EUROPEAN
COMMISSION

Brussels, 4.6.2025
COM(2025) 212 final

Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Italy

{SWD(2025) 212 final}

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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Italy

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121(2) and Article 148(4) thereof,

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

General considerations

(1) Regulation (EU) 2024/1263, which entered into force on 30 April 2024, specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances and sustainable and inclusive growth and resilience through reforms and investments, and preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the TFEU. The European Semester includes, in particular, the formulation, and the surveillance of the implementation of country-specific recommendations. The Regulation also promotes national ownership of fiscal policy and emphasises its medium-term focus, combined with more effective and coherent enforcement. Each Member State must submit to the Council and the Commission a national medium-term fiscal-structural plan, containing its fiscal, reform and investment commitments, over 4 or 5 years, depending on the length of the national

[1] OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.
[2] OJ L 306, 23.11.2011, p. 25, ELI: http://data.europa.eu/eli/reg/2011/1176/oj.

legislative term. The net expenditure[3] path in these plans has to comply with the Regulation's requirements, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period, or for it to remain at prudent levels below 60% of gross domestic product (GDP), and to bring and/or maintain the general government deficit below the 3%-of-GDP Treaty reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in the Regulation, the adjustment period may be extended by up to three years.

(2) Regulation (EU) 2021/241 of the European Parliament and of the Council[4], which established the Recovery and Resilience Facility (the 'RRF'), entered into force on 19 February 2021. The RRF provides financial support to Member States for implementing reforms and investments, delivering a fiscal impulse financed by the Union. In line with the priorities of the European Semester for economic policy coordination, the RRF fosters economic and social recovery while driving sustainable reforms and investments, in particular promoting the green and digital transitions and making Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the Union and support the continued implementation of the European Pillar of Social Rights.

(3) Regulation (EU) 2023/435 of the European Parliament and of the Council[5] (the 'REPowerEU Regulation'), which was adopted on 27 February 2023, aims to phase out the Union's dependence on Russian fossil-fuel imports. This helps achieve energy security and diversify the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Italy added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

(4) On 30 April 2021, Italy submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of that Regulation, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines set out in Annex V. On 13 July 2021, the Council adopted its Implementing Decision approving the assessment of the recovery and resilience plan for Italy[6], which was amended under Article 18(2) on 8 December 2023 to update the maximum financial contribution for non-repayable financial support, as well as to

[3] Net expenditure as defined in Article 2, point (2), of Regulation (EU) 2024/1263: 'net expenditure' means government expenditure net of (i) interest expenditure; (ii) discretionary revenue measures; (iii) expenditure on programmes of the Union fully matched by revenue from Union funds; (iv) national expenditure on co-financing of programmes funded by the Union; (v) cyclical elements of unemployment benefit expenditure; and (vi) one-offs and other temporary measures.

[4] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

[5] Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1, ELI: http://data.europa.eu/eli/reg/2023/435/oj).

[6] Council Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Italy (10160/2021).

include the REPowerEU chapter[7]. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5), stating that Italy has satisfactorily achieved the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory achievement requires that the achievement of preceding milestones and targets for the same reform or investment has not been reversed.

(5) On 21 January 2025 the Council, upon the recommendation of the Commission, adopted a recommendation endorsing the national medium-term fiscal-structural plan of Italy[8]. The plan was submitted in accordance with Article 11 and Article 36(1), point (a), of Regulation (EU) 2024/1263, covers the period from 2025 until 2029 and presents a fiscal adjustment spread over seven years.

(6) On 26 November 2024, the Commission adopted an opinion on the 2025 draft budgetary plan of Italy. On the same date, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2025 Alert Mechanism Report, in which it identified Italy as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2025 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[9] on 13 May 2025 and the Joint Employment Report on 10 March 2025.

(7) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the EU's global competitiveness over the next five years. It identifies the three transformative imperatives of sustainable economic growth: (i) innovation; (ii) decarbonisation and competitiveness; and (iii) security. To close the innovation gap, the EU aims to foster industrial innovation, support the growth of start-ups through initiatives like the EU Start-up and Scale-up Strategy, and promote the adoption of advanced technologies like artificial intelligence and quantum computing. In pursuit of a greener economy, the Commission has outlined a comprehensive Affordable Energy Action Plan and a Clean Industrial Deal, ensuring that the shift to clean energy remains cost-effective, competitiveness-friendly, particularly for energy-intensive sectors, and is a driver for growth. To reduce excessive dependencies and increase security, the Union is committed to strengthening global trade partnerships, diversifying supply chains and securing access to critical raw materials and clean energy sources. These priorities are underpinned by horizontal enablers, namely regulatory simplification, deepening of the single market, financing competitiveness and a Savings and Investments Union, promotion of skills and quality jobs, and better coordination of EU policies. The Competitiveness Compass is aligned with the European Semester, ensuring that Member States' economic policies are consistent with the Commission's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

[7] Council Implementing Decision of 8 December 2023 amending the Implementing Decision of 13 July 2023 on the approval of the assessment of the recovery and resilience plan for Italy (16051/2023).

