The European House
Ambrosetti

Business Insights from Italy

A Letter to International Investors

Business Insights from Italy is a publication by **The European House - Ambrosetti**, produced in collaboration with leading Italian institutions. The publication provides updates on the Italian macroeconomic scenario, on Italy's industrial sectors and on policies directed to foreign investors.

In this edition:

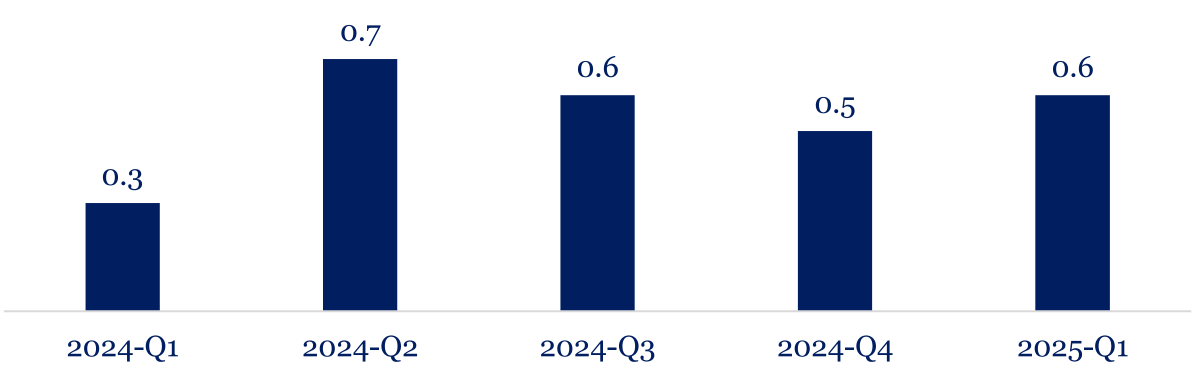
Italy's Macroeconomic Outlook

In the first quarter of 2025, the Italian economy recorded a **year-on-year growth rate of 0.6%**.

Compared to the previous quarter, quarter-on-quarter growth stood at +0.3%, a figure in line with the EU average (also 0.3%), but was negatively affected by two external factors: the further slowdown of the German economy and the increasing international uncertainty triggered by numerous announcements of tariff measures promoted by the President of the United States, Donald Trump.

The Italian economy is highly integrated with the German economy, particularly in the sectors of precision mechanics and automotive manufacturing.

The downturn in the German economy (which contracted by 0.2% in the first quarter of 2025 with respect to the same period in 2024) has had a direct impact on all interconnected countries, Italy being foremost among them.



Quarterly growth rate of Italian GDP
(percentage change compared to same period in previous year)

Source: TEHA Group elaboration on Istat and Eurostat data

In March 2025, Italy's trade with non-EU27 countries recorded a **quarter-on-quarter increase in exports (+2.9%) and a decrease in imports (-1.1%), resulting in a net improvement in Italy's trade balance**.

The monthly rise in exports was mainly driven by **higher sales of capital goods** (+9.9%). Increases were also recorded, on a quarterly basis, in the export of non-durable consumer goods (+1.7%) and intermediate goods (+0.4%), while exports of durable consumer goods (-11.5%) and energy (-6.4%) declined.

As for the imports, the quarterly decrease was entirely due to a **sharp reduction in energy purchases (-19.8%)**. In the first quarter of 2025, compared to the previous quarter, exports grew by 4.8%, sustained by increased sales of capital goods (+7.9%), non-durable consumer goods (+7.2%) and intermediate goods (+4.5%).

During the same period, imports rose by 5.3%, driven by all categories except capital goods, which recorded a slight decline (-0.3%). On a year-on-year basis, exports increased by 7.5% in March 2025 (compared to a -1.6% decline in February).

This positive trend was largely supported by the sharp increase in sales of non-durable consumer goods (+20.7%) and capital goods (+10.4%), whereas exports of energy (-34.4%) and durable consumer goods (-19.9%) experienced significant declines. Imports recorded a year-on-year increase of 8.7%, primarily driven by higher purchases of both durable (+33.6%) and non-durable (+32.4%) consumer goods.

In March 2025, **Italy's trade surplus with non-EU27 countries amounted to +5,958 million euros** (compared to +5,770 million in the same month of 2024). The energy deficit (-3,867 million euros) was slightly lower than that recorded a year earlier (-3,985 million euros). The surplus in non-energy goods trade, amounting to 9,825 million euros, remained high and showed a slight increase compared to March 2024 (+9,755 million euros).

