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.

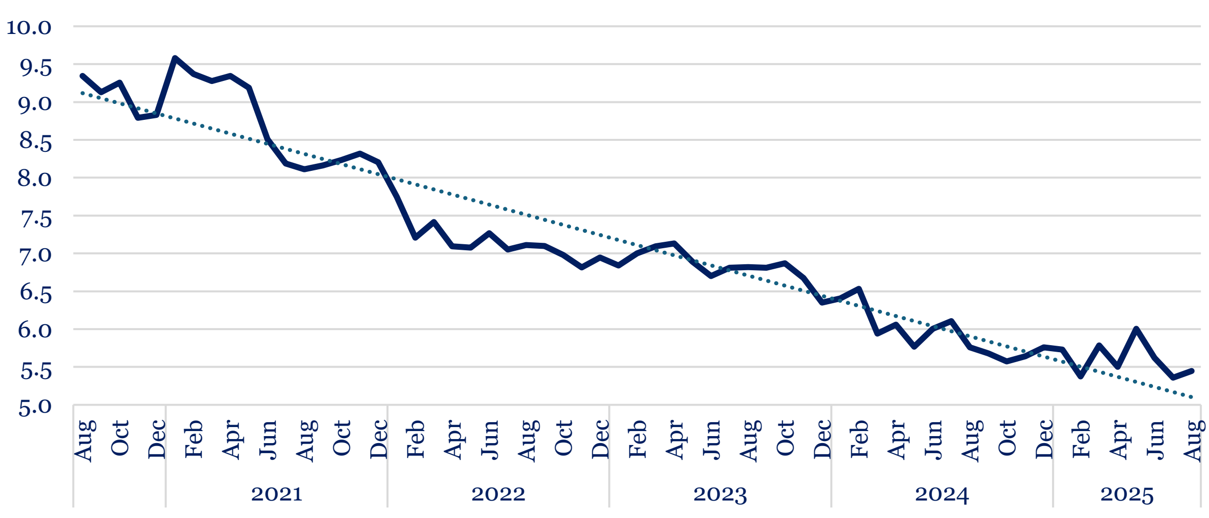
In this edition:

Italy's Macroeconomic Outlook

Early indications for the second half of 2025 Italian economy paint an encouraging picture, albeit in a context of moderate growth.

In July, **industrial production** rose by 0.4% on a monthly basis, with manufacturing standing out thanks to an increase of 1.4%. In the same month, **industrial turnover** rose by 0.6% in volume, a sign that the sector is regaining momentum after the difficulties of the spring. The picture also remains positive in the **services sector**: despite substantial stability in July, the change for the third quarter remains favourable.

The labour market continues to show signs of strength. Employment rose slightly (+0.1% on a monthly basis in July), while unemployment remained at around 6%, close to historic lows. The employment rate remains at record levels, confirming an overall dynamic labour market.



Monthly unemployment rate (%), Italy. NB: Tendency line is dotted

Source: TEHA Group elaboration on MEF and Istat data

Surveys on operator confidence reinforce the picture of improvement. In September, the National Institute of Statistics reported a further increase in **confidence in services**, while in manufacturing the index remains above the second quarter average. The SME survey also points to a return to **expansion** in August, albeit at a still modest pace. On the consumer front, confidence fell slightly compared to August but remains above the spring average, a sign of caution that does not translate into a real decline.

For 2025 as a whole, **GDP growth is expected to improve modestly** in the second half of the year, but forecasts have been revised slightly downwards: the estimated increase for the year is now 0.5% (0.6% on average for the quarterly data).

Domestic demand remains the driving force. Household consumption is expected to accelerate slightly in the last two quarters, supported by an **increase in real wages**, but annual growth has been revised down to 0.7% due to weakness at the beginning of the year.

