C/2026/3925

1.9.2026

COUNCIL RECOMMENDATION

of 10 July 2026

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

(C/2026/3925)

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:

(1) Regulation (EU) 2024/1263 specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, as well as 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 Treaty on the Functioning of the European Union (TFEU). The European Semester includes, in particular, the formulation, and the surveillance of the implementation, of country-specific recommendations.

([1]) 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 (OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj).

([2]) 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 (OJ L 306, 23.11.2011 ELI: http://data.europa.eu/eli/reg/2011/1176/oj).

(2) On 25 November 2025, the Commission adopted an opinion on the 2026 draft budgetary plan of Italy. On the same date, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2026 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, a recommendation for a Council recommendation on human capital in the European Union, and a proposal for the 2026 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 ([3]) on 21 April 2026 and the Joint Employment Report, and the Recommendation on human capital on 9 March 2026.

(3) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the Union's global competitiveness over the next five years. It identifies the three transformational imperatives of innovation, decarbonisation and competitiveness, and security as critical pillars for sustainable economic growth. Since its publication, the Competitiveness Compass has informed the work of the European Semester, ensuring that Member States' economic policies are consistent with the EU's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

(4) In 2026, the European Semester for economic policy coordination continues to develop alongside the final stage of the Recovery and Resilience Facility (RRF) implementation ([4]). Recovery and resilience plans (RRPs), along with cohesion policy funding, have been essential for delivering on the policy priorities under the European Semester, as the plans were required to effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent cycles, and programmes funded by the European cohesion policy were required to take country-specific recommendations into account. As the RRF approaches the end of its lifetime, it remains essential to sustain and build on the reforms and investments supported and implemented under the RRF, in particular those that contribute to addressing challenges identified in the country-specific recommendations.

(5) On 3 June 2026, the Commission published the 2026 country report for Italy. It assessed Italy's progress in addressing the 2025 country-specific recommendations and took stock of Italy's implementation of the RRP. On the basis of that 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 and social exclusion reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

([3]) OJ C, C/2026/2434, 28.4.2026, ELI: http://data.europa.eu/eli/C/2026/2434/oj.
([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).

(6) 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 staff assessment of macroeconomic vulnerabilities for Italy for the purposes of that Regulation were published on 20 May 2026 ([5]). On 3 June 2026, the Commission concluded that Italy is experiencing macroeconomic imbalances. In particular, Italy faces vulnerabilities related to high government debt and weak productivity growth, which have cross-border relevance, persist, and continued and effective implementation of growth-enhancing reforms and investments, together with a prudent fiscal stance, remains crucial to reduce those vulnerabilities. Government debt as a share of GDP fell after the pandemic but increased in 2024 and again in 2025, on account of the slowdown in nominal GDP growth, the lagged impact of the tax credits for housing renovations of earlier years, and the still sizeable government deficits. The government debt ratio is expected to continue increasing in 2026 and 2027. Labour productivity has declined recently and the recovery is expected to be modest in 2026–2027, continuing to constrain potential GDP growth and hence hampering reductions in the government debt ratio. Banks have significantly strengthened their asset quality and profitability and reduced their non-performing loans, but the high sovereign-banks nexus is still a concern, as banks' holdings of domestic government debt as a share of their assets is high, especially for less significant institutions and cooperative banks. The labour market has continued to improve, but the labour potential does not seem to be fully exploited. Measures have been taken to address the long-standing vulnerabilities but, despite the recent extensive reform action, significant productivity gains have yet to materialise. Looking ahead, continued and effective implementation of growth-enhancing reforms and investments, together with a prudent fiscal stance, remains crucial to improve productivity growth and reduce the government debt-to-GDP ratio.

(7) On 21 January 2025, the Council, upon the assessment and recommendation of the Commission, adopted a Recommendation endorsing the national medium-term fiscal-structural plan of Italy ([6]). The plan covers the period from 2025 until 2029 and presents a fiscal adjustment spread over seven years. The Council recommended the following maximum growth rates of net expenditure: 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 the base year of 2023 of - 0,7 % in 2025, 0,9 % in 2026, 2,8 % in 2027, 4,6 % in 2028 and 6,2 % in 2029. For the years 2025-2026, these maximum growth rates of net expenditure coincide with the corrective path, as recommended by the Council under Article 126(7) TFEU on 21 January 2025, with a view to bringing an end to the situation of an excessive deficit ([7]). Based on the Commission's assessment on effective action of 3 June 2026 ([8]), the excessive deficit procedure for Italy is held in abeyance.

(8) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission has invited Member States to request the activation of 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 ([9]) and this proposal was welcomed by the European Council of 6 March 2025. Member States may still request the activation of the national escape clause at any time until 2028, if they fulfil the criteria set in Article 26 of Regulation (EU) 2024/1263.

([5]) SWD(2026) 139 final.

([6]) Council Recommendation of 21 January 2025 endorsing the medium-term fiscal-structural plan of Italy (OJ C, C/2025/651, 10.2.2025, ELI: http://data.europa.eu/eli/C/2025/651/oj).

