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The Italian economy and the European outlook

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As soon as she came to office on 22 October 2022, Giorgia Meloni promised a major change in politics and Italy's return to a leading role in Europe and on the international stage. In terms of leadership, she has literally crushed all her rivals and opponents with the strength of her convictions and her outspokenness. With her government enjoying the support of the people, she could govern until the end of the legislature and stand for a second term at the next elections, provided that she meets the country's economic and social expectations.

I. THE ADVENT OF GIORGIA MELONI: BETWEEN THE DECLINE OF THE TRADITIONAL PARTIES AND THE QUEST FOR STABILITY

1. Political Situation

After several years of alternating right-wing and left-wing governments, during which time Italy struggled to find stability and, above all, a direction, Giorgia Meloni has made her mark on the political scene. The first woman to head a government in the country's history, she has been able to capitalise on her long political experience and a certain consistency, displaying her values without ever denying her past. Her commitment to defending the interests of the middle class has helped her win the confidence of the public at a complex and unstable time, after a succession of crises, including the Covid-19 pandemic, the Russian-Ukrainian war, soaring energy costs, the crisis in the Middle East and inflation.

The arrival of Giorgia Meloni marked a major change in Italian politics. The main political parties were in the throes of collapse. They could no longer convince the electorate and had lost credibility. They were no longer able to put forward a programme due to a lack of vision and a real leader. They seemed overwhelmed by events.

The Democratic Party, which had governed with all possible coalitions, was severely sanctioned by public opinion and by part of its electorate, due to its leaders' incapacity to offer a valid alternative and above all to provide concrete solutions to a situation of fragility and precariousness created by the various crises.

Following the death of Silvio Berlusconi, Forza Italia no longer had a leader capable of bouncing back in the polls. Its leader Antonio Tajani did not carry as much weight as Silvio Berlusconi had done. His party had hoped to influence or even limit Giorgia Meloni's scope for action. In vain.

The '5 Star' movement, meanwhile, was falling apart. Its leader, Giuseppe Conte, struggled to convince either his own electorate or that of his former ally, the Democratic Party. Blamed for the downfall of Mario Draghi's government in the midst of the crisis, Giuseppe Conte once again played the populist card to try and get back on track, but to no avail.

Matteo Salvini's League was in a bad way. Widely discredited, Salvini had suffered numerous setbacks in recent years, causing his party to lose a large number of votes. Now back in the government coalition, Matteo Salvini nevertheless represents a real danger for Giorgia Meloni. His incoherence and desperate quest for power could even bring the government down. He already did

so in 2019, convinced that he would win the election, but he was ultimately doomed to defeat.

2. And what of two years of political governance?

The government has introduced a number of measures to support the economy and households.

a. Tax reforms and tax cuts

Last December, the Italian Senate adopted the 2025 budget containing measures worth €30 billion, more than half of which are cuts in taxes and social security contributions for annual salaries of up to €40,000. This measure previously applied to incomes capped at €35,000. In addition, the permanent merger of the first two tax brackets means that annual income of up to €28,000 will benefit from a reduced rate of 23%, compared with 25% previously. These initiatives are designed to support the purchasing power of the working and middle classes. The text also introduces incentives for businesses, notably a reduction in corporation tax from 24% to 20%, provided that 80% of profits are reinvested and new employees hired.

b. Energy

Since taking office, Giorgia Meloni has taken steps to reduce dependence on Russian gas (following in the footsteps of Mario Draghi) with a plan to diversify sources of supply, strengthen energy infrastructure and promote renewable energies. Italy has strengthened its relations with supplier countries such as Algeria, which has become its leading energy partner, and with other producers such as Egypt, Azerbaijan and Qatar. This involves consolidating the Transmed gas pipeline (Algeria-Italy) and developing the energy corridor with Azerbaijan via the Trans Adriatic Pipeline (TAP). A new energy agreement has been signed between Italy, Albania and the United Arab Emirates to build an infrastructure to produce and transport clean energy from Albania to Italy via an undersea link. This is a major infrastructure and a source of renewable energy. The value of the infrastructure, which will be operational in a maximum of three years, will total €1 billion. Finally, the government hopes to

have the nuclear bill approved in 2025 and to create a national nuclear company. The aim is to reduce energy dependency and costs, which have a negative impact on the competitiveness of businesses and households.

