The European House
Ambrosetti

Business Insights from Italy

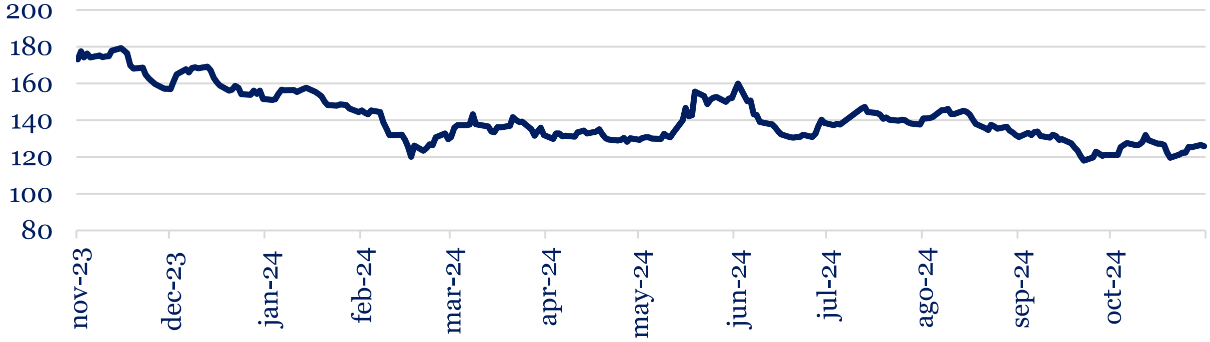
A Letter to International Investors

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:

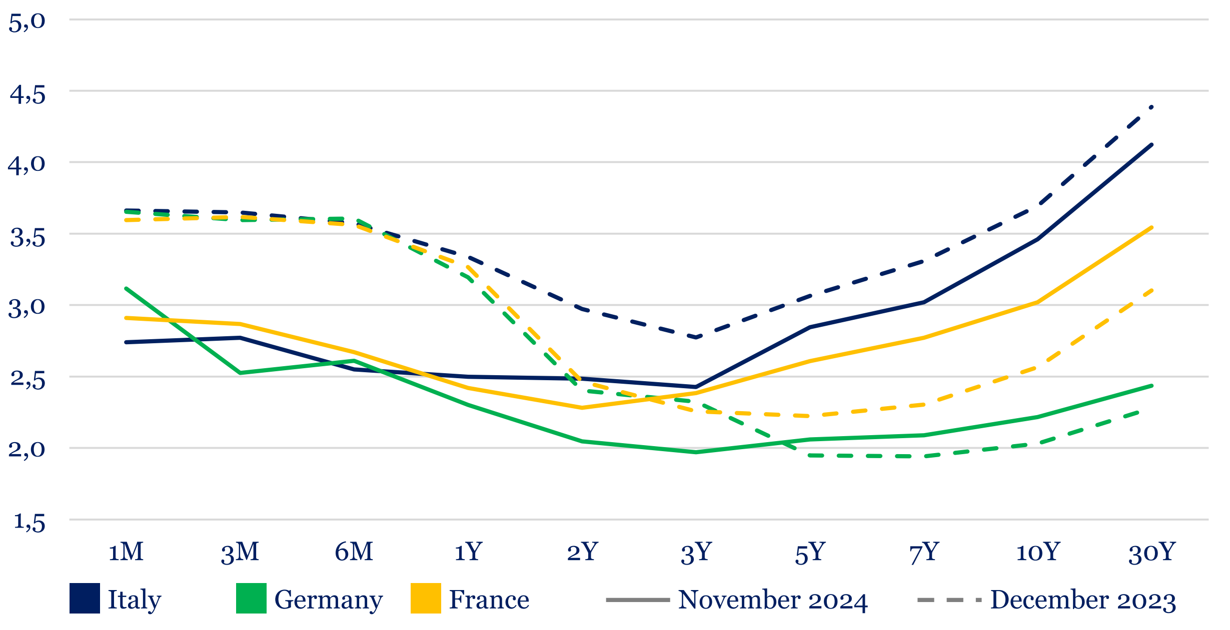
Italy's Macroeconomic Outlook

Italy is a country that has historically faced challenges in the realm of public finance. A debt-to-GDP ratio exceeding the European average, coupled with a degree of political instability, has often weighed on Italian government bonds, which, compared to those of other European countries, have typically offered higher yields due to heightened uncertainty. The primary measure of such "risk premium" is the spread between the yields on Italian ten-year government bonds (BTP) and their German equivalents (Bund). This spread, which exceeded 300 basis points during periods of heightened tension, **has consistently and progressively declined** over the past year, reaching its current level of approximately 120 basis points, just a few points above its historical low.