([7]) Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Italy, adopted on 21 January 2025. All documents related to the excessive deficit procedure of Italy can be found at: Italy - Economy and Finance - European Commission.

([8]) Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of Regions and the European Investment Bank, 2026 European Semester – Spring Package, COM(2026)200 final.

([9]) Communication from the Commission, 'Accommodating increased defence expenditure within the Stability and Growth Pact', Brussels, 19.3.2025, C(2025) 2000 final.

(9) On 30 April 2026, Italy submitted its 2026 Annual Progress Report ([10]) on adherence to the recommended maximum growth rates of net expenditure, 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 implementing its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241. The report on action taken under the excessive deficit procedure is integrated in the Annual Progress Report.

(10) Real GDP growth in 2025 was 0,5 % and HICP inflation stood at 1,7 %. The Commission Spring 2026 Forecast projects real GDP to grow by 0,5 % in 2026 and 0,6 % in 2027, and HICP inflation to stand at 3,2 % in 2026 and 1,8 % in 2027.

(11) Based on data provided by Eurostat ([11]), Italy's general government deficit decreased from 3,4 % of GDP in 2024 to 3,1 % of GDP in 2025 while its primary surplus increased from 0,5 % of GDP to 0,8 % in 2025. Based on policy measures known by the cut-off date of the forecast, the Commission Spring 2026 Forecast projects a deficit of 2,9 % of GDP in both 2026 and 2027. The decrease of the deficit in 2026 mainly reflects lower spending on housing renovation tax credits, while other expenditure items, including public investment, are expected to continue increasing, together with tax revenues.

(12) Based on the Commission's estimates, the fiscal stance ([12]), which includes both nationally and EU financed expenditure, was contractionary, by 0,3 % of GDP, in 2025. It is projected to be contractionary, by 0,3 % of GDP in 2026 and by 0,5 % of GDP in 2027.

(13) Based on data provided by Eurostat ([13]), Italy's general government debt increased from 134,7 % of GDP at the end of 2024 to 137,1 % of GDP at the end of 2025. The increase in the debt 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. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2026 Forecast projects the debt-to-GDP ratio to increase to 138,5 % by the end of 2026 and to further increase to 139,2 % by the end of 2027. The increase in 2026 and 2027 mainly reflects the lagged cash impact of the tax credits for housing renovations, while the debt-reducing impact of primary surpluses remains limited.

(14) Based on the Commission Spring 2026 Forecast, total general government defence expenditure in Italy amounted to 1,3 % of GDP in 2025 and it is projected at 1,2 % of GDP in 2026 ([14]).

([10]) The 2026 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.
([11]) Eurostat-Euro Indicators, 22.04.2026.
([12]) 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.
([13]) Eurostat-Euro Indicators, 22.04.2026.
([14]) The NATO defence spending definition differs from the COFOG defence definition. Furthermore, there could be differences due to the time of recording of expenditure, in particular military equipment, as the NATO reporting does not follow national accounts rules for the time of recording.

(15) The Union continues to face risks of energy supply disruptions and elevated price volatility, exacerbated by geopolitical tensions which affect global oil and gas markets. Experience from the 2022-2023 energy crisis has shown that broad and untargeted measures entail large fiscal costs and are socially and economically inefficient. Since the outbreak of the war in the Middle East in February 2026, Italy has adopted fiscal policy measures to mitigate the impact of high energy prices on households and firms ([15]). These include an untargeted reduction in excise duties on fuels with expiry date on 22 May 2026 and a tax credit targeted at road transport, fishing and agricultural enterprises with expiry date on 31 May 2026. According to the Commission Spring 2026 Forecast, the fiscal cost of these measures is projected to amount to approximately 0,1 % of GDP in 2026. According to Commission estimates, if these measures were to remain in force until end-2026, their fiscal cost would amount to 0,3 % of GDP in 2026.

(16) Based on the Commission's calculations, net expenditure in Italy grew by 1,5 % in 2025 and fell by 0,6 % cumulatively over 2024 and 2025. The net expenditure growth in 2025 is above the recommended maximum growth rate, corresponding to a deviation of 0,1 % of GDP in annual terms. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is marginally above the recommended maximum growth rate, corresponding to a deviation of less than 0,1 % of GDP in cumulative terms.

(17) Based on the Commission's calculations, net expenditure in Italy is projected to grow by 1,4 % in 2026, and 0,8 % cumulatively over 2024, 2025 and 2026. The projected net expenditure growth in 2026 is below the recommended maximum growth rate. When considering 2024, 2025 and 2026 together, the projected cumulative growth rate of net expenditure is also below the recommended maximum growth rate.

