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How to Understand What Really Determines a Country's Ability to Influence
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# ITALY, EUROPE AND POWER

## Money, Industry, Security, and Sovereignty in the Transformation of World Order, 1992–2026

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*"Sovereignty is not being able to decide without constraints, but having enough power to choose which constraints to accept."*

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# Preface

Writing the geopolitical history of Italy from the end of the Cold War to 2026 means confronting a paradox that permeates nearly every decisive moment in national public life. Few European countries have discussed sovereignty so much, yet have so rarely measured it through the concrete instruments that enable a state to exercise it. In Italian political debate, sovereignty has been alternately identified with currency, the public budget, border control, national legislation, or the freedom to challenge European institutions. Much less frequently, it has been analyzed as the set of economic, financial, industrial, technological, energy, diplomatic, and military capabilities through which a political community effectively transforms its decisions into results.

It is precisely from this distinction that the book begins.

As Italy entered the final decade of the twentieth century, it still had the lira, formally determined its monetary policy through the Bank of Italy, directly controlled a significant portion of the industrial and financial apparatus, owned large public enterprises in the energy, telecommunications, steel, and infrastructure sectors, and occupied a central strategic position in the Western Mediterranean. However, it was also a country where public debt had reached such proportions that it was gradually influencing budgetary decisions, where inflation remained higher than in the most stable European economies, where international financial integration made economic management separate from continental equilibria increasingly impractical, and where the political class that had governed the Republic during the Cold War was approaching its deepest crisis.

Thirty-five years later, the situation is radically different. The currency is shared by a supranational economic area, and monetary policy is decided by the Eurosystem; national fiscal discipline is embedded in a set of European rules; banking supervision has been partially transferred to the European level; many of the large public enterprises of the 1980s have been privatized, transformed, or subjected to market forces; Italian production chains are much more internationalized; the center of gravity of the global economy has shifted toward Asia; energy security has once again become a geopolitical issue; war has resurfaced on a large scale on the European continent; the transatlantic relationship has regained a centrality that seemed destined to diminish in the 1990s; industrial policy has returned to the lexicon of Brussels, Washington, Beijing, and the major European capitals.

It would be intellectually convenient to construct a single explanation for this transformation, attributing it to the euro, globalization, the choices of Italian governments, Germany, the European institutions, or a general loss of sovereignty. It would also be historically flawed.

Italy's transformation is the result of the interaction of different processes, some of which are the result of national decisions, others of collectively agreed agreements, and still

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others of structural changes over which Italy had limited influence. The collapse of the Soviet Union, German reunification, global capital liberalization, the rise of China, the digital revolution, the 2008 financial crisis, the eurozone crisis, the pandemic, and the Russo-Ukrainian war are not products of Italian politics. But how Italy has addressed each of these shocks depends on the quality of its institutions, the conditions built up previously, and the decisions made by successive governments.

This book will therefore not be the story of original sin. It will not start from the idea that joining the euro inevitably led to Italy's decline, just as it will not start from the opposite theory that the euro automatically protected the country from the consequences of its own structural weaknesses. Both are propositions that need to be tested, not taken as a starting point.

The same criteria will be applied to political protagonists. Carlo Azeglio Ciampi, Giuliano Amato, Lamberto Dini, Romano Prodi, Silvio Berlusconi, Giulio Tremonti, Mario Monti, Mario Draghi, Matteo Renzi, Giuseppe Conte, Giorgia Meloni, and the other actors involved in this story will be analyzed for the decisions they actually made, the tools they employed, the conditions under which they operated, and the observable results. No one will be transformed into a hero or universally held responsible for processes with multiple causes.

The same discipline will apply to supranational institutions. The European Central Bank will not be described as an omnipotent body when its powers were legally limited, nor as a mere technical body when its decisions produced enormous economic and distributional consequences. The European Commission, the Council, the Eurogroup, and NATO will be examined in terms of their respective real powers, always distinguishing between what they could formally decide and what resulted from negotiations between governments.

An example helps us understand why this precision is essential. The Treaty on European Union was signed in Maastricht on February 7, 1992, and published in the Official Journal of the European Communities on July 29 of the same year. It was therefore not a measure subsequently "imposed" on Italy by a foreign entity: Italy participated in the negotiations and was among the signatory states. The Italian Parliament then authorized ratification with Law No. 454 of November 3, 1992; the instrument of ratification was deposited on December 5, 1992, and the Treaty entered into force on November 1, 1993. This does not establish whether the choice was economically optimal, whether Italian negotiating power was equivalent to that of France or Germany, or whether all the consequences were understood. It simply establishes the fact from which the analysis must begin.

The distinction between fact and interpretation forms the backbone of the volume.

When we get to the 1992 crisis, it won't be enough to write that "speculation attacked the lira." We'll have to reconstruct the state of public finances, the inflation differential, the

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EMS regime, reserves, interest rate policy, capital movements, the Bundesbank's position, expectations regarding the ratification of the Maastricht Treaty, and the simultaneous crisis of other European currencies. When we get to 2011, it won't be enough to say that "the markets brought down Berlusconi" or that "Europe imposed Monti": we'll have to distinguish between yield trends, investor exposure, ratings, parliamentary decisions, relations with the ECB, the position of the President of the Republic, European negotiations, and the internal dynamics of the majority. When we get to the Superbonus, it won't be enough to pronounce a single overall figure: we'll need to distinguish the various regulations, subsequent amendments, the timing of accounting, the impact on public finances, the effects on construction activity, and the temporal distribution of the burden.

A book that claims to be verifiable cannot afford linguistic shortcuts.

There is also a deeper reason for adopting this method. Many of the decisions that have transformed Italy do not have their effects within the same legislature in which they are adopted. One government signs a treaty, another implements its conditions; one executive approves a pension reform, subsequent ones reap the savings or mitigate its effects; one government introduces a tax incentive, another records its impact on the deficit; an energy strategy constructed over two decades can become vulnerable only when a geopolitical shock disrupts the supplies on which it was founded.

Political responsibility does not therefore necessarily coincide with the contemporaneity of the effect.

This will be one of the interpretative keys of the entire book: understanding **when a decision is taken, through which instrument, by whom it is signed, what objective is declared, what mechanism should produce the expected result and who subsequently inherits the benefits or costs** .

Nowhere is this connection more evident than in the history of Italian monetary integration.

Italy did not wake up on January 1, 1999, suddenly stripped of monetary sovereignty. The transformation had begun much earlier. The European Monetary System had already limited the exchange rate's freedom of movement; capital liberalization had altered the relationship between national politics and markets; the EMS's narrow band had increased commitment to currency stability; Maastricht had established the institutional path; interest rate convergence had progressively transformed the cost structure of debt. The euro represented the culmination of this process, not its starting point.

The same gradualism will characterize other transformations. The privatization of the Italian economy was not a single act. The reduction of public sector participation in banks did not happen overnight. The integration of Italian defense into the new NATO

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structures did not coincide with a single summit. Energy dependence on Russia did not begin with a contract and did not end with a single decision following the invasion of Ukraine.

Contemporary history is made of accumulations.

This is why the book begins before the date that appears in its own chronological arc. 1992 is the pivotal year, but to understand why that year had such profound effects, we need to go back to the late 1980s, when the foundations of the Italian system still seemed solid and, just as the Cold War international order was drawing to a close, a series of decisions were silently altering the rules within which the national economy would operate.


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# Introduction

**Italian sovereignty at the end of a world order**

On the evening of November 9, 1989, when the opening of the border crossings in Berlin transformed a political crisis in East Germany into the symbol of the end of an era, Italy had belonged to the Western camp for forty years. This membership was not merely diplomatic. It had determined the structure of national security, European economic integration, access to Western markets, the direction of foreign policy, and a substantial part of postwar industrial modernization.

Throughout the Cold War, Italy's geographic position had given the country a strategic value superior to that suggested by its economic size alone. The peninsula extended into the Mediterranean, faced the Balkans across the Adriatic, had Sicily and Sardinia at the center of the main sea routes, and hosted installations essential to the Atlantic apparatus. Italy was also a founding member of the European Economic Community and had progressively integrated its growth into the continental market.

The fall of the Soviet system did not erase this position, but it rapidly transformed its meaning. In the new Strategic Concept approved in Rome in November 1991, NATO recognized that the threat of a massive and immediate attack that had dominated the Alliance's first forty years had disappeared; in its place emerged a more uncertain environment, in which security would have to combine collective defense, dialogue, cooperation, and crisis management. This was not a marginal revision of doctrine: it meant that the international system in which Italy had defined its position since the birth of the Republic was disappearing.

At the same time, Western Europe was building a much deeper form of integration than had been experienced in previous decades. German reunification was altering the continent's political and economic balance; the completion of the internal market was increasing interdependence; financial liberalization was reducing the effectiveness of national barriers; the Economic and Monetary Union project was shifting the issue of exchange rate stability from coordination between different currencies to the future construction of a common currency.

Italy faced this transition with seemingly contradictory characteristics. It was a major manufacturing country, boasting a diversified industrial base, successfully exporting numerous categories of goods, and possessing large private groups and extensive public capitalism. At the same time, it had accumulated growing debt, experienced inflation higher than Germany's, and repeatedly depended on exchange rate adjustments to regain some of the competitiveness lost through price and cost adjustments.

The Italian problem of the 1990s arose precisely from the encounter between these two realities.


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The new Europe required greater nominal convergence, capital mobility, and progressive currency stability; the Italian model, on the other hand, had long coexisted with relatively high inflation, public deficits, and periodic monetary realignments. The transition from one system to the other could not be achieved simply by changing institutional rules. It required a transformation of the national economic structure.

This tension precedes Maastricht.

In January 1990, Italy included the lira in the narrow band of the European Monetary System. During the same period, the liberalization of capital movements was completed. The Bank of Italy's Annual Report for 1990 noted that, since May of that year, resident operators have been able to conduct financial transactions with foreign countries "in complete freedom" and highlighted the enormous increase in financial flows: in 1990 alone, the sum of credits granted and debts contracted with foreign countries had exceeded 800 trillion lire, compared to 536 trillion the previous year.

This liberalization represented a necessary modernization for an economy that wanted to participate fully in the European financial market, but it radically changed the environment in which economic policy was conducted. When capital can move freely, an investor is not forced to hold assets denominated in the national currency; they can continuously compare returns, risk, inflation expectations, and exchange rate prospects with those available in other countries. An economic policy perceived as incompatible with currency parity therefore becomes more difficult to sustain, because the pressure manifests itself not only through international trade but also through potentially enormous financial movements.

The geopolitical significance of this process is often underestimated. Financial liberalization does not eliminate state sovereignty, but it does alter its cost. A government remains formally free to adopt an expansionary fiscal policy; however, it must finance its deficit in a market where debt holders have alternatives. A central bank can defend a parity, but it must possess sufficient reserves and be willing to use the interest rate to make holding its currency attractive. The greater the debt stock, the higher the potential cost of the restrictive monetary policy necessary to defend the exchange rate.

Italy in the early 1990s found itself precisely within this triangulation.

High public debt, increasingly mobile capital, and a commitment to currency stability progressively transformed the internal economic problem into a question of national capacity.

This is why in this book, debt will not be treated merely as an accounting indicator. Debt is also a power relationship. It determines how much public resources should be dedicated to the past rather than the future; it influences the state's credibility in crises; it alters the relationship with the central bank; it makes industrial policy more or less

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costly; and it can limit the space available for defense, infrastructure, energy, and research.

By 1992, this reality will become impossible to ignore.

The Bank of Italy's Annual Report for 1992 records a general government net borrowing of 9.5% of GDP, down from 10.2% in 1991. Even more significant is the primary balance: net of interest payments, Italy went from essentially balanced in 1991 to a surplus of 1.9% of GDP in 1992. This meant that Italy's problem could no longer be described simply as the result of a government spending too much on services and transfers that year. A huge portion of the imbalance now arose from the financial cost of the accumulated debt.

It is in this sense that 1992 becomes the threshold for the entire subsequent process. In the same year, Italy signed the Maastricht Treaty, faced a currency crisis, adopted one of the most severe budget adjustments in its republican history, witnessed the acceleration of the political system's crisis, and lost the ability to maintain the lira in the EMS exchange rate mechanism. It would be difficult to imagine a more significant concentration of economic, institutional, and political changes.

But 1992 cannot be understood as a sudden collapse.

We need to look at what happened in the previous four years.


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# PART I


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# Chapter 1

## 1988–1992. Italy at the end of the Cold War

By the late 1980s, Italy seemed to firmly belong to the group of industrial democracies that had benefited most from the long period of postwar growth and integration in the West. The country's modernization had transformed a society that had been predominantly agricultural at the birth of the Republic into a major industrial economy; manufacturing production had been organized around both large corporations and an extraordinarily complex network of small and medium-sized enterprises; the public economy occupied strategic positions in energy, telecommunications, steel, engineering, and credit; the political system, despite conflicts and government instability, had ensured remarkable continuity in major international positions.

Beneath this surface, however, the Italian model had accumulated tensions that the end of the Cold War and the acceleration of European integration would make much more difficult to manage.

The key point is not whether Italy in the 1980s was a strong or weak economy. It was both, but to different degrees. It possessed considerable productive capacity and, at the same time, a vulnerable public finance structure. It had highly competitive businesses but maintained inflation differentials compared to its monetarily more stable partners. It had its own currency, but had chosen to progressively limit its fluctuations through the EMS. It could finance its debt in lira, but the opening of capital markets made the cost of that financing increasingly sensitive to investors' assessments.

The great change of the four-year period 1988–1992 was precisely that these elements, previously manageable in a relatively separate way, began to interact.

## The European constraint precedes Maastricht

When discussing Italy's loss of the ability to freely use the exchange rate, the most frequent reference is the introduction of the euro. The actual chronology is longer.

Italy joined the EMS at its inception in 1979. The system did not abolish national currencies, but rather organized their relationships around central parities and fluctuation margins. This resulted in a compromise: governments formally retained the national currency, but agreed to subordinate part of their monetary policy to defending the exchange rate.

In the 1980s, Italy continued to use periodic realignments of the lira when inflation and cost differentials made the previous parity unsustainable. This allowed it to regain nominal competitiveness, but it came at a cost: the devaluation could be passed on to import prices, fueling inflation and reinforcing expectations that further realignments would be necessary.


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By the end of the decade, the Italian authorities' strategy shifted in the opposite direction. The goal was no longer to systematically adjust the exchange rate to higher domestic inflation, but to use exchange rate stability as a tool to force Italian prices and costs to converge toward those of more stable economies.

The lira's entry into the EMS narrow band in early 1990 must be interpreted within this strategy. It did not yet represent an irrevocable renunciation of the national currency, but it significantly increased the cost of devaluation and made European monetary stability an increasingly binding objective.

This transition coincided with the liberalization of capital markets. The Bank of Italy noted that since May 1990, resident operators had conducted their international financial transactions under conditions of complete freedom; in the same year, gross financial flows with foreign countries increased to such a level that the ratio of financial transactions to current transactions rose from 96% in 1989 to 129%.

Behind an apparently technical fact lies a fundamental transformation of economic sovereignty.

A system in which national savings are highly segmented from the rest of the world allows the government and the central bank to exert greater control over domestic financial conditions. When that segmentation disappears, domestic rates must compete with those available abroad, and currency risk becomes much more important.

Market discipline, therefore, did not originate with the euro. It intensified with financial integration.

This is an important element because it changes the retrospective reading of 1992. The lira crisis did not occur in an economically isolated Italy that was suddenly exposed to international speculation; it occurred after a deliberate choice of financial and European integration that increased capital mobility and reduced the compatibility between persistent national imbalances and exchange rate stability.

This isn't to say that liberalization was a mistake. Openness itself allowed businesses easier access to international financial markets, enabled investors to diversify their portfolios, integrated Italy into the nascent European single market, and reduced a series of controls incompatible with the community project.

The consequence, however, was clear: **Italian economic policy would have to become more credible because the cost of inconsistency was becoming faster and more visible** .


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## Analytical table used for correct graph

| Year | Debt/GDP | Source used | Nature of the data |
|---|---|---|---|
| 1980 | 58.900% | Historical IMF | actual |
| 1981 | 61,000% | Historical IMF | actual |
| 1982 | 66,300% | Historical IMF | actual |
| 1983 | 71,900% | Historical IMF | actual |
| 1984 | 77.100% | Historical IMF | actual |
| 1985 | 84,000% | Historical IMF | actual |
| 1986 | 88,500% | Historical IMF | actual |
| 1987 | 92.700% | Historical IMF | actual |
| 1988 | 95.722% | IMF WEO | actual |
| 1989 | 98.400% | IMF WEO | actual |
| 1990 | 101.710% | IMF WEO | actual |
| 1991 | 105.309% | IMF WEO | actual |
| 1992 | 112.967% | IMF WEO | actual |
| 1993 | 124.107% | IMF WEO | actual |
| 1994 | 130.831% | IMF WEO | effective in the IMF series used |
| 1995 | 119.088% | IMF WEO | actual |
| 1996 | 118.896% | IMF WEO | actual |
| 1997 | 116.491% | IMF WEO | actual |
| 1998 | 113.887% | IMF WEO | actual |
| 1999 | 113.059% | IMF WEO | actual |
| 2000 | 108.743% | IMF WEO | actual |
| 2001 | 108.513% | IMF WEO | actual |
| 2002 | 105.947% | IMF WEO | actual |
| 2003 | 105.141% | IMF WEO | actual |
| 2004 | 104.742% | IMF WEO | actual |
| 2005 | 106.176% | IMF WEO | actual |
| 2006 | 106.253% | IMF WEO | actual |
| 2007 | 103.454% | IMF WEO | actual |
| 2008 | 105.788% | IMF WEO | actual |
| 2009 | 116.121% | IMF WEO | actual |
| 2010 | 118.737% | IMF WEO | actual |
| 2011 | 119.106% | IMF WEO | actual |
| 2012 | 125.870% | IMF WEO | actual |
| 2013 | 131.816% | IMF WEO | actual |
| 2014 | 134.755% | IMF WEO | actual |
| 2015 | 134.746% | IMF WEO | actual |
| 2016 | 134.195% | IMF WEO | actual |
| 2017 | 133.689% | IMF WEO | actual |
| 2018 | 134.138% | IMF WEO | actual |
| 2019 | 133.823% | IMF WEO | actual |
| 2020 | 154.288% | IMF WEO | actual |
| 2021 | 145.735% | IMF WEO | actual |
| 2022 | 138.279% | IMF WEO | actual |
| 2023 | 134.579% | IMF WEO | actual |
| 2024 | 135.286% | IMF WEO | actual |
| 2025 | 137.100% | Eurostat | effective, end of year |
| 2026 Q1 | 138,900% | Eurostat | provisional, 1st quarter |


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## Debt as a legacy of the 1980s

It is impossible to understand the subsequent transformation without observing the trajectory of public debt.

Italian debt did not arise with Maastricht, nor with the 1992 crisis. Its growth had its roots in the preceding decades, when high deficits, increased spending, the characteristics of the tax system, indexation, inflation, and subsequent changes to the monetary regime had progressively increased the stock of state liabilities.

By the late 1980s, the nature of the problem had changed. Debt was no longer simply the accumulated result of previous deficits; through interest, it itself generated a substantial portion of the new deficits.

This point is essential to understanding why Italian politics in the 1990s would have been dominated by the primary surplus.

In 1992, according to the Bank of Italy's Annual Report, general government net borrowing fell from 10.2% to 9.5% of GDP. If we were to limit ourselves to this figure, we might conclude that the government was simply continuing to run an exceptionally high deficit. However, the same source shows that the primary balance, i.e., the balance before interest payments, had become positive by approximately 1.9% of GDP.

The difference between the two values reveals the size of the debt service.

The Italian state could therefore drastically reduce current spending, increase taxes, and achieve a primary surplus, but continue to record a very high overall deficit because an enormous amount of resources was absorbed by interest payments.

This situation would have had profound political consequences. Lowering interest rates would have become far more important for Italy than for countries with significantly lower debt. If monetary integration had succeeded in reducing risk premiums and inflation, the benefit to the Italian budget could have been enormous. If, however, the country's credibility had weakened, rising yields could have rapidly neutralized any primary correction.

This is where one of the strongest economic motivations for Italy's choice to join Europe comes from.

The euro had not yet been created, but the implicit promise of convergence was clear: price stability, reduced currency risk, and rates closer to those of the core economies would make a debt more sustainable, which, under Italian conditions in the early 1990s, represented a permanent vulnerability.

But the promise had a second side.


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Once the interest rate cut was achieved, Italy should have used that advantage to reduce its debt-to-GDP ratio and increase production capacity. If, however, the interest savings had been absorbed by other spending or offset by insufficient growth, the opportunity would have been largely wasted.

This issue, which will become central after 1996, cannot yet be judged in 1992. But it was already part of the problem.


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## Chart 2 — Italy: deficit and primary balance

| Year | Overall deficit / balance (% GDP) | Primary balance (% GDP) | Interpretation |
|---|---|---|---|
| **2020** | **-9.4%** | **-6.0%** | Exceptional primary deficit during the pandemic |
| **2021** | **-8.9%** | **-5.4%** | Fiscal policy still strongly expansionary |
| **2022** | **-8.1%** | **-4.0%** | Reduction of primary deficit, but strong impact of energy and support measures |
| **2023** | **-7.2%** | **-3.5%** | Deficit still very high, also due to the accounting effects of building bonuses |
| **2024** | **-3.4%** | **+0.4%** | Return to primary surplus and strong reduction in overall deficit |
| **2025** | **-3.07%** | **+0.79%** | Further consolidation and strengthening of the primary surplus |

**Definition:** The **overall deficit/balance** corresponds to the net borrowing of the general government, i.e., revenue minus expenditure **including interest** . The **primary balance,** on the other hand, is the public balance **net of interest expenditure** . A positive value indicates a primary surplus; a negative value indicates a primary deficit.


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## The end of the Cold War also changes the meaning of Europe

The acceleration toward Economic and Monetary Union cannot be understood solely as an economic project. It occurred at the exact moment the Cold War European order was being dismantled.

NATO's new Strategic Concept, approved at the Rome Summit on 7-8 November 1991, explicitly recognized that the changes since 1989 had radically transformed the security environment. The Alliance noted that the old, monolithic, and immediate threat that had dominated the first forty years no longer existed and that European security, along with collective defense, must be based on dialogue and cooperation.

For Italy, the geopolitical significance of this transformation was considerable.

During the Cold War, the peninsula's strategic centrality derived from the geography of the East-West confrontation. After 1989, the Mediterranean, the Balkans, North Africa, and the Middle East would remain crucial, but no longer as peripheral segments of a perfectly defined global conflict. Regional crises, political instability, and later the Yugoslav wars would require more flexible capabilities.

At the same time, reunified Germany regained an economic and demographic centrality that the postwar division had limited. The process of European integration thus also took on a political function: to insert the new Germany into an increasingly profound institutional system and define a framework within which the other major European states could continue to exert influence.

However, it would be methodologically incorrect to reduce the euro's birth to a simple French effort to control Germany. The monetary union project predated the fall of the Berlin Wall and had a long institutional lineage. Maastricht was the result of converging but not identical interests: Germany placed central importance on monetary stability; France sought greater shared European monetary governance; Italy had a strong political interest in not remaining on the margins of the core of integration and a potential economic interest in importing monetary credibility.

The problem was to establish whether the Italian economy was sufficiently prepared.


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## Maastricht: the strategic choice before the crisis

On 7 February 1992, the twelve member states of the European Communities signed the Treaty on European Union. Its official publication in the Journal of the European Communities clearly identifies the date and nature of the act.

For Italy, the signing took place under the Andreotti government. The subsequent ratification would take place during the Amato government, through Law No. 454 of November 3, 1992. This transition between two governments is more than an institutional detail: it demonstrates how the decision to implement monetary integration was not simply the decision of a single executive, but rather expressed the strategic continuity of Italy's main institutions even as the national political system began to disintegrate.

Maastricht defined the path toward Economic and Monetary Union within a framework that placed central importance on price stability and public finance discipline. For a country like Italy, the decision therefore implied much more than symbolic adherence to a European project. It meant a commitment to transforming variables that until then had maintained characteristics that were significantly different from those of Germany and some other continental economies.

The main issue was the debt.

Italy approached the new European architecture with a level of debt that clearly differentiated it from its major partners. The country could only join the monetary union by demonstrating that its financial situation was compatible with the Treaty criteria.

From this point on, Italian economic policy acquired an increasingly strong external component. Budget measures no longer responded solely to the domestic need to finance the state, but also to the need to demonstrate to European partners and the markets the possibility of convergence.

This is what would later be described with the formula "external constraint." But the formula once again risks oversimplifying matters. The constraint wasn't just imposed immediately. The Italian authorities also sought it as a tool to make politically more credible a correction that the debt conditions made necessary anyway.

The crucial question, therefore, is not whether the bond existed. It did exist.

The question is whether it has improved the quality of Italian transformations or has favored nominal convergence without sufficiently solving the real problems of productivity, investment, and competitiveness.

This question will run throughout the book.


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## The real economy enters the new discipline without having completed convergence

Italy's vulnerability did not concern only public finances.

Competitiveness was also becoming an issue.

A relatively flexible exchange rate system allows nominal competitiveness to be restored by devaluing the currency: domestic products become cheaper in foreign currency, while imported ones become more expensive. However, the advantage may be temporary if the devaluation fuels new inflation and wage increases, subsequently requiring another realignment.

The shift to a stable exchange rate strategy was precisely aimed at interrupting this dynamic. But for it to work, Italian prices, wages, and productivity would have to converge sustainably.

Here lies one of the fundamental tensions of subsequent history.

The elimination of devaluation can be interpreted as a virtuous discipline if it forces a production system to improve productivity and innovation. However, it can become a deflationary constraint if productivity increases fail to materialize and adjustment is achieved primarily through wages, employment, and domestic demand.

In 1992, it was not yet possible to know what path Italy would follow.

However, it was already evident that the old equilibrium could not continue without modifications.

ISTAT's historical data depict an economy rapidly losing momentum. In its annual report on the country's situation, the institute estimated that real GDP growth had fallen from 2.1% in 1990 to 1.3% in 1991 and 0.9% in 1992, while employment declined by 0.9% in the latter year. The same source notes the difficulty of directly comparing the unemployment rate due to the change in statistical definitions that occurred during 1992, an important point because it prevents the unwary use of numbers constructed using different methodologies.

This slowdown made fiscal adjustment even more difficult. Reducing the deficit during a period of weak growth leads to a circular problem: tax increases and spending cuts can further depress demand, while a weaker GDP worsens the denominator of public finance ratios.

The Italian dilemma of the 1990s takes shape precisely here. Public finances needed to be rapidly improved to reduce the cost of debt and maintain the European perspective, but this needed to be done without destroying the productive capacity on which the future sustainability of those same finances depended.


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## The Summer of 1992: When Vulnerabilities Become Crises

The currency crisis did not begin as an exclusively Italian phenomenon. The tensions affected the entire EMS and reflected the fragility of a system that combined high capital mobility, national currencies, differing monetary policies, and market-challenged parities.

The European political context contributed to increasing uncertainty. The ratification of Maastricht was not a given, and the Danish and French referendums made the future of the monetary union an issue of immediate relevance for markets.

However, Italy presented specific vulnerabilities that made it particularly exposed.

The Bank of Italy's Annual Report precisely reconstructs the acceleration of the crisis. At the end of August 1992, pressure on EMS currencies intensified as the French referendum on Maastricht approached; the lira reached the lower end of its band, in a situation further aggravated by the downgrading of Italy's foreign currency-denominated public debt by a rating agency. In early September, it was necessary to activate the bilateral interventions envisaged by the exchange rate agreements, and on September 4, the discount rate was raised to 15%.

This data allows us to see the crisis not as an abstract concept but as a mechanism.

To defend the lira, it was necessary to make it more convenient to hold assets denominated in the Italian currency and to use reserves to purchase lira on the market. Raising interest rates served the first purpose; currency interventions served the second.

But the higher the rate needed to protect the exchange rate, the greater the pressure on the financial system, the real economy, and, over time, the cost of refinancing public debt.

On September 13, the Italian and German authorities proposed a general realignment of parities to the other partners; according to the Bank of Italy's official reconstruction, no other country agreed to change its parity with the mark, and the result was a 7% devaluation of the lira alone. The Bundesbank subsequently reduced its interest rates only slightly. Tensions continued. On September 16, the United Kingdom suspended sterling's participation in the exchange rate agreements , and the Italian government also suspended interventions to defend the lira; the Spanish peseta was devalued by 5%.

The financial dimension of defense was enormous. In September alone, the Bank of Italy recorded the use of approximately **29.9 trillion lire of official reserves** , with recourse also to EMS credit facilities; in the same month, bank capital outflows reached approximately **25.9 trillion lire** .

These data deserve to be retained because they correct two opposing narratives.


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The first is that the devaluation was simply a political decision freely adopted to boost exports. It wasn't. It came after a costly attempt to maintain parity and after market pressures had made that defense increasingly difficult.

The second is that the crisis automatically demonstrates the impossibility of a national Italian currency. This conclusion, too, doesn't follow from the facts. The crisis occurred within a particular regime of quasi-fixed exchange rates and under conditions of strong capital mobility, high debt, persistent nominal differentials, and a European monetary policy uncoordinated by a common central bank. A fully flexible lira would have represented a different regime, with different advantages and costs.

History therefore does not allow us to transform September 1992 into definitive proof for or against the euro.

However, it allows for a very important conclusion: **the combination of a quasi-fixed exchange rate, full capital mobility and significant economic divergences had become extremely unstable** .


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## The price of defense and the meaning of devaluation

The departure from the defense of parity quickly changed the picture.

The Bank of Italy's Economic Bulletin for autumn 1992 noted that on September 17, interventions to protect the exchange rate had been suspended and the lira had begun to fluctuate; the effects of the September crisis included a loss of reserves in the order of 30,000 billion lire.

The depreciation that followed was much greater than the initial 7% realignment. A subsequent historical reconstruction by the Bank of Italy notes that in the final months of the year, the depreciation of the nominal effective exchange rate reached approximately 20%. The same reconstruction also underscores the authorities' fear that the currency crisis could turn into a financial crisis, given extremely high short-term interest rates and severe strains on public debt.

This is where the relationship between monetary sovereignty and financial sovereignty becomes particularly evident.

The ability to devalue effectively served as an adjustment tool. The weaker currency would subsequently boost external competitiveness and contribute to the recovery of exports. But the freedom to devalue did not eliminate the cost of devaluation. A country that needed to attract capital to finance a huge debt stock had to consider the consequences of its currency's devaluation, inflation expectations, and the increased premium demanded by investors.

Monetary sovereignty was therefore not a free power.

At the same time, the future renunciation of devaluation would not have eliminated the need for adjustment: it would simply have transferred it to other variables.

Italy's European choice must be read within this dilemma, not through ideological formulas.


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## The fiscal crisis and the birth of the primary surplus

While the Bank of Italy defended the exchange rate, the Amato government faced a very serious deterioration in public finances. The need for fiscal adjustment did not stem solely from Maastricht; the level of the deficit and the cost of debt already posed a financial sustainability problem in their own right.

The government's response was exceptionally severe and included measures that would leave a political legacy far more lasting than their specific quantitative impact. The extraordinary levy on bank deposits, in particular, became a symbol of that period, making tangible for millions of citizens a crisis that until then might have seemed confined to financial markets and institutions.

But focusing exclusively on the levy risks missing the most important historical significance of the maneuver.

In 1992, Italy achieved a significant primary surplus. According to the Bank of Italy, the primary balance went from a substantially balanced position in 1991 to approximately 1.9% of GDP the following year, while overall net borrowing remained at 9.5%.

This divergence between the primary surplus and the overall deficit will become a decisive feature of Italy's political economy.

The government began to accumulate a surplus on its operations before interest, but a huge part of that effort was absorbed by debt servicing.

It is difficult to overestimate the political consequences of this structure.

For a country with such a high debt, a permanent reduction in interest rates could have freed up tens of thousands of billions of lire and, subsequently, tens of billions of euros. Monetary convergence therefore promised something extremely concrete: shifting resources from debt servicing to other public functions or to debt reduction itself.

This promise will constitute one of the main economic arguments in favor of Italy's participation in the single currency.

The historical judgment will, however, depend on what happens next: **how much of that future interest rate dividend will actually be used to structurally modify the country's fiscal and production position?**

The answer does not belong to 1992. It will become one of the cruxes of the following chapters.

## The political crisis is not a backdrop

At the same time as the state was trying to stabilize money and public finances, the political system built in the post-war period was entering its own disintegration.


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This element cannot be treated as a simple parallel chronicle.

A state's economic credibility also depends on the ability of its institutions to make lasting decisions. When investors, international partners, and domestic economic actors themselves perceive growing political instability, uncertainty about the continuity of future policies increases.

The Italian 1992 therefore brings together three crises: economic, monetary and political.

This doesn't mean that one automatically causes the others. Tangentopoli isn't the cause of the lira's devaluation, just as public debt doesn't explain the transformations of the party system. But the simultaneity of the crises reduced the state's overall ability to separate one problem from another.

The change of governments takes on particular significance in this context. Maastricht was signed while the Andreotti government was still in office; the management of the currency crisis and its ratification fell to the Amato government. The Treaty formally entered into force in November 1993, by which time Palazzo Chigi was headed by Carlo Azeglio Ciampi.

Three different governments would therefore have gone through the initial stages of the same strategic choice.

It is an early example of a mechanism that will continually recur in the following decades: one government negotiates, a second ratifies or implements, a third deals with the consequences.

## Why Italy Didn't Abandon Maastricht After the Lira Crisis

It is perhaps the most politically interesting question of the whole of 1992.

If the new European monetary order had just revealed Italy's difficulty in maintaining a stable exchange rate, why didn't the crisis lead to a retreat from the monetary union project?

The answer cannot be reduced to a single reason, but the institutional sequence is clear: despite the lira's suspension from the exchange rate agreement, Italy continued with ratification. Law No. 454 was promulgated on November 3, 1992; the instrument of ratification was deposited on December 5.

The crisis was therefore interpreted by the dominant Italian institutions not as proof of the impossibility of convergence, but as a further reason to pursue it.

The underlying economic reasoning was understandable. If the lira's vulnerability stemmed in part from inflation, deficits, debt, and risk premiums, joining a credible monetary system could mitigate at least some of these factors. If the high cost of debt

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was one of the government's main weaknesses, interest rate convergence offered a potentially enormous benefit.

But there was also a political and geopolitical dimension.

Italy did not want to be left out of the core of Europe that was forming around France and Germany. After German reunification and the end of the continent's division, being excluded from the monetary union could have meant a loss of influence, not only economically but also politically.

The future euro was therefore perceived simultaneously as an economic discipline and an instrument of geopolitical belonging.

This dual function helps explain why successive Italian governments invested such significant political capital in pursuing membership.

## The true legacy of 1992

The great transformation of 1992 was not simply the devaluation of the lira or the signing of the Maastricht Treaty. It consisted in the now difficult-to-reverse realization that the Italian economic model of previous years could not be fully preserved.

The full freedom of capital limited the effectiveness of some forms of national management of the financial system. Debt made interest rate costs a strategic issue. European monetary stability reduced the possibility of repeatedly using the exchange rate without paying a credibility cost. Maastricht defined an institutional path that would require a much broader transformation of public finances. The political crisis simultaneously weakened the structures through which these transformations were supposed to be governed.

Italy was therefore faced with a choice that, in reality, contained several choices.

It could seek a return to a more autonomous and flexible regime, accepting the financial and geopolitical costs that would entail; or it could attempt to converge toward the new European core, accepting that part of the future adjustment would have to be achieved without persistently resorting to devaluation.

The Italian institutions chose the second path.

The fundamental historical point is that, from that moment on, the success of the strategy depended on something far more difficult than signing a treaty. It was necessary to modify the structure of the state, contain debt, reduce inflation, reform the pension system, transform the banking sector, intervene in the labor market, privatize part of the public economy, and, above all, increase productivity rapidly enough to sustain a competitiveness no longer periodically restored by the exchange rate.

Some of these transformations would have been realized.

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Others would have remained incomplete.

Still others would have produced unforeseen consequences.

It is in the gap between monetary convergence and the convergence of the real economy that the Italian problem of the following decades begins to emerge.

1992, therefore, represents neither the sudden loss of Italian sovereignty nor the moment when Europe rescued a country incapable of governing itself. Neither formula stands up to documentation.

It represents something more complex: **the moment in which a large industrial economy, burdened by growing financial fragility and inserted into a rapidly changing international order, decides to solve part of its problems by tying its future to much deeper European integration, without yet having resolved the structural divergences that would have made that choice sustainable in the long term** .

The consequences of this decision did not appear immediately.

Between 1993 and 1996, as the political system of the First Republic dissolved and new forces entered the scene, Italy had to rebuild its credibility almost simultaneously on four fronts: the public budget, pensions, the banking system, and European relations.

It would have been the era of Ciampi, Berlusconi, and Dini; of concerted action; of pension reform; of the launch of major privatizations; of the search for wage regulations compatible with the new economic regime.

And above all, it would have been the period in which a question, which in September 1992 might still have seemed theoretical, became the main strategic objective of Italian economic policy:

**Was it really possible to bring Italy back into the European monetary system and lead it, in a few years, to the single currency?**


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# Chapter 2

## 1992 — Maastricht, the lira crisis and the breakdown of the Italian balance of power

Some years become significant because a single event occurs, destined to alter the course of history, while others acquire their significance precisely from the simultaneous concentration of transformations that, taken separately, might seem manageable but, when superimposed, dissolve the previous equilibrium. For Italy, 1992 undoubtedly belongs to the second category. It was the year in which the construction of the European Monetary Union definitively transcended the projectual dimension with the signing of the Maastricht Treaty; the year in which the lira was no longer able to sustain its position within the European Monetary System; the year in which public debt increasingly exceeded gross domestic product, according to the measures recorded at the time; the year in which the government was forced to undertake an exceptional fiscal adjustment; and, simultaneously, the year in which the political system that had governed the Republic since the end of the war entered the terminal phase of its crisis.

To describe this sequence as a simple encounter between Maastricht and "speculation against the lira" would be to reduce a systemic crisis to a journalistic formula. The lira didn't fall because a single operator decided to sell it, just as Italian public finances didn't become problematic the moment the markets took notice. The crisis developed within an architecture that Italy had voluntarily helped build: capital movements now largely liberalized, an exchange rate tied to the EMS, a monetary policy geared toward currency stability, very high public debt, a still significant inflation differential with Germany, and a European political process that promised to transform coordination between national currencies into a true monetary union.

It is precisely this overlap that makes 1992 decisive. The crisis didn't simply demonstrate the lira's weakness. It demonstrated how difficult it had become to simultaneously maintain capital freedom, rigid exchange rates, national monetary autonomy, and persistent economic divergences.

The starting point is Maastricht, because the signing of the Treaty preceded the most dramatic phase of the Italian crisis by several months.

On **7 February 1992** , the twelve then member states of the European Communities signed the Treaty on European Union in the Netherlands. Italy was among the signatories. The text did not simply establish a future common currency: it redefined the political structure of European integration, formally created the European Union and, through amendments to the Treaty establishing the European Economic Community, set the course for Economic and Monetary Union. [1]


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In Italian political memory, Maastricht has become synonymous above all with the two best-known figures of European integration: a public deficit not exceeding 3 percent of GDP and a public debt not exceeding 60 percent. These values are not a later reconstruction: they appear in the Protocol on the excessive deficit procedure annexed to the Treaty. The Protocol defined as reference values **3 percent** for the ratio between public deficit and GDP and **60 percent** for the ratio between public debt and GDP. [2]

But reducing Maastricht to these two thresholds generates another misunderstanding. The Treaty did not simply establish that any country with a debt exceeding 60 percent would be automatically excluded from the future currency. For the debt, it also mattered that the ratio was sufficiently decreasing and approaching the reference value at a satisfactory pace; the evaluation would therefore inevitably also be economic and institutional, not purely arithmetic. [3]

This detail was crucial for Italy, because the country signed Maastricht already far from the debt threshold. This gap did not represent a future problem, created by the euro, but a legacy accumulated before the single currency. However, Maastricht transformed this internal vulnerability into a European problem: if Italy wanted to participate in the final phase of the monetary union, it would have to demonstrate not only its ability to contain its deficit, but also its ability to establish a credible debt reduction trajectory.

There was also another criterion which was destined to take on an almost paradoxical meaning a few months after its signature. The Protocol on the convergence criteria established that, before entering the final phase of the EMU, a country had to have respected the normal margins of fluctuation provided for by the EMS exchange rate mechanism for at least two years, without "serious tensions" and without having devalued on its own initiative the bilateral central exchange rate against other Community currencies. [4]

In February 1992, when the Treaty was signed, the lira was still part of the European exchange rate mechanism. By September of the same year, its parity could no longer be defended.

The heart of the crisis takes place between these two dates.

The Italian political context made the transition even more delicate. The elections of spring 1992 had produced a Parliament profoundly different from those of the previous phase, while the traditional party system was beginning to be affected by judicial investigations that would be summarized under the name of Tangentopoli. The transition to the Quirinale also took place in extraordinary circumstances. Oscar Luigi Scalfaro was elected President of the Republic on **25 May 1992** , at the sixteenth ballot and just two days after the Capaci massacre, in which Giovanni Falcone, Francesca Morvillo and their escorts had been assassinated. [5]

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This temporal coincidence does not justify constructing an artificial causal link between the Mafia, the currency crisis, and public finances. However, it does help us understand the condition of the Italian state: while economic authorities were facing a growing problem of financial credibility, the entire political and institutional system was under pressure that went far beyond the economy.

Scalfaro entrusted the task of forming the government to Giuliano Amato on **18 June** ; the new executive was sworn in on **28 June 1992.** The Ministry of the Treasury was entrusted to **Piero Barucci** . [6] Mario Draghi, who had been Director General of the Treasury since 1991 and would maintain that position for a decade, operated in the same economic apparatus. [7] At the Bank of Italy the governor was **Carlo Azeglio Ciampi** , in office since 1979, while **Lamberto Dini** had occupied the position of Director General since the same year. [8]

Four names—Amato, Barucci, Draghi, and Ciampi, with Dini at the operational head of the central bank—were thus at the center of the economic management of 1992. It is important to clarify their roles, because subsequent public memory will often tend to lump together figures who occupied institutionally diverse positions under the label of "technicians." Amato was the Prime Minister and led a political government; Barucci was the minister responsible for the Treasury; Draghi was the Treasury's highest administrative official, not a minister; Ciampi headed a Bank of Italy that still had its own national monetary policy but operated within the commitments of the EMS.

The distinction is substantial. The government decided fiscal policy and assumed parliamentary responsibility for its implementation; the Treasury managed state financing and debt; the Bank of Italy was responsible for maintaining monetary stability and, as long as the lira remained within the exchange rate agreement, intervened to maintain the exchange rate within established margins.

The summer of 1992 forced these institutions to act simultaneously.

The public finances situation left little room for gradualism. The government inherited a dynamic in which the requirement was proceeding more rapidly than the objectives and the high debt stock amplified the impact of interest. Parliamentary documentation shows that the Economic and Financial Planning Document for 1993-1995 was presented jointly by President Amato, Treasury Minister Barucci, Budget Minister Franco Reviglio and Finance Minister Giovanni Goria on 31 July 1992; that institutional configuration already clarifies how much recovery was considered the executive's priority. [9]

Among the most remembered measures was the extraordinary tax on deposits. The legislation of the time is precise: a withholding tax of **6 per thousand** was applied to the amounts resulting from bank and postal deposits as of **9 July 1992.** [10] In collective memory the provision has become "the levy on current accounts", and politically the definition captures the sudden and directly perceptible nature of the measure; legally,

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however, it is important to report its exact form, because it concerned a broader category of deposits and provided for specific exclusions.

The levy had a symbolic force far greater than its quantitative function. For the first time, the public finance crisis materially affected households' bank balances and thus became perceived not as an abstract problem for the Treasury but as an immediate private loss. From that moment on, the relationship between the debtor state and Italian household savings would take on a much more visible political dimension.

However, it would be incorrect to reduce the fiscal strategy of the Amato government to that measure. The 1992 maneuvers were much more extensive. A subsequent reconstruction by the Bank of Italy quantified the expected effects of the corrections decided in 1992 for the following year at approximately **93,000 billion lire** ; in the final analysis, considering the revisions and the macroeconomic effects, the reduction in the trend borrowing requirement was estimated to be in the order of five percentage points of GDP. [11]

These numbers are so large that it's clear why 1992 marked a turning point in the fiscal history of the Republic. It was no longer a matter of marginally modifying a few budget items; it was an attempt to alter the trajectory of the Italian state while the country simultaneously entered recession and the interest rates needed to support the exchange rate remained extremely high.

Here appears a contradiction that will characterize many subsequent eurozone crises: **the monetary policy necessary to defend the currency could aggravate the fiscal problem which, in turn, weakened the credibility of the currency** .

To defend the lira, it was necessary to make lira-denominated financial assets sufficiently profitable and intervene in the currency markets. But higher interest rates meant higher costs for financing the economy and, ultimately, for refinancing a massive public debt. The fiscal maneuver was intended to reassure the markets and reduce borrowing requirements, but the budget constraints weakened domestic demand and thus growth, in turn making it more difficult to stabilize the debt-to-GDP ratio.

This circuit is essential to understanding autumn.

Tensions over the EMS were not limited to Italy. The European system had entered a phase of growing political and monetary instability. The Maastricht ratification process had encountered an unexpected snag when Danish voters initially rejected the Treaty; the approaching French referendum further increased uncertainty about governments' ability to implement the new institutional framework.

The Bank of Italy's 1992 report reconstructs the acceleration of the crisis with great precision. At the end of August, pressure on the EMS currencies intensified, also in relation to the approaching French referendum. On 28 August, the Community

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governments publicly declared that they wanted to maintain the existing parities. For the lira, however, the pressure increased further and was aggravated by the downgrading of the Italian public debt in foreign currency by a rating agency. The currency approached the lower margin allowed by its fluctuation band. [12]

The first days of September showed how quickly a crisis of confidence could turn into a monetary crisis. The EMS agreements provided for interventions by central banks to support currencies that reached the edges of the band; consequently, the defense of the lira required increasing interventions on the currency markets. At the same time, on **September 4 the official discount rate was raised to 15 percent** . [13]

Fifteen percent wasn't simply a high number. To understand its significance, it must be placed within the structure of Italian debt. A government that must continually refinance a large stock of securities is gradually subjected to the market's demand for higher yields. The monetary policy employed to protect the lira could therefore increase the price the Treasury would have to pay to place its debt.

Ciampi and the Bank of Italy faced a dilemma for which no solution was costless. Stopping the defense of the exchange rate meant accepting a devaluation and risking inflation; continuing to defend it meant consuming reserves and maintaining extremely restrictive monetary conditions. At the same time, the government had to convince investors that fiscal consolidation would be sufficiently rapid to reduce the vulnerability that was fueling pressure on the currency.

on **13 September 1992.** According to the reconstruction by the Bank of Italy, the Italian and German authorities proposed to their European partners a general realignment of the EMS parities, accompanied by a relaxation of the German interest rate policy. The other countries did not accept to change their parities with the mark; the result was therefore a modification concentrated on the Italian currency, with a devaluation of the lira parities equal to **7 percent** . The Bundesbank reduced its official rates the following day, but by an amount limited to half a percentage point. [14]

The annual report of the then Committee of Governors of the European Central Banks also reconstructs the same dynamic: the pressures on the lira had become unsustainable despite the increase in official Italian rates and very short-term rates that had exceeded **30 percent** ; the realignment of 13 September failed to persuade the markets that the new parity grid was sustainable. [15]

This is one of the most important pieces of information in the entire chapter because it prevents us from interpreting the September 13 realignment as a solution to the crisis. It wasn't. For a brief moment, capital inflows were recorded, but tensions resumed the next day.

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Three days later, on **September 16** , the crisis became more evidently European. The British pound, subjected to exceptional pressure, suspended its participation in the exchange rate mechanism. On the same day, the Italian government announced the suspension of interventions to defend the lira and the Spanish peseta was devalued by 5 percent. [16]

The sequence is also crucial for another reason: it shows why it would be historically inaccurate to speak of a crisis caused solely by Italian weaknesses. Italy was one of the most vulnerable countries and had significantly worse fiscal conditions than Britain, but the exchange rate mechanism as a whole was under pressure. The pound withdrew from the agreements; the peseta and other currencies were subjected to severe tensions; the French franc would have required significant intervention. The problem was therefore both national and systemic.

However, Italy's specific fragility determined an exceptional scale of intervention.

In September alone, according to the Bank of Italy, **29,900 billion lire of official reserves were used** in interventions on the foreign exchange market. About two-thirds of the amount was covered by recourse to the very short-term credit facilities of the EMS; the Bank for International Settlements also made available to the Italian authorities a line in marks, used for about three billion marks. In the same month, bank capital outflows reached **25,900 billion lire** . [17]

These data give material dimension to what is often summarized by the expression "attack on the lira." The formula can describe the outcome of financial movements, but it should not replace analysis. There were sales of lira and portfolio reallocations, massive interventions by monetary authorities, extremely high interest rates, and growing doubts about the sustainability of the parity. However, the available documentation does not automatically justify transforming these behaviors into evidence of political coordination aimed at targeting Italy. To support such a thesis, it would be necessary to identify actors, instructions, coordinated transactions, and demonstrable purposes. The official record used in this chapter demonstrates a financial and currency crisis; it does not demonstrate an organized conspiracy against the Italian state.

The distinction isn't semantic. It's one of the central rules of this book.

After the suspension of interventions, the lira was able to move more freely, and its depreciation was much greater than the initial 7 percent realignment. Italy had regained, in practice, a tool that the exchange rate regime had progressively limited: the ability to let the currency's external value adjust to market conditions.

This return to flexibility had important consequences. A weaker lira made Italian products more competitive in foreign currency terms, increased the cost of imports, and thus

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altered the distribution of adjustment among exporting sectors, consumers, and firms dependent on foreign inputs.

This is precisely where one of the most enduring controversies about the euro arose.

The 1992 crisis demonstrated that devaluation could offer a rapid mechanism for regaining price competitiveness. But it also demonstrated that devaluation was not a free resource: it occurred after strong financial pressure, could increase the cost of imports, risked fueling inflation, and altered the premium investors demanded to hold Italian financial assets.

The historically correct question, therefore, is not whether "devaluation worked." Under certain conditions, it certainly worked in altering international relative prices. The more important question is whether Italy had built an economic model in which the recurring need to devalue compensated for problems that should have been addressed through productivity, competition, industrial structure, and public finances.

Maastricht was born precisely from the European desire to make that adjustment method increasingly less practicable.

For Italy, this makes what happened after September seemingly surprising: despite the failure of the lira's defense and despite the fact that the national currency was no longer capable of respecting the very exchange rate agreements that were part of the future path to convergence, the Maastricht ratification process continued.

The decision was neither automatic nor without debate. Parliamentary records from the autumn show that some parliamentarians contested the opportunity to accelerate ratification after the Danish vote and the EMS crisis; others instead considered the fragility of the existing monetary system a reason to proceed towards the single currency. In the Foreign Affairs Committee of the Chamber, in October 1992, the currency crisis was openly indicated as a demonstration of the shortcomings of the EMS and the prospect of the single currency was presented, by those who supported ratification, as a politically stronger response than the free fluctuation of currencies. [18]

This passage deserves attention because it shows how the dominant institutional interpretation of the crisis was almost the opposite of what would later emerge in the anti-euro discourse. The lira's exit from the EMS was not interpreted by the main forces supporting the European process as evidence of the need to permanently regain full monetary autonomy. Rather, it was interpreted as confirmation of the fragility of an intermediate system in which fixed exchange rates existed without a central bank and a common currency.

The Italian Parliament finally authorized the ratification by **Law No. 454 of 3 November 1992** , published in the Official Journal on 24 November. The law entered into force the

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following day; the Italian instrument of ratification was deposited on **5 December 1992.** The Treaty would then enter into force on **1 November 1993.** [19]

Italy thus ended the year in a seemingly contradictory situation: it had just suspended its currency's effective participation in the exchange rate mechanism, on which one of the criteria for future convergence depended, and at the same time it ratified the Treaty that was supposed to lead it to the single currency.

But the contradiction disappears if we consider the political strategy pursued.

The government and a key segment of the Italian economic establishment didn't see Maastricht as a prize awarded to an already convergent economy. They also saw it as the constraint within which convergence would have to be built.

