The European House
Ambrosetti

Business Insights from Italy

A Letter to International Investors

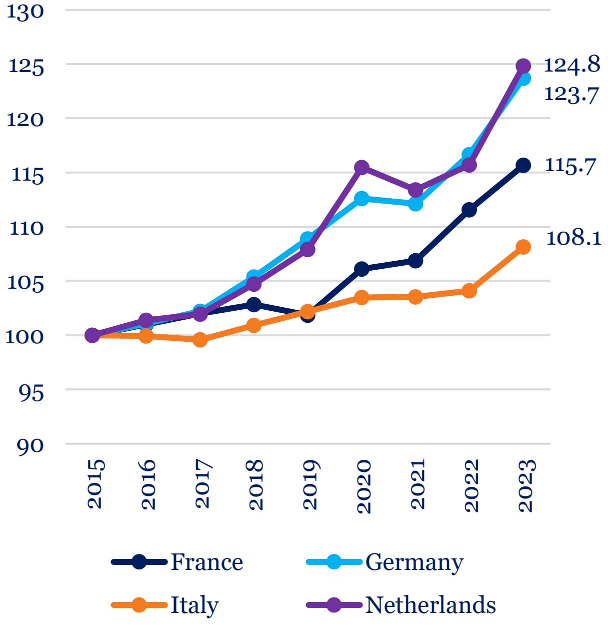
Business Insights from Italy is a publication by **The European House - Ambrosetti**, produced in collaboration with leading Italian institutions. The publication provides updates on the Italian macroeconomic scenario, on Italy's industrial sectors and on policies directed to foreign investors.

In this edition:

Italy's Macroeconomic Outlook

Over the past decade, a decisive factor in industrial location choices and, more broadly, in corporate performance has been the **increasing weight of labour costs** in the overall value of goods and services.

Since 2015, the cost of a unit of labour has risen by 25% in France and the Netherlands, by 15% in Germany, and by only 8% in Italy.

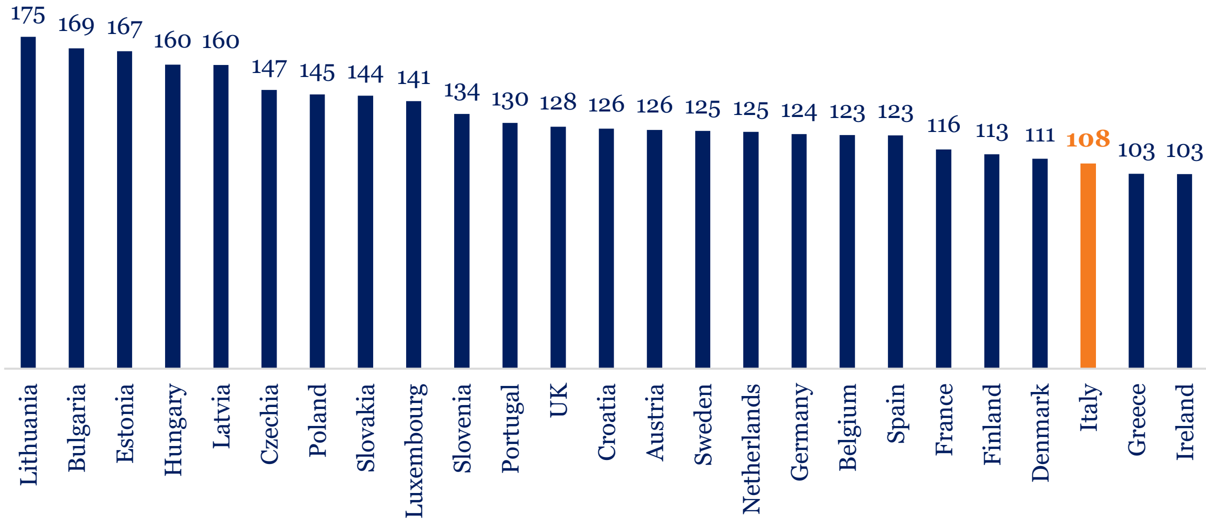


Unit labour costs (index 2015 = 100)

This is the result of a **series of reforms that have impacted the tax wedge**, reducing the tax burden on both businesses and workers, thereby lowering the incidence of labour costs on corporate balance sheets.

