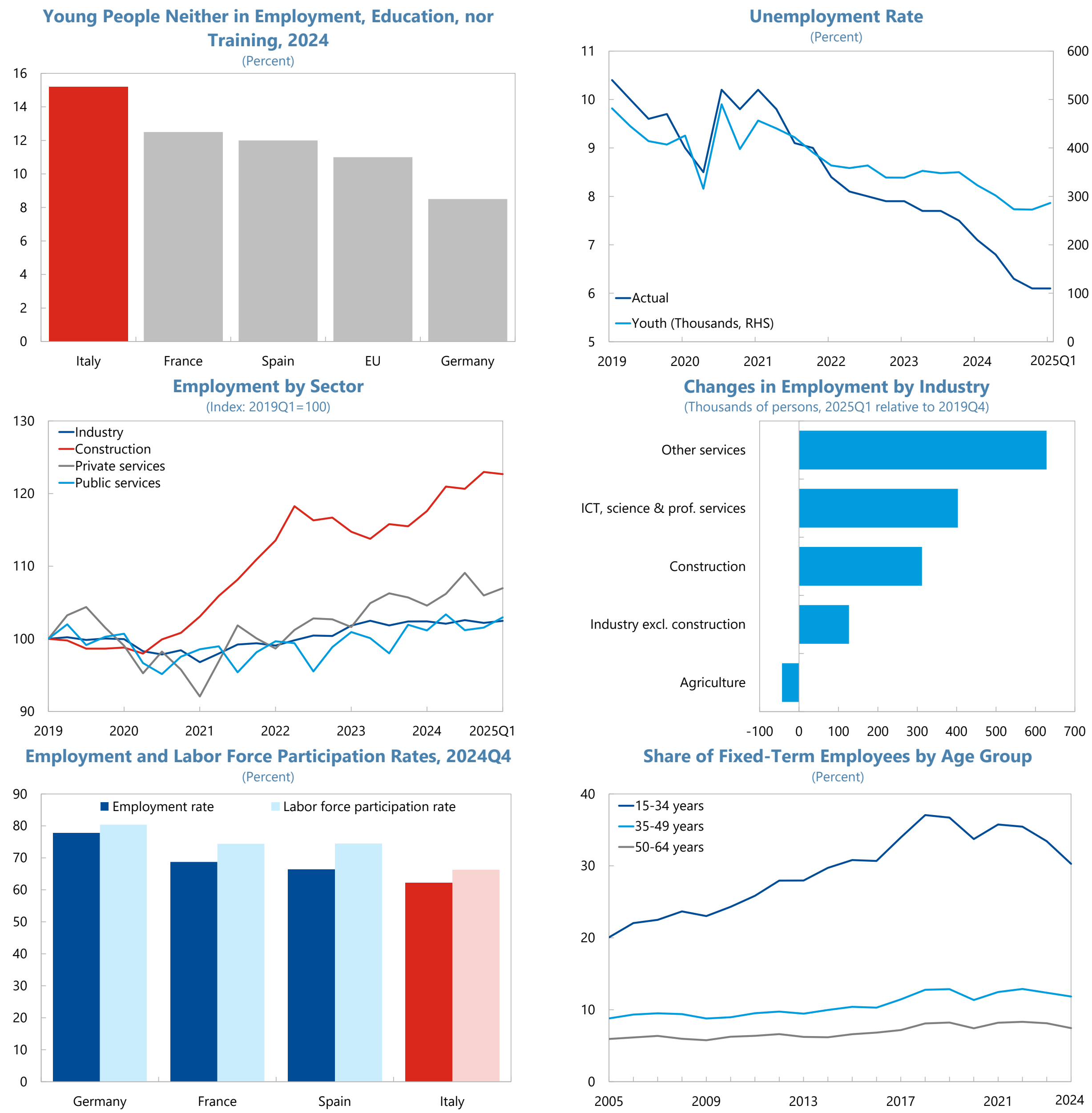
Figure 2. Italy: Inflation and Labor Market Dynamics



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

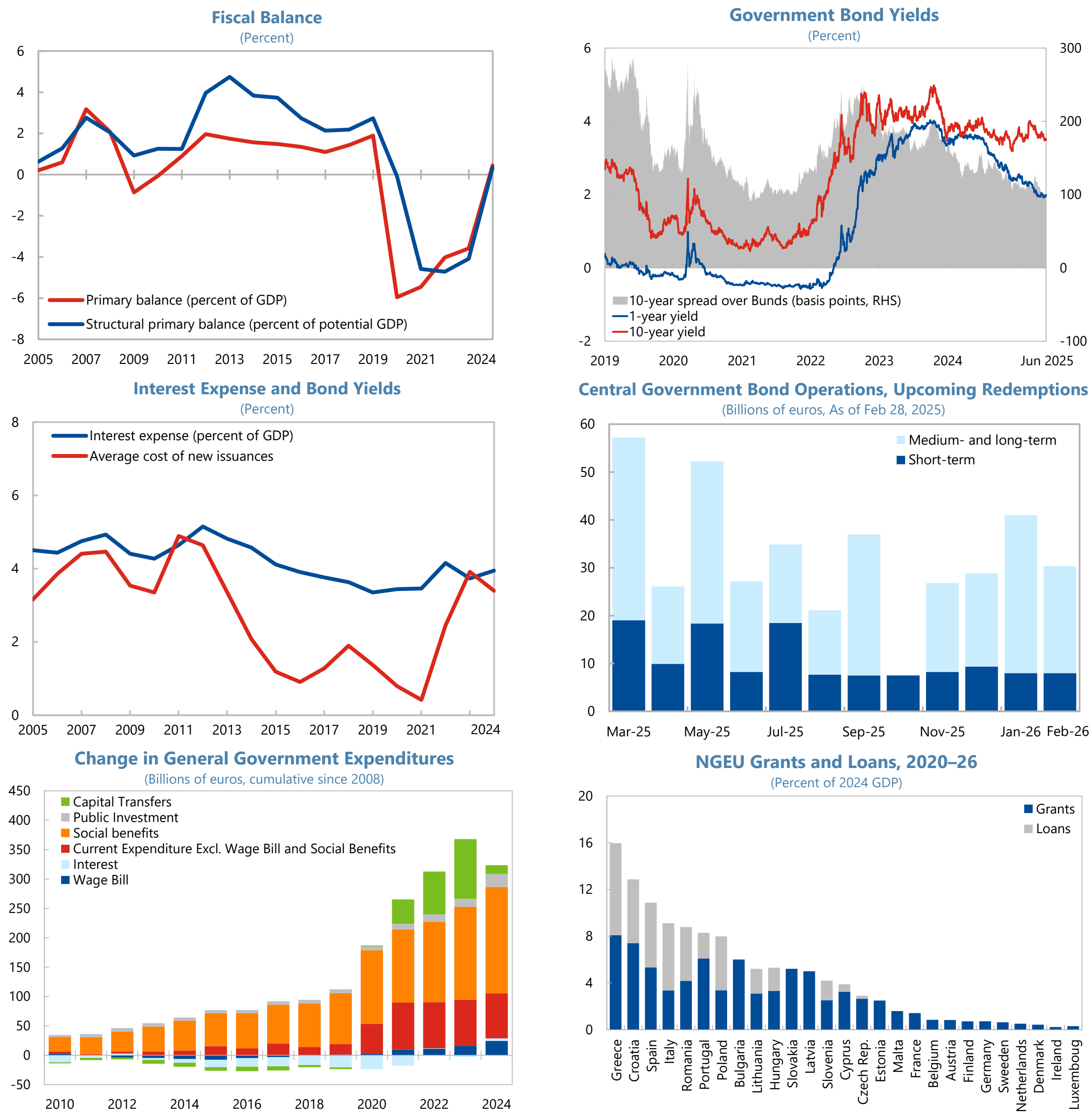
1/ Italy's Cassa Integrazione Guadagni (CIG), a short-time work scheme, provides partial wage replacement to employees whose working hours are reduced or suspended due to temporary economic disruptions. 2025 reflects data through March only.

Figure 3. Italy: Labor Market Developments



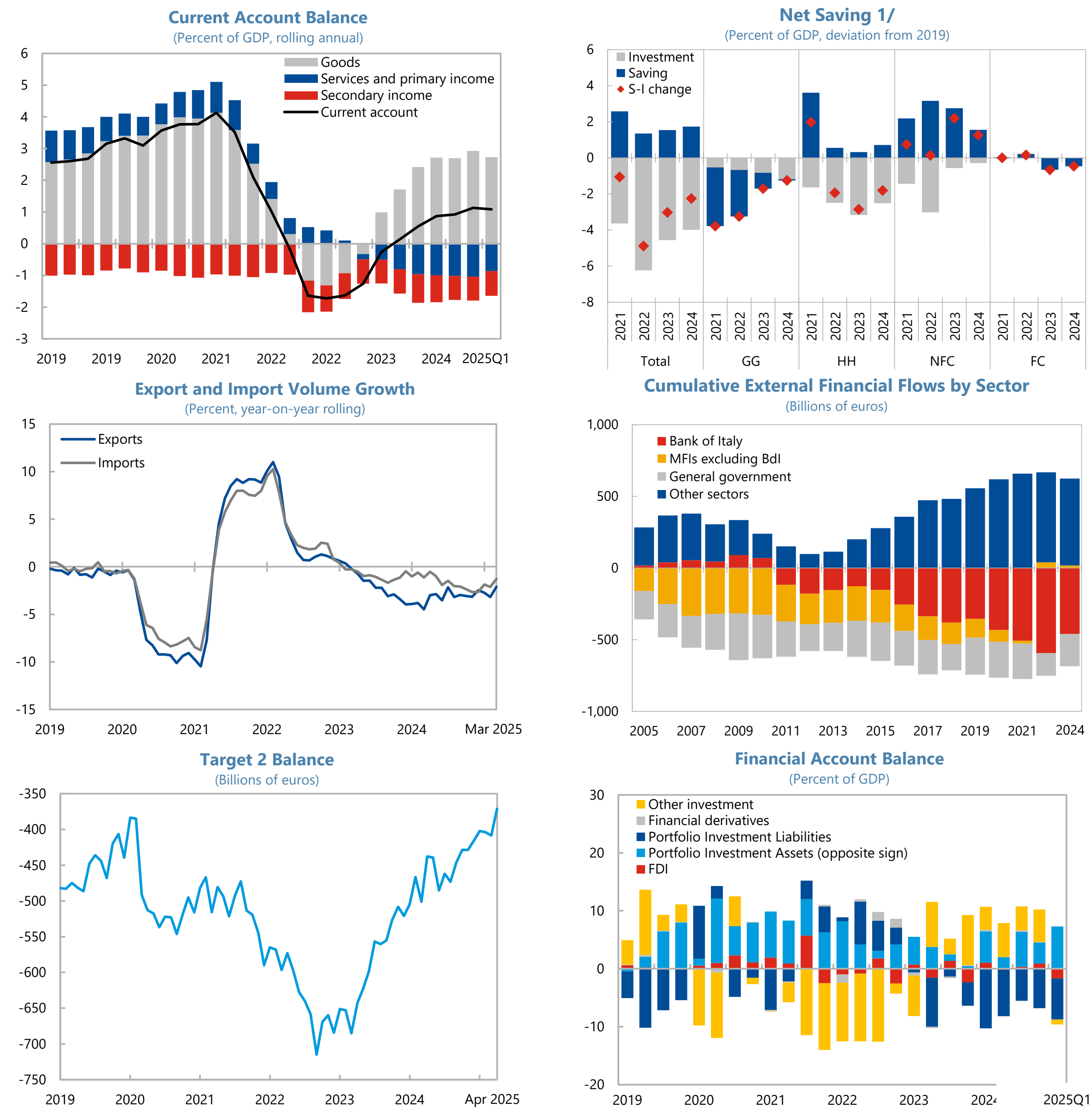
Sources: Eurostat; ISTAT; Bank of Italy; Haver Analytics; and IMF staff calculations

Figure 4. Italy: Fiscal Developments and Issues



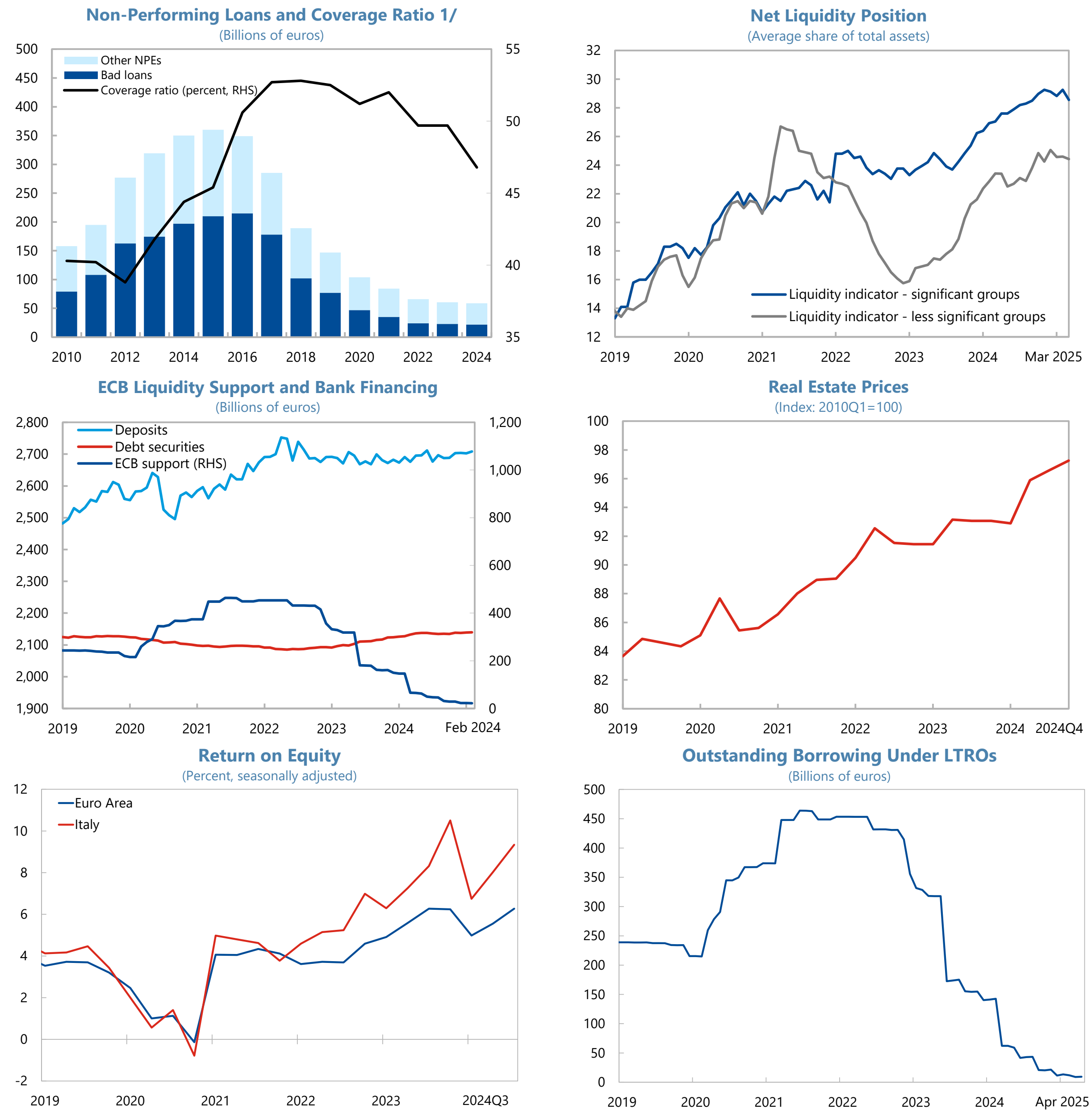
Sources: European Commission; Eurostat; Bloomberg Finance L.P.; ISTAT; Italian Ministry of Finance; Bank of Italy; and IMF staff calculations.

