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.

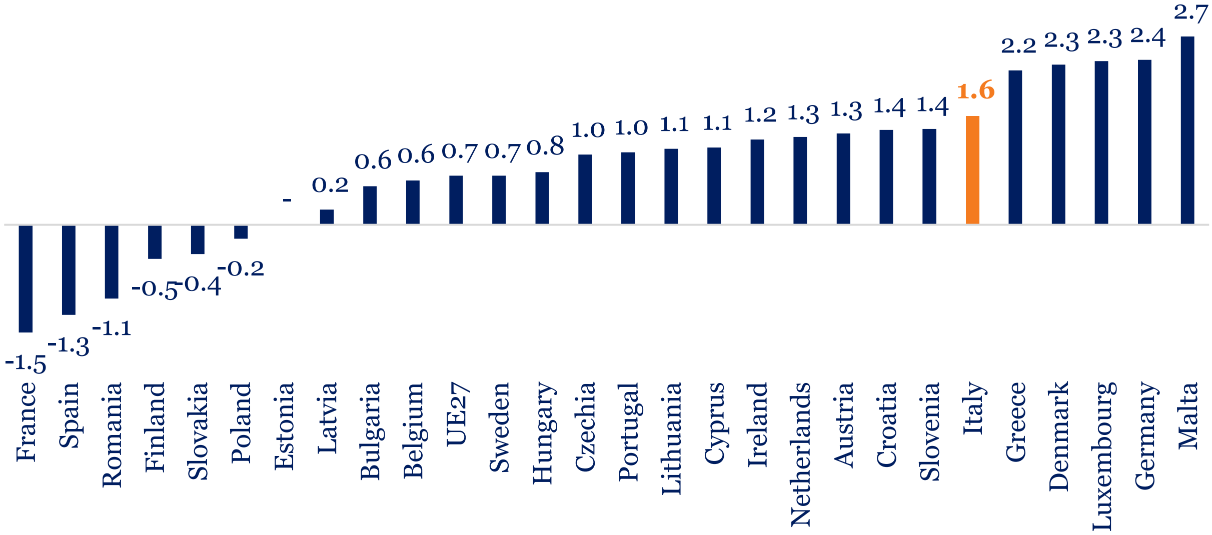
In this edition:

Italy's Macroeconomic Outlook

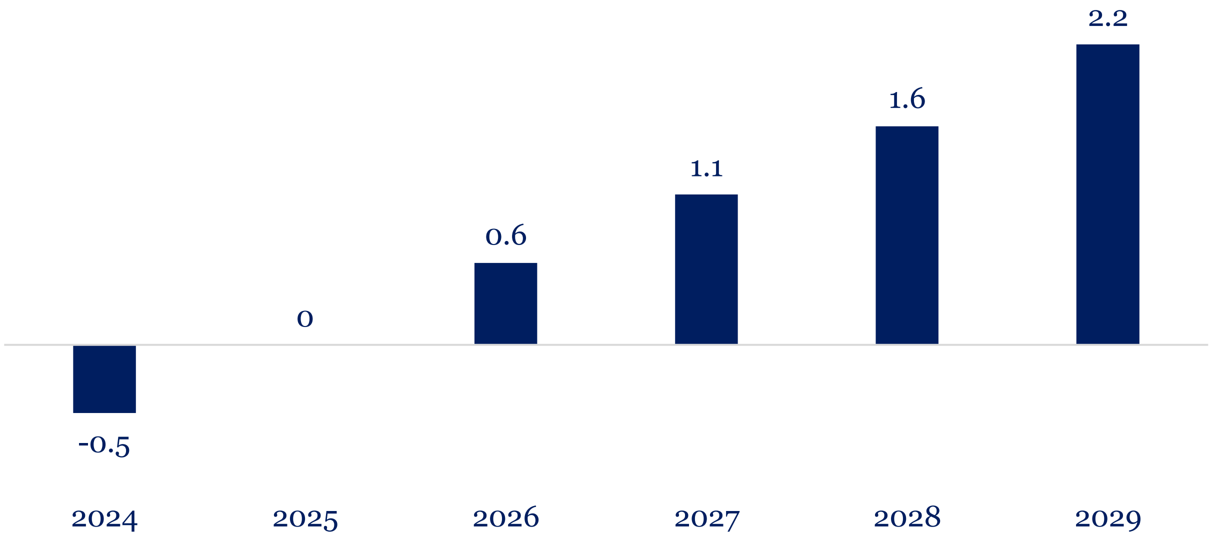
In the aftermath of the sovereign debt crisis in 2011, Italy **consistently achieved significant primary surpluses**, exceeding the average of European countries.