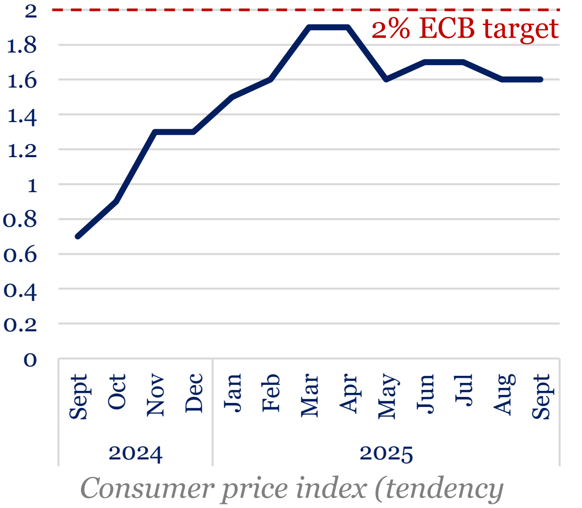
The situation is different for **investments**, which have performed better than expected: annual growth has been revised in October **upwards to 2.5%**, thanks to contributions from both manufacturing and construction. Overall, domestic demand net of inventories should ensure 1 percentage point of GDP growth, with inventories themselves contributing 0.2 points.

Foreign trade, on the other hand, remains the weaker point. Italian exports are expected to **grow minimally** (+0.1%), held back by the decline recorded in the spring, also linked to the temporary effects of tensions over tariffs with the United States (Starting on August 7, 2025, Italy - along with the rest of the European Union - has been subject to a 15% import tariff imposed by the United States). Imports are expected to **increase more strongly** (+2.5%), pushing the net contribution of foreign trade into negative territory (-0.7 percentage points of GDP).

On the supply side, industry should benefit from the **recovery in domestic demand** and some **support from abroad**, while services are expected to recover slightly and construction will continue to grow, although at a slower pace than in the past.

Labour market conditions are expected to remain favourable: the unemployment rate is expected to average around 6% for the year, with employment rising and a slight increase in labour force participation. Nominal wages are expected to grow by 4.3%, more than estimated in the spring, confirming a recovery in purchasing power.

On the price front, inflationary pressures are more subdued thanks to lower energy costs: harmonised inflation (HICP) has been revised to 1.8%, while the GDP deflator remains stable at 2.3%.



Consumer price index (tendency variations), Italy

Source: TEHA Group elaboration on Eurostat and ISTAT data

Energy prices

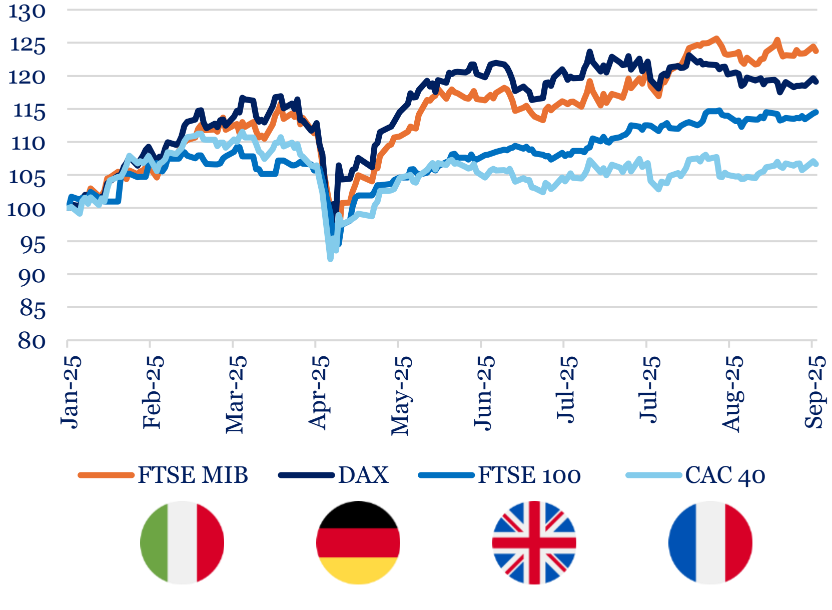
Energy costs remain a key vulnerability for Italy's manufacturing sector, where electricity prices are structurally higher than the European average due to the way the market price is determined. In Italy, as in most of Europe, the electricity market follows a marginal pricing mechanism: the price of electricity is set by the last power plant needed to meet total demand. Since natural gas is often this "marginal" source - used to cover demand peaks or when renewables are unavailable - it effectively becomes the reference price for the entire electricity system.