In this sense, 1992 marks the point at which the so-called **external constraint** ceased to be primarily a formula for economic policy and became an institutional framework. The need to restore order to public finances did not arise from Maastricht; debt and interest costs had made it necessary independently of the Treaty. However, Maastricht changed political incentives by assigning fiscal consolidation a further strategic objective: to maintain Italy's place at the core of the future monetary Europe.

The distinction is crucial. Saying that "Europe imposed the recovery" would be historically inaccurate, because a substantial portion of the Italian ruling class consciously sought European integration also as an instrument of internal discipline. It would be equally wrong to conclude that there were no external constraints: once the European path was signed, compliance with the criteria would have effectively restricted the range of policies compatible with the goal of participating in the single currency.

Sovereignty, therefore, does not disappear. It changes form.

Italy chooses to constrain some of its future decisions because it believes that the credibility generated by the constraint may be worth more than the freedom it is giving up.

The wisdom of that choice cannot be established by looking only at 1992. It must be judged by what happened afterward: the convergence of interest rates, the evolution of debt, productivity, investment, competitiveness, and the ability of governments to use the time gained by integration to modify the country's economic structures.

The role of the Bank of Italy must also be read in this perspective. Carlo Azeglio Ciampi was not an external observer of the crisis but the governor of the institution directly responsible for monetary management. The central bank supported the lira as long as it deemed it possible to do so within the European agreements and, after the suspension of interventions, oriented its action towards containing the monetary consequences of the devaluation. Ciampi left the Bank of Italy in April 1993 to assume the Presidency of the Council a few weeks later. [20]

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The personal continuity between monetary institutions and the government would later fuel numerous political interpretations of the role of "technicians." But the phenomenon requires a more precise analysis. In the early 1990s, Italy entered a phase in which the complexity of debt, financial integration, and the European monetary construction attributed growing influence to figures with technical expertise and international experience. Ciampi, Dini, and Draghi were part of this transformation, but they did not constitute a single institutional structure nor did they possess the same power.

Ciampi was a governor independent of the government in the monetary functions assigned to the Bank; Dini was its Director General; Draghi headed the Treasury under the minister's political responsibility. Attributing a single project to these figures without proper documentation would be a methodological error. It is, however, documented that they all operated within the same objective: making Italy's presence financially sustainable in the emerging European economic system.

1992 also changed the relationship between politics and debt in another sense. When debt exceeds a certain level, any crisis of confidence reduces the government's effective autonomy because it rapidly increases the price of alternatives. Formally, Parliament retains its fiscal sovereignty; materially, however, the choice not to adjust the accounts can translate into higher yields, higher interest expenditure, and greater future borrowing requirements.

This is one of the issues on which Italian political debate will continue to be divided for decades. Some will interpret this regulation as a stripping away of democratic sovereignty from elected governments; others will see it as the normal constraint any debtor faces when asking external parties to finance its deficit.

Documentation allows us to separate one thing from the other. No market formally has the power to approve the Italian budget law. But a heavily indebted state cannot ignore the price at which it can sell its bonds without suffering significant economic consequences.

The distinction between legal sovereignty and the material capacity to exercise it will be recurrent throughout the book.

By the end of 1992, the Italian picture thus contained apparently irreconcilable elements. The general government deficit remained at **9.5 percent of GDP** , but the primary balance had become positive by about **1.9 percent** ; the debt had reached about **108 percent of GDP** in the accounts reported in the Annual Report of the time. [21] These numbers describe better than any slogan the problem that would dominate the decade: even when the state began to spend less than it collected net of interest, the weight of the accumulated debt continued to keep the overall deficit enormous.

Consolidation, therefore, wasn't a one-off event. It had to become a multi-year strategy.

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Maastricht increased pressure because it set a clear destination. To join the monetary union, Italy would have to achieve what in the autumn of 1992 seemed extremely difficult: restore currency stability, reduce the deficit, convince other European governments that the debt was on a credible trajectory, and bring inflation back toward that of its more stable partners.

However, Italy also had resources that an exclusively catastrophic interpretation of 1992 tends to overlook. It possessed great industrial capacity, high private savings, an export base capable of benefiting from devaluation, and economic institutions that, even under extreme conditions, managed to achieve significant fiscal adjustment without triggering an irreversible state financing crisis.

The devalued lira would have restored price competitiveness to a significant portion of Italian industry. The subsequent growth in exports would have contributed to the improvement of the external position and the recovery, demonstrating that the exchange rate continued to be a powerful adjustment tool.

But the relative success of this mechanism would have made the subsequent choice even more important.

If Italy truly wanted to adopt a currency in which nominal national devaluation would no longer be possible, it would have to permanently replace that mechanism with increases in productivity, cost discipline, innovation, and improved institutional quality.

1992 did not solve this problem.

He laid it bare.

And this is probably his most important legacy.

In the space of ten months, Italy signed a treaty that foreshadowed the end of its monetary autonomy, faced a crisis that demonstrated the still very concrete value of exchange rate flexibility, mobilized tens of thousands of billions of lire to defend an unsustainable parity, accepted a devaluation, implemented an extraordinary fiscal correction, and still ratified Maastricht.

Read superficially, the sequence seems contradictory.

Read in the institutional logic of the time, it has its own coherence.

The Italian ruling class that governed that transition concluded that the crisis did not demonstrate the need to move away from monetary Europe, but the urgency of transforming Italy quickly enough to rejoin it.

This is the real strategic decision of 1992.

Not the Maastricht signature taken in isolation.


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Not the devaluation taken in isolation.

Not the deposit levy taken in isolation.

The choice was to use the crisis as the starting point for a convergence process that would require the country to reduce the deficit, generate primary surpluses, modify pensions and wages, privatize part of the public economy, transform the banking system, and regain the credibility necessary to rejoin the European exchange rate system.

The question that arises at the end of the year is therefore much more challenging than the one that opened it.

In February 1992, Italy signed a European project.

In December of that same year he had to demonstrate that he could financially survive the discipline that the project implied.

The subsequent period, between 1993 and 1996, would be precisely the story of this attempt: the entry of Carlo Azeglio Ciampi into Palazzo Chigi, the consultation with the social partners, the reform of income policy, privatizations, the first Berlusconi government, the pension crisis, the Dini government, and the construction of a fiscal trajectory capable of making the European perspective credible again.

Only then will it become possible to understand how a country that in September 1992 had to suspend the defense of its currency in the EMS was able, just four years later, to prepare to rejoin it with the declared objective of achieving the single currency.

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# PART II

# THE CONSTRUCTION OF EUROPEAN ITALY


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# Chapter 3

## 1993–1996 — Technocracy, concertation and reconstruction of credibility

When Carlo Azeglio Ciampi left the Bank of Italy to assume the Prime Minister's office in April 1993, Italy was not simply a country emerging from a currency crisis. It was a state forced to redefine, almost simultaneously, its political system, the relationship between wages and inflation, the sustainability of pensions, the structure of public ownership, the rules of the financial market, and the strategy for attempting to rejoin the European monetary process from which the lira had been traumatically pushed out just months earlier. The succession of the Ciampi, Berlusconi, and Dini governments between 1993 and 1996 is often reconstructed through sharply contrasting political categories—technocracy, majoritarian revolution, center-right, technical government—but from the perspective of political economy, that three-year period possesses a deeper continuity: none of the three executives succeeded, nor could they realistically have, avoided the fundamental question left open since 1992: how to reconcile enormous public debt, weak growth, a costly pension system, and an economy recently emerging from the EMS with the strategic goal, never formally abandoned, of participating in the European Monetary Union.

The word that best describes that period is not austerity, even though budget policies were restrictive; it is not privatization, although it was precisely then that the process of divesting public holdings assumed a structural dimension; nor is it technocracy, if by that term one means to suggest that political power had been replaced by neutral management by experts. The crucial concept is **credibility** . The credibility of the state with respect to debt holders, the credibility of monetary policy after the collapse of the lira's parity, the credibility of the public budget with respect to European partners, the credibility of wage commitments in the fight against inflation, and, finally, the political credibility of institutions that were experiencing the dissolution of the First Republic.

The formation of the Ciampi government represented in this sense an unprecedented step in the history of the Republic. On 26 April 1993, Oscar Luigi Scalfaro entrusted Carlo Azeglio Ciampi with the task of forming the government; on 28 April, after accepting the position, Ciampi was appointed Prime Minister. The Official Journal records the composition of the executive and confirms that Piero Barucci remained at the Treasury, Luigi Spaventa took over the Budget, Vincenzo Visco Finance and Beniamino Andreatta Foreign Affairs. [1] For the first time, the leadership of the government was entrusted to a man who did not come directly from a parliamentary career and who, until a few days earlier, had directed the central bank engaged in managing the monetary crisis. This fact is sufficient to explain why the Ciampi government was subsequently elevated to a symbol of the growing influence of technocrats in Italian politics, but it does not authorize

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one to describe it as a suspension of politics. The government needed to gain parliamentary confidence, depended on extremely fragile political balances, and operated at a time when the transformation of electoral law and the disintegration of traditional parties were reshaping the entire representative system.

Ciampi's distinctive trait lay, rather, in the continuity between his monetary management of the crisis and his political management of stabilization. As governor, he had witnessed the failure of the lira's defense; as Prime Minister, he was expected to build the economic and institutional conditions through which Italy could once again present itself as a country capable of participating in the European process. It wasn't a question of immediately returning the lira to the EMS—a goal that would only be achieved in November 1996—but of progressively reducing the internal divergences that had made the previous exchange rate regime vulnerable.

The first of these disagreements concerned inflation and, above all, the way in which inflation was incorporated into wage formation.

To understand the importance of the **Protocol of July 23, 1993,** we must free it from the rhetoric with which it would later be celebrated or criticized. It was not simply a union agreement, nor was it simply a means of wage moderation. It was an attempt to build a new income coordination regime in a country that had decided to progressively replace nominal adjustments through the exchange rate with greater internal price and wage discipline.

The text of the agreement is explicit. The Protocol on income and employment policy, contractual arrangements, labour policies and support for the production system was signed on **23 July 1993** by the government and the main business and workers' organisations. It defined income policy as a tool designed to contain inflation, support growth and improve competitiveness; among the declared objectives were the alignment of Italian inflation with that of the most economically virtuous EU countries, the reduction of debt and deficit and currency stability. [2]

These formulations are essential because they demonstrate the direct link between industrial relations and the European project. The problem was no longer simply to prevent wages and prices from mutually fueling an inflationary spiral; the new contractual system was conceived as part of the strategy needed to bring Italy back to the conditions required by monetary integration. In the Protocol, the government and the social partners agreed to take the planned inflation targets as a common reference, while collective bargaining was reorganized on two levels, national and company or territorial. The previous automatic mechanism of the scala mobile, already superseded by the July 1992 agreement, thus gave way to a structure in which wage growth had to be compatible with the nominal objectives established by economic policy. [3]

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From a geopolitical and economic perspective, this step is much more important than it might seem. A country with the ability to devalue can, at least temporarily, regain through exchange rates some of the competitiveness lost due to higher domestic cost increases than those of its competitors. A country wishing to participate in a monetary union must, however, prevent this divergence from developing or correct it internally. The 1993 Protocol thus represented a sort of national anticipation of the discipline that the single currency would later make permanent: competitiveness was to be built through productivity, cost containment, quality of investment, and labor organization, not through periodic currency realignments.

This transformation was not socially neutral. The system in fact entrusted workers and unions with a significant part of the burden of disinflation, requiring that wage dynamics remain consistent with planned objectives. At the same time, the Protocol also formally committed businesses and the State: producers were to contain prices through efficiency, innovation and competition, while the government was to pursue a budget policy consistent with the agreed objectives. [4] The architecture was therefore symmetrical on paper, but the actual symmetry of the effects would remain a matter of controversy. In the following years, many observers and union representatives would argue that wage moderation had been much more effective and verifiable than price and rent discipline; this criticism does not invalidate the Protocol, but it recalls that concertation agreements produce different effects depending on the capacity of the institutions to control the behavior of the subjects involved.

What can be documented with greater certainty is that the new system contributed to changing inflationary expectations and built a form of social cooperation that subsequent governments would consider an integral part of the convergence strategy. In January 1999, when Italy had already entered the first group of the euro, Prime Minister Massimo D'Alema described the 1993 Protocol as a fundamental step towards containing inflation, financial recovery and achieving the Maastricht objectives. This assessment naturally belongs to a political actor and does not in itself constitute causal proof; however, it shows how, within Italian institutions, concertation was now interpreted as one of the elements of the convergence that had allowed entry into the single currency. [5]

The significance of the Ciampi government, however, is not limited to incomes policy. 1993 was also the year in which the recession fully manifested the effects of the previous shock. The European economy as a whole was in recession, and Italy was no exception. Contraction in domestic demand, deteriorating employment, and political uncertainty made recovery particularly difficult, while the devaluation of the lira was simultaneously beginning to produce a competitive improvement for exporting firms. The Italian economic system thus exhibited a growing divergence between a depressed domestic market and an export sector capable of exploiting the new exchange rate.

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This phenomenon deserves careful analysis because it contains one of the great ambivalences of the entire journey towards the euro. The 1992 devaluation, which had marked the failure of the previous exchange rate strategy, subsequently contributed to the revival of exports; this demonstrated that the currency continued to possess a remarkable capacity to rapidly alter relative prices. But the success of exports also highlighted the challenge of the future single currency: maintaining that competitiveness without having to resort to the same solution again.

Rebuilding Italy's credibility, however, required above all a change in the dynamics of public finances. The positive primary balance achieved in 1992 was consolidated in the following years, but the debt-to-GDP ratio initially continued to rise because the level of interest remained exceptionally high and the recession weakened the denominator. A parliamentary reconstruction based on ISTAT series shows that public debt rose from 105.0 percent of GDP in 1992 to 115.1 percent in 1993 and to 121.2 percent in 1994, before beginning a slow reversal in the second half of the decade. [6] It is important to note that these series, produced according to harmonized statistical methodologies and subsequently revised, differ from the values published in the reports of the time; the economic phenomenon, however, does not change: the primary adjustment was not sufficient, in the first years following the crisis, to prevent a further increase in the debt-to-GDP ratio.

It is precisely this dynamic that allows us to understand why interest rate cuts took on an almost existential importance for Italy. A country with a debt greater than its entire annual GDP could not rely indefinitely on gigantic primary surpluses without persistently curbing domestic demand and public investment. It needed the average cost of debt to decline. For this to happen permanently, a decision by the Bank of Italy was not enough: it needed to reduce inflation, stabilize expectations, improve the accounts, and convince investors and European partners that the policy trajectory would remain consistent.

Credibility thus became an economic resource measurable through returns.

This is also the context in which the privatization process must be placed. It would be historically simplistic to describe it as a sell-off of public industry imposed by Europe, just as it would be equally simplistic to present it as a purely technical process of efficiency improvement. The Italian privatizations of the 1990s simultaneously responded to multiple needs: reducing the state's direct role in the economy, developing financial markets, restructuring companies burdened by inefficiencies or debt, raising resources, and making the production structure compatible with a European context characterized by liberalization and competition.

The process had roots that predated the Ciampi government, but between 1993 and 1994 it took on a more organic legislative form. Legislative decree no. 332 of 31 May 1994, later converted with amendments into law no. 474 of 30 July 1994, explicitly contained "rules

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for the acceleration of procedures for the disposal of state and public body shares in joint-stock companies". [7] The law dates back to the first Berlusconi government, but the process it regulated had already occurred under previous governments and would continue under subsequent ones. In this case too, economic history resists the temptation to assign exclusive ownership of the decision to a single party.

Privatizations will be the subject of a separate chapter because only a detailed analysis of each individual transaction can establish whether and to what extent the state achieved financial benefits, loss of strategic control, increased efficiency, private concentration, or the creation of new regulatory rents. For the period 1993–1996, it is sufficient to understand their systemic significance: the Italian state was progressively shifting from the role of direct owner of a significant portion of the economy to that of regulator, partial shareholder, or external entity in previously controlled companies.

It wasn't a minor transformation. It meant redefining one of the pillars of postwar Italian capitalism.

Silvio Berlusconi's arrival at Palazzo Chigi in the spring of 1994 initially seemed to introduce a radical break with the previous season. The elections of 27 and 28 March had produced a victory for the coalitions led by the founder of Forza Italia; the Berlusconi government took office in May 1994 and remained in power until January 1995. [8] From a political point of view, it was an enormous transformation: the party system that had governed Italy for almost half a century had been replaced by new formations, and Berlusconi's promise combined tax cuts, liberalisation, an entrepreneurial impulse and a break with the political culture of the First Republic.

But financial conditions had not changed nearly as rapidly.

The new government inherited a still-growing debt, very high interest costs, and the European objective of Maastricht. This material continuity explains why the center-right's first government experiment almost immediately clashed with the political promises made during the election campaign. The pension issue became the most evident point of this contradiction.

The Italian pension system had already undergone changes under the Amato government, but spending trends and the aging population made further interventions clear. The Berlusconi government attempted to introduce significant reform into its financial policy, but encountered fierce opposition from the unions and political divisions within the majority itself. It would be incorrect to attribute the government's fall solely to the pension issue, as the split with the Northern League had much broader political reasons; however, the pension issue clearly demonstrated how difficult it was to transform the technical need to stabilize the budget into political consensus.


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This is an important step in the history of external constraints. Financial markets and the Maastricht Treaty could increase the cost of inertia, but they could not replace the political mediation needed to change rights, expectations, and income distribution. Economic sustainability does not automatically lead to political sustainability.

The resignation of the Berlusconi government at the end of 1994 thus opened a new phase. Oscar Luigi Scalfaro, after consultations, entrusted the task of forming a new executive to **Lamberto Dini** , who had held the position of Treasury Minister in the Berlusconi government. The Dini government formally entered into office on **17 January 1995** and remained in office until May 1996. [9] Its composition, made up predominantly of technical figures and lacking a traditional party leadership, reinforced the impression in public opinion that Italy was entering a phase in which fundamental economic decisions were progressively removed from ordinary competition between parties.

This interpretation also contains some truth and some simplification. The Dini government did not arise directly from an election, but operated within the parliamentary system and depended on a concrete political majority; it obtained a vote of confidence and was able to approve its measures because a specific combination of parliamentary forces supported it or chose not to prevent its emergence. Technology did not replace politics: it became one of the ways in which politics attempted to manage a transitional phase in which no coalition seemed capable of immediately transforming its electoral mandate into stable government.

Dini's figure is also particularly significant for the institutional continuity of the period. Director General of the Bank of Italy during the 1992 crisis, Treasury Minister in the Berlusconi government, and later Prime Minister, Dini materially embodied the transition between monetary institutions, debt management, and political responsibility. But precisely for this reason, it is essential to avoid any personalistic narrative. There is insufficient evidence to describe Ciampi, Dini, Draghi, and the other high-ranking officials of the time as a unified bloc espousing a hidden political strategy. Instead, it is demonstrable that they belonged to institutions tasked with addressing a set of deeply interconnected issues: debt costs, price stability, relations with financial markets, and Italy's reintegration into the European process.

The most important proof of the role played by the Dini government is the pension reform of 1995.

Law **no. 335 of 8 August 1995** , which came into force on 17 August, profoundly redefined the architecture of the Italian pension system. The first article explicitly declared that the reform had among its objectives the commensuration of benefits to contributions, the introduction of greater flexibility, the harmonisation of pension systems, the development of supplementary pensions and above all the stabilisation of pension expenditure in relation to the gross domestic product. [10]

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The most notable change was the introduction of the contributory method for calculating pensions, applied entirely to workers who began their insurance activity after the reform came into force and, through different mechanisms, to other categories according to transitional regimes. In the new system, pension benefits were more closely linked to contributions accumulated during working life and transformed into a pension through coefficients linked to retirement age. The contributory amount was revalued on the basis of the average five-year variation in nominal GDP calculated by ISTAT. [11]

It wasn't just a simple parametric change. It changed the philosophy of the system.

In the pay-as-you-go model, pensions depended largely on the salary earned in the final phase of a person's career and the years of contributions; the contributory method, however, established a much more direct link between contributions paid and future benefits. This tended to reduce, in the long run, the implicit generosity of some careers and transferred more of the risk deriving from discontinuous contribution periods, low wages, and late entry into the labor market to the worker.

Precisely for this reason, the Dini reform cannot be described simply as a technical success in stabilizing spending. It modified the intergenerational contract of the Italian welfare state. The full consequences would emerge only many years later, when generations characterized by more fragmented career paths began to approach retirement. Financial sustainability was increased by linking benefits more closely to contributions, but future pension protection became more dependent on the quality and continuity of careers.

The reform, however, had a political characteristic that distinguished it from the attempt made by the Berlusconi government: it was born through a form of broader consultation with the trade unions. The preparatory works show an intense parliamentary process between May and August 1995; the bill, presented by the Minister of Labour Tiziano Treu on 17 May, was definitively approved at the beginning of August. [12] Even in this case, the consultation did not eliminate the social conflict, but increased the government's capacity to transform a financial necessity into a politically implementable reform.

This is one of the reasons why the three-year period 1993–1996 represents more than a simple transition between the First and Second Republics. In those years, a true Italian adjustment model was formed: **primary surplus, wage moderation, concertation, pension reform, divestment of public holdings, and progressive reduction of inflation** . Each element had an internal justification, but the whole was oriented toward a single strategic objective: making Italy compatible with the new European monetary order.

However, this process should not be confused with a completed recovery.

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Debt remained enormous. Harmonized historical series show that the debt-to-GDP ratio reached levels close to 120 percent in the mid-1990s; only later did a sharper decline begin. [13] The employment problem remained serious and the economic recovery was highly dependent on exports and investments, while domestic demand was proceeding more slowly. Furthermore, the recovery in competitiveness achieved after the devaluation of the lira had a character that could not be automatically transferred to the future monetary union.

This apparent contradiction is essential. Italy was building the conditions for entering a system that would have made it impossible to use in the future the very instrument—devaluation—that had contributed to the recovery in the years immediately following the crisis.

The political response was to try to transform that temporary gain in competitiveness into time for reforms.

The result was only partial.

Nominally, Italy achieved significant progress: lower inflation, wage restraint, an improved primary balance, and, with the gradual return of confidence, less extreme financial conditions than during the crisis. Structural issues, however, remained, which would become increasingly visible after joining the euro: productivity, investment, firm size, administrative efficiency, the backwardness of Southern Italy, and the capacity for innovation.

The distinction between nominal convergence and real convergence arises precisely at this stage.

Maastricht required demonstrating that deficits, inflation, interest rates, and the exchange rate could converge. But a sustainable monetary union required something more: that the participating economies could coexist for decades without divergences in productivity and industrial structure becoming unmanageable.

This second challenge was much more difficult than the first because it could not be resolved with a single financial law.

Furthermore, in 1995, Italy's credibility underwent a new currency test. The lira underwent further tensions on the international markets and the Dini government launched a corrective measure of over twenty thousand billion lire in February of that year. This data must be read in the context of a system still external to the EMS exchange rate mechanism: the currency could fluctuate, but its instability continued to influence inflation, the cost of financing and the international perception of Italy's sustainability. [14]

The fact that the debt was denominated predominantly in national currency, however, prevents an exchange rate crisis from automatically translating into sovereign insolvency.


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This distinction is crucial: Italy's vulnerability stemmed from the cost of refinancing and the risk of an increasingly difficult-to-control debt-interest dynamic, not from the mechanical impossibility of accessing the currency in which most of the debt was issued. Any monetization, on the other hand, could have led to inflation, depreciation, and a loss of credibility. Monetary sovereignty thus offered tools, but did not eliminate economic constraints.

In 1995, a signal appeared that would assume enormous importance in the following decade: after years of almost uninterrupted growth, the debt-to-GDP ratio finally began to stabilize. An institutional reconstruction of the recovery process records a public administration indebtedness of approximately 7 percent of GDP for 1995 and signals the first reversal of the previous increasing trend in the debt/GDP ratio. [15] The statistical series subsequently revised modify the specific values, but confirm the substance: towards the middle of the decade the ratio stops accelerating and gradually begins to decrease.

This is not a negligible result. It means that the interaction between the primary surplus, economic recovery, slowing inflation, and progressive financial normalization was finally producing a change in the debt accumulation dynamics.

However, a crucial problem remained: the level was still too high to allow Italy to consider participation in the future single currency a given.

In contemporary debate, the period 1993–1996 is sometimes presented as a period in which technical governments "prepared" Italy for the euro, regardless of popular will. A more precise institutional reconstruction reveals a different reality. The Ciampi government depended on a parliamentary majority; in 1994, general elections were held that brought a coalition led by Berlusconi to power; the crisis of that majority produced the Dini government through the procedures established by parliamentary law. The European project passed through very different governments because it had become a strategic objective shared by sectors much broader than a single majority.

This doesn't mean there was unanimous consensus on the euro, privatizations, or fiscal discipline. The conflict was intense and concerned both the merits of the reforms and the distribution of their costs. It simply means that the continuity of the strategy cannot be explained solely by the personal power of a few technocrats. A political choice of that duration required the support, explicit or implicit, of a considerable portion of the institutions and parliamentary forces.

The role of the Quirinale, and in particular of Oscar Luigi Scalfaro, must be placed in the same context without mythologizing or undocumented accusations. The Presidency of the Republic exercised its constitutional prerogatives in a phase of exceptional instability, first entrusting Ciampi with the formation of the government after the crisis of the Amato executive, then managing the phase following Berlusconi's resignation and conferring the

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task to Dini. The institutional archives document the chronology of these steps; any interpretation according to which the Quirinale pursued a specific hidden economic agenda would require further evidence than the simple succession of appointments. [16]

The same caution is necessary when discussing "technical governments." Ciampi and Dini undoubtedly had different characteristics from traditional party leaders, but the economic policies they implemented were not politically neutral. Deciding to reduce inflation through a specific wage structure, reform pensions based on the contributory principle, privatize public holdings, or pursue large primary surpluses entails distributional effects and choices on the relationship between generations, labor and capital, the present and the future. Technical expertise can help construct the instrument; it does not eliminate the political nature of the choice.

And it is precisely here that one of the most important lessons of this period emerges.

The construction of European Italy did not occur simply by transferring power to Brussels. It occurred through an internal transformation of institutions and economic behavior. Even before the ECB existed, before the euro became a currency, Italy began reorganizing wages, pensions, the public budget, and corporate ownership according to a logic compatible with a regime of greater monetary stability.

In other words, **the euro began to change Italy before it existed** .

Not because a nonexistent currency legally imposed those reforms, but because the political goal of participating in the future monetary union already changed existing decisions. Expectations about the future European order influenced national policies before the order itself was completed.

This element is also crucial to understanding the issue of sovereignty. A decision can reduce future options without being imposed from outside. When a government chooses an international objective—joining NATO, joining a trade treaty, participating in a common currency—it voluntarily accepts that certain future policies are incompatible with that objective. Sovereignty is exercised precisely when the constraint is accepted.

The political problem arises later, when the generations of government that inherit the constraint present it as an external reality for which they have no responsibility.

The Italian history of the euro will be continually fraught with this ambiguity.

Between 1993 and 1996, it was not yet fully visible, because joining the single currency remained an uncertain and distant goal. But it was precisely in those years that some of the conditions were created that would make the subsequent acceleration credible.

Incomes policy contained inflation and redefined bargaining. Pension reform altered the long-term trajectory of spending. Privatizations changed the state's economic framework and generated financial resources. Primary surpluses signaled to investors that Italy was

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willing to allocate a significant portion of its revenues to support adjustment. The progressive stabilization of debt demonstrated that the trend could be reversed.

But none of this yet guaranteed entry.

On the eve of 1996, Italy's debt-to-GDP ratio continued to be significantly higher than the Maastricht reference value, and the lira had not yet met the stability criterion required for participation in the final phase of EMU. Formal reentry into the exchange rate mechanism would only occur on **November 25, 1996** , during the Prodi government, at a central parity of 990 lire per German mark: this would be the step that would truly begin the final push for the euro.

Before getting there, however, it is necessary to understand the price Italy had already paid to rebuild its credibility.

The price tag cannot be reduced to a single figure. It encompasses the recession of the early 1990s, rising unemployment, wage moderation, fiscal tightening, and the reduction in pension expectations. Some of these costs were the result of previously accumulated imbalances; others were produced or amplified by the adjustment process. Establishing the proportion between the two components will be one of the most difficult problems in the entire book.

Likewise, it would be incorrect to focus solely on costs. The same process helped reduce inflation, strengthen pension sustainability, gradually normalize financial conditions, and create the conditions for a significant reduction in the cost of debt that would become visible in the following years.

Historical judgment on the period must therefore resist two opposing temptations.

The first is to consider it an era of inevitable sacrifices, in which any decision taken by economic authorities would have been the only possible one. The evidence does not allow such an absolute conclusion: economic policies always involve choices between different cost distributions, different adjustment times, and alternative priorities.

The second temptation is to interpret the entire recovery as a deliberate project of impoverishment aimed at joining the euro. This thesis, too, is not sufficiently supported by the documentary record. The debt crisis and interest costs required a correction even independently of EMU; however, Maastricht added an institutional horizon and a political deadline that influenced the speed and composition of decisions.

Reality is more complex and, precisely for this reason, more interesting.

Between 1993 and 1996, Italy attempted to do something that a few years earlier would have seemed politically improbable: transform wage regulations, reform the pension system, progressively reduce the deficit, initiate large-scale privatizations, and

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simultaneously rebuild the legitimacy of a state whose traditional party system had collapsed.

The fact that this transformation spanned three such different governments demonstrates how deep the economic constraint had become.

Ciampi attempted to govern it through concerted action and institutional credibility; Berlusconi attempted to combine it with a political platform based on tax cuts and the primacy of private initiative, quickly coming into conflict with the limitations of public finances and the pension issue; Dini addressed the issue of stabilization through a technical-parliamentary government that succeeded in completing the very pension reform that had contributed to the crisis of the previous government.

Continuity does not mean identity.

This meant that debt, inflation and Maastricht now delimited the scope within which different governments could exercise their autonomy.

At the end of the Dini government, in May 1996, Italy was a profoundly different country from the one that had faced the lira crisis four years earlier. The political system had changed; the sliding wage scale was a thing of the past; collective bargaining had been reorganized; the pension system had adopted the contributory principle; the privatization process had entered a new phase; the primary surplus had become one of the permanent instruments of fiscal policy.

The lira, however, remained outside the European exchange rate mechanism.

And this is the detail that separates the reconstruction of credibility from the rush to the euro.

By 1996, Italy had demonstrated that it could begin to correct its imbalances. From then on, it would have to demonstrate something much more difficult: that the correction was sufficiently rapid, lasting, and politically credible to allow the country to be admitted to the single currency from the outset.

The arrival of Romano Prodi at Palazzo Chigi and Carlo Azeglio Ciampi at the Treasury would have transformed this aspiration into a precise temporal objective. The return of the lira to the EMS, the euro tax, the acceleration of privatizations, and deficit reduction would no longer be simply tools for recovery.

They would become the instruments of a race.

And that race would lead Italy, in the space of just over two years, from a still uncertain position to the European decision in May 1998 that would include it among the eleven founding states of the single currency.


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# Chapter 4

## 1996–1999 — The Italian rush to the euro

By the time Romano Prodi entered Palazzo Chigi in May 1996, the question of Italy's entry into the Monetary Union had ceased to be an abstract prospect of European politics. It had become an extremely concrete political, economic, and financial deadline, which would test not only the new government's ability to correct the public finances, but also Italy's place within the Europe that was about to emerge.

The problem the government inherited was different from the one faced four years earlier by Giuliano Amato. In September 1992, the immediate objective had been to prevent the lira crisis and the pressure on public debt from turning into an uncontrollable financial crisis. In 1993–1995, the Ciampi, Berlusconi, and Dini governments had gradually constructed a new equilibrium based on the primary surplus, wage concertation, pension reform, privatization, and a gradual reduction in inflation. By 1996, however, the problem had become more ambitious: simply stabilizing the Italian economy was no longer enough. It was necessary to demonstrate, within a now very limited timeframe, that Italy possessed the necessary conditions to participate from the outset in the third phase of Economic and Monetary Union, scheduled for January 1, 1999.

The new government therefore attributed a value to euro membership that far exceeded the technical dimension of the Maastricht criteria. Participation in the single currency was conceived as a choice for Italy's international positioning. Exclusion, even temporarily, would have meant accepting that the main postwar European institutional decision would be made by a core group of countries in which Italy would initially have no place. In a continent where a reunified Germany was gaining increasing influence and France was seeking to maintain its ability to shape integration, the issue took on a clear geopolitical dimension: being in the first circle of the single currency meant participating in the definition of Europe's new political and economic center.

The first Prodi government took office on **17 May 1996.** Carlo Azeglio Ciampi, after having been governor of the Bank of Italy and Prime Minister, assumed the Ministry of the Treasury and at the same time that of the Budget and Economic Planning, roles which would later be merged into the new Ministry of the Treasury, Budget and Economic Planning. The composition of the executive made the centrality attributed to European convergence particularly evident: Prodi possessed consolidated experience in Italian economic institutions and Ciampi represented a direct continuity with the strategy of monetary and financial stabilization developed after the 1992 crisis. [1]

However, it would be a mistake to interpret the rush to the euro as the exclusive product of two personalities. The operation involved the Treasury, the Bank of Italy, the State General Accounting Office, Parliament, the social partners, and an economic system that

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needed to be convinced that fiscal consolidation was not a temporary measure, but a transition to a different monetary regime.

The difficulty was immediately apparent when considering the gap between the Italian situation and that required by the future Monetary Union. Public debt remained well above the 60 percent of GDP set by the Treaty. Net borrowing needed to be brought below the 3 percent limit. The lira, after its suspension in September 1992, had not yet returned to the EMS exchange rate mechanism. Italian interest rates remained higher than those in Germany. Inflation, although significantly reduced compared to the beginning of the decade, needed to demonstrate sufficiently stable convergence.

The problem, therefore, wasn't just reaching a single number. It was necessary to simultaneously change the perception of Italy on at least four levels: public finances, inflation, currency stability, and interest rates.

This is what makes the two-year period 1996–1997 one of the most important phases in the entire post-war Italian economic history.

## Convergence as a political strategy

The Prodi government made joining the single currency a priority from the outset, but the strategy entailed considerable political risk. If consolidation were insufficient, Italy would still bear the fiscal cost of the adjustment without immediately reaping the political benefits of membership. If, however, the adjustment were too severe, it could further depress an economy that was not experiencing particularly robust growth.

The dilemma was exacerbated by the composition of the parliamentary majority. The Olive Tree governed with the external support of the Communist Refoundation Party, a situation that made any strategy based solely on cuts in social spending and income suppression politically complex.

The construction of convergence therefore had to be accompanied by a political narrative capable of presenting the fiscal sacrifice not as a simple restriction, but as an investment destined to produce a future benefit: entry into the core of monetary Europe and the consequent reduction of the financial risk associated with Italy.

The corrective measure of 1996 fits into this context.

In the summer, Parliament approved decree-law no. 323 of 20 June 1996, containing urgent provisions for the recovery of public finances, presented by the Prodi government with Carlo Azeglio Ciampi at the Treasury. [2] It was only one component of a broader strategy that would culminate in the financial law for 1997 and in the further measures necessary to bring the deficit towards the Maastricht threshold.

The most politically controversial point became the so-called **extraordinary contribution for Europe** , quickly renamed in public parlance as the "eurotax". The

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popular name was not a propagandistic reconstruction completely disconnected from the legal purpose of the measure: the official fiscal documentation expressly specified that the extraordinary contribution established by law no. 662 of 23 December 1996 was aimed at adjusting public accounts to the parameters set by the Maastricht Treaty. [3]

The political significance of the eurotax transcended its purely financial dimension. For the first time, the cost of convergence was explicitly linked, even in the tax's official name, to Italy's participation in the European project. The relationship between citizens, the public budget, and Europe became direct: a portion of taxpayers were required to make an immediate sacrifice so that the state could meet the necessary conditions for entry into the future common currency.

This decision would have a long political life. In the years to come, it would be used both as evidence of the Prodi government's determination to pursue euro membership and, by critics of the strategy, as an example of the cost to families of rapidly achieving European standards.

To evaluate it historically, however, it must be removed from both representations.

The eurotax was not the only factor that enabled deficit reduction. Italy's convergence resulted from a combination of a high primary surplus, spending containment, increased revenue, lower inflation, lower interest rates, and privatizations. Likewise, it would be incorrect to consider it a standard tax unrelated to Maastricht: its European purpose was formally declared by the legislation itself.

The most important question, however, concerns the quality of the adjustment. Some of the measures necessary for convergence were structural in nature; others produced concentrated effects in the period crucial to the European assessment. This difference would become the subject of political and academic controversy, especially when the question of the use of one-off measures by several European countries to meet the nominal parameters arose in subsequent years.

However, there is no documentary basis for this finding to lead to the conclusion that Italy's entry was obtained through "false accounts." The European Commission and the institutions responsible for verification formally examined the available data and concluded in 1998 that Italy met the required conditions. This does not preclude a critical analysis of the composition of the consolidation; however, it does prevent the documentary assessment from being replaced by an argument of illegitimacy unsupported by the documents.

## The return of the lira to the EMS

The decisive monetary step came even before the deficit was definitively brought back below the Maastricht threshold.

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On **25 November 1996,** the lira re-entered the European Exchange Rate Mechanism (EMS), more than four years after its suspension in September 1992. The new central parity was set at **990 lire per German mark** and approximately **1,906.48 lire per ECU** . The Bank of Italy stressed that this parity implied, compared to the position prior to the 1992 crisis, a depreciation of approximately 19 percent. [4]

The choice of the repayment level is important because it demonstrates that the restoration of credibility did not involve an attempt to artificially restore the lira's pre-crisis value. The system recognized the devaluation that occurred during the years of the float and established a new monetary relationship more consistent with the relative prices that had matured in the meantime.

Returning to the EMS, however, had a significance that went beyond the exchange rate. The Maastricht Treaty considered currency stability one of the necessary criteria for accession to the single currency. Italy, having only rejoined in November 1996, would not have formally accumulated two full years of participation in the mechanism before the spring 1998 evaluation.

This element could have become a decisive obstacle.

The subsequent European decision explicitly addressed the issue. In May 1998, the Council acknowledged that the lira had only rejoined the EMS in November 1996, but noted that during the previous period it had appreciated against the currencies of the mechanism and that, once rejoined, it had not suffered serious tensions or unilateral devaluations. The conclusion was that the Italian currency had demonstrated sufficient stability in the period considered. [5]

This is a particularly important step for understanding the political and legal nature of the convergence criteria. They contained precise numbers, but their application was not a simple mechanical operation. It was necessary to interpret the sustainability of convergence, evaluate the circumstances, and determine whether the economic substance was consistent with the Treaty's objectives.

Italy benefited from this substantial assessment, just as it benefited from the formulation of the debt criterion, which did not require the immediate achievement of 60 percent but allowed for consideration of the direction and pace of the reduction.

## Rates are starting to tell a different story

While the government was correcting the budget and the lira was re-entering the European agreements, something equally important was happening on the bond markets.

Italian yields were beginning to decline rapidly.

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The Bank of Italy's Annual Report for 1996 records that Italian long-term rates fell during the year by about **310 basis points** , compared with a decrease of 20 basis points in Germany and 90 in France; at the end of 1996 long-term yields were around 7.6 percent in Italy, compared with 5.8 percent in Germany.[6]

Even more significant is the description given the following year in Governor Antonio Fazio's Concluding Remarks: the yield on ten-year Treasury bonds had risen from an average of **9.7 percent in May 1996 to 7.3 percent in May 1997** , while the official discount rate had been reduced from 9 to 6.75 percent. [7]

This dynamic constitutes the first major dividend of convergence.

A government with a debt exceeding 120 percent of GDP benefited potentially enormously from the reduction in yields. Naturally, the savings in interest expenditure did not immediately affect the entire stock, because existing bonds matured gradually and were refinanced at the new conditions. But the mechanism was already in place: each new issue at a lower yield progressively reduced the average cost of debt.

Here lies one of the key points for understanding why a very significant portion of the Italian economic establishment considered joining the euro strategically advantageous.

Italy was trading part of its monetary autonomy for the prospect of financial stability, which, precisely because of the size of its debt, was more valuable for it than it would have been for less indebted economies.

The question that will emerge in the years to come will be whether this benefit has been fully utilized.

Chapter 6 will address precisely the issue of the “interest rate dividend”: how much fiscal space was actually freed up by convergence, how much was used to reduce debt, and how much was absorbed by other economic policy choices.

By 1996–1998, however, the movement in yields was already a powerful political signal. Markets were gradually assigning an increasing probability to Italy's participation in the single currency.

Financial convergence therefore began before the formal decision.

## 1997 and the leap in public finances

The decisive year was 1997.

The European Commission's Convergence Report would later describe Italy's consolidation as very large and achieved under difficult economic conditions. The primary surplus reached **6.8 percent of GDP** and the debt-to-GDP ratio fell to **121.6 percent** ; at the same time, debt service began to benefit from the sharp reduction in interest rates.[8]

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A primary surplus of 6.8 percent of GDP is an exceptional figure. It means that, before interest payments, the public sector withdrew from the economy through revenues significantly more than its primary spending during the same period.

It is precisely this fact that prevents two opposite simplifications.

It's untenable to describe Italy's entry into the euro as a result achieved solely through accounting gimmicks, because the actual primary consolidation was very significant. But it would be equally incomplete to present it as an entirely structural correction devoid of extraordinary measures: the government also employed temporary measures, including the extraordinary contribution to Europe, and privatizations contributed to debt reduction.

The Commission found that between 1994 and 1997, privatisation proceeds had contributed annually to debt reduction by amounts ranging from approximately 0.4 to 0.7 percent of GDP; for 1997 it indicated proceeds of approximately **0.7 percent of GDP** . [9]

This fact already introduces the problem that will be explored in greater depth in Chapter 8. Selling public equity reduces debt if the proceeds are used for this purpose, but it simultaneously modifies the state's capital structure. The state replaces an asset—ownership of a firm—with a reduction in a liability. The economic evaluation of the transaction therefore depends on the price obtained, the firm's future profitability, the quality of regulation after privatization, and the effects on competitiveness.

In the run-up to Maastricht, however, the immediate effect on debt had a particular political significance.

**Italy passes the European test**

In March 1998, the European Commission and the European Monetary Institute presented the convergence reports needed to determine which countries would participate in the third stage of EMU.

For Italy, the verification constituted the final examination of a process that only eighteen months earlier still appeared uncertain.

The picture revealed by the European institutions was profoundly different from that of 1992.

Average Italian inflation in the year ending January 1998 was **1.8 percent** , below the reference value. Italy was no longer subject to a Council decision on the existence of an excessive deficit. The lira, although it had only rejoined the EMS in November 1996, was considered sufficiently stable. The average long-term interest rate was **6.7 percent** , also below the reference value. [10]

The debt remained very high. This was the great Italian anomaly that no consolidation of a few years could have erased. But the Commission's report noted its reduction and the

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size of the primary surpluses, considering the trajectory consistent with the required convergence. [11]

On **3 May 1998** , the Council of the European Union meeting in the composition of the Heads of State or Government adopted the formal decision: **Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland** fulfilled the necessary conditions to adopt the single currency on 1 January 1999. [12]

It was the moment when Italy's rush to adopt the euro ceased to be a national objective and became a legally consolidated decision of the Union.

The geopolitical importance of the event deserves to be underlined.

Italy was not joining an existing currency created by others. It was part of the founding group of the euro. This distinction has significant political consequences because it changes the perception, which later spread, of a country that would simply have been subjected to an external monetary structure. Italy participated in its construction and incurred significant costs precisely to avoid being initially excluded.

This doesn't prove that all the consequences of the choice were positive. Rather, it demonstrates that participation was a strategic priority for Italian institutions at the time.

**The fixing of exchange rates and the end of the possibility of return**

The May 1998 decision opened the final preparatory phase.

The most delicate technical problem was determining the exchange rates that would become irrevocable on January 1, 1999. If markets could have doubted the final rates until the last day, they would have had an incentive to speculate on possible changes.

For this reason, on **2 May 1998** , the governments, the central banks of the participating countries, the European Monetary Institute and the Commission announced that the bilateral central rates of the EMS would be used to determine future irrevocable conversion rates. For the lira and the mark, the indicated relationship corresponded substantially to the central parity of approximately **990 lire per mark** . [13]

In this way, uncertainty about the future relationship between the participating currencies was almost entirely eliminated.

From an economic perspective, this meant that the possibility of devaluing the lira against the mark was no longer possible even before the euro's legal existence. Once markets were certain of the future irrevocable relationship, the movements of the participating currencies gradually lost their previous meaning.

The final decision came on **December 31, 1998.** The Council of the European Union set the irrevocable rates that would come into effect at midnight. For Italy, it established:

**1 euro = 1,936.27 lire.** [14]

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The number would become one of the most famous in Italian economic history.

But it must be understood correctly.

It wasn't a price arbitrarily negotiated on New Year's Eve 1998. It derived from the value of the ECU on December 31st and the bilateral parities already announced the previous May. The system was designed precisely to prevent the final conversion from becoming an opportunity for opportunistic last-minute revaluation or devaluation.

## Politics changes, monetary strategy remains

While the accession process was being completed, Italian politics was undergoing a new change of government.

The first Prodi government ended in October 1998. On **21 October** the first government led by Massimo D'Alema was born. Carlo Azeglio Ciampi maintained the Ministry of the Treasury, Budget and Economic Planning, ensuring significant continuity in the management of the monetary transition. [15]

This continuity is important because it shows once again how joining the euro had an institutional nature that was broader than the fate of a single government.

Prodi had led the decisive phase of convergence, but the first day of the euro would arrive under D'Alema. Ciampi would then leave the ministry in May 1999 after his election as President of the Republic, which took place on **13 May 1999 in the first ballot with 707 votes** . [16]

Ciampi's personal trajectory thus takes on a special significance in the history of the period. Governor of the Bank of Italy during the 1992 crisis, Prime Minister in 1993, Treasury Minister during the decisive phase of convergence, and President of the Republic a few months after the euro's birth, he traversed almost seamlessly all the key institutions of Italy's transition to the single currency.

This fact is documented. It does not imply the existence of a hidden structure or a personal agenda independent of the political system. Rather, it demonstrates how the monetary issue had become a component of Italian institutional continuity beyond the alternation of governments.

At midnight between December 31, 1998, and January 1, 1999, that strategy achieved its objective.

The lira did not yet disappear from the pockets of Italians.

But, economically, it ceased to be an autonomous currency.


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# Chapter 5

## 1999–2002 — The euro becomes reality

Midnight on January 1, 1999, represents one of the most frequently vaguely remembered moments in recent Italian history. In everyday memory, the euro arrived three years later, when banknotes and coins began circulating in shops, bars, bank counters, and Italians' wallets. From an economic and legal perspective, however, that representation reverses the actual order of events.

## The euro was born on 1 January 1999.

On January 1, 2002, money was not born: cash was born.

The distinction is not terminological, because the most significant transfer of Italian monetary sovereignty occurred between these two dates. When the third phase of Economic and Monetary Union began, the conversion rates of participating currencies became irrevocable, national monetary policy ceased to be independent, and decisions on the area's interest rates were transferred to the Eurosystem, consisting of the new European Central Bank and the national central banks of the participating countries. The lira continued to physically circulate, but could no longer be devalued, revalued, or managed as an autonomous currency.

The ECB explicitly described this transition by stating that the third stage of EMU began on **1 January 1999** and that, from that moment, the competence for the monetary policy of the eleven participating States passed to the Eurosystem. [1]

For Italy, this meant that a transformation that had begun at least a decade earlier had reached its irreversible point.

Since 1990, the lira had been progressively subjected to more stringent exchange rate regulations; after the trauma of 1992, it had remained outside the European agreements for four years; in November 1996, it had rejoined them; in May 1998, Italy had been formally admitted to the founding group of the euro; on 31 December of the same year, the irrevocable exchange rate of **1 euro for 1,936.27 lire had been set** . From the following day, the lira no longer represented an independent monetary unit in the previous economic sense. [2]

The fact that citizens and merchants continued to use banknotes featuring Verdi, Bellini, or Maria Montessori didn't change this reality. Those banknotes had become, from the perspective of the monetary system, transitory national representations of values now irrevocably defined in euros.


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This intermediate phase, which lasted exactly three years, is fundamental for understanding both the initial benefits and the subsequent controversies surrounding the single currency.

## A coin that exists before being touched

The euro of 1999 was already a real currency even if most citizens did not yet use it for everyday payments.

Financial markets, bond issues, many corporate accounts, interbank systems, and a growing portion of public transactions could be denominated in euros. Exchange rates between the previous national currencies had become simple mathematical relationships derived from their respective irrevocable rates.

A German mark could no longer appreciate economically against the Italian lira in the traditional sense, because both were now denominations of the euro according to fixed ratios.

The mechanism can be understood through a simple example. The irrevocable rate established that one euro was equivalent to 1,936.27 lire and 1.95583 German marks. A fixed relationship between the lira and the mark automatically followed. There was no longer an Italian monetary policy capable of altering that relationship.

This was the real renunciation of national exchange.

Not January 2002.

From that point on, if Italy had seen a higher increase in production costs than Germany, it would no longer have been able to regain competitiveness by changing the nominal value of its currency against the mark. Rebalancing would have had to occur through productivity, prices, wages, corporate margins, the composition of production, or the movement of capital and demand.

This transformation was precisely what proponents of monetary union wanted to achieve. Eliminating the possibility of competitive devaluations meant forcing national economies to converge across real variables and permanently eliminating currency risk within the area.

But here also lay the main risk of the system.

A single currency could eliminate the exchange rate between Italy and Germany; it could not automatically eliminate the differences between the two economies.

If productivity had followed different trajectories, exchange rates would no longer have been available as a corrective tool.

This, much more than the psychological issue of the 2002 lira-euro conversion, is the structural problem of the Monetary Union.


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## The ECB replaces the national monetary centre

The other fundamental transformation concerned the place where monetary policy was decided.

The Bank of Italy did not cease to exist, nor did it become a mere administrative subsidiary of the ECB. It joined the Eurosystem, and its governor participated in the Governing Council of the European Central Bank, contributing to joint decisions. However, it could no longer set an interest rate specific to the conditions of the Italian economy.

Monetary policy would have covered the entire euro area.

It was a necessary consequence of the single currency: there cannot be a common currency with twelve different official rates decided independently by the respective central banks.

The political significance, however, was enormous.

Throughout the history of the Republic, Italian monetary policy had been able to respond at least in part to the specific conditions of the national economy. Since 1999, the reference point has been the euro area as a whole.

This had a clear advantage for a country that had historically suffered from high inflation and significant risk premiums: monetary policy acquired the credibility of an institution built expressly around the objective of price stability.

But it also implied that, if Italy found itself in a different cyclical situation than the core of the area, the common rate might not be the most appropriate one for Italian conditions.

This problem, which was not very visible in the early years of the single currency, will become much more important after the global financial crisis.


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## The big immediate benefit: the internal exchange rate risk disappears

For Italian companies trading with Germany, France, Spain, the Netherlands, and other participants, eliminating currency risk produced concrete benefits.

An Italian exporter selling to Germany no longer had to hedge against the risk of the mark appreciating or the lira devaluing between the signing of the contract and payment. A German investor buying Italian bonds no longer ran the risk of seeing his returns wiped out by a devaluation of the lira.

The financial consequence was particularly important for the Italian Treasury.

Before monetary union, a foreign investor purchasing BTPs demanded a return that incorporated not only credit and inflation risk, but also the possibility that the lira would lose value against its own currency. With the irrevocable conversion, this risk disappeared within the euro area.

The Italian sovereign risk did not disappear.

This distinction would become dramatically evident in 2011.

But in the early years of the euro, markets placed increasing emphasis on currency sharing and financial convergence, sharply compressing yield differentials between member states.

Italy, precisely because it started with much higher rates, was among the countries that received the greatest potential benefit from the reduction in the cost of capital.

The problem of the euro dividend arises here.

Every percentage point saved in the average cost of financing debt above 100 percent of GDP represented, once passed on to the entire stock, an enormous amount of fiscal resources.

But the common currency did not decide how to use those resources.

The choice remained national.


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## The transition from Prodi to D'Alema and the continuity of the European choice

The birth of the euro occurred during the first D'Alema government, not during the Prodi government which had led the decisive phase of convergence.

This succession confirms once again one of the main characteristics of the entire Italian history of monetary union: decisions and their effects cross different governments.

