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**Objet:** New IMF Country Focus: Italy Needs Higher Productivity and More People Working



## Italy Needs Higher Productivity and More People Working



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### Italian

Italy's economy has remained relatively resilient despite global economic uncertainty, and its public finances turned out better than expected last year, recording a primary surplus of 0.4 percent of GDP. Nonetheless, trade tensions have added to risks, not least because Italy is a large exporting economy. Longer-term growth in the European Union's third-largest economy is constrained by low productivity, a shortage of highly skilled professionals, and an aging and declining population, Italy's mission chief, **Lone Christiansen**, told *IMF Country Focus*.

### ***What explains Italy's resilience and what is the overall outlook?***

**Lone Christiansen:** Investment was one of the key factors that supported growth of 0.7 percent last year, in particular through strong implementation of the National Recovery and Resilience Plan—NRRP for short. The labor market also performed well, with more jobs with permanent contracts. And despite the increase in trade uncertainty this year, the share of employed people as a percentage of the working age population rose to a record high.

The fact that Italy's export goods and destinations are diverse is also helping to protect the economy to some degree. That said, exports' central importance is inevitably exposing the economy to global trade uncertainty. As discussed in the [IMF's latest report](#) on the Italian economy, that is why we project growth to slow to 0.5 percent this year, before strengthening to 0.8 percent in 2026 when most of the NRRP infrastructure investments are expected to be completed.

### ***How would continued geopolitical tensions, trade disruptions, and other pressures affect the country?***

**Christiansen:** Several challenges and risks loom, many from the outside. One is trade uncertainty and new tariffs on exports to the United States. In fact, recent data already indicate that trade is being impacted. The intensification of regional conflicts, which raise commodity prices, is also a risk, because Italy depends on imported energy. And extreme weather could harm agriculture and tourism.

Two long-term issues also hamper growth: population aging and weak productivity. The working-age population is projected to decline by double digits between 2024 and 2050. This compounds Italy's long-standing weak productivity problems, with fewer people with the right skills to support innovation.

### ***How can Italy address these two challenges?***

**Christiansen:** First, double down on reforms to boost labor force participation and productivity. We [delved into](#) the economic impact of Italy's demographic trends and suggested several measures to support growth, including boosting women's participation in the labor force (for example, by increasing childcare availability and removing tax disincentives for dependent spouses). We also suggest policies to lift human capital—such as through education and on-the-job training.

More broadly, increasing productivity will need to go beyond people. We find that small innovative Italian firms struggle to become large ones. It is therefore important to develop policies that help the private sector produce and adopt innovation more quickly, so that the most promising companies can continue to grow.

Continuing these efforts would help lift growth. We estimate that a package of reforms that increases women's participation in the labor force, raises skill levels, and increases productivity could boost average annual growth by between 0.1 and 0.4 percentage points during 2025–2050.

Italian authorities are making progress on this agenda. NRRP implementation is well underway, with important measures such as judicial reforms to reduce court backlogs and improving tax compliance. Investments are enhancing the railway system and school infrastructure.

### ***Why is the IMF recommending further fiscal consolidation and how can the country achieve it?***

**Christiansen:** Last year's strong fiscal performance led to a 0.4 percent primary surplus (revenues minus expenses, before interest payments), which was a strong start. Looking ahead, the government is committed to bringing down its high public debt (around 135 percent of GDP last year), and its medium-term fiscal-structural plan shows this commitment.

Why recommend faster fiscal consolidation? We project the interest rate on public debt will exceed economic growth, making debt reduction harder over time. There will also be pressure for more spending on pensions and healthcare as the population ages. We therefore recommend delivering somewhat more consolidation than planned this year and next—reaching a primary surplus of 3 percent of gross domestic product by 2027. Doing so will help reduce debt and increase investor confidence.



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That can be done by focusing fiscal efforts on addressing distortions in the economy. This would soften the impact of fiscal consolidation on growth and help make the economy more equitable.

It would involve continuing to improve tax compliance; rationalizing tax expenditures (for example, phasing out inefficient hiring subsidies); and eliminating the preferential flat-tax rate on income of self-employed people. Reducing public guarantees would strengthen resilience and reduce risks.

### ***What can Italy do to improve corporate growth prospects?***

**Christiansen:** Italy doesn't have enough innovation leaders—large firms at the global frontier, or young firms with high growth potential. And it struggles with business dynamism, with firms struggling to expand or generate new ideas. A combination of national and EU-wide factors helps explain this. Many small businesses have trouble tapping venture capital financing for innovation, and skilled professionals are in short supply. Paradoxically, certain tax incentives for small enterprises weigh on their growth. Addressing these constraints is essential to boost innovation and technology adoption.

The main regional constraint is a lack of effective market size due to incomplete intra-EU integration. European markets are still fragmented due to differences in regulation across countries, preventing true integration and expansion. That's why it's important to deepen the single market and the capital markets union. Such efforts would also reinforce national reforms and help diversify financing options. EU-wide initiatives on artificial intelligence and other frontier technologies could also help close innovation gaps, and European labor mobility reforms could help narrow the skills gap. The combined benefits of national and regional action can be instrumental in lifting Italy's growth outlook.

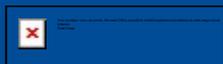
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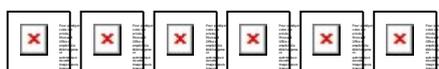
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