Italian BTP/German Bund spread (basis point)

This phenomenon is attributable to a combination of factors. The first concerns **political stability**: the current Italian government, in office since the last elections (September 2022), has not faced significant moments of tension, nor does a shift in the country's political balance appear likely in the short term. In Germany, by contrast, the current government has called for new elections at the beginning of 2025, following a prolonged crisis among the parties forming the coalition. The second key factor relates to **growth prospects**: as discussed in last month's newsletter, growth forecasts for 2024 and 2025 are more optimistic for Italy than for Germany.



Yield curve in Italy, Germany and France (%)

The issue of growth expectations becomes particularly evident when analyzing the evolution of yield curves. In addition to Italy and Germany, the chart includes data for France, the third major European economy.

Data from the end of 2023 already highlighted a significant discrepancy between the Italian context (characterized by a "standard" curve, lower yields in the short term and higher in the long term) and the German and French contexts, both showing an "inverted" curve.

An inverted yield curve is economically associated with expectations of recession—though, as always with economic forecasts, it is not an inevitable certainty.

However, historical data support this theory. Indeed, growth in 2024 is projected at 0.9% for Italy, 0.7% for France, and 0.1% for Germany — a trend that aligns with the "degree of inversion" of the respective curves, indicated by the dashed lines.

Throughout 2024, all yields shifted downward — primarily due to monetary easing and the resulting rate cuts implemented by the ECB — yet the overall pattern persisted.

The Italian yield curve **retains a traditional structure**, although the reduction in long-term rates is less pronounced than in short-term rates.

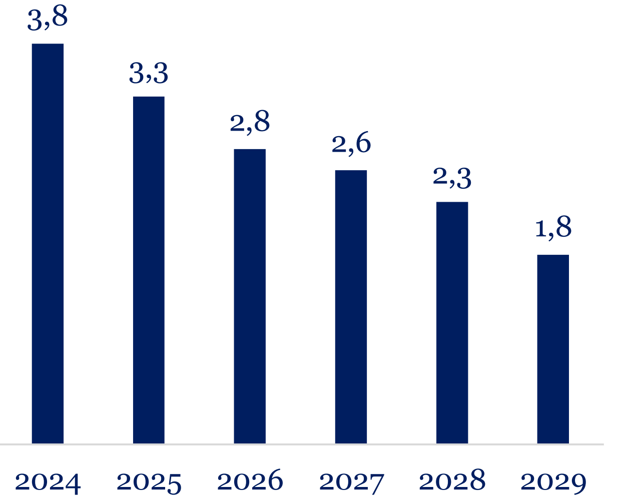
The French curve has stabilized, also adopting a traditional structure, while the German curve continues to exhibit an atypical shape, indicative of future negative economic performance.

Growth prospects for 2025 align with this new pattern. France, with a traditional curve but lower values, is projected to grow by +1.3%; Italy, also with a traditional curve but a higher risk premium for long-term bonds, is forecasted to grow by +1.1%. Germany is expected to grow by +1% (although it should be noted that these projections do not yet account for political risk).

Over the next five years, the Government has planned a gradual path to reduce the public deficit and, consequently, decrease the debt-to-GDP ratio.

As in almost all global economies, the pandemic crisis — on the one hand contracting GDP and on the other requiring extraordinary expenditures to manage the emergency — significantly increased the debt-to-GDP ratio.

With the current program, which has been discussed and approved by the European Commission, a stabilization process is underway, further benefiting public finance balances.