Romano Prodi left Palazzo Chigi in October 1998; Massimo D'Alema formed the new government on 21 October. Carlo Azeglio Ciampi initially remained Minister of the Treasury, Budget and Economic Planning, ensuring continuity during the transition to the new monetary regime. [3]

In May 1999 Ciampi was elected President of the Republic. His move to the Quirinale symbolically closed an extraordinary phase in Italian economic history: the man who had governed the Bank of Italy during the lira crisis arrived at the Presidency of the Republic a few months after that same lira had definitively lost its monetary autonomy. [4]

Giuliano Amato would later take over the Treasury Ministry in the D'Alema government, causing another protagonist of 1992 to reappear at the centre of economic policy. [5]

These personal continuities are historically interesting, but they should not be transformed into an elite theory replacing institutional analysis. Prodi, D'Alema, Ciampi, and Amato belonged to different political and institutional paths. What they had in common at that stage was a now irreversible choice: to keep Italy at the core of the newly created Monetary Union.


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## From 1999 to 2001: the forgotten period of the euro

The three years between the birth of the euro and the introduction of cash are often compressed in collective memory, yet they represent a hugely important economic experiment.

The euro existed on the markets but not yet in the daily perception of many citizens.

The salary could continue to be thought of in lire.

The price of coffee continued to be expressed in lire.

Families still thought in millions when buying a car or a house.

But behind that nominal continuity the economic regime had completely changed.

The lira-mark exchange rate no longer existed.

There was no longer an official Italian rate.

The public debt was financed within a common money market.

The banks operated in an integrated European payment system.

Monetary policy was set in Frankfurt.

This separation between institutional reality and social perception would have significant consequences when, in 2002, the change suddenly became visible.

For three years, Italians had lived within the euro while continuing to handle lire.

Then, within a few weeks, the transformation reached everyday life as well.


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## Preparing the largest cash changeover in history

The physical introduction of the euro required an unprecedented logistical operation.

The ECB recalls that the production of banknotes began in July 1999 and involved fifteen printing works in the European Union. To meet the initial needs of the twelve countries that would use euro cash in 2002, **14.89 billion banknotes were produced** , for a total face value of approximately **633 billion euros** . Italy produced approximately **2.44 billion banknotes for its initial needs. At the same time, approximately 52 billion coins** were minted , for a value of 15.75 billion euros. [6]

The operation did not simply consist of printing new money.

Cash had to be distributed to banks in advance, ATMs had to be set up, vending machines and cash registers had to be converted, accounting systems had to be adapted, cash transport had to be prepared, hundreds of millions of people had to be informed, anti-counterfeiting systems had to be set up, and the withdrawal of national currencies had to be organized at the same time.

The preventive distribution to banks and commercial establishments began in September 2001. The aim was to prevent millions of citizens from simultaneously requesting euros from an unprepared logistics system on 1 January 2002. [7]

The operation also had a specific psychological difficulty in Italy: the numerical gap between the lira and the euro.

A 10,000-lire good became a good worth just over 5 euros. A two-million-lire salary became just over a thousand euros. The nominal scale changed radically.

The ECB had already underlined in 2001 that the Italian conversion rate - **1 euro = 1,936.27 lire** - entailed a change in the scale of values much greater than that experienced in various other countries in the area. [8]

This detail would have had profound consequences on the perception of prices.


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## January 1, 2002: The moment money enters society

At midnight on 1 January 2002, euro banknotes and coins entered circulation in twelve countries, reaching a total of over 300 million citizens. [9]

Technically, the operation worked much better than many observers had feared.

By the end of 2001, more than **6.5 billion banknotes** , worth approximately **134 billion euros , had already been pre-emptively distributed** . By 3 January, 96 percent of the euro area's ATMs were already able to dispense euros; after just one week, more than half of all cash transactions were being carried out in the new currency.[10]

Within a few weeks, one of the most complex monetary operations ever undertaken was virtually completed.

But logistical success did not necessarily coincide with economic success.

For many Italians, January 1, 2002, retrospectively, became the "birth of the euro" precisely because it was the moment when monetary union ceased to be a relatively distant construct, visible above all in financial markets, banks, and official documents, and became an everyday experience.

From that day on, citizens had to learn a new language of prices.

And it was precisely at this point that one of the most enduring political controversies in Italy began.


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## Actual inflation and perceived inflation: two divergent experiences

The physical introduction of the euro was quickly associated, in the Italian public debate, with a price increase much higher than that measured by official statistics.

The issue cannot be dismissed either by saying that “the euro doubled prices” or by arguing that citizens’ perceptions were simply unfounded.

The two phenomena measured different things.

Official price indices use a broad basket of goods and services weighted according to their relative weight in household consumption. Daily perception, however, is strongly influenced by frequent and visible purchases: coffee, restaurants, groceries, small personal services, newspapers, parking, and drinks at bars.

A person rarely buys a computer or an appliance, but might buy a coffee every morning. If the former decreases in price and the latter increases significantly, the statistical index may show moderate growth while the subjective experience of inflation is much more intense.

The ECB explicitly acknowledged in its Annual Report for 2002 that perceived inflation had increased during the year despite the slowdown in actual measured inflation, producing an unprecedented gap between the two indicators. The institution also acknowledged that some increases, especially in services, were partly linked to the cash changeover. [11]

This clarification is important.

Saying that the euro's overall effect on the general price index was limited doesn't mean that no prices increased due to the changeover. Studies at the time identified sectors where rounding and price list redefinitions actually contributed to the increases.

The estimate quoted by the ECB for the euro area as a whole attributed to the cash changeover an overall effect on HICP inflation in the first half of 2002 of between **zero and 0.2 percentage points** . [12]

The Bank of Italy, in its first assessments in March 2002, similarly stated that the available data did not indicate significant and generalised increases due to the simple change of currency, although it recognised three possible mechanisms through which the conversion could produce increases: costs of revising price lists, rounding and opportunities for repositioning prices. [13]

The controversy, therefore, should not be framed by asking whether citizens were "right" or whether ISTAT was "wrong."

Consumers could observe real and significant increases in very frequently purchased categories without these increases implying an overall doubling of the price level.


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It is precisely the difference between microeconomic experience and macroeconomic indicator.

## The rounding problem

The conversion from the lira to the euro presented a particularly delicate feature.

The ratio of **1,936.27** almost never produced round numbers.

A price of 1,000 lire corresponded to approximately 0.516 euros.

A price of 5,000 lire or approximately 2,582 euros.

A price of 10,000 lire or approximately 5,165 euros.

The legislation established precise rules for conversion and rounding, but commercial establishments were not obliged to maintain the price obtained by simple mathematical division indefinitely: they could modify their price lists as in any other market situation.

Here, space opened up for a phenomenon that was economically different from technical rounding.

A merchant could correctly convert a price and then choose a new, psychologically more convenient price on the new scale—for example, 1 euro, 2 euros, or 5 euros—realizing a greater increase than that resulting from merely rounding to the nearest cent.

The ECB later acknowledged that in some sectors, especially catering, hotels, hairdressing and other services, there had been increases which had contributed strongly to the inflationary perception. [14]

Competition should have limited these behaviors.

But the mechanism only works when consumers can easily compare prices and switch suppliers. In local services, low-value purchases, and situations where the cost of seeking an alternative is high relative to the price of the product, competitive discipline may be weaker.

The conversion therefore also constituted an experiment in price formation.

## Because the political wound was much bigger than the statistical data

The issue of perceived inflation would have had lasting political consequences in Italy because it coincided with a change in the monetary scale that made it extremely difficult to maintain an intuitive memory of values.

The lyre had decades of mental references.

Italians knew without having to perform complex calculations what one thousand lire, ten thousand lire, one hundred thousand lire, one million meant.


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The euro forced us to completely reconstruct this cognitive geography.

During the early years, many people continued to mentally multiply prices by about 2,000. The process was simple for large values, but less intuitive for everyday purchases.

Furthermore, the nominal conversion of incomes produced a peculiar psychological effect. A salary of two million lire became just over a thousand euros; a price of a thousand lire became about fifty cents. The economic relationship was identical, but the perception of magnitude was completely different.

In this context, even relatively small increases in absolute terms could appear enormous when compared to the old price recorded in lire.

The perception was therefore not a pure illusion, but neither was it a reliable measure of general inflation.

It was the result of the interaction between actual increases in certain categories, changes in the unit of account, frequency of purchases and monetary memory.

## The political responsibility of the changeover

In Italy, the physical introduction of the euro took place under the second Berlusconi government, which took office in June 2001. This event would later fuel a political dispute in which various factions blamed their opponents for the price increases.

Here too, chronology forces us to separate responsibilities.

The decision to join the euro had been taken and made irrevocable during the previous governments.

The conversion rate had been set on 31 December 1998 and could not be changed by the Berlusconi government in 2002.

The production of the banknotes and a substantial part of the logistical preparation had begun years earlier.

The government in office in 2002, however, had its own responsibilities for the national management of the transition phase, for information, for price monitoring and for coordination with the authorities and trade associations.

Responsibility for the changeover cannot therefore be correctly attributed to a single government.

It is precisely one of those processes in which **one executive makes the strategic choice, others build the infrastructure and yet another manages the moment in which the effects become visible to citizens** .

This dynamic also explains why political memory has remained so conflicted.

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## February 28, 2002: The physical end of the old coins

The cash changeover proceeded very quickly.

The ECB found that after just one week, more than half of the cash transactions were being made in euros and that, within a few weeks, the conversion was essentially complete. [15]

On **28 February 2002,** the period of dual circulation in the area ended and, from midnight onwards, the euro became the sole legal tender in the entire eurozone. [16]

For Italy, the history of the lira as an ordinary means of payment materially ended.

It was the visible conclusion of a process that had begun much earlier.

The lira had lost its monetary autonomy in 1999, but only in 2002 did it cease to be the physical object through which Italians thought about and practiced money.

This distinction helps us understand why the historical significance of the two dates is different.

1 **, 1999** is the fundamental institutional and economic date.

1 **, 2002** is the fundamental social and psychological date.

The first one transfers monetary policy.

The second one conveys the perception of money.


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## The euro solves some problems and makes others visible

By the end of the changeover, Italy had achieved a series of results that would have seemed difficult to imagine in 1992.

Inflation had been greatly reduced.

The lira had ceased to be vulnerable to currency crises within the area because exchange rate risk had been eliminated.

Interest rates were much lower.

The state could refinance its debt under much more favorable conditions.

The companies operated in a large European market without currency risk between the major participating economies.

But the single currency did not automatically solve Italy's structural problems.

- It had not increased productivity by decree.
- He had not eliminated the accumulated debt.
- It had not changed the average size of companies.
- He had not reformed the public administration.
- It had not resolved the territorial dualism.
- He had not guaranteed that the savings produced by the reduction in interest rates would be used for investment and debt reduction.

And by eliminating national devaluation he had made it more important to solve precisely these problems.

Here lies the difference between **nominal convergence** and **real convergence** .

Between 1996 and 1998, Italy demonstrated that it could rapidly converge on inflation, deficits, interest rates, and currency stability.

The next test was much more difficult: demonstrating that it was possible to converge over time on productivity, growth, real wages, and industrial capacity.

Paradoxically, the success of the first operation risked hiding the urgency of the second.

Once Italy joined the euro, the immediate pressure from the markets eased. Financing costs fell. The exchange rate could no longer be subject to speculative crises between Italy and Germany. The gain in credibility seemed to have become permanent.

It was precisely this impression that could have produced the most insidious risk.

If the benefit of low interest rates had been interpreted as a substitute for reforms rather than an opportunity to implement them, the common currency would have bought Italy time without guaranteeing that that time would be used.

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It is from this question that the next part of the book must start.

Not whether the euro “saved” or “destroyed” Italy.

But **how much economic space has entry into the common currency actually gained and what has Italy done with that space** ?

It's the problem of the euro dividend.


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# PART III

# THE EURO DIVIDEND AND MISSED OPPORTUNITIES


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# Chapter 6

## The Interest Rate Dividend — How Much Fiscal Space Did Italy Really Gain?

When Italy joined the euro, the most immediate economic benefit wasn't what citizens would experience three years later using the same currency in Rome, Paris, or Frankfurt. The most significant advantage, at least for the state, had already materialized before a single euro note was in circulation: the drastic reduction in the cost of financing the Republic.

For a country with a public debt that in the mid-1990s remained above 120 percent of gross domestic product, the difference between paying interest rates close to 10 percent and gradually refinancing at conditions much closer to those in Germany did not constitute a marginal change in economic policy. It meant adjusting the amount of resources the state budget had to allocate each year to service liabilities accumulated in the past, and thus potentially increasing the scope for debt reduction, public investment, tax cuts, or financing primary spending.

The so-called **euro dividend** arises from here.

It wasn't a propaganda stunt. The reduction in interest expenditure is a measurable fact. What requires much more careful evaluation is establishing how much of that benefit was attributable to the single currency, how much to the recovery Italy had already achieved, how much to the reduction in international inflation, and, above all, what Italian governments did with the financial space that opened up.

In 1998, the last year before the birth of the euro, Italian public administration interest expenditure was equal to about **7.9 percent of GDP** . In 1999 it fell to **6.6 percent** ; in 2002 it was **5.5 percent** , in 2004 4.7 percent and in 2005 4.5 percent. In 2007, on the eve of the great financial crisis, it had risen moderately to 5 percent, but remained enormously below the levels at the beginning of convergence. [1]

The scale of the change appears even more significant when considering that we're not comparing two small aggregates, but percentages of national income. A three-point reduction in interest expenditure in an economy the size of Italy is equivalent to tens of billions of euros annually.

This is the starting point, but not the point where we can stop.

To say that the euro automatically "saved" Italy the entire difference between interest expenditure levels before and after 1999 would be methodologically excessive. Part of the convergence in yields had begun before the euro, precisely because markets anticipated Italy's entry into the monetary union; another part reflected the success of


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fiscal consolidation, declining inflation, the growing primary surplus, and the lira's return to the EMS. Furthermore, the reduction in the average cost of debt does not immediately coincide with that of market yields, because the existing stock must be progressively refinanced as the bonds mature.

But these clarifications don't erase the phenomenon. They explain it.

The creation of the euro definitively eliminated exchange rate risk between Italy and the other participants in the Monetary Union. A German investor purchasing a BTP no longer needs to fear that a devaluation of the lira would erase part of the return received. The establishment of a common central bank, built around price stability, also reduced the inflationary component embedded in nominal rates. Finally, the expectation that membership in the monetary union would make a national currency crisis less likely further compressed the premium demanded by the market.

The consequence is an extraordinarily rapid financial convergence.

To understand why this benefit was so important for Italy, we need to return to the budget structure of the 1990s. The country had learned to generate very high primary surpluses, in some years exceeding 5 percent of GDP, but a huge portion of that effort was absorbed by interest payments. The primary surplus therefore represented not free financial availability, but the necessary tribute to prevent the debt from continuing to grow under the weight of its own costs.

The rate cut promised to at least partially break this mechanism.

If the average cost of debt decreases faster than other expenditures increase, the government can achieve an improvement in its overall budget without requiring taxpayers to run an equally large primary surplus. This is the nature of the dividend.

The historical question therefore becomes inevitable: **if the benefit was so great, why didn't Italy use the years preceding the 2008 crisis to reduce its debt much more quickly?**

The answer requires looking not just at interest rates, but at the entire spending structure.

Data from the Bank of Italy show that while the interest component decreased dramatically, primary current expenditure did not suffer an equivalent contraction. In 1998, current expenditure net of interest amounted to 37.3 percent of GDP; in 1999 it was 37.6, in 2002 38.3, in 2004 39.3 and in 2007 39.6 percent. [2]

This is one of the most important data for understanding Italian economic policy in the first decade of the euro.

The government was paying much less to finance the past, but it didn't fully convert those savings into debt reduction. Part of the freed-up space was absorbed by increased current primary spending.

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This finding, however, does not justify the conclusion that the entire dividend was simply "wasted." Primary spending is not an economically homogeneous category. It includes pensions, healthcare, education, public sector income, social transfers, and numerous other functions. Establishing whether an increase represents waste, social investment, or a response to demographic changes requires an item-by-item assessment.

What can be established with more certainty is that **the reduction in interest expenditure did not produce an equivalent reduction in overall government spending** .

The European Commission, analysing retrospectively the structure of Italian expenditure, found that in the period **1999–2007 current primary expenditure increased in nominal terms by an average of 4.4 percent per year** , a pace slightly higher than the euro area average and higher than Italy's potential nominal growth, estimated at around 3.8 percent in the same period. [3]

This difference seems modest when observed over a single year, but accumulated over nearly a decade it becomes significant.

Italian fiscal policy in the period preceding the global crisis thus takes on a paradoxical character. Monetary union alleviates one of the main constraints that had dominated the budget in the 1990s, but the very easing of emergency pressure gradually attenuates the intensity of consolidation.

During the run-up to Maastricht, Italy achieved exceptional primary surpluses because failure to converge would have entailed an immediate and visible political cost: exclusion from the single currency. Once the objective is achieved, the incentive changes. The market no longer signals a deterioration in the fiscal position as readily, because yields remain low and membership of the euro reduces the risk of a currency crisis.

In other words, **the credibility gained produces a political space that can be used both to consolidate and to slow down consolidation** .

This is perhaps the first great paradox of the Italian euro.

The single currency makes debt more financially sustainable and, precisely because of this, temporarily reduces the political pressure needed to reduce it.

The dynamics of the debt-to-GDP ratio, however, show that Italy did not remain completely stagnant. Debt declined significantly from its peaks in the mid- 1990s. But the reduction was much less profound than would have been possible with a combination of low interest rates, persistent primary surpluses, and higher economic growth.

The third component of the problem is in fact growth.

The sustainability of a large debt depends not only on the numerator, but also on the denominator. A rapidly growing economy can reduce its debt-to-GDP ratio even while

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maintaining a high nominal stock; a stagnant economy, on the other hand, must generate larger fiscal surpluses to achieve the same result.

The Italian problem was that the interest dividend coincided with a progressive loss of dynamism in the real economy.

At first, this weakness did not immediately appear in all its severity. In 2000, the Italian economy experienced relatively strong growth and the Bank of Italy recalled that, together with 1995, that was the year of greatest expansion of the decade. But already in the same Annual Report, a problem emerged that would become structural: Italian growth remained lower than that of the Eurozone, especially in industrial production. [4]

The financial benefit, therefore, was not accompanied by a similar productivity dividend.

This is where the relationship between Chapter 6 and Chapter 7 becomes crucial. If the rate cuts had fueled a strong cycle of productive investment capable of increasing growth potential, the debt would have been progressively diluted by a larger economy. If, however, financial savings had been used primarily to ease the burden of ordinary public spending, without sufficiently altering productive potential, the benefit would have been real but temporary.

The composition of public investments offers a further element. In the series reported by the Bank of Italy, gross fixed investments of public administrations fluctuate around 2.3–2.5 percent of GDP for almost the entire period, without showing a transformation proportionate to the reduction in interest expenditure. [5]

Thus, there was no massive and permanent transfer of resources from debt servicing to public capital construction.

This is the real missed opportunity.

Not because it was politically feasible to use every euro saved to reduce the debt. No democracy governs that way, especially when it comes to pensions, healthcare, public wages, infrastructure, and demands for tax cuts.

The missed opportunity, rather, consists in having achieved a historic change in financial conditions without accompanying it with an equally profound change in the structure of spending and productive capacity.

The distinction is also important for another reason. In the ensuing debate, the euro will be accused on one side of having imposed permanent austerity on Italy and celebrated on the other for having freed it from the burden of high interest rates. Both representations become incomplete if applied indiscriminately to the years before 2008.

At that stage, Italy was not experiencing a financing crisis.

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On the contrary, it enjoyed much more favorable financial conditions than in the previous decade.

The question was how to use them.

The interest savings made it possible to reduce the overall burden of public finances without indefinitely maintaining the extreme primary surpluses of the convergence years; it made it possible to finance growing primary spending without immediately returning the deficit to previous levels; it also allowed for fiscal interventions that would have been more difficult with double-digit interest rates.

But it is precisely this flexibility that prevents the choices made from being entirely attributed to Europe.

The Common Central Bank determined the monetary framework. It did not decide the level of Italian healthcare spending, pension design, fiscal policies, the quality of public investment, or the efficiency of public administration.

The responsibility for converting the financial dividend into economic capital remained essentially national.

This doesn't mean the European context was neutral. Fiscal rules, the Stability and Growth Pact, and growing financial integration influenced decisions. But within that framework, there was considerable scope for decision-making regarding the composition of spending, fiscal policy, infrastructure, research, education, and administrative reforms.

The big counterfactual question—what would have happened if Italy had used a larger share of the dividend to reduce debt or increase investment—cannot be answered with certainty, because it would require assumptions about growth, fiscal multipliers, and policy responses.

However, we can identify the consequence of the choice actually made.

When the 2008 global financial crisis hit, Italy still had a very high debt stock and an economy with weak potential growth. The country therefore entered the shock with less fiscal space than it would have had if the financial convergence of the previous decade had been used more intensively to strengthen the budget and productive potential.

The true legacy of the rate dividend is therefore twofold.

On the one hand, the euro produced an extraordinarily important financial benefit for Italy, helping to reduce the cost of debt and freeing up resources that had been absorbed by interest payments in the 1990s.


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On the other hand, the persistence of debt and the weakness of growth demonstrate that **an improvement in financial conditions does not automatically equate to an improvement in the economic structure** .

The coin had bought time.

The problem was how that time would be used.

And it is precisely in the transition from public finances to productive capacity that Italy's second great difficulty emerges.


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# Chapter 7

## Competitiveness without devaluation — Productivity, wages and industry

If the previous chapter showed how the euro had changed the relationship between the Italian state and its debt, the problem of competitiveness concerns a more difficult terrain, because it cannot be resolved through an institutional decision.

- A government can sign a treaty.
- A central bank can set an interest rate.
- A legislator can change a pension law.
- However, no authority can decree an increase in productivity.

An economy's ability to produce more value using the same amount of labor and capital depends on technology, business organization, skills, infrastructure, research, company size, managerial quality, the functioning of public administration, and numerous other slowly changing factors.

This is why the Italian question of competitiveness became particularly important after 1999.

Until the 1992 crisis, Italy had been able to periodically regain some price competitiveness through the devaluation of the lira. If Italian wages and prices were growing faster than German ones, a reduction in the currency's external value could at least temporarily correct the gap.

The mechanism was not without costs. Devaluation made imports more expensive, could fuel inflation, reduced the international purchasing power of income, and could create expectations of further devaluations.

But it was a real instrument.

From 1 January 1999, that instrument definitively ceased to exist in relations with euro area partners.

If Italian labor costs grew faster than productivity, it would no longer be possible to compensate for the differential through the exchange rate with Germany or France.

The problem therefore had to be addressed within the economy.

This is the fundamental premise for understanding the concept, often used polemically, of **internal devaluation** .

In a monetary union, competitiveness adjustment can occur through an increase in productivity, a moderation of nominal wages, a reduction in corporate margins, a shift

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towards higher value-added sectors, or, in more severe phases, through a reduction in demand, employment, and incomes.

These mechanisms are not equivalent.

A country that improves productivity can maintain high wages and become more competitive.

A country that is unable to increase it is forced to exert greater pressure on costs.

This is precisely where the Italian problem emerges.

ISTAT series show that in the long period starting in the mid-1990s, Italian productivity grew very slowly. In the 1995–2014 reconstruction, labor productivity increased by an average of just **0.3 percent per year** , while total factor productivity decreased by an average of 0.3 percent. [1]

These numbers don't simply describe a negative cyclical phase. They point to a structural problem.

Total factor productivity attempts to measure that part of the increase in production that comes not simply from using more labor or more capital, but from the more efficient way in which factors are combined: innovation, organization, technology, knowledge.

A weak dynamic therefore means that the economic system struggles to transform inputs into growing added value.

Italy joined the euro without having solved this problem.

But it would be wrong to conclude that the single currency created it. Productivity difficulties begin earlier and reflect profound characteristics of the production system.

The euro, however, changes the way the problem manifests itself.

Previously, part of the loss of competitiveness could be hidden or corrected through exchange rates.

Afterwards, it becomes cumulative.

If Italian unit labor costs grow 2 percent more than those of Germany for several consecutive years, the differential will accumulate. Without a bilateral exchange rate, there is no nominal realignment capable of quickly eliminating it.

The Bank of Italy noted as early as 2000 that the most significant improvement in competitiveness based on unit labor costs was occurring in Germany, which was increasing its advantage over other partners in the area. In the same year, the Italian economy was growing, but continued to show a negative gap, especially in industrial production and in the ability to compete on the internal market of the Union. [2]

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This observation is particularly important because it was made at the beginning of the euro, not after the great crisis.

The divergence was already beginning.

In the following years the picture becomes progressively clearer.

The Bank of Italy's Annual Report for 2007 shows that between 1996 and 2000, real value added in the entire economy grew by an average of 1.9 percent per year, with labor productivity at 0.8 percent; in the five-year period 2001–2005, average growth in value added fell to **0.9 percent** , while labor productivity remained at around 0.8 percent. In 2002 and 2003, productivity even recorded negative variations. [3]

The data must be read carefully because it prevents another common simplification: the problem was not simply that Italian wages were growing exceptionally fast.

The central issue was the weakness of the production denominator.

If labor costs increase by 3 percent and productivity also increases by 3 percent, the cost per unit of output remains essentially stable. However, if labor costs increase by 3 percent and productivity by 0.5 percent, the unit cost increases significantly.

It is this difference that determines cost competitiveness.

The comparison with Germany makes the phenomenon even more evident.

During the early 2000s, the German economy went through a difficult period, but simultaneously implemented a process of wage moderation, industrial reorganization, and labor market reform that would later yield significant results. The Hartz reforms, progressively introduced between 2003 and 2005, are part of this story but do not fully explain it: labor cost containment and the restructuring of German companies were already underway.

Italy did not follow an equivalent trajectory.

This doesn't mean the labor market was stagnant. From the Treu Package to the Biagi Law, the contractual system was made more flexible, and employment increased in several phases.

But work flexibility and productivity are not synonymous.

An economy can create low-productivity jobs and achieve an increase in employment without a corresponding growth in value added per hour worked.

It is one of the great Italian paradoxes of the period.

The amount of labor used may increase while average efficiency stagnates.


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## The problem of industrial specialization

The second element concerns what Italy produced.

At the end of the twentieth century, Italian industry maintained a strong specialization in traditional goods and medium-tech manufacturing: textiles, clothing, footwear, furniture, ceramics, components, machinery, and numerous typical district products.

This structure had represented an extraordinary source of strength during decades in which international competition was dominated above all by the advanced economies.

In the 1990s, however, the geography of global manufacturing began to change.

The rise of China and other emerging economies introduced new competitors in some of the very sectors in which Italy was most specialized.

A study by the Bank of Italy shows that between **1992 and 2002 the share of Italian exports on world markets at current prices fell from 4.8 to 3.9 percent** . The authors underlined that the growth of world trade was increasingly concentrated in high-tech sectors, while Italian specialization remained strongly oriented towards traditional production. [4]

This observation is crucial because it introduces China and technological transformation as causes independent of the euro.

If an Italian footwear manufacturer simultaneously faces a stronger currency, rising domestic costs, and the entry into the global market of Asian competitors capable of producing at much lower costs, attributing the entire loss of market share to the euro is confusing different phenomena.

The common currency may have made it impossible to compensate through devaluation.

He did not create the Chinese competitor.

The distinction is fundamental.

The Bank of Italy, subsequently reconstructing the trend of Italian exports, observed that between **1999 and 2007** Italy lost approximately **20.5 percent of its market share** measured in relation to imports from the main markets, with a significant component attributed both to competitiveness and to the product and geographical structure. [5]

A subsequent reconstruction by the Bank of Italy itself shows that Italy's share of world trade in goods fell from around **4.4 percent in 1999 to 3.8 percent in 2007** ; the decline was particularly marked in the euro area and on the German market. [6]

But even here the explanation is not monocausal.

Italy was simultaneously exposed to a loss of cost competitiveness and to a production specialization less favorable to the transformations in global demand.

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The small average size of companies further complicated adaptation.

A fifty-employee company can be extremely efficient within a niche, but it generally has fewer resources than a large corporation to invest in research, build global sales networks, acquire foreign companies, protect intellectual property, and address geographically distant markets.

The industrial district model had partially compensated for this weakness by pooling territorial skills and supply chains.

But the globalization of the new century increasingly rewarded scale, technology, capital and direct presence in emerging markets.

The Bank of Italy would later note that Italian companies capable of investing in quality, strengthening foreign trade channels or internationalising production were better able to defend themselves from global competition. [7]

This means that there was no inevitable fate for Italian industry in the euro.

There was a selection.

The most productive, internationalized, and technologically advanced companies could prosper even without devaluation.

Those that competed mainly on price through standardized production became more vulnerable.

This marked the beginning of the dual transformation that would characterize Italian industry in the following decades: one part capable of becoming a world leader in high-value-added niches, and the other progressively crushed between European costs and emerging competition.

## Wages, productivity, and the meaning of moderation

The wage issue must be treated with particular caution because it is politically easy to confuse three different quantities: nominal wages, real wages and unit labor costs.

A wage can grow nominally and lose purchasing power if inflation rises further.

It can grow in real terms and not reduce competitiveness if productivity increases by an equivalent amount.

On the other hand, it may grow little but still produce a deterioration in competitiveness when productivity is almost at a standstill.

Italy is especially close to the third case.


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The problem wasn't a wage explosion comparable to the inflationary dynamics of the 1970s. The 1993 Protocol and the subsequent bargaining system had introduced strong nominal wage discipline.

But precisely because productivity was growing slowly, even relatively moderate wage increases could translate into increases in unit costs.

It is important because it changes the political meaning of the expression “internal devaluation”.

In the first decade of the euro, Italy had not yet experienced a wage squeeze comparable to that associated with subsequent crises. The problem was more subtle: wages and productivity ceased to support each other.

Weak wage growth is limiting domestic demand.

Weak productivity limits the scope for raising wages without compromising competitiveness.

The two weaknesses can therefore feed each other.

If firms invest little because demand is weak, productivity grows slowly; if productivity grows slowly, wages can only grow moderately; if wages grow little, demand remains weak.

The problem cannot be solved simply by reducing labor costs.

It requires investment and technological transformation.


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## The industrial confrontation with Germany is becoming increasingly severe

Towards the end of the period preceding the great crisis, the industrial gap between Italy and Germany was now visible in the economic data.

ISTAT records that Italian industrial production, adjusted for working days, fell by 1.3 percent in 2002, by 0.5 in 2003, by 0.4 in 2004 and by 0.7 in 2005, before increasing by 2.4 percent in 2006 and returning to essentially stagnant in 2007. In 2007 itself, German industrial production grew by **6.1 percent** . [8]

A single year does not establish structural superiority.

A prolonged sequence, however, signals that something deeper is happening.

Germany had experienced weak domestic growth and serious employment problems during the early 2000s, often being called "the sick man of Europe." However, during that same period, German companies restructured their supply chains, increased production integration with Central and Eastern Europe, strengthened their cost competitiveness, and maintained a strong specialization in capital goods, chemicals, and automotive—sectors destined to benefit enormously from Chinese industrialization and the growth of emerging markets.

Italy was in a different position.

For many Italian sectors, China was a competitor even before being a major customer.

At the same time, it became a large market for Germany for machinery, automobiles and industrial goods.

This commodity difference helps explain why the same euro could produce different consequences in the two economies.

A single currency does not standardize the production structure.

On the contrary, it can make differences more visible.


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## The euro as an amplifier, not as a total explanation

At this point, it is possible to draw a more precise conclusion on the relationship between the euro and Italian competitiveness.

- The euro does not cause Italy's low productivity.
- It does not create the small average size of businesses.
- It does not create specialization in traditional sectors.
- It does not create the rise of China.
- It does not create low R&D intensity.

But it eliminates a tool that in the past had allowed for temporary compensation for some of the consequences of these weaknesses.

It is therefore more correct to consider it **an amplifier of the cost of the lack of reform** rather than the original cause of the weakness.

Within the single currency, a highly efficient production system can benefit enormously from exchange rate stability and access to a large market.

A system that loses productivity no longer has the shortcut of devaluation.

The judgment on the euro therefore also depends on what each country brings to the union.

For Italy, the fundamental problem was that the extraordinary nominal convergence achieved in the 1990s was not accompanied by an equivalent convergence in the real economy.

The country managed to reduce inflation and interest rates much more quickly than it managed to increase productivity and technology.

- The first transformation could be achieved in a few years through monetary, fiscal and wage policies.
- The second required decades of investment in business, education, research, infrastructure, and institutions.

This asymmetry is probably one of the most important keys to understanding the entire Italian experience with the euro.


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When the global financial crisis hit in 2008, Italy did not enter the shock with a real estate bubble comparable to Spain's or a banking system similar to Ireland's.

He entered with a different, less spectacular problem: **an economy that had been growing too slowly for years** .

It is for this reason that the subsequent shock would have such profound consequences.

The euro had eliminated exchange rate risk.

It had not eliminated the risk of stagnation.


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# Chapter 8

## Privatizations — The Transformation of Italian Capitalism

Of all the transformations that swept Italy in the 1990s, few had as profound an impact on the ownership structure of the economy, the relationship between state and market, the composition of national capitalism, and the very concept of public economic power as the process of privatization. The term, often used as if it indicated a single linear phenomenon, actually encompasses a much more complex sequence of legal, financial, industrial, and regulatory transactions that unfolded over nearly a decade and were implemented through a variety of instruments: the transformation of public entities into joint-stock companies, the sale of shares, stock market listings, transfers to stable groups of shareholders, auctions, public offerings, the liberalization of previously monopolistic markets, the creation of independent authorities, and the introduction of special state powers over strategic enterprises. Their sum did not simply produce "less state" in the economy; it produced **a different state** , less directly involved in many sectors but more involved in being a shareholder, regulator, guarantor of competition, and guardian of strategic interests.

It is precisely for this reason that the political memory of Italian privatizations is often simpler than documented history. One side of the debate portrays them as the necessary transition from an inefficient and indebted public capitalism to a more competitive economy, integrated into European markets and financially disciplined; another side interprets them as an accelerated liquidation of public assets, driven by the urgency of raising funds, the goal of joining the euro, and the desire to transfer to private entities activities built over decades with public capital. Both interpretations capture real elements of the story, but become misleading when they claim to transform them into a comprehensive explanation, because privatizations were simultaneously public finance operations, industrial restructurings, market transformations, instruments for modernizing the capital market, and, in some cases, decisions that left the issue of competition unresolved even after the change of ownership.

To understand what happened, it is therefore necessary to separate at least four processes that are often overlapped in public debate. **Formal privatization** consists in the legal transformation of a public entity into a joint-stock company, even when the State continues to hold all of the capital; **substantial privatization** consists in the sale of part or all of the public property to private investors; **liberalization** concerns the opening of the market to competition and can also occur without privatizing the incumbent operator; finally, **regulation** establishes the conditions within which public or private companies can operate in markets characterized by networks, natural monopolies, or public service obligations. Italian history in the 1990s presents all these combinations,

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sometimes coordinated with each other, sometimes implemented in reverse order, with consequences that would emerge only in subsequent years. [1][2]

## From the state-owned holding system to the joint-stock company

The first decisive step was not the sale, but the legal transformation. Even before the outbreak of the currency crisis in the autumn of 1992, the legislator had begun to redraw the scope of public intervention: Law no. 35 of 29 January 1992 and the subsequent CIPE resolution of 25 March defined the transformation of public economic bodies and autonomous companies as the first phase of a broader process that would lead to the placing on the market of shares of the public sector of the economy. The CIPE resolution is particularly important because it clarifies the political framework of the operation, even before the most intense phase of the sales: rationalisation, cost-effectiveness, efficiency, recovery of public finances and adaptation to the completion of the European single market. [1]

The qualitative leap came with the decree-law of 11 July 1992, n. 333, converted into law of 8 August 1992, n. 359. The law provided for the direct transformation of **IRI, ENI, INA and ENEL into joint stock companies** , attributing their share capital to the Treasury; the rights of the public shareholder would be exercised by the Treasury Minister in agreement with the competent ministers. In other words, the State did not yet cease to be the owner, but changed the legal form through which it exercised ownership: the public economic body became a private law company, endowed with share capital and subject, at least in principle, to criteria and instruments closer to those of the market enterprise. [2]

This is where the distinction between formal and substantive privatization becomes essential. In July-August 1992, ENI and ENEL were not "sold" to private individuals; they were transformed into joint-stock companies with initial public capital. Ownership could subsequently be sold in installments or remain predominantly in state hands. The corporate transformation therefore represented a preparatory condition that technically made the placement of shares possible, but did not automatically lead to the loss of public control.


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Table — The four dimensions of Italian privatization

| Process | What really changes | Can it happen without the others? | Italian example |
|---|---|---|---|
| **Formal privatization** | The legal nature of the entity: from public entity to joint stock company | Yes | IRI, ENI, INA and ENEL transformed into joint stock companies in 1992 |
| **Substantial privatization** | The ownership of the capital is transferred, in whole or in part, to private individuals | Yes | Credito Italiano, COMIT, Telecom Italia, INA, Autostrade |
| **Liberalization** | New operators can enter the market | Yes | Landline telephony liberalized from 1 January 1998 |
| **Regulation** | Authorities and regulations regulate tariffs, access to networks, competition and universal service | Yes | Energy and Gas Authority since 1995; AGCOM since 1997 |

Sources: CIPE, Law No. 359/1992, Bank of Italy, AGCM.

This transition profoundly changed the nature of Italian public capitalism. In the previous model, IRI and ENI were not simply financial holding companies: they represented industrial structures through which the state controlled banks, steel, telecommunications, infrastructure, energy, mechanical engineering, food, and numerous other activities. The distinction between industrial policy, employment policy, public finance, and corporate management was often less clear than it would be in later years. The transformation into joint-stock companies (SpA) instead tended to more clearly separate political responsibility from corporate responsibility, introducing balance sheets, capital, management, and economic objectives compatible with the future openness of capital and market discipline.

The suppression of the Ministry of State Holdings in 1993 was the institutional symbol of this transformation. The Bank of Italy recalls that the government, after having updated the timetable for disposals, suppressed the Ministry in June of that year and shortly thereafter established a permanent Global Advisory and Guarantee Committee to technically assist the privatization process. [3] It was therefore not just a question of selling companies: an entire administrative architecture built around the direct presence of the State in industry was disappearing.


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## Privatization and Maastricht: a close relationship, but no legal automatism

One of the most important points for a reconstruction without simplifications concerns the relationship between privatizations and European integration. It is correct to say that the new European framework exerted a very strong pressure on the Italian system: the completion of the single market, the discipline on state aid, the liberalization of utilities, the need to reduce deficits and debt and, after Maastricht, the prospect of monetary union radically transformed the environment in which public enterprises operated. The CIPE resolution of March 1992 explicitly linked corporate transformation to the completion of the European single market and the need to improve the competitiveness of the production system. [1]

However, it would not be documentaryally correct to state that **Maastricht imposed on Italy the privatization of specific companies** . The Treaty establishing the European Community maintained the principle, now contained in Article 345 TFEU and then in Article 222, according to which the treaties did not prejudice the rules of the Member States relating to the system of property ownership. [4] Europe imposed constraints on competition, public finance and the opening of markets, but did not legally order Rome to sell Telecom, ENI, INA, BNL or Autostrade in the forms actually adopted.

The distinction is crucial. **European pressure was a contextual component; the decision on the specific modalities of privatization was a national one.** This distinction prevents both denying the importance of European integration and transforming it into an external entity that would simply dictate Italian politics.

## 1993: Privatization enters the operational phase

If 1992 was the year of regulatory transformation, 1993 marked the effective beginning of the major divestments. The Bank of Italy's Annual Report for 1993 defines the set of initiatives undertaken in that year and in the first months of 1994 as a real discontinuity with the past. IRI ceded control of **Italgel** and **Cirio-Bertolli-De Rica , while in December Credito Italiano** was privatised through a public offering; a few months later **Banca Commerciale Italiana** followed . [3]

These transactions are particularly significant because they demonstrate that the process did not begin with large natural monopolies, but with banking, industrial, and food businesses, where ownership transfers could be achieved without immediately addressing the issue of access to an essential network. The value of these transactions was still relatively modest compared to the privatizations that would come in the second half of the decade, but their institutional significance was enormous: for the first time since the construction of the state-owned holding system, the state was systematically

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relinquishing control of large companies that had been a key component of Italian capitalism for decades.

In 1993 alone, the table reconstructed by the Bank of Italy recorded gross revenues of **2,752.9 billion lire** for the main operations considered: 431.1 billion from Italgel, 310.7 from Cirio-Bertolli-De Rica, 1,801.1 from Credito Italiano and 210 billion from SIV. [5] The important point is not only the size of the proceeds, still limited compared to subsequent years, but the change in political scale: once the first sales had been successfully completed, privatization ceased to be a theoretical program and became a replicable operational mechanism.

## Law 474 of 1994: sell quickly, but retain special powers

The second major legislative step came with the decree-law n. 332 of 1994, converted into law **n. 474 of 30 July 1994** , which had as its explicit object the acceleration of the procedures for the disposal of state shareholdings. [6] The law defined sales instruments, rules for public offers and the possibility of introducing particular powers of the public shareholder into the statutes of companies operating in sensitive sectors, what in the political and financial language of the time was generally referred to as **the golden share** .

The significance of these special powers was clear: the state could drastically reduce or lose shareholder control without completely renouncing the ability to intervene in certain decisions considered strategic. The Bank of Italy reconstructs how the provision allowed for approval and veto clauses in companies active in defense and public services, as well as limits on shareholding in certain companies undergoing privatization. [7] The emerging Italian capitalism was therefore not simply a liberalized version of laissez-faire; it remained a system in which the state attempted to separate ordinary control of the company from the protection of interests considered strategic.

**Golden Power** instruments . The political principle is similar, even if the current legal framework is different: ownership control may belong to the market, but the state continues to claim the right to intervene when corporate or technological operations impact national security.

## 1994–1996: From banks to energy, the scale changes

In 1994, operations increased rapidly. The Bank of Italy records **12,703.9 billion lire** in gross revenues from the main privatizations of that year, including the first tranche of IMI, COMIT, Nuovo Pignone, the first tranche of INA, Acciai Speciali Terni, a share of SME and other ENI companies. In 1995 the total was 13,462.1 **billion** , with Italtel, Ilva Laminati Piani, Enichem Augusta, further shares of IMI, INA and SME and above all the first tranche of ENI, which alone generated **6,299 billion** ; in 1996 the main revenues amounted to **14,051.2 billion** , with a second ENI tranche of **8,872 billion** . [5]

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These figures demonstrate two characteristics of the process. The first is its progressive nature: many large companies were not sold in a single transaction, but through multiple subsequent placements, allowing the state to gradually reduce its stake and utilize multiple market windows. The second is the variety of methods: public offerings, auctions, private negotiations, convertible bonds, and sales to stable groups of shareholders all served different objectives and reflected the attempt to reconcile speed, realizable value, shareholder diffusion, and stability of control.

**Table — Main Italian privatizations 1993–1999**

| Year | Operation | Method | Share transferred | Gross revenue |
|---|---|---|---|---|
| 1993 | Italian Credit | OPV | 58.09% | 1,801.1 billion lire |
| 1994 | COMIT | OPV | 54.35% | 2,891.2 billion lire |
| 1994 | INA, 1st tranche | OPV | 47.25% | 4,530.0 billion lire |
| 1995 | ENI, 1st tranche | OPV | 15.00% | 6,299.0 billion lire |
| 1996 | ENI, 2nd tranche | OPV | 15.82% | 8,872.0 billion lire |
| 1997 | ENI, 3rd tranche | OPV | 17.60% | 13,230.0 billion lire |
| 1997 | Telecom Italia | Stable nucleus + OPV | 39.54% | 22,883.0 billion lire |
| 1998 | ENI, 4th tranche | OPV | 14.83% | 12,995.0 billion lire |
| 1998 | BNL | OPV | 67.85% | 6,707.0 billion lire |
| 1999 | ENEL | OPV | 35.5% | 34,828.0 billion lire |
| 1999 | Highways | Auction + OPV | 87.0% | 13,500.0 billion lire |

**Cumulative revenues from the main operations recorded by the Bank of Italy, 1993–1999: 152,347.1 billion lire, equivalent to approximately 78.68 billion euros.** [5]

The table must be interpreted with caution because it measures the **main privatisations considered by the Bank of Italy** and not necessarily every single public sector divestment; other sources therefore use different aggregates. In a parliamentary hearing in March 1998, for example, approximately **63 thousand billion lire of proceeds from operations managed directly by the Treasury in 1992–1997 were indicated** , another **8,400 billion** from operations of the ENI group and approximately **25 thousand billion** from IRI, excluding Telecom; in the same period, a parliamentary reconstruction indicated **117 thousand billion lire of total gross proceeds** between the Treasury and public bodies. [8] These figures are not contradictory: they measure different perimeters, and it is precisely for this reason that in a rigorous analysis it is always necessary to specify which companies and which transferors are included.


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## Telecom Italia: When privatization precedes full competitiveness

The sale of Telecom Italia in 1997 represents one of the most instructive cases of the entire process because it allows us to distinguish in an almost didactic way between privatization and liberalization. The government initiated the sale of the integrated Telecom group through a placement that the Bank of Italy quantifies as a share of **39.54 percent of the ordinary capital** , with gross revenues of approximately **22,883 billion lire** ; the full liberalization of fixed telephony would have become operational from **1 January 1998** , in implementation of the European directives. [5][9]

The sequence was therefore very precise: first the sale of a significant share of the integrated monopolist, then the complete opening of the fixed-line telephony market. This choice already raised competition issues at the time. The Competition Authority had repeatedly called for rapid liberalisation, fair access to infrastructure and rules capable of preventing the previous monopolist from exploiting its network position to hinder new entrants. [9]

The AGCM itself, in its 1998 report, subsequently observed that the divestment of Telecom had been carried out in a way that was only partially functional to the creation of a competitive structure, because the group had been privatised while substantially maintaining the integration of the various activities intact, instead of evaluating a deeper separation of the operating companies. [10] This is an important institutional criticism: it demonstrates that **privatising a monopolist does not automatically equate to creating a competitive market** .

This is one of the points that public debate is most likely to miss. If a public company with strong market power is simply transformed into a private company without creating effective conditions of competition, the economic problem can change in nature without disappearing: public monopoly rent can be replaced by private monopoly rent. The quality of regulation and access to the network then become at least as important as ownership.


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## ENI: partial privatization and permanence of the strategic state

ENI's path, on the other hand, shows how privatization and the permanence of public control could coexist. Between 1995 and 1998, four large tranches were realised: **6,299 billion lire in 1995, 8,872 in 1996, 13,230 in 1997 and 12,995 in 1998** , for a total of close to **41,400 billion lire** , according to the reconstruction of the Bank of Italy. [5]

The company thus opened its capital to the market to a significant extent, but was not transformed into a company completely removed from public influence. This model would endure for a long time in Italian capitalism: the state renounced direct management of all industrial decisions but retained stakes and governance instruments in certain groups considered essential for energy, infrastructure, security, or industrial policy.

The Bank of Italy, however, highlighted a relevant issue: in natural gas, the privatization of ENI preceded the full liberalization of the market, generating a potential tension between the interest of private shareholders in preserving the profitability of the company and the collective interest in promoting greater competition. [11] It is once again the problem of sequence: when a stake is sold before the market rules are fully defined, the value that the investor pays inevitably also incorporates the existing regulatory conditions; liberalizing later can therefore mean reducing part of the rents on the basis of which the asset had been valued.


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## ENEL: the largest placement and the separation between sales and liberalization

In 1999, one of the most symbolically and financially important operations of the entire cycle took place: the placement of **35.5 percent of ENEL** , which generated approximately **34,828 billion lire for the Treasury** , equal to almost **18 billion euros** . The Bank of Italy defined it as the most significant initial public offering ever carried out in Italy and one of the largest in Europe; at the same time, the Treasury still retained **64.5 percent** of the capital. [12]

Even here, however, the share sale cannot be understood without the reform of the electricity market. Legislative Decree **16 March 1999, n. 79** , implementing European Directive 96/92/CE, initiated the liberalisation of the sector, separated various ENEL activities and introduced limits on the concentration of production and sales; the transmission network was subjected to a different management architecture. [13]

The Antitrust had insisted that the privatization of ENEL, if carried out without reducing the dominant position in generation, would have risked replacing a public monopoly with a private structure that was still barely contestable. [14] The electricity reform therefore shows the most complete model of the Italian transformation: partial privatization of the historical operator, legislative liberalization, functional separation of activities and construction of an independent authority for the regulation of the sector.


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## Highways: privatizing a natural monopoly requires different regulation than an ordinary market.

Again in 1999, IRI sold **87 percent of Autostrade** , with a gross proceeds of approximately **13,500 billion lire** , partly through an auction to a stable group of shareholders and partly through a public offering. [15] This operation takes the problem even further than that of telecommunications or energy, because a motorway network cannot be subjected to the same competition as a market in which several companies sell the same good in the same place: it is not economically realistic to build parallel motorways just to create competition.

When an infrastructure characterized by elements of a natural monopoly is privatized, the quality of the outcome depends on the **concession contract** , tariffs, investment obligations, oversight, and the state's ability to enforce the concession agreement. In these cases, privatization does not reduce the state's importance; it changes its function, transforming it from a direct service provider to a regulator and granter.

And it is precisely in this transformation that some of the subsequent problems of Italian capitalism lie: selling can be technically quicker than building a regulatory apparatus capable of disciplining a private dealer with extremely strong bargaining power for decades.


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## Why it was privatized: four different objectives

Documents from the time show that the privatizations did not have a single objective. The Bank of Italy recalls that the Treasury Green Book, the Plan for the Reorganization of State-owned Companies, and other government documents indicated among the aims of the process the modification of the ownership structures of the Italian economy, the expansion of the shareholding structure, the increase in competition, and the reduction of indebtedness. [7] These objectives were not necessarily compatible in every single operation.

Maximizing revenue could, in fact, push the state to sell an integrated and dominant company, because a monopolist is worth more than a collection of separate companies subject to fierce competition; encouraging competition, on the other hand, could require breaking up the group and thus potentially reducing the overall selling price; distributing shares among many small savers could encourage widespread shareholding but weaken control; and choosing a stable core of shareholders could lead to more concentrated governance but reduce the diffusion of ownership.

The Bank of Italy, in a particularly significant assessment formulated at the end of the decade, observed that in practice **priority had often been given to the increase in extraordinary public revenues** and that in several cases the integrated groups had been kept intact, renouncing a possible greater competition. [7] This is not a retrospective political judgement: it is an assessment contained in the institutional report of the time.

**Table — Privatization objectives and possible conflicts**

| Objective | Coherent tool | Possible conflict |
|---|---|---|
| **Reduce public debt** | Sell quickly and maximize the price | It can incentivize the sale of integrated businesses with high returns |
| **Increase competition** | Separate activities, networks and operators | May reduce the immediate realizable value |
| **Expand the stock market** | Public offering and widespread shareholding | Can produce unstable control patterns |
| **Create stable private samples** | Stable groups of shareholders | Can concentrate ownership |
| **Strategic protection** | Golden share / special powers | It may create uncertainty for investors and conflicts with European rules |


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| | | |
|---|---|---|
| **Business efficiency** | Market discipline, autonomous management | Does not automatically guarantee investment or competition |

## The contribution to public finances was real, but it could not be decisive

The fiscal aspect of the privatisations was far from marginal. The proceeds from the shares directly held by the Treasury were allocated to the public debt repayment fund, while the proceeds from the disposals carried out by IRI and ENI could be used to reduce their indebtedness. [7] Between 1993 and 1999, the main privatisations considered by the Bank of Italy produced cumulative revenues of **152,347 billion lire** , equivalent to approximately **78.7 billion euros** . [5]

In 1997, the year of the major Telecom privatization and the third ENI tranche, the revenues from the main operations exceeded **40 thousand billion lire** ; in 1999, with ENEL and Autostrade, they reached over **48 thousand billion** . [5] These were enormous amounts for the time and sufficient to produce a concrete contribution to the reduction of the debt stock and to Italy's fiscal credibility in the period of convergence towards the euro.

But privatization proceeds are, by definition, a **one-off asset gain** . They can reduce the debt stock when collected, but they do not automatically alter the structural balance of the public finances; furthermore, if the sold asset generated dividends, the state forgoes a portion of future flows. A correct economic evaluation must therefore take into account the price collected, the reduced debt, the interest saved, the dividends lost, and any potential effects on productivity and competition.

This is why it's not enough to ask whether "the state has made a lot of money." The more relevant question is whether it has **converted a capital asset into a better financial and industrial structure** .

