

Business Insights from Italy

A Letter to International Investors

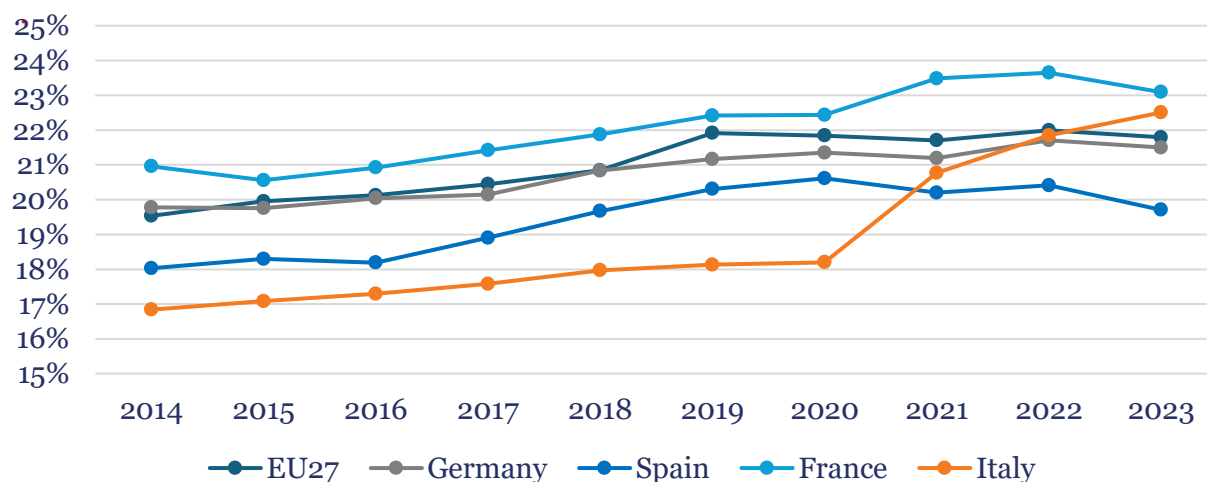
Business Insights from Italy is a publication by **The European House - Ambrosetti**, produced in collaboration with leading Italian institutions. The publication provides updates on the Italian macroeconomic scenario, on Italy's industrial sectors and on policies directed to foreign investors.

In this edition:

- Italy's latest macroeconomic data (page 1)
- The streamlining of the judicial system in Italy (page 4)
- The Italian mechatronics sector (page 6)
- Favourable tax regime for new residents (page 8)

Italy's Macroeconomic Outlook

In the years following the 2008 Recession, Italy experienced a lower investment intensity (expressed as the ratio of investments to GDP) compared to other major European countries and, in general, lower than the European average. However, this trend has reversed in the last three years. Since 2021, Italy has significantly increased its investments, positioning itself in 2023 above Spain and Germany, **and 0.7 percentage points higher than the European average.**



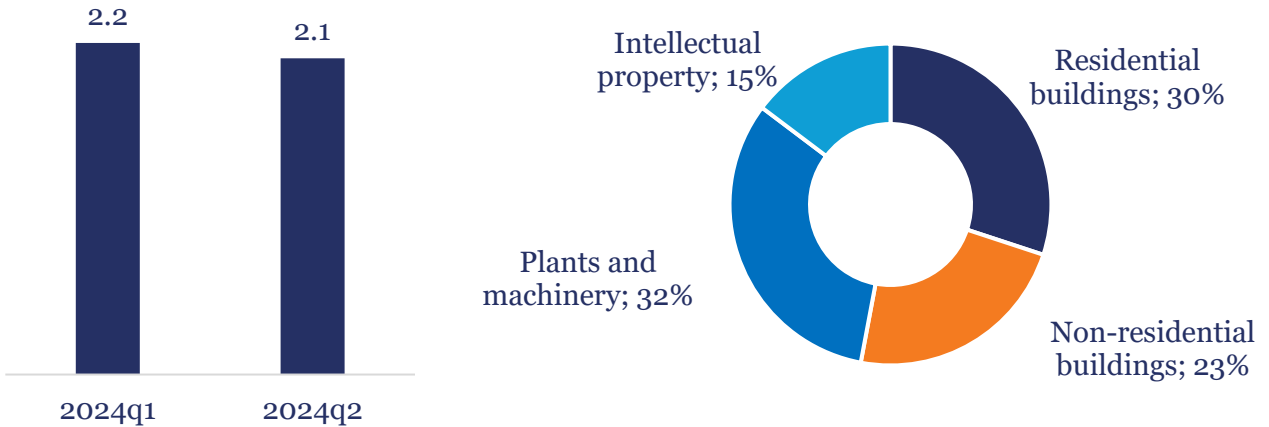
Gross Fixed Capital Formation (% on GDP)