Figure 5. Italy: External Developments



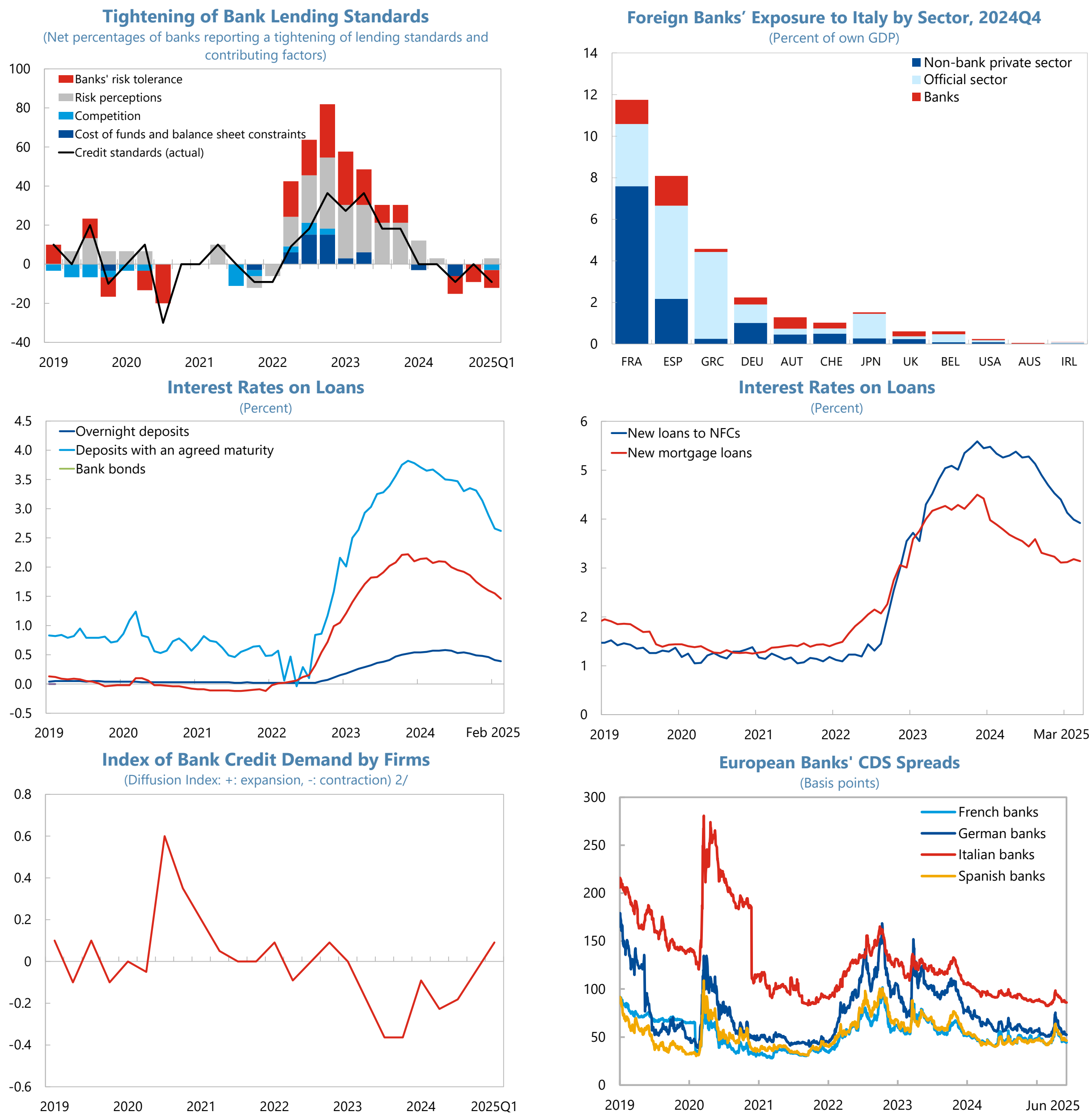
Sources: Haver Analytics; Eurostat; and IMF staff calculations.
1/ For investment, a negative number indicates an increase.

Figure 6. Italy: Financial Sector Developments



Sources: Bloomberg Finance L.P.; Bank of Italy; S&P Global Market Intelligence; European Central Bank; European Banking Authority; and IMF staff calculations.
Notes: 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. The net percentages are defined as the difference between the percentage of banks reporting a tightening due to a given factor and the percentage of banks reporting an easing.
1/ Bank of Italy data starting from 2012.

Figure 7. Italy: Financial Sector Indicators

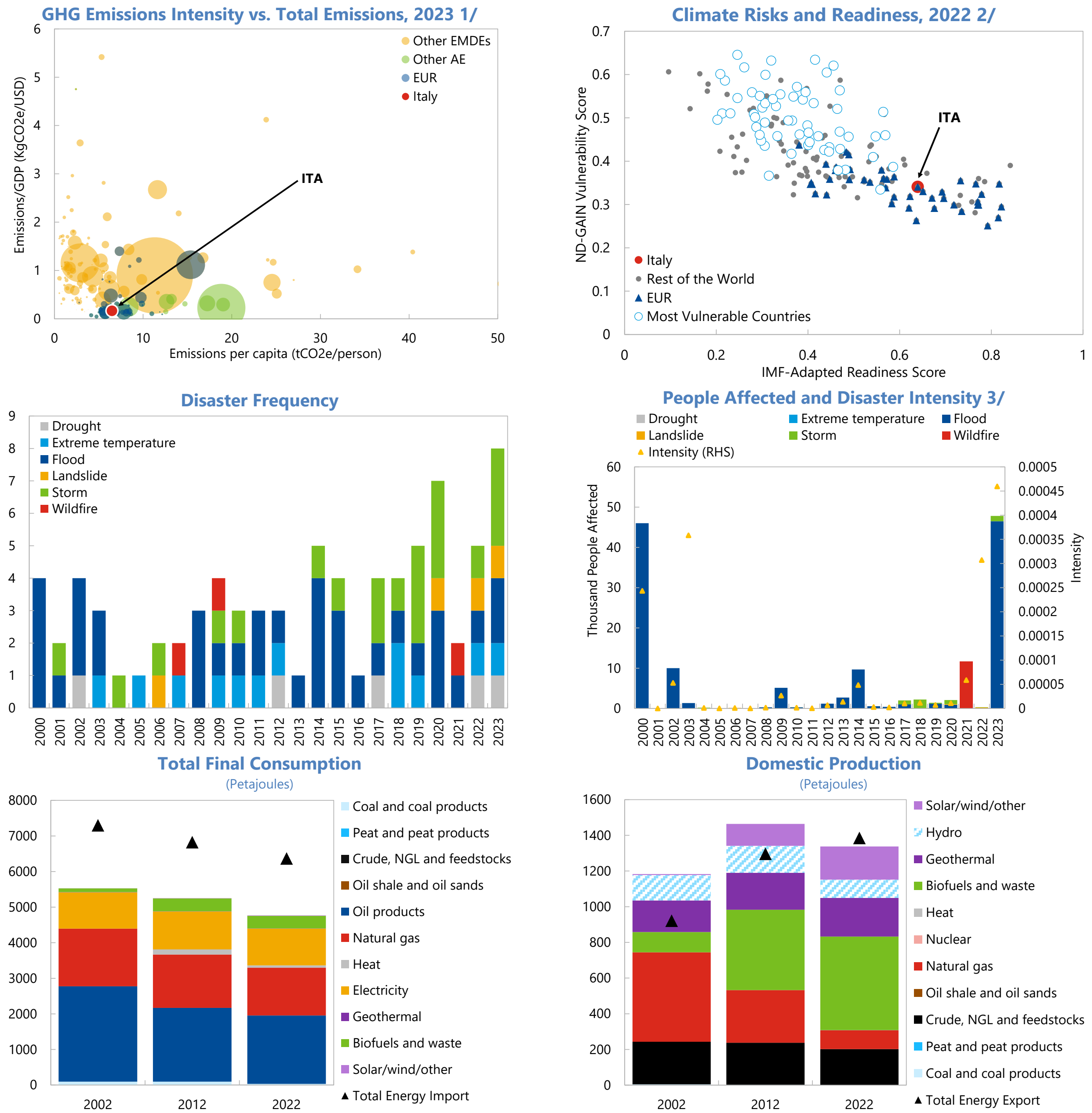


Sources: Bloomberg Finance L.P.; Bank of Italy; Bank of International Settlements; Haver Analytics; and IMF staff calcluations.

1/ Debt recorded at face value.

2/ 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.

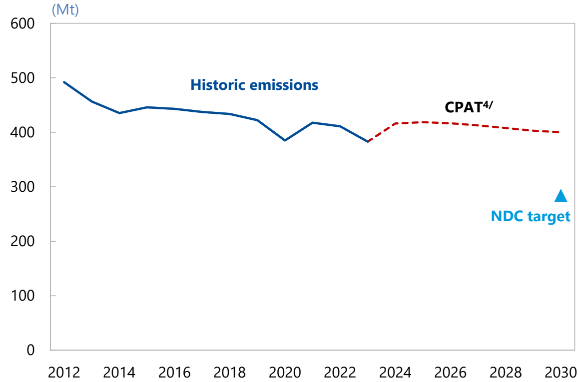
Figure 8. Italy: Climate



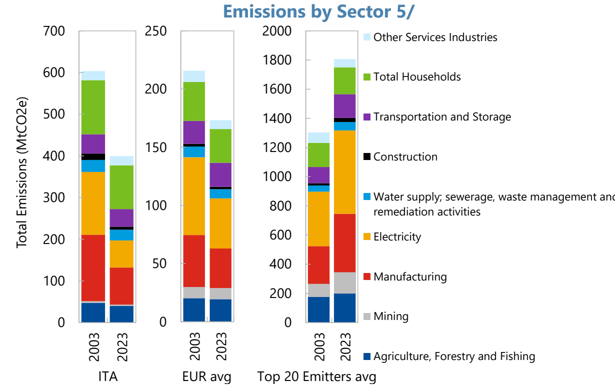
1/ Note: Bubble size indicates total GHG emissions excluding land-use and land-use change and forestry. Outlier Palau is excluded.

Figure 8. Italy: Climate (Concluded)

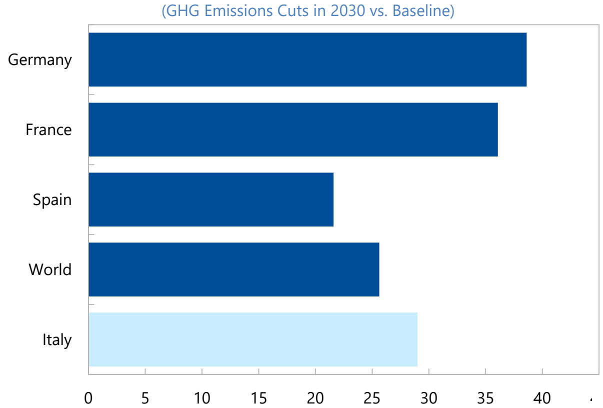
GHG Emissions vs. NDC Targets
(Mt)



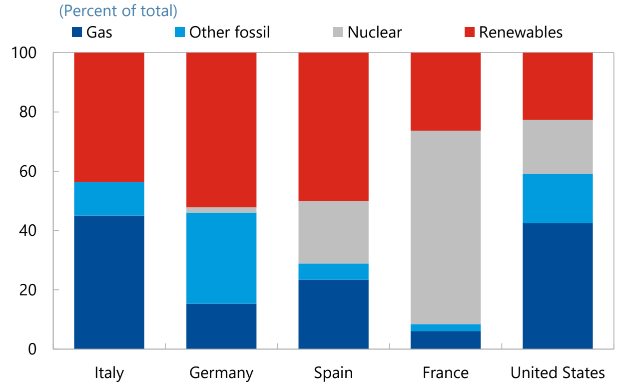
Emissions by Sector 5/



Multilateral Component: Comparison vs. Peers 6/
(GHG Emissions Cuts in 2030 vs. Baseline)



Electricity Generation by Energy Source, 2023
(Percent of total)



Sources: Ember and IMF staff calculations.

2/ The Vulnerability Score assesses a country's current vulnerability to climate reflecting exposure, sensitivity, and adaptive capacity. The Readiness Score assesses a country's readiness to leverage public and private sector investment for adaptative actions.
3/ Intensity is defined as (Total death+30 percent Total Affected)/Total population.
4/ CPAT estimations are indicative as they are based on uniform assumptions across all countries across the globe (i.e., no new mitigation policies, 50 percent reduction in explicit subsidies if applicable, energy prices based on average IMF-WB forecasts, and macroeconomic projections from the latest WEO).
5/ GHG emissions excluding land-use and land-use change and forestry are shown. Rather than presenting the air emission by UNFCCC sector, the chart above classifies emissions by economic activity.
6/ The above chart is based on CPAT estimations, which are indicative as they are based on uniform assumptions across all countries (i.e., no new mitigation policies, 50 percent reduction in explicit subsidies -if applicable-, energy prices based on average IMF-WB forecasts, and macroeconomic projections from the latest WEO).
Sources: IMF Climate Change Indicators Dashboard; World Economic Outlook; EMDAT; IEA World Energy Balances; OECD Air Emission Accounts; UNFCCC; EDGAR; and IMF staff calculations.