## The capital market: a less visible but decisive transformation

A key objective of the privatizations was also to expand the Italian stock market and transform an economy historically heavily dependent on bank credit into a system in which a greater share of corporate capital could be financed through the market. The public offerings of Credito Italiano, IMI, INA, ENI, Telecom, BNL, and ENEL brought millions of savers directly into the stock market and increased the market capitalization of Piazza Affari.

From this perspective, privatizations performed a much broader function than simply transferring ownership: they created liquid shares in large national corporations, increased the number and size of listed firms, and contributed to the modernization of financial intermediation. An industrial system in which nearly all large firms depend on

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the state or banks is structurally different from one in which institutional capital and private investors can purchase shares on the market.

But even this objective produced non-linear results. The Bank of Italy noted that the objective of creating widespread shareholding had in some cases been subsequently overtaken by processes of concentration and public takeover bids which brought control back into the hands of smaller groups. [7] Privatization therefore did not automatically create the Anglo-Saxon model of the widespread public company; Italian capitalism continued to show a strong tendency towards the concentration of control.

## The real change: the State ceases to be omnipresent, but does not disappear

By the end of the 1990s, Italian capitalism was profoundly different from the one that had opened the decade. The State had sold off the entire public food sector and the entire public steel industry considered by the reconstruction of the Bank of Italy, privatised important banks, placed significant stakes in ENI and ENEL, sold Telecom Italia and Autostrade, drastically reduced the size of IRI and transformed its presence in numerous sectors. The Bank of Italy estimated that in the decade approximately **17 thousand billion lire had been collected from the sale of public banks** , almost **9,500 billion from INA** , approximately **41,400 billion from the four ENI tranches** and approximately **23 thousand billion from the share of Telecom Italia** . [16]

But the state didn't withdraw from the economy. It changed its position.

It remained a significant shareholder in energy and industrial companies, continued to exercise special powers in strategic sectors, strengthened independent authorities, and retained the ability to regulate networks, concessions, and universal services. The transition, therefore, was not from state capitalism to a completely private capitalism; it was from the **capitalism of widespread state holdings** to a mixed system in which selective public ownership, private capital, the stock exchange, regulators, and European constraints would have to coexist.

This is probably the most accurate definition of transformation.

## The crucial question: privatize first or liberalize first?

Looking back at the entire process, one of the most important and still relevant issues for industrial policy emerges: **the sequence between privatization and liberalization** . When the market is opened and regulated before the sale, the state can define the competitive structure without having to consider the interests of private shareholders who have already invested in the incumbent operator; when the sale precedes liberalization, the value of the company incorporates a portion of the rents deriving from

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the existing structure, and subsequent reforms may conflict with the interests of the new owners.

At the end of the decade, the Bank of Italy explicitly pointed out that in some cases the sale of shares in public utility companies had preceded liberalisation, generating resistance to the subsequent opening of the markets. [7] Telecom and gas are the most evident cases; ENEL, on the other hand, shows a greater simultaneity between market reform and placement.

This distinction helps us understand why not all privatizations can be evaluated equally. Selling a bank, a food company, a steel mill, a telephone operator, or a highway network means addressing entirely different economic issues.

## Were they “sell-offs”?

Even the term "fire sale," widely used in political debate, requires a rigorous definition before it can be applied. To demonstrate that a business was sold at a price consistently below its value, one would need to construct a counterfactual based on cash flows, debt, required investments, regulatory risk, and current market conditions, rather than simply compare the sale price with the value the business would have achieved many years later.

Some operations can legitimately be discussed in terms of the structure of control, regulation, timing, or distribution of value; this does not automatically mean that the entire program was a sell-off. Likewise, the fact that a privatization generated a high price does not in itself prove that it was economically optimal for the state: a high price could reflect the transfer of a highly profitable monopoly rent to the private sector.

The evaluation must therefore be carried out on a transaction-by-transaction basis.

This is precisely the reason why a government and documentary reconstruction cannot adopt either the celebratory language of "inevitable modernization" or the undifferentiated one of the "liquidation of the country."


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## What was actually gained

The process produced effects that are hard to deny. It reduced the indebtedness of several large public corporations, generated extraordinary resources also earmarked for debt reduction, contributed to the expansion of the stock market, imposed greater financial discipline on many businesses, progressively separated industrial and administrative functions, and accelerated the creation of an independent regulatory system.

In the banking sector, the end of the large-scale public sector radically altered the credit system; in telecommunications, liberalization encouraged the entry of new operators; in energy, reforms began to separate production, distribution, and sales; in large listed companies, the presence of institutional and private investors altered governance, transparency, and market discipline.

It would therefore be wrong to describe the entire process as a simple theft of assets.

## And what was lost?

At the same time, part of the state's ability to directly direct industrial investments and corporate strategies was reduced. In some sectors, the competition issue was addressed later than the sale; in others, the ownership structure rapidly became concentrated; in some utilities, privatization created the need to build stronger regulators precisely because the private operator could control an essential service.

Furthermore, when a strategic asset is sold, the state replaces a future cash flow with immediate proceeds. This choice may be rational if the capital received reduces a very costly debt or if the private enterprise significantly increases efficiency and investment; however, it becomes less advantageous if the proceeds are absorbed without structurally changing the tax situation, or if regulation allows the new owner to transform a dominant public position into a private rent.

This is why the true judgment on privatizations cannot be expressed by looking only at the day of the placement.

It must be expressed after decades, comparing **public finance, competition, investments, quality of service, industrial structure and strategic control** .

## The historical balance: not a retreat of the State, but its metamorphosis

The deeper significance of the Italian privatizations of the 1990s, therefore, lies not simply in the amount of assets sold. It lies in the transformation of the relationship between politics and capitalism. The entrepreneurial state of the First Republic, owner of a vast network of banks, industries, and services, was progressively replaced by a state that sought to control the system through regulation, selective shareholdings, concessions, independent authorities, and special powers.

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Italian capitalism became more financialized, more open to the market, more integrated into international circuits, and more exposed to the discipline of private shareholders; at the same time, it lost some of its ability to directly concentrate investments and industrial strategies within large public conglomerates.

From then on, the strategic question would no longer be simply **“which enterprises should the state own?”** , but a much more complex question: **“which economic functions should the state be able to control even when it does not directly own the enterprise?”**

It's a question that runs through Italy's entire subsequent history, from energy liberalization to the Golden Power, from telecommunications security to defense, from ports to electricity grids, from semiconductors to data.

The privatisations of the 1990s were therefore not just a page in economic policy.

It was the moment in which **the very grammar of Italian economic power changed** .


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# PART IV

# SOCIAL STATE AND LABOR MARKET


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# Chapter 9

## Labor and Wages — The Problem of Internal Adjustment

The transformation of the Italian labor market is one of the areas where European monetary integration most deeply affects the country's social structure, but it is also one of the areas where it is easiest to attribute to the euro phenomena that have different origins and, in some cases, predate the single currency. To understand its significance, we must begin with a key distinction: Italy did not begin to change wages, bargaining, and employment relationships after January 1, 1999, because the transition to a model in which price stability, wage containment, and employment flexibility assumed an increasingly important role had begun many years earlier, when the country decided to gradually replace adjustment through inflation and devaluation with a strategy of internal convergence.

The great turning point occurred between 1992 and 1993, when the lira crisis, the public finance emergency, and the prospect of the Maastricht Treaty required a revision not only of monetary policy, but also of the way wages and prices were formed in the Italian economy. In the previous model, wage dynamics had long relied on indexation mechanisms that protected workers from price increases, but which simultaneously contributed to transmitting inflationary shocks to the entire economic system. The progressive elimination of the scala mobile (escalator) and the subsequent development of incomes policy altered this relationship, shifting the task of making wage growth compatible with inflation reductions to bargaining and cooperation between government, trade unions, and businesses.

The **Protocol on incomes and employment policy of 23 July 1993** , signed by the Ciampi government with trade unions and employers' organisations, represents the fundamental document of this transformation, because it explicitly declared that incomes policy had to contribute to the containment of inflation, the reduction of debt and deficits and to currency stability, thus placing the system of industrial relations within the broader European convergence strategy. The Protocol did not only concern wage moderation: it redesigned the structure of bargaining on two levels, national and company or territorial, and attempted to establish a more orderly relationship between wage dynamics, productivity and macroeconomic objectives. [1]

It is important to grasp the economic significance of that choice without retrospectively transforming it into either an unqualified success or the source of all subsequent wage weaknesses. The Protocol was born in an Italy that had just experienced a currency crisis and needed to convince markets and European partners of its ability to sustainably reduce inflation. In that context, nominal wage growth systematically exceeding productivity would have made it much more difficult to maintain price stability and would have reproduced the mechanism that in previous years had periodically necessitated the

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lira's adjustment. Wage moderation was therefore part of a macroeconomic strategy consistent with the new regime Italy was trying to build, but its success depended on a condition that would become progressively more problematic: if wages grew less rapidly in exchange for greater stability, productivity and employment would have to increase sufficiently to subsequently allow for real income growth.

ISTAT data show how complex the transition was. In the period **1991–1995** , wages were in fact unable to fully incorporate the increases in productivity and recorded a slight loss of purchasing power; in the following five years, however, real wages recovered ground and continued to grow less than productivity, while from 2001 the dynamics changed again because the slowdown in productivity became so marked as to alter the relationship that had supported the previous equilibrium. [2]

This sequence is essential because it shows that Italian wage stagnation cannot be explained simply by saying that incomes policy "lowered wages." In the second half of the 1990s, there was indeed a recovery in purchasing power, and moderation helped reduce inflation and consolidate Italy's monetary position. The deeper problem emerged when productivity began to grow too slowly, because in a system in which the sustainable increase in real wages depends over the long term on the amount of value produced per hour worked, near-stagnant productivity necessarily narrows the room available for non-inflationary wage increases.

It is this relationship, much more than simple membership of the euro, that accompanies Italy for the next thirty years.

The single currency, however, radically altered the context in which the problem had to be resolved. Before 1999, a loss of competitiveness accumulated through higher costs and prices than those of its partners could be offset, at least temporarily, by devaluing the lira; after the irrevocable fixing of exchange rates, that possibility disappeared vis-à-vis other eurozone economies. Adjustment should therefore have been achieved through increased productivity, a different production organization, cost moderation, or, in recessionary phases, through a reduction in employment and demand. This is the economic meaning of "internal adjustment": not a specific policy adopted in a given year, but the consequence of the fact that, within a common currency, relative imbalances between economies can no longer be corrected by changing the nominal exchange rate.

Italy entered this new architecture having already started a second process destined to profoundly modify the labour market: the progressive opening to more flexible contractual forms compared to the traditional permanent subordinate relationship. Law **no. 196 of 24 June 1997** , known as the Treu Package after the Minister of Labour Tiziano Treu, was not a marginal technical revision but an important step in the liberalisation of the labour market, introducing among other things temporary work through agencies into the Italian system and intervening on apprenticeships, training and internships. [3]

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The rationale behind the reform was rooted in a real problem: a highly protected labor market for those already employed could simultaneously create high barriers to entry for young people, women, and the unemployed, especially in an economy undergoing sectoral transformation and growing international competition. Easing entry through temporary or intermediated contracts could increase employment opportunities and allow companies to adapt their workforce to demand; the risk, however, was that flexible entry would become a permanent condition for a portion of the working population rather than a bridge to more stable relationships.

This tension between **flexibility and segmentation** will become one of the most persistent features of the Italian labor market. Subsequent reforms will not simply follow a straight line from "rigidity" to "freedom"; they will repeatedly shift the boundaries between protected and exposed workers, between permanent and temporary contracts, between job protection and income protection during employment transitions.

The 2003 reform, linked to the delegation law n. 30 and the **legislative decree of 10 September 2003, n. 276** , deepened this transformation by expanding and reorganising the contractual forms and the system of employment services. The provision redefined the role of employment agencies, regulated new contractual typologies, intervened on temporary work, apprenticeships, intermittent work, shared work and project collaborations, fitting into a vision in which the greater adaptability of the employment relationship was to favour employment in an economy subjected to increasingly rapid technological and competitive transformations. [4]

The political controversy surrounding the so-called Biagi reform has often obscured an important distinction. Not all forms of flexibility necessarily lead to precariousness, just as a formally stable contract does not automatically guarantee a productive career or a high salary. The crucial issue is the distribution of risk between firm and worker: when a firm faces uncertain demand, greater contractual flexibility transfers part of that risk to the employment relationship. If the system simultaneously provides ongoing training, effective active policies, universal safety nets, and employment services capable of facilitating rapid transitions, the loss of a single job does not necessarily imply a prolonged loss of income and human capital. However, when these institutions are weak, flexibility can result in a succession of short-term contracts, with fewer training opportunities, less capacity for family planning, and a distribution of risk heavily skewed toward the worker.

Italy would suffer precisely from this asymmetry for a long time. The country gradually introduced greater flexibility in employment relationships without rapidly building a universal system of active policies and transition protection comparable to that of some Northern European economies. The Cassa Integrazione (Wage Supplementation Fund), historically built around the relationship between worker and employer, effectively protected certain industrial categories but was not a universal system for those who

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frequently moved between temporary contracts, unemployment, and marginal employment.

The result was a labor market in which the capacity to create employment increased, even through new forms, but in which the quality of integration remained highly differentiated.

This dynamic took on a much more dramatic dimension after 2008, when the great international financial crisis hit an economy that, as we saw in the previous chapter, was already experiencing a weak productivity. The recession reduced demand, hit industry, and increased pressure on the labor market. The subsequent sovereign debt crisis then transformed a cyclical problem into a much deeper crisis, as fiscal consolidation and the tightening of financial conditions further compressed domestic demand just as many firms were seeking to reduce costs and production capacity.

It is in this context that the **law of 28 June 2012, n. 92** , associated with the minister Elsa Fornero, intervened on the labour market with the declared aim of creating a more inclusive and dynamic system, modifying the rules on dismissals, intervening on fixed-term contracts and introducing a new structure of social safety nets, in which the ASPI represented an attempt to broaden protection against unemployment. [5]

The 2012 reform is important because it marks a conceptual shift: the debate is no longer limited to flexible entry into the labor market, but rather to redefining the protections associated with permanent contracts. Article 18 of the Workers' Statute, which in Italian political debate had assumed a symbolic significance far superior to its concrete application to the entire market, was amended to limit and differentiate the circumstances in which unfair dismissal entailed reinstatement.

Here too, the underlying problem was broader than a single provision. Italy was attempting to transition from a system in which a significant portion of protection was embedded in the workplace to one in which workers should be better protected during the transition from one job to another. But the second element of the transformation—employment services, retraining, administrative capacity, and training—continued to be far more difficult to navigate than amending contractual rules.

The Renzi government's **Jobs Act** took this logic a step further. Delegated law no. 183 of 2014 indicated among its objectives the promotion of the permanent contract as a common form of employment relationship, making it more convenient than alternatives, while legislative decree no. 23 of 2015 introduced the contract with increasing protections for new hires, profoundly modifying the economic consequences of unfair dismissal and restricting the recourse to reinstatement compared to the previous model. [6]

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The reform cannot be analyzed separately from the contribution incentives that accompanied new permanent hires during that period, because part of the increase in these ratios also depended on the temporary economic benefits offered to firms. This makes it particularly difficult to attribute employment trends to a single regulatory change: a new hire may reflect the reform of social protections, a contribution incentive, the economic recovery, demand expectations, or the interaction of all these factors.

This caution should apply to almost all major Italian labor reforms. The Treu Package, the Biagi Law, the Fornero Reform, and the Jobs Act are often evaluated through the number of employed people in the immediately following years, but a temporal correlation does not automatically prove causality. The labor market responds to the economic cycle, monetary policy, foreign demand, taxation, incentives, and demographics, as well as contractual regulations. Attributing the creation or destruction of hundreds of thousands of jobs to a single law without an empirical design capable of isolating the causal effect means attributing to legislation a precision that the data do not permit.

The political reaction to the Jobs Act came a few years later. The **legislative decree of 12 July 2018, n. 87** , subsequently converted into law n. 96, was expressly presented with a chapter dedicated to "measures to combat precarious employment" and intervened on the regulation of fixed-term contracts, reducing their maximum ordinary duration and reintroducing, under certain conditions, the need to indicate reasons for extensions or renewals beyond specific time limits. [7]

The alternation between liberalization and subsequent restriction demonstrates how the labor market has become a terrain where different governments have attempted to address different problems through often opposing means. One majority emphasizes the cost of rigidity for hiring; the other emphasizes the cost of precariousness for workers. Both address real problems, but neither dimension can be maximized without impacting the other: making it extremely difficult to end a relationship can discourage hiring, while making short-term contracts extremely easy and repeated can reduce economic security, education, and the ability of families to plan consumption, savings, and birth rates.

Italy's internal adjustment, therefore, did not occur through a single large wage devaluation, but through a much more complex process in which wage moderation, contractual flexibility, weak productivity, cyclical unemployment, and market segmentation interacted over time.

The most important point emerges if we look at productivity and wages together over a sufficiently long time horizon. ISTAT estimates that between **1995 and 2024, labor productivity in market sectors increased by an average of only 0.3 percent per year** ; in 2024, it actually decreased by 1.9 percent because hours worked grew much more than added value. [8]

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Average growth of 0.3 percent isn't simply a statistical problem. Over nearly thirty years, it makes a huge difference compared to an economy where productivity increases by one or two percent per year, because earnings accumulate and determine the amount of disposable income to be distributed between wages, profits, and taxes. A country that generates little increase in value per hour worked has structurally narrower margins for simultaneously increasing wages, investment, and tax revenue.

This is where many political interpretations of the so-called Italian "wage question" become incomplete. It is true that wage moderation was an important component of the convergence of the 1990s, and that, in several subsequent periods, real wages have shown weak momentum. But it would be wrong to conclude that simply increasing nominal wages by law or contract would have solved the problem, because without productivity growth, a generalized increase in costs can translate into margin compression, price increases, or a loss of competitiveness. However, it is equally inadequate to use low productivity as a permanent justification for wage stagnation, because weak domestic demand, insufficient investment, poor training, and corporate incentives biased toward low-value-added activities can in turn contribute to production weakness.

Wages and productivity are therefore not two independent variables. They can enter into a circular relationship.

An economic structure that uses relatively inexpensive labor may have fewer incentives to replace inefficient processes with capital, technology, and training; unproductive firms, in turn, can only sustain low wages. Breaking this equilibrium therefore requires a transformation of the production organization, not just a change in payroll.

The years following the pandemic have made this fragility even more evident. Italian employment has reached high absolute levels and unemployment has decreased significantly, but the recovery of real wages after the inflationary shock of 2022 has been much slower. In December 2025, ISTAT recorded **24.142 million employed people** , an employment rate of **62.5 percent** and an unemployment rate of **5.6 percent** ; at the same time, however, the inactivity rate of the population aged 15 to 64 remained at **33.7 percent** , indicating that the improvement in unemployment did not automatically coincide with a full utilization of the working-age population. [9]

The international comparison makes the data even more significant. In the first quarter of 2026, the OECD estimated the Italian employment rate at **62.8 percent** , the highest in the recent series but still **9.3 percentage points below the OECD average of 72.1 percent** , with particularly large differences for women and young people. [10]

This paradox—relatively low unemployment and an employment rate still much lower than the average for advanced economies—demonstrates why measuring the labor market through the unemployment rate alone is insufficient. A person who is neither

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working nor actively seeking employment is not considered unemployed; a country can therefore reduce its unemployment rate without necessarily mobilizing its entire potential labor force.

For an aging Italy where the working-age population is beginning to decline, this issue becomes strategic. Greater participation among women, young people, and the currently inactive population is not just a social issue, but a key variable for growth, tax revenue, and pension sustainability.

On the income side, the current situation shows an equally significant fracture. According to the **OECD Employment Outlook 2026** , in the first quarter of 2026, Italian real wages had grown by 1.3 percent compared to a year earlier but were still **6.1 percent below the level of the first quarter of 2021** , the widest gap among the major economies considered by the organization. [11]

This does not mean that Italian real wages have declined continuously since 2021. The decline was concentrated primarily in the period of high inflation following the pandemic and the energy shock; a recovery began subsequently. However, the slow pace of collective bargaining agreements and the impossibility of immediately recouping the entire price shock through nominal increases explain why the return to previous levels is still incomplete.

ISTAT recorded that in 2025 contractual wages had increased, but at the end of the year only **57.8 percent of employees** were covered by national contracts in force for the economic part, while the entire public administration was statistically covered by contracts that had expired in the survey considered; the problem of the duration of renewals, therefore, remains a structural component of the mechanism through which Italian wages react to inflation. [12]

The OECD, using a different methodology, estimated that nominal wages under collective agreements increased by 3.1 percent in 2025, but that in real terms, contractual wages were still 8.8 percent lower than in January 2021. [13]

These figures should not be added or confused, because they measure different concepts, but they converge on one conclusion: the increase in employment in recent years has not yet resolved the issue of purchasing power and the quality of work.

The debate on minimum wages must also be placed within this framework. In July 2026, Italy, together with Denmark, Austria, Finland and Sweden, remains among the European Union countries without a national minimum wage set by law; the protection of minimum wages continues to be entrusted mainly to collective bargaining at the sector level. [14]

This peculiarity does not mean that minimum wages do not exist in Italy, but that they derive from collective bargaining agreements and their implementation, not from a universal legal threshold. The political issue therefore focuses not only on the level of a

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possible minimum, but on the representativeness of the agreements, the proliferation of collective bargaining agreements signed by organizations with limited representation, and the system's ability to effectively extend adequate compensation to highly fragmented sectors.

The lack of a legal threshold cannot be judged in isolation, as there are European economies with strong contractual coverage and no national minimum wage, where wage protection is high. The Italian issue concerns the relationship between formal coverage, effective enforcement, and production structure, especially in low-productivity services where cost pressures are greatest.

More than thirty years after the 1993 Protocol, a profound but incomplete transformation can be observed. Italy has abandoned the system in which inflation, indexation, and devaluation were recurring components of adjustment; it has built a stability-oriented bargaining system; it has progressively liberalized entry into the labor market; it has modified the protections afforded to permanent employment; it has expanded social safety nets and has repeatedly experimented with hiring incentives and reductions in social security contributions.

What it has not been able to achieve as effectively is the transition to an economy in which productivity growth allows for sustained wage increases without compromising competitiveness.

This, more than any single law, is the continuity that runs through the entire period.

The euro has made this difficulty more visible and more costly because it eliminated the possibility of periodically adjusting the relative price of labor through the exchange rate; however, it has not created it. The origins of weak productivity, low female participation, segmentation between protected and precarious workers, the ineffectiveness of active policies, and territorial dualism are inherent in Italy's structure and must be explained through institutions, businesses, human capital, and national policies.

The real problem with Italy's internal adjustment is not that the country was simply forced to lower wages after joining the euro, because such a formula doesn't match the complexity of the documentation. It's that, once the exchange rate was abandoned as a recurring compensation mechanism, **productivity should have become the primary instrument for reconciling wage growth and competitiveness, yet that very variable has remained extraordinarily weak** .

This is where a significant portion of the income stagnation that characterizes contemporary Italy comes from, and it's from this same point that the connection with the pension problem arises, because a pay-as-you-go pension system doesn't depend solely on the number of workers: it depends on the amount of income and contributions those workers produce.

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If wages grow slowly, the contribution bases also grow slowly.

If the number of working-age workers decreases, the problem amplifies.

And this is where the labor market meets demographics.


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# Chapter 10

## Pensions and Demography — Thirty Years of Reforms and Counter-Reforms

No chapter in the Italian economic history of the last thirty years demonstrates with such clarity how difficult it is to distinguish a political decision from a structural transformation as the pension system, because the pension system is simultaneously a social promise, a budget item, a mechanism for redistribution between generations, and a mathematical function of the demographic structure. A government can change requirements, coefficients, and calculation methods, but it cannot establish by law how many citizens will be born twenty-five years from now, how much life expectancy will increase, or what the ratio of employed people to pensioners will be once the large baby boom generations have left the labor market.

For this reason, the Italian pension problem must be avoided both by the interpretation that any reform is simply a sacrifice imposed by Brussels, and by the opposite interpretation that demographic aging makes any restrictive measures decided by governments inevitable. Europe and budgetary constraints have played an important role, especially during the financial crisis, but the fundamental dynamic predates the euro and will continue to operate independently of the currency: a population that lives longer, has fewer children, and has a progressively smaller share of working-age people must necessarily redefine the way it finances and distributes pension income.

The starting point of the contemporary transformation is the **law of 8 August 1995, n. 335** , the so-called Dini reform, which probably represents the most important structural modification of the Italian pension system since the birth of the Republic. [1]

The reform did not simply increase an age requirement or modify an exit window, but progressively changed the principle by which the value of the pension is determined, introducing the contributory system. In the retributive model, the amount of the pension is primarily linked to the wages earned during a given period of the employee's career and to the length of contributions made; in the contributory model, however, the pension depends on the amount of accumulated contributions and their conversion into an annuity through coefficients that also take into account the retirement age and, indirectly, expected survival.

The economic difference is profound because it changes the nature of the relationship between contributions and benefits.

In the contributory system, a short, intermittent, or low-wage career tends to result in a lower pension, not because of a subsequent political penalty, but because the accumulated amount is lower. This is why the Italian pension issue is inseparable from

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the labor market described in the previous chapter: precarious employment, stagnant wages, long periods of inactivity, and low female participation do not disappear upon retirement, but are incorporated into the contribution history and resurface decades later in the amount of the benefit.

The application of the Dini reform was deliberately gradual, and it was precisely this gradualness that produced a very strong differentiation between generations of workers. For those who did not have contributory seniority as of 31 December 1995, the contributory system was applied in full; for workers with less than eighteen years of contributions as of that date, a mixed system was introduced, based on retribution for seniority accrued up to 1995 and contributory for subsequent years; those who had at least eighteen years of contributions as of 31 December 1995, however, retained, according to the original provisions of the reform, the retribution calculation also for subsequent seniority, a protection that would only be modified with the 2011 reform. [2]

This transition system reflected a clear political compromise. Immediately applying the contributory system to all previous seniority would have reduced the prospective cost much more rapidly and standardized the system, but it would have drastically altered the pension expectations accrued by workers now approaching retirement. The choice to better protect older generations therefore shifted a substantial portion of the adjustment to younger workers, allowing for a politically sustainable but extremely long transition.

In this sense, the Dini reform encompasses one of the most important features of the Italian welfare state: major adjustments are often introduced through transitional periods that produce different systems for people separated by just a few years of seniority. This approach is understandable from the perspective of protecting expectations, but it complicates the system and fuels a problem of intergenerational equity that is destined to become increasingly political.

The following years did not erase the Dini architecture, but repeatedly intervened on the access methods.

Law **no. 243 of 23 August 2004** , associated with the Maroni reform, intervened on public social security, retirement and supplementary social security, pursuing the objective of progressively raising the effective retirement age and strengthening the second pillar. [3]

One of the most discussed steps was the so-called "step", which would have determined a significant increase in the requirements for access to old-age pensions. Before the measure was fully implemented, the second Prodi government modified its structure through the **Protocol of 23 July 2007** and the subsequent **law of 24 December 2007, n. 247** , replacing the concentrated step with a gradual path based on quotas resulting from the combination of chronological age and contributory seniority. [4]

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The Maroni-Prodi sequence is significant because it anticipates a pattern that will recur many times. One government tightens the requirements to address the prospect of increased spending; the next softens the adjustment process without necessarily eliminating the underlying objective; the reforms are thus presented in the political debate as cancellations or counter-reforms, while from a long-term perspective, the system continues to progressively shift toward higher retirement ages and a closer relationship between contributions and benefits.

At the end of the first decade of the new century, another element destined to become central was added: the connection of pension requirements to the evolution of life expectancy. The rules approved in 2010 established an automatic adjustment mechanism which, starting from 2013, would have modified the access requirements in relation to the increases in life expectancy measured by ISTAT. [5]

The principle radically changes the relationship between politics and demography. Instead of requiring Parliament to vote on a retirement age increase every time, part of the adjustment becomes automatic: as people live longer, the expected length of their working life is also progressively modified.

The financial logic is clear. If a system pays a pension for an increasing number of years without changing contributions, retirement age, or amount, the overall cost increases. Adjusting for life expectancy seeks to distribute part of the increase in longevity between years worked and years spent in retirement.

But the measure also raises an equally real social problem: the average increase in life expectancy is not evenly distributed across professions, education levels, regions, and economic conditions. A worker performing physically demanding work is not necessarily in the same position as someone performing less demanding intellectual work and can more easily continue into old age.

It is precisely from this tension between average sustainability and individual conditions that exceptions for strenuous, early, and demanding jobs and tools such as APE Sociale will arise in the following years.

The real break, however, came in December 2011.

The sovereign debt crisis described in the subsequent chapters of the book produces a completely different environment from that in which the previous reforms had been developed. The Monti government comes into office while the cost of state financing has reached extremely high levels and the credibility of Italian public finances is subjected to extraordinary international and domestic pressure. In that context, the **decree-law of 6 December 2011, n. 201** , converted into law n. 214, introduces in Article 24 an immediate and far-reaching pension reform, associated with the Minister of Labour Elsa Fornero. [6]

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The legislative text expressly states that the measures are aimed at ensuring compliance with international and European Union commitments, budgetary constraints and the long-term sustainability of the social security system, thus formally linking the reform both to the financial emergency and to the structural problem of social security. [7]

The measure extended **the pro rata contributory system to all workers from 1 January 2012** , including those who had maintained the retributive calculation on seniority after 1995 thanks to the eighteen years of contributions accrued at that date; it modified the requirements for the old-age pension, redesigned early pensions, accelerated the convergence of ages between categories and incorporated more decisively the link with life expectancy. [8]

The historic significance of the Fornero reform lies not simply in "raising the retirement age," a formula that excessively reduces the complexity of the measure. The reform largely completed the process initiated by Dini regarding the calculation method and, at the same time, addressed the eligibility requirements much more quickly, precisely because the crisis did not allow for the long transitional periods used in the 1990s.

This speed created one of the most serious political problems of the intervention: the issue of the " **esodati" (exoduses)** , workers who had left the labor market under the previous rules and who, with the rapid increase in requirements, risked finding themselves without a job or pension for a period. The subsequent safeguards approved by Parliament were necessary precisely because the regulatory transition had created cases in which the coordination between leaving the workforce and access to a pension had not been adequately preserved.

The issue of the "esodati" (employees of the early retirement system) is analytically important because it demonstrates the difference between aggregate and individual sustainability. A reform can improve the system's long-term trajectory and simultaneously incur very high costs for specific groups if the transition is too rapid or lacks sufficient accompanying tools.

It is also one of the reasons why the Fornero law will become one of the most enduring political symbols of the austerity era, much more than other technically relevant but less immediately perceptible measures.

In the years that followed, almost every government would try in different ways to introduce margins of flexibility into the architecture built in 2011 without completely dismantling its principle of sustainability.

The **Social APE** , introduced by the 2017 budget law, represents one of the clearest examples: it does not universally change the retirement age, but creates a bridging benefit for categories considered deserving of greater protection, including the

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unemployed, caregivers, disabled people and workers engaged in strenuous activities. [9]

The logic is different from that of a generalized counter-reform. It recognizes that a uniform rule applied to an extremely heterogeneous working population can produce different social effects and therefore attempts to create targeted exceptions.

The Conte I government would have followed a much broader path with **Quota 100** .

**Legislative Decree no. 4 of 28 January 2019,** subsequently converted into Law no. 26 of 28 March 2019, introduced on an experimental basis for the three-year period 2019–2021 the possibility of accessing a pension with at least **62 years of age and 38 years of contributions** . [10]

The measure represented an explicit political response to the rigidity attributed to the Fornero reform and allowed a portion of workers with long contribution careers to significantly anticipate their retirement. However, it did not abolish the general architecture of 2011, which continued to govern the ordinary system; rather, it created an additional temporary channel.

This is a crucial point because the phrase "abolition of the Fornero law," used in political communication during the period, does not correspond to the regulatory framework actually created. Quota 100 coexisted with the general legislation and had a limited experimental duration.

At the end of the three-year period, the system moved to new transitional formulas.

The budget law for 2022 introduced the requirement known as **Quota 102** , with at least 64 years of age and 38 years of contributions for those who met the requirements in the year. [11]

**Quota 103** was introduced in 2023 , based on an age of 62 and 41 years of contributions. This measure was later modified and extended in subsequent years with less favorable conditions, including the use of contributory calculation and temporary limits on the amount that can be received before the ordinary requirements are met.

This succession of Quota 100, 102, and 103 should not be interpreted solely as legislative instability. It reveals a structural political conflict between two objectives that no government can eliminate: on the one hand, the social demand for greater flexibility in retirement, especially for those who started working early or have accumulated many years of contributions; on the other, the fiscal cost of large-scale early retirement in a rapidly aging country.

In 2026 this tension appears with particular clarity, because the **2026 budget law has not extended either Quota 103 or Opzione Donna for new school leavers** , maintaining the rights for those who had already reached the requirements within the respective

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deadlines, while it has extended the Social APE until the end of 2026 and has expanded the incentive for workers who choose to remain employed despite having reached the requirements for the ordinary early pension. [12]

The administrative data confirms how the early measures have been progressively restricted. In 2025, INPS records **15.436 million pensioners** , while the new social security pensions paid out in the year are 834,658; the beneficiaries of the early forms similar to the "quotas" have significantly reduced and those of the Opzione Donna have gone from 26,427 in 2022 to 3,860 in 2025. The average retirement age has increased in the same period, from 64.4 to 65.4 years for women and from 63.7 to 64.1 for men. [13]

These data do not mean that the system has become inflexible. Rather, they indicate that legislators, following the experience of larger quotas, have again shifted toward more selective channels and incentives to remain in employment.

To understand why this trajectory continues to resurface, we must momentarily leave the realm of reforms and look at demographics.

As of **January 1, 2026** , according to ISTAT, the Italian population up to 14 years of age had fallen to **6.852 million** , equal to 11.6 percent of the total; people between 15 and 64 years of age were **37.270 million** , 63.2 percent; those over sixty-five were instead **14.821 million** , equivalent to **25.1 percent** of the population. Those over eighty-five had exceeded 2.5 million. [14]

This is not a cyclical fluctuation.

It is a structural transformation of the demographic pyramid.

The most important point is not simply that the number of elderly people is increasing, but that the population potentially able to work and pay contributions is simultaneously decreasing. In a predominantly pay-as-you-go pension system, contributions paid by current workers largely finance current benefits; the system does not function like a single bank account in which each worker physically accumulates the sums they will receive decades later. The contributory calculation creates an individual relationship between contributions and accrued entitlement, but the system's financial flow continues to depend essentially on the employed population and the income on which contributions are paid.

For this reason, demography takes on a fiscal dimension.

Italian fertility was already at extremely low levels in the 1990s, but the problem has worsened because the generations of reproductive age have themselves become fewer. In 2024, **369,944 children were born** and the average number of children per woman fell to **1.18** , even lower than the previous minimum recorded in 1995; for 2025, ISTAT provisionally estimates a fertility rate of approximately **1.14 children per woman** and approximately 355,000 births. [15]

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A detail provided by ISTAT allows us to understand why the trend has become so difficult to reverse. In 1995, women between 15 and 49 years of age were approximately **14.3 million** ; on 1 January 2025, they were approximately **11.4 million** . Even if each woman returned to having the same average number of children as in 1995, the absolute number of births would still be lower because the potentially fertile population is much smaller. [16]

This is one of the most important and least intuitive demographic mechanisms: a prolonged low birth rate reduces not only current births, but also the number of future mothers and fathers, creating an inertia that continues for decades.

For this reason, demographics cannot be quickly corrected by a single fiscal policy, nor can it be attributed to the euro. The decline in fertility affects economies with very different currencies and welfare systems and reflects changes in the age of family formation, female participation, housing costs, education, job insecurity, preferences, work-life balance, and the accumulated demographic structure.

The new official ISTAT forecasts, based on **1 January 2025** , show the extent of the transformation if current trends are not compensated by substantial changes in fertility and migration. In the median scenario, the resident population increases from **58.9 million in 2025 to 55 million in 2050 and 45.8 million in 2080** ; the share of people aged over 65 rises from 24.7 percent in 2025 to **34.5 percent in 2050** , while the population aged 15–64 drops from 63.4 to **55.3 percent** . [17]

ISTAT correctly warns that these are scenarios, not prophecies, because migration, fertility, and mortality rates may evolve differently. However, some trends, especially the transition of baby boomers into old age, are already embedded in the population structure and are therefore much more predictable in the medium term.

It is precisely this demographic wave that makes it misleading to evaluate the pension system by looking only at the present.

The State General Accounting Office, in its medium-long term projections, estimates that pension expenditure, after having stood at around **15.6 percent of GDP** in 2024 and at similar levels until the end of the decade, will progressively increase again from 2029 until reaching around **17 percent of GDP around 2040** , above all due to the increase in the ratio between the number of pensions and the number of employed people determined by the demographic transition; subsequently, with the full extension of the contributory system and the progressive exhaustion of the large generations, the ratio should decrease again. [18]

This trajectory explains an apparent paradox: the pension reforms of the last thirty years have significantly improved long-term sustainability, but the system will still face

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difficulties in the next two decades because the demographic wave precedes the full stabilizing effect of the contributory method.

Politics thus finds itself governing two different times.

In the short and medium term, it must finance a large retired population, protect the lowest pensions, and manage the demand for flexibility among older workers.

In the long term, it must avoid placing on younger generations a contribution burden that is incompatible with wages, employment, and growth.

This is where the pension debate stops being a simple accounting comparison between "cuts" and "acquired rights" and becomes a problem of intergenerational distribution.

A pension isn't just an individual benefit; it's also a share of national income transferred from those who earn income now to those who have retired. If the ratio between the two groups changes dramatically, society must decide how to adjust the retirement age, contributions, general taxation, amounts, and labor force participation.

None of these options are without consequences.

Increasing contributions reduces workers' disposable income or increases the cost to businesses.

Raising the retirement age extends working lives and can be particularly burdensome for certain professions.

Reducing benefits may increase the risk of poverty in old age.

Financing an increasing share with general taxation transfers resources from other public functions.

Relying exclusively on immigration would require significant influxes and, above all, the ability to integrate new residents into productive and regular employment.

Pension sustainability is therefore not a problem that has a purely technical solution.

The technique allows us to quantify the consequences of alternatives; the choice of how to distribute the costs remains a political one.

It is equally important, however, not to use this political nature to ignore the arithmetic constraints.

A country with fewer people of working age, more retirees, and stagnant productivity has less redistributive space than a country with high participation, rising wages, and strong productivity growth. Therefore, pensions cannot be analyzed separately from wages and the labor market.

An increase in female participation produces more taxpayers.


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A reduction in youth unemployment produces more taxpayers.

Productivity growth that allows for higher real wages produces higher contributions even without raising tax rates.

Regular immigration accompanied by high employment broadens the contribution base.

The sustainability of pension provision therefore depends not only on the number of pensioners, but on the quality of the economy that finances them.

This is where the demographic question becomes a broader geopolitical and economic problem.

An aging society allocates a greater share of its resources to pensions, healthcare, and long-term care; with the same income, it has less room for education, infrastructure, defense, energy transition, and investment. If, at the same time, public debt is high, the room for choice is further limited.

Social security therefore becomes a component of the state's strategic capacity.

This doesn't mean that pensions and defense are directly interchangeable in the budget, as if one could simply be reduced to finance the other; it means that both compete, along with many other functions, for a tax base that depends on economic growth and the size of the working population.

This is one of the reasons why Italy's problems over the next twenty years cannot be solved solely through a new pension reform.

The major reforms have already been implemented.

Dini introduced the contributory system.

Fornero completed the pro rata extension and increased the requirements.

The link to life expectancy automated part of the adjustment.

The “quotas” subsequently created windows of flexibility, but without replacing the ordinary system.

In 2026, the overall structure will continue to be based on the architecture created in 1995 and strengthened in 2011.

The remaining problem is less and less simply parametric and more and more economic and demographic.

If Italy manages to increase productivity, employment rates, female participation, and immigrant integration, part of the social security burden could be absorbed through a broader and more comprehensive contributory base.


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If, on the other hand, the working-age population decreases while productivity and wages continue to grow slowly, the distributive conflict between generations will inevitably become more severe.

In this sense, the pension system represents a mirror of the entire Italian political economy.

In the 1990s, the priority was to reduce the prospective cost of a system built in a much younger country.

In 2011, financial urgency accelerated a process that had already begun.

In the following decade, politicians repeatedly tried to restore flexibility to specific categories through Quotas, the Women's Option and the Social APE.

In 2026, however, demographics make it clear that the problem is no longer simply a choice between “Fornero” and “abolishing the Fornero law”.

The real question is much more difficult: **how can we finance a society in which the relative number of pensioners is increasing while the working-age population is decreasing for decades, without impoverishing either those who have finished their careers or the generations called upon to finance the system?**

No reform approved in Parliament can answer the question alone.

The answer will depend on the structure of the Italian economy as a whole.


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# BANKS, CREDIT AND SOVEREIGN DEBT


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# Chapter 11

## The bank-state circuit

If one were to identify a point at which the Italian economic history of the last thirty years definitively ceases to be told as a simple succession of fiscal, monetary, or industrial policies and instead becomes a history of institutional interdependencies, the relationship between banks and the state would probably be the most suitable place to start. No other sector demonstrates with such clarity how public debt, credit to the real economy, household savings, supervision, financial stability, and the European construction have progressively entered into a single circuit, in which the crisis of one element can be transmitted to the others and, at the same time, measures adopted to protect one segment can profoundly alter the incentives and risks of the entire system.

To understand this cycle, we must first abandon the simplistic image that Italian banks were for decades merely passive buyers of public debt, almost as if they were ancillary structures of the Treasury tasked with financing state spending. The Italian banking system has certainly had a historically close relationship with sovereign debt, but the nature of that relationship has changed radically over time, as have the banking model, intermediary ownership, the way credit is allocated, and the supervisory architecture. In the 1990s, the Italian banking system emerged from a structure still highly segmented by territory and characterized by a very large public sector presence. It entered a phase of privatization, mergers, and liberalization, gradually concentrated into much larger national groups, and, after the 2008 crisis, was finally incorporated into a supervisory and resolution system established at the European level.

The transformation is enormous. Between 1990 and 2000, according to a reconstruction by the Bank of Italy, **356 mergers and incorporations and 158 acquisitions of the majority of the capital took place** ; in the same period the number of banks fell from **1,156 to 841** , while the presence of foreign intermediaries and competition between banks in local markets increased. Even more significant was the transformation in ownership: between 1992 and 2002 the share of banking activities attributable to institutions in which public bodies and foundations owned more than half of the capital decreased from **68 to 10 percent** . [1]

These figures describe the transition from a system in which a significant portion of credit was organized through institutions with deep public and territorial roots to a system in which joint-stock companies, national banking groups, and much more integrated market logics prevailed. It was not just a process of concentration, because the mergers also had the effect of breaking down many of the previous local segmentations and placing different banks in competition in the same territories; the Bank of Italy in fact underlines that, contrary to a purely quantitative interpretation according to which fewer banks would necessarily mean less competition, the territorial expansion of the new

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groups in many cases increased the overlap between intermediaries and competition on local markets. [1]

This transformation coincides with the process described in previous chapters: privatization, capital liberalization, entry into the euro, lower interest rates, and European financial integration. Italian banks thus entered the single currency after profoundly modifying their structure, but they retained a fundamental characteristic of the national economy: they remain the primary channel through which businesses, especially small and medium-sized ones, receive financing. In a productive system in which the stock and bond markets have relatively limited influence for a very large portion of businesses, banking is not simply one possible means of raising capital; for many companies, it represents the essential link between savings and investment.

It is precisely this dependence that makes the health of banks a matter that goes beyond the financial sector. When a bank reduces lending, it isn't just correcting its balance sheet: it can force a company to postpone investments, reduce inventory, lay off workers, or abandon expansion plans. When the phenomenon simultaneously affects a large part of the system, the credit restriction can become a component of the recession.

To understand the Italian crisis, therefore, we must simultaneously consider two approaches. On the one hand, there is the relationship between banks and the state, because intermediaries hold government bonds, use sovereign debt as a financial asset, and are immediately affected by a spread crisis. On the other, there is the relationship between banks and businesses, because the recession deteriorates lending, increases insolvencies, and impairs banks' ability to provide new financing.

These two channels would have overlapped after 2011.


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## Sovereign debt enters bank balance sheets

The relationship between banks and public debt should not be interpreted as an Italian anomaly. Government bonds are a standard component of bank balance sheets because they are liquid instruments, usable in market operations and transactions with central banks, and represent assets with specific prudential characteristics. The problem arises when the perceived solidity of the state and that of national intermediaries become so closely linked as to produce a negative feedback loop.

The 2011 sovereign debt crisis makes this mechanism visible in an almost didactic way.

When the yield on Italian government bonds rises rapidly, the price of BTPs already in circulation declines. The banks that hold them may experience losses in value depending on their accounting classification and, more importantly, they are perceived by investors as having greater exposure to a sovereign that the market considers riskier. The consequences aren't limited to the securities portfolio: the cost of bank funding may also increase, as those who lend to an Italian bank begin to wonder what the bank's position would be in the event of a further deterioration in the state's situation.

The Bank of Italy has directly analysed this transmission, noting that the worsening of the sovereign debt crisis in the second half of 2011 led to a sharp increase in the yields of Italian bonds and, through the worsening of the conditions of access to wholesale markets, **an increase in the cost of funding for Italian banks** , with effects on the supply of credit to businesses. [2]

Here appears what, in subsequent European literature, would often be called **the doom loop** , the vicious circle between banks and sovereigns. A state crisis weakens banks because they hold public debt and depend on the national financial environment; a weak bank may in turn require public support, increasing the potential burden on the state budget; the market incorporates this risk into the price of sovereign debt, which further increases; the new rise in yields further worsens the banks' position. The architecture of the euro had eliminated currency risk between member states, but it had not eliminated the possibility that national sovereign risk could be directly transmitted to banking systems.

In the Italian case, the circuit took on particular importance because public debt was already very high and banks remained central to corporate financing. A widening spread was therefore not just a matter for the Treasury. It could be transmitted through intermediaries' funding conditions to the cost of loans to a small business in Veneto, Lombardy, or Emilia that didn't have any BTPs on its balance sheet and had no direct connection with fiscal policy.

The sovereign crisis thus became a credit crisis.


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However, it is important to avoid an excessively linear causality here too. The reduction in lending between 2011 and 2013 cannot be attributed exclusively to a choice by banks to ration credit. The recession reduced the demand for financing because companies invested less; at the same time, it worsened the balance sheets and prospects of debtors, increasing the risk associated with new loans. Credit supply and demand therefore contracted simultaneously, and it is precisely for this reason that the Bank of Italy had to use microeconomic analyses to isolate the specific channel through which the worsening of sovereign risk had influenced bank supply. [2]

The system, however, did not collapse. In its Financial Stability Report of November 2011, the Bank of Italy underlined that, despite a sharp reduction in liquidity on the secondary market of government bonds, **auctions on the primary market continued to take place regularly** and demand remained higher than supply. [3] This fact is important because it helps to distinguish a very serious crisis in prices and confidence from a situation in which the State was no longer physically able to place bonds: in 2011, the Italian problem was a cost of financing that had become potentially unsustainable if maintained over time, not the immediate disappearance of all demand for public debt.

The distinction is also crucial to understanding what happened to banks. They operated in a market that was still functional, but progressively more expensive and fragmented. In such a situation, holding BTPs could have a dual purpose: on the one hand, it represented exposure to sovereign risk; on the other, especially after the ECB's liquidity interventions, it could become a financial investment with high returns relative to the cost of central funding. The crisis therefore did not automatically transform every bank purchase of government bonds into irrational behavior or a simple service to the Treasury, but rather made it increasingly clear how closely the banking and sovereign systems were now intertwined.


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## From the financial crisis to the mountain of suffering

If the sovereign debt crisis represents the financial side of the circuit, bad loans represent the real one.

Italy had gone through the first phase of the 2008 global crisis with different characteristics compared to the United States, Ireland or Spain. Italian banks were relatively less exposed to structured financial products linked to US subprime mortgages and had not fueled a real estate bubble comparable to that observed in some other European economies. The Bank of Italy has underlined that the Italian system resisted the first recession of 2008–2009 relatively well precisely because direct exposure to the most complex products of the international crisis was limited. [4]

But this initial advantage risks making us lose sight of what happened later.

Italy suffered a deep recession, followed by a second recession with the sovereign debt crisis. The banking problem thus arose not primarily from exotic financial assets purchased on global markets, but from the progressive inability of Italian businesses and families to repay loans contracted in the real economy.

The difference is crucial.

A non-performing loan is, ultimately, the reflection on a bank's balance sheet of a debtor's financial difficulty. When a company goes bankrupt, the bank that financed it must write down or reclassify the loan; when the phenomenon affects thousands of companies simultaneously, the problem no longer concerns a single banking relationship but becomes systemic.

Between 2008 and 2014, Italy went through precisely this sequence. The Bank of Italy describes the two recessions as the main factor behind the huge increase in bad loans, underlining that the second phase which began in 2011 further aggravated the ability of families and businesses to repay their debt. [4]

At the end of **2015,** the gross stock of non-performing loans of Italian banks had reached approximately **360 billion euros** , equal to **18.1 percent of loans to customers** ; of these, approximately **210 billion** were classified as bad loans. Net of the adjustments already made to the balance sheet, non-performing loans amounted to approximately 197 billion and bad loans to 87 billion. For the main Italian groups, the gross incidence of non-performing loans was **16.8 percent** , against a European average of 5.8 percent. [5]

The size of these numbers explains why, by the middle of the decade, Italian banks had become one of the main problems of confidence for the entire national economy.

But even the term "bad debt" can be misleading if used without context. The gross value does not correspond to a final loss of the same amount. Part of the debt is secured by real estate, real estate, or personal guarantees; part has already been written down; part

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can be recovered during bankruptcy proceedings. The final loss therefore depends on the recovery value and the time required to obtain it.

And time is precisely one of Italy's problems.

If a judicial or bankruptcy proceeding takes years to recover a guarantee, the economic value of the impaired loan decreases even when the guarantee exists, because the capital remains tied up and the present value of future recoveries is lower. The Italian banking issue thus becomes inseparable from the functioning of civil and bankruptcy justice.

The long permanence of NPLs on balance sheets compresses profits, absorbs capital and makes it more difficult to raise new resources. This does not automatically mean that every bank with many bad loans reduces lending to an equivalent extent: a microeconomic study by the Bank of Italy covering the period 2008–2015 found that the negative correlation between NPLs and loan growth was largely explained by borrowers' economic conditions and the contraction in demand, although it noted that exogenous increases in bad loans, through higher provisions, can actually depress supply. [6]

The conclusion is more sophisticated than the narrative that "bad loans block credit," but it doesn't diminish the severity of the problem. Rather, it indicates that recession, bad loans, and credit were fueled through different channels, some originating from the banks and others from the real economy.


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## Monte dei Paschi: When a Banking Crisis Becomes a National Issue

Nowhere in Italy does this overlap between governance, acquisitions, economic crisis, sovereign risk, and public intervention emerge more clearly than at Monte dei Paschi di Siena.

The history of MPS cannot be reduced to the formula according to which an "ancient and politicized" bank was saved by the state after accumulating losses, because a serious reconstruction requires following a sequence of specific decisions, each of which progressively alters the institution's financial profile.

The decisive step took place in 2007–2008 with the acquisition of **Banca Antonveneta** . On 8 November 2007, the board of directors of MPS approved the operation; in January 2008, the bank submitted a request for authorization to the Bank of Italy. According to the Supervisory Authority's documentation, the price of the acquisition amounted to approximately **9 billion euros** , of which approximately 6 billion were allocated to goodwill; the operation also entailed the need to replace liquidity lines previously granted to Antonveneta for an amount estimated at approximately 9.5 billion. The plan envisaged a significant capital strengthening, with capital increases and other financial instruments, and the Bank of Italy made the authorization conditional on the implementation of strengthening measures and the maintenance of capital ratios above the regulatory minimums. [7]

Accuracy is important because figures are often confused in public debate. The approximately 9 billion represented the price of the acquisition; the additional liquidity needs to replace financing lines should not be added to the price as if they constituted a single consideration paid to the seller. The Bank of Italy itself subsequently clarified this distinction in response to a regional commission of inquiry. [7]

The economic problem remains evident: MPS made a very large acquisition shortly before the international financial crisis completely transformed market conditions. The capital required for the transaction reduced the safety margins precisely at a time when the value of financial assets, liquidity, and credit quality were becoming more fragile.