(18) 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. Taking into account the information provided by Italy in its Annual Progress Report, the Commission finds that the implementation of the key steps of these reforms and investments that were due by 30 April 2026 seems to be broadly on track. With regard to the key step due by Q4-2025 related to the increase in public spending on research and development (R&D), measured by R&D expenditure in GERD terms as a share of GDP, the latest available Eurostat statistics refer to 2024. Nevertheless, preliminary estimates provided by the Italian authorities indicate that R&D expenditure in GERD terms is expected to have reached 0,59 % of GDP in 2025, suggesting that the target appears to be on track to be met. The Commission considers that, overall, Italy has complied with its commitments in a satisfactory manner ([16]).

(19) Despite the structural measures implemented in recent years, Italy's tax system continues to largely rely on labour taxation, which provides the largest contribution to the above-EU-average tax-to-GDP ratio. The tax wedge is above the EU average for single persons earning the average wage and below it for earners of low wages, and both values mildly increased in 2025. Special regimes for self-employed and the growing use of temporary flat personal income taxation make the tax system highly complex, weaken progressivity and erode the tax base, resulting in significant revenue loss. Furthermore, despite a significant reduction, environmentally harmful subsidies remain high, and tax expenditures, including on VAT, are widely used. Overall, further shifting the tax burden from labour to other underused sources of revenue, which are less detrimental to growth, would help to raise economic potential. Moreover, redesigning vehicle taxation to accurately reflect CO2 emissions, especially in heavily congested cities, could assist in financing sustainable mobility infrastructure, reducing the high reliance on road transport. Despite the recent reform, there is further scope for reducing tax benefits for endothermic company cars. Finally, tax evasion remains high, particularly in VAT and among self-employed workers, despite the ambitious countermeasures taken in recent years, including under the RRP. Data from the revenue agency on the first five months of 2026 point to some positive results. At the same time, recent measures similar to tax amnesties risk being counter-productive in terms of tax compliance.

([15]) This reflects the situation at the cut-off date of the Commission's Spring 2026 Forecast (4 May 2026).

([16]) Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of Regions and the European Investment Bank, 2026 European Semester – Spring Package, COM(2026)200 final.

(20) Cadastral values have not been systematically brought closer to market values yet. Still, Italy has committed in its Medium-Term Fiscal-Structural Plan (MTFSP) to updating cadastral values for properties not yet included in the register and for buildings that have benefitted from public schemes for energy efficiency and/or house renovation interventions. Main residencies are exempted from recurrent property taxation, for almost all property classes. This results in low revenues from property at local level, including in cities facing a housing affordability challenge. In around one-tenth of Italian provinces, rental costs represent more than one third of average wages, despite the existence of regulated rent. The share of social housing is low in Italy, with a limited public housing stock and very long waiting lists. Italy is also characterised by a high share of unoccupied dwellings and high presence of short-term rentals. Responsibilities are divided between national and subnational administration, while there is no comprehensive national coordination framework. Lack of structural funding further limited the effectiveness of housing policy. The government has recently adopted the Piano Casa, while its assessment and implementation it is still in a very early stage.

(21) In the coming years, significant fiscal pressure is expected to weigh on public finances, including rising costs relating to demographic developments. In particular, a significant share of public resources is absorbed by old-age pensions and debt-servicing costs, limiting fiscal space for other priorities. Public investment has risen significantly compared with pre-pandemic levels, also supported by the RRF. At the same time, expenditure on some growth-enhancing policy areas, including education and health, has declined compared to 2019 as a share of total spending. A new legal framework requires ministries to undertake detailed evaluation of spending policies under the new 'Spending Analysis and Evaluation Plans', in line with the MTFSP commitments. In order to improve the efficiency and quality of public spending in Italy, it will be crucial to thoroughly implement the new assessment framework and follow up with effective policy actions based on evaluation results.

(22) Italy is one of the Member States with the oldest population, the lowest fertility rate and a higher-than-average age of women giving birth to their first child. Brain drain persists with many young, highly qualified residents seeking better opportunities abroad, while Italy struggles to attract and retain talent. The shrinking working-age population is worsened by persistently low labour market participation among women and young people. While well-managed legal migration could mitigate the short-to-medium term effects of demographic decline, a more holistic, structural approach should move beyond financial incentives to create a supportive environment for parenting via stable jobs, labour policies and the adoption of broader measures to boost workforce participation among women and young people, while attracting and retaining high-quality talent. Age-related expenditure is projected to increase, weighing on public finances. Despite the 2011 pension reform, the pension expenditure-to-GDP ratio is still expected to increase in the medium term due to demographic trends, including an increasing old-age dependency ratio, and the effect of early-retirement schemes introduced in 2019 and renewed in previous years, although the latter have been progressively scaled down and not renewed in 2026. The 2026 budget law has introduced measures to foster participation in supplementary pension schemes that can also contribute to improved pension adequacy, acting as a complement to public pensions. However, to date, the participation remains limited (38,3 % of the labour force), with only 29 % of members under 40 and minimal participation of self-employed. At the same time, the automatic link between retirement age and life expectancy is partially reinstated, while the three-months increase freeze is limited only to certain categories of workers. Measures to ensure the sustainability of the pension system can be complemented by measures to facilitate staying in the workforce into later stages, including through flexible working arrangements and age-specific management policies.