Table 1. Italy: Summary of Economic Indicators, 2024–30
(Annual percentage of change, unless noted otherwise)

		Projections					
	2024	2025	2026	2027	2028	2029	2030
Real GDP	0.7	0.5	0.8	0.6	0.7	0.7	0.7
Real domestic demand	0.4	0.8	1.0	0.5	0.6	0.6	0.6
Final domestic demand	0.6	0.9	0.9	0.5	0.6	0.6	0.6
Private consumption	0.4	0.7	0.7	0.7	0.7	0.7	0.6
Public consumption	1.1	0.0	-0.3	-0.8	-0.7	-0.4	0.1
Gross fixed capital formation	0.5	2.1	2.5	0.9	1.0	1.0	1.0
Stock building 1/	-0.1	-0.2	0.1	0.0	0.0	0.0	0.0
Net exports 1/	0.3	-0.2	-0.2	0.0	0.1	0.2	0.1
Exports of goods and services	0.4	-2.4	0.2	0.6	0.8	0.9	1.0
Imports of goods and services	-0.7	-2.0	0.9	0.5	0.6	0.4	0.6
Savings 2/	23.5	23.8	24.7	25.2	25.7	26.0	26.5
Investment 2/	22.4	22.9	23.9	24.0	24.3	24.4	24.7
Nominal GDP (billions of euros)	2,192	2,250	2,313	2,373	2,437	2,503	2,571
Resource utilization							
Potential GDP	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Output gap (percent of potential)	0.0	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2
Employment	1.5	0.9	-0.4	-0.5	-0.5	-0.5	-0.7
Unemployment rate (percent)	6.6	6.6	6.7	6.8	6.9	6.8	6.8
Prices							
GDP deflator	2.1	2.1	2.0	2.0	2.0	2.0	2.0
Consumer prices	1.1	1.7	2.0	2.0	2.0	2.0	2.0
Consumer prices (core)	2.2	1.8	2.0	2.0	2.0	2.0	2.0
Hourly compensation 3/	2.9	2.3	1.3	1.4	1.3	1.2	1.1
Productivity 3/	-1.9	0.1	0.5	0.5	0.5	0.5	0.5
Unit labor costs 3/	4.8	2.2	0.8	0.9	0.8	0.7	0.6
Fiscal Indicators							
General government net lending/borrowing 2/	-3.4	-3.3	-2.8	-2.7	-2.4	-2.4	-2.5
General government primary balance 2/ 4/	0.4	0.7	1.2	1.5	1.9	1.9	2.0
Structural overall balance (percent of potential GDP)	-3.5	-3.1	-2.6	-2.5	-2.2	-2.3	-2.4
Structural primary balance (percent of potential GDP) 4/	0.4	0.9	1.4	1.6	2.0	2.0	2.1
General government gross debt 2/	135.3	136.9	138.4	138.5	138.0	137.5	137.2
Exchange Rate Regime				Member of the EMU			
Exchange rate (national currency per U.S. dollar)	0.9	...	...	...	...	...	...
Nominal effective rate: CPI based (2010=100)	110.0	...	...	...	...	...	...
Financial sector							
Bank loans to the private sector (change in percent of GDP)	-0.9	0.0	1.0	1.0	0.9	0.9	0.9
External Sector 2/							
Current account balance	1.1	0.9	0.8	1.2	1.4	1.6	1.8
Trade balance	2.6	2.0	1.9	2.1	2.2	2.4	2.3
Capital account balance	0.0	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 revenue minus primary expenditure.

Table 2. Italy: Statement of Operations–General Government (GFSM 2001 format), 2022–30

	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Projections					
				(Billions of euros)					
Revenue	935.5	995.7	1,032.9	1,066.7	1,089.4	1,113.5	1,146.0	1,175.0	1,207.0
Taxes	571.9	613.2	652.3	657.8	670.5	683.4	704.3	722.6	741.7
Social contributions	260.3	268.2	279.6	310.6	318.5	327.2	336.0	342.8	351.7
Grants	20.0	12.0	5.5	8.1	8.3	4.0	4.0	4.0	4.0
Other revenue	83.3	102.3	95.5	90.2	92.1	98.9	101.7	105.5	109.5
Expenditure	1,097.6	1,150.0	1,108.4	1,140.8	1,154.9	1,176.4	1,204.0	1,236.2	1,271.4
Expense	1,096.6	1,149.9	1,108.3	1,140.7	1,154.8	1,176.3	1,203.9	1,236.1	1,271.3
Compensation of employees	183.3	188.1	196.6	200.0	203.3	205.5	208.1	212.2	216.8
Use of goods and services	119.9	120.1	123.5	125.5	122.1	124.6	124.5	127.9	131.4
Consumption of fixed capital	57.6	58.5	66.9	73.5	74.5	76.4	78.4	80.6	82.8
Interest	81.6	77.8	85.2	89.7	94.3	98.5	104.1	109.0	114.7
Social benefits	457.6	478.7	501.7	511.7	522.6	538.8	552.7	567.7	583.1
Other expense	196.6	226.8	134.5	140.4	138.0	132.5	136.1	138.8	142.6
Net acquisition of nonfinancial assets	1.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net lending/borrowing	-162.0	-154.3	-75.5	-74.1	-65.5	-62.9	-58.0	-61.3	-64.4
				(Percent of GDP, unless otherwise indicated)					
Revenue	46.8	46.7	47.1	47.4	47.1	46.9	47.0	46.9	47.0
Taxes	28.6	28.8	29.8	29.2	29.0	28.8	28.9	28.9	28.9
Social contributions	13.0	12.6	12.8	13.8	13.8	13.8	13.8	13.7	13.7
Grants	1.0	0.6	0.2	0.4	0.4	0.2	0.2	0.2	0.2
Other revenue	4.2	4.8	4.4	4.0	4.0	4.2	4.2	4.2	4.3
Expenditure	54.9	54.0	50.6	50.7	49.9	49.6	49.4	49.4	49.5
Expense	54.9	53.9	50.6	50.7	49.9	49.6	49.4	49.4	49.5
Compensation of employees	9.2	8.8	9.0	8.9	8.8	8.7	8.5	8.5	8.4
Use of goods and services	6.0	5.6	5.6	5.6	5.3	5.3	5.1	5.1	5.1
Consumption of fixed capital	2.9	2.7	3.1	3.3	3.2	3.2	3.2	3.2	3.2
Interest	4.1	3.7	3.9	4.0	4.1	4.2	4.3	4.4	4.5
Social benefits	22.9	22.5	22.9	22.7	22.6	22.7	22.7	22.7	22.7
Other expense	9.8	10.6	6.1	6.2	6.0	5.6	5.6	5.5	5.5
Net acquisition of nonfinancial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross / Net Operating Balance	-8.1	-7.2	-3.4	-3.3	-2.8	-2.6	-2.4	-2.4	-2.5
Net lending/borrowing	-8.1	-7.2	-3.4	-3.3	-2.8	-2.7	-2.4	-2.4	-2.5
Memorandum items:									
Primary balance 1/	-4.0	-3.6	0.4	0.7	1.2	1.5	1.9	1.9	2.0
Structural primary balance 1/	-4.6	-4.0	0.4	0.9	1.4	1.6	2.0	2.0	2.1
Change in structural primary balance 2/	-0.1	0.6	4.4	0.5	0.5	0.2	0.4	0.0	0.0
Structural balance 2/	-8.7	-7.7	-3.5	-3.1	-2.6	-2.5	-2.2	-2.3	-2.4
Change in structural balance 2/	-0.9	1.1	4.2	0.4	0.5	0.1	0.3	-0.1	-0.1
NGEU Grants	1.0	0.6	0.2	0.4	0.4	0.0	0.0	0.0	0.0
General government gross debt	138.3	134.6	135.3	136.9	138.4	138.5	138.0	137.5	137.2

Sources: National Authorities; and IMF staff estimates.
1/ Primary revenue minus primary expenditure.
2/ Percent of potential GDP.

Table 3. Italy: Summary of Balance of Payments, 2022–30

	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Projections					
				(Billions of euros)					
Current account balance	-34.5	2.9	24.8	19.4	18.0	28.8	35.2	40.0	46.2
Balance of goods and services	-36.4	31.9	57.0	46.0	42.9	49.0	54.7	58.8	60.0
Goods balance	-26.2	36.5	64.0	50.8	47.8	54.1	59.9	64.2	65.6
Exports	578.3	579.9	576.4	565.5	568.9	578.5	590.4	601.5	611.9
Imports	604.6	543.4	512.4	514.7	521.1	524.4	530.4	537.3	546.4
Services balance	-10.2	-4.6	-7.0	-4.8	-5.0	-5.1	-5.2	-5.4	-5.5
Credit	122.9	136.1	143.4	143.7	147.7	151.5	155.6	159.8	164.2
Debit	133.1	140.7	150.4	148.5	152.7	156.6	160.9	165.2	169.7
Primary income balance	18.6	-12.6	-15.8	-6.0	-3.8	1.5	2.7	4.0	9.3
Credit	100.8	119.6	126.8	140.4	146.8	155.9	161.3	166.9	176.6
Debit	82.2	132.2	142.7	146.4	150.5	154.4	158.6	162.9	167.3
Secondary income balance	-16.7	-16.4	-16.4	-20.6	-21.1	-21.7	-22.3	-22.9	-23.1
Capital account balance	10.6	16.9	-0.6	1.3	1.3	1.4	1.4	1.4	1.5
Financial account	-7.9	31.4	51.0	20.7	19.3	30.1	36.6	41.4	47.6
Direct investment	-13.6	-10.6	11.4	3.3	3.6	4.0	4.5	4.9	5.3
Portfolio investment	169.4	-24.8	-73.7	-14.8	-20.4	-14.2	-16.9	-15.1	-23.3
Other investment	-177.2	68.8	107.7	30.2	34.9	39.5	48.4	51.1	65.2
Derivatives (net)	11.6	-4.7	3.5	2.0	1.2	0.8	0.6	0.5	0.5
Reserve assets	2.0	2.7	2.1	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	16.0	11.5	26.8	0.0	0.0	0.0	0.0	0.0	0.0
				(Percent of GDP)					
Current account balance	-1.7	0.1	1.1	0.9	0.8	1.2	1.4	1.6	1.8
Balance on goods and services	-1.8	1.5	2.6	2.0	1.9	2.1	2.2	2.4	2.3
Goods balance	-1.3	1.7	2.9	2.3	2.1	2.3	2.5	2.6	2.6
Services balance	-0.5	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Primary income balance	0.9	-0.6	-0.7	-0.3	-0.2	0.1	0.1	0.2	0.4
Secondary income balance	-0.8	-0.8	-0.7	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Capital account balance	0.5	0.8	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Financial account	-0.4	1.5	2.3	0.9	0.8	1.3	1.5	1.7	1.9
Direct investment	-0.7	-0.5	0.5	0.1	0.2	0.2	0.2	0.2	0.2
Portfolio investment	8.5	-1.2	-3.4	-0.7	-0.9	-0.6	-0.7	-0.6	-0.9
Other investment	-8.9	3.2	4.9	1.3	1.5	1.7	2.0	2.0	2.5
Derivatives (net)	0.6	-0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0
Reserve assets	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	0.8	0.5	1.2	0.0	0.0	0.0	0.0	0.0	0.0
Gross external debt	124.7	119.0	120.5	121.2	121.2	120.9	120.4	119.6	119.1
Public sector	72.9	64.3	64.8	65.9	66.8	67.2	67.5	67.6	68.0
Private sector	51.7	54.7	55.7	55.2	54.5	53.7	52.9	52.0	51.2

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

Table 4. Italy: Monetary, 2020–24

	2020	2021	2022	2023	2024
Net foreign assets	-156	-161	-265	-133	-350
Claims on Nonresidents	687	754	764	808	591
Liabilities to Nonresidents	-842	-915	-1030	-941	-941
Net domestic assets	2658	2780	2944	2749	3038
Net Claims on Central Govt	1187	1284	1170	1145	1145
Claims on Other Financial Corp	483	442	532	473	473
Claims on State & Local Gov	69	70	71	66	66
Claims on Private Sector	1380	1400	1390	1351	1640
Capital and Reserves (-)	502	495	439	506	506
Other items, net (-, including discrepancy)	-40	-78	-219	-220	-219
Broad money	1946	2095	2104	2047	2119
Currency Issued	218	236	241	238	247
Demand deposits	1367	1507	1491	1369	1417
Other Deposits	357	348	367	425	440
Secs Other than Shares	4	4	5	15	16
Other Liabilities	556	524	575	569	569

Sources: International Financial Statistics and IMF Staff.

Table 5. Italy: Financial Soundness Indicators for Banks, 2017–24 1/
(Percent, unless otherwise noted)

	2017	2018	2019	2020	2021	2022	2023	2024Q2
	Core FSIs for Deposit-taking institutions							
Regulatory capital to risk-weighted assets	16.7	16.1	17.2	19.3	18.8	19.2	19.4	19.9
Regulatory tier 1 capital to risk-weighted assets	14.3	13.9	14.9	16.9	16.5	16.7	16.9	17.3
Nonperforming loans net of provisions to capital	58.0	40.1	29.6	20.2	16.5	13.8	12.7	13.1
Nonperforming loans to total gross loans	14.4	8.4	6.7	4.4	3.3	2.8	2.7	2.8
Growth of bank loans to private non-MFI 2/	1.8	2.1	0.2	4.7	2.1	2.1	-2.8	-1.6
Nonfinancial corporations	0.2	1.4	-1.9	8.4	1.7	-0.2	-3.7	-3.3
Households	2.8	2.8	2.6	2.3	3.7	3.3	-1.3	-1.0
Return on assets	0.6	0.5	0.4	0.1	0.4	0.7	1.2	0.8
Return on equity	7.5	6.1	5.1	0.9	6.0	7.5	12.1	6.6
Interest margin to gross income	48.2	49.6	48.2	49.5	46.4	51.5	60.4	59.0
Net open position in foreign exchange to capital	1.3	0.7	0.4	0.8	0.0	4.0	4.2	4.0
Liquid assets to total assets	17.3	16.1	14.6	21.3	23.1	18.3	17.6	16.3
Liquid assets to short-term liabilities	83.9	76.1	74.8	97.7	96.9	86.7	107.8	115.9
Liquidity coverage ratio	…	…	…	…	…	188.1	186.5	173.9
Net stable funding ratio	…	…	…	…	…	132.4	132.2	133.3
	Encouraged FSIs for Deposit-taking institutions							
Capital to assets	6.6	6.3	6.7	6.6	6.1	5.9	6.1	6.2
Gross asset position in financial derivatives to capital	45.8	51.1	40.1	38.4	34.3	48.9	35.8	34.9
Gross liability position in financial derivatives to capital	43.2	55.7	43.2	40.2	36.1	48.9	37.8	35.7
Personnel expenses to noninterest expenses	54.3	52.1	53.2	54.2	53.1	52.0	52.4	51.4
Customer deposits to total (noninterbank) loans	69.1	67.9	75.1	68.5	90.6	78.1	80.1	82.0
Foreign-currency-denominated loans to total loans	8.6	8.1	7.8	6.3	7.1	6.9	6.4	7.0
Foreign-currency-denominated liabilities to total liabilitie	7.3	7.5	7.3	6.0	6.0	7.0	…	…

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.

2/ Data are from Bank of Italy.

Annex I. Risk Assessment Matrix

Sources of Risk	Relative Likelihood[1]	Impact If Realized	Policy Responses
Global Risks – Conjunctural			
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	**High**	**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. Potential euro depreciation may also act as a shock absorber.	• 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. • Accelerate the structural reform agenda to boost productivity and competitiveness. • Facilitate worker reallocation, reskilling/upskilling, while providing an adequate social safety net.
Sovereign debt distress. Higher interest rates and a stronger U.S. dollar, amplified by sovereign-bank feedback, result in capital outflows, rising risk premia, loss of market access, abrupt expenditure cuts, and lower growth in highly indebted countries.	**High**	**High:** Higher sovereign borrowing costs and a shift in risk sentiment would cause repricing of government, bank and NFC 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.	• Formulate and implement a credible medium-term fiscal consolidation path that embeds structural reforms and productivity-boosting investments. • Keeping the Systemic Risk buffer at its current level would enable banks to retain high profits, allowing them to better absorb a weakening of loan quality without the need to reduce lending. Rely on bank resolution systems to address unsound banks. • Closely monitor banks' loan classification practices, including for publicly guaranteed loans.
Tighter financial conditions and systemic instability. Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers	**Medium**	**High:** Same as above. Tighter financial conditions could further lower economic growth.	• Same as above.