Exports to the United States showed a marked year-on-year increase of +41.2% in March 2025. Significant growth was also recorded in exports to MERCOSUR countries (+28.9%) and OPEC countries (+24.9%).

Conversely, exports to Turkey (-31.3%) and China (-8.5%) decreased.

As for the imports, strong year-on-year increases were recorded in purchases from MERCOSUR countries (+71.2%), China (+44.9%) and ASEAN countries (+25.6%). Declines were observed in imports from OPEC countries (-25.4%), India (-17.8%), the United States (-9.5%) and the United Kingdom (-9.2%).

Private debt

In the fourth quarter of the year, the ratio of total household debt to disposable income reached its lowest level since 2008, standing at **56.1%**, approximately 30 percentage points lower than the euro area average.

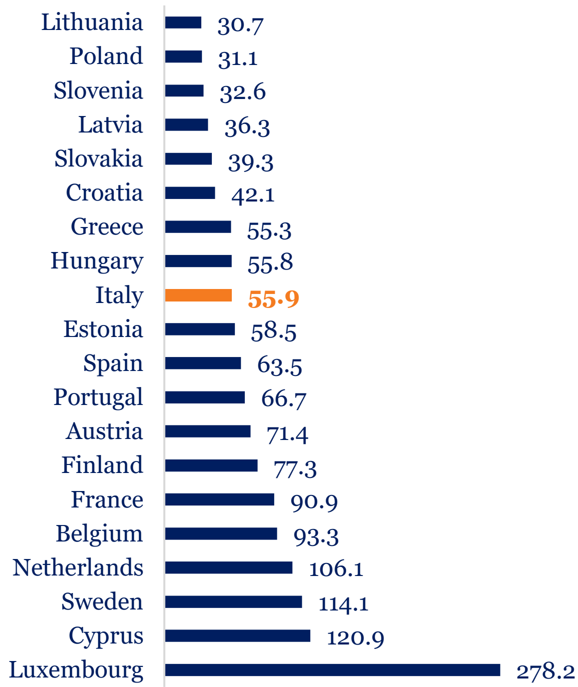
Source: TEHA Group elaboration on Istat data

Italian companies exhibit, on average, a **stronger financial position** compared to their counterparts in the other major European economies.

This is clearly reflected in the level of non-financial corporate debt, defined as the stock of debt held by the non-financial corporate sector as a percentage of GDP. This indicator includes debt securities and loans.

In 2024, Italy's debt-to-GDP ratio stood at **55.9%, performing better than Spain (63.5%) and France (90.9%)**.

Data for the German economy in 2024 are not yet available; however, in 2023, Germany's ratio stood at 59.6%, compared to 58.1% for Italy.



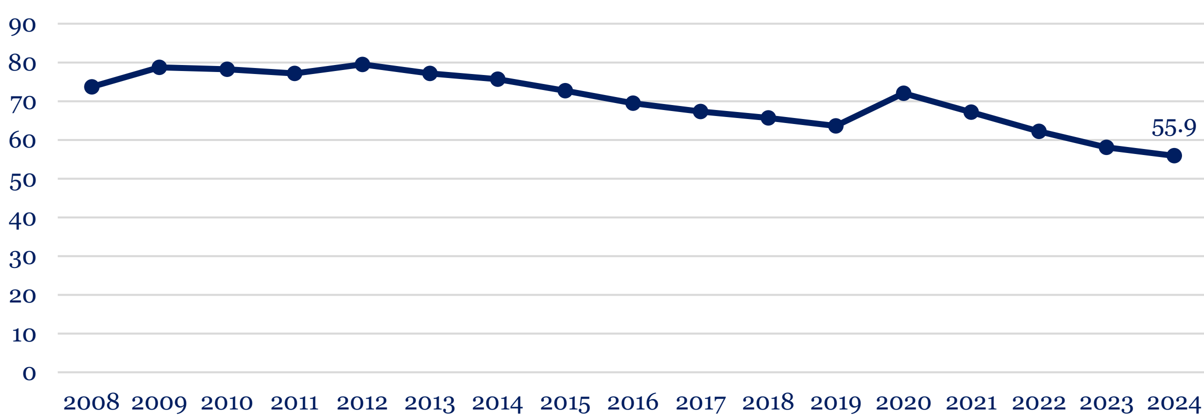
Non-financial corporations' debt, (% of GDP), 2024

This result is the outcome of a **decade-long process of consolidation** and debt reduction undertaken by the Italian economic system.

Starting in 2012, and continuing over the following seven years, the aggregate debt of Italian companies gradually declined.

This process was temporarily interrupted in 2020, due to both an increase in nominal debt and the contraction of GDP caused by the Covid-19 pandemic.