(23) The systematic, meaningful and timely 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 Union's funding instruments, as well as in the context of the European Semester.

(24) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF) the European Social Fund Plus and the Just Transition Fund (JTF) in Italy, remains below EU average, both in terms of project selection and payments. It is important to accelerate efforts to ensure the swift delivery of investments, while maximising their impact on the ground. Italy continues to face challenges in implementation, due to weak administrative capacities, the slow implementation of infrastructure projects, and weak coordination between central, regional and other government levels, notably in some policy fields of shared responsibilities. These issues hinder progress in employment, skills and social inclusion, while also delaying investments under the Strategic Technologies for Europe Platform or in affordable and sustainable housing. In addition, Italy needs to accelerate implementation of the JTF as resources are due for disbursement by the end of 2026. It is essential to ensure that the new investments identified by Italy in its mid-term review of the cohesion policy funds, notably those linked to the five priorities identified in the Mid-Term Review Regulation ([17]), are deployed rapidly and effectively.

(25) Italy faces several challenges related to research and innovation, firms' growth and non-bank finance, industrial strategy, public administration, justice and competition. It also faces challenges related to the climate adaptation, the energy and waste and water sectors as well as the labour market, skills, education, and health.

(26) Italy's productivity and growth potential is hindered by limited public and private R&D investment. Compared to its EU peers, Italy's public support for innovation, despite a recent increase, is less comprehensive and generous, and it would benefit from a more strategic allocation of resources and public-private collaborations, in line with the MTFSP commitments. The RRP and EU cohesion policy funds include several initiatives to support cooperation between businesses and academia, which continue to be fragmented and lack coherent national governance. Innovation procurement, which is currently limited to the defence and green sector, could play a significant role in developing markets for start-ups while making public expenditure more efficient. Despite some increase in 2025, the university system has limited resources, with Italy showing one of the lowest figures for university expenditure among OECD countries. Moreover, universities and researchers continue to have limited incentives to perform research valorisation and technology transfer activities. Research careers are slow and unpredictable. A reform adopted in 2025 has increased the number of short-term, non-tenure track contractual tools for researchers, with the risk of further affecting the career path for researchers. At the same time, Italy introduced an extraordinary recruitment plan with the 2026 budget law, which should support the creation of some additional permanent positions. However, there is a need to improving long-term recruitment planning while taking actions to speed up the career path of researchers. Technology transfer offices, though improving, remain relatively small in scale and lack adequate human and financial resources to support the translation of research outputs into new business opportunities, and synergies with venture capital investors should also be strengthened. The Strategic Policy Act 2026–2028 on Knowledge Enhancement and Technology Transfer, once adopted, would represent an important step forward thanks to the identification of key priorities and strategic lines of intervention.

([17]) Regulation (EU) 2025/1914 of the European Parliament and of the Council of 18 September 2025 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.

(27) Italy's weak productivity growth may reflect structural constraints linked to a relatively limited share of value added generated by large firms and the predominance of micro and small enterprises, often family-managed, which underuse professional management practices, hindering innovation and productivity. Tax policies, such as the simplified lump-sum tax regime for micro-firms and the favourable tax treatment of inherited businesses (requiring five-year control retention) discourage consolidation and growth. Italy would therefore benefit from promoting the scale-up of start-ups and the aggregation of small to medium-sized enterprises (SMEs), by removing regulatory and tax barriers, promoting external professional managers, the upskilling of managers, strengthening innovation and access to capital markets. Positive steps have been taken in some of these areas, for example through the ongoing implementation of the s.c. Legge Capitali, the recent adoption of annual law for SMEs and the delegated act for reform of start-ups and innovative SMEs. Italy's high domestic savings, a key economic strength, could play a greater role in financing growth and innovation, helping companies to scale, if better mobilised. Italy's capital markets should be further developed and their depth and liquidity increased by supporting demand, encouraging new equity listings, and promoting corporate bond issuances. The recently adopted reform of capital markets and corporate law is a step in the right direction. Existing guarantee schemes and incentives could be refocused to prioritise and support demand for capital market instruments. Access to non-bank finance remains particularly limited for innovative businesses, as the capital market, especially domestic venture capital, despite being on a growth path, is still underdeveloped. This is notably due to the limited presence of institutional and corporate investors and the few exit opportunities. While several initiatives are in place to support the development of venture capital and private equity, further public efforts should be concentrated on early-stage and riskier market segments, as well as on attracting and leveraging institutional investors through the use of financial instruments and fund-of-fund structures with appropriate de-risking elements. Increasing the ability of domestic institutional investors, such as pension funds and especially insurers, to invest in asset classes with a longer investment horizon could improve access to non-bank finance.