Since 2015, the tax wedge (the ratio between the amount of taxes paid by an average single worker and the corresponding total labour cost for the employer) **in Italy has decreased by 2.76 percentage points**, compared to a reduction of 1.81 p.p. in the Netherlands, 1.68 p.p. in France, and 1.60 p.p. in Germany.

Italy's performance is particularly significant even within the broader context of OECD countries: between 2015 and 2023, the reduction in the tax wedge in Italy was **the second largest**, surpassed only by Hungary, and was 1.72 percentage points greater than the EU average and 2.36 percentage points greater than the OECD average. Among the 38 OECD countries, only 17 have reduced the tax wedge, while 21 have increased it.

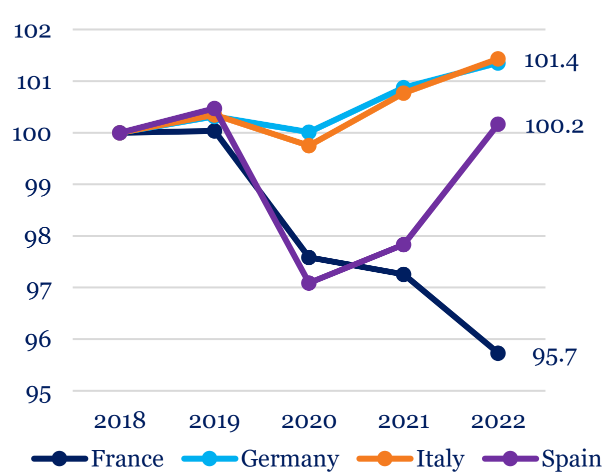


Unit labour costs (index 2015 = 100)

It is therefore not surprising to observe the evolution of unit labour costs in a broader European comparison. The graph above presents data for 2023, using 2015 as the base year (2015 = 100).

Italy recorded the third-lowest increase in labour costs across the entire European Union, thanks to significant efforts to reduce the tax burden.

A second key economic element of analysis is the evolution of **multifactor productivity (MFP)**.



Multifactor productivity (index: 2018 = 100)

MFP represents the residual component of growth that is not attributed to variations in labour and capital productivity but rather to **managerial practices, digitalisation, regulation**, and the **economic environment** in terms of positive spillovers.

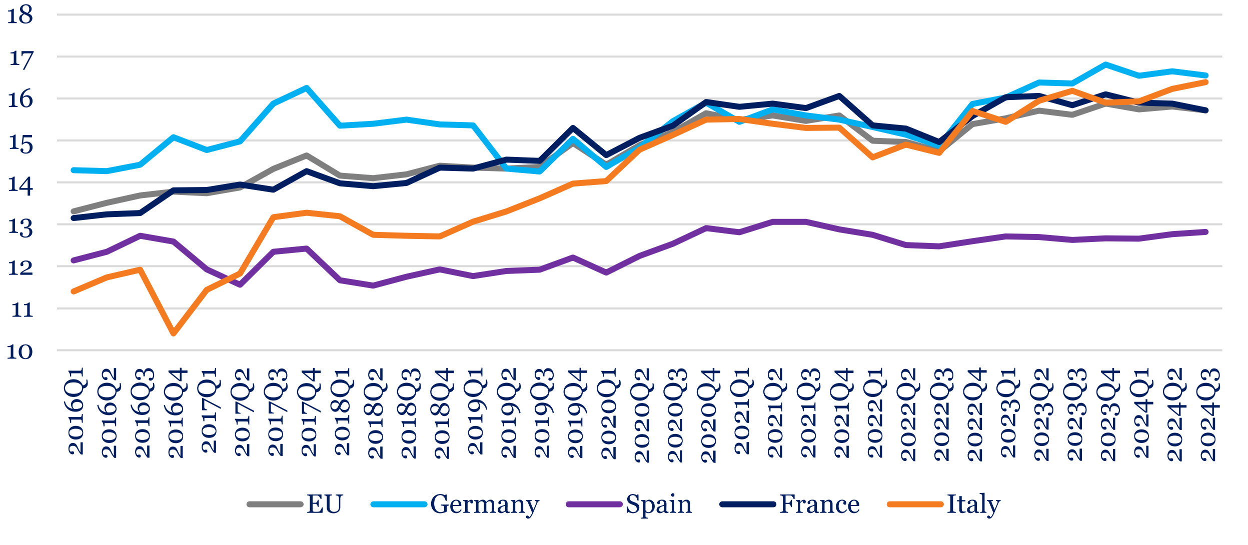
In essence, it is a synthetic measure that indicates how supportive an economic environment is for growth. At the corporate level, this is determined by factors such as organisational and managerial capabilities, reputation, and other intangible assets. At the national level, MFP reflects the combined effect of regulations, procedures, innovations, spillovers, and the overall dynamism of the economic ecosystem. **In the past five years, MFP in Italy has increased**, albeit moderately. However, when compared to other European peers, **positive signs emerge** (Spain faced a largely stagnation of MFP and France a sharp decline).