However, recent trends suggest a gradual decoupling between gas and electricity prices. Gas prices have been falling steadily throughout 2025, easing cost pressures on energy-intensive industries.

Between January and October 2025, the average energy price (expressed as €/MWh) has declined by **29.8%**.

At the same time, renewable output is expanding, with record additions of solar and wind capacity increasing the share of clean electricity in the national mix. As renewables cover a growing share of demand, periods when gas sets the marginal price are becoming less frequent. In June 2025 - latest available data - **57% of the electricity has been produced by renewable sources**.

Although the Italian market still largely depends on gas-fired generation to balance demand, the combined effects of lower gas prices and rising renewable capacity are starting to reshape price dynamics - laying the groundwork for a more stable and competitive energy outlook for Italian manufacturing.



FTSE MIB (Milan) : **+23.8%**

DAX (Frankfurt) : **+19.1%**

FTSE 100 (London) : **+14.5%**

CAC 40 (Paris) : **+6.7%**

Performance of the main stock indices (index number: 2 January 2025 = 100)

Since the beginning of the year, the FTSE MIB has been the fastest-growing stock index among those representing the major European stock exchanges.

The FTSE MIB is the benchmark stock market index for Italy, comprising the 40 most traded and capitalised companies listed on the Milan Stock Exchange.

Source: TEHA Group elaboration on Istat and Eurostat data

Italy's Budgetary Framework 2025

The *Documento Programmatico di Finanza Pubblica* (DPFP), presented on 2 October 2025 by the Italian government, marks the first formal step in the country's annual budgetary cycle. Replacing the former Nota di Aggiornamento al DEF (NADEF), the DPFP consolidates and expands its scope: it provides the **macroeconomic and fiscal framework** within which the next three-year financial plan (2026–2028) will be designed. It also serves as the preliminary basis for the Draft Budgetary Plan (DBP) to be transmitted to the European Commission by 15 October, ahead of the detailed draft budget law that will be tabled in Parliament.

The approval path follows a structured sequence. First, the DPFP is discussed and endorsed by the parliamentary budget committees, as happened in mid-September 2025 with unanimous resolutions in both Chambers. Then, the document enters the European dimension: under the reformed EU fiscal governance, Italy must demonstrate that its expenditure growth trajectory is aligned with the medium-term structural budgetary plan approved in January 2025. Compliance with this ceiling is central to the **Excessive Deficit Procedure (EDP)** opened against Italy[1] in July 2024, with the explicit recommendation that the country bring its deficit below 3% of GDP by 2026.

