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.

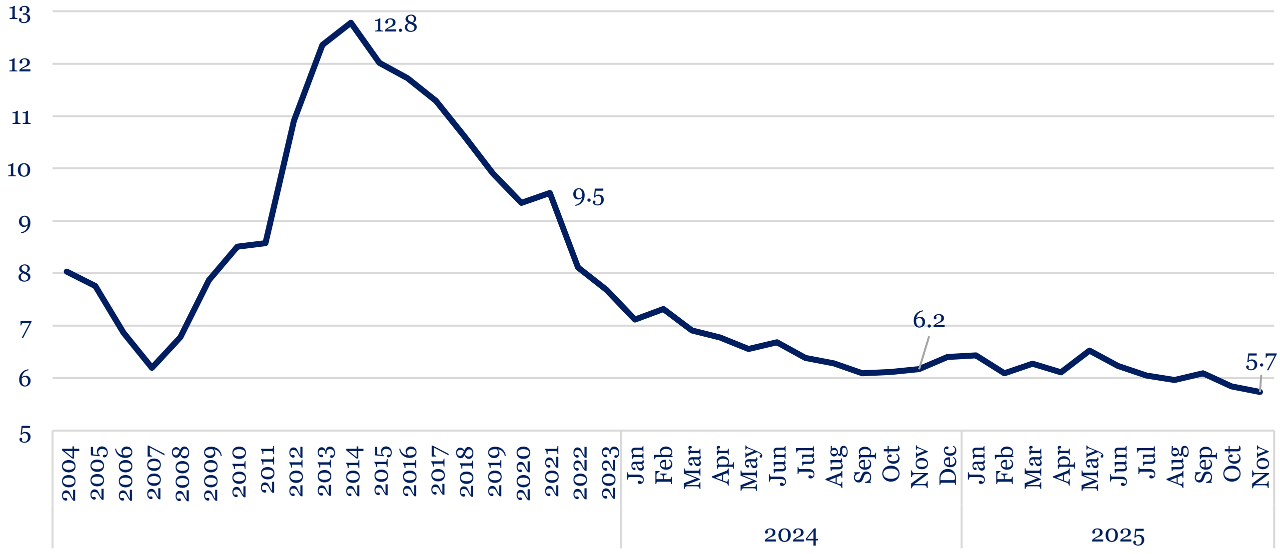
In this edition:

Italy's Macroeconomic Outlook

The most recent macroeconomic information available as of January 2026 broadly confirms the picture outlined by the latest official releases, with no material revisions to the underlying data.

According to the most recent validated figures, in the third quarter of 2025 Italy's GDP increased by 0.1% quarter on quarter and by 0.6% year on year, confirming a phase of **modest but positive growth**. These results remain slightly stronger than the preliminary estimates initially released, which had suggested flat quarterly dynamics and a more muted annual expansion.

Labour market indicators, by contrast, point to a more clearly improving trend. In November 2025, the **unemployment rate declined to 5.7%**, marking the lowest level recorded since 2004 and reflecting a broad-based reduction in joblessness across most age groups.



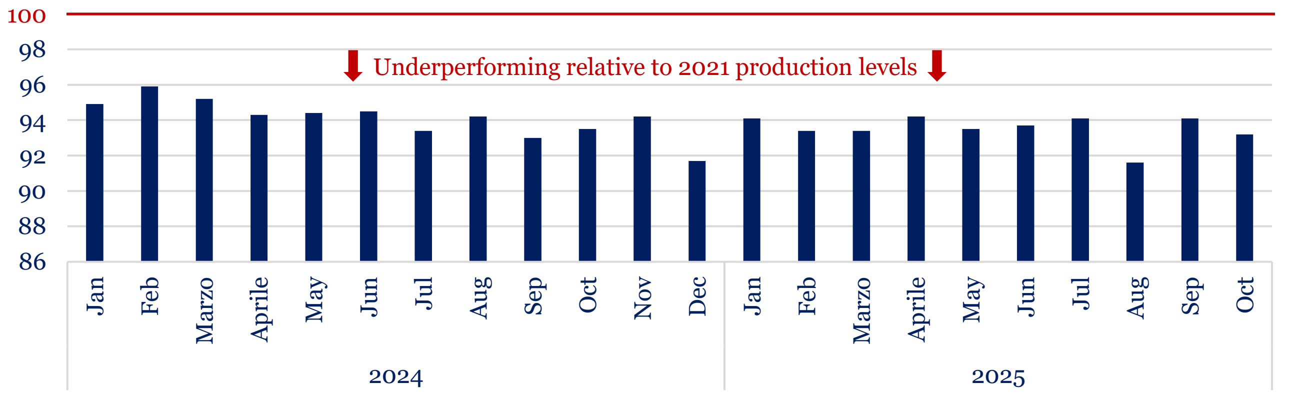
Annual and Monthly unemployed person (%)