This performance was fostered by a blend of **industrial** and **fiscal policies**. In terms of industrial policy, the driving force came from the National Recovery and Resilience Plan, a public investment programme financed by European Union

funds (Next Generation EU), which in Italy amounts to €191.5 billion in investments over the 2021-2026 period. In terms of fiscal policy, two measures, in particular, contributed to this outcome.

The first one is the “Transition 4.0” plan, a tax credit for investments in capital goods aimed at modernising businesses. The second one is the “Superbonus”, a tax credit

measure supporting private investments in the construction sector, aimed at renewing Italy’s building stock and making it more energy efficient.

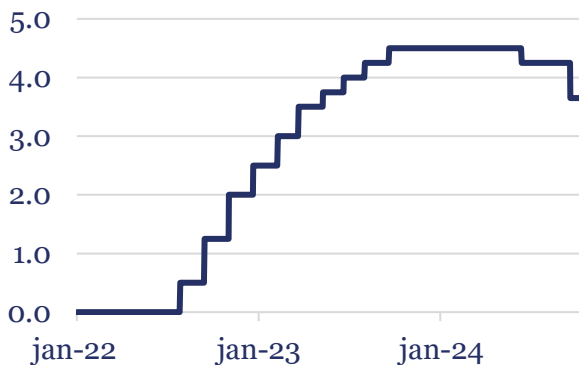


On the left: percentage growth of Italian investment (year on year growth). On the right: allocation of Italian investments in the first semester of 2024

The “Superbonus”, which was conceived as a temporary measure to boost private investments, came to an end at the close of 2023, while “Transition 4.0” remains in effect. Investment growth **has not ceased in 2024**, as evidenced by the trend data, both positive for the first two quarters of 2024. Furthermore, when examining the types of investments to which expenditures are allocated, approximately half are construction investments, both residential and non-residential, while a third consists of plant and machinery aimed at

supporting the productivity of Italy’s manufacturing system. **What is most noteworthy is that this growth occurred in a context that, theoretically, should have discouraged investments.**

Beginning in mid-2022, in response to the inflation crisis, the European Central Bank (ECB) initiated a strong monetary tightening, which materialised in a series of rate hikes, taking the refinancing rate on main operations from -0.5% to 4.5% within a few months.



ECB Main refinancing operations rate

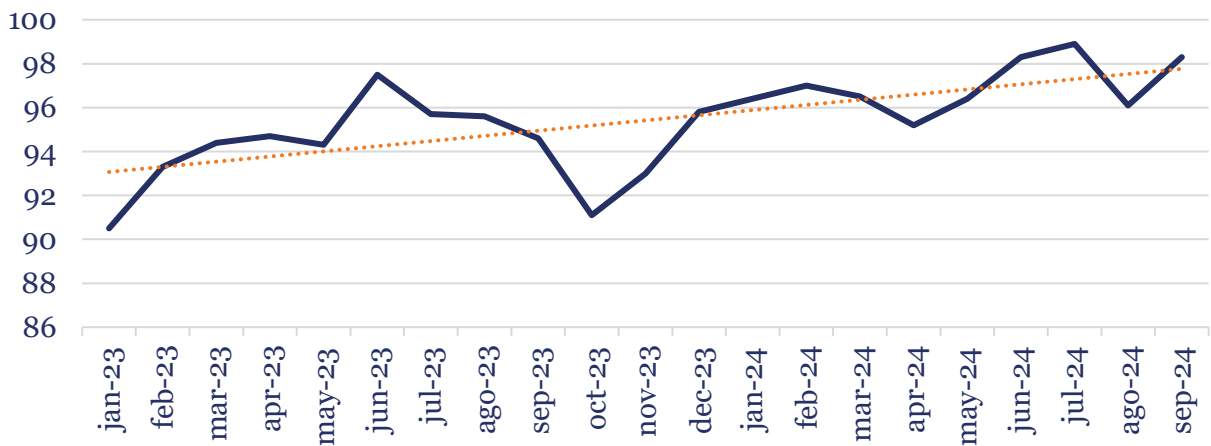
This restrictive monetary policy remained in place throughout 2023 and the first half of 2024. However, starting from the June 2024 ECB Board meeting, there has been a slight **easing**, with an initial rate cut (of 0.25 percentage points), followed by a further reduction (of 0.6 percentage points) in September and October (a further 0.25%). In 2025, it is expected that the ECB Board will approve three further cuts.