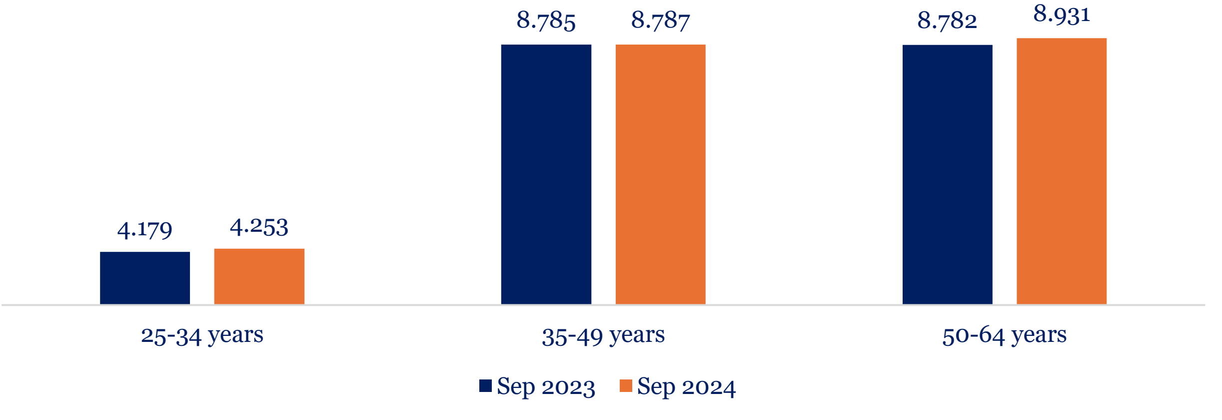
Projection of Italian government deficit (% on GDP)

The figure

Italian academic research is, relative to its population, more productive than that of France, Spain, and Germany. In Italy, 2,632 scientific papers are published per million inhabitants, compared to 2,555 in Spain, 2,399 in Germany, and 1,794 in France.

The growth trend in employment, despite the slowdown at the end of summer, shows a positive differential compared to September 2023, with **300,000 new jobs created**.

Data from the business sector suggest that this trend is unlikely to halt. Indeed, in the third quarter of 2024, the job vacancy rate (the ratio of vacant positions to the total workforce needed) remained stable at 2%.



Employment by age class (thousand people)