In the following years the bank's position deteriorated further. The sovereign crisis hit an institution that had a significant exposure to public debt, and the Bank of Italy intensified its supervisory interventions on liquidity, capital, interest rate risk, government bond portfolio and internal controls. [8]

Added to this picture were complex financial transactions with international counterparties, including Deutsche Bank and Nomura, which would later become the focus of judicial investigations and the public reconstruction of the crisis. The task of this book is not to anticipate judicial conclusions or to attribute motivations that belong to other levels of proof; the relevant institutional fact is that, by 2012, the Bank of Italy

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described a situation characterised by fragile financial equilibrium, organisational shortcomings and problems with controls, while a significant part of the company's top management was being replaced. [8]

The State initially intervened through capital instruments other than actual nationalization. In 2009 MPS had resorted to the so-called Tremonti bonds; in 2013 the Ministry of Economy and Finance subscribed to new financial instruments, the so-called Monti bonds, for a total amount of four billion, of which the Bank of Italy subsequently specified that approximately **1.9 billion were used to repay the previous Tremonti bonds** , while approximately two billion covered the residual shortfall with respect to the capital target established by the European Banking Authority. [9]

This distinction once again prevents us from treating each figure as an additional net cost for the State without reconstructing its function.

The crisis reached a new critical point in 2016. The stress tests coordinated by the EBA, in cooperation with the ECB and national authorities, showed that in the adverse scenario MPS would have recorded a negative fully loaded CET1, equal to **-2.4 percent** of risk-weighted assets. [10] The bank attempted a market solution based on a deep reduction of non-performing loans and a capital increase of 5 billion, but the operation was unsuccessful; in December 2016 a **precautionary recapitalization was therefore requested** , a tool provided for by the new European regulation for banks considered solvent but which need capital to face the outcomes of an adverse stress scenario. [10]

Precautionary recapitalization is one of the most important steps in the new European architecture because it demonstrates that the introduction of the bail-in does not completely eliminate the possibility of public intervention. It makes it conditional.

In the MPS case, the maximum requirement determined by the ECB under the precautionary recapitalization rules was **8.8 billion euros** , different from the 5 billion of the previous private solution because the two amounts responded to different purposes and calculation methods. The Bank of Italy initially estimated an immediate burden for the State of around 4.6 billion, to which could be added the reimbursements intended for certain subordinated retail investors; the intervention actually approved by the European Commission in July 2017 included **5.4 billion in restructuring aid** , in addition to the possibility of liquidity guarantees. [10]

The crucial point is that a full bail-in was not applied. Shareholders and subordinated instrument holders participated in the absorption of losses according to the burden sharing principle, while senior bonds and unprotected deposits were not involved to the extent that would have been possible in a true bail-in resolution procedure. [11]

The State then became the bank's reference shareholder.

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This decision transformed MPS into a particularly significant case for the relationship between banks, the state, and European rules: the Banking Union did not prevent public intervention, but required it to be compatible with the bank's solvency, stress tests, state aid rules, and the participation of subordinated investors in losses.

The subsequent reduction of public presence and the new consolidation that has involved MPS in recent years represent the latest chapter in this long story. At the end of 2025, the Bank of Italy itself noted that the merger operations between **Monte dei Paschi di Siena and Mediobanca** had changed the group's configuration to the point of requiring a new assessment for the purposes of classification as a national systemic institution. [12]

The historical significance is remarkable. A bank that in 2017 had requested public capital to maintain its stability has returned, less than a decade later, to being an active player in Italian financial consolidation.

But it would be wrong to transform this sequence into a linear narrative of a "successful rescue." To fully assess the costs and benefits, it would be necessary to include the price of recapitalizations, subsequent sales of public shares, dividends, the residual value of the stake, and the indirect costs of the measures. The most important political fact in this chapter is another: MPS demonstrates how, even within the Banking Union, the state continues to be able to temporarily acquire ownership of a bank when systemic stability and the regulatory framework allow it.


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## The Four Banks of 2015 and the Political Discovery of Burden Sharing

The MPS crisis was preceded by an episode that had a perhaps even greater political impact on the perception of Italian savers: the resolution, in November 2015, of **Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio di Ferrara and CariChieti** .

The four banks were relatively small in size, representing together about one percent of the system's deposits, but the resolution of the crisis became a national case because it directly affected holders of shares and subordinated bonds, some of whom were retail customers who had purchased these instruments through the banking network. [13]

On 22 November 2015, the Bank of Italy initiated the resolution procedure. The share capital and subordinated liabilities eligible for inclusion in own funds were reduced or eliminated, while the assets considered healthy were transferred to four bridge banks recapitalised by the National Resolution Fund; the bad loans were instead separated and transferred to a dedicated structure. [13]

The operation did not directly use state fiscal resources: the cost was supported in part by shareholders and subordinated bondholders and, for the remaining part, by the Resolution Fund financed by the banking system. The immediate commitment of the Fund was indicated at approximately **3.6 billion euros** . [13]

It is important to point out that **in November 2015, a full bail-in was not applied** , although the two concepts have often been overlapped in the public debate. The Italian legislator had postponed the entry into force of the broader provisions of the BRRD on bail-in to 1 January 2016; burden sharing was therefore applied to the four banks, which involved shareholders and subordinated bonds but not senior bonds and unprotected deposits. [14]

This distinction is fundamental to understanding what changes a few months later.

With the **bail-in** , which came into full force in Italy on 1 January 2016, the hierarchy of potentially eligible instruments becomes broader: first shares, then equity instruments and subordinated debt, then, if necessary, other unsecured debt, including senior bonds; deposits up to 100,000 euros covered by guarantee schemes remain excluded, while higher deposits belonging to families and small businesses still enjoy preferential treatment in the hierarchy. [15]

The philosophy of the new system is clear. A private bank should not be incentivized to take risks knowing that, in the event of bankruptcy, the losses will automatically be passed on to taxpayers. The cost of the crisis must be absorbed primarily by those who provided capital or credit to the intermediary, respecting a hierarchy that reflects the risk assumed.


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Economic logic is difficult to dispute in the abstract.

The Italian problem, however, concerned the structure of bank savings distribution. For years, many banks had placed with their retail customers not only deposits but also bonds, including in some cases subordinated liabilities, which could be perceived by unsophisticated savers as instruments similar to a standard banking product, despite carrying a much higher level of risk.

The transition from the old world of implicit bailout to the new world of burden sharing and bail-in therefore occurred in a system in which a portion of savers had not necessarily incorporated into their decisions the concrete possibility of losing the capital invested in bank bonds.

The problem was legal, financial and political at the same time.

The crisis of the four banks suddenly made this discontinuity visible.

## Banking Union: Europe's attempt to break the cycle

The sovereign crisis had demonstrated that a single currency could not function stably with strictly national banking systems and with states individually responsible for both the supervision and the fiscal consequences of banking crises.

The institutional response was the **Banking Union** .

Its fundamental objective was precisely to reduce the negative feedback loop between banks and sovereigns that the crisis had made evident. The ECB explicitly described the project as a tool to break the "negative feedback loops" between banks and sovereigns and to reduce the financial fragmentation of the euro area. [16]

The first pillar was the **Single Supervisory Mechanism** . On **4 November 2014,** the ECB formally assumed responsibility for European banking supervision, working together with national authorities. At that stage, the ECB began directly supervising 120 large banking groups, equivalent to approximately 82 percent of euro area banking assets, while for the other intermediaries it retained the power to set common standards and intervene through the integrated supervisory system. [17]

For Italy this represented an enormous institutional transformation.

The Bank of Italy continued to exercise supervisory functions, but the supervision of significant groups became a European responsibility, exercised through the ECB and the common system.

The political rationale was to reduce the risk that a national authority would be subjected to domestic pressure or use different criteria than other countries; at the same time, European supervision should have allowed for a more uniform assessment of intermediaries' capital strength.

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The second pillar was the **Single Resolution Mechanism** , built to jointly manage the crisis of banks considered significant and to reduce automatic recourse to national budgets.

The new architecture therefore introduced a separation between three concepts that in the previous history had often overlapped: supervision, resolution and fiscal support.

The ECB is monitoring.

The Single Resolution Board manages, under the conditions established by law, the resolution of the intermediaries under its jurisdiction.

Member States retain fiscal instruments, but their use is subject to state aid rules and the European framework.

The birth of the Banking Union did not, however, eliminate all ambiguities.

The case of the Veneto banks in 2017 demonstrated this particularly clearly.


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## Veneto Banks: A Local Crisis Within a European System

The crisis at **Banca Popolare di Vicenza** and **Veneto Banca** has different characteristics from that of MPS, but it is probably even more instructive for understanding the complexity of the new architecture.

Over time, both institutions had built a very strong position in their respective territories, financing a network of small and medium-sized businesses and developing particularly close relationships with their members and customers.

The crisis emerged progressively through deterioration in credit quality, governance problems, and practices relating to share underwriting that supervisors would later challenge. In the case of Veneto Banca, the Bank of Italy reconstructed that the 2013 inspections revealed the phenomenon of so-called **financed shares** , in which the bank had provided loans used to underwrite its own shares without correctly deducting such amounts from supervisory capital; for Popolare di Vicenza, similar issues subsequently emerged through controls conducted under the aegis of the new Single Supervisory Mechanism. [18]

The mechanism was particularly dangerous because a bank's capital should represent the primary protection against losses; if part of the shares were purchased with money lent by the bank itself to shareholders, the actual capacity to absorb losses may be less than that apparently represented by the nominal capital.

When attempts at recapitalisation on the market failed in 2016, the Atlante Fund intervened by underwriting capital increases for a total of **2.5 billion euros** , to which were added further payments of 938 million at the end of the year. [18]

Even this intervention was not sufficient to build a sustainable solution.

In March 2017, the two banks asked to access precautionary recapitalization, the same instrument that would have been used for MPS, but after months of discussions between the European Commission, the ECB, the Bank of Italy, the Ministry of Economy and Finance and intermediaries, the Commission concluded that the conditions necessary to authorize that solution were not met. [18]

This is where the case becomes particularly interesting from an institutional point of view.

In June 2017, the Single Resolution Board determined that there was insufficient public interest to subject the two banks to resolution under the European mechanism, paving the way for liquidation under national law.

On **25 June 2017** , the Ministry of Economy and Finance, following a proposal from the Bank of Italy, placed Veneto Banca and Banca Popolare di Vicenza under compulsory administrative liquidation. Most of the assets and liabilities considered healthy were transferred to **Intesa Sanpaolo** , while impaired loans, shares, subordinated instruments

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and other items remained in the liquidations; a portion of the impaired loans would subsequently be transferred to a publicly owned company for longer-term recovery management. [19]

The State provided support for the operation. The Bank of Italy indicated a cash intervention of approximately **4.8 billion euros** , in addition to guarantees and other measures provided for by the decree, with the aim of ensuring the continuity of relations with customers and preventing an atomistic liquidation which, according to the authority's analysis, would have produced higher costs for creditors, debtors and territories. [20]

The case of the Veneto banks therefore shows that the Banking Union does not create a single procedure that can be mechanically applied to every crisis.

A bank may be deemed failing or likely to fail by the ECB, but the decision whether to proceed with European resolution also depends on an assessment of the public interest; in the absence of this requirement, liquidation occurs according to national law, while still complying with European State aid rules.

The result is a more sophisticated institutional system, but also more difficult for the public to understand, because MPS, the Veneto banks, and the four banks of 2015 are all generically described as "bank bailouts," while in reality they use different legal and financial instruments.


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## Consolidation as a structural response

The banking crises of the 2010s were not the only reason for the consolidation of the Italian system, but they accelerated it.

The trend toward concentration had already begun in the 1990s, as we have seen, and had produced much larger national groups. In the years that followed, however, new factors further increased the pressure toward mergers and acquisitions: more stringent capital requirements, technology investments, cybersecurity, compliance costs, digitalization, the need to manage non-performing loans, and extremely compressed interest margins during the prolonged period of low interest rates.

The Bank of Italy has noted that consolidation is not an exclusively Italian phenomenon: in the euro area the number of institutions has decreased from around **10,900 in 2001 to just over 4,300 in 2022** , while in Italy privatisations, removal of geographical constraints, greater regulation and the growing weight of fixed costs have progressively favoured aggregations. [21]

At the end of 2025, **414 banks were operating in Italy** , including 77 branches of foreign banks, and banking groups had decreased from 53 at the end of 2024 to **48** a year later. [22] The comparison with the 1,156 credit institutions in 1990 shows the extent of a transformation that cannot be attributed to a single crisis or a single regulation.

The contemporary system therefore presents a much more concentrated structure, with a few large groups of systemic importance and a still significant network of territorial intermediaries and cooperative credit.

The Bank of Italy had identified **UniCredit, Intesa Sanpaolo, Banco BPM, BPER, Mediobanca, ICCREA and BNL as institutions of national systemic importance for 2025** ; for 2026, on the basis of data prior to the most recent aggregations, the list had been updated to Intesa Sanpaolo, UniCredit, Banco BPM, ICCREA and BNL, while new assessments were started on BPER and the Monte dei Paschi group after the consolidation operations of 2025. [23]

This configuration also changes the relationship between the state and banks.

In a system with a few large intermediaries, the crisis of one of the main groups can have much more profound consequences than the failure of a local bank; at the same time, larger groups have greater geographical diversification, larger capital bases, and superior technological capabilities.

Concentration therefore reduces some risks and creates others.

A very large bank can absorb a local loss more easily.


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But it can become so systemically important that its eventual failure would be extremely difficult to manage.

It is the old issue of **too big to fail** , which the Banking Union tries to mitigate through capital requirements, loss-absorbent instruments and resolution plans, but which cannot be completely eliminated as long as there are intermediaries capable of intermediated very large shares of an economy's savings and payments.


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## The relationship between banks and the state is changing, but it is not disappearing.

After 2012, with the progressive normalization of the spread and the introduction of the Banking Union, the circuit between sovereign and banks weakened compared to the most acute phase of the crisis, but it did not disappear.

Banks continue to hold government bonds.

The State remains responsible for the fiscal and institutional framework in which intermediaries operate.

European authorities are taking on an increasing share of supervisory and resolution functions.

The ECB becomes, simultaneously, the central bank of the area and the supervisory authority of the main groups.

The previous relationship between the national bank and the nation state thus becomes a triangle into which Europe enters permanently.

This change has profound political consequences.

Before the Banking Union, a national banking crisis was managed primarily through national authorities, national legislation and, when necessary, national resources.

After the crisis, the possibility of intervention depends on the assessment of several institutions: the ECB for supervision, the Commission for State Aid, the Single Resolution Board for the banks under its jurisdiction, the Bank of Italy as the national authority, and the government for any fiscal measures.

The system is more complex because it seeks to solve a problem that the original architecture of the euro had left incomplete: sharing the currency without fully sharing the management of banking crises.

But the European compromise remains partial.

The Banking Union has common supervision and a common resolution mechanism, while risk sharing through a fully mutualized European deposit insurance has remained much more limited.

This means that the relationship between the bank and the national sovereign has been reduced, but not completely broken.

## Business credit and the problem of the Italian model

The economic significance of this long transformation becomes clearer if we return to where we started: business credit.

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A more solid, better capitalized bank, less exposed to non-performing loans, should theoretically be able to finance the real economy more efficiently.

But reducing the system's capital problems does not automatically imply strong credit growth.

After the 2015 peak, non-performing loans have rapidly decreased thanks to the economic recovery, disposals, securitizations, regulatory interventions and improved management processes. Already in 2017, the Bank of Italy noted a significant decrease in the stock, a reduction in new insolvencies towards pre-crisis levels and the most significant capital strengthening of the system in the last decade. [24]

The recovery of bank balance sheets is therefore a fact.

But in the meantime, the structure of the economy and financing is changing.

Larger companies can access bond markets, funds, private equity and international channels.

Banks are increasingly developing financial services beyond traditional credit.

Digitalization reduces the role of the physical branch network.

Prudential regulation makes it more expensive to maintain certain risky exposures.

Small businesses, however, continue to have a much more intense relationship with bank credit than large groups.

It is therefore precisely in the most fragmented production areas that the functioning of the banking system remains fundamental.

This relationship becomes particularly important during periods of rising interest rates. When the ECB raises the cost of borrowing to combat inflation, the change is transmitted through the banking system to the terms applied to households and businesses; a highly indebted company with limited margins may postpone an investment simply because the project's expected return no longer justifies the cost of financing.

The bank-state circuit is therefore not just a relationship between BTPs and bank balance sheets.

It is the way through which monetary policy, sovereign risk, and credit conditions flow into the real economy.


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## A transformation that also changes the meaning of saving

Finally, there is a social dimension that cannot be overlooked.

For decades, the relationship between Italian families and banks had been built on a very high level of trust. Bank deposits, savings accounts, bonds issued by the bank, and, in some local contexts, even the shares of the cooperative bank were perceived as different forms, yet belonging to the same relatively secure savings universe.

The crisis of the 2010s destroyed this psychological equivalence.

A guaranteed deposit of up to €100,000 is not a subordinated obligation.

A senior bond is not a stock.

The principle seems trivial in hindsight, but the transition to the new European regime has transformed these legal differences into potentially decisive ones at the time of crisis.

The four banks of 2015, the Veneto banks, and MPS have made it clear to millions of savers that bank financing has a risk hierarchy.

It is a cultural as well as regulatory transformation.

In the old implicit paradigm, a banking crisis could be associated with the idea that the state would in any case prevent significant losses for creditors.

In the new paradigm, public protection remains strong for guaranteed deposits and systemic stability, but investors must increasingly bear the risk associated with the instruments they purchase.

The problem is that the regulatory transition occurred much more rapidly than the cultural transition.

Part of the crisis of confidence in the Italian banking system stems precisely from here.


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## The circuit has not been broken: it has become European

Looking at the entire historical arc, the transformation therefore appears more complex than the political oppositions between "banks saved by the state" and "savers abandoned to the bail-in" suggest.

In the 1990s, the Italian banking system was privatized and concentrated.

In the 2000s it became more integrated into European markets.

The global crisis is causing an increase in bad loans, primarily through the recession of the real economy.

The 2011 crisis once again linked the stability of banks to that of sovereign debt.

The European response builds the Banking Union, shifting supervision and resolution to common institutions.

The new rules seek to shift the cost of crises from states to investors, but leave room for public recapitalizations and national liquidations when specific conditions are met.

MPS demonstrates that the State can still become a shareholder.

The four banks of 2015 show the social cost of burden sharing.

The Veneto banks demonstrate that a banking crisis can be managed through a national liquidation supported by public resources without going through a European resolution.

The subsequent consolidation finally shows that the market's response to the new conditions was also to create larger and more financially robust groups.

The bank-state circuit has therefore not disappeared.

It changed geography.

Previously, it was predominantly national: the Treasury, the central bank, banks and savers operated within the same institutional system.

Today the circuit includes Brussels and Frankfurt, the European Commission and the ECB, the Single Resolution Board and the Bank of Italy, the capital markets and an increasingly concentrated banking structure.

Banking sovereignty, like monetary sovereignty, has not simply been abolished.

It has been shared, redistributed, and subjected to new conditions.

And it is precisely this transformation that explains why the relationship between banks and the State continues to represent one of the most delicate points of the Italian political economy: **the State has lost the ability to autonomously manage many of the**


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**system's rules, but retains ultimate responsibility for an economy in which credit, savings and public debt remain profoundly linked** .

When we delve into the 2008–2010 crisis in the next chapter, it will therefore be necessary to keep in mind a conclusion that this chapter now makes impossible to ignore: the bank is not an external entity to the state's crisis, and the state is not an external entity to the bank's crisis. Both operate in the same financial circuit, and when that circuit is strained, the cost isn't confined either to bank balance sheets or to BTP auctions, but is passed on to businesses, investments, wages, and the very capacity of the country to grow.


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# PART VI

# THE CRISIS THAT CHANGED EUROPE


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# Chapter 12

## 2008–2010 — From the American financial crisis to the European crisis

When the fourth Berlusconi government took office in the spring of 2008, Italy was not yet at the center of the financial crisis that would ravage the global economy. However, it was already an economy vulnerable to an external shock for reasons that had little to do with American subprime mortgages and much to do with the structure accumulated over the previous two decades: modest potential growth, stagnant productivity, public debt still exceeding annual GDP, and an industrial structure heavily dependent on European demand and international trade. The banking system, as we saw in the previous chapter, did not possess the characteristics that would transform the US crisis into an immediate Italian banking crisis; direct exposure to complex financial products linked to American mortgages was relatively limited, and Italy did not have a real estate bubble comparable to the one that would devastate Ireland and Spain. It is precisely this difference, however, that would have made the Italian crisis less spectacular in its origin but no less profound in its effects, because the main transmission channel would have been the real economy: the fall in world trade, investments and production would have hit a manufacturing system that had already been subjected to competitive pressures for years, transforming a crisis born in American financial structures into a European industrial recession and, shortly thereafter, into a sovereign debt crisis. [1]

The crisis did not begin, of course, with the failure of Lehman Brothers. Tensions in international financial markets had been visible since the summer of 2007, when losses related to US mortgages had begun to undermine confidence in securitized products and, above all, in intermediaries' ability to truly understand the risk distributed across counterparties' balance sheets. What happened in September 2008, however, was of a different nature: the failure of Lehman transformed a crisis in financial segments into a general crisis of confidence among intermediaries, because it suddenly became plausible that a large institution could be allowed to fail and that no operator could assess with sufficient certainty the solvency of the bank with which they were conducting a transaction. Interbank markets, which normally allow banks with excess liquidity to finance those temporarily in deficit, entered a state of near paralysis; The ECB would later describe that phase by observing that, since mid-September 2008, interbank trading had almost stopped, forcing the Eurosystem to assume an intermediation function that under normal conditions belonged to the market. [2]

It is important to understand this mechanism because it demonstrates, in an almost brutal way, a characteristic of the modern banking system: a bank can be solvent over the long term and still find itself in dire straits if it suddenly loses access to the liquidity needed to refinance its short-term liabilities. The bank does not store the equivalent of all deposits and loans received in a safe, but transforms relatively liquid liabilities into

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loans and assets with longer maturities; ordinary operations therefore presuppose that a portion of the funding can be continually renewed. When trust among intermediaries disappears, this mechanism can fail with astonishing speed. To prevent a liquidity crisis from degenerating into a wave of insolvencies, the ECB modified its operating system in October 2008, switching its refinancing operations to a **fixed-rate mechanism with full allotment** , through which banks could obtain all the liquidity they required at the rate set by the central bank, provided they had suitable collateral. At the same time, the range of assets acceptable as collateral was temporarily expanded and longer-term refinancing operations were extended. [3]

This transformation of European monetary policy is sometimes described retrospectively as if the ECB had already begun quantitative easing similar to that which would be introduced many years later, but the distinction is important. In 2008–2009, the main challenge was to keep the bank financing system open and prevent the disruption of the money market from disrupting the credit channel; the central bank therefore provided liquidity against collateral and would subsequently purchase a limited amount of covered bonds, but it was not yet conducting the general program of government bond purchases that would characterize the next phase of monetary policy. The ECB also rapidly reduced official rates: in just a few months, following the intensification of the post-Lehman crisis, the key rate was cut by a total of **325 basis points** , reaching 1% in spring 2009, while full allotment operations and extraordinary maturities of up to one year became the main tool through which the Eurosystem prevented the liquidity shortage from further deepening the recession. [4]

For Italy, the first effect of the crisis was therefore not the collapse of the banks, but the collapse of foreign demand and production. The Italian economy had already recorded an average contraction in output in 2008 and in 2009 suffered one of the worst recessions in the history of the Republic: according to the reconstruction subsequently consolidated by ISTAT, real GDP fell by **1.2 percent in 2008** and by **5.5 percent in 2009** , while gross fixed investments collapsed by 11.7 percent in 2009 alone and exports of goods and services by 17.5 percent; industrial production fell by **16.6 percent in the same year** , a fall that shows how the global crisis had hit precisely the point at which the Italian economy still possessed one of its major specializations, export-oriented manufacturing. [5]

These data deserve to be read slowly, because the phrase "2009 recession" tends to compress an extremely violent transformation into a single label. A reduction in industrial production of more than sixteen percent in a year means factories operating well below available capacity, suspended investments, cancelled orders, firms reducing hours worked, and supply chains transmitting the contraction from one region to another. The Bank of Italy described the sequence by observing that the sharp drop in orders in the winter of 2008–2009 had hit industry first, which had rapidly reduced demand for labor

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and blocked investment programs; subsequently, the weakness had also spread to household consumption, while recourse to the Cassa integrazione guadagni (Wage Supplementation Fund) reached exceptionally high levels. [6]

At that stage, the Cassa Integrazione (Wage Supplementation Fund) played a role that partially differentiated the Italian experience from that of other systems: it allowed many firms to temporarily reduce labor costs without immediately terminating employment, shifting part of the adjustment from open unemployment to reduced hours worked and public income support. This mechanism mitigated the immediate social impact of the crisis, but it could not solve the underlying production problem; if demand failed to return, the temporary suspension of work would sooner or later have to transform into restructuring, closure, or permanent reductions in employment. Italy was therefore facing a crisis in which the welfare system could temporarily absorb the shock, while the real issue was the survival of industrial capacity that had been built up over decades and suddenly subjected to the sharpest decline in international trade since the war.

In this context, the Berlusconi government and Economy Minister Giulio Tremonti adopted a more prudent fiscal strategy than other major advanced countries. The reason was not merely ideological. The United States, the United Kingdom, and Germany could afford broader support programs starting with significantly lower levels of public debt than Italy; Italy, however, entered the crisis with already very high debt and limited fiscal space, a situation that made any expansion financed through new debt potentially more costly in the medium term. The weakness accumulated over the previous decades thus immediately limited the state's countercyclical capacity: just when it would have been desirable to further support demand and investment, the burden of debt reduced the scope for doing so without increasing future vulnerability.

This asymmetry allows us to understand one of the most significant consequences of the failure to reduce debt during the interest rate dividend years. Debt wasn't just a large number in normal times; it was a reserve of rigidity that emerged when the government needed to act. Germany could deploy its budget more aggressively because it had a more favorable starting position, while Italy had to balance the need to combat the recession with the risk that a sharp deterioration in public finances would alter the perception of its solvency.

Support for the Italian banking system reflects this same caution. Contrary to what happened in other large European countries, the Italian state was not forced in 2008–2009 to nationalize banks in crisis on a large scale or to immediately commit huge amounts of public capital. However, instruments intended to strengthen the capital of intermediaries, the so-called **Tremonti bonds , were introduced** . Between December 2008 and June 2012, four banks — Banco Popolare, Banca Popolare di Milano, Credito Valtellinese and Monte dei Paschi di Siena — used these instruments for a total amount

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of approximately **4.1 billion euros** , a very small figure compared with the interventions carried out in other European economies. [7]

The relatively modest size of the support should not be interpreted as evidence that the Italian banking system was immune to the crisis. It means that the initial shock did not produce capital losses comparable to those of banks more directly exposed to US financial products or domestic real estate bubbles. The Italian problem emerged more slowly, through the deterioration of lending to the real economy: businesses ran into difficulty, construction slowed, households faced income pressures. As we saw in the previous chapter, the mountain of non-performing loans that would peak many years later arose precisely from this sequence, not from an initial contamination of the Italian system by subprime securities.

This distinction becomes even more important when one observes what happened in 2010, because in that year the crisis changed nature again. The acute phase of the global recession seemed to be easing, world trade began to grow again and Italy also recorded a rebound in real GDP of **1.7 percent in 2010** ; exports increased by 11.4 percent and industrial production by 7.7 percent. [8] If one had limited oneself to observing these data, one might have concluded that the European economy was slowly emerging from the crisis. In reality, while the private recession was beginning to recede, the fiscal consequences of the crisis and the vulnerabilities accumulated by some states were preparing a second phase, destined to be even more dangerous for the European monetary construction.

## From the banking crisis to the state crisis

The transition from the global financial crisis to the European sovereign debt crisis did not occur through a single event, but through a progressive transfer of risk from the private sector to public balance sheets. During 2008–2009, European governments recapitalized banks, guaranteed liabilities, supported demand, and let automatic stabilizers operate while the recession reduced tax revenues. This was a necessary response to prevent a deeper depression, but it simultaneously increased public deficits and debt. The private sector crisis thus became, at least in part, a crisis of government balance sheets.

This transformation was particularly dramatic in countries where the banking system was very large relative to the national economy or where the state was already starting from a fragile fiscal position. Greece and Ireland reached the crisis via profoundly different paths: Greece had serious problems with its public finances and the reliability of its fiscal data, while Ireland transformed the banking crisis into a sovereign crisis by taking on enormous obligations to support its financial system. Their presence in the same crisis demonstrates how wrong it would be to attribute all the eurozone's difficulties to a single cause.


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For the European architecture, the problem was even more profound. Maastricht had built a common currency accompanied by national fiscal rules, but it had not created a European Treasury capable of rapidly transferring resources to states in difficulty, nor a permanent mechanism for managing sovereign crises. The assumption was that fiscal and market discipline would prevent a situation in which a member of the monetary union would require large-scale financial assistance. By 2010, that assumption no longer held any credibility.

Greece was the breaking point. In April 2010, the Greek government formally requested financial assistance, and on **2 May** the Eurogroup approved a three-year programme built on **80 billion euros of bilateral loans from euro area countries** , plus **30 billion from the International Monetary Fund** , for a total package of 110 billion.[9]

The nature of the intervention is important because it shows how institutionally unprepared Europe still was. There was no real common fund in place; the loans were organized bilaterally by the member states and coordinated by the Commission. The mechanism had to be built during the crisis itself, while markets were beginning to question which other countries might be vulnerable and the ultimate political willingness of creditor states to support those in difficulty.

The Greek response did not succeed in immediately containing the crisis. In the first days of May, tensions spread from Greek bonds to those of Ireland, Portugal, Spain and, to a lesser extent, Italy and Belgium; the ECB recorded a very rapid deterioration of liquidity in some sovereign bond markets and a widening of CDS, while Jean-Claude Trichet described the days of 6 and 7 May as a phase in which some spreads had widened beyond levels compatible with normal market functioning and the liquidity of certain government bonds had almost dried up. [10]

It was at this point that the ECB took a step that was destined to profoundly change its role in the crisis. On **10 May 2010 ,** the Governing Council announced the **Securities Markets Programme** , through which the Eurosystem would purchase public and private securities in market segments considered dysfunctional, explicitly declaring that the objective was not to finance governments but to restore the correct functioning of monetary transmission. The liquidity created by the purchases would be sterilised through absorption operations, precisely to distinguish the programme from a policy of generalised monetary expansion. [11]

This distinction, which may seem technical, had enormous political significance. The ECB was purchasing sovereign bonds on the secondary market, thus entering a territory that the original design of the euro had deliberately surrounded with caution to prevent the central bank from becoming a lender to states. The institutional justification was that the collapse of government bond markets prevented monetary policy from being properly transmitted to the economy: if the rate set by the ECB became meaningless in some

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countries because sovereign yields exploded and the national banking system was dragged into crisis, a nominally single monetary policy effectively ceased to be single.

At the same time, European governments constructed a second, much broader line of defense, creating temporary financial assistance instruments designed to prevent each new crisis from requiring improvised negotiations similar to those in Greece. The creation of the European Financial Stability Facility and other emergency mechanisms thus represented an implicit recognition that the monetary union needed a common crisis management mechanism, which Maastricht had not envisaged in that form.

In 2010, Italy was not yet at the centre of this storm. However, the Bank of Italy described a country whose structural problem remained intact: the economy was recovering only a part of the lost output, while public debt was increasing also due to the recession and the low growth potential made it much more difficult to stabilise the debt/GDP ratio. [12]

It is here that the global crisis definitively merges with the Italian economic history described in the previous chapters. The country had navigated the first decade of the euro without sufficiently reducing its debt and without significantly increasing productivity; when the greatest global shock since the postwar period arrived, the denominator of the debt-to-GDP ratio collapsed and the numerator rose, resurfacing the vulnerability that interest rate convergence had temporarily obscured.

Italy did not cause the American crisis.

He had not manufactured the Greek crisis.

It did not have a housing bubble similar to the Irish or Spanish ones.

But it arrived at the new European phase with a particularly dangerous combination: **high debt and low growth** .

It is precisely this combination that, over the course of 2011, would transform Italy from a concerned observer of the eurozone crisis to one of its epicenters.

The big difference compared to 1992 was that this time there was no longer a lira to devalue.

There was no longer a national central bank capable of autonomously changing the interest rate.

There was no longer a debt market separable from the stability of the entire monetary area.

The coming crisis would therefore pose a much more radical question than the one faced twenty years earlier: **what does the fiscal sovereignty of a highly indebted state mean when the currency in which that debt is denominated is controlled by a supranational central bank that is not accountable to a single government?**

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2011 would have been the year in which Italy would have had to answer this question not in theory, but under the daily pressure of the markets.


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# Chapter 13

## 2011 — Anatomy of a Crisis of Sovereignty

Few years in the history of the Republic have been subjected to such intense political reinterpretation as 2011, and for this very reason, no other passage in the book requires the same discipline in separating the documentary evidence from the reconstruction of intentions, political polemics, or retrospective interpretation. In Italian public discourse, the fall of the fourth Berlusconi government has been described alternatively as the inevitable consequence of the markets' loss of confidence, as a European commissionership, as a political operation promoted by the Quirinale, as the result of German and French pressure, as a choice necessitated by the parliamentary majority's inability to maintain cohesion, or, in the most extreme formulations, as a form of extra-parliamentary overthrow of the government. None of these labels, taken in isolation, is sufficient to explain the true sequence of events; some incorporate factually documented facts, others attribute motivations that the available record does not allow for clarification. The historical task is therefore to reconstruct the crisis as the interaction of at least four distinct processes: the worsening European sovereign debt crisis, the rapid increase in the premium investors demanded to hold Italian debt, the pressure from European institutions to accelerate consolidation and reforms, and the progressive loss of stability of the parliamentary majority. Only when these four threads are reassembled in their chronology does 2011 cease to appear a mystery and become an extremely complex, yet documented, political and financial crisis.

Italy enters 2011 with a position that simultaneously presents very serious strengths and vulnerabilities. The private sector is less indebted than that of many European partners, the banking system is not yet an independent source of systemic instability, and the country does not have a large real estate bubble; at the same time, however, public debt is very high and potential growth remains modest. A few months later, the Bank of Italy will summarize investors' perceptions with two variables that, in their simplicity, explain much of the problem: **high public debt and low growth** . [1]

The first half of the year does not yet provide an inevitable glimpse of what will happen in the fall. Italy is not Greece; it has not lost market access, it is not requesting an assistance program, and it continues to refinance debt placed with a broad base of domestic and international investors. But the eurozone crisis is escalating. After Greece and Ireland, Portugal is also requesting assistance; at the same time, doubts are growing about the European architecture's ability to contain a potential contagion to much larger economies. The issue thus takes on a different dimension: financially supporting Greece or Portugal is possible with limited tools; addressing a prolonged crisis of confidence in Italy, the eurozone's third-largest economy and one of the world's largest sovereign debt markets, would require an entirely different level of intervention.

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It is this difference in scale that makes the summer of 2011 so dangerous.

## The spread stops being a financial indicator and becomes a political variable

The spread between the yields of Italian BTPs and those of German Bunds did not arise in 2011 and does not, in itself, represent an absolute measure of a government's solvency. It is the difference between the yield required by the market on two sovereign bonds that share the same currency but incorporate different expectations regarding risk, liquidity, fiscal prospects, and growth. Precisely because Italy and Germany use the same currency, the widening spread can no longer be interpreted as an expectation of a normal bilateral devaluation; instead, it signals that the market is placing a growing risk premium on holding Italian bonds compared to the German benchmark.

This distinction is essential. In the Italy of the lira, an interest rate hike could incorporate exchange rate expectations; in the euro of 2011, the crisis revolves around the quality of the sovereign debtor and, increasingly, even the extreme hypothesis that the monetary architecture might not be completely irreversible.

Over the summer, the Italian spread began to widen rapidly, while liquidity in the secondary market for BTPs deteriorated and sovereign tensions spread to banks' funding costs. The crisis described in the previous chapter thus took on a circular form: the worsening of public debt increased the perceived risk of Italian banks; the deterioration of banking conditions made credit more expensive; a credit squeeze further weakened growth; and weaker growth worsened the government's prospective ability to support its debt.

Economic policy is therefore subject to contradictory pressures. Markets demand a more rapid reduction in the deficit and guarantees of debt sustainability, but an overly abrupt fiscal adjustment could further depress an already weak economy, making it more difficult to stabilize the debt-to-GDP ratio. This is one of the fundamental dilemmas of a debt crisis in a monetary union: financial credibility requires consolidation, but long-term solvency also requires growth.


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## The letter of August 5: what was the ECB really asking for?

The most controversial document of the entire summer is the letter sent on **5 August 2011** to Prime Minister Silvio Berlusconi, signed by ECB President Jean-Claude Trichet and Mario Draghi, then Governor of the Bank of Italy and President-designate of the ECB. The document, classified at the time and subsequently made public by the ECB through the access to documents regime, now allows us to discuss its content without depending on journalistic reconstructions or subsequent memoirs. [2]

The letter begins with an explicit premise: the ECB Governing Council had discussed the situation in the Italian government bond market the previous day and believed urgent action by the Italian authorities was necessary to restore investor confidence. The signatories acknowledged that the government had already adopted fiscal measures, but considered them insufficient given the gravity of the situation. This assessment led to a request for interventions structured in three broad areas: growth and competitiveness, public finance, and public administration.

On the structural front, the document called for broader liberalization of local public services and professions, greater capacity for company-level agreements to adapt wages and working conditions to business needs, and a revision of hiring and firing rules, accompanied by unemployment insurance and active labor market policies. On the fiscal front, it called for bringing forward part of the measures adopted in July 2011 by at least one year, aiming for a balanced budget in **2013** , primarily through spending cuts. It also proposed further measures regarding the pension system, the retirement age for women in the private sector, and the cost of public employment. The text also suggested an automatic spending reduction clause in the event of deviations from targets and tighter control of local government accounts. Finally, it called for a reorganization of public administration, also indicating the possibility of abolishing or merging intermediate administrative levels.

One of the most politically significant passages concerns timing: the letter deemed it crucial that the indicated actions be adopted "as soon as possible" through decree-laws to be submitted for parliamentary ratification by the end of September, and also considered a constitutional reform aimed at tightening fiscal rules appropriate.

The content is therefore precise enough not to require either minimization or amplification. It was not a simple technical note on monetary policy; it contained detailed indications on structural and fiscal reforms that fell within the scope of national economic policy. At the same time, it did not have the legal force of a European regulation or a legislative decision capable of superseding the Italian Parliament. It was a document with extremely strong institutional pressure, emanating from an authority that at the time also had the power to intervene in the government securities market through the

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Securities Markets Programme, but the measures indicated still had to be adopted by Italian institutions according to national procedures.

This is where a significant part of the controversy over "commissioning" arises. Those who use this term emphasize the fact that a supranational central bank was making very specific demands of an elected government while the country was experiencing a financial crisis; those who reject the term point out that the letter did not replace the Italian constitutional bodies and that Italy remained formally free to choose its own response. Both elements are factual. The political assessment of the relationship between economic pressure and formal freedom is different and should not be disguised by documentary descriptions.

The issue becomes even more delicate because the ECB, a few days later, expanded its interventions in the sovereign bond market. On **7 August 2011,** Trichet issued a statement in which the Governing Council welcomed the announcements of new measures by Italy and Spain, calling for their decisive and rapid implementation and underlining the importance of fiscal sustainability and structural reforms. [3] The relationship between pressure on reforms and ECB purchases must not be transformed into a legal contract that the document does not formalise, but neither should it be ignored: the central bank believed that the correct functioning of its monetary policy also depended on the credibility of national policies.


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## The problem of legitimacy: a central bank entering economic policy

The August 5 letter thus marks an important step in the institutional evolution of the euro. The ECB had been designed as an independent central bank with a primary mandate of price stability; the crisis now forced it to intervene in dysfunctional sovereign markets and, simultaneously, to demand from governments policies that would make that intervention sustainable.

The problem was not simple.

If the ECB had purchased unlimited government bonds without requiring any adjustment, it could have reduced the government's incentive to correct its vulnerabilities and moved politically closer to a form of monetary financing incompatible with the Treaties. If, on the other hand, it had refused any intervention, the collapse of sovereign market liquidity could have disrupted monetary transmission and dragged banks into crisis.

The Securities Markets Programme represented an attempt to remain midway between these two needs. The ECB declared that the purchases were temporary, limited and aimed exclusively at restoring the transmission of monetary policy; Mario Draghi, in the press conference of **3 November 2011** , as soon as he became President of the ECB, reiterated precisely these three characteristics of the programme in response to a question that expressly recalled the Italian letter of the summer. [4]

The issue of legitimacy doesn't disappear with this institutional explanation. It remains because, in a crisis, the ability to purchase or not purchase securities has enormous political effects. The ECB thus found itself exercising a power that the founders of the euro had not envisioned in the same form, and which was not accompanied by a corresponding European fiscal authority.

This is the first major manifestation of the original flaw in the Monetary Union: a single central bank operating over seventeen national fiscal policies, without a European Treasury capable of fully absorbing shocks and without a sufficiently powerful permanent mechanism to guarantee sovereign debt.

Italy was becoming the case in which this gap risked producing systemic consequences.


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## The summer maneuvers and the credibility problem

The Berlusconi government responded to the financial pressure by approving corrective measures during the summer and committing to achieving an early balanced budget. But over the following months, the markets' problem was not just about the nominal amount of the adjustment. It increasingly concerned the **credibility of its implementation** .

The distinction is essential. A budget law may envisage a future reduction in spending or an increase in revenue, but the value the market places on that measure depends on the likelihood of its actual implementation, the quality of the measures, and their impact on growth. If a government repeatedly changes its announced measures, postpones reforms, or struggles to maintain a coherent parliamentary majority, the problem may become the political capacity to translate commitments into decisions.

At the end of October, European pressure increased further. At the Eurozone summit of **26 October 2011** , the heads of state and government welcomed the consolidation and reform strategy contained in an Italian letter sent to the presidents of the European Council and the Commission, but asked the government to urgently present an ambitious timetable for the implementation of the measures. The European document noted Italy's commitment to achieving a balanced budget in 2013, to introducing a constitutional budget rule, to liberalising services and professions, to reform labour legislation and to raising the retirement age to 67 by 2026. [5]

Italian economic sovereignty here takes a very particular form. The government formally formulates its commitments, but presents them in an environment where the ability to gain the trust of European partners and markets depends on their precision and speed. The distinction between autonomous choice and external pressure thus becomes increasingly blurred: measures are approved by Italian institutions, but the economic cost of not adopting them is influenced by the reaction of external actors.

This is precisely what it means to be a major debtor in a crisis of confidence.


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## Cannes: Italy enters the center of the international crisis

The international dimension reached its symbolic peak at the **G20 summit in Cannes on 3–4 November 2011.** Global attention was already focused on the Greek crisis and the difficulties of the eurozone, but the scale of the Italian economy transformed the problem into one capable of threatening the entire international financial system.

During the summit, the Italian authorities asked the International Monetary Fund to intensify its monitoring of the implementation of fiscal and structural policies. Christine Lagarde publicly declared on November 4 that she welcomed Italy's decision to invite the Fund to strengthen its surveillance; she also explained that the project included periodic checks on the implementation of the government's commitments. [6]

This episode, too, has often been reported in imprecise terms. Italy **did not ask Cannes for an IMF financing program** , and the Fund would later clarify that no negotiations for a loan were underway. The project concerned a form of strengthened monitoring of policy implementation.[7]

The distinction is crucial because it separates Italy from Greece, Ireland, and Portugal. The country was not formally under an assistance program and had not surrendered its economic policy to a troika in exchange for funding. However, it had reached a point where the government deemed it useful to entrust an international organization with the public review of its commitments to strengthen its credibility.

A subsequent reconstruction by the Independent Evaluation Office of the IMF will also clarify that the quarterly monitoring in the form initially hypothesized **was not actually implemented** , because the change of government, the implementation of new measures and the evolution of market conditions modified the framework. [8]

Here too, the documentary reconstruction paints a more nuanced picture than the image of an Italy formally "under IMF supervision." There was a request for external verification, publicly confirmed by the Fund, but no lending program or oversight in the form originally discussed in Cannes.


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## November: From the financial crisis to the parliamentary crisis

As international pressure mounted, the Berlusconi government faced a challenge that no decision by the ECB or the G20 could resolve: the progressive erosion of its parliamentary majority.

On **8 November 2011,** the Chamber approved the General Budget of the State Administration for the 2010 financial year with **308 votes in favour** , while the opposition chose not to participate in the vote precisely to make it clear that the executive no longer had an absolute majority of 316 deputies. [9]

This step is essential to evaluate the thesis that the government fell solely due to external pressure. The financial and political crises influenced each other, but the government also had a parliamentary problem that could be independently verified.

That same evening Berlusconi went to the Quirinale. The statement from the Presidency of the Republic recorded that the Prime Minister had expressed to Giorgio Napolitano his awareness of the implications of the vote and had communicated that, once the stability law with the interventions required by the European situation had been approved, he would hand over the mandate to the Head of State. [10]

It's important to note the exact sequence: Berlusconi did not resign on November 8th; he announced he would do so after the approval of the Stability Law. This choice had a precise institutional rationale: to avoid creating a political vacuum before the adoption of a financial measure deemed urgent.

The following day, tension on the markets reached an even higher level. The Bank of Italy later documented that on **9 November** the increase in margins required by the central counterparty LCH.Clearnet on Italian government bonds had a significant impact on the functioning of the secondary market, contributing to a further widening of the BTP-Bund spread and causing liquidity tensions for operators. The Bank's official charts show a spread in the area of **500–600 basis points on those days** , while the increase in margins on 7–10 year maturities was 500 basis points. [11]

It's incorrect to interpret the increase in margins as the sole cause of the spread, because the decision itself was a reaction to the previous deterioration in perceived risk. However, the Bank of Italy notes that the mechanism produced a feedback loop, further worsening market liquidity. This is a perfect example of how, during a crisis, prudent rules introduced to protect a financial infrastructure can simultaneously intensify pressure on the market they are trying to secure.

On **November 9** , the same day as the new financial escalation, Napolitano appointed Mario Monti senator for life pursuant to Article 59 of the Constitution, justifying the measure with his high merits in the scientific and social fields; the decree was countersigned by Prime Minister Silvio Berlusconi. [12]

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The coincidence of the appointment and the political crisis would later fuel many interpretations of the existence of a pre-defined plan to replace Berlusconi with Monti. What public records allow us to establish is that the appointment occurred after Berlusconi had already communicated to the President of the Republic his intention to resign following the approval of the Stability Law. The fact that Monti would become the candidate for Prime Minister a few days later is documented, but establishing through the appointment act alone when Napolitano had definitively decided to entrust him with the post would be tantamount to attributing intentions that the decree does not demonstrate.

The Presidency of the Republic itself intervened publicly on 9 November to try to reduce the uncertainty. Napolitano declared that there were no doubts about Berlusconi's decision to resign after the stability law and specified that, immediately afterwards, consultations would proceed rapidly, at the end of which a new government capable of obtaining parliamentary confidence would be formed or the Chambers would be dissolved. [13]

This document is particularly important in the discussion on the nature of the transition. It shows that, formally, the Quirinale kept the constitutional alternatives open: the formation of a new government or elections. It does not demonstrate that both were equally likely, but it does rule out the notion that a succession of governments was already legally automatic.


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## November 12: Berlusconi's resignation

Parliament quickly completed its examination of the stability law. On the evening of **12 November 2011** , at 9 pm, Silvio Berlusconi went to the Quirinale and formally tendered the government's resignation. The presidential statement specifies that this occurred after the conclusion of the parliamentary process of the stability law and the budget forecast; Napolitano invited the outgoing government to remain in office for current affairs and set consultations for the following day. [14]

The constitutional fact is therefore unequivocal: the government resigned by decision of the Prime Minister after losing its ability to command an absolute majority in the Chamber of Deputies and in the midst of a severe financial crisis. There was no parliamentary vote of no confidence that formally brought it down, nor was there any removal of the Prime Minister by the Head of State, a power the Constitution does not grant to the President of the Republic in that form.

This doesn't eliminate the political question of the influence exerted by the markets, the ECB, European governments, or the Quirinale; however, it establishes the framework within which the issue must be discussed.

The government was not operating under conditions of abstract economic freedom: debt yields had risen to levels that, if prolonged, would have generated refinancing costs that would be very difficult to sustain; the ECB had formulated specific demands; European partners were demanding rapid implementation of commitments; the IMF had been invited to review policies; the parliamentary majority had eroded. The pressure was therefore exceptional.

But the succession procedure remained that provided for by parliamentary legislation.


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## Monti's choice

On 13 November Napolitano concluded the consultations and publicly explained his decision to attempt to form a government that could gain broad parliamentary support to urgently address the financial crisis, implement the commitments made at European level and support growth and equity. [15]

On the same day he gave Mario Monti the task of forming the government. [16] Monti accepted with reservations, held his consultations and on **16 November** returned to the Quirinale to dissolve it positively; that same afternoon the new government was sworn in. [17]

What makes the Monti government politically exceptional is not its lack of a constitutional basis, but its composition and the context in which it was born. The Prime Minister did not come from the Parliament elected in 2008, despite having become a senator for life a few days earlier; the ministers were presented primarily as technical figures; the government sought a cross-party parliamentary majority that included political forces previously on opposing sides.

This configuration will fuel one of the most controversial questions in contemporary Italian political history: was the Monti government an autonomous choice by Parliament necessitated by the crisis, or the result of external pressure that made it politically impossible to maintain the previous government?

- The documentation does not allow us to reduce the problem to one of the two extremes.
- It is certainly documented that the financial crisis and European pressure were decisive in creating the context of urgency.
- It is documented that the Berlusconi government no longer had an absolute majority in the Chamber.
- It is documented that Berlusconi personally announced his resignation and formally submitted it after the stability law.
- It is documented that Napolitano followed the constitutional consultation procedures and that Monti had to obtain the confidence of the Chambers.

These facts do not mean that external pressures are irrelevant; rather, the term "coup," if used to describe an extralegal overthrow of the executive branch, does not correspond to the documented constitutional sequence. Likewise, describing the transition as a normal parliamentary alternation free from external constraints would be equally reductive, because the transition occurred amid exceptional financial and institutional pressure that radically narrowed the range of politically viable options.

The distinction between **constitutional legality** and **the substantive autonomy of political decision-making** is therefore the most useful key to understanding 2011.

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## Was it really a risk of default?

One of the most frequently recurring expressions in political and journalistic memory of the fall of 2011 is that Italy was "one step away from default." This formulation is intuitively understandable when referring to the severity of the financial crisis of those months, but it is too vague to be used as a historical description without first clarifying what exactly is meant by default, which indicators showed a real loss of market access, and which, instead, signaled an extremely serious crisis of confidence, yet still compatible with the Treasury's ability to refinance its bonds. The distinction is anything but terminological, because a government can find itself under exceptional financial pressure, paying increasingly high interest rates, seeing the liquidity of its bond market deteriorate, and facing a rapid increase in the probability attributed by investors to extreme scenarios, without having yet ceased principal and interest payments or materially lost the ability to place new bonds. At the same time, such a situation can turn into an effective solvency crisis if it persists long enough to transfer the new yields to the entire debt stock and irreversibly change the dynamics of interest expenditure.

In the Italian case of 2011, the available documents precisely describe this intermediate zone, much more dangerous than a normal phase of volatility but still different from an insolvency already underway. The Bank of Italy, in the **Financial Stability Report published on 2 November 2011** , wrote that the sovereign debt crisis had now spread to Italy and Spain and that the worsening growth prospects, the increase in risk aversion and the difficulties of the European authorities in formulating a sufficiently credible response had increased fears about the solidity of highly indebted issuers. At the same time, however, the same publication clearly distinguished the Italian vulnerability from that of countries already entered into financial assistance programmes, recalling among the strengths **the relatively low indebtedness of the private sector, the absence of a real estate bubble similar to that observed in other countries, the low foreign debt and the process of correction of public finances** . [18]

That assessment is important not because it demonstrates that the risk was modest—it wasn't—but because it shows that the Italian central bank wasn't describing a country that had already lost the material capacity to service its debt. The formulation used was different: Italy had characteristics that could support its long-term solvency, but it was exposed to a crisis of confidence capable of rapidly increasing the cost of financing and spreading to the banking system and the real economy. In other words, the problem wasn't just the level of debt; it was the relationship between that debt, low growth, and the price the market was beginning to demand to continue financing it.