Sources of Risk	Relative Likelihood[1]	Impact If Realized	Policy Responses
trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.			•
Regional conflicts. Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	Medium	**Medium:** Remaining direct trade and transit links to conflict regions are limited. However, conflict escalations could raise the cost of international trade and slow just-in-time manufacturing. Defense needs could increase. An increase in refugees would further stretch domestic absorption capacity.	• Consider strategies to increase resilience to supply shocks, such as increasing inventories and diversifying suppliers of critical commodities. • Improve the integration of refugees into the domestic economy, which could help to alleviate rising worker shortages due to population aging.
Commodity price volatility. Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	Medium	**High:** Italy is a large commodity importer, including energy products. Supply disruptions and/or price spikes could have significant effects on business profitability and output, real incomes and the current account.	• Allow domestic commodity prices to increase to encourage conservation, while providing well-targeted support to vulnerable households and firms. • Encourage inventory accumulation and more efficient consumption. • Promote investment in innovative energy systems, including renewables, battery storage, and associated grid infrastructure.
Global growth acceleration. Easing of conflicts, positive sup-ply-side surprises (e.g., oil production shocks), productivity gains from AI, or	Low	**Medium/High:** A growth acceleration in Italy's major regional or global trading partners could further boost exports of goods and tourism services, increase investment, and strengthen growth.	• Allow automatic fiscal stabilizers to operate and build fiscal buffers. • Continue to implement long-term growth-enhancing investments and reforms.

Sources of Risk	Relative Likelihood[1]	Impact If Realized	Policy Responses
structural reforms raise global demand and trade.			•
Global Risks – Structural			
Deepening geoeconomic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	**High**	**Medium:** About half of Italy's trade is with non-EU countries, which may have different geopolitical views. As a major EU trader with the U.S., Italy is vulnerable to potential trade tensions. Many Italian firms are reshoring and diversifying suppliers to reduce disruption risks, but uncertainty remains for firms reliant on foreign inputs and markets.	• Protect and deepen the EU's Single Market by strengthening EU integration in the areas of taxation, state aid, and the banking and capital markets unions. • Continue support for openness of trade and investment, and for the efficient functioning of a multi-lateral rules-based trading system. • Targeted de-risking is preferable to decoupling, taking pre-emptive action to mitigate areas of high risk as a form of self-insurance that warrants the additional upfront economic cost. • Safeguard energy security by accelerating the green transition.
Cyberthreats. Cyberattacks on physical or digital infra-structure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	**High**	**High/Medium:** While digitalization in Italy is progressing, cyberattacks could still impair the functioning of the financial system, public services, and the economy. The number of cyberattack incidents increased by 15 percent to 357 in 2024, approximately once per day.	• Raise awareness and enhance monitoring of cyberattacks. • Urge businesses and institutions to have robust cyber defenses and business continuity plans. • 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 driven by rising temp-eratures cause loss of life, damage to infra-structure, food inse-curity, supply disrup-tions, lower growth, and financial instability.	**Medium**	**Medium:** Climate-related losses could reduce real GDP and increase fiscal costs. EU members may receive migrants from economies facing severe climate disruptions.	• Leverage EU funds to make infrastructure more resilient to natural disasters. • Work with EU partners on region-wide response to migration.

Sources of Risk	Relative Likelihood[1]	Impact If Realized	Policy Responses
Domestic Risks			
Inefficient or partial implementation of the NRRP. Execution bottlenecks impede the efficient execution of the NRRP.	Medium	**High:** High quality public investment, together with comprehensive structural reforms in the NRRP are needed to raise output, support the green and digital transitions, and boost potential growth.	• Ensure full implementation of the Plan through high-quality public investment, including in digitization, green infrastructure, education, and innovation, as well as structural reforms. • Ensure transparency and financial integrity of the use of public funds.
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. • 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 or energy security amid ongoing geopolitical tensions. Proliferation of public loan guarantees to finance the increase in spending.	Medium	**High:** With already elevated public debt and gross financing needs, any further macro-financial shock 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.	• Lean into continued fiscal overperformance. • Promote high-quality public investment and comprehensive fiscal and structural reforms to secure a stable source of revenues and lift potential growth.

[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 II. Sovereign Risk and Debt Sustainability Analysis

Annex II. 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 are sizable over the medium term, w ith both projected to increase strongly over the longer term on the back of higher aging-related spending, declining w orking age population and less favorable automatic debt dynamics. The assessment takes into account several mitigating factors outside the mechanical models: the ECB's toolkit against unw arranted, disorderly market dynamics; the relatively long average maturity of government debt, healthy retail appetite 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 reflects high and rising public debt, w ith a high probability that debt may not stabilize. Gross financing needs are sizable.
Fanchart	High	…	
GFN	Moderate	…	
Stress test		…	
Long term	…	High	Long-term risks are assessed as high. This reflects rising pension obligations under the legacy defined-benefit scheme and a shrinking w orking age population, w hich are expected to place the public debt ratio on a rapidly rising path beginning in a decade. As a result, amortization costs are high.
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. The mechanical signal for the medium-term horizon is high, reflecting high and rising public debt and sizable gross financing needs. Long-term risks are high, with the public debt ratio projected to increase sharply on aging-related costs amid a shrinking working-age population. The moderate overall rating reflects several mitigating factors outside the mechanical models, specifically, potential ECB support, relatively long maturity of government debt, healthy retail appetite for government bonds as well as reduced bank-sovereign linkages.

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 II. Figure 1. Italy: Debt Coverage and Disclosures

1. Debt coverage in the DSA: 1/

CG	GG	NFPS	CPS	Other
	chosen (GG)			

1a. If central government, are non-central government entities insignificant? n.a.

2. Subsectors included in the chosen coverage in (1) above:

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

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
Included	Included	Included	Missing	Missing

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/
	chosen	chosen		

5. Debt consolidation across sectors:

Consolidated	Non-consolidated
chosen	

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

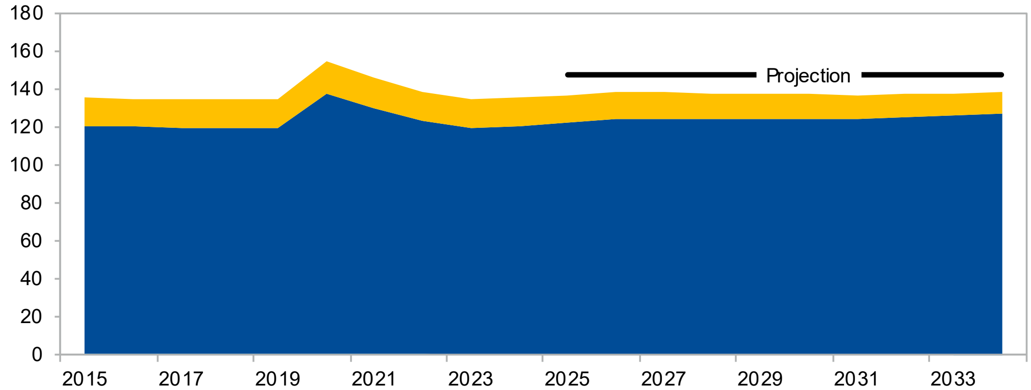
(Issuer rows grouped as CPS; NFPS: rows 1–6; GG: expected: rows 1–5; CG: rows 1–3.)

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.

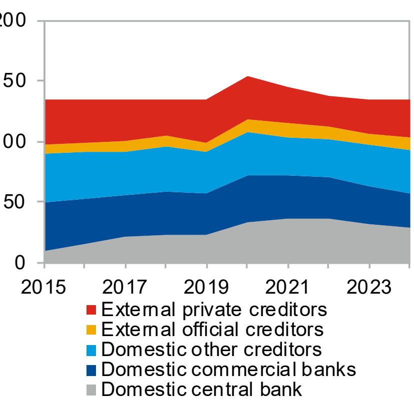
Annex II. Figure 2. Italy: Public Debt Structure Indicators

Debt by Currency (percent of GDP)



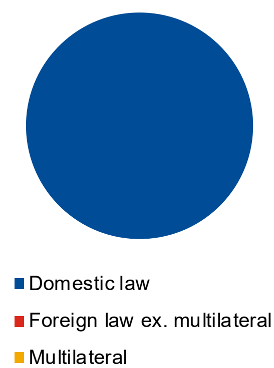
Note: The perimeter shown is general government.

Public Debt by Holder (percent of GDP)



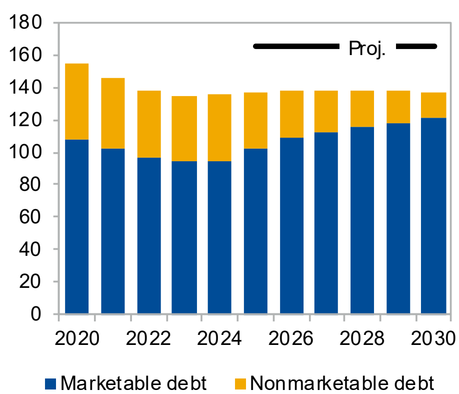
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (percent)



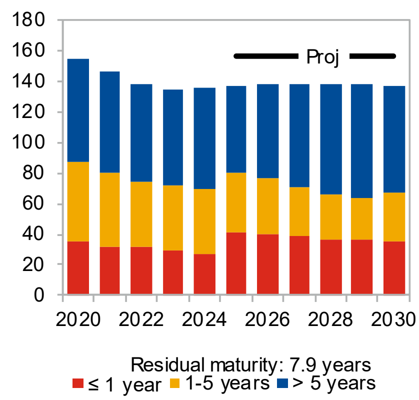
Note: The perimeter shown is general government.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (percent of GDP)



Note: The perimeter shown is general government.

Commentary: Debt is predominantly in domestic currency and marketable. The majority of public debt is owned by residents with one fourth 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.

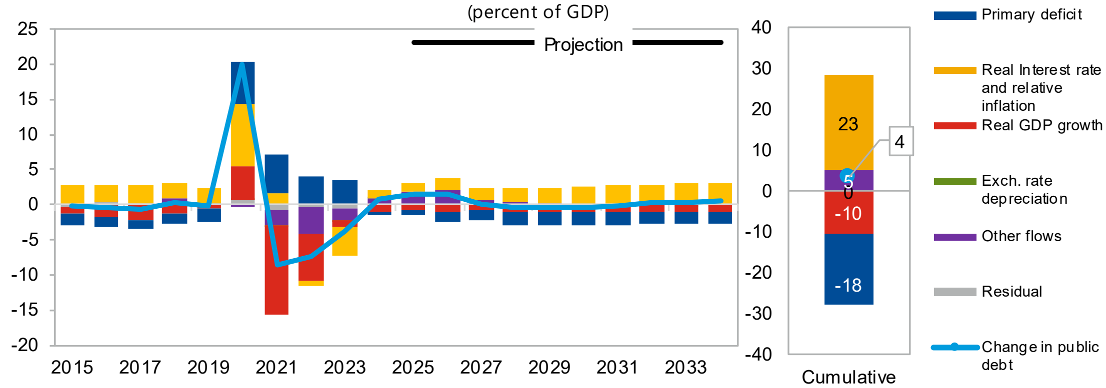
Annex II. Figure 3. Italy: Baseline Scenario

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	135.3	136.9	138.4	138.5	138.0	137.5	137.2	137.1	137.3	137.7	138.3
Change in public debt	0.7	1.6	1.5	0.1	-0.4	-0.5	-0.4	-0.1	0.2	0.4	0.5
Contribution of identified flows	0.7	1.6	1.5	0.1	-0.4	-0.5	-0.4	-0.1	0.2	0.4	0.5
Primary deficit	-0.4	-0.7	-1.2	-1.5	-1.9	-1.9	-1.9	-1.9	-1.7	-1.7	-1.6
Noninterest revenues	47.1	47.4	47.1	46.9	47.0	46.9	46.9	46.9	46.8	46.8	46.9
Noninterest expenditures	46.7	46.7	45.9	45.4	45.1	45.0	45.0	45.0	45.1	45.2	45.2
Automatic debt dynamics	0.2	0.5	0.5	1.0	1.1	1.2	1.5	1.8	2.0	2.1	2.2
Real interest rate and relative inflat	1.1	1.2	1.6	1.8	2.0	2.2	2.5	2.8	2.9	3.0	3.1
Real interest rate	1.1	1.2	1.6	1.8	2.0	2.2	2.5	2.8	2.9	3.0	3.1
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	-1.0	-0.7	-1.1	-0.8	-0.9	-1.0	-1.0 .	-1.0	-1.0	-1.0	-1.0
Real exchange rate	0.0	…	…	…	…	…	… .	…	…	…	…
Other identified flows	1.0	1.8	2.2	0.6	0.4	0.2	0.0	0.0	0.0	0.0	0.0
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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions 1/	1.0	1.8	2.2	0.6	0.4	0.2	0.0	0.0	0.0	0.0	0.0
Contribution of residual	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	24.1	19.9	22.3	22.7	25.5	23.5	20.5	23.1	24.1	23.4	20.4
of which: debt service	24.6	20.6	29.3	28.3	27.4	25.4	25.9	25.0	21.7	20.9	22.0
Local currency	23.4	22.2	22.7	28.3	27.4	25.4	25.9	25.0	21.7	20.9	22.0
Foreign currency	0.2	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)	0.7	0.5	0.8	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Inflation (GDP deflator; percent)	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	2.9	2.6	2.8	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Effective interest rate (percent)	3.0	3.0	3.2	3.3	3.5	3.6	3.9	4.1	4.2	4.3	4.3