[8] Council Recommendation of 21 January 2025 endorsing the medium-term fiscal-structural plan of Italy, OJ C/2025/651, 10.2.2025.

[9] Council Recommendation of 13 May 2025 on the economic policy of the euro area (OJ C, C/2025/2782, 22.5.2025, ELI: http://data.europa.eu/eli/C/2025/2782/oj).

(8) In 2025, the European Semester for economic policy coordination continues to develop alongside the implementation of the RRF. The full implementation of the recovery and resilience plans remains essential for delivering on the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. These country-specific recommendations remain equally relevant for the assessment of amended recovery and resilience plans in accordance with Article 21 of Regulation (EU) 2021/241.

(9) The 2025 country-specific recommendations cover the key economic policy challenges that are not sufficiently addressed by measures included in the recovery and resilience plans, taking into account the relevant challenges identified in the 2019-2024 country-specific recommendations.

(10) On 4 June 2025, the Commission published the 2025 country report for Italy. It assessed Italy's progress in addressing the relevant country-specific recommendations and took stock of Italy's implementation of the recovery and resilience plan. Based on this analysis, the country report identified the most pressing challenges Italy is facing. It also assessed Italy's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

(11) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Italy. The main findings of the Commission's assessment of macroeconomic vulnerabilities for Italy for the purposes of that Regulation were published on 13 May 2025[10]. On 4 June 2025, the Commission concluded that Italy is experiencing macroeconomic imbalances. In particular, vulnerabilities related to high government debt and weak productivity growth, which have cross-border relevance, remain. In 2024, the government debt ratio stood above its pre-pandemic level and increased, reversing the downward path observed in the post-2020 period, even though the deficit lowered, as nominal GDP slowed down markedly and debt-increasing stock-flow adjustments became sizeable due to the lagged impact on cash borrowing of the tax credits for housing renovations of previous years. Labour market indicators have continued to improve. Italian banks have significantly strengthened their asset quality and profitability; their exposure to sovereign risk and the stock of state guaranteed loans have receded somewhat but remain significant. Some policies have already addressed the identified vulnerabilities, yet a continued and effective implementation of reforms and investments, notably those in the RRP and the medium-term fiscal-structural plan, together with a prudent fiscal stance remain crucial. A full implementation of the measures in Italy's medium-term fiscal-structural plan is key to ensure the high government debt ratio would not rise further over the medium term. Several policies have been implemented to foster fiscal sustainability, like enhancing the annual spending review, permanently reducing the tax wedge, and revising tax expenditures. Reforms also led to significant progress in the insolvency framework and non-performing loans market. RRP measures support productivity gains and help further exploiting Italy's labour potential, which will facilitate public debt deleveraging. The effective implementation of those measures is essential.

10 European Commission (2025), In-Depth Review 2025 – Italy, EUROPEAN ECONOMY, Institutional Paper 310.

Assessment of the Annual Progress Report

(12) On 21 January 2025 the Council recommended the following maximum growth rates of net expenditure for Italy: 1.3% in 2025, 1.6% in 2026, 1.9% in 2027, 1.7% in 2028 and 1.5% in 2029, which correspond to the maximum cumulative growth rates calculated by reference to 2023 of -0.7% in 2025, 0.9% in 2026, 2.8% in 2027, 4.6% in 2028 and 6.2% in 2029. In 2025-2029, these maximum growth rates of net expenditure coincide with the corrective path in accordance with Article 3(4) of Regulation 1467/97, as recommended by the Council on 21 January 2025 with a view to bringing an end to the situation of an excessive deficit[11]. On 30 April 2025 Italy submitted its Annual Progress Report[12], on action taken in response to the Council recommendation of 21 January 2025 with a view to bringing an end to the situation of an excessive deficit, the implementation of the set of reforms and investments underpinning the extension of the adjustment period and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations. The Annual Progress Report also reflects Italy's biannual reporting on the progress made in achieving its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

(13) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission recommended to activate the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending and this proposal was welcomed by the European Council of 6 March 2025.