The figure

The second largest bank by market capitalization in Europe is Italian. The market capitalization of Intesa San Paolo has **exceeded** that of the French BNP Paribas (**€69.9 billion vs. €69.3 billion**), positioning the Italian institution as the second largest in Europe, behind only the Spanish Santander.

In this context, a further increase in investments in Italy is highly likely, thanks to the easing of monetary policy and the resulting greater ease of access to credit. The most recent data (updated to July) on business access to credit do not yet show the effect of the ECB's decisions, indicating instead a gradual contraction in the credit granted. This reinforces the hypothesis that investment growth has occurred in an apparently unfavorable environment, with the easing of conditions likely to further strengthen this growth.



Consumer Confidence Index (index number: 2021 = 100)

Another positive factor factor is the **gradual increase in consumer confidence**, as measured by a monthly index redacted by the Italian National Institute of Statistics. Consumer confidence, which was eroded during 2022 due to the inflation crisis and the consequently loss of purchasing power, has embarked on a gradual recovery path. Contributing to this renewed confidence — alongside the easing of the macroeconomic environment and the reduction in inflation — are the fiscal policy measures that have

reduced the tax wedge, thereby **increasing employees' wages without imposing additional burdens on businesses**.

The Government, in its budget plan currently under discussion and to be presented in December, aims to renew measures supporting workers' wages.

Overall, around **14 million workers** will benefit, receiving a **5% increase** in their payslips.

The streamlining of the judicial system in Italy

Historically, the Italian judicial system has not been characterised by particular efficiency. Comparative European data showed a situation that, while not critical, highlighted some delays. In 2020, the disposition time, i.e., the average time required to resolve cases (calculated as the ratio between the number of pending cases at the end of the reference period and the number of cases resolved during the same period), stood at 674 days, compared to 637 in France, 468 in Spain, and 237 in Germany (the data refer to first-instance civil and commercial litigious cases).

The Italian judicial system had, however, already embarked on a path to reduce case backlogs and thus generally improve the efficiency of proceedings. The measure used at the European level to monitor the ability of judicial systems to deal with new cases is the so-called **clearance rate**. This measures the ratio between resolved cases and new cases. The clearance rate is an indicator of court performance: values above 100% indicate that more cases have been resolved than have been newly filed, implying a reduction in backlogs. Conversely, values below 100% indicate that the number of resolved cases is lower than the number of new cases, thus leading to an increase in pending cases.

The latest EU data on the clearance rate refer to 2020: already in that year, **Italy, with a clearance rate of 104%, was the third most efficient country in the European Union** (after Denmark, 111%, and Poland, 105%) in reducing backlog of pending cases.

Pre-Covid evidence already indicated a path of improvement and increased efficiency in the Italian judicial system.

Italy has embarked on a **major reform of its justice system** to make it even more efficient, reduce the time it takes to process cases for families and businesses, and make the national economy more open to foreign investment.

These measures have notably improved the efficiency of civil justice, particularly by reducing case processing times and addressing the backlog.

Among the key reforms, the most significant are:

- **Civil Justice:** this reform is primarily focused on reducing the length of civil trials, identifying a broad range of measures aimed at decreasing the number of cases handled by judicial offices, simplifying existing procedures, addressing the backlog, and increasing office productivity. To reduce the caseload in judicial offices, the use of alternative dispute resolution tools, such as arbitration and mediation, has been emphasised. Simplification efforts also include strengthening the appeal procedure's admissibility filter, increasing the number of cases where a single judge is competent to rule, and ensuring the effective enforcement of binding procedural timeframes. The reform also aims to reduce the backlog in judicial offices, a goal achievable through temporary recruitment measures.