However, the reduction path resumed as early as 2021.



Non-financial corporations' debt in Italy, (% of GDP), 2024

Source: TEHA Group elaboration on Eurostat data

The Reform of the Public Incentives System

The Italian Government has recently enacted the **Incentives Code**, a consolidated framework that **reorganises** and **streamlines** the **provision of State incentives**, strengthening coordination between central and local authorities and addressing the complexity and inadequacy of the current procedures and related technical tools.

With the adoption of this measure a highly impactful project has been launched to overcome the existing fragmentation in this field and establish a comprehensive and coherent system of rules. This reform has also received the support of the European Commission, which has included it in the revision of Italy's National Recovery and Resilience Plan (NRRP) and in the implementation of the REPowerEU chapter, identifying it as a potential best practice at European level.

Comprising **29 articles** grouped into **5 sections**, the draft decree covers the entire process involved in the delivery of public support through business incentives, referred to as the "incentive lifecycle", which includes planning, design, implementation, publicity, and the evaluation of results.

Key features

1

In detail, the first key feature of the new Code is the central role assigned to **digital tools**, starting with the "**National Register of State Aid**" and the online platform "**Incentivi.gov.it**". A set of new services will be progressively developed to support the various activities throughout the entire lifecycle of incentive schemes, forming what will be known as the "Italy Incentives System".

2

The second important feature of the new Code is the **standardisation** and streamlining of the processes for accessing, applying for, and using incentives. In this regard, provisions are introduced to harmonise the main contents of the calls for proposals issued by the competent authorities, including the **introduction of a model "standard call"** for business incentives.

3

Furthermore, the Code introduces **planning tools for public intervention** based on results, representing a significant innovation. The implementation of the Three-Year Incentives Programme will be supported by evaluation activities to be carried out throughout the entire lifecycle of the incentive scheme, as provided for by the Code. To this end, a "**Permanent Incentives Table**" will be established at the Ministry of Enterprises and Made in Italy (MIMIT), serving as a permanent platform for dialogue among the relevant State, Regional, and Autonomous Province authorities.

4

Finally, the Code introduces specific provisions governing the grounds for **exclusion from access to incentives**, such as the existence of disqualifying conditions related to anti-mafia compliance, violations of social security contribution obligations, or failure to provide insurance coverage against damage caused by natural disasters.

Transizione 4.0 Plan

The incentives provided under the "Transition 4.0" plan, including the Research, Development and Innovation tax credit (amounting to approximately **€7.5 billion for the period 2025–2031**), continue to support business competitiveness by encouraging technological investments and circular economy initiatives.

Funded with over €13 billion from the National Recovery and Resilience Plan (NRRP), the scheme has already granted 66,900 tax credits, with an additional 111,700 expected to be awarded by 30 June 2025. To date, businesses have benefited from tax incentives amounting to approximately €29 billion.

Manufacturing companies have received over 60% of the total tax credit related to investments in Industry 4.0 tangible assets (around €11.5 billion), followed by enterprises in the trade and construction sectors.

Thanks to this measure, **the investment rate has increased significantly**, with the impact varying by company size—around 0.5, 0.8, and 1.8 percentage points for large, medium, and small enterprises respectively, and showing particularly strong effects (between 3.3 and 3.7 percentage points) for micro-enterprises.

In addition, the scheme generated approximately **40,000 new jobs** between 2020 and 2022, with the most significant impact observed among small and medium-sized enterprises.

Finally, the scheme has contributed to the generation of approximately **€26 billion in additional turnover** by Italian companies.

Transizione 5.0 Plan

Decree-Law No. 19 of 2 March 2024 introduced the 'Transition 5.0" plan to support the digital and energy transition. The ministerial decree of 24 July 2024, along with the adjustments made through the 2025 Budget Law, formally launched the measure, which provides for tax credits financed with **€6.3 billion** from the REPowerEU plan, to be distributed over the 2024–2025 period.

According to monitoring data, approximately €500 million in resources have already been allocated, while around €5.7 billion remain to be disbursed by the second quarter of 2026.

Other incentives

A tax credit scheme for **investments in research, development and innovation** - covering fundamental research, industrial research and experimental development in the scientific and technological fields - will remain in force until 2031. This is complemented by tax credits for investments in technological innovation, design and aesthetic conception, as well as for ecological and digital (Industry 4.0) innovation.

Further measures include the 110% super-deduction for R&D expenditure on intangible assets; the "**mini–Development Contracts**", aimed to support investment plans ranging from €5 million to €20 million, implemented by companies - including large enterprises - in designated territorial areas; the "**Development Contracts**", to which approximately €500 million have been allocated under the National Programme for Research, Innovation and Competitiveness for the Green and Digital Transition 2021–2027.