(14) Based on data validated by Eurostat[13], Italy's general government deficit decreased from 7.2% of GDP in 2023 to 3.4% in 2024, while the general government debt rose from 134.6% of GDP at the end of 2023 to 135.3% at the end of 2024. According to the Commission's calculations, these developments correspond to a net expenditure growth rate of -2.2% in 2024. In the 2025 Annual Progress Report, Italy estimates the net expenditure growth in 2024 at -2.1%. Based on the Commission's estimates, the fiscal stance[14], which includes both nationally and EU financed expenditure, was contractionary, by 3.2% of GDP, in 2024.

(15) According to the Annual Progress Report, the macroeconomic scenario underpinning the budgetary projections by Italy expects real GDP growth at 0.6% in 2025 and 0.8% in 2026, while HICP inflation is projected at 2.1% in 2025 and 1.9% in 2026. The Commission Spring 2025 Forecast projects real GDP to grow by 0.7% in 2025 and 0.9% in 2026, and HICP inflation to stand at 1.8% in 2025 and 1.5% in 2026.

(16) In the Annual Progress Report, the general government deficit is expected to decrease to 3.3% of GDP in 2025, while the general government debt-to-GDP ratio is set to

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[11] Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Italy, C/2025/5035.

[12] The 2025 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en

[13] Eurostat-Euro Indicators, 22.4.2025.

[14] The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

increase to 136.6% by the end of 2025. These developments correspond to net expenditure growth of 1.3% in 2025. The Commission Spring 2025 Forecast projects a general government deficit of 3.3% of GDP in 2025. The decrease of the deficit in 2025 mainly reflects an increase in the primary surplus (to 0.6% of GDP, from 0.4% in 2024) and unchanged interest expenditure as a share of GDP. In particular, the increase in the primary surplus is due to strong revenue growth, which continues to benefit from the positive performance of the labour market, more than offsetting the permanent cut to the labour tax wedge and the increase in capital expenditure. According to the Commission's calculations, these developments correspond to net expenditure growth of 1.2% in 2025. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be broadly neutral in 2025. The general government debt-to-GDP ratio is set to increase to 136.7% by the end of 2025. The increase of the debt-to-GDP ratio in 2025 mainly reflects sizeable borrowing needs related to the lagged cash impact of the tax credits for housing renovations that affected previous years' deficits.

(17) General government expenditure amounting to 0.6% of GDP is expected to be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2025, compared to 0.2% of GDP in 2024, according to the Commission Spring 2025 Forecast. Expenditure financed by Recovery and Resilience Facility non-repayable support enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Italy.

(18) General government defence expenditure in Italy amounted to 1.4% of GDP in 2021 and 1.2% of GDP in both 2022 and 2023[15]. According to the Commission Spring 2025 Forecast, expenditure on defence is projected at 1.3% of GDP in both 2024 and 2025. This corresponds to a decrease of 0.1 percentage points of GDP compared to 2021.

(19) According to the Commission Spring 2025 Forecast, net expenditure in Italy is projected to grow by 1.2% in 2025 and to decrease by 1.0% cumulatively in 2024 and 2025. Based on the Commission Spring 2025 Forecast, the net expenditure growth of Italy in 2025 is projected to be below the recommended maximum growth rate established by the corrective path, both annually and when considering 2024 and 2025 together. Therefore, the excessive deficit procedure for Italy is held in abeyance.

(20) In the Annual Progress Report, the general government deficit is projected to decrease to 2.8% of GDP in 2026, while the general government debt-to-GDP ratio is projected to increase to 137.6% by the end of 2026. In the Annual Progress Report, the general government deficit is projected to decrease to 2.6% of GDP in 2027. In turn, the general government debt-to-GDP ratio is projected to decrease to 137.4% in 2027. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2025 Forecast projects a general government deficit of 2.9% of GDP in 2026. The decrease of the general government deficit in 2026 reflects a further increase in the primary surplus (to 1.1% of GDP), mainly driven by a reduction of subsidies to investments, partly offset by a marginal rise in interest expenditure. These developments correspond to net expenditure growth of 1.5% in 2026. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be broadly neutral in 2026. The general government debt-to-GDP ratio is projected by the Commission to increase to 138.2%

[15] Eurostat, government expenditure by classification of functions of government (COFOG).

by the end of 2026. The increase of the debt-to-GDP ratio in 2026 mainly reflects the lagged cash impact of the tax credits for housing renovations.