This passage is essential to understand why 2011 was so dangerous. Italy was not a country with a relatively low debt hit exclusively by a speculative attack devoid of underlying fundamentals, but neither was it a state that was already technically insolvent. At the end of the year, public debt was equal to **120.1 percent of GDP** , while

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the stock of government bonds represented approximately **101.6 percent of GDP** ; it was therefore an enormous stock, which made the country particularly sensitive to the persistence of high refinancing rates. [19] At the same time, the very characteristics of the debt structure attenuated the speed with which the shock in yields could transform into an immediate increase in interest expenditure: the average residual life of the bonds was long, more than seven years according to the Bank of Italy's surveys during 2011, and this meant that only a fraction of the overall stock had to be renewed each year at the new market rates. [18]

The Italian crisis must therefore be interpreted through the combination of a **very high stock and the relatively slow transmission of the new cost of debt** . If the Treasury had had to refinance the entire debt in a few months, a yield close to or above 7 percent could have almost immediately produced an unmanageable fiscal crisis. Since maturities were spread out over time, the problem assumed a prospective nature: how long could Italy continue to finance itself at those yields without compromising debt sustainability?

The answer depended on nominal growth, the primary surplus, the average maturity of the debt, and the persistence of high interest rates. And this is precisely why turning the exceeding of the 7 percent rate on the 10-year BTP into a sort of "mathematical default threshold" is incorrect. There was no yield level that, the moment it was exceeded, automatically rendered the Italian government insolvent. Rather, that level signaled the severity of the crisis and, above all, the difficulties that its persistence would entail.

## The real problem: not the one-day rate, but the cost of refinancing a huge debt

The Bank of Italy explained this mechanism with considerable clarity already in its November 2011 Report. In the July-September quarter, yields at issue had increased compared to the previous quarter by around **90 basis points on maturities between two and five years** and by around **60 basis points on maturities over five years** , while in the same period the ten-year BTP-Bund spread had grown by around **150 basis points** . [20] The difference between the increase in the spread and that of the yields actually paid at auctions is particularly important: the spread with respect to the Bund was also amplified by the collapse of German yields, which in turn were pushed towards exceptionally low levels by the search for assets considered safe. The BTP-Bund spread was therefore a very useful indicator of the relative perception of risk, but it did not coincide perfectly with the marginal cost that the Treasury was paying on new issues.

By November, however, the absolute level of Italian yields had also become very high. The Bank of Italy's **Rendistato figure - the average gross yield on fixed-income government securities - reached 6.803 percent** ; in the range with residual life between 8 years and 7 months and 12 years and 6 months the average yield was **6.877 percent** , while on securities with residual life between 12 years and 7 months and 20 years and 6 months it

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reached **7.439 percent** . The average yield on BOTs was **4.348 percent** . [21] It was therefore not just a question of fluctuations on the secondary market: the entire Italian yield curve was incorporating a very severe revaluation of sovereign risk.

The ten-year spread also reached exceptional levels. In a speech in February 2012, Governor Ignazio Visco recalled that in the previous November the spread between ten-year BTPs and German Bunds had reached **around 550 basis points** , after having remained below 200 for most of the first half of 2011. [22] The speed of the change was almost as important as the absolute level, because it signalled that the market was modifying in just a few months its assessment of Italy's ability to live with its debt stock.


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| Indicator | Value / situation | Meaning |
|---|---|---|
| **Public debt / GDP, end 2011** | 120.1% | Very high stock and therefore strong sensitivity to the cost of refinancing |
| **Government Bonds / GDP, end-2011** | 101.6% | Extensive dependence on the bond market |
| **BTP-Bund spread reaches November peak** | about 550 bp | Strong risk premium compared to Germany |
| **Average income November 2011** | 6.803% | Very high average cost of fixed income government bonds |
| **Average yield on securities 8y7m–12y6m** | 6.877% | Indication of pressure on the long part of the curve |
| **Average yield on securities 12y7m–20y6m** | 7.439% | Particularly high cost on long maturities |
| **RendiBot November 2011** | 4.348% | Pressure is also present in the short term |
| **Average residual life of government bonds** | about 7.2 years in 2011 | It slowed down the transmission of new rates to the total stock |
| **Expiring quota + expected deficit for 2012** | 23.5% of GDP | High gross refinancing needs |
| **Share of debt held by non-residents** | 42.4% | Sensitivity to the confidence of international investors |
| **Household Debt/GDP, end-2010** | 45.0% | Private sector relatively less indebted than many partners |
| **Non-financial corporate debt / GDP** | 81.1% | Lower than situations of severe private leverage observed elsewhere |
| **Net foreign position** | -24.0% of GDP | Significant but not extreme foreign liabilities |
| **Current account balance** | -3.5% of GDP | External imbalance present, but different from the most critical cases in the Eurozone |

Sources: Bank of Italy, *Financial Stability Report No. 2, November 2011* ; *Annual Report for 2011* ; yields November 2011. [18][19][21]

Perhaps the most important item in the table, precisely for understanding the meaning of the term "default risk", is the **portion maturing plus the deficit forecast for 2012** , which the Bank of Italy quantified in November 2011 at approximately **23.5 percent of GDP** . [18] This figure did not mean that almost a quarter of GDP had to be found to finance new spending; it meant that, adding together the bonds to be repaid and the new requirement, the Treasury would have to continue to access the markets to a very large extent. A country with a very high debt does not only have to finance the deficit for the year: it must continually refinance the bonds that come due.


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It is precisely this mechanism that transforms a spread crisis into a potential sovereign liquidity crisis. If investors continue to show up at auctions, even demanding higher yields, the Treasury can refinance the maturities; if demand declines dramatically or if auctions begin to fail, the nature of the issue changes. At that point, the issue is no longer simply the future cost of debt, but the immediate ability to raise the liquidity needed for repayments.

## The auctions continued to operate, however.

It is precisely on this point that the Bank of Italy's documentation requires the greatest caution in using the expression "imminent default". In the November 2011 Financial Stability Report, published at the height of tensions, the Bank explicitly wrote that **"the placement of Italian government bonds continued regularly"** and that the ratio between the quantities requested and the quantities offered at auctions - the *cover ratio* - had remained systematically well above one, with only occasional slight reductions. [20] This means that, despite increasingly difficult conditions, investors' offers continued to be sufficient to cover the amounts put up for auction.

The Bank of Italy's Annual Report published the following year, covering the whole of 2011, confirmed the picture with an even clearer formulation: despite the "exceptional tensions on the markets", the Italian Treasury had been **constantly able to place the securities needed to meet the huge volume of repayments and finance the requirement** , while at the same time avoiding an excessive shortening of the average life of the debt; the auction cover ratio had remained high and, for ten-year BTPs, between October 2011 and April 2012 had been on average higher than **1.4** . [19]

This data does not prove that the market would have continued to function indefinitely. It demonstrates something more limited but decisive: **in November 2011, the Italian primary market had not yet ceased to function** . There had been no auction that systematically failed to find buyers; there had been no suspension of payments; there had been no debt restructuring; there had been no recourse to an international financial assistance program similar to those of Greece, Ireland, or Portugal.

To speak of an Italy already materially insolvent therefore means attributing to the historical moment a condition that the documents do not demonstrate.

## But the secondary market was losing liquidity

The absence of an immediate default does not make what was happening on the secondary market any less serious. The Bank of Italy in fact recorded a **significant reduction in the liquidity of Italian government bonds during the phases of tension** , with a widening of bid-ask spreads, greater volatility and worsening of trading conditions. [18][20]

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The distinction between the primary and secondary markets is essential. In the primary market, the Treasury issues new securities and effectively raises the funds needed to finance them; in the secondary market, investors buy and sell already issued securities. If the secondary market loses depth and prices fall rapidly, yields rise, directly affecting the conditions under which the Treasury can issue subsequent securities. The continued operation of the primary market, therefore, did not mean it could ignore what was happening in the secondary market.

On the contrary, the connection between the two markets was the heart of the problem. The Bank of Italy itself observed that the auction yields were generally aligned with the levels observed on the secondary market shortly before the placements. [20] Therefore, if the ten-year BTP was sold on the market at yields close to 7 percent, it was progressively that new risk price that the Treasury had to recognize also to new investors.

Furthermore, in November 2011 the increase in margins required by the Cassa di Compensazione e Garanzia on transactions involving Italian securities further increased the liquidity needs of operators and contributed to market tensions; a subsequent analysis by the Bank of Italy reconstructed how the increase in margins which came into force on **9 November** had affected the functioning of the secondary market and contributed to the further widening of the spread. [23]

The problem was thus circular: increased risk perception led to selling; selling increased returns and reduced liquidity; higher returns worsened the fiscal outlook; and the worsening fiscal outlook fueled further risk perception.

It is precisely this type of dynamic that, if left uninterrupted, can transform a crisis of confidence into a crisis of solvency.

## Liquidity and solvency: two different risks that in 2011 were starting to overlap

To rigorously understand the Italian situation, we must therefore distinguish two concepts.

A **sovereign liquidity crisis** occurs when a government that could be sustainable in the long term is temporarily unable to refinance its maturities because the market is unwilling to provide it with sufficient liquidity.

A **solvency crisis,** on the other hand, refers to a situation in which the expected trajectory of debt, growth, interest rates, and the primary balance leads investors to doubt that the government can fully meet its obligations even in the long term without restructuring, strong inflation, or external assistance.

During the euro crisis, this distinction became particularly problematic because the two phenomena could feed off each other. If investors feared a country's insolvency, they

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demanded higher yields; these yields, in turn, worsened debt sustainability, gradually transforming the initial fear into a real problem. In the absence of a national central bank ready to unambiguously act as a lender of last resort for sovereign debt, a liquidity crisis could therefore more easily become a solvency crisis.

Italy in November 2011 was precisely exposed to this mechanism.

It had not yet lost access to the markets.

But it had too great a need for refinancing to be able to coexist for long with a market that demanded returns close to or above 7 percent.

## The debt structure offered time, not immunity.

The long average residual life of Italian debt was one of the main protective factors. In November 2011, the Bank of Italy reported an average residual life of around **7.2 years** ; at the end of the year the Annual Report reported around **6 years and 10 months** , after a reduction of just three months compared to the previous year.[18][19]

The economic significance of this duration is often underestimated. If the market marginal yield rises from 4 to 7 percent, the government doesn't immediately begin paying 7 percent on its entire debt stock. It continues to pay the previously fixed coupons on bonds already outstanding; the new rate applies only to bonds issued to finance new deficits or replace maturing ones.

This feature gave Italy time.

But time was only valuable if the crisis was resolved before a growing share of the stock was refinanced at the new rates.

If yields of 6-7 percent had remained normal for many years while nominal economic growth remained weak, the average cost of debt would have progressively increased, requiring ever-larger primary surpluses simply to stabilize the debt-to-GDP ratio. At that point, the necessary consolidation could have further compressed growth and fueled the very problem it sought to correct.

This is why sustainability cannot be deduced from the fact that an auction was successful on a particular day.

A country can continue to finance itself today and find itself on an unsustainable trajectory tomorrow.

## Private debt and external position distinguished Italy from cases already subjected to bailout

Another decisive element of the Bank of Italy's diagnosis concerned the overall structure of national budgets. At the end of 2010, Italian household debt was equal to approximately **45 percent of GDP** , while that of non-financial companies was

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approximately **81.1 percent** ; the net foreign position was negative by approximately **24 percent of GDP** and the current account balance was equal to **–3.5 percent** . [18]

These indicators did not eliminate public vulnerability, but they differentiated the Italian case from that of economies in which the sovereign crisis had been preceded or accompanied by a huge expansion of private credit, real estate bubbles, or much more pronounced external imbalances. In Italy, the core of vulnerability was above all the relationship between **high public debt and structurally weak growth** .

This is a crucial point because it prevents the analysis used for Greece, Ireland, or Portugal from being automatically transferred to Italy.

The euro crises had a common component.

They did not have the same origin.

## The banking risk made the problem even more dangerous

The sovereign crisis was not confined to the Treasury. Italian banks held large portfolios of national government bonds and, like all intermediaries, depended on the ability to finance themselves on wholesale markets. When the risk attributed to the state increased, the value of the securities in their portfolios declined, the cost of bank funding increased, and investors tended to perceive the banks as riskier as well.

The November 2011 Report clearly underlined that the Italian banking system was not at the origin of the crisis and maintained a solid capital position, but was suffering the repercussions of sovereign debt tensions and the economic slowdown. [18]

What would later increasingly be called the **bank-sovereign doom loop was developing** : sovereign risk weakens banks, weaker banks reduce lending and deepen the recession, a deeper recession worsens public finances, and weaker public finances further increase sovereign risk.

This dynamic makes the question “was it already in default?” less important than the more concrete question: **how long could the crisis have continued without turning into something qualitatively different?**

The answer is: not indefinitely.

## How close was default, then?

This is precisely where we need to avoid a precision that the documents don't allow. There is no verifiable date by which one can assert that Italy had "three days," "one week," or "one auction" left before default, unless official documentation precisely defines such a threshold; the Bank of Italy's public documents do not define it.

We cannot therefore transform a situation of extremely serious risk into a retrospective countdown without any documentary basis.

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We can instead formulate a more precise conclusion.

In November 2011:

- the marginal cost of debt had risen to extremely high levels;
- the spread had reached around 550 basis points;
- the secondary market had lost liquidity;
- sovereign risk was being transferred to the banks;
- growth was very weak;
- the debt was above 120 percent of GDP;
- the refinancing requirement for the following year was very high;
- a significant portion of the debt was held by non-resident investors;
- **but the auctions continued to be covered and payments continued regularly** .

This combination describes a **crisis of prospective sustainability and confidence** , not a default that has already materially begun.

## Comparing it with what happened next helps us understand 2011

Subsequent developments also reinforce this interpretation. The Bank of Italy reportedly observed in 2012 that, despite the exceptional tensions at the end of 2011, the placement of securities had continued to proceed regularly; in the first part of 2012, financing conditions improved significantly, also thanks to the ECB's liquidity operations and the consolidation measures adopted in Italy. [24]

The crisis, however, worsened again in the spring-summer of 2012 and the Italian spread once again reached extremely high levels, up to around **540 basis points** towards the end of July, lower only than the peak of the previous November. [25] This fact is particularly instructive: if exceeding a certain spread threshold had automatically represented the technical point of default, Italy would have entered the same condition twice without this actually producing insolvency.

The Bank of Italy also estimated that in June 2012 the ten-year spread consistent with national fundamentals was in the order of **200 basis points** , while the market was quoting around **450 basis points** . [25] The analysis therefore suggested that a significant part of the spread did not only reflect Italy's deficit, debt or growth, but also the systemic risk associated with the possible reversibility of the euro and financial fragmentation.

This helps us understand why the ECB's intervention in the summer of 2012 so rapidly changed the perception of risk, without Italian debt suddenly disappearing in the meantime.

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## The real threat was a self-fulfilling prophecy

The most dangerous part of the 2011 crisis was therefore the possibility that investors' fears would produce the very deterioration they feared.

If an investor believes that other investors will not renew a government's debt, he or she may decide to sell first.

Sales push up returns.

Higher rates worsen the state budget.

The worsening balance sheet makes the initial fear more plausible.

Other investors are selling.

In a monetary union that, at the time, lacked an explicit mechanism capable of definitively breaking this dynamic, the process could become self-sustaining.

This doesn't mean that fundamentals didn't matter: Italy's enormous public debt and low growth made the country vulnerable. It does mean that **fundamentals and liquidity crises could reinforce each other** , making it very difficult to determine where economically justified risk ended and that associated with fears of a eurozone breakup began.

It is precisely this problem that the new architecture of the ECB would have sought to address in 2012.

## So: is “one step away from default” a correct formulation?

As a rhetorical formula it can effectively communicate the gravity of the situation.

As a historical-documentary formulation it is too strong if it is understood literally.

We do not have sufficient public evidence to establish that in November 2011 Italy was within a measurable temporal distance of insolvency, nor that the auctions were materially demonstrably on the verge of failure. Bank of Italy data show, on the contrary, that the primary market continued to function and that demand at the auctions remained higher than supply. [20]

But it would be equally wrong to use this data to argue that there was no serious danger. If November yields had remained at those levels for a sufficiently long period, a growing share of the stock would have been refinanced at much higher costs; this would have increased interest expenditure, required larger primary surpluses, further weakened growth, and potentially eroded the very solvency that remained defensible in the short term.

The most rigorous formulation is therefore the following:

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**In the autumn of 2011, Italy was not in default and had not yet lost access to the market, but it was in the midst of a financial dynamic that, if not interrupted, could have transformed a crisis of confidence and liquidity into a solvency crisis.**

The distinction in no way reduces the gravity of what was happening.

It makes it much more precise.

Because the danger of 2011 did not consist in a State that had already stopped paying.

It consisted in the possibility that **a country that was still solvent could become less and less so precisely because of the increasing cost necessary to demonstrate, every week, that it was still able to finance itself** .

And it is precisely this characteristic that made 2011 one of the most important moments in the entire history of the single currency: not just an Italian debt crisis, but the demonstration that, in an incomplete monetary union, the line between a crisis of confidence and a crisis of solvency could become dangerously thin.


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## Solvency, liquidity and political credibility

Italy in 2011 occupies a difficult position precisely because it does not easily fit into the dichotomy between solvent and insolvent state.

A country with enormous private wealth, a potential primary surplus, a diversified industrial economy, and significant fiscal capacity can be structurally solvent and, at the same time, enter a serious liquidity crisis if the market is unwilling to refinance its debt on sustainable terms.

The price of financing therefore becomes a variable capable of modifying the outcome it claims to measure.

If investors perceive Italian debt as riskier, they demand higher yields.

Higher yields progressively increase interest expenses.

Increased spending worsens the budget.

The worsening balance sheet justifies an even greater perception of risk.

It is a form of **self-reinforcing equilibrium** that can transform a trust problem into an actual solvency problem.

The central bank can interrupt this mechanism if it convinces the market that it is willing to prevent disorderly dynamics, but in 2011 the ECB had not yet formulated the commitment that Mario Draghi would express the following year with the "whatever it takes" statement. The Securities Markets Programme was deliberately limited and temporary, and did not commit the central bank to unlimited sovereign debt guarantees.

It is this difference that separates 2011 from 2012.

During the Italian crisis, there was not yet a fully credible protection against the risk of a self-perpetuating negative financial equilibrium.


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## The responsibility of European governments and the incomplete architecture

However, it would be historically incomplete, and above all analytically incorrect, to interpret the widening of the Italian spread in 2011 as if it constituted an almost mechanical measure of the quality of national government or the intrinsic sustainability of Italy's public finances. European and ECB documents show that the price of sovereign debt, at that time, simultaneously incorporated fiscal risks specific to individual countries and an increasingly significant premium tied to the functioning of the euro's entire architecture. The Italian crisis, therefore, cannot be separated from domestic weaknesses—high debt, structurally low growth, slow reform implementation, political uncertainty, and a very large need for refinancing—but neither can it be understood by imagining a market that exclusively assessed these fundamentals in isolation. In 2011, investors were not only wondering whether Italy was fiscally sustainable; They were trying to understand **what would happen to a large eurozone member state if the market stopped financing it normally, which institution would have the mandate and capacity to intervene, what losses, if any, would be imposed on private creditors, and to what extent other governments were really willing to mutualize the risk necessary to prevent contagion** .

It is precisely on this point that the ECB documentation of November 2011 takes on a fundamental value. In the speech already cited as **[19a]** , the European Central Bank unambiguously recognised that the crisis did not derive only from unsustainable national policies but also from the inadequacies of the governance of the Monetary Union: the European framework had failed to prevent and correct imbalances promptly, the recommendations had not been applied with sufficient force and the coordination mechanisms had not adequately taken into account the interdependence between economies belonging to the same currency. The ECB also underlined how, precisely because of the high level of financial integration, tensions born in one State could rapidly spread to other countries perceived by the market as vulnerable and explicitly recognised the possibility of **self-sustaining dynamics in the determination of the price of sovereign risk** , in which a rapid repricing could go beyond a simple linear reading of the fundamentals. [19a]

This element profoundly changes the interpretation of the spread. If the BTP-Bund spread had been exclusively the price of the probability that Italy would not repay its debt, it would be sufficient to reconstruct the deficit, debt, growth and national politics to explain it; but the eurozone sovereign bond market of 2011 had by then also become the place where uncertainty was priced regarding the very **irreversibility of the monetary construction** , the effectiveness of the stabilization mechanisms and the possibility that the treatment applied to Greece could, in extreme circumstances, become a precedent for other sovereign debtors. The ECB observed that, before the tensions that exploded

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after 2008, the spreads between eurozone sovereign bonds had remained excessively compressed despite considerable differences in fiscal and structural conditions; during the crisis, that underestimation of risk had rapidly transformed into the opposite phenomenon, that is, into a sudden and disorderly revaluation that did not necessarily distinguish proportionately between different national situations. [19a]

The responsibility of European governments must therefore be analyzed not as an alternative to the responsibility of the Italian authorities, but as a second level of the crisis itself. The governments of the eurozone had built a single currency without, at the beginning of the crisis, having a true federal Treasury, a banking union, a permanent sovereign crisis resolution mechanism already fully operational, or a lender of last resort explicitly designed to prevent a liquidity crisis of a solvent state from turning into a solvency crisis. The **EFSF** and the **EFSM** , established in 2010, were temporary instruments created precisely to finance governments that had lost ordinary access to the market, while the future **European Stability Mechanism** was supposed to take over only later. The ECB itself, on 4 November 2011, described the EFSF and EFSM as temporary arrangements created in an emergency, indirectly signaling how recent and still incomplete the crisis management infrastructure was. [19a]

## Greece transformed the meaning of sovereign risk in the eurozone

The decisive step was the management of the Greek case. Before the crisis, a large part of the market had implicitly treated the sovereign debt of the eurozone countries as differentiated assets, especially for small risk premiums, but inserted into a single monetary architecture that made the hypothesis of a restructuring remote. The Greek crisis progressively destroyed this convention. At the summit of **21 July 2011** , the heads of state and government of the eurozone approved a new assistance programme for Athens with **an estimated 109 billion euros of official financing** , simultaneously providing for voluntary participation by the private sector and a profound modification of the conditions of European loans, through longer maturities and more favourable rates. [26]

The same document sought to limit the contagion effect by explicitly declaring that Greece represented an **“exceptional and unique solution”** and that all other eurozone states reaffirmed their determination to honour their sovereign obligations in full. [26] However, from the investor's perspective, an extremely important conceptual shift had now taken place: the participation of private creditors in losses was no longer a purely theoretical hypothesis, but an officially included element in the management of a eurozone sovereign crisis. Even as governments insisted on Greece's uniqueness, the market now had to ask itself a question that until recently had seemed much less concrete: **if restructuring was possible for one member of the monetary union, what institutional guarantees prevented it from becoming necessary elsewhere?**

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It is important not to turn this question into an assertion that European governments deliberately intended to impose losses on BTP holders. Official documents say precisely the opposite: on 21 July they defined the Greek solution as exceptional and reaffirmed the full validity of the bonds of other states. [26] The historical point is different: **the political declaration had to convince a market that had just seen the principle of private-sector involvement introduced** , and the credibility of the reassurance depended on Europe's ability to demonstrate that the financial firewall would be sufficiently large to prevent a second large state from reaching the same condition.

Precisely to reduce this risk, the July 21 summit decided to radically expand the instruments of the EFSF and the future ESM. The two mechanisms were to be able to intervene not only through full assistance programmes, but also through **precautionary programmes, recapitalisation of financial institutions through loans to governments – including countries not under a full programme – and purchases on the secondary market** , subject to an ECB analysis that recognised exceptional circumstances and risks to financial stability. [26] From an institutional point of view, this was a huge leap: Europe was recognising that contagion might have to be stopped before a country completely lost access to markets.

But the very sequence of events shows the slowness with which this capacity was being built. The decisions of **21 July** required national procedures and ratifications before becoming effectively operational; only at the summit of **26 October 2011** , more than three months later, leaders were able to declare the ratification process of the revised EFSF completed in all eurozone countries and approve the operational guidelines for interventions in the primary and secondary markets, precautionary instruments and bank recapitalisation. [27] During those months, the market knew that Europe had decided to build a more powerful firewall, but at the same time witnessed the need to transform each decision into ratifications, operational rules and compromises between governments, just as the spreads of Italy and Spain were increasing.


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## Table — The incomplete construction of the European firewall in 2011

| Date | European decision | Content | Problem he was trying to solve | Immediately visible limit |
|---|---|---|---|---|
| **2010** | Creation of EFSF/EFSM | Temporary support tools | Financing States Losing Market Access | Emergency architecture, not yet permanent |
| **July 21, 2011** | New Greece program | €109 billion in estimated official funding + private participation | Making Greek financing sustainable | It concretely introduces the principle of PSI |
| **July 21, 2011** | EFSF/ESM Expansion | Precautionary programs, bank recapitalization, secondary market purchases | Stop the spread of the virus before market access is completely lost. | National ratifications and operating rules required |
| **October 26, 2011** | EFSF revised and fully operational | Guidelines for primary/secondary interventions, precautionary programs and banks | Strengthen the firewall | Capacity still considered to be in need of strengthening |
| **October 26, 2011** | Greek PSI in depth | 50% nominal haircut on private Greek debt, up to €30 billion in public support for the PSI and up to €100 billion in new official financing | Bringing Greek debt to 120% of GDP by 2020 | Fear of precedent grows despite the uniqueness clause |
| **October 26, 2011** | EFSF Leverage | Partial insurance of new emissions and special vehicles; potential leverage 4–5 times | Creating a “ring fence” against contagion | Dependence on market conditions and investors |
| **December 9, 2011** | Review of the approach to PSI | Adoption of IMF principles and practices; Greece's case once again defined as unique and exceptional | Reduce uncertainty created on the seniority of sovereign bonds | Correction after months of tension |
| **2012–2013** | Transition to a permanent ESM | Permanent stability mechanism | Replace the emergency nature of the EFSF/EFSM | Unavailable in the midst of the Italian crisis of summer-autumn 2011 |

Sources: European Council, statements of 21 July, 26 October and 9 December 2011; ECB. [26][27][28]

## The October 26 summit: Europe seeks to build a "ring fence"

The summit of **26 October 2011** makes particularly clear the gravity with which European governments now perceived the problem of contagion. In the official statement, the leaders did not simply confirm the operation of the new EFSF, but explicitly stated that

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the fund's capacity should be used to **“support market access” for states under pressure and ensure the proper functioning of the euro area sovereign debt market** , creating a *ring-fence* sufficient to counter contagion. [27] The language is important because it demonstrates that, by the end of October, the crisis was no longer being interpreted as the sum of separate national problems: the European institutions were explicitly trying to build a barrier capable of preventing the loss of confidence in one country from spreading to others.

The problem was scale. A crisis limited to Greece, Ireland, or Portugal could be addressed with relatively small assistance programs; Italy, by contrast, had public debt and refinancing needs of such a size that a program built on the previous model would be vastly more difficult. For this reason, rather than simply increasing public guarantees by an equivalent amount, leaders decided on October 26 to attempt to **multiply the EFSF's capacity through leverage** , envisaging two instruments: a form of protection or partial insurance on new sovereign issuance, and special vehicles capable of combining public and private capital to finance loans, bank recapitalizations, and bond purchases. The document estimated that, depending on market conditions, leverage could reach **four or five times** the resources deployed.[27]

This detail also reveals the incomplete nature of the architecture. The firewall was not supported by a federal Treasury capable of issuing unlimited common debt, nor by a central bank that had already explicitly stated its intention to prevent any redenomination scenario; instead, it sought to use a limited amount of public guarantees to attract investors and increase the EFSF's effective capacity. The greater the market's fear, however, the more difficult it would be to convince private capital to participate in the very mechanism that was supposed to neutralize that fear.

The fragility of this structure does not mean that the decisions of October 26 were irrelevant. On the contrary, they represented a significant expansion of Europe's crisis management capacity. The point is that the market continued to have to assess **how quickly** , **with what effective volume** , and **with what decision-making procedures** these tools would be usable for a large economy like Italy. And it is precisely within this uncertainty that part of the Italian risk premium must be placed.

## The Greek PSI and the problem of precedent

The same October 26 summit also deepened Greek restructuring to a much greater extent than the July decisions. European leaders called on Greece and private investors to develop a voluntary bond swap with a **nominal 50 percent write-down of Greek debt held by private investors** ; eurozone states would contribute up to **€30 billion** to the PSI-related package, while the official sector declared its willingness to provide up to **€100 billion in additional financing until 2014** , including the recapitalization of Greek banks.

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The stated goal was to bring Greece's debt-to-GDP ratio towards **120 percent by 2020.** [27]

Once again, the official text immediately reiterated that Greece represented an exceptional and unique solution and that all other states would honour their debts in full. [27] But the very need to repeat this reassurance so forcefully shows how sensitive the issue had become. For a portfolio manager holding Italian, Spanish or Belgian bonds, the problem was not necessarily believing that Italy would receive the same treatment as Greece; simply assigning a probability greater than zero to that eventuality was enough for the required return to increase.

The difference is important. A risk premium doesn't require a belief that the negative outcome is certain. It simply requires the investor to assign a high enough probability to that outcome to demand compensation.

In this sense, the Greek PSI changed the way part of the European market thought about sovereign bonds. Risk was no longer just inflation, interest rates, or liquidity: it became concretely possible to imagine a nominal loss on the capital held by private investors.

The fact that on **9 December 2011** , a few weeks later, the heads of state and government of the euro area felt the need to change the future set-up of the new ESM is particularly significant. In that statement they established that, for the involvement of the private sector, **the principles and established practices of the IMF would be followed** , reaffirming even more explicitly that the decisions taken on 21 July and 26-27 October on Greek debt had to be considered **unique and exceptional** . [28] The choice can be read as an institutional attempt to remove the impression that the Greek PSI was introducing a generalised restructuring automatism for all eurozone states.

It's not necessary to attribute a hidden intention to this sequence to understand its effect. It's enough to note that, between July and December 2011, the implicit rules of European sovereign risk were changing as markets attempted to price them in real time.

## The spread wasn't just measuring Italian risk: the Bund was also changing price

A further problem concerns the very nature of the **BTP-Bund spread** . The spread measures the distance between two yields; it can therefore increase because the Italian yield rises, the German yield falls, or both simultaneously. During the euro crisis, the Bund increasingly assumed the role of a safe haven and received capital inflows from investors seeking safety within the monetary union. This phenomenon reduced the German yield and mechanically widened the spreads of other countries, even without an equivalent increase in their absolute yields.

A Working Paper published by the ECB in February 2012 by Roberto De Santis — which should be considered the author's research and not an official position of the Governing

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Council — quantitatively documented this very component. The study distinguishes between **aggregate euro area risk, country-specific risk and contagion risk** and shows that, during the 2010–2011 crisis, the demand for Bunds as a safe haven asset was an important element in the evolution of sovereign spreads; the paper also finds that the effect of the regional risk factor was statistically significant and that, for Italy, the sensitivity to this component was high. [29]

The same study recalls that, in July 2011, the spreads of Greece, Ireland and Portugal had reached respectively around **1,600, 1,200 and 1,100 basis points** , while the Italian and Spanish ones had reached around **400 basis points** . [29] It was therefore not a phenomenon confined to Italy. The market was progressively dividing the Eurozone between issuers perceived as safe havens and countries perceived as more exposed to the crisis, modifying the convergence of yields that had characterised the previous years.


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Table — The components of the Italian spread in 2011

| Component | Mechanism | Documentary evidence |
|---|---|---|
| **Italian tax risk** | High debt and need for refinancing increase interest rate sensitivity | The ECB and the Bank of Italy recognize the role of national imbalances. |
| **Low growth** | It reduces the debt-to-GDP denominator and future debt service capacity | Central to sustainability assessments |
| **National political uncertainty** | Delays and doubts about the implementation of measures may alter expectations | European calls for urgent timetable and enhanced monitoring |
| **Bank-sovereign risk** | Sovereign bonds in portfolios weaken banks; weak banks amplify public risk | ECB describes an ever-tightening feedback loop |
| **Contagion Greece–periphery** | A state crisis changes the perception of other vulnerable issuers | ECB recognizes spillovers and self-sustaining dynamics |
| **Private Sector Involvement** | Greek restructuring makes it concretely possible for private creditors to lose | Decisions of 21 July and 26 October 2011 |
| **Uncertainty about the European firewall** | EFSF/ESM are being expanded while the crisis is already underway | Tools decided in July become fully operational only in October |
| **Flight to safety on the Bund** | Demand for German bonds is reducing yields and widening the spread. | ECB Working Paper by De Santis |
| **Liquidity premium** | Shallower secondary markets increase required yield | Present in stressed markets, although not the only explanation |
| **Risk of fragmentation of the euro** | The same ECB rate is no longer transmitted uniformly among countries | ECB acknowledges deterioration of transmission mechanism |

Sources: ECB, European Council, Euro Summit. [19a][26][27][28][29]


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## The bank-state nexus transformed a fiscal problem into a monetary problem

Another reason why the crisis cannot be read as a simple market judgment on Italian fiscal policy is the progressive intertwining of sovereign risk and the banking system. The ECB explained in November 2011 that, when the price of a country's government bonds declines, the deterioration directly affects the balance sheets of the banks that hold them; at the same time, the worsening of the state's rating and financing costs tends to be transmitted to that same country's banks, because the market links the banking system's risk to the sovereign's ability to sustain it. [19a]

The mechanism became particularly dangerous in the eurozone because banks were also using sovereign bonds as collateral in financing markets. The ECB observed that even in collateralised repo markets, market participants had become more reluctant to finance banks that presented their own government bonds as collateral when that government was perceived as risky. [19a] In this way, an increase in the sovereign spread could reduce banks' ability to raise liquidity, pushing them to restrict lending to businesses and households; the credit contraction in turn worsened the real economy and, through lower tax revenues and weaker growth, made it even more difficult to stabilize public debt.

The sovereign crisis had thus also become a crisis of the **monetary transmission mechanism** . Formally, all eurozone countries shared the same official rate decided by the ECB, but in practice the financing conditions of banks and companies increasingly diverged depending on the nationality of the debtor and its reference sovereign. The ECB declared that market dysfunctions were interfering with the ability of monetary policy to be transmitted to the economy and that, in exceptional circumstances, unconventional measures were necessary to preserve the functioning of the transmission mechanism itself. [19a]

This is a crucial step in the history of the euro because it shows how the spread had ceased to be simply an indicator of public finances. When the yield on BTPs rises and, at the same time, funding for Italian banks becomes more expensive, even a reduction in the ECB rate may not fully reach Italian households and businesses. Formally single monetary policy therefore produces different financial conditions in different countries.

The currency remains unique.

The cost of credit is no longer there.

It is this **financial fragmentation** that would become one of the central themes of the ECB in the years to come.


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## The fundamental institutional problem: who was supposed to stop a self-feeding crisis?

At the root of the instability of 2011 was therefore a question to which the original architecture of the euro did not yet offer a sufficiently clear answer: if a solvent but heavily indebted country were dragged towards ever-increasing returns by a crisis of confidence, **who should intervene before the liquidity crisis led to insolvency?**

The ECB had the technical capacity to purchase securities on the secondary market and had already activated the **Securities Markets Programme** , but the institution insisted on the monetary, not fiscal, character of its operations and that the ultimate responsibility for the crisis lay with governments and the financial sector. [19a] The EFSF could be strengthened, but it required political decisions, ratification, conditionality and resources guaranteed by states. The future ESM had yet to become fully operational. There was no federal fiscal capacity comparable to that present in a full political union.

The crisis thus highlighted a sort of **void between common monetary policy and national fiscal responsibility** . States issued debt individually, but in a currency they no longer controlled individually; the central bank controlled the common currency, but its mandate was not conceived as an automatic guarantee of individual sovereign debts; assistance mechanisms were constructed on the fly, but were politically dependent on the guarantees of the very states that the market was valuing.

This architecture did not make the crisis inevitable.

However, it made it more difficult to stop once it started.

## European governments gradually recognized the problem during the crisis itself.

The evolution of decisions between July and December 2011 shows that European governments themselves were learning from the crisis as they tried to manage it. On **21 July** , the powers of the EFSF were substantially expanded for the first time; on **26 October** , the need to multiply its capacity through leverage was recognized and explicit mention was made of *ringfencing* against contagion; on **9 December** , the future approach to the involvement of private creditors was corrected and the decision-making procedures of the future ESM were strengthened. [26][27][28]

The December summit also decided that, in urgent cases where the Commission and the ECB considered the financial and economic sustainability of the eurozone to be threatened, the future ESM could take decisions with a **qualified majority of 85 percent** , instead of strictly depending on unanimity. [28] This change is also indicative: during a systemic crisis, the speed of decision-making becomes a component of financial capacity. A firewall that is very large on paper but incapable of being activated quickly can be much less credible than a smaller but immediately usable instrument.

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The same statement envisaged a review in March 2012 of the adequacy of the overall ceiling of **€500 billion** for the EFSF and ESM and called on euro area states and other members to consider up to **€200 billion of additional bilateral resources to the IMF** to strengthen the international capacity to respond to the crisis. [28] Again, the scale of the figures reveals that the institutions no longer saw the situation as a simple succession of peripheral fiscal problems.

## The Italian case must be placed precisely within this incomplete transition

This does not mean that the European architecture can be used to absolve the Italian authorities of their responsibilities. The same summit of 26 October dedicated a specific passage to Italy, calling for an ambitious timetable for reforms, monitoring by the Commission and interventions in the areas of competitiveness, the labour market, public services and pensions; European leaders therefore clearly linked part of Italy's vulnerability to national problems of public finances and growth. [27] Similarly, the ECB insisted that the crisis also had its roots in insufficiently sustainable national fiscal and structural policies. [19a]

But acknowledging this national responsibility does not justify the conclusion that everything the market incorporated into BTPs was attributable to the Italian government. Contemporary documents simultaneously demonstrate **national fundamentals, contagion, European governance problems, feedback loops between banks and the state, a flight to safety toward Germany, and uncertainty about the capacity of the stabilization mechanisms** .

It is precisely this plurality of components that makes it inappropriate to interpret the spread as a daily plebiscite on the Berlusconi government.

But it also makes the opposite interpretation, according to which the spread was purely the product of "speculation" disconnected from economic reality, inappropriate.

Speculation, in the technical sense of traders taking positions on future price developments, always operates on vulnerabilities and expectations.

It does not create a debt exceeding 100 percent of GDP out of thin air.

It does not create stagnant growth.

It does not create an incomplete institutional architecture.

However, it can amplify price movement when these elements combine with fear, reduced liquidity, and self-reinforcing dynamics.

## The spread as a composite price

The most rigorous formulation is therefore that the **2011 BTP-Bund was a composite price** . At least four large risk families coexisted within it.


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**national** era : debt, growth, political credibility, reform capacity and fiscal sustainability.

The second **financial era** : bank exposure, market liquidity, ratings and refinancing.

The third **European era** : contagion, Greek PSI, initial firewall failure, slow decision-making, and uncertainty about future ESM rules.

The fourth concerned the **benchmark itself** , because the Bund was bought as a safe haven and its yield fell, further widening the relative spread.

These components cannot be perfectly disaggregated ex post through a single accounting formula. But research published in the ECB Working Paper Series in 2012 confirms that distinguishing between eurozone aggregate risk, country-specific risk and contagion is not just a narrative construct: it represents an econometrically sound way of interpreting the behavior of sovereign yields during the crisis. [29]

It is therefore possible to state more precisely what political language tends to transform into slogans: **in 2011 Italy paid the price of its own weaknesses, but at the same time it also paid part of the price of the incompleteness of the monetary union in which it had chosen to place its debt** .

The two things are not incompatible.

They are precisely what makes the 2011 crisis so difficult to interpret through binary categories.

And they explain why the real turning point for the eurozone would not come simply when a national government approved a more stringent fiscal package, but when the common architecture finally demonstrated that it possessed credible tools to prevent the risk of fragmentation of the single currency from itself becoming a component of the cost of debt.

The history of 2012, with the transformation of the ECB and the subsequent construction of more powerful instruments, would demonstrate the extent to which this component had been real.

## Sovereignty after 2011

The historical significance of 2011 goes beyond the fall of a government.

That year demonstrated that joining a supranational currency had transformed the nature of Italian economic sovereignty much more profoundly than had appeared in the first decade of the euro.


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During the years of low interest rates, abandoning the national currency seemed to produce above all benefits: contained inflation, the absence of internal currency crises, a reduction in the cost of debt, and financial integration.

In 2011, however, the other side of architecture emerged.

A state that does not individually control the central bank that issues the currency of its debt cannot respond to a crisis by purchasing its own bonds indefinitely through its national monetary authority.

The ECB can intervene, but it decides for the entire area and according to a supranational mandate.

The state retains formal fiscal sovereignty, but a huge debt makes it sensitive to market conditions.

Parliament retains legislative power, but financial urgency can dramatically restrict the time in which it can exercise it.

The government retains the right to choose its own policies, but the reaction of investors and partners can make some alternatives extremely expensive.

This is not the abolition of sovereignty.

It is the transformation of sovereignty into **constrained interdependence** .

And it is precisely for this reason that 2011 constitutes a crisis of sovereignty rather than a simple spread crisis: it calls into question not only the state's ability to repay its debt, but the relationship between the national democratic mandate, market discipline, and European institutions.

The Berlusconi–Monti transition represents the most visible political point of this tension, but it is not its origin.

The origin lies in the intersection of Italy's accumulated debt, the low growth that makes it more difficult to manage, and a common currency built without a fully developed fiscal union.

When Mario Monti entered Palazzo Chigi on November 16, this tension was not resolved.

The new government inherits a still-high spread, a recession that is beginning again, banks increasingly exposed to sovereign debt tensions, and European commitments that must be quickly transformed into legislative measures.

The political crisis is over.

The economic crisis no.


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The next chapter will therefore have to address the question that 2011 left open: **what price would Italy pay to regain financial credibility, and how much of the austerity adopted between 2011 and 2013 was truly inevitable, how much depended on European rules, and how much on the specific choices of the new government?**


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**[19] Bank of Italy — Annual report for 2011.** Public debt at 120.1% of GDP, government bonds at 101.6%, regularity of placements, average residual life and cover ratio.

**[19a] European Central Bank — Sovereign debt crisis, market fragmentation and deterioration of monetary transmission.**
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**[25] Bank of Italy — Annual report for 2012.** New increase in the spread in the summer of 2012 and estimate of the risk premium component exceeding that explained by national fundamentals.

**[26] European Council — Statement by the Heads of State or Government of the euro area and EU institutions, 21 July 2011.** New programme for Greece of around €109 billion, voluntary participation of the private sector, extension of EFSF/ESM powers to precautionary programmes, bank recapitalisation and secondary market purchases; the document explicitly defines the Greek solution as "exceptional and unique".

**[27] Euro Summit — Statement, 26 October 2011.** Deepening of the Greek PSI with a nominal haircut of 50 percent, up to €30 billion in public support for the PSI and up to €100 billion in new official financing; full operation of the revised EFSF; leverage mechanisms potentially equal to four-five times the resources employed and explicit objective of creating a *ring fence* against contagion.

**[28] Heads of State or Government of the euro area — Statement, 9 December 2011.** Review of the approach on private sector involvement according to IMF principles and practices, reaffirmation of the unique and exceptional character of the Greek restructuring, emergency ESM procedure with 85 per cent qualified majority and review of the combined EFSF/ESM capacity.

**[29] Roberto A. De Santis, ECB Working Paper Series n. 1419 — *The euro area sovereign debt crisis: safe haven, credit rating agencies and the spread of the fever from Greece, Ireland and Portugal* , February 2012.** An empirical study on the components of sovereign spreads: regional aggregate risk, country-specific risk, contagion, flight to safety towards the Bund, and the role of ratings. This paper is part of the Working Paper Series and does not represent an official position of the ECB Governing Council.

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# Chapter 14

## 2011–2013 — Monti, austerity and the new European fiscal constitution

When Mario Monti appeared before the Senate on November 17, 2011, to ask for a vote of confidence in the government formed the previous day, the problem he faced was not simply that of replacing a government that had lost its political majority, nor could it be reduced to the need to quickly approve a new budget package to reassure the markets. Italy found itself at the intersection of three crises that had different origins but were now feeding on each other: a national crisis of public debt credibility, a recession that was again taking shape after the incomplete recovery of 2010, and an institutional crisis of the Monetary Union that forced Europe to rewrite, almost in real time, the rules by which states would finance their budgets, prevent new imbalances, and possibly assist members unable to access markets. This is why the Monti government years cannot be understood simply as an Italian era of "austerity": they coincide with the phase in which the entire eurozone, under the pressure of the crisis, is attempting to construct a more binding fiscal constitution than the one envisioned in Maastricht, while Italy is simultaneously trying to convince investors that it can continue to finance one of the world's largest stocks of sovereign debt without resorting to an international assistance program.

Monti explicitly presented his government as an executive created to face this emergency, but rejected the idea that technology had an intrinsic superiority over politics and insisted, in his programmatic declarations, on the centrality of Parliament, on the rigour of the accounts, on growth and on equity as components that should proceed together. The Senate granted its confidence with **281 votes in favour and 25 against** , an exceptionally large majority that brought together political forces that until a few days before had been on opposing sides and which made the extraordinary nature of the phase evident: the government did not have its own electoral mandate, but it possessed a parliamentary majority that was formally much larger than the one that had supported the previous executive in the last months of its life. [1]

The distinction is important because it allows us to avoid two equally inaccurate representations. The Monti government was not an external authority that legally replaced the Italian Parliament, since its existence depended on the confidence of the two chambers, and any fundamental measure would have been approved through national legislative acts. At the same time, it would be equally artificial to describe it as a normal parliamentary government born under ordinary conditions, because the financial context exceptionally limited the timeframe and available options, while the ECB, the European Commission, eurozone partners, and the markets assessed the credibility of Italy's decisions on a daily basis. The form remained that of parliamentary democracy;

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however, the economic margin within which that democracy could make decisions had suddenly become much narrower.

The crucial point was that the Italian crisis was not exclusively a deficit crisis. In 2011, public administration net borrowing had already fallen to **3.9 percent of GDP** , compared to much higher levels reached during the global recession, and the Bank of Italy stressed that nominal primary expenditure had decreased for the second consecutive year; at the same time, however, the deterioration of the macroeconomic framework and the increase in interest charges prevented the problem from being considered solved. In the second half of 2011, three corrective measures had been approved which, according to the Bank of Italy's reconstruction, produced exceptional cumulative effects, equal to **3.1 percent of GDP in 2012 and 4.7 percent in 2013** compared to the previous legislation. [2]

This detail profoundly changes the way we interpret the birth of the Monti government. The fiscal adjustment did not begin on November 16, 2011. A significant portion of the correction had already been approved during the Berlusconi government, especially in the summer budget maneuvers, just as pressure from markets and European institutions was mounting. The new government thus inherited a consolidation process already underway, but considered it insufficient for two reasons: on the one hand, the political credibility of its implementation had been compromised by the crisis in the majority and the ongoing tensions with European partners; on the other, market dynamics had accelerated so rapidly that a fiscal target set years in the future risked not being sufficient to reverse investors' expectations.

The government's strategy was born within this time constraint. It wasn't just a matter of reducing the deficit; it needed to convince the market that the measures would be immediate, sufficiently broad, and irreversible to alter the expected debt trajectory. It is this need to rapidly establish credibility that explains the harshness of the government's first measure and, at the same time, some of the recessionary effects that followed.

**201, later converted into law no.** 214 of 22 December 2011 and known in political history as the **“Save Italy”** decree , had a broader formula in its official name: “Urgent provisions for growth, equity and the consolidation of public accounts”. [3] The choice of the three words – growth, equity, consolidation – indicated the ambition to present the measure not as a simple package of taxes and spending cuts, but as the launch of a strategy capable of simultaneously rebuilding solvency, competitiveness and social trust. The actual structure of the measures, however, inevitably reflected the urgency of the phase: interventions capable of rapidly producing a budget result had much more immediate effects than those intended to increase growth, because a pension reform or a new tax can change the public balance in a relatively short time, while liberalisations, investments, greater competition and administrative reforms produce results only after years and with a much higher degree of uncertainty.

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It is this temporal asymmetry, rather than an abstract ideological choice, that explains an important part of the composition of Monti's economic policy.

## The Save Italy bill and the logic of immediate correction

The December decree affected a very wide range of sectors, but some provisions took on a particularly significant political and financial significance. The pension reform, already analysed in the chapter dedicated to the welfare state, accelerated the increase in access requirements, extended the pro rata contributory method to all for future seniority and profoundly changed the pension path of millions of workers. On the revenue side, property taxation through the IMU was brought forward and expanded, including the primary residence within the scope of the new municipal tax; fiscal measures were introduced on income and financial assets, increased pressure on certain tax bases and strengthened tools against tax evasion. The government thus aimed to obtain an immediate effect on the balance through a combination in which the increase in revenue played a significant role, while the pension reform would produce both immediate and increasing effects in the medium-long term. [3]

The decree, however, contained an ambiguity that will permeate the entire historical assessment of the Monti experience. From a financial perspective, it was necessary to quickly demonstrate that Italy would generate sufficiently large primary surpluses to stabilize the debt; from a macroeconomic perspective, however, every tax increase and every spending reduction sapped demand from an already slowing economy. If households and businesses reduce consumption and investment because disposable income declines or because they fear the future, production contracts; when GDP declines, the debt-to-GDP ratio can rise even if the deficit is reduced, because the ratio's denominator narrows.

This is precisely the mechanism through which a fiscally restrictive policy can improve the budget balance and simultaneously worsen, at least in the short term, the debt-to-GDP ratio.

The issue was not unknown to economists, but during the European crisis it took on much greater importance because several countries were simultaneously pursuing restrictive policies. In an open economy, a single state can offset part of the fiscal contraction through exports to partners that continue to grow; if numerous partners simultaneously reduce demand and spending, this compensation channel becomes much weaker. Furthermore, the ECB's official interest rates were already relatively low, and the eurozone's financial fragmentation prevented monetary policy from fully offsetting the fiscal contraction through cheaper credit in peripheral economies.

**fiscal multipliers** developed . In January 2013, Olivier Blanchard and Daniel Leigh, in a Working Paper of the International Monetary Fund, showed that in advanced economies subjected to strong consolidations during the initial phase of the crisis, growth had been

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systematically lower than forecasts to an extent related to the size of the fiscal adjustment; the authors interpreted this result as evidence that the implicit multipliers used in the forecasts had been too low compared to the actual ones in those particular conditions. [4]

This research is sometimes cited as definitive proof that "the IMF admitted that Italian austerity was wrong," but the document does not support such a specific conclusion. The study covered a set of advanced economies and did not provide a causal estimate exclusive to Italy; furthermore, the authors themselves presented the analysis as research and not as the institution's official position. What the work allows us to assert with greater rigor is that, in the European conditions of those years, the recessionary effects of consolidation were likely underestimated in many forecasts and that the cost of a simultaneous fiscal adjustment could be significantly higher than that incorporated in the models used at the beginning of the crisis.

The consequence is crucial for the historical assessment of Monti. It is methodologically incorrect to simply ask whether the government should or should not "implement austerity," as if a situation existed in which the country could continue to finance its debt without consequences under the conditions of autumn 2011. The more serious question concerns **the composition, pace, and sequence of the adjustment** : how much consolidation was immediately necessary to restore confidence, how much could have been spread out over time, how much scope existed for prioritizing spending cuts over revenue increases or vice versa, and how much stronger ECB action could have reduced the amount of austerity needed to achieve the same effect on the cost of financing.

The documentation allows us to identify mechanisms and outcomes for these questions, but it does not provide a single, incontrovertible answer.


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## Pensions as a structural reform and emergency measure

Pension reform represents the point at which long-term and immediate needs most clearly overlap. Italy's demographic problem predated the debt crisis, the process of transforming from a pay-as-you-go system to a contributory one had begun in 1995, and the linking of eligibility to life expectancy had already been introduced before the Monti government; it would therefore be historically false to describe the Fornero reform as an invention suddenly imposed by Europe on an otherwise sustainable system.

What changes in December 2011 is speed.

Article 24 of the Save Italy decree immediately modifies the requirements and calculation methods and completes the transition to the pro rata contributory system precisely because the government considers it necessary to produce a permanent signal on the sustainability of future spending. Subsequent administrative circulars confirmed that the new regulation introduced different age and contributory requirements, abolished the previous system of windows for the start of the pension and applied the pro rata contributory method to seniority accrued since 2012 even for those who, thanks to the previous rules, would have continued to benefit from the retributive system. [5]

Here we see how a measure can be simultaneously structurally coherent and socially problematic. Strengthening pension sustainability reduces the risk of future spending and improves the perception of public finances; however, rapidly applying new requirements to people who had already organized their exit from work based on previous rules can create extremely serious individual situations, as occurred with the "esodati" (early retirees). The problem, therefore, cannot be resolved by deciding whether the reform was "necessary" or "unfair" in its entirety: the two assessments operate on different levels, and a measure may be structurally necessary but imperfect in managing the transition.