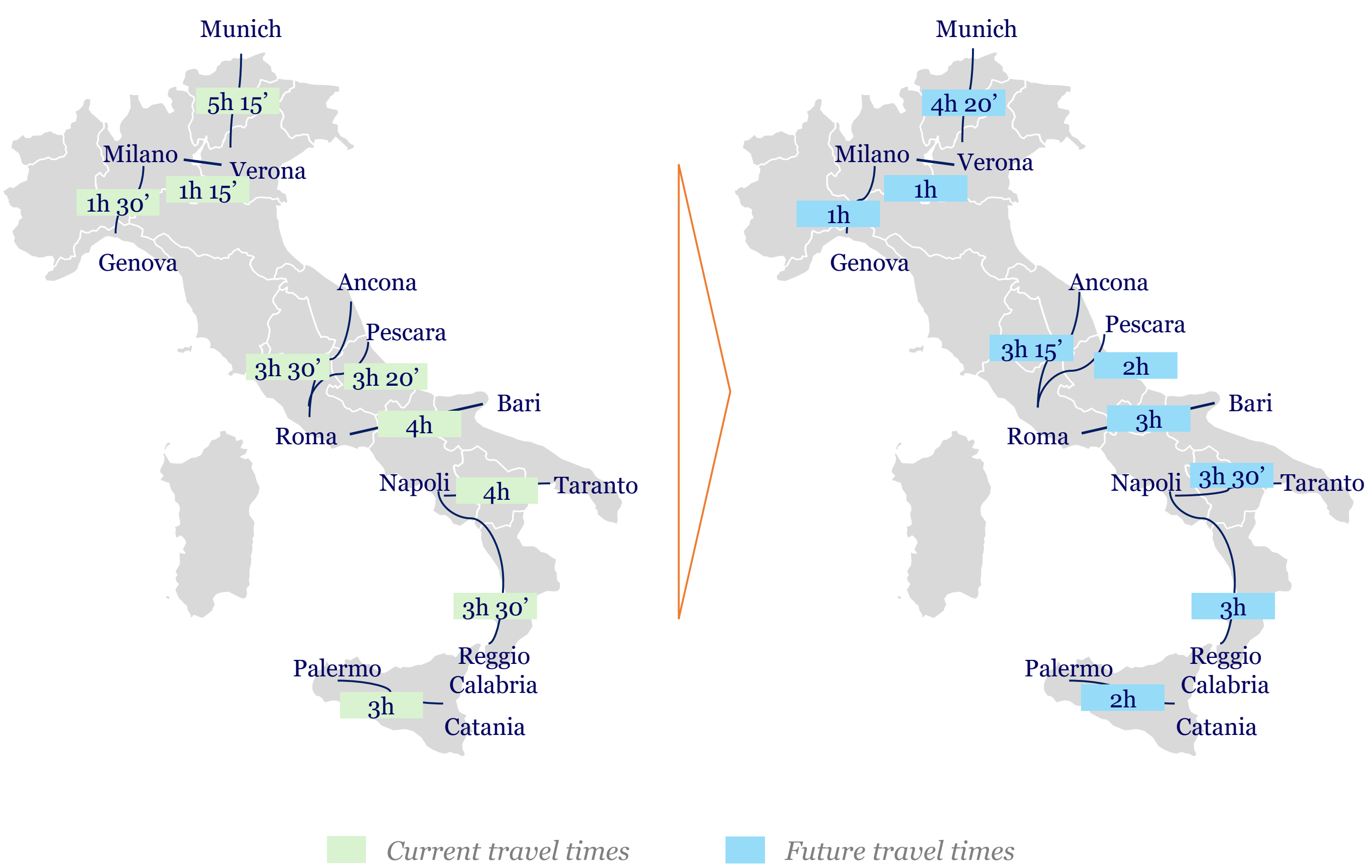
Focus on railway connectivity

35% of Italy's territory is mountainous, compared to 24% in Spain, 23% in France, and 11% in Germany. Despite these morphological differences — which impact passenger and freight transport methods and the ease of constructing railway infrastructure — **8.4%** of internally transported goods in Italy travel by rail, surpassing France (4.7%) and Spain (1.5%), falling slightly behind Germany (11.0%).

In recent years, significant efforts have been made to revitalize freight rail transport, yielding notable results. Between 2014 and 2019, rail freight cargo recorded an 11% growth in terms of train-kilometers. This trend continued even during the pandemic years, with only a 3% contraction in volumes in the first half of 2020, followed by a recovery starting from the second half of 2020 and throughout 2021. By the third quarter of 2020, rail traffic had already returned to the pre-crisis levels of 2019. In 2021, traffic increased by +13% compared to the previous year.

As of today, there is a **+9.9%** variation in train-kilometers compared to the pre-pandemic period.

Since 2021, driven by the National Recovery and Resilience Plan (NRRP) funded by the European Commission's Next Generation EU program, Italy has embarked on an ambitious and significant program to enhance its railway network, **totaling €13.4 billion investments**.



The investments aim to construct nearly 300 kilometers of new high-speed railway lines. The first and most immediate benefit of the network's enhancement is the **reduction in travel times** for high-speed connections within the country, averaging **17%**, with peaks of up to 24% in the southern regions.

These investments, are allocated across three main areas:

- high-speed rail connections to Southern Italy;
- the enhancement of transversal railway transport from the Adriatic and Ionian Seas to the Tyrrhenian Sea (i.e., from the eastern to the western coasts);
- high-speed railway lines in Northern Italy, improving connections with other European countries.

The route between the Suez Canal and the port of Gioia Tauro (in blue) and between the Suez Canal and the port of Antwerp (in orange)

In addition to structural interventions on the railway network, significant investments are underway to **modernize ports** (€390 million) and **improve intermodal connections** between ports, roads, and railways (€250 million). Taken together, these measures greatly enhance the freight transport corridor from Southern Italy to the rest of Europe.

Currently, most maritime freight transport to and from Asia (specifically the portion passing through the Suez Canal) is handled by Northern European ports, particularly Antwerp and Hamburg. As shown on the map, the fastest route would involve unloading cargo in Southern Italy—specifically at the port of Gioia Tauro, located at the southernmost tip of continental Italy.