(28) Stagnant productivity continues to characterise Italy, also reflecting strong gaps between Northern and Southern regions. In the South, smaller average firm size and concentration in traditional sectors weigh on productivity, while infrastructural deficits limit competitiveness. Italy would benefit from an innovation-driven industrial strategy to steer resources towards high value-added sectors and technologies and promote the development of the South, particularly by earmarking resources for the less developed regions and targeting strategic sectors. While the White Book 'Made in Italy 2030' represents a first step towards the definition of an industrial strategy, the challenge remains implementing clear policy actions and creating a governance structure for industrial policy. The 18 Productive chains (Filiere produttive) identified in the White Book, would benefit from a strategic orientation, including a focus on high value-added sectors and a territorial scope, in order to avoid a possible risk of making the public effort non-selective and ineffective. In line with the target of the MTFSP, additional effort is needed to rationalise and stabilise the more than 2 700 national and regional incentives and to earmark ad hoc resources for the South. The industrial strategy would benefit from better coordination with infrastructural and research investment planning, together with the use of locally targeted policy mixes (e.g. incentives, spatial planning and infrastructure development) to promote industrial growth and structural transformation, especially in the South. Finally, sustained effort will be necessary to address Italy's persistent infrastructural gap between the North and the South, particularly by finalising the large-scale projects initiated under the RRP and cohesion policy, with a focus on access to industrial zones and improving last-mile connectivity. Road and port infrastructure and multimodal logistic nodes also demand attention, together with the adoption of a multi-annual and multimodal Transport Strategy.

(29) Italy has made notable progress in improving the effectiveness of its public administration as well as simplification efforts, also supported by the reforms and investments under the RRP. However, there is still ample room for improvement. While 41 % of Italian firms report to be dissatisfied (vs 24 % EU average), the share of citizens finding public administration procedures complex and burdensome has fallen by 14 percentage points since 2023, bringing Italy broadly into line with the EU average (Italy 39 %; EU 38 % in 2025). While some progress has been made, including thanks to the RRP, it would be important to further strengthen the interoperability and take-up of all platforms to improve human resources management, training and recruitment of public servants. Boosting horizontal and vertical mobility, and further promoting performance evaluations, career progression, strengthening upskilling and reskilling, as well as promoting equality and inclusion across all levels of administrations, in line with the commitments of the MTFSP, would also be beneficial. Italy is continuing its simplification efforts by establishing Italia Semplice, alongside a new interoperable data exchange system across the existing one-stop-shop system platform for businesses but further streamlining of administrative processes is needed, building up on the inter-operationalisation of existing platforms. In addition, administrative capacity remains uneven across regions, with significant constraints at local level, particularly in the South and in areas such as digitalisation, decision-making capacity, and public financial management, as well as between smaller and larger municipalities. It is essential to develop an overarching and structural administrative capacity strategy, building on the RRP and cohesion policy measures, including the National Programme Capacity for Cohesion. This strategy could frame a number of RRP measures that have proved effective in supporting local administration for the implementation of RRP projects, while preventing territorial gaps from widening. While better-equipped regions are building on the RRP experience, less-resourced regions, especially in the south, would benefit from a more active and targeted support from the central administration. Moreover, promoting forms of administrative associations, particularly for smaller administrations, especially in the South, could be beneficial.

(30) Under the RRP, Italy is implementing a comprehensive package of reforms to increase the efficiency of the civil, criminal, insolvency and tax justice systems. The creation of trial offices and the digitalisation of trials, which provide organisational and legal support to judges, have contributed to improving court efficiency. However, challenges remain. The disposition time in litigious civil and commercial cases in first-instance courts increased in 2024, remaining one of the highest in the EU. The time taken to reach a decision for administrative cases at first instance decreased in 2024, but it remains one of the longest in the EU. Institutionalising the trial office and reinforcing measures to further reduce pressure on courts and the average lengths of trials (for example, in overburdened justice sectors, such as the Justice of Peace), while continuing to address human resources shortages (magistrates and court staff) and achieving full digitalisation of the justice system, would help increase the efficiency of the system, also in line with Italy's MTFSP commitments.

(31) Ensuring better framework conditions for competition in several sectors and increasing competition both *for* and *in* the markets would enable a more efficient allocation of resources, benefit consumers and lead to competitiveness and productivity gains, thus also attracting new investments. Under the RRP, Italy has made progress in some important sectors, including energy, transport and local public services, and it has modernised national merger control rules. Further legislative initiatives are still needed for: (i) ensuring the competitive tendering of energy distribution concessions; (ii) transport, particularly in view of fully implementing the pro-competitive reforms in the areas of railways, highways and ports, and (iii) healthcare, particularly by ensuring pro-competitive principles and open and transparent tenders. Furthermore, open and transparent tenders for expiring concessions in various sectors (including regulated ones) would ensure market contestability. This would increase competitive pressure on the incumbent operators and avoid investments to be delayed, suspended or unduly passed on to consumers/users. Finally, regulatory barriers affect the intra-EU trade in goods, with national packaging and labelling rules creating compliance burdens.