The political significance of that reform would have been enormous precisely because it transformed, in a matter of days, an area on which previous governments had proceeded through compromise and gradualism. In this sense, the technical government displayed a characteristic that explained both its strength and its fragility: it could use a very large parliamentary majority to approve decisions that a normal electoral coalition would have found more difficult to sustain, but it lacked a direct relationship with the electorate capable of socially absorbing the cost of those decisions.

## 2012 was not just about consolidation: liberalizations and attempts to change the offering

If we limit ourselves to the Save Italy decree, the Monti experience appears almost exclusively fiscal. The government instead tried to accompany the consolidation with measures aimed at increasing competition and productive capacity, precisely in the

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belief that the sustainability of the debt could not be rebuilt only through taxes and spending cuts. The **decree-law of 24 January 2012, n. 1** , converted into law of 24 March 2012, n. 27, bore the explicit title of "Urgent provisions for competition, the development of infrastructures and competitiveness" and intervened on liberalisation, professional services, consumer protection, infrastructures and numerous other sectors. [6]

The economic problem with these measures was the opposite of that of the fiscal package. Consolidation produces rapid and relatively measurable effects on the budget, but can depress demand in the short term. Liberalizations can potentially increase efficiency, but they have longer timescales, are difficult to quantify, and often encounter concentrated political resistance from groups losing previous rents or protections. Increased competition in professions or services can increase efficiency in the medium term, but does not necessarily generate sufficient growth in a few months to offset the recessionary effect of a major fiscal adjustment.

This temporal divergence contributed to the public's perception of the government. The costs of fiscal measures were immediate, visible, and quantifiable in taxes, pension requirements, and the reduction in disposable income; the benefits of structural reforms were more uncertain, distributed, and deferred. From a political perspective, therefore, austerity was perceived much more quickly than the promised growth.

During the summer, the government also intervened on spending through the **decree-law of 6 July 2012, n. 95** , later converted into law n. 135, known as the second spending review, whose declared objective was to rationalise public spending, reduce costs for goods and services, intervene on staffing and modify the spending of central government, healthcare and local authorities. [7] This measure also shows how the government was gradually trying to shift part of the correction from revenue to the spending structure, but it came when the recession was already deeper than expected and when the European framework was once again deteriorating due to the difficulties of the Spanish banking system.

## The 2012 recession and the paradox of growing debt during the recovery

The data that will fuel criticism of Monti's experience more than any other is the dynamics of public debt. If the government was created to stabilize it, why did the debt-to-GDP ratio instead increase so significantly?

The answer shows how dangerous it is to judge fiscal policy by looking at a single indicator without breaking down its determinants.

According to data reported by the Bank of Italy, the ratio between public debt and GDP went from **120.7 percent in 2011 to 127.0 percent in 2012 and to 132.6 percent in 2013.** In the same period, net borrowing fell from 3.7 to 3.0 percent of GDP and remained at 3.0

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percent in 2013, while the primary surplus rose from 1.2 percent in 2011 to **2.5 percent in 2012** , and then settled at 2.2 percent in 2013. [8]

At first glance, the two dynamics seem incompatible: the government improves its primary balance and reduces the deficit, but the debt increases rapidly. In reality, the mechanism is perfectly explainable.

The first cause is the recession. In the two-year period 2012–2013, Italian real GDP fell much more sharply than official forecasts had initially imagined. The Bank of Italy notes that in April 2012 the planning documents foresaw a reduction in output of just **0.7 percentage points for the two-year period as a whole** , while in autumn 2013 the estimate of the cumulative contraction had been raised to **4.3 points** , substantially in line with the actual result. [9] The difference is not marginal: a much smaller-than-expected economy produces less revenue, increases the debt-to-GDP ratio and makes it more difficult to achieve fiscal targets formulated on the basis of a higher denominator.

The second cause is the interest cost, which in 2012 reached around **5.5 percent of GDP** , one of the highest values in the period considered. [8] Even with a significant primary surplus, an interest burden above five percent of GDP makes it difficult to reduce debt if the economy is in recession.

The third component consists of stock-flow adjustments, including the financial support granted by Italy to eurozone countries in difficulty and the contribution to the capital of the new European Stability Mechanism. The Bank of Italy itself distinguishes the overall debt from that calculated net of support interventions for EMU partners, showing that a part of the increase did not derive from the national ordinary deficit. [8]

It is therefore possible to simultaneously state two seemingly contradictory facts: the Monti government significantly improved the primary balance and the deficit, but during its reign the debt-to-GDP ratio increased sharply. There is no contradiction, because debt depends on the interaction between the primary balance, interest, nominal growth, and other changes in assets.

The more politically important question concerns causality: **how much of the recession was an inevitable consequence of the financial crisis and how much was amplified by consolidation policies?**

There is no single, indisputable numerical answer. The recession had already begun before the "Save Italy" decree could fully produce its effects; the credit crunch, the sovereign crisis, uncertainty, and weak European demand would have depressed the economy anyway. At the same time, increased taxation, pension reform, reduced spending, and worsening expectations about disposable income inevitably exerted an additional contractionary effect. The debate on fiscal multipliers concerns precisely the

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size of this second effect, not the existence of the recession as a phenomenon entirely produced by fiscal policy.

The most defensible formulation is therefore that **consolidation was one of the causes of the depth of the recession, but not its only cause** , and that its size was probably underestimated in the initial forecasts, as the extremely large revision of subsequent macroeconomic scenarios also suggests.

**The new Article 81: the crisis enters the Constitution**

While the government was trying to correct the accounts through ordinary measures and emergency decrees, Parliament was taking a much more profound step: amending the Republican Constitution to directly incorporate the principle of a balanced budget.

**Constitutional law no. 1 of 20 April 2012** , published in the Official Journal of 23 April, formally introduced the principle of balanced public budgets into the Charter and modified, in addition to article 81, provisions relating to territorial autonomy and the coordination of public finances. [10]

However, it is important to correct one of the most common simplifications on the subject. The reform is often referred to as the "introduction of a balanced budget into the Constitution," a term also found in the title of the constitutional law. However, the new text of Article 81 uses a more nuanced concept of **balance between revenue and expenditure** , taking into account both favorable and adverse economic cycles, and allows for borrowing in exceptional circumstances and under specific procedures. Therefore, it is not an absolute constitutional ban on any annual nominal deficit.

The distinction is of enormous economic importance. A requirement for a perfectly zero nominal balance in every single year would force the government to raise taxes or reduce spending during every recession, precisely when automatic stabilizers should instead allow the deficit to temporarily increase. The concept of structural equilibrium attempts to avoid this outcome by distinguishing between cyclically produced deficits and persistent deficits independent of cyclical conditions.

Even more interesting, from the point of view of political responsibility, is the chronology of the process. The preparatory work for the constitutional law shows that some proposals had been presented **in March 2011** , therefore several months before the birth of the Monti government; the parliamentary examination accelerated in the autumn of the crisis, passed through the transition from Berlusconi to Monti and culminated in the final approval in 2012. [11] In this case too, attributing the constitutional reform entirely to Monti would erase the institutional continuity of the decision, while denying that the European crisis accelerated and politically strengthened its path would be equally artificial.

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The revision of Article 81 represents a historic shift because it shifts tax regulation from a set of European rules and ordinary laws to a domestic constitutional principle. Italy's decision no longer consists simply of promising Brussels to respect certain objectives: part of that regulation is incorporated into the highest legislative source in the legal system.

It is one of the clearest examples of how the so-called "external constraint" is deliberately transformed into **an internal constraint** .


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## Fiscal Compact: What Italy Really Signed

The Italian constitutional reform was part of an even broader European process. On **2 March 2012** , twenty-five European states signed in Brussels the **Treaty on Stability, Coordination and Governance in the Economic and Monetary Union** , commonly associated with the name Fiscal Compact, which in reality constitutes Title III of the Treaty. The agreement entered into force on **1 January 2013** after reaching the required number of ratifications. [12]

The Fiscal Compact did not invent European fiscal discipline from scratch, as the Stability Pact, the Six-Pack, and the Maastricht rules already existed. However, it tightened the framework in two particularly important ways. On the one hand, it required contracting states to maintain a balanced or surplus structural budget position, with a standard annual structural deficit limit of 0.5 percent of GDP for countries with debt significantly above 60 percent. On the other, it required this rule to be incorporated into national law through permanent provisions, preferably constitutional, accompanied by an automatic correction mechanism.

This is precisely where the interpretation of the Fiscal Compact as the transformation of the financial crisis into a new European fiscal constitution comes from.

The main point of contention concerns debt discipline. The Treaty reaffirmed the principle that countries with a debt-to-GDP ratio exceeding 60 percent would have to reduce the excess at an average rate of one twentieth per year, consistent with the European discipline already strengthened by the Six-Pack. In the Italian debate, this rule was often portrayed as an obligation to annually reduce nominal debt by tens of billions of euros, but this interpretation is imprecise: the criterion concerned the dynamics of the **debt-to-GDP ratio** , was calculated according to European formulas that took into account multi-year trends, and did not amount to a mechanical request for annual repayment of one twentieth of the overall stock.

This distinction does not make the rule irrelevant for a country like Italy; on the contrary, precisely because the debt was much higher than the 60 percent reference, the pressure to achieve sufficient primary surpluses and nominal growth became structurally very strong. But a correct description of the constraint is essential to prevent a complex mechanism from being transformed into a politically attractive but economically flawed figure.

Italy ratified the Treaty in July 2012 through **law no. 114 of 23 July** , after a parliamentary process that began with the government's presentation of the bill on 3 April. [13] The decision was therefore not taken secretly by a technical government or simply imposed by a European body: it was submitted to the Chambers and approved according to the ratification procedure for international treaties. This does not eliminate the political question of the degree of pressure exerted by the crisis on national choices; however, it

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clearly establishes which Italian institution transformed the international agreement into a domestic legal obligation.

## The ESM: Common Insurance, Conditionality, and a New Crisis Architecture

In the same year 2012, another fundamental piece of the new European architecture was completed: the **European Stability Mechanism** , the ESM. The Treaty establishing it was signed on **2 February 2012** by the Eurozone member states and became operational after the Treaty entered into force in September of the same year. For Italy, ratification was notified on 14 September 2012. [14]

The ESM was born from a contradiction that emerged sharply during the Greek crisis: a common currency required a permanent instrument capable of providing financial assistance to states that, despite belonging to the euro, risked losing access to markets. Without such a mechanism, each crisis would have required ad hoc agreements between governments, with negotiations slow at the very moment when speed of response was essential.

The ESM therefore represents, in a certain sense, a form of common financial insurance. States provide capital and funding capacity to an institution that can use these resources to provide assistance to a member in difficulty. But the insurance is not unconditional: access to the most relevant instruments is tied to economic policy conditions and agreed-upon programs, precisely because creditor states did not want to build a system in which a government could benefit from common support without modifying the policies considered to be the source of the vulnerability.

Conditionality is therefore an integral part of the compromise.

For Italy, the ESM initially served primarily as a systemic safeguard, not as a program of action. The country contributed to the institution's capital and, at the same time, benefited from the fact that the eurozone finally had a permanent instrument capable of intervening should a sovereign crisis become uncontrollable.

The Italian ratification also took place in July 2012, within the same parliamentary package that included the Fiscal Compact. [15] It is important to distinguish between the two instruments: the Fiscal Compact mainly regulates the fiscal rules of the States; the ESM concerns the capacity to provide financial assistance. In the Italian political debate they will often be associated because they belong to the same period of the crisis, but legally and economically they perform different functions.

## The 2012 crisis shows that national austerity was not enough

If history had stopped at the end of 2011, it would have been possible to argue that the Italian crisis was primarily a problem of national credibility and that a more reliable

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government, accompanied by a major fiscal maneuver, could have definitively normalized the spread. 2012 demonstrated that the reality was much more complex.

After an initial easing of tensions, also aided by the ECB's three-year refinancing operations, the crisis intensified again in the spring, above all due to the problems of the Spanish banking system and fears about the reversibility of the euro itself. The Bank of Italy notes that towards the end of July the ten-year spread between BTPs and Bunds once again reached around **5.4 percentage points** , a level lower only than the peak of November 2011. [16]

The significance of this data is enormous.

Between November 2011 and July 2012, Italy had changed government, approved the Save Italy decree, implemented pension reform, raised taxes, initiated liberalizations, approved the constitutional amendment on the budget, signed the Fiscal Compact, and moved toward ratification of the ESM. Yet the spread returned to near its peak.

This fact makes untenable any single-causal explanation that the 2011 crisis was solely a market judgment on the person or political credibility of Silvio Berlusconi. The change of government and the consolidation certainly altered expectations, but an increasingly large component of the spread stemmed from the crisis in the very architecture of the euro.

The Bank of Italy reached a particularly significant conclusion: on the basis of several models, in June 2012 a spread consistent with Italian macroeconomic and fiscal fundamentals could be estimated at around **200 basis points** , while the market quoted around **450 basis points** ; the difference was associated with systemic tensions, financial fragmentation and fears about the reversibility of the monetary union. [16]

This isn't mathematical proof of the existence of an "unfair" spread, because every model incorporates assumptions, and unobservable risk cannot be measured perfectly. However, it is one of the most important institutional findings of the entire period: a very significant portion of the Italian premium did not appear to be explainable solely by national public finances.

The political consequence is equally important. If a substantial portion of the spread stems from the risk of the euro breaking up, no reasonable amount of national austerity can completely eliminate it, because the problem concerns the credibility of the common currency and therefore requires a European response.

This is where 2012 paves the way for the ECB's turning point.

## From Monti to Draghi: The Limits of National Adjustment

In December 2011, the ECB had already introduced extraordinary three-year refinancing operations for banks, with a first auction on 21 December and a second in February 2012,

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aimed at reducing liquidity tensions and supporting credit. [17] These operations helped temporarily relieve pressure on banking systems and indirectly on sovereign markets, but did not eliminate the fundamental fear that a country could be forced out of the single currency through a self-sustaining crisis.

The turning point came on **26 July 2012** , when Mario Draghi pronounced in London the sentence that was destined to become the symbol of the entire euro crisis, declaring that the ECB was ready, within its mandate, to do whatever was necessary to preserve the common currency. [18] The economic significance of the statement did not consist in promising indiscriminate support to any government, but in communicating to the market that the ECB would not consider acceptable a disintegration of the euro produced by self-reinforcing financial dynamics.

The transition was institutionalised on **6 September 2012** with the announcement of the **Outright Monetary Transactions** , the OMT, a programme potentially without a pre-established quantitative limit for the purchase on the secondary market of short-term sovereign bonds of countries subject to an EFSF/ESM programme with effective conditionality. [19]

The detail of conditionality is essential because it directly links the central bank's actions to the new fiscal architecture established that same year. The ECB declared itself ready to counter a potentially self-sustaining market crisis, but only for countries that accepted a European framework of conditions and monitoring. Monetary policy thus became more powerful, but not completely separated from fiscal discipline.

The market impact was profound, even though the OMTs were never actually used to purchase Italian bonds. The credibility of the commitment was sufficient to shift expectations.

This shift also forces us to reconsider our assessment of the Monti government. The decline in the spread since the 2011 peak cannot be attributed solely to the policies of the Italian government, just as it cannot be attributed solely to the ECB. Consolidation and reforms reduced the domestic component of risk and demonstrated Italy's willingness to meet its fiscal commitments; the ECB intervened on the systemic component, making the hypothesis that a liquidity crisis could force a solvent country to exit the euro much less credible.

The two actions were complementary.

Without fiscal credibility, an unconditional monetary commitment would have faced enormous political and legal obstacles.

Without a credible monetary backstop, fiscal consolidation risked being continually undermined by a systemic risk premium over which the national government had no control.

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The crisis thus demonstrated that the euro required both national discipline and the capacity for common intervention.

## The social price of recovery

The financial dimension, however, must not obscure the social cost of adjustment. Between 2012 and 2013, the Italian economy experienced a second recession after the one in 2008–2009, with a decline in domestic demand, investment, and employment, while bankruptcies and non-performing loans increased and a growing portion of the production system reduced capacity.

The phenomenon was particularly severe because it came after an initial recession from which Italy had not yet fully recovered the lost output.

The country was therefore not going through a normal recessionary cycle, but rather a double decline interspersed with an insufficient recovery.

Contractionary fiscal policy interacted with the credit crunch, sovereign risk, and European weakness. Households reduced spending because disposable income was under pressure and uncertainty was high; businesses invested less because demand was weak and financing was more expensive; banks tightened credit because the recession increased customer risk and sovereign risk increased the cost of their own funding.

The crisis thus became a circuit in which each component strengthened the other.

This is where the word "austerity" takes on a more precise economic meaning. It doesn't simply describe the government reducing its deficit; it describes a consolidation policy implemented in an environment in which the private sector and the banking system are simultaneously reducing spending and leverage. When everyone simultaneously attempts to improve their balance sheets, aggregate demand can contract much more than any individual would like.

This mechanism doesn't mean the state could have ignored its fiscal position. It does mean that **timing** and European coordination were crucial.

A correction spread over a longer period could have reduced the recessionary impact, but it would have been credible only if the market had been certain that the government would continue to have access to financing at sustainable rates.

The ECB, with the OMT, contributed to creating this very condition, but it did so when a very significant part of the consolidation had already been achieved.

This explains why the debate over Monti remains open even many years later: the government operated in a very short historical window between a phase in which the ECB

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did not yet offer a credible systemic guarantee and a phase in which such a guarantee became possible.

## Exiting the excessive deficit procedure and the paradox of incomplete success

In June 2013, the Council of the European Union closed the excessive deficit procedure opened against Italy, recognising that the deficit had been brought back within the limit of 3 percent. The Bank of Italy records that the 2013 final result, equal to **3.0 percent of GDP** , allowed the European commitments to be respected and the procedure to be abolished. [20]

From a formal point of view, one of the main objectives of the consolidation had therefore been achieved.

But this very result shows the complexity of Monti's legacy.

The deficit had been corrected.

The primary surplus had returned to being significant.

The main pension reforms had been approved.

Italy had ratified the Fiscal Compact and the ESM.

The Constitution incorporated the principle of balanced budget.

The spread had narrowed compared to the peaks of the crisis.

And yet the debt-to-GDP ratio was much higher, the economy was smaller, unemployment had increased, and part of the productive system had emerged from the crisis profoundly weakened.

An assessment that considered only financial credibility would conclude that the government had accomplished a substantial part of the mission it was given.

An assessment that only looked at production and employment would instead see an extremely costly phase.

Both observations describe real facts.

The historical problem is to understand why they could have happened at the same time.

The answer lies in the very nature of the adjustment: Italy improved its fiscal balance during a recession, but the recession itself made it more difficult to improve the debt-to-GDP ratio; the ECB's intervention subsequently reduced the systemic risk premium, but it came after much of the fiscal cost had already been borne; structural reforms sought to increase potential growth, but their eventual effects were limited to a much longer time horizon than that over which taxes, pensions, and spending cuts affected demand.


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There is therefore no single figure capable of summarizing the experience.

## Did austerity cause the debt to rise?

Even this seemingly simple question requires a complex answer.

It's certainly true that the debt-to-GDP ratio increased during the years of strong consolidation and that the recession played a key role. It's equally true that part of the recession was exacerbated by fiscal consolidation itself. From this perspective, there is indeed a **denominator effect** : a policy that reduces the deficit but severely compresses GDP can produce a higher-than-expected debt-to-GDP ratio in the short term.

But it does not follow that, in the absence of consolidation, the ratio would necessarily have been lower.

Had markets responded to the failure to correct with even higher yields or a loss of ordinary access to financing, interest costs could have risen further, and the recession could have been even more severe. The correct counterfactual is therefore not "austerity versus no austerity," but "that particular consolidation pattern versus other possible patterns given the current financial conditions."

This is precisely why it is not scientifically serious to affirm either that “Monti certainly saved Italy from default” or that “Monti certainly increased the debt through austerity” without qualifications.

The first proposition requires an unobservable counterfactual: we do not know for certain what the trajectory of markets would have been with a different government and different policies.

The second confuses a partial relationship with full causality: the recession and the denominator effect contributed to the increase in the debt-to-GDP ratio, but so did interest rates, pre-existing low growth, support for eurozone partners, and capital dynamics.

The record allows for a more robust conclusion: **the Monti government significantly reduced the deficit and strengthened pension sustainability, but it did so during a recession that proved much deeper than initially forecast; this temporarily worsened the dynamics of the debt-to-GDP ratio and imposed significant social and economic costs, while the definitive normalization of the spread also required a systemic response from the ECB to the euro crisis** .

**The political significance of the new fiscal constitution**

At the end of 2013, Italy was no longer institutionally the same country that had entered the crisis two years earlier.

Transformation is not just about government.

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The most profound change is the set of rules within which successive governments will have to operate.

The principle of balanced budget has entered the Constitution.

The Fiscal Compact has strengthened control over the structural balance and debt dynamics.

The ESM has created a permanent financial assistance mechanism accompanied by conditionality.

The Six-Pack and, subsequently, the Two-Pack strengthened European surveillance of national budgets and introduced much earlier scrutiny of budget documents.

The crisis has therefore produced something that Maastricht had not achieved to the same extent: a **constitutionalisation of fiscal discipline** .

This process can be interpreted in two ways, both legitimate but which must be distinguished from the facts.

According to a first reading, it represents the necessary response to the shortcomings of monetary union: a shared currency cannot function stably if national fiscal policies produce risks that are subsequently transferred to the entire area.

According to a critical reading, the response to the crisis greatly strengthened consolidation-oriented rules without simultaneously creating a true common fiscal capacity capable of sustaining demand and investment during recessions, producing an asymmetric architecture in which control over national budgets grew faster than European fiscal solidarity.

The two interpretations should not be transformed into slogans.

Europe actually strengthened discipline.

It also effectively created assistance tools through the EFSF and the ESM.

However, it did not build a federal budget comparable to that of a nation state nor an automatic mechanism for large countercyclical transfers.

This asymmetry will remain a feature of the eurozone until the extraordinary response to the 2020 pandemic.

## Mountains as a passage, not as an isolated exception

Finally, it is necessary to place the Monti government within the continuity of Italian history, because describing it as a foreign body that suddenly arrived in November 2011 prevents us from understanding how many of the choices made have earlier roots and subsequent consequences.

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The path towards a balanced budget had been initiated by the Berlusconi government.

The revision of Article 81 had begun its process before the birth of the technical government.

The pension adjustment to life expectancy was earlier.

European fiscal discipline had been strengthened with the Six-Pack before Monti took office.

At the same time, the technical government accelerated, deepened, and made permanent many of these decisions, transforming them from gradual commitments into an emergency program concentrated in a few months.

It is this acceleration that defines the period.

- Monti did not invent the Italian debt problem.
- He didn't invent the euro crisis.
- He did not invent the need to reform pensions.
- He did not invent European tax discipline.

But it was the government under which these processes were condensed into a regulatory and fiscal transformation of exceptional intensity.

The political consequences would have been equally profound.

The experience of the technical government fueled a rift that would become central to Italian politics in the years to come: the conflict between European responsibility and democratic sovereignty, between market constraints and electoral mandates, between reforms presented as technically necessary and the consensus needed to support them.

The Five Star Movement, the League, and, in different forms, Brothers of Italy would later build part of their political growth precisely on their criticism of that period, while the forces that had supported Monti would advocate the need to avoid a more serious financial crisis.

This division does not arise from a simple disagreement over IMU or pensions.

It arises from the question that 2011–2013 left open and that will accompany Italy for the entire following decade:

**How much decision-making room is left for a highly indebted national democracy when the credibility of its debt depends simultaneously on the markets, European institutions, and a supranational central bank?**

The answer can only be “none,” because Parliament and governments continued to choose between real alternatives.

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But it cannot even be "the same as before", because the cost of choices had become much more immediate and the new European architecture had transformed some fiscal decisions from an exclusively national matter to a common problem of the Monetary Union.

This is the true legacy of the Monti government.

- Not just austerity.
- Not just the Fornero reform.
- Not just the IMU.

The most profound transformation was the insertion of Italian public finances into a much more binding European structure, simultaneously accompanied by the progressive emergence of an ECB willing to play a systemic role that the original design of the euro had not foreseen with the same clarity.

The technical government therefore represents the hinge between two eras of the Monetary Union.

Previously, Europe had mostly rules and a central bank reluctant to become the guarantor of sovereign stability.

After 2012, the eurozone has stricter fiscal rules, a permanent stability mechanism, deeper economic surveillance, and an ECB that has declared its readiness to prevent self-perpetuating fears about the euro's reversibility from disrupting monetary policy transmission.

Italy paid a very high price during this transformation, but it was not simply a passive object of the process: it signed the treaties, amended its Constitution, passed the laws, and supported in parliament the government that carried out the consolidation.

The historical question is therefore not whether austerity was “imposed” or “chosen,” because in the reality of the crisis the two dimensions overlapped.

Italy **chose to opt within a set of external constraints that had become extremely stringent** , and it is precisely this combination that constitutes the fundamental characteristic of its economic sovereignty in the euro.


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# PART VII

# THE ECB AND THE RECONSTRUCTION OF STABILITY


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# Chapter 15

## Whatever It Takes — When Monetary Policy Redefined Sovereign Risk

When Mario Draghi uttered in London on July 26, 2012, the phrase that would become the most recognizable symbol of the entire euro crisis, its significance lay not simply in the rhetorical force of the expression "whatever it takes," nor in the generic promise that the European Central Bank would defend the common currency. What changed, much more profoundly, was the perception of the relationship between a eurozone state and the market in which that state financed its debt. Until then, investors had had to consider as plausible the hypothesis that a country, even one formally solvent in the medium term, could be dragged into an increasingly serious crisis by a spiral of rising yields, banking deterioration, capital flight, and financial fragmentation without being able to count on a central bank willing to declare in advance that it would prevent the dynamic from becoming self-sustaining. Draghi did not cancel the Italian, Spanish or Portuguese sovereign risk and did not promise to finance any public deficit, but he communicated that the ECB would not consider it normal or acceptable that the fear of the disintegration of the euro transformed the single currency into a system in which businesses, families and governments faced radically different financial conditions simply depending on the country in which they resided. [1]

It is necessary to begin with this distinction, because a significant portion of the subsequent political narrative has transformed the "whatever it takes" into a sort of individual sovereign act through which the Italian president of the ECB suddenly decided to save Italy and the euro, while another portion has portrayed it as the moment when the central bank would definitively abandon its monetary function to become the guarantor of member states' public debts. Both interpretations oversimplify an institutional shift that was, on the contrary, carefully constructed precisely to separate the protection of monetary policy from the unconditional guarantee of governments. In his London speech, Draghi observed that sovereign bond premiums contained components related to liquidity, convertibility risk, and the perceived possibility that the euro might not be irreversible; when these premiums became excessive, the ECB president argued, they fell within the central bank's mandate because they prevented monetary policy from being transmitted uniformly across the area. It was therefore not the absolute size of the Italian spread that justified the intervention, but the presence of a risk component deriving from the integrity of the common currency itself. [1]

To understand why this formulation was revolutionary compared to the previous phase, we need to recall what had happened between the summer of 2011 and July 2012. As we saw in the previous chapter, Italy had changed government, approved one of the most severe fiscal adjustments in its recent history, implemented a profound pension reform, amended the Constitution, ratified the Fiscal Compact, and participated in the creation

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of the European Stability Mechanism. Yet, in the spring and summer of 2012, the spread between BTPs and Bunds had returned to levels close to the peaks of the crisis. The Bank of Italy would later note that, according to various models, in June 2012 a spread consistent with Italian fundamentals could be around 200 basis points, while the market priced it at around 450 basis points—a gap the institution associated with systemic tensions in the area, financial fragmentation, and fears about the integrity of the monetary union. This was an extremely important empirical indication, because it suggested that beyond a certain threshold, the cost of Italian debt no longer reflected only the characteristics of the national public finances but also incorporated the price of the risk that the very structure of the euro could break down.

This meant that the response could no longer be exclusively national. If Rome had further increased taxes, further reduced spending, or accelerated new structural reforms, it could have improved some fundamentals and strengthened fiscal credibility, but it could not have eliminated on its own the premium the market demanded for the risk of a breakup of the eurozone. Part of the spread had become, in other words, the price of doubt about the euro, not simply the price of doubt about Italy.

The “whatever it takes” intervenes precisely on this component.

The full sentence was deliberately conditioned by the ECB's mandate: Draghi stated that, within its mandate, the central bank was ready to do whatever was necessary to preserve the euro and added that this would be sufficient. [1] The second part of the sentence is at least as important as the first, because a central bank exercises a considerable part of its power through expectations: if the market believes that the institution has sufficient tools and is willing to use them, it may not be necessary to use them to their full extent. This is the principle of deterrence applied to monetary policy. The credibility of the intervention can reduce the likelihood that the intervention itself will have to be implemented.

The problem was to transform a political declaration, however authoritative, into a monetary device compatible with the European Treaties. This happened on **6 September 2012** , when the Governing Council of the ECB announced the technical characteristics of the **Outright Monetary Transactions** , the OMT, which provided for the possibility of purchasing on the secondary market sovereign bonds of the States subject to an appropriate EFSF or ESM programme, without a pre-established quantitative limit, focusing mainly on the shortest maturities and subordinating the intervention to a "strict and effective conditionality". [2]

Conditionality was not a marginal element of the construction. It was what allowed the ECB to claim that it was not turning the OMT into an automatic mechanism for monetizing public debt. A government wishing to benefit from the program would have had to enter an EFSF/ESM framework in which its policies were subject to conditions and monitoring;

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the International Monetary Fund could have been involved in the design and monitoring of the program. The central bank, therefore, was not replacing fiscal discipline with its own balance sheet, but was declaring its willingness to eliminate the part of the financial risk deriving from a dysfunctional market dynamic when the state concerned simultaneously accepted a credible adjustment framework. [2]

Here lies the fundamental difference between OMT and an unconditional bailout. The ECB didn't promise that Italian bonds would always maintain a certain yield, didn't set a maximum spread, and didn't ensure that each government would be financed regardless of its policies. Rather, it built a barrier against the possibility that a country could be dragged out of the euro simply because investors, anticipating its exit, sold its bonds, making the very event they feared increasingly plausible.

This mechanism had a surprising feature: in the Italian case it was not necessary to use it.

Italy did not enter an OMT program, and the ECB did not have to purchase Italian government bonds (BTPs) through this instrument. Yet the announcement profoundly altered market behavior, because the previous equilibrium hinged precisely on the idea that the central bank might be unwilling or incapable of halting a self-sustaining crisis. Once that doubt was eliminated, the probability attributed to extreme scenarios decreased, and with it, a portion of the premium embedded in yields.

From this perspective, "whatever it takes" represents a near-perfect example of the difference between **exercised power** and **credible power** . The OMT didn't have to be activated to change prices because the market considered the possibility that it would be activated credible.

The transformation was also crucial for Italy. It didn't erase the effects of public debt, it didn't eliminate the need for primary surpluses, and it didn't resolve stagnant productivity, but it made it far less likely that the entire cost of financing would suddenly be dominated by the fear of the euro's collapse. In other words, it at least partially separated the Italian risk from the existential risk of the common currency.

## A central bank that redefines the boundaries of its mandate

The 2012 turning point also changed the ECB's political identity. In the early years of monetary union, the institution had been largely built on a monetary culture oriented toward price stability and the separation of monetary policy from public finances, with very strong independence from governments and an explicit ban on monetary financing. The crisis, however, demonstrated that, within a common currency without a federal Treasury, price stability could not be effectively defended if the area's financial market fragmented along national borders.

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Imagine two identical companies, one German and one Italian, both healthy and productive. If the German bank can borrow at 2% while the Italian bank must pay 5 or 6% simply because national sovereign risk affects funding, the two companies face different credit conditions despite operating in the same currency area. In such a situation, the ECB's official rate ceases to be a true common monetary price. The central bank can lower it, but the reduction does not reach all countries equally. Financial fragmentation therefore becomes a monetary problem, not just a fiscal one.

This argument was crucial in justifying the expansion of the ECB's role.

The central bank did not claim to have a mandate to determine what spread was politically acceptable, but that it could not effectively implement its mandate if part of the area received completely different monetary conditions due to unfounded concerns about currency convertibility.

The distinction is subtle, but institutionally fundamental.

And it is precisely on this distinction that the subsequent expansion of European monetary policy will be built.

## From the spread crisis to the risk of deflation

The main problem of 2012 was fragmentation and the sovereign crisis; two years later, the ECB faced a different threat. Eurozone inflation was steadily declining to very low levels, medium-term expectations were weakening, and the economic recovery remained fragile. The central bank had already cut rates to near zero and, in June 2014, introduced a negative rate on the deposit facility for the first time, along with new targeted long-term refinancing operations to support credit to the economy.

But disinflation continued.

In a highly indebted economy, excessively low inflation can be almost as dangerous as high inflation, albeit through different mechanisms. When prices and wages grow slowly, nominal GDP increases slowly, and the real burden of accumulated debt becomes more difficult to reduce. If expectations shift toward persistent deflation, households and businesses may postpone purchases and investments, expecting lower future prices, while debtors must continue to repay nominal bonds that do not decline with income.

It is in this context that the ECB took the next step in January 2015.

On **22 January 2015,** the Governing Council announced an **Expanded Asset Purchase Programme** , extending purchases to include securities issued by euro area central governments, agencies and European institutions; the overall volume of purchases would be **€60 billion per month** , initially at least until September 2016 and in any case until the Council observed a sustained adjustment in the inflation trajectory consistent with its aim. [3]

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This time, the ECB did not intervene to prevent a specific crisis in a country subject to conditionality, as would have happened with the OMT. The purchase program was generalized and covered the entire area, because the problem was no longer just peripheral sovereign risk but insufficient price dynamics and nominal demand.

The difference between **OMT and quantitative easing** must be maintained with extreme precision.

OMT is potentially selective, conditional, and aimed at correcting severe distortions in the sovereign markets of specific countries. The 2015 purchase program, on the other hand, is a general monetary policy through which the ECB increases the quantity of assets purchased, compresses yields across a broad spectrum of maturities, adjusts investors' portfolios, and seeks to stimulate credit, asset prices, investment, and inflation across the euro area.

In March 2015, purchases of government bonds under the **Public Sector Purchase Programme began** , which quickly became the largest component of the APP; the ECB's Annual Report documents that during 2015 average purchases were in line with the target of €60 billion per month and that public sector bonds represented by far the predominant part of the programme.[4]

This change had extremely significant financial consequences for Italy. Government bond yields fell further, the cost of bank funding decreased, credit conditions gradually improved, and the financial fragmentation that had dominated the sovereign crisis diminished. Once again, however, it is necessary to distinguish between what the ECB could change and what remained a national responsibility. A central bank can make financing much cheaper; it cannot force a company to invest if it doesn't see demand, nor can it transform productivity, the quality of public administration, or the capacity for innovation by decree.

QE thus bought time just as interest rate convergence had done in the previous decade.

The political question returned to how that time would be used.

## Italy and the paradox of very low interest rates

Between 2014 and 2017, Italy's financial environment gradually became more favorable, as the economy finally returned to growth after the double-dip recession. Public debt rates declined, lending to healthy businesses gradually began to normalize, and debt service costs benefited from the replacement of maturing securities with issues offering much lower yields. Yet growth remained lower than that of many other European economies, and public debt, while becoming more easily financed, did not begin a rapid reduction trajectory.


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This phenomenon directly recalls the interest rate dividend discussed in Chapter 6. Once again, Italy received an extremely significant financial advantage from membership in the euro and the common monetary policy; once again, this advantage did not automatically produce a transformation in the real economy.

Monetary policy could not have resolved this asymmetry on its own.

It may reduce the cost of capital, but if productivity stagnates and investment responds slowly, part of the benefit manifests itself primarily through asset prices and financial sustainability, not through a jump in productive capacity.

This doesn't make QE ineffective. It just means its effectiveness depends on the structure through which it's delivered.

In Italy, where the banking system was still struggling to dispose of a huge mass of non-performing loans accumulated during the double-dip recession, the credit channel could not immediately normalize. A bank receiving abundant liquidity from the ECB may still be reluctant to finance a company deemed risky, especially if it already has a large amount of problem loans on its balance sheet.

The reconstruction of monetary stability therefore had to proceed together with the reconstruction of the banking system.

It is for this reason that the QE years also coincide with the Banking Union, stress tests, recapitalizations, NPL sales, and interventions on MPS and Veneto banks described in the previous chapter.

## “Whatever it takes” was not the end of fiscal policy

Another interpretation that needs to be corrected is the idea that, after 2012, the ECB essentially neutralized market discipline on public budgets, allowing governments to finance themselves without consequences. Had this actually happened, the OMT conditionality would have been meaningless and inter-state spreads would have disappeared completely.

It didn't happen.

Investors continued to distinguish between Italian, German, French, and Spanish bonds; sovereign risk remained embedded in returns, even though the catastrophic component associated with the breakdown of the common currency was significantly reduced. The ECB could therefore remove some systemic risk, but it was no substitute for national fiscal assessment.

This distinction would become particularly important in 2018, when a new discussion between the Italian government and European institutions demonstrated that the spread could still rise rapidly in response to fiscal policy decisions deemed incompatible with

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the European framework. 2012 hadn't abolished markets; it had changed the extremes of the distribution, making it far less plausible that a self-sustaining crisis could automatically lead to the euro's disintegration.

In this sense, the ECB redefined sovereign risk, but did not eliminate it.


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## From a central bank for price stability to an institution for systemic stability

Looking back over the period between 2012 and 2017, the transformation of the European Central Bank appears much more profound than the simple sequence of interest rate decisions might suggest, because in just a few years the institution moved from a phase in which sovereign bond purchases were still presented as an exceptional response to equally exceptional market failures to a phase in which the management of the central bank's balance sheet, asset purchases, long-term refinancing operations and, since November 2014, even direct supervision of the main euro area banks became permanent elements of the European monetary architecture. The fundamental mandate did not formally change: Article 127 of the Treaty on the Functioning of the European Union continued to establish that the primary objective of the European System of Central Banks was to maintain price stability. [5]

What changed was the interpretation of **what instruments were needed to materially achieve that same objective** in a monetary union that, between 2010 and 2012, had demonstrated its ability to fragment along national borders while formally maintaining the same currency, the same official rates, and the same central bank. In other words, the ECB did not receive a new political mandate in 2012 explicitly authorizing it to become the general guarantor of the eurozone's financial stability; it was the crisis that made it clear that, without addressing the mechanisms through which monetary policy reached banks, firms, and households, even the traditional mandate of price stability risked becoming impossible to exercise uniformly.

This is the starting point to understand the scope of the transformation. Before the sovereign crisis, the ordinary functioning of European monetary policy implicitly assumed that a change in the ECB's official interest rates would be transmitted, with physiological but not systemic differences, to the entire currency area. In 2011-2012, this condition gradually ceased to exist. The same rate decided in Frankfurt produced different effects in Milan, Madrid, Frankfurt, or Paris because sovereign risk, bank funding, and the quality of collateral used in financial markets were dividing the euro area into national segments. Monetary policy remained uniform only on a formal level; on a practical level, the cost of credit and the value of financial assets were increasingly determined by the country in which the debtor was located.

The ECB therefore faced a problem that could no longer be treated simply as a question of banking stability or national public finances: if market fragmentation prevented a change in official interest rates from reaching the real economy, then the fragmentation itself became a monetary policy problem.

It is precisely this logic that Mario Draghi made public in July 2012, when he stated that excessive sovereign premiums that hindered the functioning of the monetary policy

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transmission channel fell within the ECB's mandate. [6] The famous **“whatever it takes” formula** should therefore not be read only as a political promise to defend the euro; in the legal and monetary construction used by the ECB, it linked the safeguarding of the integrity of the monetary union to the concrete functioning of monetary transmission.

This distinction would be fundamental to everything that followed.

## From "whatever it takes" to OMT: the first institutional leap

The first major step materialized on **6 September 2012** , when the Governing Council defined the characteristics of the **Outright Monetary Transactions** , the OMT. The program allowed the Eurosystem to make potentially unlimited purchases of sovereign bonds on the secondary market, focusing mainly on maturities between one and three years, but only on condition that the country concerned was included in an EFSF/ESM program or precautionary line and respected the related conditionality. [7]

The term “unlimited” must be interpreted with precision. The ECB did not set ex ante a maximum amount of securities that could be purchased, but this did not mean that the programme was without conditions or that it allowed the central bank to finance any government indiscriminately. On the contrary, conditionality was central: the ECB explicitly linked monetary intervention to an economic policy framework agreed through the European assistance mechanisms. [7]

This element demonstrates both the profound and limited nature of the transformation. The ECB assumed the ability to intervene against potentially self-perpetuating market dynamics, but refused to completely separate its action from national fiscal responsibilities. Monetary stabilization and fiscal discipline were thus incorporated into the same institutional framework.

The most significant point, however, is that OMTs **were never actually used** . Their primary function was to shift market expectations. The mere fact that the ECB declared it possessed a potentially unlimited and conditional instrument reduced the plausibility of betting on the euro's breakup and helped compress the component of sovereign yields that depended on fears of redenomination or fragmentation.

This represented a radical change in the nature of European monetary policy: **the credibility of the capacity for intervention itself became an instrument of intervention** .

In this sense, the OMTs mark the moment when the ECB began to acquire a systemic stabilization function that went beyond the simple determination of the official rate, while remaining formally anchored to its monetary mandate.


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## The ESM: the ECB no longer acted alone

The 2012 monetary transformation occurred simultaneously with the construction of another institution that would profoundly alter the architecture of the euro: the **European Stability Mechanism** . The ESM Treaty entered into force on **27 September 2012** , and the new body was inaugurated on **8 October 2012** , becoming the permanent financial stabilisation fund of the euro area and progressively replacing the temporary nature of the EFSF.[8]

The ESM had a different function from the ECB. It was not a central bank and was not responsible for managing monetary policy; it was an intergovernmental organisation charged with providing financial assistance to eurozone states in difficulty, under conditionality, when this was necessary to preserve the financial stability of the area as a whole. [8]

Complementarity between OMT and the ESM is essential. The ECB could intervene in the secondary market, but conditionality should have been provided through an EFSF/ESM program; the European fund could provide financial assistance, while the ECB could counter disorderly monetary and financial dynamics.

The eurozone was thus building, piece by piece, an architecture that in 2011 simply did not exist in a completed form.

## 2013–2014: the crisis changes nature, monetary policy too

Once the immediate risk of the euro's disintegration was reduced, the ECB's problem didn't disappear. It changed.

In 2012, the main threat was the extreme fragmentation of sovereign markets.

In 2013 and especially in 2014, a different problem became increasingly evident: weak growth, stagnant credit, persistently low inflation, and still incomplete monetary transmission.

The ECB then began to shift from a policy primarily aimed at preventing financial implosion towards a policy designed to more directly stimulate credit, demand and inflation.

The most symbolically evident step came on **5 June 2014** , when the Governing Council reduced the rate on the main refinancing operations to **0.15 percent** , that on the marginal lending facility to **0.40 percent** and, for the first time in the history of the ECB, brought the rate on banks' deposits with the Eurosystem into negative territory, to **–0.10 percent** . [9]

The decision was historically extraordinary. A commercial bank that deposited excess liquidity with the central bank no longer received a positive return, but began paying to

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keep it idle. The goal was to make it less profitable to accumulate reserves and strengthen the incentive to shift liquidity into credit and other financial assets.

During the same period, the ECB introduced **Targeted Longer-Term Refinancing Operations** , designed to more directly incentivize bank lending to the real economy. Monetary policy no longer affected only the price of short-term liquidity, but also its quantity, duration, and destination.

This development is particularly important for Italy, where economic financing has historically been much more dependent on bank credit than in Anglo-Saxon systems, which are more heavily reliant on capital markets. A reduction in the cost of bank funding could therefore directly impact businesses' financial conditions.

## Banking Union: The ECB also becomes supervisor

The most profound transformation of the ECB's institutional role, however, did not occur through a bond-buying program, but through the assignment of a new function completely different from monetary policy: banking supervision.

The crisis had shown how difficult it was to maintain a single currency when banks and states remained tied to a national system. If a bank went into crisis, the national state had to support it; if the state weakened, the banks holding large amounts of its debt were in turn penalized. The Banking Union was created precisely to at least partially break this relationship.

Regulation **No. 1024/2013** established the **Single Supervisory Mechanism** , entrusting the ECB with specific tasks of prudential supervision of banks in the euro area. [10]

On **4 November 2014,** the ECB formally assumed responsibility for European banking supervision; in its initial phase, the new system provided for the direct supervision of **120 significant banking groups** , representing a very large share of euro area banking assets, while national authorities continued to operate within the same system for less significant intermediaries. [11]

This step qualitatively changes the nature of the ECB.

The institution that in 1999 had been built primarily to determine monetary policy and maintain price stability now became simultaneously:

- euro central bank;
- manager of unconventional monetary instruments;
- central player in market stabilization;
- direct supervisor of the major banks in the area.

It had not become a European economic government.

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But it was no longer just the minimalist central bank that could be imagined by looking exclusively at official rates.

## From the risk of fragmentation to the risk of too low inflation

2015 represents a second turning point, because the nature of the problem changes again.

When the ECB announced its expanded asset purchase programme in January of that year, the primary concern was no longer the immediate possibility of Italy or Spain losing access to markets, but the risk that a prolonged period of excessively low inflation would further weaken demand, investment, and expectations.

On **22 January 2015,** the Governing Council announced an **expanded Asset Purchase Programme** , which would combine existing purchases of covered bonds and asset-backed securities with a new purchase programme of public sector securities. The overall purchases would amount to **€60 billion per month** and would start in March 2015, with the initial intention of continuing at least until the end of September 2016 and, in any case, until the ECB observed a sustained adjustment in inflation consistent with its aim. [12]

The leap compared to 2012 was enormous.

OMTs were conceived as a conditional instrument to be used in the presence of serious distortions in the sovereign market.

The **Public Sector Purchase Programme** , instead, became part of a general monetary policy strategy for the entire euro area.

Purchases were no longer tied to the crisis in a specific country.

They were designed to change the financial conditions of the entire economy.

The program actually started on **March 9** , 2015. [13]

It is at this point that the ECB fully enters the era of European quantitative easing.

## How QE worked: Not just buying government bonds

However, reducing the APP to the formula "the ECB buys government debt" would be insufficient. The central bank's goal was to influence the economy through multiple channels simultaneously.

When the Eurosystem purchased large amounts of securities, it increased demand for those assets and tended to reduce their yields. Investors selling government bonds could reallocate capital toward corporate bonds, equities, credit, and other investments, compressing returns across the financial system more broadly. The ECB described this

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process through the channels of **direct pass-through, portfolio rebalancing, and signaling** . [14]

The first channel acted directly on the purchased titles.

The second changed the composition of investors' portfolios.

The third reinforced expectations that policy rates would remain low for an extended period.

The desired consequence was a general reduction in the cost of capital, capable of supporting credit, investment, demand and ultimately inflation.

For Italy, the effect was particularly significant because the cost of sovereign debt continued to be a key benchmark for the entire national financial system. Lower yields on BTPs reduced the government's cost of financing, but also affected the value of bank portfolios and banks' funding costs.

Monetary policy therefore also intervened indirectly in the national financial space.

## The scale changes again: from 60 to 80 billion per month

In March 2016, the ECB concluded that the measures adopted up to that point were still not sufficient to bring inflation back to the desired level.

On **10 March 2016,** the Governing Council increased the monthly APP purchases from **€60 billion to €80 billion** , while simultaneously introducing the **Corporate Sector Purchase Programme** , through which the Eurosystem would also start purchasing euro-denominated investment-grade bonds issued by euro area non-bank corporations.[15]

Enlargement is politically and institutionally important.

The ECB no longer only influenced the price of sovereign debt.

It also entered the corporate bond market directly.

The stated aim was to strengthen the transmission of purchases to the financing conditions of the real economy. [15]

In the same package, the central bank further reduced the deposit rate to **−0.40 percent** and introduced a new series of TLTROs with a four-year duration. [16]

At that point, European monetary policy operated simultaneously through:

official rates close to or below zero;

long-term bank refinancing;

purchases of government bonds;

corporate bond purchases;

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covered bond purchases;

purchases of asset-backed securities;

forward guidance on future monetary conditions.

It was no longer about a single exceptional instrument.

It had become a truly **unconventional monetary architecture** .


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**Table — The transformation of ECB instruments, 2012–2017**

| Date | Tool / decision | Size / Feature | Problem addressed |
|---|---|---|---|
| **July 26, 2012** | "Whatever it takes" | Protecting the integrity of monetary transmission | Sovereign premiums and the risk of fragmentation |
| **September 6, 2012** | OMT | Purchases potentially without ex ante limits, under EFSF/ESM conditionality | Sovereign crisis and risk of redenomination |
| **October 8, 2012** | ESM operational | Permanent stabilization fund | Financial assistance to the euro area states |
| **June 5, 2014** | Negative deposit rate | -0.10% | Low inflation, weak credit |
| **2014** | TLTRO | Long-term credit-oriented bank refinancing | Transmission to the real economy |
| **November 4, 2014** | Operational SSM | ECB direct supervisor of around 120 significant groups | Bank-State Circuit and Banking Fragmentation |
| **January 22, 2015** | Expanded APP / PSPP | €60 billion/month | Inflation too low and weak demand |
| **March 9, 2015** | PSPP Purchase Startup | Purchases of public sector securities | Return compression and portfolio rebalancing |
| **March 10, 2016** | Expanded APP | €80 billion/month from April | Strengthen monetary stimulus |
| **2016** | CSPP | Purchases of investment-grade corporate bonds | Transmission to companies |
| **2016** | Deposit rate | -0.40% | Further accommodation |
| **December 8, 2016** | APP Extension | €80 billion until March 2017; €60 billion/month from April to December 2017 | Maintain accommodative financial conditions |

Sources: ECB, European Commission, ESM. [6]–[17].


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## The ECB did not formally change its mandate

It is precisely the scale of the measures that makes a fundamental legal clarification necessary. Between 2012 and 2017, the primary mandate of the ECB **was not formally rewritten** . Article 127 of the TFEU continued to assign the European System of Central Banks the primary objective of price stability and allowed, without prejudice to this objective, support for the general economic policies of the Union. [5]

What changed was the relationship between mandate and instruments.

In the more conventional monetary model, price stability could be achieved mainly through changes in official rates.

After the crisis, this was no longer enough.

When interest rates reach levels close to zero, further reducing the official cost of money produces diminishing marginal returns; furthermore, when markets are fragmented, the official rate may not be transmitted uniformly.

The entire logic of unconventional instruments arises from this observation.

The ECB therefore argued that it was not expanding the target, but rather expanding the instruments needed to achieve it.

This legal distinction does not eliminate the political significance of the transformation.

It makes it more precisely defined.

## From liquidity lender to manager of the financial conditions of the entire area

Between 2012 and 2017, the Eurosystem gradually shifted from influencing primarily the very short-term price of bank liquidity to influencing a much broader range of the financial structure.

- With OMTs it acts on expectations relating to sovereign debt.
- With negative rates, the cost of excess liquidity changes.
- With the TLTROs it directly influences long-term bank financing.
- With the PSPP it intervenes on public debt yields.
- With the CSPP, it enters the corporate bond market.
- With forward guidance, it directs expectations about future monetary conditions.
- With the SSM it simultaneously acquires a banking supervisory function.

It is difficult to imagine a more profound institutional transformation without a formal amendment to the treaties.

The ECB is gradually becoming an institution capable of influencing not only the overnight rate, but the entire **structure of financial conditions** in the eurozone.


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## The impact on credit: monetary stabilization enters the real economy

The ECB itself assessed, in 2016, that the measures introduced since June 2014 - low rates, TLTRO and APP - had produced a decrease in banks' financing costs and a progressive transfer of more favourable conditions towards the rates applied to businesses and households. [17]

This point is central because it allows us to understand how monetary policy ceases to be perceived solely through the spread.

In 2011-2012, success was measured primarily by whether the Italian or Spanish sovereign markets could stabilize.

In 2015-2016 the question was different: were more favorable financial conditions starting to generate credit again?

The central bank looked at funding costs, lending rates, credit availability, and inflation expectations.

Systemic stability thus became an intermediate condition through which to pursue price stability.

