Flash Economics

N° 86
July 17, 2025

Is Italy really on the road to recovery?

Many investors believe that the Italian economy is on the road to recovery, as can be seen in the trend in Italy's interest rate spread relative to Germany; they are therefore becoming more optimistic about the outlook for the Italian economy.

However, there are a number of unfavourable developments:

- The decline in productivity across all businesses and in the manufacturing sector, with productivity trends no more favourable in the North of Italy than in the South, due in particular to the low level of digitalisation among Italian businesses;
- The low level of robotisation in industry, despite the consensus that Italian industry is moving upmarket;
- The low level of adult skills and the poor performance of the education system;
- Italy's difficulty in spending Next Generation EU funds, as revealed by the low number of energy transition and digital transition projects.

The good news is of a macroeconomic nature (trade balance surplus, rapid reduction in the public deficit), but the structural situation is unfavourable, particularly as regards business modernisation.

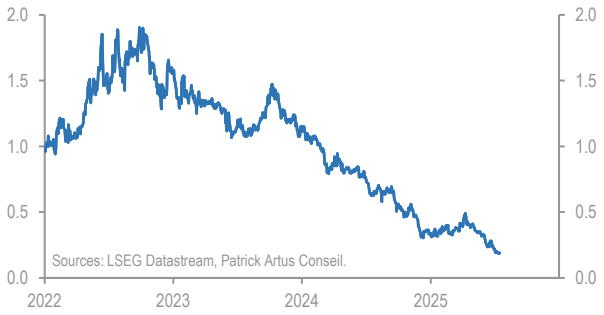
Patrick Artus
Senior Economic Advisor
patrick.artus-ext@ossiam.com
@PatrickArtus
Patrick Artus

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General optimism about the Italian economy

Many investors believe that the Italian economy is on the road to recovery, and this belief has led to a sharp fall in the 10-year interest rate spread between Italy and Germany (**Chart 1**).

Chart 1
Italy: Yield spread on country's 10-year government bonds against France (as % point)



There is **good news for Italy's macroeconomic situation**: a surplus on the trade balance (**Charts 2A/B**), a rapid reduction in the public deficit (**Chart 3,** mainly due to the disappearance of public subsidies for property renovation; in the 4th quarter of 2024, Italy even recorded a budget surplus of 0.4% of GDP).

Chart 2A
Italy: Trade balance in goods and services (monthly data, EUR bn)

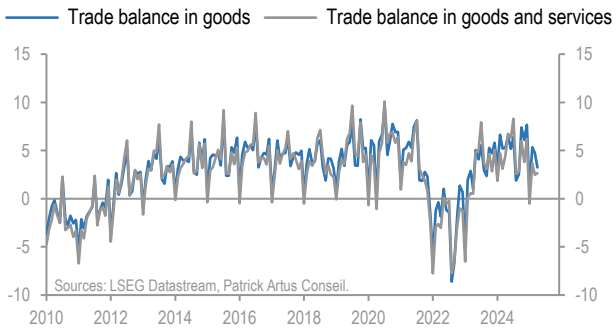


Chart 2B
Italy: Trade balance in goods and services (monthly data, EUR bn)

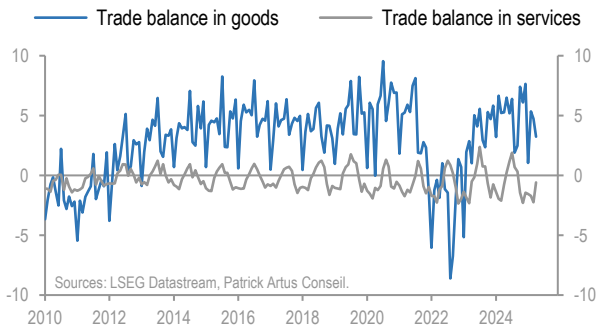
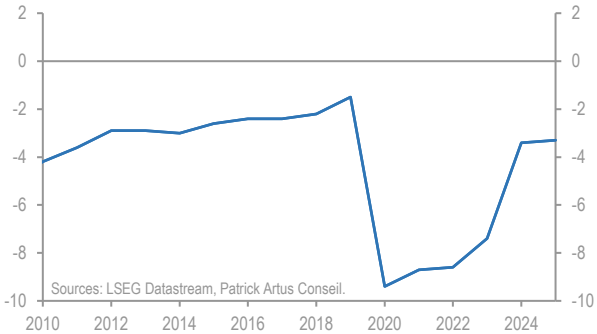


Chart 3
Italy: Fiscal deficit (as % of nominal GDP)



But is this improvement in Italy's macroeconomic situation confirmed by a structural improvement of the Italian economy?

Italy's structural situation remains very unfavourable

The unfavourable nature of Italy's structural situation can be seen in a string of indicators.

1- **Falling business productivity** (**Charts 4A/B**), for all companies and for the manufacturing sector, and low labour productivity (**Charts 4C/D**).