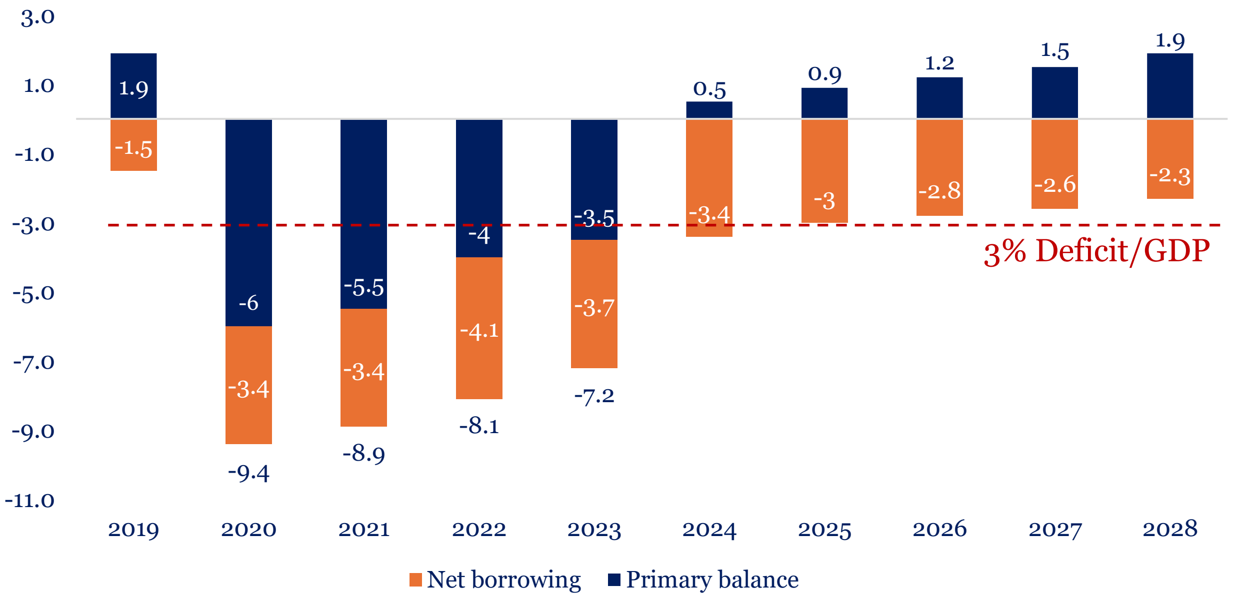
Against this institutional background, the DPFP outlines both constraints and opportunities. On the one hand, the margin for manoeuvre is narrow: the updated forecasts show a small misalignment for 2026 (1.7% net expenditure growth versus a 1.6% ceiling), which requires corrective measures. On the other hand, projections for 2027 and 2028 fall below the EU-imposed thresholds, creating space that the government intends to allocate to its economic priorities. These include a **recalibration of the tax burden away from labour**, the **refinancing of the national health fund**, support for **business investment**, and renewed efforts on **family and demographic policies**.

Compared with the April financial update, the macroeconomic picture has been revised only moderately. **Growth** for 2025 is now estimated at 0.5%, reflecting a still fragile international environment shaped by commercial uncertainty, high energy costs, and geopolitical risks. Household consumption is projected to pick up slightly, supported by **real wage growth**, while investment is expected to expand at a pace of 2.5%, buoyed by **lower interest rates** and reduced sovereign risk.

The labour market remains resilient, with employment set to increase and the **unemployment rate** projected to **decline to 5.8%** in 2026.On the fiscal side, the net borrowing requirement is forecast at 3.2% of GDP in 2026, before gradually declining. Public debt, after peaking at 138.3% of GDP, is expected to resume a downward trajectory from 2027 onwards, once the transitory effect of tax credit reimbursements linked to construction bonuses has run its course.

[1] *The Excessive Deficit Procedure (EDP) is a corrective mechanism under the European Union's fiscal framework, initiated by the European Commission when a Member State's budget deficit exceeds 3 % of GDP or public debt surpasses 60 % of GDP without diminishing at a satisfactory pace.*

Source: TEHA Group elaboration on Ministry of Finance'- DPFP data



Net borrowing and primary balance (% of GDP, 3% EU limit)

This adjustment path underpins Italy's case for **exiting the EDP as early as 2027**, provided the Commission confirms the government's commitments.

The DPFP also highlights **structural reforms**. Continuity with the National Recovery and Resilience Plan (NRRP) is emphasised, with measures aimed at judicial efficiency, tax system rationalisation, public administration, early childhood services, and the streamlining of state-owned enterprises.