c. Deficit and government debt

Italy reduced its public deficit from 7.2% to 3.8% of GDP between 2023 and 2024 and plans to bring it down to 3.3% in 2025, by cutting public spending and selling off the State's stakes in certain large companies. In 2024, the debt fell below €3,000 billion.

d. The Mattei Plan for Africa

The Mattei Plan - the centrepiece of Italy's strategy for Africa - has been defined by Giorgia Meloni as a model for concrete and ambitious cooperation. The aim is to promote Italy's leading role in the Mediterranean, and the establishment of a 'new partnership between Italy and the States of the African continent' in areas ranging from development cooperation to the exploitation of natural, water and energy resources. One of the objectives is to combat illegal immigration.

e. Aid for families to encourage the birth rate

The amounts of the single allowance have been increased, with bonuses for families with three or more children and an extra month's parental leave paid at 80% instead of 60%. One measure provides for a €1,000 bonus for newborns by 2025 for families with an ISEE^[1] of up to €40,000. On the other hand, surrogate motherhood has become a universal crime in Italy.

f. Illegal immigration

Immigration issues are a key item on the Meloni government's political agenda. Between 2023 and 2024, around forty government decrees were published on the subject. Giorgia Meloni has raised the issue at every European Council. Italy is not the only country where immigration and asylum have become salient political issues, independently of the phenomena themselves. The open defence of borders and hostility towards those

^[1] *Indicatore della Situazione Economica Equivalente* (an indicator used in Italy to assess the economic situation of households and access subsidized social benefits).

arriving from the south have revived the identity debate among sovereignist political forces and governments. We are of course thinking of Donald Trump's election campaign and his promise to implement the biggest deportation in history, at the expense of the eleven million illegal immigrants who have often been living in the United States for many years.

To reduce immigrant arrivals, the government has stepped up its efforts to outsource borders. Repeated trips to Tunisia by Kais Saïed and the refinancing of agreements with the Libyans have produced tangible results. According to data provided by the Ministry of the Interior, in 2022 there were 105,131 arrivals; in 2023, this rose to 157,651. In 2024, the figure was 66,317, a decrease of 57.9% compared to 2023 and 36.9% compared to 2022. The number of migrants accommodated in Italy is 139,141, divided between hot spots (0.3%), reception (72.6%) and SAI[2] centres (27.1%). Giorgia Meloni decided to build a detention centre in Albania, a measure she hopes to extend to all countries in a bid to better manage the migration problem, but which has yet to be approved by the courts.

g. Need for workforce

There are 2.4 million foreign workers (10.1% of the total). Their employment rate is 61.6%. Immigrant workers generate 164.2 billion in added value, contributing 8.8% to GDP, with peaks of over 15% in agriculture and construction.

According to forecasts, in the five-year period 2024-2028, Italian companies will need three million new employees (excluding public administration), 640,000 of whom will be immigrants (21.3%). Labour requirements in Italy will depend 80% on retirement turnover and only 20% on economic growth. In the central and northern regions, the percentage of immigrants in total requirements exceeds 25%, with peaks of 31% in Tuscany and Trentino-Alto Adige.

II. FOREIGN AND EUROPEAN POLICY

The Italian government has firmly sided with Ukraine in the conflict with Russia, continuing to support it

militarily. Within the European Union, Giorgia Meloni does not support the new Commission, but maintains good relations with Ursula von der Leyen, who appointed Raffaele Fitto Executive Vice-President for Cohesion and Reform. Relations between Italy and the United States are solid, strengthened by Giorgia Meloni's meeting with Donald Trump at Mar-a-Lago on 5 January, prior to her invitation to the US President's inauguration on 20 January.

The relationship between Giorgia Meloni and Elon Musk has been much talked about in Italy since the latter was given a key role in the US administration: shortly after Donald Trump's victory, Giorgia Meloni said that Elon Musk had been in touch with her and that she saw the Trump presidency as a valuable asset for the United States and Italy. Starlink, Space X, Tesla: Elon Musk's interests in Italy are important. The Musk-Meloni alliance is viewed with suspicion in Europe, particularly where the aerospace industry is concerned, but Giorgia Meloni is aware of the country's needs in terms of energy and technological transition. She sees Musk's leadership position as an asset.