The primary surplus, defined as the difference between government revenues and expenditures excluding interest payments, is the key metric for assessing the financial management efficiency of a government. When revenues exceed expenditures, resulting in savings, it is referred to as a primary surplus; conversely, a deficit occurs when expenditures surpass revenues.

Between 2014 and 2019, **Italy recorded an average annual primary surplus equivalent to 1.6% of GDP**, with expenditures systematically lower than revenues. Over the same period, the European average stood at 0.6%.



Government primary surplus, average 2014-2019



Structural primary balance in Italy, forecast

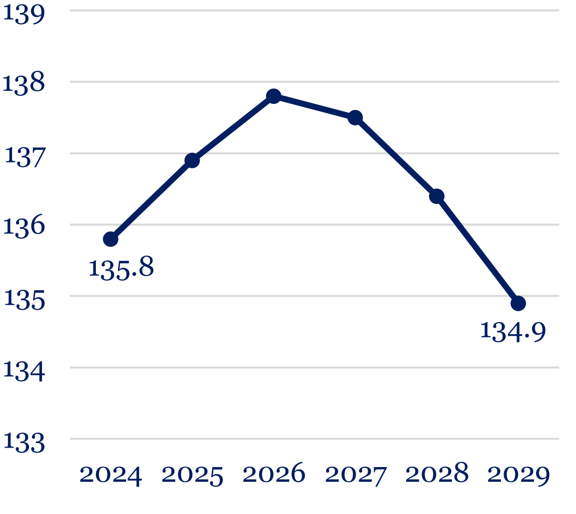
In 2024, the Italian Government introduced a new public finance instrument, the **Medium-Term Structural Budget Plan**. This document analyses the economic outlook and fiscal policy measures over a five-year horizon (in this case, 2025–2029), providing an indication of medium-term developments in various indicators, including those related to public accounts.

The first noteworthy aspect concerns the prospects for the primary surplus. Over the past three years, Italy (like most European countries) has recorded primary deficits, driven by the excess spending required to initiate the post-pandemic recovery and combat the inflation crisis.

Projections suggest a significant reversal of this trend starting in 2025, with the primary surplus expected to grow by approximately half a percentage point of GDP per year, **reaching a target of 2.2% of GDP by 2029**.

The creation of primary surpluses will enable the resumption of a **path towards reducing public debt**. Italian public debt increased significantly in 2020, due to the combined effects of a decline in GDP and the creation of a deficit. Over the past two years, moreover, the particularly restrictive monetary policy implemented by the ECB has exerted significant pressure on the average issuance yields of new securities (averaging 3.53% in 2024).

In the next five years, once the impact of rising interest rates subsides, public debt is expected to **gradually decrease**.



Debt/GDP ration, forecast

The recent issuances of Italian government bonds consistently achieve great success, reflecting the favourable assessment of the markets. The first issuance of 2025, held on 8 January, recorded **€270 billion in demand against an actual issuance of €18 billion**. This tranche included two securities: a ten-year BTP (*Buono del Tesoro Pluriennale*, a fixed-rate bond) issued for an amount of €13 billion with demand exceeding €140 billion, and a Green BTP (bonds whose proceeds are allocated to financing public initiatives with sustainable environmental impacts) issued for €5 billion with demand of approximately €130 billion.

