Institute for European
Analysis and Policy

Hub for New Industrial Policy
& Economic Governance

Monthly Brief on the Italian Political Economy

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Every month, our Monthly Brief on the Italian Political Economy provides a bullet-point recap of the month's main events, followed by reasoned deep dives and/or interesting graphs and commentaries on topics of significance for economic policymaking in Italy.

LAST MONTH IN BRIEF

02/10	Italy's CDP Venture Capital and OpenAI sign a memorandum of understanding to strengthen the development and adoption of AI technologies by Italian start-ups and enterprises
02/10	PM Meloni meets with the president of Microsoft, Brad Smith. Following the meeting, Microsoft announces a €4.8bn investment in AI infrastructure and cloud in Italy (see our **Graph of the month**)
04/10	The Ministry for Enterprises and Made in Italy and Italy's public bank, Cassa Depositi e Prestiti, start a collaboration to promote the involvement of Italian industry in European IPCEI projects under the InvestEU programme
10/10	During the Industry G7, the Minister for Enterprises and Made in Italy launches the AI Hub for Sustainable Development, a project to support the development of a digital AI ecosystem in Africa, in collaboration with UNDP and within the Mattei Plan framework
15/10	The Council of Ministers approves a €30 billion 2025 budget law proposal (see **Deep Dive 1**), which will now need to be voted by Parliament before 31 December 2024
16/10	The Ministry for Enterprises and Made in Italy presents an "Industrial policy Made in Italy 2030" Green Book and opens a public consultation to draft a strategic industrial policy White Book
21/10	The Council of Ministers approves the first comprehensive Code of Incentives, a bill to rationalise and create coherence in the plethora of state and local incentives for companies (see **Deep Dive 2**)
21/10	The Council of Ministers approves changes to the Public Procurement Code, to simplify the bureaucratic procedures around public contracts

DEEP DIVE 1

An unsurprising 2025 budget

The Council of Ministers approved the 2025 Budget, with a net deficit increase of around €8bn, €20bn and €31bn for 2025, 2026, and 2027, respectively. The text must now be approved by Parliament before the end of December.

Commentary

Overall, the budget bill contained no surprises, with most interventions having been anticipated by the Medium Term Structural Plan (see our September brief) and previous political declarations, or representing extensions of existing measures.

First of all, the document updates estimates of the 2024 budget. Compared to the Economic and Finance Document (see our April Monthly Brief), the deficit is now expected to decrease to 3.8% GDP (- 0.5pp), largely thanks to stronger than expected tax revenues and to upwards revisions to nominal GDP (see the Graph of the Month in our September Monthly Brief). The primary balance is forecast to return to surplus (0.1% GDP), in line with the last two decade's trend.

Second, the document puts forward a list of new measures, involving both revenues and outlays. The most significant intervention is the refinancing of the reduction in the labour tax wedge, which will lower revenues. This, together with other measures aimed at sustaining low and middle incomes, costs around 0.8% GDP (18bn) in 2025, but it is partly offset by increases in non-tax revenues for a total net decrease of around 6bn for 2025 and 11bn for 2026-2027. On the other hand, the government plans to increase net expenditure by around 2bn (2025), 9bn (2026), and 20bn (2027), mostly for social security (inflation adjustment for low pensions and financing of early retirement formulas) and to maintain current real levels of healthcare expenditure (as a percentage of GDP).

Overall, the Budget appears coherent with the Medium Term Structural Plan (see our September Monthly Brief), with the deficit expected to fall below 3% in 2026. However, it falls short of the urgent need to fill the large investment gap, highlighted also by the recent Draghi Report. Rating agencies have welcomed such a fiscal stance, with Fitch recently improving its outlook on the Italian sovereign rating (BBB) to positive. Yet, it is not clear how this short-term fiscal prudence can be complemented with the long-term strategic investments needed to improve the country's competitiveness.

DEEP DIVE 2

Simplifying support to companies: the new Code of Incentives

On 21 October, the Council of Ministers approved the first comprehensive Code of Incentives. The new tool, an important milestone within the NRRP, aims at overcoming the multi-layer administrative complexity of the current fragmented incentive system.

Commentary

The reform is meant to have a positive impact through three channels: rationalising, planning, and measuring.

The Ministry calculated that in 2021 companies could benefit from around two thousand different types of public incentives. Therefore, the first goal of the new code is to drastically rationalise the incentives and focus them on the key challenges for the Italian industry. This effort could increase transparency and simplify the experience for enterprises navigating the incentives offered.