(21) The recommendation endorsing the medium-term plan of Italy specifies the set of reforms and investments underpinning the extension of the adjustment period, together with a timeline for their implementation. They include existing and stepped-up measures from the recovery and resilience plan in the areas of civil justice, tax compliance and tax evasion, business environment, public administration, childcare and efficiency of public spending, as well as additional reforms and investments related to the taxation system and the rationalisation of state-owned enterprises. Taking into account the information provided by Italy in its Annual Progress Report, the Commission finds that the reforms and investments underpinning an extension that were due by the 30 April have been implemented or are currently under assessment in the context of a payment request under the RRF.

Key policy challenges

(22) Italy is one of the Member States with the oldest population, the lowest birth rate and a higher-than-average age of women giving birth to their first child. The migration balance remains positive but no longer offsets the low birth rate. As a result, the working age population continues to shrink, limiting potential growth. Migration could counteract the demographic decline, particularly in the short and medium term. In the coming years, significant fiscal pressures are expected to weigh on public finances, including rising costs relating to demographic developments. More specifically, government spending in Italy is skewed towards social protection (in 2024, 20.3% of GDP and 43.6% of primary expenditure), which is hard to sustain in the face of demographic pressures. Moreover, Italy’s pension spending is among the highest in the EU, making it more challenging to contain public expenditure. Although the full implementation of the 2011 pension reform will gradually reduce the burden, it is still expected to increase in the medium term due to demographic trends and the effect of recent early-retirement schemes. A concerted effort is needed to improve the efficiency and effectiveness of public spending, building on the measures planned by Italy in its medium-term fiscal-structural plan.

(23) Italy’s tax revenues in relation to GDP are relatively high in comparison to peer Member States, with the main contribution coming from labour taxation. The labour tax wedge remains significantly above the EU average, despite the measures adopted. Special regimes and the wide range of tax expenditures, including on value added tax, make the tax system highly complex and erode the tax base, resulting in significant revenue loss. Shifting the current high tax burden on labour to other, underused sources of revenue that are less detrimental to growth would help to raise Italy’s economic potential. Furthermore, taxes on energy are not designed to encourage the transition to clean technologies. Finally, tax evasion remains high, though the ambitious countermeasures taken in recent years, including under the recovery and resilience plan, are bearing fruit. At the same time, recent measures similar to tax amnesties risk being counterproductive in terms of tax compliance, while the system of prior agreement between the administration and small businesses on their tax liabilities warrants close monitoring. Cadastral values are still not in line with current market values, since they have yet to be fully and comprehensively updated.

(24) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by

2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, finalising the effective implementation of the recovery and resilience plan is essential to boost Italy's long-term competitiveness through the green and digital transitions, while ensuring social fairness. To deliver on the commitments of the recovery and resilience plan by August 2026, it is essential for Italy to accelerate the implementation of reforms and investments by addressing relevant challenges. Italy would benefit from strengthening administrative capacity, in particular at local level, and detecting and addressing potential delays in a timely manner. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(25) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF) and the European Social Fund Plus (ESF+), has accelerated in Italy. It is important to continue efforts to ensure the swift implementation of these programmes, while maximising their impact on the ground. Italy is already taking action under its cohesion policy programmes to boost competitiveness and growth. At the same time, Italy continues to face challenges, including those relating to enhancing competitiveness in the context of industrial transition, accelerating the energy transition, increasing water resilience, especially in the southern regions and housing particularly in metropolitan cities and cities with a large tourist and student population. In addition, the country faces challenges in enhancing its workforce's skills to meet the evolving needs of businesses, including increasing participation in adult learning and fostering the inclusion of underrepresented groups in the labour market, such as women, young people, and those with a migrant background. In accordance with Article 18 of Regulation (EU) 2021/1060, Italy is required – as part of the mid-term review of the cohesion policy funds – to review each programme taking into account, among other things, the challenges identified in the 2024 country-specific recommendations. The Commission proposals adopted on 1 April 2025[16] extend the deadline for submitting an assessment – for each programme – of the outcome of the mid-term review beyond 31 March 2025. It also provides flexibilities to help speed up programme implementation and incentives for Member States to allocate cohesion policy resources to five strategic priority areas of the Union, namely competitiveness in strategic technologies, defence, housing, water resilience and energy transition.