Source: TEHA Group elaboration on Istat data

Notwithstanding the recent positive developments in the labour market, Italy's industrial production remains weak, continuing a pattern observed over the past few years. According to ISTAT's October 2025 industrial production release, the seasonally-adjusted index of **industrial output declined by 1.0% in October** compared with the previous month, and the average level of production over August–October was 0.9% lower than in the preceding three-month period, signalling a broad-based slowdown in activity.

On a calendar-adjusted basis, overall **industrial production contracted by 0.3% year-on-year**, with only intermediate goods recording a modest increase (+1.1%), while consumer goods, capital goods and energy sectors all recorded declines.

Among sectors, stronger year-on-year growth was limited to extractive activities, metallurgy and the manufacture of rubber and plastic products, while chemicals, textiles and refined petroleum products exhibited notable decreases.



Industrial production in Italy (Index 100=2021)

This pattern of subdued industrial output, evident in both monthly and annual comparisons, underscores the ongoing challenges facing Italian manufacturing and its contribution to broader economic momentum. It aligns with other macro indicators suggesting modest expansion, such as the marginal GDP growth recorded in the third quarter of 2025, but also highlights the **fragility of demand and production conditions** that may temper the strength of the recovery.

Price dynamics over the closing months of 2025 further reinforce this picture of a fragile and uneven macroeconomic environment. Consumer price inflation remained moderate in December, with headline inflation stabilising slightly above 1% on an annual basis, confirming the absence of extended inflationary pressures.

On average, **inflation in 2025 remained contained**, reflecting subdued demand conditions and easing energy-related effects compared with previous years. At the same time, **price increases were uneven across consumption categories**, with food products and selected service components exerting upward pressure, while energy prices contributed more weakly.

Source: TEHA Group elaboration on Istat and Bank of Italy data

Taken together, recent inflation developments suggest that, while price stability has broadly been preserved, households and firms continue to face **selective cost pressures**, adding to the challenges posed by weak industrial activity and limiting the strength of the ongoing economic recovery.

Source: TEHA Group elaboration on Istat and Bank of Italy data

ITALY'S 2026 BUDGET LAW

The 2026 Budget Law represents a **contained and targeted fiscal manoeuvre**, shaped by modest growth prospects and constrained public finances. Rather than introducing a broad expansionary package, the budget consolidates existing policies and selectively reallocates resources toward priority areas, with a **strong focus on healthcare, social protection and fiscal stability.**

At the aggregate level, the law confirms a cautious fiscal stance, relying largely on internal reallocations and calibrated spending increases rather than new deficit-financed measures. The most significant quantitative commitment concerns healthcare, which remains the central pillar of public expenditure in 2026. Overall, the budget can be interpreted as a **stabilisation framework**, aimed at preserving essential services and social cohesion while accompanying the gradual **normalisation of fiscal policy after the extraordinary measures of recent years**.

KEY ASPECTS AND MEASURES

Budget Impact

€21 billion overall fiscal package for 2026, focused on stability rather than expansion

IRPEF (Personal Income Tax)

The rate on taxable income between €28,000 and €50,000 is reduced from 35% to 33%

Housing & Renovation Incentives

Renovation bonus confirmed:50% on the main residence) and 36% on the others, extended through 2026

ISEE & Family Support

The Economic situation indicator exemption threshold raised to €91,500 (with +€2,500 per child) for certain benefits

Business Investment Incentives

Return of enhanced depreciation for newly acquired capital goods, to support business investment and productivity

Employment & Labour Measures

5% substitute tax on certain wage increases and targeted hiring reliefs.

Tax Compliance & Miscellaneous

Tweaks to dividend taxation, a €2 fee on low-value parcels from non-EU countries, and adjustments to certain financial transaction taxes

Healthcare

The National Health Fund increases to about €143 bn in 2026 (+€6 bn year on year), lifting health spending to roughly 6.15% of GDP

Italy's 2025 Regulatory Simplification Law

Italy's 2025 Law on **Regulatory Simplification** marks a significant step in the country's long-standing effort to reduce administrative complexity and improve the quality of its regulatory environment.

Approved in early December 2025, the law fits within a broader institutional strategy aimed at making **public action faster**, **clearer** and **more predictable** for businesses and citizens alike.