Focus on a sector: Industry in Italy

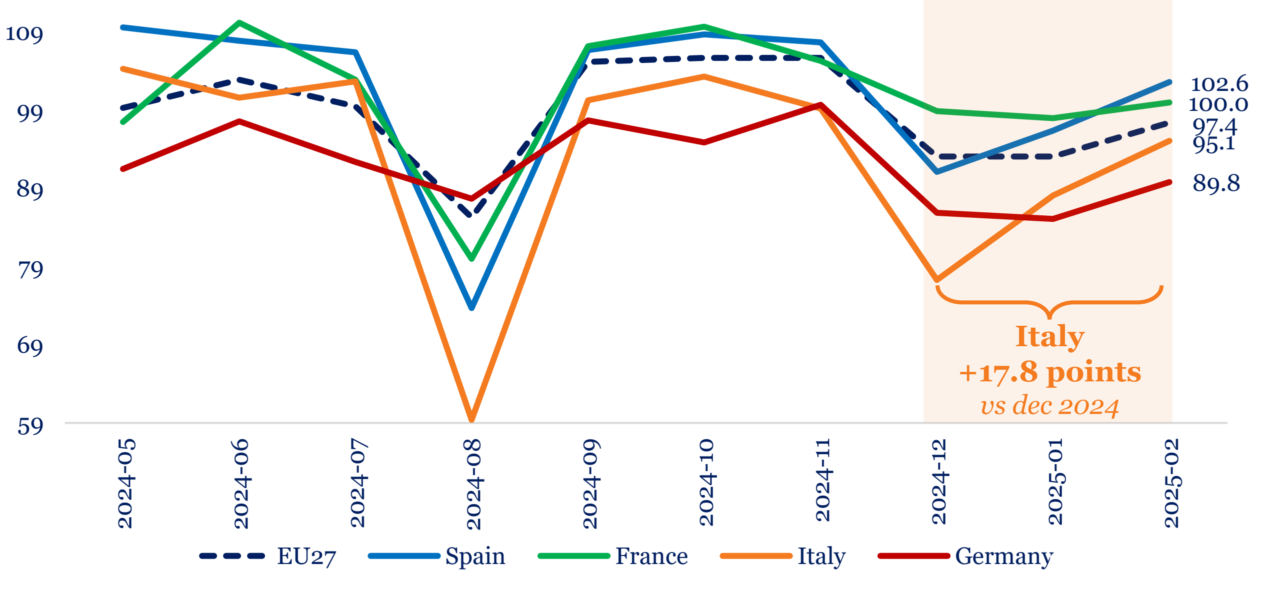
In this section, we examine each month a strategic sector of the Italian economy, providing an overview of the sector's main innovations and most interesting data. In this edition, we focus on the industrial sector .

The **Italian industrial sector** remains a central cornerstone of the national economy and a vital driver of employment and technological innovation. As of April 2025, the sector comprises approximately **440,000 enterprises** employing nearly **4 million individuals**, underscoring its strategic significance despite recent economic challenges.

In 2024, Italy's industrial production saw a contraction of 3.5%, primarily affected by significant decline in the automotive (-43%). Nonetheless, overall employment in the sector witnessed resilience, increasing by approximately 352,000 workers (+1.5%) by the end of the year 2024, elevating the **employment rate in industry to 62.2%.**

Geographically, the distribution of industrial activities continues to reflect longstanding territorial concentrations, particularly in **Lombardy**, which alone accounts for **nearly 25% of industrial employment** and hosts the highest density of manufacturing enterprises.

Recent industrial activity indices further highlight **Italy's volatility** in comparison to other major European economies. Between May 2024 and February 2025, Italy exhibited sharper month-to-month fluctuations in production levels, with a low of 59.4 in August 2024 and a gradual recovery reaching 95.1 by February 2025. These figures contrast with more stable trajectories observed in France and Spain and suggest a need for enhanced industrial resilience and modernization.