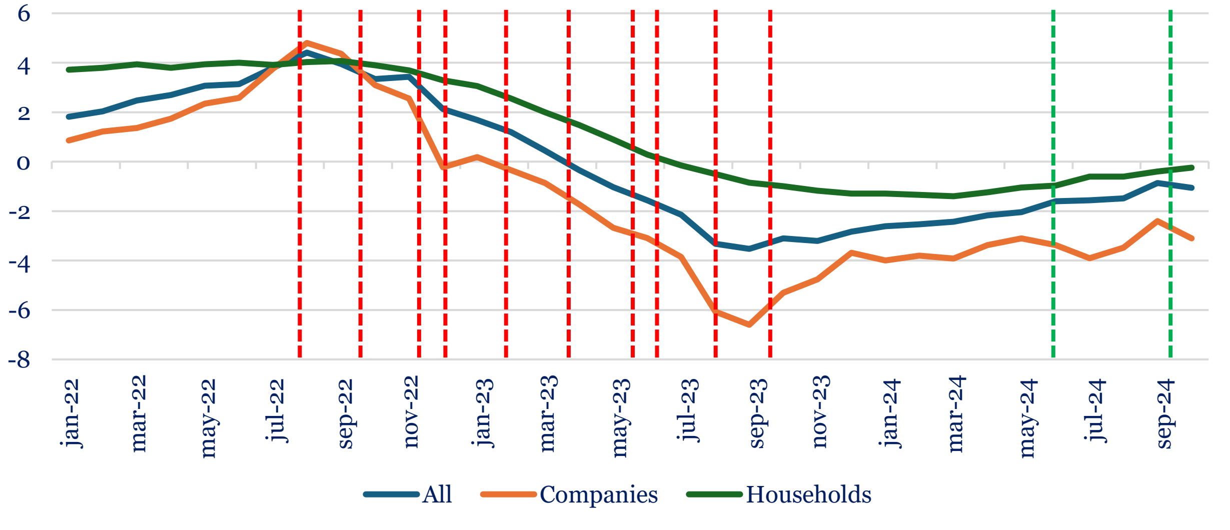
The figure

In Europe, on average, 58% of people have a higher income and social position than their parents, while 16% are in a worse position. In Italy, these figures are significantly better: **62% enjoy a better social position than their parents**, and only 8% are in a worse position.

A cautious positive signal emerges from the annual variation in bank loans granted to businesses and households.

In 2023, driven by the significant increase in interest rates, the amount of loans issued contracted, as shown in the figure, with growth rates entering negative territory. In 2024, the trend began to reverse: while the values remain in negative territory, indicating a decline in loans, the trajectory is positive.

This is particularly evident in the segment of loans to households, where the latest data indicates an annual growth rate of -0.2%, suggesting a gradual recovery.



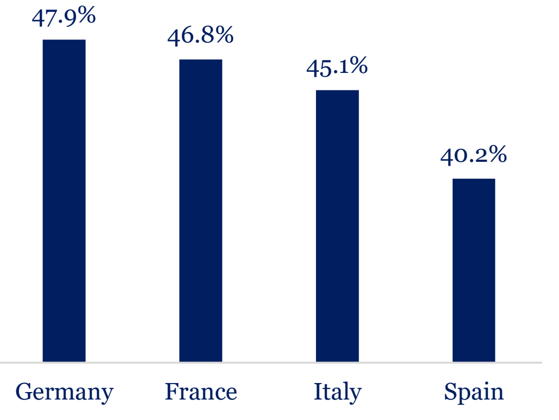
12-month growth rates of bank loans in Italy. The dotted lines indicate increase in ECB interest rates (red) and decrease (green)

New measures to support the labour market

In Italy, as in most European countries, the taxation on workers' income plays a significant role.

The tax wedge – defined as the ratio between the amount of taxes paid by an average single worker and the corresponding total labour cost for the employer – is a measure of this burden.

The Italian **tax wedge**, while high, is lower than that of France and Germany, as highlighted in the graph.



Tax wedge

In the **Budget Law** — a fundamental financial planning document through which the government sets its annual economic and fiscal policies, defining expenditure limits and revenue measures to achieve its economic objectives — the government has **introduced and confirmed a series of measures to reduce the burdens on businesses and facilitate employability**.