Chart 4A
Italy: Productivity per hour in the overall economy and in the manufacturing sector (2010.Q1 = 100)

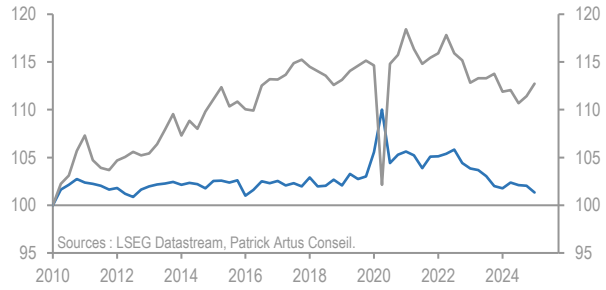


Chart 4B
Italy: Productivity per head in the overall economy and in the manufacturing sector (2010.Q1 = 100)

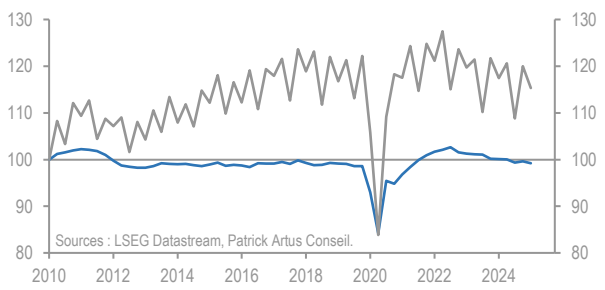


Chart 4C
Productivity per hour in the manufacturing sector (in euros)

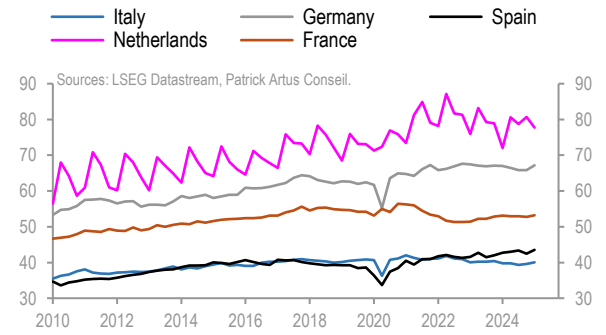
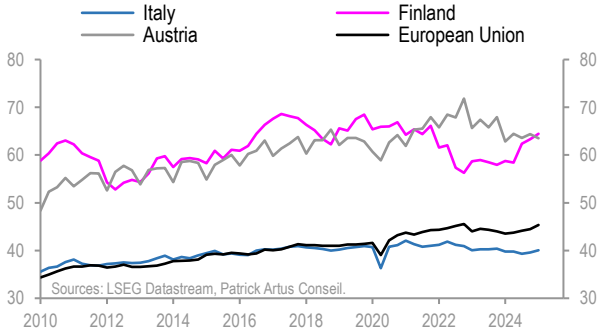


Chart 4D
Productivity per hour in the manufacturing sector (in euros)



Although labour productivity is twice as high in the North of Italy as it is in the South, productivity gains are as low in the North as in the South.

2- **Low level of robotisation in industry**

Table 1 shows that, contrary to the generally held view, **Italian industry is not very robotised** or digitised, which is consistent with the observation that productivity is low.

Table 1 : Robots installed per 10,000 employees in fhe manufacturing industry (2023)

Country	Robots installed per 10,000 employees
South Korea	1012
China	470
Germany	429
Japan	419
Sweden	347
Denmark	306
Slovenia	306
Switzerland	302
United States	295
Netherlands	264
Austria	245
Italy	228
Canada	225
France	186
Spain	174

Source : World Robotics 2024

3- Poor adult skills, poor performance of the education system

Table 2 shows the results of the OECD's PIAAC survey measuring adult skills in mathematics, reading comprehension and problem solving. Table 3 shows the results of the OECD's PISA survey measuring the skills of 15-year-olds.

Table 2: Results of the OECD PIAAC survey (by decreasing score from the 2023 survey, overall score*)

Country	2016	2023
Finland	285	289
Japan	292	285
Sweden	279	281
Netherlands	282	276
Canada	269	267
Germany	271	267
England (UK)	267	266
France	258	253
United States	261	251
Korea	268	246
Spain	249	246
Italy	249	240

* In 2016, average score in numeracy and literacy

Source: OECD

Table 3: Results of OECD PISA surveys (overall score, by decreasing score in the 2022 survey)

Country	2012	2015	2018	2022
Japan	540	529	520	533
Canada	522	523	517	506
Finland	529	523	516	495
United Kingdom	502	500	503	494
United States	n.d	488	495	489
Sweden	482	496	503	487
Germany	515	508	500	482
Netherlands	519	508	502	480
France	500	496	494	478
Spain	490	491	482	477
Italy	490	485	477	477

Source : OECD

This shows the equally low level of skills among adults and young people in Italy.

4- Difficulties in spending Next Generation EU funds

Adding grants and loans, Italy can receive €194 billion from Europe as part of the Next Generation EU plan, with one third in grants and two thirds in loans.

Italy has already received €122 billion, but has only spent €52 billion, revealing the difficulty in generating projects to modernise the economy (in the fields of energy transition, digital transition, rail transport, etc.) in Italy.

Summary: the good macroeconomic news must not distract from Italy's structural difficulties

Italy is showing reassuring figures for its foreign trade and public deficits. But one must not forget the major structural problems Italy is facing: falling productivity, low levels of robotisation, low skills levels among adults and young people, and an insufficient amount of modernisation projects.

It is therefore unlikely that Italy will be able to improve its growth performance in the future (0.7% per annum in 2023 and 2024).

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