These reforms are not just formal obligations vis-à-vis the EU, but essential **levers to unlock productivity gains** and **strengthen Italy's long-term growth** potential. Compared to the previous financial programme, the 2025 DPFP signals both **consistency** and **prudence**.

Consistency, because the government reiterates commitments made in the January 2025 structural plan and follows through on key measures made permanent last year, such as labour tax cuts and healthcare financing.

Prudence, because the expenditure growth target for 2028 is deliberately set below the EU ceiling, in order to preserve fiscal credibility.

In sum, this document is more than an accounting exercise: it is a negotiation tool, both domestically and with Europe. It sets the **boundaries of fiscal policy** for the coming years, balancing corrective measures to meet EU requirements with selective interventions aimed at stimulating growth and social cohesion. The upcoming weeks will be decisive: the Draft Budgetary Plan must be submitted to Brussels by 15 October, after which the debate will shift to Parliament, where the government will need to transform this framework into **concrete budgetary measures**.

Source: TEHA Group elaboration on Ministry of Finance - DPFP data

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Focus on a sector: Life sciences 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 Life sciences sector.

The **Life sciences** sector encompasses all fields of science that study living organisms and life processes, including their structure, function, growth, evolution, and interaction with the environment. It brings together disciplines such as biology, biochemistry, biotechnology, genetics, pharmacology, and medicine, as well as applied fields like biomedical engineering and health technologies. Beyond academic research, the life sciences sector also includes the industries and organizations that translate scientific discoveries into practical applications — from pharmaceuticals and medical devices to diagnostics and digital health solutions — ultimately contributing to improved health outcomes, innovation, and economic growth.

In terms of industrial sector involved, the Life sciences sector encompasses **pharmaceutical**, **biotech** and **medtech**.

THE ITALIAN LIFE SCIENCES SECTOR

	Firms	Employees	Turnover	R&D investments
PHARMA	283	71.0k	€56.0 bln	€2.3 bln
BIOTECH	823	13.7k	€13.6 bln	€1.8 bln
MEDTECH	4,641	117.6k	€6.9 bln	€1.0 bln
TOTAL LIFE SCIENCES	5,747	202.3	€76.5 bln	€5.1 bln

Source: TEHA Group elaboration on Istat, Farmindustria and Assobiotec data

On the **patent** front, Italy is currently the fourth European country in terms of the number of applications filed with the European Patent Office (EPO) in the Life Sciences sector, with **414 applications** in 2024. Italy is the **only country among the European top ten to have recorded growth over the past five years** (+2.9% CAGR, 2020–2024).

This is an important signal, highlighting the country's increasing ability to enhance and capitalise on research in this field. However, in absolute terms, Italy still lags behind the top three countries: Germany (1,291 applications, 3.1 times higher, with 877 more patent filings), France (663, 1.6 times higher, with 249 more filings), and the Netherlands (558, 1.3 times higher, with 144 more filings).

Private capital is also beginning to tap into this potential. In 2024, venture capital investments in the Life Sciences sector reached a record high of **€374.4 million, marking an increase of +53.7% compared to the previous year**. The sector confirmed itself as the second most dynamic after ICT, with three of the top ten VC deals in Italy involving companies in the biomedical field: Medical Microinstruments, active in surgical robotics; Tr1x, specialised in autoimmune diseases; and GeneSpire, engaged in gene therapy.

The picture is completed by **export performance**: in 2024, Italy reached a new record of **USD 57.2 billion** in exports of pharmaceutical and medical products (+10.9% compared to 2020), surpassing the Netherlands and approaching Belgium.

This result demonstrates that when research and manufacturing interact effectively, Italy is capable of competing with the leading global players in the sector.

A dedicated tutor for international investors

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

In particular, tutors:

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

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

Favourable tax regime for new residents

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

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

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

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

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

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

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

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

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

USEFUL TO KNOW:

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

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

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

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

All previous editions of the Business Insight from Italy newsletter are available on the website ambrosetti.eu/en/business-insights