Tax wedge reduction

The 2023 tax wedge reduction for low and middle-income earners has been confirmed and made structural. It has also been extended to incomes up to €40,000, benefiting an additional 3 million taxpayers. Under the new budget law, the tax wedge reduction remains contributory for incomes up to €20,000, while for incomes between €20,000 and €40,000, the reduction becomes tax-based, with a fixed deduction of €1,000 for incomes up to €32,000. This deduction gradually decreases and phases out (decalage) between €32,000 and €40,000.

Deduction for new assumptions

The 20% increase in the deduction related to the cost of permanent employment contracts hired by businesses and professionals has been extended for the next three years. The deduction can rise to 130% for stable employment of certain categories, including individuals with disabilities, young people under 30 eligible for employment incentives, mothers with at least two children, women victims of violence, and former recipients of the citizenship income.

Tax reduction on productivity bonuses

The reduction in the substitute tax on performance bonuses or profit-sharing, from 10% to 5%, has been extended until 2027.

Fringe Benefits

The fiscal exemption threshold for fringe benefits has been confirmed for the 2025–2027 period (€1,000 for employees without children and up to €2,000 for those with children).

These measures are part of a broader plan to support the labour market launched in 2021 with the introduction of the National Recovery and Resilience Plan (NRRP). The NRRP includes a range of initiatives aimed at providing training for workers and unemployed individuals, as well as enhancing tools for dialogue with businesses to facilitate the matching of labour supply and demand.

These initiatives span address various needs of unemployed individuals, mainly upskilling/reskilling and reduction of supply/demand mismatch.

Among the key measures, it is noteworthy the **substantial reform in the field of employment placement: the GOL** (*Garanzia occupabilità lavoratori*, Employability Guarantee for Workers) programme.

Funded with €4.4 billion, the GOL programme redesigns employment services to enhance job placement outcomes.

The GOL programme offers an integrated range of services based on cooperation between public and private providers. It includes tailored pathways for job placement, upskilling or reskilling, and networked interventions with other local services (social, healthcare, reconciliation, and educational) to address complex needs, such as those of individuals with disabilities or vulnerabilities.

The pathways, designed for individuals, are determined by Employment Centre staff based on both qualitative profiling, and provides five pathways in total, four for individuals and one for groups of workers (companies in crisis), depending on the individual competencies and the distance between competencies and companies' needs.

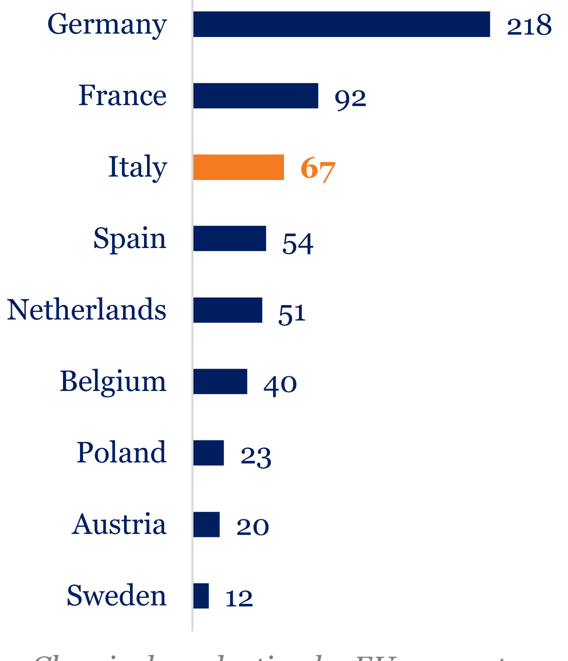
- **Job Reintegration**: designed to assist those with a strong proximity to the labour market, this pathway provides orientation and intermediation services to facilitate employment placement.
- **Upskilling**: tailored to support those further removed from the labour market but possessing transferable skills, this pathway focuses on short-term, vocationally oriented training programmes.
- **Reskilling**: designed for individuals who are significantly distanced from the labour market and lack the skills required to meet current demands, this pathway offers in-depth vocational training aimed at raising qualification levels relative to their educational background.
- **Work and Inclusion**: aimed at addressing the needs of individuals facing complex challenges that extend beyond employment-related issues, this pathway, in addition to the previously mentioned services, activates a network of local services—educational, social, healthcare, and reconciliation services—as appropriate to the individual case.
- **Collective Outplacement**: evaluation of employment opportunities based on the specific company crisis, the workers' skills, and the local context, to identify suitable solutions for the group of workers involved.