However, this port is currently utilized to a limited extent: over the past three years, Gioia Tauro has handled an average of 3,242 TEU (thousand twenty-foot equivalent units) per year, compared to 11,900 TEU in Antwerp and 8,297 TEU in Hamburg.

It takes approximately three and a half days to travel from Suez to Gioia Tauro, while the journey from Suez to Antwerp takes just over ten days and to Hamburg eleven days.

So far, Southern Italy's ports have been underutilized, largely due to the absence of "last mile connections" (between port and railroad system) as well as the lack of efficient freight connections to Northern Italy and, from there, to the rest of Europe. The ongoing investments are specifically aimed at addressing these challenges.

Focus on fashion 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 fashion industry.

The fashion industry is a cornerstone of the Italian economy, generating a turnover of approximately €100 billion and comprising over 56,000 active companies. Of these 56,000 companies, nearly 20% are small and medium-sized enterprises (SMEs), which account for 50% of the sector's revenue and employ 244,000 workers, underscoring their central role in the production chain both nationally and internationally. The Italian fashion sector is divided into three main segments: textiles, clothing, and leather goods.

The industry is strongly oriented towards internationalization: it accounts for 10% of Italy's total exports and have grown at an average annual rate of 4.1% over the past five years.

Despite recent declines due to the pandemic and the subsequent international crises, fashion exports reached €65 billion in 2023. The main export markets are France and Germany, but luxury products made in Italy are on the rise, capturing significant market shares in China and Middle Eastern countries.

Forecasts for 2025 project a **3.9% growth in exports**, driven primarily by a recovery in foreign demand, especially in emerging markets such as the United Arab Emirates, Vietnam, and Saudi Arabia.

ITALY'S FASHION INDUSTRY WITHIN THE EUROPEAN CONTEXT

25% of the European fashion industry's **firms**

41% of the European fashion industry's **revenue**

24% of the European fashion industry's **employee**

A particularly significant structural element concerns the geographic distribution of this sector. Out of 56,000 enterprises, as many as 44,000 are concentrated in just six regions: Lombardy, Veneto, and Emilia-Romagna in the North; Marche and Tuscany in the Center; and Campania in the South.

The remaining enterprises are distributed throughout the rest of the country.

This element constitutes the foundation of the structure of industrial districts, which are geographic areas with a very high concentration of enterprises operating across the various subsectors of the fashion industry (textiles, footwear, etc.). Within these industrial districts, companies operate along the entire value chain, from upstream to downstream.

For example, the textile district of Prato (covering an area of 700 square kilometers and home to a population of over 300,000 people), is primarily specialized in the production of wool yarns and fabrics and hosts 7,000 fashion-related companies. These companies export goods worth €2 billion to more than 100 countries.

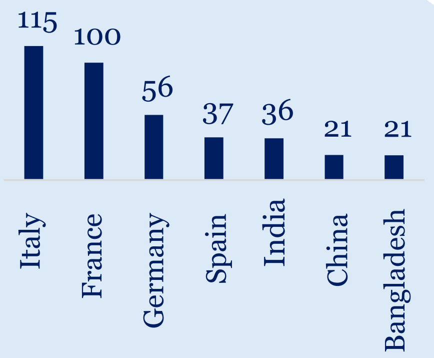
Operating within an industrial district offers significant benefits for businesses.

The most immediate advantage is the reduction of logistical and transportation costs.

Moreover, working in close synergy enables greater process sharing and customization, fostering collaborative relationships throughout the supply chain. Lastly, the territorial identity facilitates stronger connections with the education system and institutional frameworks.

Italy is the second-largest exporter of fashion and textile-apparel products in the world~~,~~ after China.

Unlike other major exporters in the sector (primarily China, but also India and Bangladesh), Italian production is positioned in the high and upper-middle market segments, as reflected in the unit export value, which is over **five times higher** than that of China.



Unit export price of garments and apparel accessories (€ per kg of exported product)

A dedicated tutor for international investors

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

In particular, tutors:

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

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