(32) Italy faces among the highest electricity prices in the EU due to its structural reliance on costly gas-fired generation. This, and in particular the elevated electricity-to-gas price ratio, represent a key barrier to electrification for both households and industry. Despite significant untapped potential, renewable growth is too slow to meet 2030 targets: accelerating renewable deployment would contribute to mitigating electricity prices in the medium term. Continued support through renewable and storage auctions as well as full implementation of the 'Testo Unico' permitting reform also at the regional level would support this objective. To align energy taxation with decarbonisation objectives, reducing and rationalising taxes and levies on electricity, including parafiscal levies ('oneri generali di sistema'), would lessen existing disincentives to electrification, particularly for firms and industry. Integrating higher shares of renewables requires accelerating investments to strengthen the electricity grid and reduce congestions, while limiting the impact on consumer bills. This includes investing in cross-border interconnections and addressing distribution grid connection delays. Italy should also continue promoting non-fossil flexibility such as storage and demand-response mechanisms.

(33) Italy is exposed to significant economic impacts from intensifying climate risks, particularly hydrogeological hazards, and available indicators point to one of the highest ratios of natural disaster damage to GDP in the EU. While progress has been made in implementing the National Adaptation Plan with the establishment of the National Observatory for Climate Change Adaptation, governance of climate adaptation policies remains fragmented across authorities, at both central and local level. Available estimates point to significant climate adaptation investment needs over the coming decades. A consolidated planning for investments in climate adaptation and reduction of hydrogeological risks could help address this issue effectively. While the recent introduction of mandatory insurance against natural disasters for companies has contributed to addressing the climate insurance protection gap, fair and affordable solutions to tackle the outstanding gap should be explored and implemented. Increased soil sealing exacerbates the high susceptibility to hydrogeological risks. Therefore, increasingly making use of nature-based solutions supported by the introduction of a national inventory and a more systemic integration into land-use planning, could be an effective countermeasure.

(34) Infrastructure deficits for water and waste management, in particular in southern regions, have severe impacts on the quality of local public service delivery and on the environment, with considerable costs for citizens and lost revenues for the Italian economy. Even though substantial investments have been made in the waste and water sectors, with support of RRP and cohesion policy funds, it is important to sustain progress in closing infrastructural gaps.

(35) In light of the crucial role of human capital in enhancing the Union's competitiveness and strategic autonomy, in 2026 the Council recommended that Member States take action to urgently address human capital related structural challenges in the areas of skills, education and training, which hamper competitiveness. The 2026 country-specific recommendations addressed to Italy can contribute to the implementation of the Council Recommendation on human capital in the Union.

(36) Structurally low job quality, including low wages, challenges to job and career security as well as gender equality, remain major obstacles that call for decisive action. Despite recent increases, Italy is among the Member State where real wages have declined the most since 2019. While wage growth is constrained by structurally low productivity growth, wage stagnation is also exacerbated by contractual dumping, delays in contract renewals, and the limited use of second-level bargaining, particularly among SMEs and in the South. Despite decreasing, linked to the tightening of the labour market, the share of fixed-term employees remains among the highest in the EU. Italy also still records among the highest proportions of involuntary part-time and temporary contracts, disproportionately affecting women, young people and migrants. Transitions from temporary to permanent jobs remain well below the EU average. Measures and initiatives to tackle labour market segmentation and supporting effective collective bargaining outcomes would be key to supporting adequate wage increases and improving overall job quality. Women's labour market participation and employment rates, including part-time employment, record the highest gaps compared to those of men in the EU. This is driven by southern regions, characterised also by the lowest childcare coverage. Long-term care needs are increasing, while service provision is not keeping pace, especially in southern regions. Although substantial progress has been made in extending the coverage of childcare at national level, further efforts to expand quality childcare and long-term care services in the regions with the lowest coverage, while ensuring affordability, are needed.

(37) Widespread and increasing undeclared work needs to continue being addressed to promote job quality and fair competition among firms, building on recent RRP reforms. Effectiveness and administrative capacity of the labour inspectorate should be increased through improved working conditions aimed at increasing the attractiveness of the profession, as well as through further data-sharing and coordination across entities carrying out inspections. The most affected sectors, such as domestic work and agriculture, would benefit from targeted interventions, including preventive measures. Labour exploitation, which particularly affects migrants, should be tackled, including by improving access to regular employment for those already in Italy, and ensuring appropriate protection and outreach for victims, as well as by preventing inappropriate housing conditions, notably for agricultural workers.