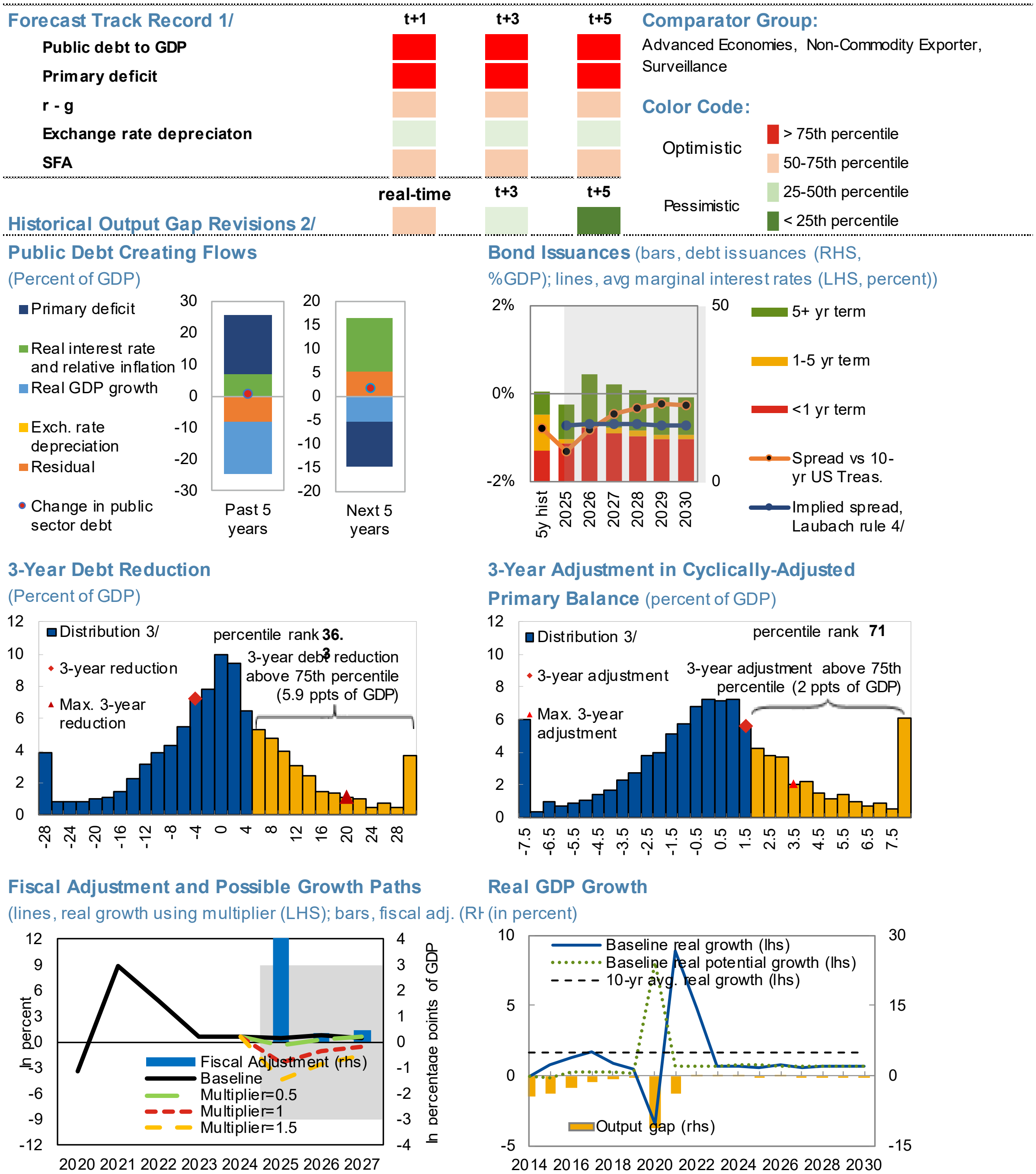
Contribution to Change in Public Debt

(percent of GDP)



Commentary: Italy's public debt is projected to stay at high levels due to positive interest-growth differentials and stock-flow adjustments (claims of tax credits already granted), while the projected improvements in the primary balance will provide some offset over the medium-term. Primary surpluses are expected to moderate beyond 2030 with an influx of new retirees partly under the legacy defined-benefit pension system and an increase in other age-related expenditures.
1/ These transactions include claims of tax credits that increase the borrowing requirement but whose effect on the primary balance was incurred in 2023 and earlier years. The estimates are in line with the Medium-Term Fiscal Structural Plan and Public Finance Document (2025).

Annex II. Figure 4. Italy: Realism of Baseline Assumptions



Commentary: The realism analysis shows a large median forecast error for medium-term primary deficit and debt, suggesting optimism bias, and a more moderate one for r-g projections and stock-flow adjustments. Key public debt creating flows in the next five years are identified as higher interest payments and residual items representing the stock-flow adjustments from the past issuance of tax credits. The projected debt and primary balance improvements are within norms, as the Superbonus and other housing-related tax credits phased out.

Source : IMF Staff.

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

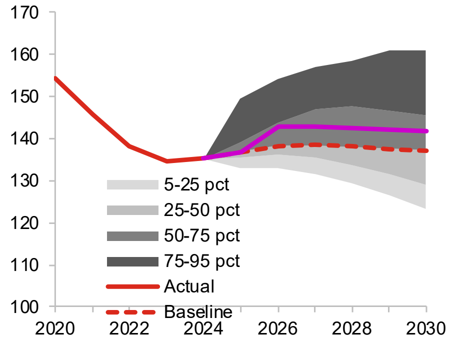
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

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.

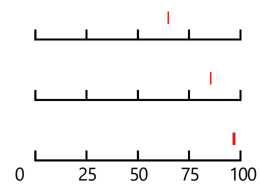
Annex II. Figure 5. Italy: Medium-Term Risk Analysis

Final Fanchart (pct of GDP)

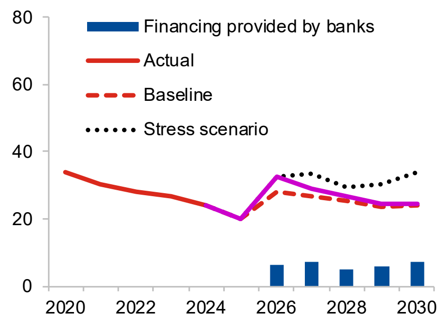


Debt Fanchart Module

	Value	Contrib 1/	Percentile in peer group 2/
Fanchart width *(percent of GDP)*	37.6	0.6	
Probability of debt non-stabilizaiton *(percent)*	42.9	0.4	
Terminal debt-to-GDP x institutions index	58.8	1.2	
Debt fanchart index (DFI)		2.2	
Risk signal: 3/		**High**	

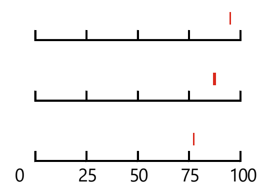


Gross Financing Needs (pct of GDP)



Gross Financing Needs (GFN) Module

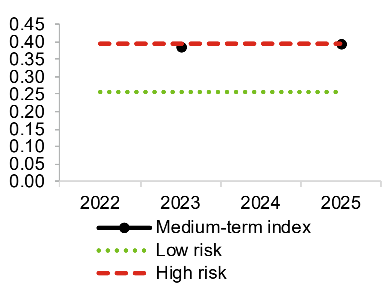
	Value	Contrib 1/	Percentile in peer group 2/
Average baseline GFN *(percent of GDP)*	24.6	8.4	
Initial Banks' claims on the gen. govt *(pct bank assets)*	15.4	5.0	
Chg. In banks' claims in stress *(pct banks' assets)*	8.8	3.0	
GFN financeability index (GFI)		16.4	
Risk signal: 4/		**Moderate**	



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	16.4	0.3	0.5	0.2
Medium-term index		0.4		
Risk signal: 5/		**High**		
Final assessment:		**High**		

Prob. of missed crisis, 2025-2030, if stress not predicted: 54.5 pct.

Prob. of false alarms, 2025-2030, if stress predicted: 9.1 pct.

Commentary: Medium-term risk is assessed as high, in line with the mechanical signal. This reflects the rising public debt with a high terminal ratio and sizable gross financing needs. The "Debt Fanchart" module indicates high risk, reflecting a large fan chart width, 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.

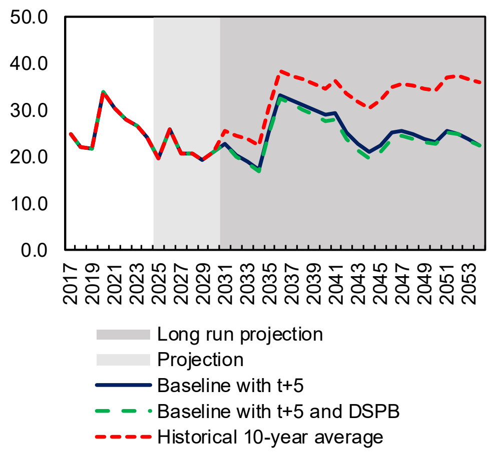
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

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.

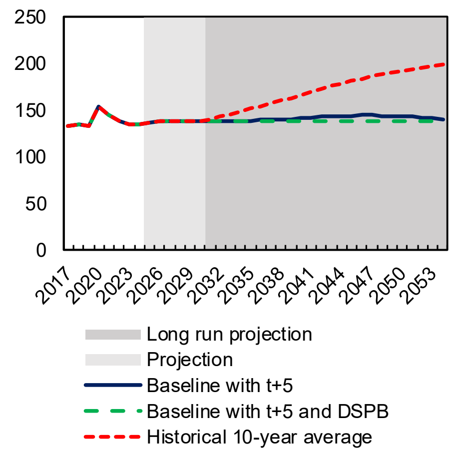
Annex II. Figure 6. Italy: Long-Term Risk Analysis: Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

GFN-to-GDP ratio



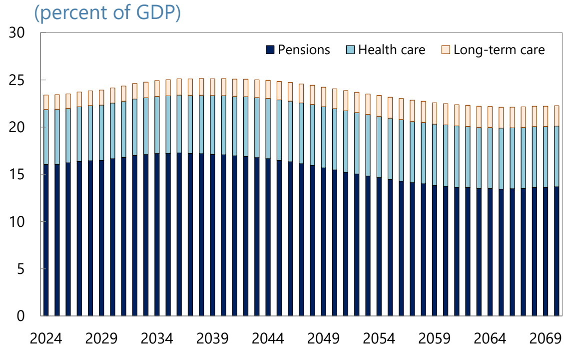
Total public debt-to-GDP ratio



Commentary: Long-term risk related to high gross financing needs, including for amortization, is assessed as high under various scenarios.

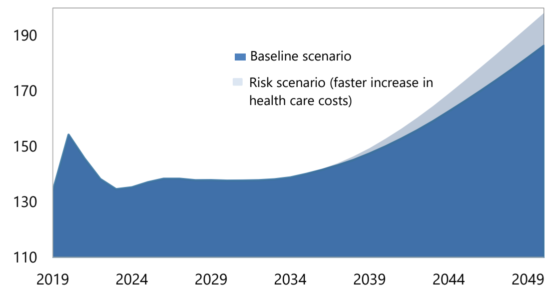
Annex II. Figure 7. Italy: Long-Term Risk Analysis: Pensions and Health

Italy: Aging-Related Costs
(percent of GDP)



Source: European Commission.

Gross Nominal Public Debt
(Percent of GDP)



Sources: European Commission, and IMF staff projections.
Note: The baseline projection includes the ageing-related costs for pension, long-term care and health care following the projections in the 2024 Ageing Report. The risk scenario assumes a faster rise of health care costs, with a higher annual growth rate than the baseline by 1.4 percentage points each year.

Commentary: Long-term risk is assessed high. This reflects rising pension obligations under the legacy defined-benefit scheme and a shrinking working aging population.

Annex III. External Sector Assessment

Overall Assessment: *The external sector position in 2024 was weaker than the level implied by medium-term fundamentals and desirable policies.* The CA balance increased by 1.0 percentage point of GDP relative to 2023 to a surplus of 1.1 percent of GDP, largely on a lower energy import bill, growth in consumer goods exports, and a healthy contribution from tourism. Over the medium term, the CA surplus is expected to gradually increase, while remaining somewhat below the CA norm amid the need to identify additional fiscal measures and implement additional structural reforms to strengthen productivity growth. In addition, the outlook is subject to uncertainty, including as rapid population aging is weighing on medium-term growth and as the completion of the National Recovery and Resilience Plan could depress investment, with the savings-investment balance increasing. The NIIP increased to 15.3 percent of GDP.

Potential Policy Responses: Additional comprehensive reforms are needed to encourage private investment to modernize the capital stock and boost productivity, competitiveness, and potential growth. Simultaneously, strengthening the external position will require an increase in public sector savings, supported by continued strong fiscal adjustment efforts. 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 avoid favoring domestic producers over imports to minimize trade and investment distortions.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP increased to 15.3 percent of GDP at the end of 2024, up from a balanced position in 2020. Sizable gross external positions, with gross foreign assets amounting to 182.8 percent of GDP and liabilities at 167.5 percent of GDP in 2024, make 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 36 percent of GDP in 2022 to 21 percent of GDP at the end of 2024. Public sector (general government and Bank of Italy) external liabilities make up around 40 percent of total external liabilities, corresponding to 64 percent of GDP. 60 percent of public sector external liabilities are long term. **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.					
2024 (% GDP)	NIIP: 15.3	Gross Assets: 182.8	Debt Assets: 75.3	Gross Liab.: 167.5	Debt Liab.: 120.5	
Current Account	**Background.** The CA balance averaged a surplus of 1.5 percent of GDP between 2019 and 2023, with surpluses in all years, except in 2022 due to the adverse energy price shock. The CA balance increased from a small surplus of 0.1 percent of GDP in 2023 to a surplus of 1.1 percent of GDP in 2024. The CA surplus was supported by 5.6 percent growth in consumer goods exports, a healthy contribution from tourism, and a more than 18 percent decline in energy imports (equivalent to 1 percent of GDP). The primary income balance remained at about –0.7 percent of GDP. From a saving-investment perspective, the rise in the external position reflected a 0.5 percentage point of GDP increase in savings and a 0.5 percentage point of GDP decline in investment. Looking ahead, fiscal consolidation is expected to support the CA surplus. **Assessment.** The cyclically adjusted CA is estimated at 1.3 percent of GDP for 2024, 2.6 percentage points of GDP below the EBA-estimated CA norm of 3.9 percent of GDP. Considering uncertainty around the estimate, IMF staff assesses the CA gap to be in the range of –3.3 to –1.8 percent of GDP, with a midpoint of –2.6 percent of GDP. The total estimated policy gap is +1.1 percent of GDP, partly reflecting (i) a +0.1 percent of GDP positive contribution from a fiscal policy gap in the rest of the world relative to Italy, despite a domestic policy gap of –0.9 percent, and (ii) a +0.9 percent of GDP positive contribution from the credit gap, reflecting the prolonged credit shortfall. Demographic developments contribute markedly to the CA norm. A sizable unexplained residual of –3.6 percent of GDP suggests that the model may not fully capture all relevant Italy-specific characteristics and structural impediments, including factors such as relatively low labor market participation among some segments of the population.					
2024 (% GDP)	CA: 1.1	Cycl. Adj. CA: 1.3	EBA Norm: 3.9	EBA Gap: –2.6	Staff Adj.: 0.0	Staff Gap: –2.6
Real Exchange Rate	**Background.** During 2019–24, the CPI-based REER appreciated by 0.6 percent, while the ULC-based REER appreciated by 2.6 percent. During 2024, the CPI-based REER depreciated by 1.1 percent due to the weakening of the euro. As of March 2025, the CPI-based REER was unchanged relative to the 2024 average. **Assessment.** The model-based CA gap implies a REER gap of 10.4 percent in 2024 (with an estimated elasticity of 0.25 applied). The level and index CPI-based REER models suggest an overvaluation in 2024 of 3.7 percent and 4.5 percent, respectively. Based on the IMF staff's CA gap, the REER gap is in the range of 7.5 to 13.3 percent, with a midpoint of 10.4 percent.					
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The capital account was balanced at around 0 in 2024 (lower than in 2023) amid lower receipt of NextGenerationEU grants. The financial account posted net outflows of 2.3 percent of GDP in 2024, with a reduction in TARGET2 liabilities and an increase in portfolio investment assets. **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.					
FX Intervention and Reserves Level	**Background.** The euro has the status of a global reserve currency. Italy's reserves increased by 6 percent in 2024. **Assessment.** Reserves held by the euro area are typically low relative to standard metrics. The currency is freely floating.					