(26) The Strategic Technologies for Europe Platform (STEP) provides the opportunity to invest in a key EU strategic priority by strengthening the EU's competitiveness. STEP is channelled through 11 existing EU funds. Member States can also contribute to the InvestEU Programme supporting investments in priority areas. Italy could use these initiatives to support the development or manufacturing of critical technologies, including clean and resource-efficient technologies.

(27) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Italy faces several additional challenges related to research and innovation, energy, climate adaptation, industrial policy and competition, labour market, education and training as well as justice and public administration.

[16] Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review - COM(2025) 123 final.

(28) Despite investments under the recovery and resilience plan and the medium-term fiscal-structural plan, Italy's innovation and growth potential is hindered by limited R&D investment by both the private and the public sectors. In 2023, business expenditure on R&D was just 0.76% of GDP, well below the EU average of 1.49%. Italy's R&D incentive framework is less comprehensive and generous than those of its EU peers and would benefit from a more strategic allocation of existing resources towards innovation and public-private collaborations. The recovery and resilience plan includes several initiatives to support cooperation between businesses and academia, which, however, remain fragmented and lack coherent national governance. Innovation procurement[17] can also play an important role in boosting demand for innovation. To be effective, it would require a national action plan and binding expenditure targets. Italy's innovation capacity is limited by structural factors, in particular firm size. Small firms (with fewer than 20 employees) generate 32.5% of total business turnover (EU average: 22.9%), while large firms (with 250 employees or more) – which have greater economies of scale, larger R&D investments and easier access to finance – represent only 37.5% (EU average: 51.1%). Promoting the scale-up of start-ups and the aggregation of small to medium-sized enterprises (SMEs) would help increase investment in research and innovation and boost productivity. Italy's capital markets should be further developed, with a view to increasing new listings on the main exchange market. This would bring more consolidation opportunities for domestic firms and more access to the above-average wealth of Italian households. Access to non-bank finance is limited for innovative businesses, as the domestic venture and growth capital market is still underdeveloped, although on a growth path. Measures in the recovery and resilience plan providing additional public support to venture capital and designing a framework to attract institutional investors are a first step to overcome such limitations. Nonetheless, the relatively less-developed capital markets limit the exit options for private equity and venture capital investors, further compounding the lack of funding sources for innovation, which is a key ingredient for improved competitiveness. Promoting innovative firms' access to non-bank finance requires further action to support initial public offering (IPO) listings and develop a vibrant ecosystem for venture and growth capital. This includes stimulating the participation of domestic institutional investors and large corporations in both listed and unlisted equity markets. Finally, Italy's research and university system is vital to innovation but faces significant challenges. Funding for post-secondary and higher education is limited and national competitive calls for projects have been held irregularly, failing to provide a clear and predictable environment. The widespread use of short-term, non-tenure track contracts for researchers, combined with slow and uncertain career progression, hampers the ability of the public research sector to attract and retain talent. In addition, limited incentives for universities and researchers to commercialise research hinder innovation outcomes. Technology transfer offices, though improving, remain relatively small in scale and lack adequate human and

[17] According to Commission guidance C(2018)3051, 'innovation procurement' refers to any procurement that has one or both of the following aspects: buying the process of innovation – research and development services – with (partial) outcomes; buying the outcomes of innovation created by others. Innovation procurement covers thus both R&D procurements, public procurements of innovative solutions and public procurements that purchase a combination of both R&D and the resulting innovative solutions.

financial resources to support the translation of research outputs into new business opportunities. Their synergies with venture capital investors could also be improved.

(29) Italy would benefit from a national industrial strategy to steer the allocation of public resources, support strategic technologies and promote the development of the South. While the adoption of the Green Book and the strategic plan for the Special Economic Zone have relaunched the public debate on industrial development, the adoption of multiple industrial plans with different governance, the lack of coordination, and the existence of more than 2 000 incentive measures do not go in the direction of a clear national growth strategy. In the existing framework, the identification of strategic sectors does not take into account new industrial trends and technologies, and the lack of a territorial dimension is a limit to the development strategy for key industrial districts. This is particularly relevant against a background of decreasing national industrial production and significant regional disparities, with the South lagging behind in terms of innovation and competitiveness. The industrial strategy would benefit from better coordination with infrastructural investment planning, while policy measures to promote training and active labour market policies should be integrated into the broader national industrial vision, including by aligning public investments targeting strategic sectors.