The GOL programme aims to involve 3 million beneficiaries, including 800,000 in training activities, 300,000 of whom will focus on digital skills.

Focus on a sector: chemical industry

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 chemical industry.

Italy's chemical industry is a key driver of the national economy, generating over €67 billion in production value and comprising more than 2,800 companies. It directly employs nearly 113,000 employees and supports over 324,000 jobs in related industries. Ranking as the fifth-largest industrial sector, it surpasses traditional Made in Italy industries and generates an economic turnover 3.32 times the initial investment through a strong multiplier effect. The sector features a balanced mix of actors: **foreign-owned companies** account for 38% of production value, SMEs for 41%, and medium-to-large Italian groups for 21%. Notably, 80% of its workforce is employed by business groups, compared to 52% in manufacturing overall.



Chemical production by EU27 country, Billion €, 2023

Foreign-owned firms significantly contribute to the industry, generating €23 billion in production value, investing €820 million annually, and sourcing nearly €11 billion in goods and services from Italian suppliers. They also employ over 40% of the workforce in large chemical enterprises, underscoring their pivotal role in Italy's industrial landscape.

Italy ranks as the **third-largest chemical producer** in Europe, after Germany and France, and the **twelfth globally**. Unlike large-scale chemical producers like China and the United States, Italy specializes in **high-value-added** segments, reflected in its competitive export prices and leadership in fine and specialty chemicals.

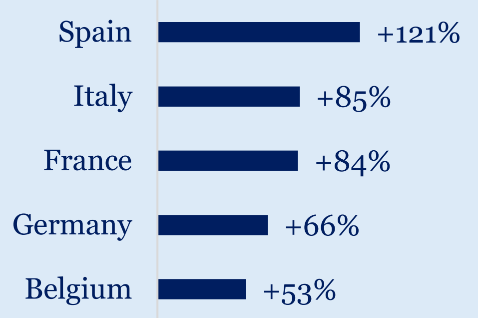
Italy's chemical industry is geographically concentrated, with key production clusters in Lombardy, Emilia-Romagna, Veneto, Tuscany, and Campania. Lombardy alone accounts for nearly 30% of national chemical production, hosting a network of companies excelling in basic and fine chemicals. These regions thrive on an industrial district model that promotes collaboration and efficiency. Notable examples include the *Porto Marghera* district in Veneto, specializing in petrochemicals and advanced materials, and Tuscany, a centre for fine chemicals and pharmaceutical intermediates. These hubs foster innovation, reduce costs, and strengthen ties with academic institutions, ensuring adaptability to future challenges.

Italian chemical companies are at the forefront of **sustainability and innovation**. With research and development (R&D) expenditures exceeding €700 million annually, the sector allocates 8% of its workforce to R&D activities, compared to a 5% average across the manufacturing sector. Key areas of focus include circular economy solutions, renewable materials, and low-carbon production processes.

The transition to sustainable practices is a priority for the industry, driven by both regulatory frameworks such as the European Green Deal and market demand for environmentally friendly products. Initiatives such as chemical recycling, bio-based materials, and CO_2 utilization are shaping the industry's future, aligning it with global trends while maintaining competitiveness.

Over the past decade, Italy's chemical industry has demonstrated **strong export performance**, gaining ground among leading European producers. Since 2010, Italy has ranked second only to Spain in export growth, surpassing even Germany.

Despite competition from China, the sector has preserved its **2.4% global market share** in 2022.



Chemical exports from Italy and major European countries (% change in value 2010-2023)

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 finding 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 relations 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.