MFP growth does not necessarily translate into GDP growth, but it undoubtedly represents an additional indicator of **Italy's improving performance** in recent years.

A final point of attention arises from the **recent report by the European Central Bank on the solidity of the European banking system**. European banks have, in most cases, absorbed the impact of the pandemic crisis positively. However, as the ECB itself highlights: "*Looking ahead, the weakening macroeconomic outlook and structural changes in the economy call for heightened vigilance. Geopolitical risks are often not priced in financial markets until they materialise, potentially leading to abrupt risk repricing which could increase risks to liquidity and lead to additional losses. Concerns around banks' governance, risk management – including climate and nature-related risks – and operational resilience persist and require swift remediation due to the uncertain risk environment.*"

For this reason, **the solidity of financial systems should be closely monitored** using the appropriate indicators. The **CET1 ratio** is the primary indicator of risk, which compares a bank's capital to its risk-weighted assets in order to assess its ability to withstand financial crises. The higher the CET1 ratio, the stronger the capital reserves available to deal with potential crises.

In recent years, the Italian banking system has been able to strengthen its capital base more effectively than other European countries and the EU as a whole. In the aftermath of the 2011 crisis – triggered by sovereign debt solvency concerns and exacerbated by the precarious financial position of certain banks – the entire system embarked on a path of **stabilisation and risk mitigation**. As a result, today **the average CET1 ratio of Italian banks (16.4%) exceeds the EU average (15.7%)**, matches that of France (15.7%), and is significantly higher than in Spain (12.8%).



CET1 ratio (percentage)

New measures for the simplification of sustainable investments

Italy has long been pursuing a comprehensive strategy to renew, increase efficiency and improve its economic and industrial structure, aimed at ensuring the environmental sustainability of its production systems. In this context, the key reference document is the **National Integrated Energy and Climate Plan (PNIEC)**, the strategic framework through which Italy has defined its energy and climate objectives and guidelines for the period **2021-2030**, in accordance with **Regulation EU 2018/1999** on the governance of the Energy Union and climate action.

The PNIEC sets out a series of targets for **2030**, including:

- **Reduction of greenhouse gas emissions**: Contributing to the EU-wide emission reduction goal, with a national target aimed at achieving a significant decrease compared to 1990 levels.
- **Increase in the use of renewable energy**: Achieving a **40.5% share** of renewable energy in gross final energy consumption by 2030, with specific sectoral targets:
  - **Electricity sector**: 65% of consumption covered by renewable sources.
  - **Heating and cooling sector**: 36.7% of consumption from renewables.
  - **Transport sector**: 30.7% of consumption from renewable sources.
- **Improvement in energy efficiency**: Reducing primary energy consumption by 43% by 2030 compared to the European reference scenarios.
- **Energy security**: Diversifying energy supply sources and strengthening infrastructure **to enhance the resilience of the national energy system.**
- **Research and innovation**: Promoting the development of new technologies and innovative solutions to support the energy transition and decarbonisation of the economy.