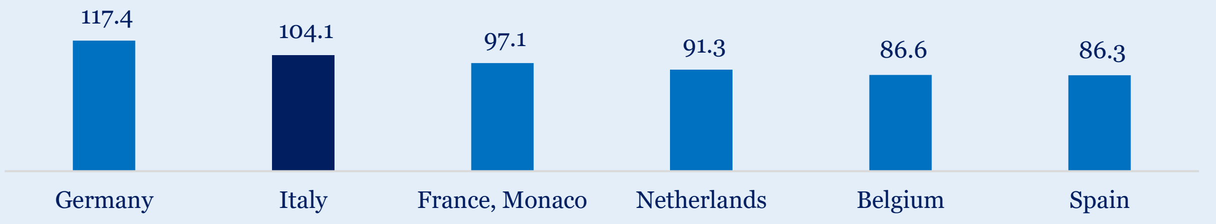


Monthly industrial production benchmark, Calendar adjusted data, Index 100=2021, 2025

Source: TEHA Group elaboration on Eurostat data

While Germany consistently reports lower volatility, Italy's industrial performance remains highly sensitive to cyclical shocks, highlighting the **need for structural reforms** and **sustained investment**. The sector is dominated by small and **medium-sized enterprises (SMEs)**, which represent over **90% of active firms** and play a key role in local development and exports. Italy continues to rank among **Europe's top manufacturing economies**, particularly in specialized segments such as machinery, metallurgy, chemicals, and food processing.

Its **diversified export base** - second only to Germany in **destination heterogeneity**, according to the TEHA Group **Export Heterogeneity Index** - underscores the strong international demand and recognition of the quality of its industrial production.



Export Geographic Heterogeneity, Global Attractiveness Index (GAI) - TEHA Group, EU27 Benchmarking, 2025

According to the **Export Geographic Heterogeneity Index** by TEHA Group, Italy ranks **4th globally** and **2nd among EU27 countries** for export destination heterogeneity. This reflects the country's diversified and resilient trade network, built on **longstanding commercial ties with a wide range of international partners**. Italy's broad export network reinforces its role as a **strategic global player**, with strong brand recognition and sustained demand for its products across multiple markets.

A dedicated tutor for international investors

Investors interested in Italy can rely on tailor-made services offered by the *Invest in Italy* team. The Ministry of Enterprise and Made in Italy (MIMIT) provides potential investors with a **dedicated tutor** that supports the entire investment process.

In particular, tutors:

- support investors in identifying suitable greenfield and brownfield sites;
- facilitate contacts with central/local administrations to obtain the necessary authorizations and permits;
- facilitate contacts with the Italian supply chain, research centres, universities and technical colleges;
- identify the most suitable incentive schemes to support investments;
- facilitate the search for personnel through partnerships with regional employment centres and local employment agencies;
- follow the process of obtaining visas, authorisations and work permits for the staff of non-EU foreign investors.

For more information and to get in touch with a dedicated tutor, please visit www.investinitaly.gov.it website.

Favourable tax regime for new residents

New fiscal residents in Italy have the opportunity to apply for a **special tax scheme**, that lasts **for 15 years**:

- Foreign-source income will not be taxed at ordinary rates, but at a yearly substitutive **lump-sum tax of 200,000 euros**.
- All foreign assets will be **exempted from Italian inheritance taxes**.
- No reporting obligations to Italian tax authorities on assets held abroad.
- No wealth taxes on assets held abroad.
- Exemption from Italian CFC rules on foreign companies.

The flat taxation on foreign-source income can also be extended to family members, for 25,000 euros per year per each additional family member.

Should new residents decide to work in Italy, they could apply for a reduction of 50% over their Italian taxable income from employment or self-employment (within an annual limit of EUR 600,000).

Such reduction is granted for a period of 5 years and can be increased to 60% if moving with a minor. Applicants should commit to maintain their fiscal residence in Italy for at least 5 years and should get minimum educational requirements.

Where to find the right opportunities? *www.investinitaly.gov.it*

The Italian Government has recently launched the official www.investinitaly.gov.it website.

The platform is designed to provide foreign investors with comprehensive information on the main investment opportunities in Italy. It presents investors with detailed information on the main strategic sectors, incentives, taxation, labour law and immigration.

Moreover, it showcases more than **300 greenfield** and **brownfield public sites** that are immediately available for industrial and logistic projects.

USEFUL TO KNOW:

The **Ministry of Foreign Affairs and International Cooperation** and the **Italian Trade Agency (ITA)** are the first point of contact for all potential investors.

Italian Embassies and Consulates abroad, together with dedicated ITA'S FDI offices, provide information and facilitate any needed dialogue with other Italian institutions.

Please click on the following links to find updated contact details of:

- **Italy's diplomatic-consular network**: Italian Missions Abroad - Ministry of Foreign Affairs and International Cooperation;
- **ITA's FDI offices**: Invest in Italy | Italian Trade Agency (ice.it);
- **Italy's Ministry of Foreign Affairs and International Cooperation** is also available at the following email address: dgsp-03@esteri.it.