(30) Under the recovery and resilience plan, Italy is implementing an ambitious public administration reform that is expected to modernise the human resource management, improve services delivery, and strengthen administrative capacity at central and subnational level. Key aspects of this reform include: (i) the introduction of the Integrated Plan for Organisational Activity (PIAO), which provides a comprehensive picture of each administration's staffing levels, skills, and capacity needs; (ii) a centralised digital portal for recruitment based on standardised professional profiles (inPA); and (iii) a national platform to train and reskill public servants (Syllabus). Building a data-driven approach to workforce planning based on the integration of these tools would further benefit the effectiveness of Italian public administration. It would enable administrations, especially at local level, to identify their specific capacity gaps and take appropriate action, whether through recruitment or targeted training. This approach could help central administrations design support measures that are better tailored to the needs of individual administrations, strengthen coordination, and make public service delivery more effective.

(31) Under the recovery and resilience plan, Italy is implementing a major reform of the justice system, which aims to reduce the backlog and disposition times in civil and criminal proceedings. The creation of trial offices as well as the digitalisation of trials, which provide organisational and legal support to judges, has contributed to improving court efficiency. However, challenges remain. While the disposition time in civil and commercial cases in first instance courts decreased in 2023, it remains among the longest in the EU. At the same time, the disposition time for administrative cases at first instance increased, reversing the previous downward trend. Institutionalising and strengthening trial offices and introducing structural performance-based incentives for courts would help to further increase the efficiency of the system.

(32) Better framework conditions for competition would enable a more efficient allocation of resources and lead to competitiveness and productivity gains. Greater competition and improved sectoral regulation would also benefit consumers. Under the recovery and resilience plan, Italy has made good progress in some important sectors, including energy, transport and the start-up ecosystem, as well as by modernising national merger control rules. The reform of local public services under the recovery and

resilience plan has made the award of contracts more competitive, but further effort is needed to increase the monitoring of services' management and ensure the delivery of quality services to all users. Further legislative initiatives are also warranted for: (i) retail trade, in particular concerning the rules for opening shops and running sales promotions; (ii) regulated professions, particularly to remove non-proportional restrictions; and (iii) the railway sector, where the award of regional and intercity contracts needs to be open to competition. Finally, significant barriers persist in a number of other sectors, including healthcare and pharmaceuticals, non-linear transport and port services. In particular, competition should be promoted in: (i) the procurement of pharmaceutical products (especially for biosimilar products); (ii) the accreditation (*accreditamento*) of private companies to the public health system; (iii) the provision of non-linear transport services at local level; (iv) the tendering of port concessions; and (v) the monitoring and promotion of financial independence and accountability of port authorities.

(33) Italy continues to face structural obstacles to accelerating the electrification of its energy system and increasing the share of renewable energy in electricity generation, despite its substantial solar and wind potential. A key barrier remains the complexity and fragmentation of permitting procedures, which delays project implementation and hampers investor confidence. Additionally, the electricity-to-gas energy price ratio is among the highest in the EU. Reforms supported by the recovery and resilience plan have begun to address administrative bottlenecks in permitting procedures for renewable energy, but further simplification and consolidation of permitting legislation is necessary to accelerate deployment. At the same time, integrating higher shares of variable renewables requires coordinated investments in electricity grid infrastructure, in particular to increase system flexibility through non-fossil-fuel technologies such as storage and demand-response mechanisms (e.g. time-of-use tariffs, dynamic pricing schemes, smart metering systems, and the participation of aggregators and industrial consumers in balancing markets). Cross-border interconnections also remain underdeveloped in parts of the network, limiting Italy's ability to benefit from regional balancing and price convergence. Strengthening grid resilience and interconnectivity would help achieve decarbonisation objectives by delivering more renewable electricity to sectors covered by the Effort Sharing Regulation – in particular transport and buildings, contributing to address the gap to the ESR target. It would also help to stabilise energy prices and reduce peaks linked to gas generation in a volatile market.

(34) Italy's high exposure to climate risks, in particular to hydrogeological risks, has an impact on the economy, in particular on SMEs. Nevertheless, the governance of climate adaptation policies is fragmented between several authorities and bodies, at both central and local level, and the potential of nature-based solutions is not fully exploited. Moreover, soil loss and degradation require measures to improve soil resilience to reduce hydrogeological risks and the impact of droughts. Furthermore, losses due to climate-related events are not balanced by a sufficient insurance cover, resulting in a wide climate insurance gap. Infrastructure deficits for water and waste management, in particular in southern regions, have severe impacts on the environment, with considerable costs and lost revenues for the Italian economy.