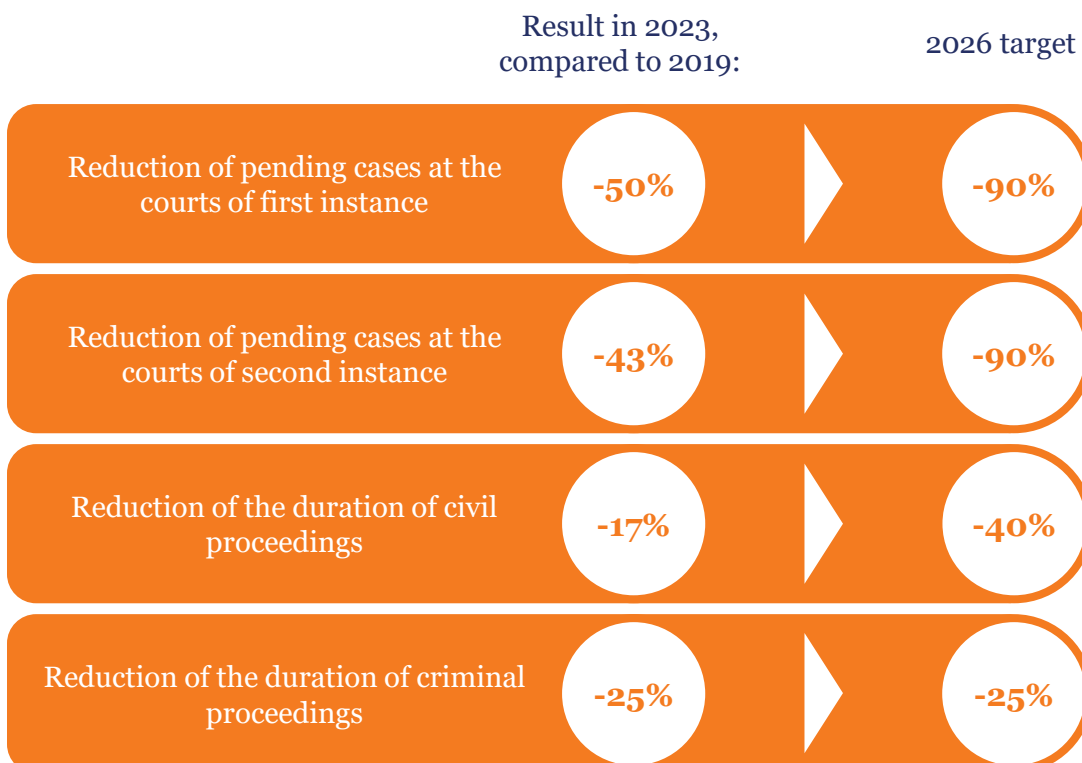
- **Criminal Justice:** this reform aims to reduce the duration of criminal trials by simplifying existing procedures and, as a result, increasing the productivity of judicial offices. Simplification is achieved by expanding the use of simplified procedures, promoting the use of digital technology, ensuring stringent timeframes for preliminary hearings, and reviewing the notification system to make it more efficient.
- **Insolvency:** this reform focuses on the digitalisation and enhancement of the enforcement process through pre-insolvency early warning mechanisms and the specialisation of judicial and pre-judicial bodies to ensure more efficient management of all phases of the enforcement process.
- **Tax Justice:** this reform's objective is to make the application of tax legislation more effective by reducing the high number of appeals to the Supreme Court

of Cassation (the highest instance court in the Italian legal system).

- **Judicial System Digitalisation:** this reform mandates the use of electronic case files and the completion of the civil trial's digital process. Other reform elements, still under implementation, include the digitalisation of first-instance criminal trials (excluding preliminary hearings) and the introduction of a free, fully accessible, and searchable civil decision database.

Moreover, it has been established a so-called “**Office for the Process**”: involve the recruitment of staff to assist judges with ordinary tasks such as study, research, drafting of judicial decisions and organisation of case files, thus allowing judges to concentrate on more complex responsibilities.