In the context of promoting sustainable policies, a key aspect concerns the regulation of green innovations and investments particularly their simplification In this regard, a recent legislative measure, **Law 191/2024**, has introduced significant improvements to Italy's sustainability framework.

The objective of the legislation is to **simplify authorisation procedures** and **encourage strategic investments in sustainability, circular economy, and renewable energy**.

The law aims to **streamline procedures** and strengthen sustainability by improving the **efficiency of authorisation processes** and **accelerating the approval of strategic projects** related to renewable energy. At the same time, the legislation introduces innovative tools for the circular economy and redefines water resource management, expanding the possibilities for the use of treated water.

Additionally, efforts to combat hydrogeological instability are reinforced, while targeted measures on land reclamation, waste management, and energy security promote a more integrated approach between economic development and environmental protection.

In particular, the measure introduces an **accelerated process for strategic projects related to the National Recovery and Resilience Plan (PNRR)** and **the National Integrated Energy and Climate Plan (PNIEC).** Evaluation times are shortened, and a 50% refund of administrative fees is guaranteed in the event of non-compliance with deadlines by the competent authorities.

This legislation has also established **the PNRR-PNIEC Technical Commission**, which operates alongside the existing Technical Commission for Environmental Impact Assessment - VIA and VAS (*VIA: Environmental Impact Assessment; VAS: Strategic Environmental Assessment*). The new commission is responsible for carrying out the environmental assessment procedures for projects included in the National Recovery and Resilience Plan (PNRR) and the National Integrated Energy and Climate Plan (PNIEC), **specifically identified to ensure an accelerated process for the most relevant projects.**

For both commissions, the priority order for processing applications has been explicitly defined, as follows:

- Projects related to programs of overriding national strategic interest, **specifically large-scale foreign direct investment programs** in Italy with a total declared value of at least €1 billion.
- Projects involving investments in the national production system **exceeding €25 million**, with significant employment impacts.
- Projects with a proven economic value **exceeding €5 million** or with an expected employment impact of more than fifteen jobs.
- Projects with deadlines not exceeding 12 months, as mandated by law or third-party entities, and projects related to already authorised plants whose authorisation expires within twelve months from the submission date.

Within the specific category of projects contributing to PNIEC objectives, an additional prioritisation based on application sectors has been introduced. The priority order is as follows:

- Projects for **new hydroelectric storage plants** using pure pumping, including those aimed at increasing stored water volumes by restoring the normal operating conditions of existing reservoirs.
- Infrastructure and facilities for **geological storage, capture, and transportation of CO_2**, as well as related facilities and industrial plants undergoing conversion into biorefineries.
- Projects related to **green or renewable hydrogen plants** and associated renewable energy facilities.
- Projects for new **hydroelectric diversion plants** with a power capacity of up to 10 MW.
- Modifications, including substantial ones, for the refurbishment, upgrading, or complete reconstruction of **wind and solar energy plants**.
- **Onshore photovoltaic and agrivoltaic** projects with a nominal capacity of at least 50 MW, and onshore wind projects with a nominal capacity of at least 70 MW.

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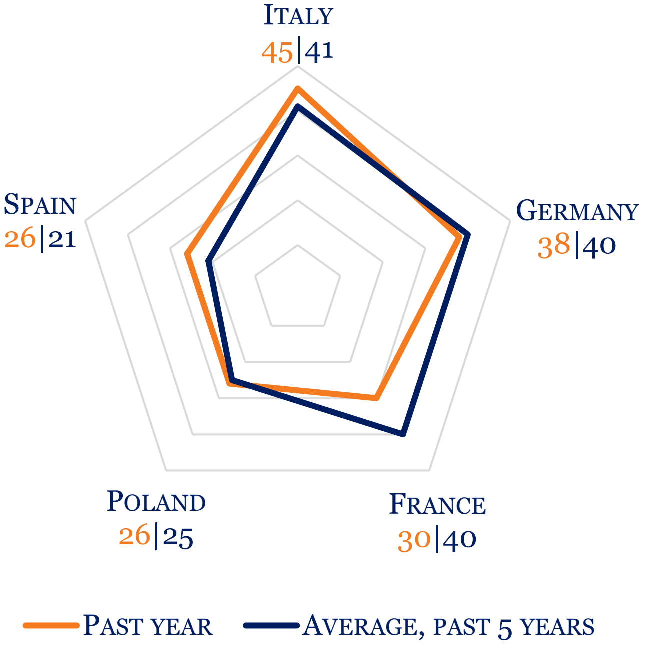
Focus on a sector: Circular economy in Italy

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 circular economy.