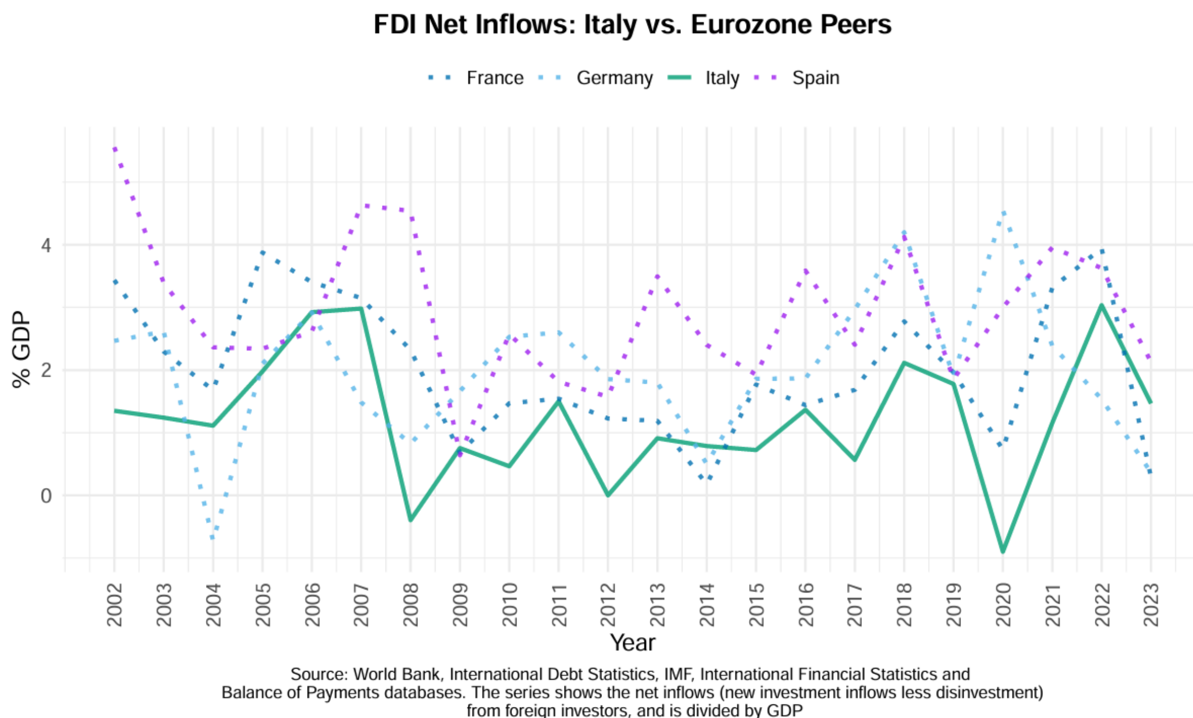
The second guiding principle of the reform is to strengthen the planning of interventions. To avoid spot and overlapping interventions, the Code foresees two tools for better planning. The first is the adoption of a so-called "incentives programme" by each authority granting incentives. This must indicate the goals, timeline, and use of resources for every incentive. The second is a permanent working group, where the Ministry and the regions will meet to discuss their respective initiatives and aim for policy coherence.

Finally, perhaps the most notable aspect of the law is the introduction of explicit evaluations to measure and monitor the impact of the incentives. The provision requires each programme to perform *ex ante*, *in itinere*, and *ex post* evaluations. This is a notable development. The lack of evaluations, and consequent proliferation of concurrent incentive schemes, has been a defining feature of Italian industrial policy in the past thirty years, as our upcoming white paper on the topic will recount.

In short, the new Code seems to be a rare and commendable effort to provide standardisation with the goal of simplifying the system. Hopefully, implementing this simplification will not run into complications.

GRAPH OF THE MONTH

The Italian government seeks to revive FDIs



Source: World Bank

Recent government initiatives have aimed at boosting foreign investment, especially in high-value sectors (e.g., technology and AI), to foster advanced specialisation and drive growth (see Deep Dive 2 in our September Monthly Brief). These efforts come as Italy faced a slowdown in net FDI inflows in 2023, following a strong rebound in 2022 after the pandemic-induced contraction. Such a downward trajectory has however also been shared by other major Eurozone economies. For the first time since 2014, both Germany and France have recorded lower FDI inflows than Italy.