Rather than focusing on a single sector, the reform adopts a system-wide approach to simplification. It combines immediate procedural fixes with structural changes to how rules are produced, implemented and reviewed over time. In doing so, it seeks to address one of Italy's most persistent structural constraints:

- the accumulation of **overlapping norms**,
- **lengthy procedures**, and
- **fragmented** administrative **practices**.

Italy's Regulatory Simplification Law

At the core of the reform are three interlinked objectives:

- simplifying **procedures**,
- embedding **digitalisation** into administrative workflows, and
- raising the overall **quality of regulation**.

From a practical standpoint, the law introduces targeted measures that directly affect the daily interaction between firms, citizens and public authorities.

Procedural timelines for key authorisations are shortened, administrative steps are reduced or merged, and the scope of *silenzio assenso (silence-imply-consent* from Public Administrations) is extended in selected areas, notably in construction and permitting processes.

For economic operators, these changes translate into lower uncertainty, fewer bottlenecks and more predictable decision times - an element that is particularly relevant for investment planning and project execution.

Digitalisation is not treated as an ancillary or purely technical tool, but as a structural lever of simplification. The law strengthens obligations for public administrations to manage procedures, documentation and communications through digital channels, reinforcing interoperability between systems and reducing reliance on paper-based processes. This shift is intended to improve traceability, limit discretionary delays and enhance transparency across the entire administrative chain. Importantly, digitalisation is also extended upstream, to the production of laws and regulations themselves, with new standards designed to make legal texts more accessible, coherent and easier to navigate for users.

Source: TEHA Group elaboration on Normattiva data

A particularly innovative dimension of the reform concerns the **quality of law-making**, an area that has long represented a structural weakness in Italy's regulatory framework. The law strengthens the role of impact assessment tools within the legislative process, introducing more systematic evaluations of economic, social and generational effects. This marks a shift away from reactive, ad-hoc regulation towards a more evidence-based approach, in which new rules are assessed not only for their legal consistency, but also for their expected real-world impacts and longer-term implications.

By **embedding impact analysis more firmly into the rule-making cycle**, the reform aims to improve the proportionality and durability of regulation, reducing the risk of unintended effects and the need for frequent corrective interventions. This approach aligns Italy more closely with international best practices in regulatory governance, where beforehand evaluation is increasingly viewed as a core component of effective public decision-making.

In parallel, the reform **institutionalises an annual simplification cycle**, requiring the Government to periodically identify obsolete provisions, regulatory overlaps and excessive compliance burdens, and to propose targeted corrective actions.

This mechanism reflects the recognition that regulatory complexity tends to re-emerge over time unless actively managed and seeks to transform simplification from an occasional exercise into a recurring and structured process. By formalising this cycle, the law also **strengthens accountability** and **encourages administrations to engage more proactively in regulatory maintenance**.

Strategically, the law reflects a broader shift in how simplification is conceived. It is no longer framed as a one-off deregulation initiative, but as a continuous governance function, embedded in ordinary legislative and administrative activity.

This perspective is particularly relevant in the context of **Italy's commitments under the National Recovery and Resilience Plan (NRRP)**, where administrative capacity, speed of implementation and regulatory clarity are essential conditions for effective delivery of reforms and investments.

For **businesses and professionals**, the significance of the reform lies less in any single provision than in its overall direction. By combining procedural streamlining, digital tools and improved regulatory design, the law aims to make the relationship between the State and economic actors more predictable, transparent and reliable.

For the **public administration**, it provides a clearer operational framework, reducing ambiguity while strengthening coordination and accountability.

In sum, the Law on Regulatory Simplification represents a meaningful attempt to address structural inefficiencies in Italy's regulatory system. Its effectiveness will depend on consistent implementation, the effective use of digital solutions and the ability of institutions to internalise a culture of continuous simplification and evidence-based rule-making.

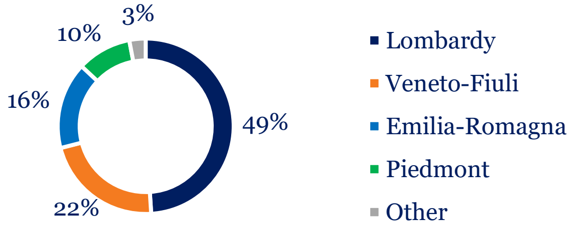
Source: TEHA Group elaboration on Normattiva data

Focus on a sector: Italian machine tool industry

In this section, we examine each month a strategic sector of the Italian economy, providing an overview of the sector's main innovations and most interesting data. In this edition, we focus on the Machine tool sector.