Italy's circular economy sector is a key driver of the country's green transition, generating almost **€43.6 billion in Value Added**, equivalent to **2.5%** of the national GDP. With over **613,000** workers, it accounts for 2.4% of total employment, a share that places Italy among the top European nations in circular economy employment. The sector's performance is fueled by high resource efficiency, with Italy producing **€3.2 of GDP per kg of material consumed**, well above the EU average of €2.1. Italy also leads in **recycling**, with a national rate of **79%,** compared to the EU average of 49%.



Overall circularity Index, ENEA Authority 2024

The circular economy landscape in Italy features a dynamic mix of actors: **SMEs play a dominant role**, particularly in recycling, reuse, and repair industries, while **industrial groups and foreign-owned firms** contribute to scaling innovative circular models. The country excels in key sectors such as manufacturing and waste management, where circularity strategies drive both economic and environmental benefits. Italy's leadership in material recovery and secondary raw material use reinforces its position as one of Europe's **most resource-efficient economies.**

Italy ranks as one of the best-performing EU countries in circularity, with a **circular material use rate of 18.4%**, exceeding the EU average of 11.7%. The country has also established itself as a leader in eco-innovation and industrial symbiosis, developing integrated supply chains that optimize resource use and minimize waste. Circular economy activities are geographically concentrated, with **key regional hubs** in Lombardy, Veneto, Emilia-Romagna, and Tuscany. Lombardy is at the forefront of **advanced recycling technologies** and industrial symbiosis, while Veneto leads in **construction waste recycling.** Tuscany is a global centre for **textile and fashion recycling**, and Emilia-Romagna focuses on agricultural **waste-to-bioenergy transformation**.

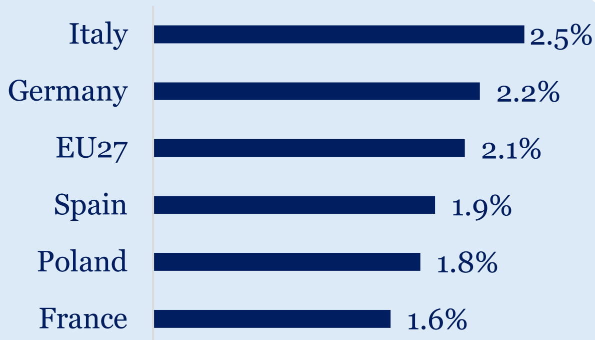
Italy's commitment to circularity is driven by progressive policies and EU-aligned strategies. The **National Circular Economy Strategy (SEC)** aims to **reduce material consumption by 10%** and **boost secondary raw material use by 20% by 2030**. Regulations like the Packaging and Waste Directive target a 90% recycling rate by 2035, while initiatives such as the plastic tax and extended producer responsibility (EPR) encourage sustainable design and waste reduction.

Investments in circular business models are accelerating thanks to the support of **€5 billion** from the National Recovery and Resilience Plan. Italian companies lead in circular innovation, investing over **€1.2 billion annually in R&D**.

Key focus areas include circular design, waste valorisation, and renewable, low-carbon materials. SMEs, in particular, are adopting digital tools to enhance resource efficiency and strengthen circularity practices.

Between 2012 and 2021, Italy's circular economy sector grew **from 2.1%** to **2.5% of GDP**, outperforming the EU average (2.1%) and benchmark countries like Germany, France, Spain, and Poland.

Italy's leadership in recycling underscores its status as a **European model for circularity**, with an overall circularity **index** of **45**, according to the latest ENEA report.



Share of the Circular Economy Sector in the National GDP, (%), 2012-2021

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.