(35) Labour market segmentation and weaknesses in job quality remain major challenges in Italy, with a high incidence of atypical and fixed-term contracts, particularly among women, young people, and migrants. Structurally low labour productivity growth puts a constraint on wage growth. Over the last decade, while labour productivity has

stagnated, nominal wages have risen less than inflation; as a result, real wages have declined. Strengthening collective bargaining could help foster flexible and sustainable wage growth that reflects company productivity and local conditions. In 2024, the share of workers who are at risk of poverty was higher than the EU average, including for both full-time and part-time workers. Together with low wages, the widespread use of atypical contracts also contributes to in-work poverty by reducing the number of hours worked. The share of fixed-term employees decreased from 16% in 2023 to 14.7% in 2024, but remained among the highest in the EU, and transitions from temporary to permanent jobs are well below the EU average. Part-time and fixed-term workers face a higher risk of poverty than both the EU average and Italy's full-time permanent workers. More than 50% of part-time and 10% of temporary contracts were involuntary, reflecting the potential to increase earnings through stable contracts and greater work intensity. The share of solo self-employed among people in employment is also high compared to the EU average. Taken together, low wages and widespread non-standard forms of work discourage labour market participation, reduce the attractiveness and quality of jobs and drive many young graduates to emigrate in search of better career and wage prospects abroad. Furthermore, women's labour market participation in Italy remains low. The employment gap between women and men is one of the widest in the EU, at 19.4 percentage points, and has shown no signs of improvement over the past decade. In the South, the gap reaches 28 percentage points. This also reflects important shortages in the provision of care services for children and older people, the latter being of particular importance considering the demographic ageing trend. Addressing these challenges would also contribute to supporting upward social convergence, in line with the Commission services' second-stage country analysis of the Social Convergence Framework[18]. Continued efforts are needed to keep expanding the provision of affordable early childhood education and care and long-term care services, building on investments and reforms carried out under the RRF and targeting regions with low coverage to reduce regional disparities.

(36) The recent reforms adopted under the RRF have the potential to reduce challenges related to undeclared work. However, the scale of the problem, particularly in certain sectors, calls for further action. Improving the timely production of granular data on undeclared work would help better target inspections as well as the policy response. Moreover, building on the measures that are being implemented under the recovery and resilience plan, sectors like agriculture and domestic work need to be targeted with dedicated interventions, for example by strengthening enforcement activities and reducing the incentives to rely on irregular work. Finally, closely monitoring the measures recently implemented, particularly for the most affected sectors, is key to ensuring their effectiveness and that they structurally tackle this persistent challenge.

(37) Further investment in, and structural reforms of, the education and training systems remain critical to addressing productivity stagnation and skills gaps. The results of the 2022 OECD PISA survey show a lower than EU average level and continuing decline in basic skills performance, particularly in mathematics and science. The underperformance is especially pronounced among disadvantaged students and those enrolled in vocational education and training (VET) tracks, which exacerbates social inequalities. To equip students with adequate basic competences, targeted measures are necessary. These include incentivising experienced teachers to work in

18 SWD(2025)95 – Second-stage country analysis on social convergence in line with the Social Convergence Framework (SCF), 2025.

disadvantaged schools, expanding full-time schooling (*tempo pieno*), and broadening the reach of initiatives such as the 'Piano Estate' summer school programme. Additionally, promoting innovative teaching methods with a focus on science, technology, engineering and mathematics (STEM) subjects and improving in-service teacher training could help raise proficiency in basic skills. The country has the second lowest tertiary education attainment rate in the EU. Modernising post-secondary curricula to integrate relevant transversal skills and work-oriented knowledge can better prepare graduates for the fast-changing labour market and thus improve their employability.

(38) Although the overall job vacancy rate in Italy remains relatively low at around 2%, sectors such as construction, healthcare, and ICT face labour shortages. Sustaining the implementation of successful measures promoted under the RRF in VET, including higher technical institutes, and aligning curricula with labour market needs, particularly in transversal, green and digital skills, is crucial to addressing current shortages. Additionally, expanding work-based learning, with a focus on short-term training and micro-credentials targeting high-growth and high-demand sectors, is essential to mitigate labour shortages in the short term.

(39) Adult learning participation in Italy remains among the lowest in the EU and is declining, which hampers productivity growth amid a rapidly ageing workforce. To address medium- to long-term skills needs and foster the potential of training programmes to contribute to national competitiveness, it is essential to structurally strengthen the adult learning system and align training policies with industrial priorities, such as the *Transizione 4.0* and *Transizione 5.0* initiatives, focusing on delivering training for skills demanded by high-growth sectors. Based on an impact assessment, successful RRF measures, including the dual system and the employability guarantee of workers (g*aranzia di occupabilità dei lavoratori - GOL*) under active labour market policies, should be expanded beyond 2026 and made more predictable for labour market actors. Regional skills plans under the RRF should be aligned with national industrial strategies, such as the *Libro Bianco*, to ensure coherent skills development that supports economic priorities.