Italy's machine tool industry is one of the most advanced and structurally significant segments of the national manufacturing base. It encompasses **machine tools**, **robots** and **automation systems** and is closely integrated with metalworking, automotive, aerospace and machinery supply chains. The sector is characterised by a dense network of **specialised**, **export-oriented firms** - largely SMEs - that anchor its central role in the national industrial ecosystem.

Structurally, the industry includes around **400 manufacturing firms** employing approximately **35,000 workers**[1], and generates high value added relative to firm size. Production is heavily concentrated in **Northern Italy**, where proximity to end-user industries supports continuous customisation and incremental innovation.

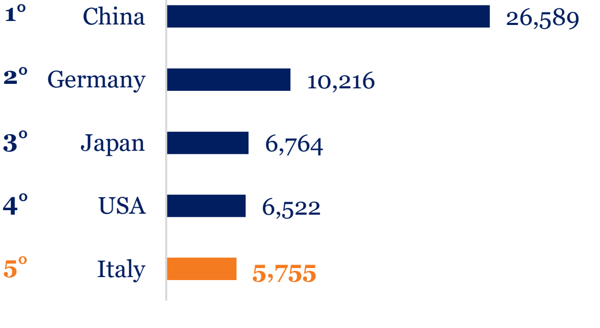


Regional concentration of machine tool production (%)

Export intensity varies across regions, with Piedmont showing the highest export propensity, exceeding 60% of turnover, compared with a sector average of just over 56%. On the demand side, the metal products industry represents the main user of machine tools (over 40% of demand), followed by the automotive sector (around 19%).

The **robotics segment** displays a more concentrated structure. In 2023, large firms with turnover above €5 million accounted for nearly 86% of total activity, reflecting the capital and technology intensive nature of the segment. **Lombardy** and **Piedmont** host the **largest share of robotics firms** (around 50% and 29%, respectively), with Piedmont generating almost half of sectoral turnover and employing over 60% of the workforce, confirming its role as a national hub for advanced automation.

In 2024, production of machine tools, robots and automation systems fell to around **€6.3 billion**, a 17% year-on-year decline, driven by a sharp contraction in domestic demand following the exceptional investment cycle of previous years. Considering machine tools alone, **Italy ranked as the world's 5th largest producer** by production value.



Top 5 countries worldwide by machine tool production (€ million)

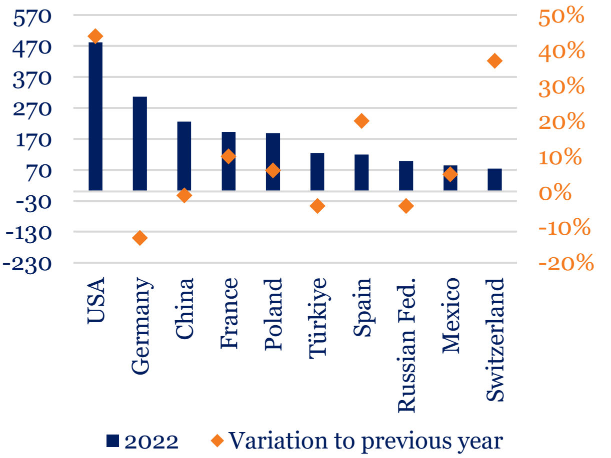
[1] 2024 data

Source: TEHA Group elaboration on ICIMU and CECIMO data

In 2024, domestic consumption fell by over 35%, with imports also declining sharply, while **exports** proved resilient, **increasing by around 1%** to a record nominal level and pushing the **export-to-production ratio above 65%**.

Exports remain the backbone of the industry, **reaching over 150 markets**; the EU accounts for about one third of total exports, with Germany, France, Spain and the United States as key destinations, alongside growing exposure to India and selected Asian economies. This diversification supports resilience, though performance remains closely linked to global investment cycles.

Order trends in 2025 point to **stabilisation rather than recovery**. The overall order index was broadly flat, reflecting diverging dynamics: domestic orders increased moderately, supported by targeted investments in automation and efficiency, while foreign orders declined amid weaker international capital expenditure. As a result, order backlogs shortened and capacity utilisation eased from previous peaks.



Top 10 export destinations of machine tool (€ million and %)

Beyond the cycle, the industry is undergoing a structural shift toward **high-precision machinery**, **integrated automation** and **digitally enabled solutions**, where margins are higher and competition is technology-driven. Investments in software, connectivity and customised solutions are increasingly central.

Source: TEHA Group elaboration on ICIMU and CECIMO data

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 300,000 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