III. RELATIONS BETWEEN ITALY AND FRANCE PROGRESS DESPITE POLITICAL MISUNDERSTANDINGS

1. A developing relationship

As soon as Giorgia Meloni took office, political relations between Italy and France suddenly became strained, particularly over the migrant issue, but they eventually returned to normal.

Economic exchanges between Rome and Paris continue and are even booming. In a relationship that is often out of step with the different political coalitions in power in each country, the 'real economy' is a reminder that economic dynamism and synergy are far more important than passing political quarrels.

The Franco-Italian economic ecosystem is represented by some 4,000 companies operating on both sides of the Alps, employing more than 400,000 people in a range of key economic sectors such as banking,

[2] System of acceptance and integration

insurance, the automotive industry, transport, energy, construction and public works, the naval sector, defence, the steel industry, fashion and the food industry.

In terms of bilateral trade, this has been growing steadily since 2014, reaching €127 billion in 2023, including €102 billion in goods and €22 billion in services. Compared with 2020, trade between Italy and France has risen by 18%, French exports to Italy by 20.8% (€38.9 billion) and imports from Italy by 17% (€45.9 billion). With greater industrial integration, the two countries could significantly increase their volume of trade and come close in the next ten years to the same level of trade as between France and Germany. In this context, the Quirinale Treaty, signed on 26 November 2021 in Rome, could play a fundamental role.

Cross-border direct investment is worth €146 billion. French investment in Italy totalled €93 billion, making France the leading foreign investor in the country. French investment is concentrated in financial activities, manufacturing, energy production and distribution, and real estate. Italian investment in France totalled €53 billion, putting Italy in sixth place among the top foreign investors in France. Italian investment is concentrated in manufacturing, energy, healthcare, R&D and decision-making centres.

2. Industrial and financial complementarity

The two economies complement each other perfectly: a large number of Italian exporting companies, as well as major groups, find France a fertile ground for development thanks to a large-scale international ecosystem and political stability that facilitates strategic investment. And with good reason: Italian investment has focused on strategic sectors such as energy infrastructure (Saipem and Prysmian for offshore wind farms in Normandy and Brittany). The Prysmian group, a world leader in the energy and telecommunications cable systems sector, has been commissioned by RTE to take care of the maintenance and repair of the submarine cables linking three offshore wind farms in Saint Nazaire, Fécamp and Calvados for a period

of fifteen years. The Atlantia group (Benetton family) manages 1,769 km of motorways through Sanef and Sapn and three airports in Nice, Cannes and Saint-Tropez. The Webuild construction group is working on the new line 16 of the Paris metro, as well as the Telt-Lyon-Turin tunnel and the Telt-Avrieux ventilation shafts.

Moreover, France has positioned itself very well in the Italian market on a number of levels. Firstly, it is building up a major production base in both the fashion and design industries. The LVMH group, as well as Kering and Chanel, manufacture a large proportion of their products in Italy. In addition to manufacturing, France plays an important role in the country's economy through finance and energy. In the energy sector, Edison (EDF Group) is the country's second largest operator. In banking and insurance, major groups such as Crédit Agricole, BNP Paribas and Axa are among the country's leading players. Finally, FrenchTech sees Italy as a rapidly developing market. This is why a number of unicorns and start-ups have already set up shop here and are thriving with some success.

IV. HEALTH OF THE ECONOMY

The international press often portrays Italy as a highly indebted country, incapable of implementing structural reform which could ultimately drag Europe into the abyss. But is this really the case?

From a purely economic point of view, a country lives beyond its means if it is systematically forced to import more goods and services than it exports and if, as a result, it is forced to increase its foreign debt to finance this structural deficit. However, if the trade balance is in equilibrium, it is inappropriate to say that a country is living beyond its means. If we look at Italy's trade balance, this statement is extremely equivocal: since 2012, Italy has always recorded a higher volume of exports than imports.

Private sector debt in Italy is relatively low compared to other OECD countries. Although the level of total debt is not a problem for Italy compared to other countries,

media attention focuses on the infamous ratio of public debt to GDP, which stands at 137%.