The establishment of these Offices required an investment of over 2.2 million euros.



Focus on a sector: mechatronics

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 mechatronic industry.

Mechatronics is a multidisciplinary field that combines **mechanical engineering, electronics, computer science, and control engineering** to design and create smart machineries and systems. Mechatronics plays a key role in

automation, robotics, and modern manufacturing processes, where it integrates components such as sensors, actuators, and control systems to develop innovative solutions.

 **€110 mld** in added value

 **1.6 mln** employed

 **€350 mln** in revenues

 **€200 mld** in exports

 **80%** of production is high-tech

 **€50 billion** in trade surplus

The key figures of mechatronics in Italy

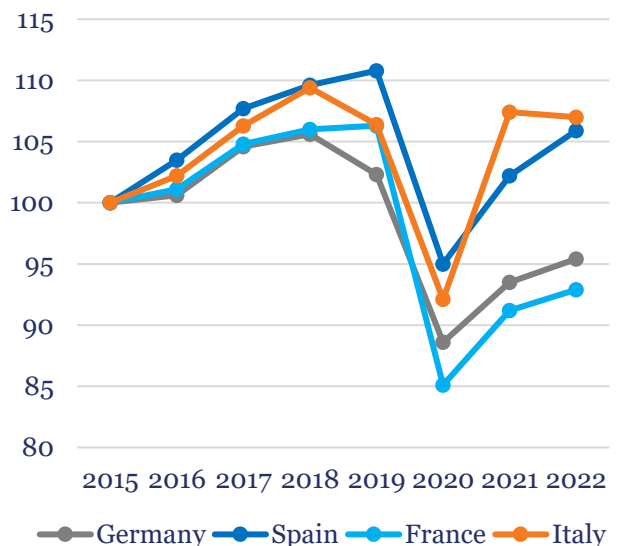
The production of Italy's mechatronics industry consists of 60% investment goods, 36% intermediate goods, and the remaining 4% of consumer goods, predominantly durable.

This smaller average size of Italian companies can be attributed to the peculiar structure of industrial districts, which have historically played a crucial role in the development of Italy's manufacturing environment.

Since 2015, the Italian mechatronics industry has been the most dynamic in the EU and has recovered from the pandemic crisis faster than any other.

Indeed, setting the 2015 production in the four major European countries at 100, Italian production in 2022 (the most recent year available) stood at 107, compared to 105.9 in Spain, 95.4 in Germany, and 92.9 in France.

The sector in Italy is characterised by the presence of a significant number of small and medium-sized enterprises (SMEs), with companies employing between 10 and 249 employees. A notable 52% of employees in the sector are employed in such companies, compared to 43% in Spain, 27% in Germany, and 25% in France.



*Production in the mechatronics sector
(index number: 2015 = 100)*

These districts, composed of interconnected firms clusters, foster a system of networks where SMEs are part of a broader, collaborative web of suppliers, clients, and competitors. This network allows these SMEs to remain highly agile and responsive to customer needs, making them highly sought-after commercial partners. At the same time, the fragmentation of the market and the smaller size of individual firms often make them prime targets for mergers and acquisitions (M&A), as larger companies seek to consolidate market positions or acquire specialised knowledge and technology developed by these SMEs.

Finally, a key element in ensuring the competitiveness of Italy's mechatronics industry lies in the development of skills, particularly in the ability to train new workers. In this regard, Italy has long established a secondary technical education programme, which includes a specific

training profile dedicated to mechatronics. The number of enrolled students is steadily increasing: 77,500 students in 2024, a number that has grown by 12.5% compared to just five years ago.

This secondary education is supported by tertiary training courses aimed at technical specialisation (ITS Academy), which focus on further professionalising future technical workers in the sector. Finally, the system of Polytechnics (universities specialising in engineering subjects) annually produces a large number of highly qualified engineers. According to the QS University Ranking 2025, two Italian Polytechnics are ranked among the top ten universities in the "Engineering and Mechanical" category. Furthermore, the Politecnico di Milano is ranked in the global top 10 in the "Engineering - Mechanical, Aeronautical & Manufacturing" subcategory.

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.investitaly.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.investitaly.gov.it

The Italian Government has recently launched the official www.investitaly.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.