(38) Adults' basic skills remain among the lowest in the EU, macroeconomic skills mismatches among the highest and, at the same time, low and declining adult participation in training further hampers human capital development and, in turn productivity. Italy has undertaken relevant reforms and invested in adult learning in recent years, notably in the context of the RRF. However, barriers to training - particularly for re-skilling and longer training programmes - persist. Based on a sound and continuous assessment of outcomes of the Active Labour Market Policies and training measures introduced in recent years, the integrated system providing unemployment support, social services and training, needs to be supported by sustainable financing beyond 2026. Barriers to training uptake, including to Vocational Education and Training, should be further reduced. Given the wide regional disparities in adult learning and employment outcomes, it is essential to better target activation measures. Improving skills intelligence and forecasting is also key. In this regard, regional observatories would benefit from further development of the national integrated system that aligns skills supply with demand, drawing on local labour-market data and leveraging AI tools. The governance model for skills forecasting and provision could be strengthened by placing training effectiveness and quality assurance at its core and by deepening cooperation among training providers, social partners and employers, building on, for instance, the successful experience of 'Fondi Interprofessionali'.

(39) Further effort is needed to address Italy's weak and uneven educational outcomes, and to improve the employability of tertiary graduates. While globally significantly reducing early school leaving, learning outcomes have not recovered to pre-pandemic levels and remain fragile. In the South, 46 % of pupils fail to achieve basic proficiency, and disadvantaged students are around three times more likely to underperform compared with their advantaged peers. Greater focus and targeted intervention on the worst-performing schools, including incentives for attract experienced teachers, expansion of full-time schooling leveraging RRF infrastructural investments and scaling up successful initiatives such as the 'Piano Estate', the Agenda Sud and Agenda Nord, could help. Leveraging RRP's investments, curricula would benefit from a skills-based approach. Following preliminary positive results, further assessment of the 4-Year High School Reform pilot will also be key to designing a structural reform of the education cycle. Raising the attractiveness of the teaching profession is also crucial. Building on the RRP's teaching profession reform, more stable employment conditions for non-statutory teachers, a clearer link between salaries, qualifications and performance, and stronger professional development and mobility are needed. Italy's share of 25–34-year-olds with a tertiary qualification, as well as the employability of recent graduates, remain among the lowest in the EU, driven by long graduation times, high dropout rates, low returns on education and large skills mismatches. Building on RRP efforts, including to strengthen STEM, digital and AI-related competences across education levels, alongside the upcoming upper secondary education curricula revision, further reforms are needed, including aligning the Italian university system to European standards by curbing free exam retakes, introducing minimum credit and attendance requirements, linking ANVUR ([18])-based funding to course evaluations and completion rates, and expanding secondary-to-tertiary guidance and STEM promotion (especially among women). Embedding transversal and work-oriented skills into university programmes and increased exposure to work-based learning, notably in VET and mandatory internships at university level, can support graduates' employability and better match skills supply with labour market needs.

([18]) ANVUR (Agenzia Nazionale di Valutazione del Sistema Universitario e della Ricerca) is the Italian National Agency for the Evaluation of the University and Research Systems.

(40) Access to healthcare in Italy has deteriorated in recent years, with increasing waiting lists for public healthcare services and out-of-pocket expenditure significantly exceeding the EU average, significant territorial disparities in healthcare provision, as well as shortages of healthcare staff. The rollout of the 2022 territorial healthcare reform, aiming at reorganising the territorial healthcare services through the new health facilities, should continue by ensuring the completion and operationalisation of all the new facilities (community health houses and community hospitals) at local level, alongside structural integration of healthcare personnel within these facilities, full deployment of interoperable digital healthcare systems to guarantee continuity of care across healthcare structures, and sustained funding for telemedicine and homecare services. The territorial healthcare reform should be implemented in synergy with the 2015 hospital care reform and complemented by additional targeted policies to effectively ensure equitable healthcare access in Italy's inner areas. Addressing healthcare personnel shortages is also crucial, in particular through the use of the health workforce planning model to assess and anticipate regional distribution, guide targeted investments and better inform policies on education and training of professionals. Additionally, the attractiveness of key professions, particularly nurses, general practitioners, emergency doctors, should be improved through enhanced working conditions, career incentives, guaranteed safety and legal protections, and higher-quality specialisation courses. Finally, the full implementation of the Waiting list management plan should be secured, particularly by overcoming the shortcomings of the waiting-list platform, including through improved data collection mechanisms, and adopting the relevant decrees, especially those defining workforce staffing needs and establishing technical guidelines for regional booking systems (CUPs).

(41) Despite recent improvement, poverty and social exclusion risks remain relatively high in Italy, notably among children and families, while territorial disparities are widening. Absolute poverty is at historically high levels in recent years, affecting 8,4 % of households in 2024, including 13,8 % of children. Regional gaps are stark, with the number of people at Risk of Poverty and Social Exclusion around four times higher in the Islands than in the North-East. Gaps in social protection, notably for atypical workers, self-employed, unemployed and people outside the labour market, combined with persistent weaknesses in the delivery of essential services, continue to contribute to elevated risks of poverty and social exclusion. Despite some positive effects from contribution-based benefits, social transfers other than pensions reduce poverty less than the EU average and weakened further in 2025. The reformed minimum income scheme (Assegno di Inclusione 2023) has reduced adequacy and coverage, partially compensated by reforms in 2025 and 2026. While recent policy efforts to support families are going in the right direction, tackling child poverty would further benefit from expanding full-time schooling and providing sustainable funding to school canteens building on RRF infrastructural investments and in line with the EU Anti-Poverty Strategy and the European Child Guarantee. Furthermore, homelessness remains a persistent and severe phenomenon, with ample scope to expand the delivery of housing-first interventions. Lastly, important challenges in the social assistance services provision remain. Clear service targets, stronger monitoring and better coordination at national level, as well as adequate and predictable financing would help expand service availability and reduce territorial inequalities. 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 ([19]).