Annex IV. Data Issues

Annex IV. 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	Inter-sectoral Consistency	Median Rating
	A	A	A	A	A	A	A

Detailed Questionnaire Results

Data Quality Characteristics	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency
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 the 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; househould distribution, and data sharing.

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

As of June 2, 2025

	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[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Italy[8]	Expected Timeliness[6,7]	Italy[8]
Exchange Rates	2-Jun-25	2-Jun-25	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Apr-25	May-25	M	M	M	M	1W	NLT 1M
Reserve/Base Money	Apr-25	Jun-25	M	M	M	M	2W	NLT 1W
Broad Money	Apr-25	Jun-25	M	M	M	M	1M	1M
Central Bank Balance Sheet	Apr-25	May-25	M	M	M	M	2W	NLT 1W
Consolidated Balance Sheet of the Banking System	Apr-25	May-25	M	M	M	M	1M	1M
Interest Rates[2]	2-Jun-25	2-Jun-25	D	D	D	...	...	...
Consumer Price Index	Apr-25	May-25	D	M	M	M	1M	2W
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	2024Q4	Apr-25	A/Q	A/Q	A/Q	Q	2Q/12M	4M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Apr-25	Jun-25	M	M	M	M	1M	30D
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2024Q4	Apr-25	Q	Q	Q	Q	1Q	NLT 1Q
External Current Account Balance	Mar-25	May-25	M	M	Q	M	1Q	1M
Exports and Imports of Goods and Services	Mar-25	May-25	M	M	M	M	8W	NLT 7W
GDP/GNP	Q1-25	May-25	A/Q	A/Q	Q	Q	1Q	10W
Gross External Debt	2024-Q4	Apr-25	Q	Q	Q	Q	1Q	1Q
International Investment Position	2024-Q4	Apr-25	Q	Q	Q	Q	1Q	85D

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

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

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] 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") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] 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

[8] 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 "..."

Annex V. Voluntary Assessment of Transnational Aspects of Corruption[1]

Reflecting the moderate risk, Italy has volunteered to have its legal and institutional frameworks on foreign bribery assessed in the context of bilateral surveillance.

D. Supply Side

1. Italy has taken several steps to address foreign bribery. The OECD 2024 Phase 4 Follow-Up Report commended progress in implementing earlier recommendations. Efforts include raising awareness among public officials—including judges and prosecutors—through targeted training and enhanced media monitoring via a dedicated section in the Ministry of Justice. Additional measures include (i) enhancing mutual legal assistance; (ii) publishing judgements in foreign bribery cases, including non-trial resolutions; and (iii) addressing delays in criminal proceedings by hiring more magistrates and adopting technological tools.

2. Italy should continue to strengthen both preventive and enforcement measures. The adoption of a comprehensive national strategy to fight foreign bribery could help identify high-risk sectors and outline mitigating actions. Preventive measures should also include deeper engagement with the private sector and more proactive promotion of anti-corruption compliance programs.[2] On the legal framework, the continued practice of requiring proof of foreign law in foreign bribery cases contravenes the OECD Anti-Bribery Convention and should be modified. On sanctions, fines for foreign bribery remain unavailable against natural persons, and the maximum fines for legal persons remain too low to be effective. Legislative amendments are underway to address these gaps. In addition, the statute of limitations for legal persons for foreign bribery cases is considered too short. The OECD Working Group on Bribery also expressed concern over declining enforcement levels, noting that convictions are largely achieved through non-trial resolutions, and the number of acquittals at trial remains disproportionately high.[3]

E. Facilitation Side

3. Italy has strengthened its capacity to detect and deter the transnational aspects of corruption, with a focus on foreign bribery and illicit financial flows. The authorities have adopted a comprehensive approach to tackling the concealment of corruption proceeds, including

[1] Information relating to supply-side corruption is based on the OECD Working Group on Bribery (WGB)'s Phase 4 Follow-Up Report for Italy (October 2024). Additional perspectives and information were provided by IMF staff and the Italian authorities. The accuracy of this supplementary material has not been verified by the WGB or the OECD Secretariat and does not affect the WGB's ongoing monitoring of Italy's implementation of the OECD Anti-Bribery Convention.

[2] In February 2025, the Ministry of Justice published the *Guidelines for the Drafting of Codes of Conduct for Representative Associations of Entities*, which provides guidance and criteria for adopting codes of conduct, with a focus on combatting the bribery of foreign public officials.

[3] The authorities consider *patteggiamento* as a plea bargaining (a sentencing decision issued by a judge, based on an agreement between the defendant and the public prosecutor).

through enhanced detection, inter-agency collaboration, and enforcement. Extensive training programs have also been carried out, with Guardia di Finanza expanding specialized training for law enforcement and the Financial Intelligence Unit (FIU) enhancing the coordination with law enforcement and judicial authorities, including through a dedicated working group, focused on identifying financial patterns associated with corruption. New anomaly indicators have been issued to better detect transactions involving foreign politically exposed persons, and strategic analysis on corruption has been developed. In addition, the Bank of Italy has reinforced its supervisory approach to ensure compliance with preventive measures, including for tackling foreign bribery.

4. Continued efforts are needed. These include actions to ensure compliance with the requirements for foreign politically-exposed persons and to strengthen entity transparency. In this regard, the full operationalization of the Register of Beneficial Ownership is critical. However, its implementation remains suspended, pending a ruling by the Court of Justice of the European Union. Resolution of this dispute is essential for advancing entity transparency and ensuring consistent application of existing obligations.

Annex VI. Progress on Past IMF Recommendations

2024 Article IV Policy Advice	Actions since 2024 Article IV
I. Fiscal Policy	
Fiscal Adjustment	
Implement a more front-loaded fiscal adjustment to reach a primary surplus of 3 percent of GDP by 2025-26 by first achieving a surplus of about ½ percent of GDP in 2024. Actions include curtailing inefficient or temporary measures and saving revenue overperformance.	The primary surplus registered 0.4 percent of GDP owing to an overperformance of about 1 percent of GDP relative to the authorities' original budget target (April 2024), in line with staff's recommendation. While overall sovereign debt risk continues to be moderate, fiscal space in the medium to long horizon is limited. To fully achieve the recommended adjustment, continued efforts are needed by leaning into overperformance.
Improving the Quality of Fiscal Policy	
Develop a credible medium-term fiscal framework with well-defined measures and growth-enhancing reforms to anchor debt reduction.	The authorities' inaugural Medium-Term Fiscal Structural Plan (MTFSP), as agreed with the European Commission, outlined a gradual fiscal adjustment, and a commitment to implementing reforms and investment as set out in the NRRP, followed by additional growth-enhancing programs.
Improve spending efficiency and revenue collection.	Spending on tax credits was lower in 2024. In particular, the generous but low-multiplier housing-related credits (Superbonus) has been gradually phased out. A May 2024 law is expected to curtail demand for new tax credits, and the subsidy rate has been reduced from 100 percent to 70 percent in 2024 (and 65 percent in 2025). However, important loopholes and inefficient tax expenditures continue, including hiring subsidies and tax expenditures on high-income households. Further room exists to trim pension costs. Increased tax compliance contributed to higher-than-expected revenues and fiscal overperformance in 2024. Yet, a base-broadening tax reform has not been implemented. Further, the personal income tax (IRPEF) reforms and tax deductions for employment income, outlined in the 2025 budget, may also be revenue-reducing.
Gradually reduce the stock of public guarantees to pre-pandemic levels.	The stock of public-sector guarantees was elevated at about 300 billion euros as of Q3:2024 and roughly three times higher than in 2019, as the repayment of covid- and energy-shock-related guarantees was partly offset by the strong take-up of existing and new credit guarantees. However, new guarantee schemes incorporate increased private-sector risk sharing, reducing risks to the sovereign.

2024 Article IV Policy Advice	Actions since 2024 Article IV
II. Structural Priorities	
Implementing Growth-Enhancing Investments and Reforms	
Ensure a timely and effective execution of NRRP reforms to enhance productivity and medium- and long-term growth.	Italy has achieved 54 percent of the NRRP milestones and targets agreed with the European Commission and received nearly two-thirds of allocated funds (€122.2 billion)—a faster implementation rate than other countries. Expenditures have so far been mostly on home renovation tax credits, railway infrastructure, and school construction. However, spending delays persist, with only €61 billion spent by end-November 2024. In turn, several actions were taken to accelerate implementation, such as by swapping out delayed projects and shifting a larger share of grants and loans from financing of public investment to support for private investment through easier-to-spend tax credits.
Continue reform efforts through a post-NRRP successor program to facilitate the green and digital transitions and focus on critical public infrastructure, education reform, and improving the business climate.	Additional growth-enhancing programs beyond the NRRP were outlined in the authorities' inaugural MTFSP, though not described in detail. The National Climate Change Adaptation Plan, finalized in 2024, will inform policy while guiding the country in achieving its 2030 climate goals. However, further actions are needed to meet the 2030 targets.
Deepening Capital Markets	
Deepen the capital markets and attract new forms of financing to modernize the corporate sector.	Several private sector initiatives are underway, including small-scale equity injections with passive investors and access to finance together with new company management. Further market-friendly measures such as strengthening the EU's Savings and Investments Union initiatives, shifting towards market-based from bank-based financing, continuing progress on insolvency reform, and reducing size-based tax incentives are critical to foster a vibrant private sector and help Italian firms scale up.
Boosting Female Labor Force Participation and Fertility	
Improve the compatibility of work and family life to raise female labor force participation and fertility.	Expansion of public childcare facilities is currently underway as part of the NRRP. Taxes and subsidies measures have been adopted to raise female labor force participation and fertility. However, challenges remain, especially in the South, where childcare and after-school programs are under-provisioned due to informality-led lower tax collections.

2024 Article IV Policy Advice	Actions since 2024 Article IV
III. Financial Stability	
Monitoring and Managing Bank Risks	
Preserve financial stability by ensuring adequate headroom on capital, liquidity, and funding diversification.	The Bank of Italy activated a systemic risk buffer (SyRB) applicable to all banks and banking groups licensed in Italy at 1 percent. Half of this requirement was met by December 31, 2024, with the remainder expected to be fulfilled by June 30, 2025. The countercyclical capital buffer (CCyB) rate is maintained at 0 percent and appropriate, as financial stability risks stemming from excessive credit growth are low. Four of the five major banks are pursuing mergers and acquisitions to enhance market positions and improve diversification.
Strengthening Debt Workout Mechanisms	
Streamline debt resolution and insolvency procedures.	Insolvency, public administration, and civil justice reforms are integral parts of the NRRP. Digitalization of public administration is ongoing.
Addressing Weak Banks	
Enhance supervision and regulatory oversight of LSIs.	The BdI strengthened supervisory and regulatory oversight of LSIs and adopted assessment methodologies more gradually aligned with those of the European Central Bank (ECB).

Annex VII. Implementation of Key 2020 FSAP Recommendations

Recommendations	Progress as of the 2024 Article IV report[1]	Update on Progress since the 2024 Article IV report[1]	Agency	Time[2]
Bank Supervision and Regulation and NPL Resolution				
Enhance banks' capital levels, as appropriate, to ensure all banks maintain adequate capital ratios under stress scenarios.	The Bank of Italy (BdI) has introduced a new approach for the determination of the Pillar 2 Guidance (P2G) for less significant institutions (LSIs), consistent with the regulatory framework (CRR-CRD, and EBA). This approach ensures that banks maintain adequate capital ratios through both supervisory stress tests (carried out, every two years, by the BdI on LSIs) and ICAAP quantifications. Over the period 2020–2022, the P2G more than doubled, reflecting a strengthening of the capital amount of the banks to cover stress scenarios. The increased level of the P2G was confirmed by the update of the P2G capital decisions determined by the SREP 2023.	Following the SREP 2024, the average P2G continued to increase, further strengthening the overall capital requirements for LSIs, which are now aligned with those applied to significant banks.	Bank of Italy (BdI), SSM	ST

[1] Prepared based on the information provided by the Italian authorities.
[2] C = Continuous; I = Immediate (within one year); ST = Short Term (within 1–2 years); MT = Medium Term (within 3–5 years)

Recommendations	Progress as of the 2024 Article IV report[1]	Update on Progress since the 2024 Article IV report[1]	Agency	Time[2]
Bank Supervision and Regulation and NPL Resolution				
Consider more timely escalation of corrective measures for weak banks to effect improvement (e.g., in capital levels, operational efficiency, governance) or achieve consolidation or orderly wind-downs when needed.	The BdI's actions during recent years on weak banks promoted turnaround processes through capital strengthening initiatives and combinations with other banking/financial partners, leading to an increased adoption of early intervention measures. Since the pandemic, the BdI launched a horizontal analysis to identify potential weaknesses in LSIs, focusing on (i) business model sustainability; (ii) credit risk; and (iii) turnaround costs. This analysis has since been updated to prioritize banks based on their riskiness. Banks that are identified to have serious weaknesses remain limited in number; solutions included (i) mergers and acquisitions with other banks; (ii) capital strengthening provided by new partners; and (iii) early intervention measures adopted to promote market solutions. Since 2018 the BdI has implemented an early intervention framework supported by an IT tool aimed at automatically detecting potential financial deteriorations of LSIs under its jurisdiction. To improve banks' governance arrangements and to enhance the timely implementation of corrective measures, in February 2022 the BdI achieved compliance with the new EBA guidelines on recovery indicators (EBA GL 2021/11) with the issuance of new provisions on recovery plans. The post-pandemic horizontal analyses have been updated to reflect the changed economic scenario on banks' risk profiles. In December 2023, the ECB adopted new Joint Supervisory Standards on crisis management for LSIs, enhancing the previous version by incorporating best practices from National Competent Authorities of the SSM	New horizontal analyses were carried out on liquidity risk for an in-depth investigation of the funding plans of the whole LSI system, and on specific operations such as loan exposures backed by State-guaranteed funds. The results from these analyses are used as inputs into clusterization processes for SREP purposes, allowing Supervision to determine priorities in terms of intensity and urgency of supervisory actions. The BdI continued its actions to promote turnaround projects through the use of early intervention measures or similar interventions for the most fragile banks. Additionally, it used intrusive and innovative measures, such as the appointment of temporary administrators supporting the bank's Board of Director (BoD), or the enhancement of the role of independent directors through the tasks/objectives, with the simultaneous removal of members of the corporate bodies. In the most severe situations, banks were put under the special administration regime. Finally, the revamping of the Schema Volontario d'Intervento (SVI) could be a positive step toward more timely escalation of corrective measures. The SVI can intervene at an early stage for troubled banks. This would allow the recovery process to begin sooner and, hopefully, reduce the amount of capital needed.	BdI	I