The reasons for this lie in the public deficits accumulated from the 1970s to the 1980s and in the difficulties in recovering from the deep economic crises of the last two decades. These deficits were financed by issuing public debt at very high interest rates. When this debt matured, the Italian state was forced to issue more debt simply to repay the old interest. But if we consider the primary deficit, which excludes the cost of interest on the previous debt, the Italian state budget had not been in the red since 1992, until the Covid pandemic. Surprisingly, even the governments of Germany, Austria and the Netherlands have less frequently recorded levels of primary surplus comparable to Italy's.

In 2024, Italy managed to emerge from stagnation after sixteen years of mixed growth. The year 2024 saw an increase in exports, overtaking Japan for the first time and becoming the world's fourth largest exporter, after China, the United States and Germany. This is an historic result when one considers that Italy's working population is 23.7 million, compared with 69.3 million in Japan. Data from the World Trade Organisation (WTO) therefore confirms the steady growth in Italian exports since 2016, rising from €480 billion to €626 billion in 2023. According to government forecasts, exports should rise to €680 billion in 2025 and exceed €700 billion in 2026.

V. ADVANTAGES OF THE ITALIAN ECONOMY

Italy has competitive advantages in certain sectors that mean it can expand on international markets and maintain its global leadership.

1) Export Companies: According to ISTAT, by 2022 Italy had around 35,000 exporting companies with between 10 and 500 employees. Importantly, companies in the luxury goods, fashion, precision engineering, pharmaceuticals and agri-food sectors export up to 70% of their production.

2) New markets: Europe and the United States are Italy's main export markets, but its companies have

also succeeded in developing new emerging markets such as Mexico, Brazil, Colombia, Turkey, Serbia, Egypt, Morocco, South Africa, India, China, Vietnam and Singapore. These countries currently account for €80 billion of Italy's exports, and this figure could rise to €95 billion by 2027, thanks to major investments by these countries in key sectors in which Italy excels, such as mechanical engineering, energy and infrastructure.

3) Niche strategy: The niche strategy is a major factor in Italian foreign trade. Thanks to its many niches, in which the country is a world leader, Italy has a trade surplus of \$100 billion, excluding energy minerals.

4) Flexibility: Italian companies are renowned for their flexibility. This allows them to tailor products to specific customer requirements, respond quickly to changes in demand and adapt to new market needs.

Although exports represent a vital component of the GDP and offer opportunities for development, particularly in highly specialised sectors, they are not enough on their own to resolve some of the systemic problems from which the country suffers. Italy must adopt targeted strategic measures to enable its economy to grow.

VI. STRUCTURAL PROBLEMS

The country faces a number of challenges and threats that undermine both its competitiveness and future growth.

1) Energy dependency: At 73.5%, Italy is the most energy dependent country in Europe. The cost of energy weighs heavily on the competitiveness of Italian companies. Italy pays 10.1% more than France, 13.4% more than Germany and 44.4% more than Spain. Promoting the development of renewable energies to improve energy security and reduce costs is doubly important.

2) Tax pressure: In 2023, Italy ranked third among OECD countries, after France and Denmark, in terms of

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tax pressure, with a value of 42.8%, stable compared to the previous year.

3) Public debt: Italy's public debt continued to grow in 2024, reaching new all-time highs. According to data from the Bank of Italy, public debt reached €2,981.3 billion in October 2024, with a debt-to-GDP ratio of 137%. Although Italy is one of the few countries to boast a primary surplus, it still has a deficit and continues to add to the public debt because it must continue to repay its creditors.

4) Research and development: Investment in research and development (R&D) in Italy represents a major challenge for the country, especially in a European and global context where innovation is essential to economic competitiveness. In 2022, Italy spent around 1.4% of GDP on R&D, below the EU average of around 2.2% of GDP. Italian investment is also far from the target of 3% of GDP set by the Europe 2020 strategy to encourage innovation. Countries such as Germany, France and Sweden devote a much higher proportion of their GDP to R&D (around 3.1%, 2.3% and 3.5% respectively). The reduced propensity of companies to invest has a negative impact on the ability of the economic system to embark on a more marked growth trajectory. This explains why Italy's GDP has only grown by around 20% since 1990, the weakest performance in Europe. In contrast, countries such as the United States, France, Germany and Spain, where more has been invested in the future, have recorded GDP growth of 110%, 60%, 50% and 80% respectively.