(42) 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 2026 the Council recommended that the euro-area Member States take action, including through their RRPs, to implement the 2026 Recommendation on the economic policy of the euro area. For Italy, the recommendation (1) helps implement the first, the second, the third and the fifth recommendations on the euro area, recommendation (2) helps implement the fourth recommendation on the euro area, recommendation (3) help implement the seventh and the tenth recommendations on the euro area, recommendation (4) helps implement the eighth recommendation on the euro area, recommendation (5) help implement the seventh recommendation on the euro area and the recommendation (6) helps implement the fifth recommendation on the euro area.

([19]) SWD(2026)122 – Second-stage country analysis on social convergence in line with the Social Convergence Framework (SCF), 2026.

(43) In light of the Commission's in-depth review and conclusions on the existence of imbalances, recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1), (2), (3), (4) and (6). Policies referred to in recommendation (1) help to address vulnerabilities linked to public debt. Policies referred to in recommendation (1), (2), (3), (4) 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), (2), (3), (4) and (6) contribute to both addressing imbalances and implementing the 2026 Recommendation on the economic policy of the euro area, in line with recital 43.

HEREBY RECOMMENDS that Italy take action in 2026 and 2027 to:

1. Ensure that net expenditure respects the corrective path recommended by the Council on 21 January 2025 given the deviation recorded by 2025 by the Commission vis-à-vis the recommended net expenditure ceiling. Reinforce overall defence and security spending and readiness, while ensuring debt sustainability and spending efficiency, as well as gradually adapting the budget to sustain structurally higher defence spending. Ensure that measures taken to mitigate the impact of the hike in energy prices are temporary, targeted at protecting vulnerable households or at addressing the needs of energy-intensive firms, preserve incentives for energy savings and that their fiscal cost is compatible with the commitments under the EU fiscal framework. Continue to 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 sustainable growth, while ensuring fairness, including by further fighting tax evasion and reducing remaining tax expenditures, including those related to value added tax and environmentally harmful subsidies. Update cadastral values, building on the medium-term fiscal-structural plan commitment, as part of a broader review of housing-related policies. Step up efforts to improve the efficiency and effectiveness of public expenditure. Address demographic challenges to mitigate the effects on potential growth and on the sustainability of the pension system, also by attracting and retaining high-quality workforce, and by encouraging older workforce participation especially in the South.

2. Ensure continuity of reforms and investments implemented under the Recovery and Resilience Facility. Accelerate efforts to implement cohesion policy programmes, building, where appropriate, on the reallocation to strategic priorities and flexibilities agreed in the context of the mid-term review of the cohesion policy framework.

3. Support research and innovation, including by strengthening innovation procurement, increasing universities' focus on the commercialisation of research and researchers' career. Promote the mobilization of savings, capital markets' expansion, and firms' growth and aggregation, including by supporting the role of corporate and institutional investors in venture capital and private equity, as well as by facilitating new listings and issuance of corporate bonds. Implement an industrial strategy with the aim to also reduce territorial disparities, by streamlining current policy measures and taking into account key infrastructure projects.

4. Further increase the effectiveness of the public administration and further strengthen administrative capacity, particularly at local level and in the South. Further reduce the backlog and disposition time of the justice system. Address remaining restrictions to competition, including in the transport and electricity sectors and tackle remaining barriers to free movement of goods.

5. Accelerate electrification and intensify efforts for the deployment of renewable energy and storage, including by fully implementing permitting reforms, particularly at sub-national level, and investing in the electricity grid. Continue to address climate-related risks and mitigate their economic impact, including through more institutional coordination, nature-based solutions and climate insurance coverage. Tackle remaining inefficiencies in water and waste management by reducing infrastructural gaps in particular in Southern regions.

6. Continue to promote job quality by further reducing labour market segmentation and supporting effective collective bargaining outcomes and adequate wages. Support labour market participation, including by improving active labour market policies and access to affordable and quality care services, taking into account territorial disparities. Keep-up the efforts to tackle undeclared work. Continue promoting VET and adult learning, including by strengthening in-work training and skills intelligence. Improve educational outcomes, focusing on basic skills, and the labour market relevance of tertiary education. Improve timely access to affordable healthcare, also by tackling shortages in key health professions. Continue to improve the coverage and adequacy of social protection as well as access to social services for people in vulnerable situations, notably children, while maintaining fiscal sustainability.

Done at Brussels, 10 July 2026.

For the Council

The President

S. HARRIS