Recommendations	Progress as of the 2024 Article IV report[1]	Update on Progress since the 2024 Article IV report[1]	Agency	Time[2]
Bank Supervision and Regulation and NPL Resolution				
	through regular meetings between the ECB and the BdI.			
Perform more periodic deep dives and thematic and targeted inspections on key LSI weaknesses such as bank governance, credit risk, and business models.	In the past years, the BdI performed deep dives and thematic analyses at both off-site and on-site levels. In 2020, the BdI requested a sample of LSIs to carry out a comprehensive business model self-assessment in a time horizon of two years, followed up by a supervisory dialogue on the matter. In 2024, the focus on outsourcers providing critical services to LSI was enhanced. Follow-up inspections of two IT outsourcer providers were carried out. These inspections also covered a third provider for IT services, two providers for credit collection services, one for compliance functions, and one for risk management services. Action plans received from the banks were then subject to a specific benchmarking exercise, and their results have been shared with off-site supervisors to allow for follow-up interventions, as necessary. Specific initiatives have been activated also with regards to Fit and Proper (FAP) assessments. The BdI launched a benchmarking exercise on the FAP cycles in 2021 and 2022, with the aim of measuring the impact of the new regulation on the governance of less significant banks and non-bank intermediaries and obtaining more detailed information on the quality of members of management bodies. At end-2022, all LSIs were requested to define an action plan that would allow for the full integration of C&E factors in policies and processes by end-2025. The November 2023 document promoted the adoption of best practices and FAP assessment policies by 2024 for corporate body renewals, followed by a supervisory dialogue to	The main horizontal activities performed to identify potential weaknesses and reinforce the overall supervisory action can be grouped in the following areas. 1) Governance/FAP-related initiatives: several interventions were performed on an idiosyncratic basis to highlight the weaknesses emerging from the assessments and urging the banks to implement remediation plans. In 2024 progress was also made at the methodological level, through the development of (a) the supervisors' assessment on the functionality of the corporate bodies; and (b) a massive examination of BoD minutes and identification of relevant trends/weaknesses. In addition, a workshop was held to develop the correct understanding of the document published in November 2023 and highlighted the importance of the proper selection of board members and of sharing good practices. 2) State-Guaranteed loans: The BdI has started dedicated monitoring activities, aimed at (i) assessing the credit risk as well as the soundness of credit processes regarding state-guaranteed loans; (ii) monitoring the banks' exposure to the residual and operational/AML risks (i.e. reputational and legal). In June 2024, BdI sent the first letter to LSIs with recommendations and requested the Internal Audit Function to review the adequacy of the related processes. As a follow-up, in April 2025, another letter was sent to LSIs with further recommendations, requiring them to check the resolution of the identified shortcomings and asking to consider	BdI	ST

Recommendations	Progress as of the 2024 Article IV report[1]	Update on Progress since the 2024 Article IV report[1]	Agency	Time[2]
Bank Supervision and Regulation and NPL Resolution				
	ensure alignment of the banks' policies with the recommendations.	all risks related to the state guarantees in the ICAAP process. 3) LSIs ICT risk assessment: The BdI completed a three-year plan carried out by the supervision units, supported by a horizontal team in charge of providing an annual benchmarking exercise and assuring consistent evaluations. In the same context, the BdI completed the activity aimed at assessing the compliance of LSIs with the EBA GL on ICT risk management and security. Regarding the ICT outsourcing, as a follow-up to the inspections carried out in 2024 on two of the main IT providers for LSIs, a specific horizontal action was launched on LSIs' clients of such providers: a letter was sent to banks with a summary of pertinent inspections findings and a request to play a proactive role. The BdI incorporated all the results in the SREP. Moreover, such activities lead to an increase of banks' self-awareness on IT/cyber risk & digitalization topics, also considering the entry into force of DORA regulation. The plan for 2025 includes conducting on-site inspections focused on third-party providers of IT services and credit information systems. 4) Integration of climate-related and environmental risks (C&E risks) into the supervisory dialogue and assessment: The BdI carried out activities to monitor the alignment path of the LSI system towards the domestic supervisory expectations, containing non-binding guidance on the integration of C&E risks into the business strategies, governance and		

Recommendations	Progress as of the 2024 Article IV report[1]	Update on Progress since the 2024 Article IV report[1]	Agency	Time[2]
Bank Supervision and Regulation and NPL Resolution				
		control systems, risk management framework and disclosures. 5) Changes in the market scenario and in monetary policy: The BdI launched a specific deep-dive on liquidity profiles, whereby the LSIs were asked to continue to provide funding plans, both individually and system wide. Banks also had to provide more detailed information on pricing and bond issuance. Liquidity risk was included in the annual assessment of the most vulnerable LSIs, using qualitative and quantitative benchmarks on funding plans, and stable and short-term indicators. Furthermore, LSIs send forecasts on the maturity ladder expected in the following months on a weekly basis, increasing the frequency to daily in case of tension. 6) Growing amounts of deposits collected by some Italian LSIs in other EU countries: In 2025Q1, the BdI launched a survey to gather updated and detailed information concerning the qualitative and quantitative aspects of the LSIs' funding through ODPs (Online Deposit Platforms). Furthermore, a specific focus has been put on the "challenger banks" (i.e., digital banks offering innovative services and/or targeting specific market segments); due to the specificity of their business model and technical features, these banks proved to be more exposed to the current macroeconomic scenario and to the banking sector evolution. The BdI increased the intensity of monitoring of challenger banks, combining on-site and deep dive tools, aimed at ensuring compliance with the regulatory framework		

Recommendations	Progress as of the 2024 Article IV report[1]	Update on Progress since the 2024 Article IV report[1]	Agency	Time[2]
Bank Supervision and Regulation and NPL Resolution				
		(prudential, anti-money laundering, etc.). The cost/income ratio (CI) for domestic LSIs varies considerably between and within business models. The evidence confirmed that the LSIs' limited operational efficiency is not a systemic phenomenon, but rather a bank-specific condition of some individual banks. Moreover, some LSIs potentially more exposed to an increase in personnel costs have been identified. They were contacted to discuss cost management and possible strategies. The BdI continues to carry out on-site inspections leveraging on several drivers of the identified off-site ones. In 2025, in addition to the full scope, two targeted inspections on LSIs will be carried out assessing (i) the governance, given the negative signals detected on the bank's framework, and credit, the main risk of the bank; (ii) credit risk, to assess the quality of the loan portfolio, already burdened by a high level of NPL, and the adequacy of the remedies implemented to address the finding of the 2023 inspection report.		
Continue scrutinizing banks' credit risk and loan classification and provisioning practices, particularly of UTP portfolios, and challenging progress and ambition of banks' NPL reduction plans.	The BdI continued to scrutinize banks' loan classification and provisioning practices and to monitor and challenge their NPL management strategies, both through regular horizontal analyses and through bank specific ones. The BdI intensified its supervisory actions toward entities involved in servicing activities. In November 2021, it communicated sector risks and recommended appropriate controls for the servicing business. Concurrently, analyses were conducted on funds investing in loans due to increasing asset manager interest. Additionally, the OSI	In 2024, the BdI continued its supervision through both off-site and on-site activities, conducted both at bank-specific level and horizontally. In this context, particular attention was paid to the classification and provisioning of loans as well as to the evaluation of NPL strategies. In addition, in the second half of 2024, BdI sent a letter to the LSIs requiring an assessment of the banks' processes relating to State guaranteed loans.	BdI, SSM	C

Recommendations	Progress as of the 2024 Article IV report[1]	Update on Progress since the 2024 Article IV report[1]	Agency	Time[2]
Bank Supervision and Regulation and NPL Resolution				
	methodology was enhanced in 2022 to align with best practices in IFRS9 and securitization services. In September 2023, the BdI sent a letter to the LSIs drawing their attention to the potential impacts on banks' risk profiles stemming from the economic and geopolitical situation, and credit quality risks in the higher interest rate environment. Banks were required to adopt prudent and conservative policies on credit risk classification and provisioning.			
Consider extending the SSM approach that sets bank-specific expectations for the gradual path to full provisioning on existing non-performing loans (NPL) stocks to LSIs with high NPLs with an adequate phase-in period; and update the LSIs' NPL management guidance.	Regarding the NPL management guidance, EBA Guidelines (GL) on NPE management have been adopted, by replacing the previous national GL issued in 2018. As a result, only a small number of banks are subject to stricter monitoring on the NPE management strategy. The current SREP methodology defines a specific supervisory proxy to calculate a P2R and a P2G add-on to cover the risk of under-provisioning, respectively in baseline and stressed scenario. For SREP 2024, BdI adopted the SSM LSI SREP methodology to Italian LSIs, while providing additional information based on the Italian Central Credit Register to analysts in order to have a full picture in terms of provisioning, concentration, and collateralization. The ECB is coordinating an impact assessment at SSM level.	The BdI continued its monitoring activities on the provisioning levels of LSIs in 2024. The analyses concerning the SSM approach to coverage, coordinated by the ECB and co-chaired by BdI, continued during the year.	BdI	I
Amend relevant laws to confer BdI and IVASS authority on removal of authorization and winding-up of banks and insurers, respectively.	The Ministry's involvement in the decision-making process for the initiation of resolution or liquidation does not affect the BdI's operational independence and timely intervention, since: • the initiation by the Ministry may occur only based on a BdI proposal; • does not affect the BdI's operational independence: while the Minister might either refuse or accept the BdI's proposal, as a matter of fact, it may only accept it, as a refusal		MEF, MISE	ST

Recommendations	Progress as of the 2024 Article IV report[1]	Update on Progress since the 2024 Article IV report[1]	Agency	Time[2]
Bank Supervision and Regulation and NPL Resolution				
	would inevitably further exacerbate the bank's conditions, leading eventually to the commencement of resolution/liquidation; • the Minister's involvement provides the BdI a shield from social/ political pressures and establishes a form of responsibility-sharing that is very effective in ensuring that a resolution/ liquidation decision is effective and timely taken; • is necessary in light of the potential impacts of these decisions on creditors' property rights and on the financial, economic and social context potentially affected by these decisions. As for the insurance sector, the matter falls within the competence of the Italian Parliament. According to the current legislative framework (Art. 240 of the Italian Insurance Code—Withdrawal of the authorization issued to an insurance undertaking), the insurance undertaking authorization shall be withdrawn by decree of the Minister of Economic Development, upon IVASS' proposal. If the authorization is withdrawn for all the insurance classes pursued, the undertaking immediately goes into compulsory winding up.			
Address gaps in governance regulations of banks and insurance companies by issuing the draft MEF and MISE decrees.	With regards to banks, the decree setting the suitability requirements for banks' board members and key function holders entered into force in January 2020 and is in line with the relevant framework provided for by the CRD and the Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders. The suitability assessment procedure is provided in the Consolidated Law on Banking as complemented by an ad hoc Banca d'Italia's Regulation adopted on May	Following the public consultation, the draft regulation revising the Ministerial Decree on the suitability of major shareholders is under review, taking into account the feedback received and relevant amendments. With the adoption of all the necessary provisions, the regulatory framework for the effective implementation of the FAP rules governing corporate officers and individuals in key roles within the insurance sector is complete.	MEF, MISE	I

Recommendations	Progress as of the 2024 Article IV report[1]	Update on Progress since the 2024 Article IV report[1]	Agency	Time[2]
Bank Supervision and Regulation and NPL Resolution				
	4, 2021. With regard to the insurance sector, Ivass has provided its technical contribution to MISE for defining the regulation concerning the FAP requirements applicable to corporate officers and persons who carry out key functions. Ivass has also proposed to MISE to set up with a coordinated table with MEF in order to draft the regulation applicable to qualifying shareholders in insurance companies, implementing art. 77 of the Italian Insurance Code. Such proposal aims at providing a coordinated regulation for the financial sector, considering also the ESA's Joint Guidelines issued in the European context and the need to ensure a level playing field.	As a result of this proposal, informal discussions have taken place with MISE representatives concerning the drafting of the decree for the insurance sector. However, no concrete developments have occurred to date.		
Macroprudential Policies and Framework				
Establish a national macroprudential policy authority with a leading role for BdI.	The Legislative Decree 207/2023 aimed at establishing the national macroprudential authority, drafted according to Law 127/2022 (Art. 6) in cooperation with the Competent Authorities involved, was issued in December 2023 and has been in force since January 2024.	The Committee for Macroprudential Policies met twice in 2024 and once in 2025. In its two meetings held in 2024, the Committee assessed the risks to the Italian economic and financial system, focusing on capital buffers in the banking sector, household investments in certificates, the risks linked to the growth of the non-banking finance sector, and developments in liquidity risk. No macroprudential measures were adopted, as the actions taken by individual authorities were deemed sufficient for the time being. The next meeting is scheduled on 4 December 2025.	MEF, IVASS, BdI, CONSOB, COVIP	ST

Recommendations	Progress as of the 2024 Article IV report[1]	Update on Progress since the 2024 Article IV report[1]	Agency	Time[2]
Macroprudential Policies and Framework				
Incorporate the Systemic Risk Buffer (SyRB) and borrower-based tools into the macroprudential toolkit.	In February 2022 the Systemic Risk Buffer and borrower-based measures were incorporated into the BdI's macroprudential toolkit via a revision of Circular n. 285. On 26 April 2024, the BdI announced its decision to activate a systemic risk buffer equal to 1.0 per cent of domestic exposures weighted for credit and counterparty credit risks, for all banks and banking groups authorized in Italy, with a phase-in period. The analyses conducted in support of the decision on the activation of the SyRB are described in the paper 'Increasing macroprudential space in Italy by activating a systemic risk buffer', published in the Bank of Italy's 'Occasional Papers' series.	The final target rate for the systemic risk buffer is expected to be met by June 2025.	MEF, BdI	ST
Consider implementing prudential policies to moderate the sovereign-bank nexus with an appropriate phase-in period to avoid possible market disruptions.	No actions are planned beyond regular/ continued monitoring. The BdI view is that in the euro area/EU any such action at the national level is not advisable.		BdI	MT

Recommendations	Progress as of the 2024 Article IV report[1]	Update on Progress since the 2024 Article IV report[1]	Agency	Time[2]
Insolvency Framework				
Enhance the enforcement and insolvency framework and ensure that courts have sufficient resources and specialization to timely handle insolvency cases.	In August 2021, decree law 118/2021 introduced a new framework to enhance out-of-court workouts. In July 2022, the new bankruptcy code entered into force, amended to implement the EU preventative restructuring directive. The new code strengthens bankruptcy professionals' appointment and training requirements. The new Insolvency Code relaxed the early warning mechanism providing for its voluntary use and removing the mandatory nature of the distress triggers. The Code also provides for a wide range of restructuring tools available for creditors and debtors, including an out-of-court mechanism of negotiated restructuring. Since the reform entered into force in July 2022, the new instruments were monitored and feedback from judges, lawyers, and professionals were collected. As the Government can recast the Insolvency Code within two years from its entry into force, the work is being done on some of the procedural provisions to make them more efficient and clearer.	Legislative Decree No. 136, in force since September 27, 2024, introduced targeted amendments to the Italian insolvency Code. These changes, prompted by the Ministry of Justice's regulatory review, aim to clarify procedural aspects and enhance the coherence of the Code's framework without significant change to the established structure. The revisions intend to address issues that emerged in the first two years of implementation, and to prevent delays and inefficiencies in crisis and insolvency management. Additional provisions were introduced to improve procedural efficiency and recovery processes. The Business Crisis Observatory, established in 2023, continues to monitor the Code's effectiveness through data collection and institutional feedback, supporting the Minister of Justice's reporting obligations to Parliament under Article 353 of the Code.	MoJ, NJC	ST