(40) In view of the close interlinkages between the economies of euro-area Member States and their collective contribution to the functioning of the economic and monetary union, in 2025, the Council recommended that the euro-area Member States take action, including through their recovery and resilience plans, to implement the 2025 Recommendation on the economic policy of the euro area. For Italy, the recommendations (1), (2), (3), (5) and (6) help implementing the first euro-area recommendation on competitiveness, while the recommendations (1), (4) and (6) help implement the second euro-area recommendation on resilience, and the recommendation (1) helps implement the third euro-area recommendation on macro-economic and financial stability set out in the 2025 Recommendation.

(41) In light of the Commission's in-depth review and its conclusion on the existence of imbalances, recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1), (3), (5) and (6). Policies referred to in recommendation (1) help to address vulnerabilities linked to high government debt. Policies referred to in recommendations (1), (3), (5) and (6) help to address vulnerabilities linked to weak productivity growth, which by extension supports potential GDP growth, and as a result also helps address recommendation (1). Recommendations (1), (3), (5) and (6) contribute to both addressing imbalances and

implementing the Recommendation on the economic policy of the euro area, in line with recital 40.

HEREBY RECOMMENDS that Italy take action in 2025 and 2026 to:

1. Reinforce overall defence spending and readiness in line with the European Council conclusions of 6 March 2025. Adhere to the maximum growth rates of net expenditure recommended by the Council on 21 January 2025, with a view to bringing an end to the situation of an excessive deficit. Implement the set of reforms and investments underpinning the extended adjustment period as recommended by the Council on 21 January 2025. In line with fiscal sustainability objectives, make the tax system more conducive to growth, by further fighting tax evasion, reducing the labour tax wedge and the remaining tax expenditures, including those related to value added tax and environmentally harmful subsidies, as well as updating cadastral values as part of a broader review of housing-related policies, while ensuring fairness. Step up efforts to improve the efficiency and effectiveness of public expenditure. Mitigate the effects of ageing on potential growth and fiscal sustainability, including by limiting the use of early-retirement schemes and by addressing demographic challenges, also attracting and retaining high quality workforce.

2. In view of the applicable deadlines for the timely completion of reforms and investments under Regulation (EU) 2021/241, accelerate the implementation of the recovery and resilience plan, including the REPowerEU chapter. Accelerate the implementation of cohesion policy programmes (ERDF, JTF, ESF+), building, where appropriate, on the opportunities offered by the mid-term review. Make optimal use of EU instruments, including the scope provided by the InvestEU and the Strategic Technologies for Europe Platform, to improve competitiveness.

3. Support innovation by further strengthening business-academia linkages, innovation procurement, corporate venture capital and opportunities for talents. Boost the role of universities in innovation by increasing their focus on commercialisation of research results and by improving the career path of researchers. Promote growth and aggregation of SMEs and start-ups. Implement an industrial strategy including to reduce the territorial divide, by streamlining current policy measures and taking into account key infrastructure projects.

4. Increase the efficiency of the public administration and strengthen administrative capacity, particularly at local level. Further reduce the backlog and disposition time of the justice system. Address remaining restrictions to competition, including in local public services, business services and railways.

5. Accelerate electrification and intensify efforts for the deployment of renewable energy, including by reducing fragmentation of permitting regulation and investing in the electricity grid. Address climate-related risks and mitigate their economic impact, through more institutional coordination, nature-based solutions and climate insurance coverage. Tackle remaining inefficiencies in water and waste management by reducing infrastructural gaps.

6. Promote job quality and reduce labour market segmentation, also to support adequate wages, and increase labour market participation, in particular for underrepresented groups, including by further strengthening active labour market policies and improving affordable access to quality child- and long-term care, taking into account regional disparities. Keep-up the efforts to tackle undeclared work, particularly in the

most affected sectors. Continue promoting post-secondary VET and in-work training in high-demand sectors to address short-term skills needs, while strengthening adult learning by expanding work-based learning in high-growth sectors. Improve educational outcomes, with a focus on disadvantaged students, including by strengthening basic skills.

Done at Brussels,

For the Council
The President