5) Diaspora and the skills deficit: The direct consequence of the departure of highly-qualified young people from Italy means a loss of international competitiveness, as more young Italians emigrate to other European countries or to the UK, which has retained much of its appeal despite Brexit. In the thirteen years between 2011 and 2023, 550,000 young Italians aged 18 to 34 emigrated abroad. If we subtract those who have returned, the loss is estimated at 377,000. It is estimated that the human capital lost is worth €134 billion, a figure that might be triple that if we consider the underestimation of

official data. For every young person arriving in Italy from advanced countries, eight Italians pack their bags and head abroad. Italy ranks last in Europe when it comes to attracting young people, welcoming just 6% of Europeans, compared with 34% in Switzerland and 32% in Spain. The skills shortage affects not only the technology sectors, but also industry. This has numerous negative implications for the economy and for employment, making it difficult for companies to find workers with the necessary skills, and thus diminishing their development. Coordinated action between businesses, institutions and the education system is therefore essential to fill the gap and prepare the country for the challenges of the future.

6) Demographic decline: Italy is facing significant demographic decline, with its birth rate continuing to fall. In 2023, the birth rate was 1.24 children per woman and six newborns per 1,000 inhabitants. Demographic forecasts indicate continued population decline. In 2023, according to the latest ISTAT data, there were 379,000 births in Italy, with a birth rate of 6.4 per thousand (it was 6.7 per thousand in 2022). The fall in births compared to 2022 is 14,000. Italy is facing an unprecedented generational challenge. Between demographic decline, an ageing population and the flight of young people abroad, the country is facing enormous difficulties in maintaining productivity, sustaining public finances and preserving the social system.

7) Employment: Employment is one of the Italian economy's structural weaknesses. Youth unemployment is particularly high, often in excess of 20-25%, one of the highest rates in the European Union. Although a record number of people were employed in 2024 (23.7 million), the employment rate (62.3%) is well below the European average (around 73%). If the government succeeds in narrowing the gap with its European partners, Giorgia Meloni could use this result to hope for a second term in office.

8) Wages: Italian wages are among the lowest in Europe. They have fallen over the last thirty years. The national average gross annual salary for 2021 was €29,301. The level for managers is €101,649, for

executives €54,519, for white-collar workers €30,836 and for blue-collar workers €24,787. Financial services pay the best, with the highest growth rate between 2015 and 2021. Among the Member States, Italy is the only one where wages fell between 1990 and 2020, by precisely 2.9%. As inflation continues to rise, Italians are losing more and more purchasing power.

What might we expect from the government led by Giorgia Meloni? Despite much criticism, interference and mistrust, Giorgia Meloni has shown that she has mastered her role intelligently and pragmatically, imposing both economic choices and ambitious political proposals. Given the difficult geopolitical situation in which Europe currently finds itself, it would have been difficult to do more in just two years in government. On the strength of her convictions and the majority support in her country, she has managed to find common ground not only with Brussels but also with some of her European counterparts who were previously rather critical of her.

The challenges ahead for Giorgia Meloni will be many, both domestically and internationally. Donald Trump's strong American influence could pose a threat to

Europe's interests. Trump has made it clear that his main political objective will be to divide Europe, to weaken it politically and economically, by dealing with each country individually from a position of strength. Trump's America no longer wants allies but customers for its companies. Vladimir Putin's Russia aims to divide it and dictate its conditions for peace in Ukraine, and Xi Jinping is pursuing the conquest of Europe and foreign markets. Europe is in a worrying state politically and economically, with the conflicting interests of European nations undermining decision-making and action.

This is why strengthening the alliance with France and Germany, overcoming the barrier of political affiliation, to further protect the interests of Europeans, particularly on issues of energy, technological, health and military sovereignty, would be the best choice. In this scenario, a great opportunity would present itself for Giorgia Meloni: to assert herself as a stateswoman capable of defending, with her partners, European values, interests and sovereignty.

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