Recommendations	Progress as of the 2024 Article IV report[1]	Update on Progress since the 2024 Article IV report[1]	Agency	Time[2]
Reinforcing Crisis Management and Safety Nets				
Establish additional loss absorbing capacity to enable greater loss allocation to unsecured and uninsured creditors in resolution and liquidation, notably for LSIs for which a resolution strategy is foreseen; and strictly limit the use of public funds to exceptional events that could undermine system-wide financial stability.	A resolution plan has been drafted for all Italian LSIs; such plans are updated every one or two years. A binding MREL target has been set according to BRRD2, being equal to the loss absorption amount in case liquidation is the preferred resolution strategy and including also a recapitalization amount and a market confidence charge in case resolution is the preferred strategy. A comprehensive Manual for crisis management and resolution was finalized in November 2020 and is periodically updated. The use of public funds limited to exceptional events that could undermine financial stability is a policy line agreed by the Italian authorities. The European Commission (DG COMP) strictly monitors this issue, allowing the use of national public funds for managing bank crises only in the specific circumstances envisaged by EU regulations. The BdI's view is that those events should not necessarily be limited to cases with impact on system-wide financial stability, but based on specific market conditions, they could comprise also those events having effect only at regional or multi-regional level that could unpredictably cause a deep impact on financial stability and the real economy.	Progress continues in improving LSIs' loss-absorbing capacity. One additional LSI has been earmarked for resolution, and MREL add-ons have been reaffirmed for those previously assigned. For LSIs under resolution, the MREL target includes loss absorption, recapitalization, and a market confidence charge. For LSIs with liquidation as the preferred strategy, the BdI—-considering financial stability and contagion risk—has set MREL targets equal to the loss absorption amount plus: a) the full CBR TREA-based targets; b) half of the CBR for LRE-based targets. For the other LSIs earmarked for liquidation without an MREL add-on, no MREL target is set, according to EU Directive 2024/1174 (the so-called "Daisy Chain Act") amending Regulation (EU) 806/2014 and Directive (EU) 2014/59/EU.	BdI, MEF	ST

Recommendations	Progress as of the 2024 Article IV report[1]	Update on Progress since the 2024 Article IV report[1]	Agency	Time[2]
Reinforcing Crisis Management and Safety Nets				
Reinforce the DGS by removing active bankers from their boards; assessing the adequacy of funding targets; strengthening backstops; and avoiding the use of DGS resources for failure prevention outside of resolution or liquidation as much as possible, only using it in exceptional cases with strong prospects for successful rehabilitation and restoring long-term viability.	Notwithstanding that Italian DGSs are established as private law consortia and are totally independent in their decision-making process, the FITD has promoted and the BdI has approved a by-law amendment in which (i) the independence of the Chair of the Board is streamlined and strengthened; (ii) the independence of one of the Board members is introduced. Further increases of the degree of independence of the Italian DGSs' Board are planned to be discussed in the future. The Decree of the Italian Minister of Finance, no 169/2020 according to the Italian Banking Law, envisages the application of fit and proper requirements (including independence requirements) of the DGS in line with a proportionality principle. Concerning funding targets, the current target level of 0.8 percent of covered deposits is a minimum requirement envisaged by the legislative European framework (DGSD). The FITD has put in place a funding agreement (€ 3.5 billion) with a pool of major banks that can be activated if the available financial means (AFM) are insufficient to perform an intervention. With reference to the FGDCC, a credit line has been finalized with the two "parent companies" of the two cooperative banking groups and the "managing institution" of the Institutional Protection Scheme. This was to strengthen the FDG's financing capacity as well as funding adequacy.		DGS, BdI, MEF	ST

INTERNATIONAL MONETARY FUND

ITALY

July 1, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | European Department

CONTENTS

FUND RELATIONS

(As of May 31, 2025)

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	11,009.00	73.05
Reserve Tranche Position	4,061.03	26.95
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	21,989.56	104.61

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 19 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(a), 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 6–20, 2024; the staff report (IMF Country Report No. 24/240) was discussed by the Executive Board on July 19, 2024.

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

Technical Assistance:

Year	Department/Purpose
2007	FAD: Public Expenditure Management
2012	FAD: Tax Policy
2015	FAD: Tax Administration

Statement by Riccardo Ercoli, Executive Director for Italy, and Annalisa Korinthios, Senior Advisor to Executive Director
July 18, 2025

On behalf of our Italian authorities, we wish to warmly thank Ms. Christiansen and her team for the balanced set of reports, as well as for the frank engagement during Italy's 2025 Article IV consultation. The authorities highly value the policy advice and recommendations provided, which will constructively inform domestic policy discussions on macroeconomic management, financial sector oversight, and structural reforms. The Italian authorities share staff's view that much progress has been made since last year: the headline deficit was halved, the primary balance turned to a surplus, the Medium Term Fiscal Structural Plan (MTFSP) outlining a gradual 7-year fiscal adjustment was approved by the European Commission, market confidence increased, given the recent improved assessment by several rating agencies; furthermore, the financial system's soundness improved, the implementation of the National Recovery and Resilience Plan (NRRP) accelerated, the current account turned to a surplus, and the labor market and economic activity remained remarkably resilient in early 2025. There is broad consensus on the challenges ahead: tackling low productivity growth and population aging. The stable political landscape gives Italy a chance to address its structural weaknesses and maintain a prudent and responsible course of action. The authorities' views differ from those of staff on the need to implement additional fiscal measures and on the DSA, on the external sector assessment and its policy implications, and on the level of ambition of the reform agenda under the NRRP and the MTFSP.

<u>Issues we would like to emphasize in line with staff's view:</u>

Economic Outlook and Recent Developments

Public finances improved markedly in 2024, halving the deficit to GDP ratio and enabling Italy to return to a primary surplus. The outturn data for 2024 are stronger than projected in the Medium Term Fiscal Structural Plan (MTFSP), and this performance led to an improvement in the outlook for Italian debt, creating momentum and confidence.

Important drivers of the strong outturn for 2024 were the improved tax compliance, as a result of National Recovery and Resilience Plan (NRRP) reforms and targets, and the broadening of the tax base. The more collaborative approach with taxpayers and the effective strategies and sanctions to tackle tax evasion are bearing fruit. Other measures included in the budget law for 2025 will help to further strengthen the positive performance of tax administration in the coming years.

The labor market has proven to be extremely robust, with employment continuing to grow, reaching unprecedented levels. As noted by the National Statistical Office, in May 2025, the employment rate rose to 62.9 percent, confirming the good performance of the labor market. However, there is no room for complacency; the authorities will continue with determination on the path towards consolidating growth and strengthening Italy's competitiveness.

The current account improved registering a surplus of 1.1 percent of GDP in 2024. This result was mainly driven by the decline in energy import bills. The net international investment position reached 15.3 percent of GDP at end-2024.

Fiscal Policy

Continued fiscal discipline is essential to reduce Italy's high public debt and strengthen resilience, thus the authorities remain strongly committed to a gradual and sustained deficit reduction. In the MTFSP endorsed by the Council, Italy committed to an ambitious package of reforms and investments, underpinning a gradual fiscal adjustment over seven years, in line with the revised EU fiscal framework. While the authorities prudently committed to bring the deficit below 3 percent in 2026, preliminary data suggest that Italy might be able to exit the excessive deficit procedure as early as next year, well ahead of schedule. The recent positive assessment by the European Commission of the progress status of Italy's corrective path under the excessive deficit procedure is a testament to the authorities' commitment to fiscal responsibility and to the EU-agreed fiscal path.

Financial Sector

The authorities appreciate staff's recognition of the robustness of the financial sector, which continues to benefit from effective supervision and close monitoring. The stability of the banking system has strengthened, with historically high profitability and substantial liquidity reserves. On aggregate, the capital position of Italian banks remains strong and above pre-pandemic levels, with comfortable capital headroom. Moreover, asset quality remains solid, as non-performing loans (NPLs) remain low and stable. Nevertheless, the authorities will continue to remain vigilant to tackle any possible elements of vulnerability. The recent decision of Banca d'Italia to activate a systemic risk buffer (SyRB) of 1 percent on credit and counterparty credit risk exposures goes in the direction of strengthening the resilience of the banking sector against adverse shocks not necessarily linked to the stage of the financial cycle.

Structural Challenges

The authorities are of the view that overcoming the country's main challenges and achieving the objective of debt sustainability should not only go through more effective control of public finances, but also through increasing potential growth.

The authorities appreciate staff's recognition that Italy ranks as one of the EU's top NRRP performers. Reforms are advancing in several areas and delivering tangible results, as testified by the remarkable progress in reducing Court backlogs and by the improvement in tax compliance, while NRRP-investment remains a key engine of growth and reforms.

The authorities are taking concrete steps to promote growth, in line with staff's recommendations**.** The implementation of their three-pillar strategy is already underway:

First, an interministerial working group has been set up to identify further policy actions to increase the fertility rate over the medium term and female labor force participation.

Secondly, Italy is discussing with the European Commission on ways to establish a domestic compartment of Invest EU, seeking to support further investment through the crowding in of private capital.

Thirdly, Italy is implementing the 'Mattei Plan' to seek sources of clean energy to lower the energy costs in Italy.

<u>Issues where we have different or more nuanced views, compared to staff's appraisal or recommendations:</u>

Fiscal Policy

The government's fiscal consolidation strategy under the EU fiscal framework is sufficient to ensure a decline of the debt/GDP ratio in the medium term. In the MTFSP endorsed by the Council, the net expenditure path allows in fact for a gradual, realistic and growth-friendly reduction in deficit and debt to avoid adverse effects on potential GDP growth prospects. In this context, staff's call for an additional fiscal effort to bring the primary surplus to 3 percent of GDP already by 2027 represents a substantial difference compared to the Commission's assessment.

Italy has long been pursuing steady actions to safeguard the broad sustainability of the pension system while addressing the impact of the demographic transition. Recently, actions have been adopted in the following directions: i) additional early retirement schemes have been gradually discontinued; ii) new economic incentives were introduced to remain at work, especially in the public sector; iii) measures to freeze indexation for higher pensions were implemented. Looking ahead, the authorities remain committed to ensuring the overall sustainability of the pension system.

Sovereign Risk and Debt Sustainability Analysis

The sovereign risk and debt sustainability analysis does not seem to reflect the improved fiscal policy conditions and the recent positive assessments by rating agencies. While both the IMF and the European Commission assess fiscal sustainability risks as low in the short term, the European Commission assesses risks as high only in the medium term, differently from the IMF, which consider the risks as high both in the medium and in the long term. The results derived from IMF debt simulations appear extremely conservative not only due to the assumptions on the primary surplus, but also due to potential growth projections, which seem highly prudential in the long run. Lastly, while the IMF methodology for calculating forward rates is totally aligned with the one used by the Italian Ministry of Finance, the two models point to different results because of the different level of granular information. The Italian authorities remain available to share information with staff to increase the accuracy of the debt projections.

External Sector

The authorities continue to see the external position as broadly in line with fundamentals and desirable policies. They underscore that the resilience of the external sector is due to favorable cost and price competitiveness developments, strong sectoral and geographical diversification, and high-quality exports.

They note substantial divergences between the IMF model and the one used by the European Commission, according to which Italy's external position is more closely aligned with fundamentals than what the staff report suggests. From a more general perspective, the authorities reiterate that the External Balance Assessment (EBA) methodology used by the IMF does not capture all relevant and country-specific factors influencing the position of individual economies. They look forward to the upcoming review, which should be used as an opportunity to address these methodological issues.

The authorities also caution against drawing policy conclusions from the mechanical outcome produced by the EBA model. In the case of Italy, staff recommend additional structural reforms to lift potential growth; however, **the authorities consider that the NRRP and the MTFSP form a coherent and ambitious forward-looking reform agenda, which will succeed in addressing Italy's long-standing structural challenges**. The new EU fiscal framework is centered on deepening the reforms included in the NRRP, and rightly so, because the time needed for reforms to bear fruit from their inception, design, and full implementation takes decades; in that vein, the authorities aim at further consolidating the achievements under the NRRP and maintaining the ambition in key strategic areas such as justice, education, competition, public administration, and labor. Italy has been tested for the first time in managing a performance-based instrument, proving to be able to coordinate various sectors of the complex public administration, make good use of the flexibility embedded in the rules, and successfully overcome implementation obstacles in a timely manner. The European framework is moving rapidly to scale up performance-based instruments, and Italy has demonstrated to be up to the challenge since 2020.

We thank staff for the insightful Selected Issue Papers, and we wish to offer the following comments:

Potential growth – adjusting to aging

The combination of very pessimistic demographic assumptions and conservative TFP projections leads to a rather unfavorable view of Italy's long-term growth potential, which does not appear justified, especially in light of the recent improvement in the

labor market and of the ambitious structural reforms already underway. The demographic scenario used by staff appears particularly pessimistic, as the analysis is based on the low-fertility scenario of the United Nations, rather than on baseline or median projection. For comparison, the Eurostat Europop 2023 baseline projects a decline in the 15–69 population of 8 percent by 2040 and 14 percent by 2050. The most recent ISTAT baseline projects a decline of 10 percent by 2040 and 19 percent by 2050. The IMF projection, instead, assumes a decline in the working-age population of 19 percent by 2040 and 31 percent by 2050, which appears closer to a "low population" scenario. Ultimately, staff's choice of such an extreme demographic scenario appears implausible. Moreover, the assumptions on total factor productivity (TFP) growth appear particularly conservative, as the scenario assumes a constant annual TFP growth rate of 0.2 percent from 2031 onwards, even under full implementation of reforms. Within the MTFSP framework, the direct impact of reforms in selected areas – namely education, justice, and public administration – is expected to raise the level of TFP by 2.6 percent by 2031, implying an average additional annual TFP growth of 0.3 percentage points over the period 2022-2031.

How climate is changing the Italian economy

The authorities fully share staff's recommendations to reduce greenhouse gas emissions, accelerate the transition to renewables and enhance energy security. While more needs to be done in this respect, it should be noted that starting from 2022 there has been a marked acceleration in renewables driven by photovoltaics (currently, roughly a half of Italy's energy production comes from renewables).

Also, the authorities allocated about 39 percent of the total NRRP funds to measures that support climate objectives. Progress in advancing the ecological transition and NRRP investments is also aligned with the Organization for Economic Co-operation and Development (OECD) recommendations on accelerating the reduction of climate-changing emissions.

With respect to the **new mandatory disaster insurance scheme**, and to staff's concerns about potential moral hazard, the authorities wish to highlight that the mandatory insurance is not necessarily in contradiction with disaster prevention; on the contrary, when properly designed, it can incentivize risk mitigation. Moreover, mechanisms such as premium differentiation based on exposure and mitigation efforts, such as discounts for firms that adopt flood barriers or fire prevention systems, can be embedded into the pricing structure.