## 2016–2017: From emergency to the normalization of unconventionality

The decision of **December 8, 2016** perhaps represents the best point to understand how much the paradigm had changed.

The ECB announced that purchases would continue at a pace of **€80 billion per month until the end of March 2017** , and then continue at **€60 billion per month from April to the end of December 2017** , or beyond if necessary, until the Governing Council observed a sustained adjustment in inflation consistent with its aim. [18]

At that point, buying hundreds of billions in assets was no longer presented as a response to an immediate panic.

It was part of a multi-year monetary strategy.

Unconventionality had become, at least temporarily, the new normal.

## Political transformation: the cost of national debt enters the ECB's scope

This evolution inevitably had political consequences, even if the ECB continued to operate under a monetary mandate and not as a fiscal authority.

When a central bank buys large amounts of sovereign bonds, it compresses yields, changes investor demand, and directly influences the cost at which governments can refinance themselves.

It does not formally decide how much public spending Italy should make.


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But it changes the financial price of that decision.

This is particularly important in a country with very high debt. A difference of a few dozen or hundreds of basis points, if maintained long enough and applied progressively to new issues, can translate into many billions in interest expense.

European monetary policy therefore acquires an indirect fiscal significance.

Not because the ECB writes the budget law.

But because it determines part of the market conditions within which that law must be financed.

## Is the ECB therefore becoming a “systemic stability institution”?

The definition should be used with caution, but it describes a real transformation.

The ECB does not formally become a federal economic ministry and does not receive a general mandate to ensure the stability of each market.

But between 2012 and 2017 it took on functions and instruments through which the stability of the entire euro financial system became increasingly inseparable from the exercise of monetary policy.

OMTs reduce the risk of sovereign fragmentation.

QE reduces the risk of deflation and persistent demand compression.

The SSM reduces the fragmentation of banking supervision.

The ESM provides a permanent capacity to assist Member States.

The future Single Resolution Mechanism will add a common framework for managing banking crises.

What emerges is not a single super-institution, but a **systemic architecture** in which the ECB occupies a central position.

## But his power continues to have precise limits

Precisely for this reason, it would be wrong to move from the previous interpretation—an ECB that is too weak—to the opposite extreme, imagining it as an institution capable of autonomously solving any economic problem.

- Monetary policy can change financial conditions.
- It cannot create productivity.
- It can make an investment worthwhile.
- You can't force a company to do it.
- It can provide banks with long-term liquidity.
- It cannot create demand for credit where none exists.


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- It can compress the yield on government bonds.
- It cannot change the composition of government spending.
- It can buy time.
- You cannot decide how that time will be used.

It is on this border that the true relationship between the ECB and national politics after 2012 lies.

The central bank can eliminate or reduce some of the financial conditions that made governance nearly impossible during the crisis.

But, once the immediate constraint of the spread is removed, the structural problems return entirely to the political realm.

## The Italian case: from spread to growth

For Italy this transition is particularly evident.

In 2011, the immediate priority was to prevent rising yields from triggering a refinancing crisis.

After 2012 the problem gradually changes.

If the ECB helps compress the spread, if the ESM makes the European firewall more credible, if the Banking Union progressively reduces banking risk, and if QE lowers the cost of capital, then Italy's weakness can no longer be explained solely by financial instability.

They become central again:

- productivity;
- investments;
- labor market;
- public administration;
- civil justice;
- banking system;
- human capital;
- innovation;
- competition.

This is the environment in which **Enrico Letta, Matteo Renzi and Paolo Gentiloni govern** .

It is no longer the euro of November 2011.

It is a monetary union supported by instruments that did not exist or did not yet have the same strength three years earlier.

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- The cost of capital is lower.
- The risk of an immediate breakup of the euro is much lower.
- The ECB has become more aggressive.
- The ESM is operational.
- The Banking Union is coming online.

But it is precisely this greater stability that shifts the political burden.

When the spread no longer dominates every decision, it becomes more difficult to attribute weak growth exclusively to financial panic.

**Stability as temporary political capital**

The true effect of the ECB transformation can therefore be described through a more precise formula: it generates **financial time and space** .

- Time because it reduces the risk that a crisis of confidence will force governments to make immediate decisions under market pressure.
- Space because lower rates reduce the marginal cost of financing.
- But time and space only have value if they are converted into productive capacity.
- A period of low returns can be used to reduce debt.
- Or to increase current spending.
- It can be used to build infrastructure.
- Or simply to postpone reforms.
- It can enable businesses to invest.
- But it doesn't guarantee that they will.

It is precisely this distinction that makes the period 2013–2017 so important in Italian history.

The great monetary crisis is gradually contained.

The question becomes what to do with the stability achieved.


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**Table — From systemic risk to stabilization: how the ECB's role is changing**

| Phase | Dominant problem | Central instrument | Substantial function of the ECB | Limit |
|---|---|---|---|---|
| **2011–mid-2012** | Fragmentation and sovereign risk | SMP, extraordinary refinancing | Avoid transmission collapse | Tools still perceived as limited |
| **Summer 2012** | Risk of euro breakup | Whatever it takes | Changing expectations about the reversibility of the euro | Need for an operational tool |
| **September 2012** | Self-sustaining sovereign prizes | OMT | Conditional backstop for sovereign markets | Requires EFSF/ESM program |
| **2013–2014** | Weak credit and low inflation | Low rates, forward guidance | Reduce cost of capital | Transmission still incomplete |
| **June 2014** | Idle liquidity and weak credit | Negative deposit rate, TLTRO | Pushing liquidity into the real economy | It depends on the credit application |
| **November 2014** | Banking fragmentation | SSM | Supranational banking supervision | It does not replace fiscal policy |
| **2015** | Risk of too low inflation | PSPP / APP, €60 billion monthly | Reduce yields and stimulate demand | Risks of asset distortion |
| **2016** | Inflation still insufficient | APP €80 billion, CSPP, TLTRO II | Intervene on public debt and private credit | Diminishing marginal returns |
| **2017** | Recovery but inflation still below target | APP €60 billion monthly | Extend accommodating conditions | Prepare for future normalization |

The sequence reveals a fundamental transformation: **the ECB does not abandon price stability; it comes to the conclusion that, to defend it, it must protect the functioning of the system through which monetary policy operates** .

This is the most rigorous sense of the transition from a central bank of price stability to an institution of systemic stability.

Not a replacement of the mandate.

An expansion of the tools needed to make it effective.


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**[10] European Union — Regulation No. 1024/2013 on the Single Supervisory Mechanism.** Legal basis for the European banking supervision system entrusted to the ECB and the national authorities.


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**[11] European Central Bank – Single Supervisory Mechanism becomes operational, 4 November 2014.** The ECB assumes responsibility for banking supervision of the euro area, with initial direct supervision of around 120 significant groups.

**[12] European Central Bank — expanded Asset Purchase Programme, 22 January 2015.** Launch of European QE with overall purchases of public and private securities of 60 billion euros per month.

**[13] European Central Bank — Public Sector Purchase Programme.** Purchases of public sector securities began on 9 March 2015.

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**[15] European Central Bank — expansion of the APP and introduction of the Corporate Sector Purchase Programme, 10 March 2016.** Increase in monthly purchases from €60 billion to €80 billion and purchase of investment-grade corporate bonds.

**[16] European Central Bank – monetary package of March 2016.** Deposit rate cut to −0.40%, new four-year TLTRO series, APP at €80 billion monthly and introduction of the CSPP.

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**[18] European Central Bank - monetary policy decisions of 8 December 2016.** Continuation of the APP at €80 billion per month until March 2017 and subsequent reduction to €60 billion per month from April to December 2017, with a possible extension if necessary.

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# Chapter 16

## Letta, Renzi, and Gentiloni — Reforming Italy within the Eurozone

When Enrico Letta was appointed to form a government in the spring of 2013, Italy was no longer at the height of financial tension that had characterized November 2011. Nor had it emerged from the economic crisis that that period had created and exacerbated. Behind the progressive narrowing of the spread, Italy remained a country that had lost a significant portion of its industrial output, experienced two recessions in less than five years, accumulated a huge mass of non-performing loans in the banking system, and witnessed a surge in unemployment that had hit young people and southern Italy particularly hard. The stabilization guaranteed by the ECB's new posture had altered financial risk, but it had not erased the fundamental economic question: how to transform a newfound external credibility into internal growth without immediately reopening the conflict with European fiscal rules.

This is the problem that unites, beyond profound political and personal differences, the Letta, Renzi, and Gentiloni governments. None of the three seriously questions Italy's membership in the euro, none bases their economic policy on the possibility of a break with the monetary union, and all seek, in different ways, to exploit the margins available within the European architecture to reduce the exclusively restrictive nature of the economic policy pursued during the most acute phase of the crisis. Continuity therefore consists in the attempt to shift the focus from the financial emergency to growth; the difference concerns the level of political ambition, the speed of reforms, and the relationship each government builds with Parliament, Brussels, and internal consensus.

Letta was born within a political crisis produced by the February 2013 elections, which had not delivered a homogeneous majority in the Senate and had made the formation of a normal coalition government according to traditional electoral alignments impossible. The new executive obtained the Senate's confidence on **30 April 2013 with 233 votes in favour, 59 against and 18 abstentions** , through a majority that brought together the Democratic Party, the People of Freedom, Civic Choice and other components, while the Five Star Movement and Left Ecology Freedom voted against and the Northern League abstained. Letta himself defined his government as an experiment born in a condition of emergency and institutional fragility, insisting on the need to rebuild trust, employment and the decision-making capacity of the State. [1]

The economic context in which the government operated was still extremely weak. The recession continued, domestic demand remained compressed, and banks were struggling to address the deterioration in credit quality that had accumulated over the previous years. In its Annual Report for 2013, the Bank of Italy described an economy still in contraction, albeit with signs of progressive stabilization in the final part of the year, while foreign demand represented one of the few available supports. [2]

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The Letta government's challenge was therefore to attempt to change the composition of economic policy without jeopardizing the fiscal consolidation sufficient to maintain the confidence regained at great cost during the Monti era. Exiting the excessive deficit procedure in 2013 was a significant achievement precisely because it theoretically restored the country greater leeway in interpreting European rules, but the debt continued to grow and the economic momentum was too weak for this leeway to be used without caution.

Letta's era was thus less characterized by a single major economic reform than the following one, and more by the attempt to guide the economy out of recession, simultaneously addressing public administration arrears, property taxes, youth employment, and credit. The political problem, however, was just as significant as the economic one: a majority formed by the collaboration of opponents from the previous election campaign possessed full parliamentary legitimacy but a very limited capacity to construct a common medium-term political vision.

It is precisely this fragility that opens the way for Renzi's subsequent acceleration.

## Renzi and the promise of speed

Matteo Renzi arrived at Palazzo Chigi in February 2014 presenting the slowness of Italian institutions as one of the main problems to be corrected. His programmatic speech to the Senate, on **24 February 2014** , insisted on the need for "radical choices", a timetable of reforms and a legislature capable of reaching 2018 through interventions on taxation, the labour market, public administration, justice and institutions; he also indicated as immediate priorities the unblocking of public administration payments to businesses, support for credit for SMEs and the reduction of the tax wedge. The Senate granted its confidence with **169 votes in favour and 139 against** . [3]

The difference with Letta was therefore not merely generational or communication-related. Renzi based his strategy on the idea that Italian growth was hampered not simply by insufficient demand generated by the crisis, but by a combination of institutional and structural rigidities that made the country less capable of transforming European stabilization into investment and employment. In this sense, his agenda represented a direct political response to the problem raised in the previous chapters: Italy had achieved low interest rates and monetary stability, but had not yet demonstrated its ability to sufficiently increase its productivity.

Renzi's economic policy thus sought to combine relatively more expansionary support for domestic demand with a series of supply-side reforms. The measure that would become symbolically most recognizable on the former front was the so-called **80-euro bonus** , introduced in 2014 as a tax credit for employees in certain income brackets. The measure had a dual political and economic objective: to increase the disposable income

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of a significant portion of workers and to support consumption after years of contraction in domestic demand.

The debate over the bonus is emblematic because it once again demonstrates the difficulty of evaluating a policy based on a single indicator. A reduction in the tax burden on low- and middle-income earners can increase consumption relatively significantly if beneficiaries have a strong propensity to spend the additional income; however, it may have a more limited effect if it is perceived as temporary or if households use part of the benefit to rebuild savings after years of crisis. Therefore, the assessment cannot be based solely on the gross cost of the measure or on whether consumption increased in the subsequent period, because monetary policy, confidence, employment, and credit conditions were also changing at the same time.

Perhaps the most politically interesting element is another: the Renzi government was deliberately trying to change the image of Italian economic policy, shifting from the rhetoric of the sacrifice necessary to preserve financial stability to that of returning income to families and reforms designed to reactivate growth and employment.

## Jobs Act: Reforming the labor market to improve business incentives

The most significant structural measure of the Renzi government was the **Jobs Act** , built through the delegation law n. 183 of 2014 and a series of subsequent legislative decrees. Legislative decree n. 23 of **4 March 2015** introduced the permanent employment contract with increasing protections for new relationships, profoundly modifying the consequences of illegitimate dismissals and reducing, compared to the previous system, the area in which reinstatement constituted the ordinary protection. [4]

The reform must be read in conjunction with the social security contribution relief that accompanied permanent hiring at that time, because separating the two instruments produces a misleading assessment of employment trends. Part of the sharp increase in permanent contracts in 2015 and 2016 reflected the economic benefits of the social security relief, while part could have been attributed to the new social security legislation, and part to the progressive economic recovery.

The Bank of Italy, analysing the labour market in 2016, noted that the expansion in employment which began in the second half of 2014 had also extended to the categories most affected by the long recession and that, in the private sector, the number of employees had returned to pre-crisis levels, supported significantly by social security contributions on permanent contracts; it pointed out, however, that, with the gradual reduction of incentives, the pace of growth in permanent positions had become more moderate and that in the first months of 2017 new employment was supported above all by fixed-term contracts. [5]

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This reconstruction is important because it prevents us from attributing the entire employment recovery to the Jobs Act, nor from denying any effect of the reform. Economic institutions, incentives, and the cycle were working simultaneously.

The deeper problem, however, concerned productivity. A more flexible labor market can reduce the expected cost of hiring, but it doesn't guarantee that the new position will be highly productive, that the firm will invest in capital, or that the worker will receive sufficient training. The risk, particularly significant in a system like Italy's, is that flexibility facilitates quantitative employment growth without producing an equivalent increase in value added per hour worked.

This is precisely what makes the evaluation of the Jobs Act inseparable from the industrial and production issue discussed in Part III.

## The ECB creates a new financial environment as Rome seeks to reform the real economy.

Renzi's agenda coincides temporally with the most expansionary turn in European monetary policy. In January 2015, the ECB announced an expanded purchase programme of 60 billion euros per month, including sovereign bonds, and in March it began purchasing the Public Sector Purchase Programme. [6]

For Italy, this coincidence was particularly favorable. The cost of debt decreased, banks' financial conditions improved, and the recovery of the euro area as a whole also boosted foreign demand. It is therefore methodologically impossible to assess the growth of 2015–2017 as the sole result of national reforms, because the ECB's extraordinarily expansionary monetary policy and the improving European economic cycle were key components of the environment in which the reforms produced their effects.

At the same time, it would be equally wrong to attribute every improvement in Italy to the ECB. The central bank operated in all eurozone countries, and if some economies grew faster than others, the difference also depended on the production structure, fiscal conditions, banking system, investments, and domestic reforms.

National accounts data show a progressive but not explosive recovery: according to estimates subsequently revised by ISTAT, Italian real GDP increased by **0.9 percent in 2015** , by **1.1 percent in 2016** and by **1.6 percent in 2017.** [7] These rates represented a clear change from the recession, but remained insufficient to quickly erase the gap accumulated during the double crisis.

This is one of the points on which political assessments diverge most. For the government and reform supporters, Italy had finally reversed the trend, increasing employment and growth while maintaining financial stability. Critics argued that the recovery was primarily the product of the European economic cycle, quantitative easing, and exceptionally low

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interest rates, while productivity and investment remained too weak to speak of a true structural transformation.

The two interpretations contain compatible elements. A policy can contribute to recovery without being its sole cause, and a real recovery can simultaneously be too weak to resolve decades-long structural problems.

## The reform of the popular banks and the attempt to modernize credit

Italy's transformation didn't just affect employment. In 2015, the government also intervened in the system of large cooperative banks, requiring cooperative banks with assets exceeding a certain threshold to transform into joint-stock companies and modifying a governance structure historically based on per capita voting.

The reform was part of the broader process described in Chapter 11: Banking Union, Single Supervision, the Need to Raise Capital on the Market, and Pressure for Greater Intermediary Efficiency. The rationale was that banking groups that had become national in scope could no longer operate with a governance structure originally designed for local mutual banks, especially when access to private capital became essential to address impaired loans and increasingly stringent prudential requirements.

This is a significant example of how European stabilization was shaping national reforms. Italy no longer operated in a system in which the national regulator could treat banking as an exclusively domestic problem: large groups were subject to the ECB's supervision, and the ability to recapitalize on the market became a key component of the entire area's stability.

## Constitutional reform: when institutional modernization becomes plebiscitary

Renzi's ambition, however, extended far beyond the economy. The government's political thesis was that Italy's low growth capacity was also due to the slowness of the decision-making process, the fragmentation of powers between the central government and the regions, and equal bicameralism. From this conviction emerged the constitutional reform project, which envisioned, among other things, the elimination of equal bicameralism, a major transformation of the Senate, the abolition of the CNEL (National Council for Economic and Monetary Affairs), and a revision of Title V.

The text was approved by Parliament but, not having reached the majorities necessary to avoid a confirmatory referendum, it was submitted to the voters on **4 December 2016.** The Ministry of the Interior recorded an overall turnout of **65.47 percent** ; the result was a clear rejection of the reform. [8]

The political significance of the outcome went beyond its constitutional content because Renzi had tied the fate of his government very closely to the vote. After the result, he

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announced his resignation, transforming a referendum on the structure of the institutions into a judgment that directly affected the government.

The decision to personalize the vote is important for understanding the end of the Renzi government, but the result shouldn't be automatically interpreted as a referendum on his economic policies, because voters could have voted No for very different constitutional, political, party-related, or personal reasons. This is precisely the type of situation in which attributing the vote to a single collective motivation would be methodologically incorrect.

What is documentary certain is that the referendum defeat opened a new political phase.

## Gentiloni: continuity without plebiscitary acceleration

Paolo Gentiloni's government was born in December 2016 explicitly within a relationship of continuity with the previous three-year period, but tried to change the tone of politics after the polarization that culminated in the referendum. On **14 December 2016,** the Senate granted him its confidence with **169 votes in favor and 99 against** ; in his statements, Gentiloni defined the executive as a government of responsibility, underlined the continuity of the economic and international policies of the previous years but announced greater attention to the hardship of the middle class, to the South and to the need to rebuild the institutional debate. [9]

This continuity is particularly visible in economic policy. Pier Carlo Padoan remained at the Ministry of Economy and Finance, Italy's pro-European position did not change and the government continued to operate within an extremely favourable monetary framework, while the eurozone recovery became stronger and more widespread. The ECB's Annual Report for 2017 describes a euro area growing by **2.5 percent** , with eighteen consecutive quarters of expansion and an increase in employment of 7.5 million units since mid-2013, sufficient to fully recover the job losses that occurred during the crisis. [10]

Italy participated in the recovery, but once again at a slower pace than the euro area as a whole. In 2017, according to ISTAT data subsequently revised, Italian real GDP increased by **1.6 percent** , the best result in the three-year period but still lower than the eurozone's growth rate. [7]

This gap is important because it shows that the common monetary policy had already solved a significant part of the problem of financial fragmentation, but it could not equalize real growth rates. If all countries enjoy favorable monetary conditions and some grow faster than others, the explanation must include production structures, productivity, investment, demographics, and institutional quality.

It is precisely the Italian question that continues to resurface.


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## MPS: The State's Return as Shareholder Within European Rules

The Gentiloni government almost immediately faced one of the most difficult financial dossiers of the period: Monte dei Paschi di Siena. At the end of 2016, an attempt to raise the capital needed to support the restructuring plan on the market failed, and the bank requested the precautionary recapitalization required by European regulations.

The 2016 EBA stress tests had shown that, in the hypothetical adverse scenario, MPS would have recorded a fully-loaded CET1 ratio of **-2.4 percent at the end of the period considered** , a result which highlighted a strong capital vulnerability in the stress scenario although it was not equivalent to declaring the bank insolvent in the current scenario. [11]

The chosen solution was particularly significant from a political perspective because it demonstrated that the new European bail-in regime had not eliminated all possibility of public intervention. Precautionary recapitalization allowed the state to enter the capital of a bank deemed solvent when a stress test identified a weakness in the adverse scenario, provided that the intervention complied with European State aid requirements and was accompanied by shareholder and subordinated creditor losses, according to burden-sharing.

The Italian state thus became MPS's main shareholder, precisely at the historical period in which the European model declared its intention to reduce the relationship between public budgets and banking systems.

This is not a contradiction if you look carefully at the rules: the system did not prohibit public intervention altogether, but sought to prevent it from indiscriminately protecting all private investors from losses.

However, it is an important demonstration of the fact that, in banking crises, the complete separation between state and finance remains difficult even within the Banking Union.

## Veneto Banks: When European Rules Produce a National Solution

The crisis of Veneto Banca and Banca Popolare di Vicenza, in 2017, made this complexity even more evident. After the failure of the recapitalization operations on the market in 2016, the Atlante Fund had subscribed to capital increases for a total of **2.5 billion euros** , to which further payments of 938 million had been added at the end of the same year. [12]

When it became clear that even this solution was not sufficient, the two banks asked for a precautionary recapitalisation, but the discussion between the European Commission, the ECB, the Ministry of Economy and Finance and the Bank of Italy concluded that the required conditions were not met, especially in relation to the expected losses and the sustainability of the restructuring plan. [12]

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The result was a national liquidation accompanied by the sale of assets considered healthy to Intesa Sanpaolo and a public intervention intended to make the operation possible.

The case is important because it shows how far the new banking architecture was from a simple formula like "after the bail-in, the state can no longer intervene." It can intervene, but the manner depends on the classification of the crisis, the assessment of solvency, the public interest in a European resolution, the rules on state aid, and the legal form of liquidation.

For the Gentiloni government, the challenge was therefore twofold: protecting the stability of the system and credit in the affected areas while ensuring that the solution did not violate European rules specifically designed to reduce moral hazard.

Bank management thus became an exercise in shared sovereignty in the most concrete form possible: Rome possessed fiscal resources and political responsibility, but could not freely choose the instrument without the involvement of the European institutions.

## A real recovery but insufficient to erase the crisis

At the end of the Gentiloni government, Italy appeared much more stable than the country that had endured the 2011–2012 crisis. The spread was well below its peak, employment was growing, production had recovered, and banks were gradually reducing their stock of non-performing loans; furthermore, the ECB's monetary policy continued to offer exceptionally favorable financial conditions.

Yet the damage done by the double-dip recession had not been fully recovered.

The Bank of Italy still observed in 2016 that, despite the improvement in employment, hours worked per employee remained around five percentage points below pre-crisis levels and the unemployment rate, at **11.7 percent** , was almost double that of 2007. [5]

This data shows why financial stability cannot be confused with economic normality.

An economy may no longer be in an emergency situation and continue to bear the scars of a crisis for many years.

This is exactly what happened in Italy.

Monetary policy had dramatically reduced financial risk.

Governments had approved reforms of labor, the banking system, and institutions.

Employment began to grow again.

GDP turned positive.

But the level of productivity, investment and labour market participation remained insufficient to produce real convergence with the most dynamic European economies.

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It is this difference between **stabilization and transformation** that defines the Letta-Renzi-Gentiloni period.

## Three governments, one unresolved issue

The temptation to judge the three governments with succinct labels—Letta as a transitional government, Renzi as a reformist government, Gentiloni as a government of continuity—produces a politically recognizable but economically impoverished description, because what unites them is more important than their stylistic differences. All operate within the euro after the ECB made defending the currency credible; all seek to use the increased financial stability to shift the debate toward growth, jobs, investment, and reforms; none, however, manages to produce a productivity boost strong enough to permanently alter Italy's trajectory.

Letta is trying to guide the exit from the most severe austerity measures and stabilize a fragmented political system.

Renzi attempts to transform the stabilization process into a much more ambitious project, addressing labor, taxes, public administration, banks, and the Constitution, but ultimately ties his leadership to an institutional reform rejected by voters.

Gentiloni retained much of his previous economic stance, managed some of the most significant banking crises of the post-Banking Union era, and benefited from a finally robust European recovery. However, he concluded his term without closing Italy's gap in productivity and growth.

The conclusion is not that the reforms have been irrelevant.

The problem was that the Italian problem was deeper and slower than the duration of a single government.

A labor reform could change hiring incentives in just a few months.

A recapitalization can stabilize a bank.

QE can lower yields almost immediately.

But increasing the productivity of an entire economic system requires years of accumulation of capital, technology, skills, infrastructure, and administrative quality.

Italy between 2013 and 2017 was thus experiencing a period in which politics was finally able to operate without the daily emergency of the spread, but discovered that the removal of the financial emergency did not automatically produce development.

This is perhaps the most important lesson of the entire Part VII.

The ECB can create the conditions for stability.

It cannot create the conditions for growth in place of the nation state.

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The "whatever it takes" policy had prevented the euro from disintegrating under the weight of a self-sustaining financial crisis; quantitative easing had reduced the risk of deflation and supported credit and demand; the Banking Union had begun to rebuild the European banking system.

At that point the problem inevitably returned to Rome.

And just when it seemed that Italy had finally overcome the long emergency that began in 2008, the 2018 elections would demonstrate how the social and political cost of that crisis remained unexplained.

Financial stability had been rebuilt.

The consensus on the architecture that produced it, much less.


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# PART VIII

# THE CRISIS OF CONSENSUS


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# Chapter 17

## 2018–2020 — Sovereignty enters Palazzo Chigi

The March 2018 general election did not simply produce a new parliamentary majority, nor did it simply represent yet another government transition amid the long instability of the Second Republic; rather, it marked the moment when a very large segment of the Italian electorate, after nearly a decade dominated by the financial crisis, austerity, unemployment, stagnant incomes, and the perception of a growing gap between national decision-making and European constraints, handed political center stage to two forces that had built much of their identity precisely on critiques of the political and economic order consolidated in the preceding years. The Five Star Movement and the League came to power from profoundly different backgrounds, with organizational cultures, territorial bases, and political priorities that did not coincide, but they shared one element that would have made an otherwise difficult-to-imagine alliance possible: the belief that Italian politics needed to regain margins of decision-making compared to the institutions, rules, and ruling classes that had governed the previous phase.

The term **"sovereignism** ," frequently used to describe that period, must be treated with caution, however, as it risks transforming diverse phenomena into a single, coherent ideology that, in reality, never fully existed. Matteo Salvini's League had undergone a profound transformation compared to the federalist Northern League of previous years and had gradually constructed a national agenda based on immigration control, tax cuts, a critique of European rules, and a restoration of the centrality of the nation state. The Five Star Movement, on the other hand, arose from a more transversal critique of the party system, traditional political mediation, and economic elites, accompanied by proposals for direct democracy, social protection, environmentalism, and institutional reform. Furthermore, their respective positions on the euro were not identical and had already begun to evolve before the government was formed.

It is precisely this evolution that makes 2018 particularly interesting. In previous years, members of the Five Star Movement had openly supported the idea of a referendum on the euro; in a 2016 parliamentary speech, Luigi Di Maio, then vice president of the Chamber of Deputies and a central figure in the Movement, explicitly declared his intention to submit the question of remaining in the single currency to a popular referendum, while distinguishing his criticism of the euro from a more general opposition to the European project. [1] The League had also expressed, through several members, highly critical positions towards the European monetary construction and towards Italy's remaining in the euro under the conditions that existed at the time, even though at the time of the formation of the 2018 government the question of leaving the single currency was not included in the new majority's official programme as an objective of the executive.

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This distinction is crucial, because moving from opposition to government necessarily alters the political meaning of a position. An opposition party can use the possibility of leaving the euro as a negotiating tool, a conditional proposal, or an identity marker; a government, however, must immediately incorporate into its actions the financial, legal, and diplomatic consequences of any doubts about remaining in the single currency. 2018 represents precisely the moment in which the Five Star Movement and the League discovered that criticizing the eurozone's rules and the day-to-day management of a country with over €2 trillion in public debt are two very different political exercises.

The March 4 elections did not produce a pre-established majority. The Five Star Movement emerged as the single strongest political force, while the League overtook Forza Italia within the centre-right coalition and gained a position that would have rapidly allowed Matteo Salvini to transform the party from a northern force to a national protagonist. However, neither bloc alone had the numbers needed to govern, and forming the executive required almost three months of consultations, attempts and negotiations. When the Five Star Movement and the League finally managed to reach an agreement, they did so through a formula deliberately different from that of a normal coalition: the **"Contract for the Government of Change"** , presented not as a political fusion between two forces but as a programmatic agreement intended to enable collaboration on a defined set of objectives. Giuseppe Conte himself, asking the Senate for a vote of confidence on June 5, described the government project as the convergence of the two majority forces formalised through a contract drawn up on the basis of their respective electoral programmes. [2]

The formula was not only communicative. It revealed the nature of the majority. The Five Star Movement and the League did not share a common political history and did not claim to immediately build a new party or an organic alliance; rather, they were committed to jointly realising certain promises that each considered essential for its own electoral base. The contract therefore included profoundly different measures: a citizen's income and a revision of the labour policies dear to the Five Star Movement; a flat tax and greater territorial autonomy, particularly important for the League; greater pension flexibility through the partial overcoming of the rules introduced in 2011; a tightening of immigration policy; a critique of European economic governance; and greater attention to national sovereignty in economic decisions. The government's programmatic documentation for the following year would continue to define the Contract as the foundation of the executive's reform strategy, explicitly listing among its objectives the fight against poverty, reduction of the tax burden, greater pension flexibility, control of immigration and improvement of socioeconomic conditions. [3]

The birth of the government, however, immediately demonstrated that the European question could not be kept on the margins of the new political balance.

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The first mandate given to Giuseppe Conte on 23 May 2018 ended four days later without the formation of the executive, when the President of the Republic Sergio Mattarella did not accept Paolo Savona's proposal for the Ministry of Economy and Finance and Conte resigned. The sequence is documentaryally clear: Mattarella had given the mandate to Conte, had received the ministers' proposal and, after the failure to agree on the head of the Ministry of Economy and Finance, the president-designate returned the mandate on 27 May. [4]

It is one of the most controversial episodes in recent institutional history and, precisely for this reason, requires avoiding formulations that automatically transform one of the political interpretations into a constitutional fact.

In the public statement made that evening, Mattarella explained that he had not hindered the formation of a M5S–Lega government and that he had accepted both Conte's recommendation and much of the proposed composition; however, he specified that he had requested for the Ministry of Economy a representative of the majority who would not be perceived as supporting a line capable of leading, in his opinion, to Italy's exit from the euro. The President directly linked his decision to the protection of savings, the cost of debt, and the alarm that the uncertainty over Italy's monetary position was producing among investors and savers. He also added that a discussion on exiting the euro would have been politically legitimate if addressed openly in front of the electorate, but observed that that issue had not been placed at the center of the recently concluded electoral campaign. [5]

The statement is important because it precisely defines the nature of the conflict. The Quirinale did not formally challenge the majority's right to propose a less orthodox economic policy, nor did it assert that Italy could not discuss its continued membership in the euro; it argued that the appointment of the Minister of Economy, in a situation of highly sensitive financial conditions, had direct consequences for the constitutional protection of savings and the country's international standing. The Five Star Movement and the League, however, interpreted the decision as a severe limitation on the parliamentary majority's ability to freely choose the government's economic policy. The dispute therefore concerned the concrete boundary between the presidential power to appoint ministers, as provided for by Article 92 of the Constitution, and the majority's political responsibility to define the government's policy.

This is precisely the kind of issue where a political book must avoid replacing reconstruction with formulas. Simply defining the episode as an " antidemocratic veto" would be to assume a political assessment is fact; describing it as a normal exercise of presidential power, devoid of political consequences, would be equally insufficient. The fact is that the President rejected that specific ministerial proposal, publicly justifying his decision with the risk of uncertainty regarding the euro and the protection of savings;

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assessing the constitutional and political correctness of that act belongs to a different level of analysis.

The crisis lasted only a few days. Mattarella gave Carlo Cottarelli an exploratory mandate to form a government, but the Five Star Movement and the League quickly reopened negotiations and found a different composition for the executive. Paolo Savona did not go to the Ministry of Economy, which was entrusted to **Giovanni Tria** , an academic economist considered more compatible with Italy's permanence in the euro; Savona instead entered the government as Minister for European Affairs. On 31 May, Conte received the mandate again, presented the list of ministers and the new government was sworn in on **1 June 2018.** [6]

The solution had far greater political significance than simply replacing a name. The new government was formed after implicitly clarifying that, whatever the two majority forces' criticisms of European rules, **exiting the euro would not be transformed into an immediate government line** . The conflict did not disappear; it shifted ground. Rather than directly calling into question the permanence of the common currency, the new executive would attempt to internally modify the interpretation of fiscal rules and to use the deficit more to finance the policies promised in the contract.

It is this passage, more than electoral rhetoric, that defines Italian sovereignism once it reaches government.

## The first Conte government and the transformation of protest into fiscal responsibility

On 5 June 2018, Giuseppe Conte presented the executive's programme to the Senate and obtained confidence with **171 votes in favour, 117 against and 25 abstentions** ; the following day, the Chamber granted its confidence with **350 votes in favour, 236 against and 35 abstentions** . [7] The new government thus assumed full responsibility for the promises that M5S and Lega had built during the years of opposition, but with a fundamental difference: from that moment on, any fiscal proposal had to be transformed into a credible public finance document, any social commitment had to find coverage and any challenge to European rules immediately translated into an assessment of the risk associated with Italian government bonds.

The shift from protest to government becomes particularly evident in the relationship with the European Union. The platform did not formally propose abandoning the euro; instead, it aimed to change European economic governance, achieve greater fiscal flexibility, alter the distribution of responsibilities for immigration, and redefine relationships with certain supranational institutions. The tension was therefore no longer between "euro" and "lira" as an immediate alternative, but between two ideas of European membership: one in which respect for common rules constituted the primary foundation of Italy's credibility, and another in which those same rules were considered

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too restrictive with respect to the needs of growth, redistribution, and political sovereignty.

This distinction also emerges from the parliamentary positions of the period. The opposition forces accused the government of indirectly opening a path towards an exit from the euro through fiscal irresponsibility and the reference to "plan B" hypotheses; members of the majority, however, increasingly explicitly argued that they wanted to modify European rules without necessarily leaving the Monetary Union. In 2019, a parliamentary resolution supported by the majority expressly committed the government to reassure that its economic choices **did not in any way prefigure Italy's exit from the euro** , while at the same time calling for a reform of the ECB, fiscal governance and the Stability Pact. [8]

Here we see a significant transformation of sovereignism when it enters the institutions: the rupture becomes negotiation.

The goal is no longer necessarily to recover sovereignty through the replacement of currency, but to increase its exercise through a modification of the common rules.

This isn't just a rhetorical choice. It's also the recognition of an economic constraint that 2018 makes immediately visible.

## The bond market as an immediate limit to political promise

The formation of the government had already demonstrated how quickly doubts about Italy's position in the eurozone could translate into market movements. During 2018, the issue shifted to public finances. The government was required to transform some of the contract's key measures into a budget law: a basic income, greater pension flexibility, and tax cuts.

The internal government debate was complex precisely because Giovanni Tria, at the Ministry of Economy, found himself in the position of having to reconcile the political priorities of the two Deputy Prime Ministers, Luigi Di Maio and Matteo Salvini, with debt sustainability and the European framework. It would be incorrect to portray this conflict as a simple opposition between "responsible technicians" and "irresponsible politicians," because the issue concerned a genuine economic policy choice: the government believed that a more expansionary fiscal policy could support growth and social inclusion, while the Treasury and European institutions feared that a significant increase in the structural deficit, in the presence of very high debt, would produce an increase in yields capable of neutralizing the expansionary benefits.

The **Update to the 2018 Economic and Financial Document** formalized the new strategy. Compared to the trend framework inherited from the April DEF, which envisaged a sharply reduced deficit, the new government chose to use greater fiscal space to finance its programmatic priorities. The document presented a trajectory in which the

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nominal balance was significantly less restrictive than the previous planning, while the government declared its intention to use fiscal policy as a tool to relaunch growth. [9]

This is where the first major conflict between the Conte I government and the European Commission erupted.

The draft budget for 2019 presented by Italy envisaged a deviation from the structural adjustment path recommended by the Council. On **23 October 2018** , for the first time since the introduction of the European system for the advance assessment of budgetary documents, the Commission formally asked a euro area Member State to submit a revised budget plan, qualifying the Italian proposal as a case of **"particularly serious non-compliance"** with respect to the recommended fiscal commitments. [10]

The institutional novelty of this episode should not be underestimated. Italy was not under a financial assistance program, and Parliament continued to have full power over budget approval, but the European procedure allowed the Commission to pre-examine the project and challenge its consistency with the Stability Pact. In this sense, the 2018 controversy represents one of the clearest examples of the shared sovereignty described in the previous chapters: Rome had the political power to choose a more expansionary stance, but this choice had consequences within a system of common rules and, above all, on the financial markets.

The conflict continued in the following month. Italy submitted a revised draft on 13 November, but the changes were deemed too limited by the Commission, which on **21 November** confirmed its assessment of serious non-compliance and also published a report under Article 126(3) of the Treaty on the Functioning of the European Union in relation to the debt criterion. [11]

At that point, the confrontation was no longer just a political dispute between Rome and Brussels. The risk was the opening of an excessive deficit procedure based on debt dynamics, while rising BTP yields were making the financial cost of the conflict increasingly evident.

It is precisely this passage that demonstrates the practical limit of the deficit expansion strategy.

An increase in the deficit can stimulate demand if households and businesses believe the policy's sustainability is credible and if the cost of financing remains low. However, if the measure significantly increases the risk premium, part of the expansionary effect can be offset by rising government bond yields, a reduction in the value of bank portfolios, and an increase in the cost of credit. Fiscal policy therefore does not operate in a vacuum: for a highly indebted country, the market reaction becomes a component of the multiplier itself.

The government had to gradually recognize this constraint.

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In December 2018, after weeks of negotiations between Rome and Brussels, the budget law was amended and the deficit target reduced compared to the version initially announced; the Commission concluded that the additional measures included in the final text were sufficient, at that stage, to avoid the recommendation to open a debt-based excessive deficit procedure, while maintaining monitoring of the budget implementation. [12]

The political significance of this compromise is more important than the final number. The sovereignist government's first real confrontation with eurozone rules did not end in a rupture or a complete capitulation on either side. The government was able to implement a significant portion of the symbolic measures in its program, but agreed to scale back the fiscal deviation originally envisaged; the Commission did not secure a full return to the previous budget path, but retained the ability to force negotiations on the budget's compatibility with the common rules.

The affair represents a first pragmatic transformation of the political stance of the Five Star Movement and the League: challenging the rules was possible; completely ignoring the financial consequences was much less so.


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## Citizenship income and Quota 100: from identity promises to legislation

The budget law for 2019 created the financial space necessary for the implementation of the two social measures most representative of the respective political identities of the majority. The definitive legislative step came with the **decree-law of 28 January 2019, n. 4** , later converted into law of 28 March 2019, n. 26, which simultaneously introduced the **Citizen's Income** and the experimental pension channel known as **Quota 100.** [13]

The decision to combine the two measures in a single bill has strong political significance, as it almost makes visible the compromise on which the government was built: the Five Star Movement obtained its main tool for combating poverty and providing income support, while the League fulfilled one of its most important promises regarding the partial overcoming of the pension rigidity associated with the Fornero reform.

The Citizen's Income was designed as a measure contingent on the family's economic situation and accompanied, at least in its original form, by obligations and services geared toward reintegration into the workforce. This dual function—fighting poverty and promoting active labor market policy—was highly ambitious precisely because it sought to use a single instrument to address institutionally different problems. Transferring income to a poor family can be achieved through relatively well-defined administrative procedures; bringing a long-term unemployed person back into the labor market, however, requires the capacity of employment centers, training, information on vacancies, regional mobility, and a genuine demand for labor compatible with available skills.

The problem would become evident in subsequent years: the Citizen's Income could produce a redistributive effect even when the active policy channel proved much less efficient than expected. Evaluating the measure solely by the number of beneficiaries returning to work or, conversely, solely by the number of families supported would therefore mean judging with a single metric a program to which the legislator had assigned two different purposes.

Quota 100 instead operated on the social security side, allowing access to a pension for the three-year experimental period to those who had reached at least **62 years of age and 38 years of contributions** . As we have already observed in the pension chapter, the measure did not abolish the Fornero reform and did not replace the ordinary system, but created an additional channel aimed above all at workers with long contribution careers. The political rhetoric of the "abolition of the Fornero reform" was therefore broader than the actual legislative transformation: the system introduced in 2011 remained the supporting structure of Italian social security while Quota 100 temporarily attenuated its effects for a part of the population. [13]

The two measures clearly illustrate the relationship between electoral promises and the constraints of government. The Five Star Movement and the League effectively

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succeeded in translating two central elements of their programs into law, but they implemented them through more limited and financially conditioned means than the electoral communication might have suggested. The transition to government did not eliminate identity politics; it forced it to fit within budgetary limits.

## The Dignity Decree and the first amendment to the Jobs Act

The government intervened on the labour market even before the budget law through **decree-law no. 87 of 12 July 2018** , subsequently converted into **law no. 96 of 9 August 2018** , officially dedicated to the "dignity of workers and businesses". [14] The provision reduced some of the spaces for the use of fixed-term contracts and modified the rules for renewals and reasons, representing a first reversal with respect to the trend of progressive liberalisation of temporary contracts described in the previous chapters.

Here, too, the transformation of political positions must be interpreted without moral categories. The Five Star Movement had built part of its identity on its criticism of the precariousness associated with the Jobs Act, and once Luigi Di Maio took over the Ministry of Labor, it translated that position into a concrete measure. The League, traditionally more attentive to the needs of Northern businesses and therefore less inclined to restrict flexibility, accepted the measure within the framework of the government contract.

The compromise anticipated one of the majority's structural tensions: the Five Star Movement tended to prioritize social protection, labor regulation, and redistribution; the League insisted on taxation, enterprise, autonomy, and immigration control. The government could remain cohesive as long as each party achieved a sufficient share of its priorities, but the lack of a common political identity made it more likely that a crisis over a considered fundamental issue could quickly escalate into a general crisis.

## Salvini, immigration, and the League's transformation into a national force

If economic policy was the area where sovereignism had to most immediately confront European constraints, immigration was the one in which Matteo Salvini was most effective in building his national political leadership.

The League did not invent the migration issue, nor was the Conte I government the first Italian government to call for a European redistribution of the burdens associated with landings and asylum. Previous governments had already insisted on reforming the Dublin system and the need for greater European solidarity. The difference lay in the political approach with which the new Interior Minister transformed the issue into a question of sovereignty: port control, the role of NGOs, migrant redistribution, internal security, and relations with other member states were presented as concrete evidence of the nation

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state's ability to regain control of a policy perceived as overly dependent on European decisions and inertia.

The same parliamentary majority, however, called for a European solution and not a pure renationalisation. In a resolution of the Chamber of Deputies in June 2018, M5S and Lega committed the government to work to overcome the principle of the State of first entry envisaged by the Dublin system, to obtain a fairer distribution of responsibility for asylum requests and to strengthen European sharing in the management of people rescued at sea. [15]

This is an important step because it once again demonstrates the ambivalent nature of Italian government sovereignty. The Union was criticized for being insufficient, not necessarily superfluous. The demand was not only to regain national competences, but also to force other members to share more of the burdens of a problem that geography placed particularly heavily on Italy.

The political contradiction was evident, especially in relations with the Visegrád Group countries, which for a segment of the new European right represented political interlocutors opposed to federalism and Western migration policies, but which at the same time proved among the most resistant to Italy's proposals for mandatory relocation of asylum seekers. European sovereignism thus contained an intrinsic limit: if each state prioritizes its own sovereignty, the solidarity requested by Italy on migration could directly conflict with the sovereignty asserted by states unwilling to accept redistribution.

This paradox will accompany the entire European debate in the following years.


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## Foreign policy between the Atlantic, Russia and China

Even on the international level, the Conte I government showed a combination of strategic continuity and attempts at differentiation. Italy remained a solid member of NATO and did not change its fundamental alliances, but both the Five Star Movement and the League had at various stages expressed positions more favorable to a dialogue with Russia than part of the European establishment. In Parliament, the majority argued that maintaining the Atlantic option was not incompatible with a resumption of dialogue with Moscow, thus distinguishing the strategic alliance with the United States from the political management of relations with the Russian Federation. [15]

In the spring of 2019, another decision was destined to generate significant international attention: the Italian government signed a Memorandum of Understanding with China on the Belt and Road Initiative. This decision will be analyzed in the chapter specifically dedicated to Italy-China relations, because to understand its significance, it is necessary to examine trade, investment, ports, the Golden Power, and the transformation of industrial chains. Within the political framework of Conte I, however, it represents another example of Italy's desire to expand its international maneuvering space without formally abandoning traditional alliances.

Italian sovereignism was therefore less a question of isolation and more of an attempt to multiply negotiating options, even when this produced tensions with traditional partners.

## From the financial challenges to the 2019 European normalization

After the clash over the 2019 budget law, the relationship with Brussels gradually changed tone. The mere existence of a majority defined as "populist" or "sovereignist" did not cause Italy to exit the European institutional framework; on the contrary, the government continued to approve laws implementing Union law and Paolo Savona, who became Minister for European Affairs after failing to join the Ministry of Economy and Finance, presented, together with the other ministers, the 2018 European law for the fulfillment of the obligations deriving from Italy's membership in the Union. [16]

The point is not simply to observe that "the government remained European" because none of the majority forces had formally initiated a process of leaving the Union. Rather, it is to note how the daily exercise of government has forced a progressive distinction between **criticism of the Union** and **rejection of the Union** .

This distinction will be increasingly visible in the Five Star Movement. The political force that a few years earlier supported a referendum on the common currency arrived in 2019 to present its strategy to Parliament as an attempt to modify the Six-Pack, Two-Pack and economic governance while keeping Italy within the European architecture. [17]

There's no need to classify this shift as inconsistency or conversion; it's enough to describe it. The responsibility of governing changed the party's operational position: the

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goal became less and less to verify permanence in the euro through a referendum and more and more to negotiate the transformation of the single currency's rules.

The League retained a much more radical critical component within itself, but it too, as long as it remained in government, operated within the euro and voted for measures necessary for the normal functioning of Italy as a member state.

This is a political transformation of great importance. It shows that the shift from opposition to executive responsibility doesn't necessarily erase original preferences, but it does alter the cost of transforming them into concrete action.

## Growth is not coming as expected

The government's economic bet was that a more expansionary fiscal policy, coupled with a Citizen's Income, greater pension flexibility, and tax measures favorable to certain groups, would produce a growth acceleration sufficient to make the debt trajectory more sustainable.

The result was much weaker than initial expectations.

The reasons are multiple and cannot be attributed entirely to government measures. In 2018–2019, the European economy was slowing, international trade tensions were rising, German industry was entering a difficult phase, and world trade was losing momentum. Italy, highly integrated into European manufacturing chains, could not be isolated from this context.

But domestic politics contributed to uncertainty. The long budget controversy of 2018 had increased the risk premium on government bonds, and through the bank-state circuit discussed in Part V, the deterioration in BTPs was transmitted to banks' balance sheets and the economy's financial conditions. This doesn't mean that every percentage point of spread automatically translates into lower investment, but it does indicate that an expansionary fiscal strategy can produce less than expected effects when it simultaneously increases the cost of capital.

This is where Conte I's economic experiment runs into one of its limits. The government wanted to use the public budget more to offset weak growth; however, precisely because Italy started with a very high debt, the credibility of the fiscal strategy affected the cost at which that expansion could be financed.

Fiscal sovereignty did not eliminate the constraints of markets.

It made it visible.

## Political power within the majority shifts towards the League

During the first year of government, the balance between the two forces in the majority also began to shift rapidly. The Five Star Movement had entered the legislature as the

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numerically dominant parliamentary force, but the League gradually increased its support and achieved a result in the May 2019 European elections that consolidated Salvini's national leadership.

This shift in the balance of power had direct consequences for the government's actions. A coalition built on the implicit political parity between two parties became increasingly difficult to maintain when one party believed it now enjoyed much greater electoral support than its partner.

Disagreements arose over numerous issues: infrastructure and the high-speed rail line, regional autonomy, economic policy, justice, international relations, and the management of internal majority decisions. The contract, designed specifically to allow coexistence between two different parties, showed its limits when the political expediency of remaining together diminished.

The crisis came in August 2019.

According to the official parliamentary reconstruction, on **8 August** Matteo Salvini declared that the League was no longer available to continue the government experience and the political force subsequently presented a motion of no confidence against the Prime Minister. Conte chose to bring the crisis to Parliament and on **20 August** he spoke before the Senate, claiming the need for the interruption of the government experience to be discussed in the same place in which the executive had received the confidence. [18]

This step is constitutionally significant. There was no automatic mechanism by which a decision by one of the two coalition leaders would immediately lead to the dissolution of Parliament. The League could withdraw its support for the government; however, the consequences had to be assessed within the parliamentary and presidential system.

Conte then announced his resignation and, on the same day, August 20, went to the Quirinale, where he formalized it in the hands of the President of the Republic. Mattarella took note of the decision and began consultations with the parliamentary groups. [19]

It is at this point that Italy's first sovereignist experiment encounters another fundamental constitutional limitation: in a parliamentary republic, a coalition crisis does not automatically lead to new elections when the possibility of constructing a different majority exists in Parliament.

The League called for a return to the polls; the Five Star Movement and the Democratic Party instead began exploring the possibility of forming a new majority.

The second solution prevailed.

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## Conte II and the most radical transformation of the Five Star Movement

On **29 August 2019,** Sergio Mattarella once again gave Giuseppe Conte the task of forming a government, this time on the basis of a majority composed mainly of the Five Star Movement and the Democratic Party, joined by Free and Equal and subsequently Italia Viva after Renzi's split from the PD. [20] The new executive was sworn in on **5 September** and the Senate granted its confidence with **169 votes in favour, 133 against and 5 abstentions** . [21]

The formal continuity of the Prime Minister should not obscure the depth of the political shift. Conte remained at Palazzo Chigi, but the majority and political direction were radically different. Matteo Salvini and the League moved into opposition; the Democratic Party, the main pro-European force in government prior to 2018, became a partner of the Five Star Movement; Roberto Gualtieri, who had previously chaired the European Parliament's Committee on Economic and Monetary Affairs, took over as Minister of Economy from Giovanni Tria.

This is perhaps the most important step in the political transformation of the Five Star Movement.

A force born partly out of a challenge to the European order now found itself governing alongside the Italian party that had most openly defended European integration during the previous crisis. This doesn't mean the differences disappeared, but it does indicate that membership of the euro and the Union was gradually no longer treated as an existential issue in the government's operational program.

Conte himself, accepting the post in August 2019, placed at the centre of the declaration not a break with Europe but the need to address the economic slowdown, quickly prepare the budget law, prevent the increase in VAT and build a perspective of growth and social development. [20]

The shift is even more striking when compared to 2016, when the referendum on the euro was still a political issue within the Movement. Within a few years, the issue had shifted from remaining in the common currency to the possibility of modifying its rules from within.

This is precisely the kind of evolution that the book must record without turning it into a moral judgment: a party's operational preferences can change when information, institutional responsibilities, allies, and the costs of alternatives change.


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## The ESM and the new fault line

The transition to Conte II, however, did not eliminate the Five Star Movement's sensitivity to European issues. The reform of the European Stability Mechanism quickly became one of the most controversial issues, as it allowed the League, now in opposition, to resume a highly critical language regarding the eurozone's constraints and, at the same time, forced the Five Star Movement to defend a governing position far more complex than its traditional political stance.

The parliamentary debate clearly shows this difficulty. Representatives of the Movement reiterated that they had always criticized the philosophy of the ESM insofar as it linked financial assistance to adjustment programs considered excessively restrictive, but at the same time they maintained that Italy should participate in the negotiations to modify its clauses and maintain a decisive role for the political institutions - the Commission and national Parliaments. [22]

The League, for its part, used the issue to reconstruct a line of opposition centered on the defense of Italian savings and the risk that the new clauses could facilitate sovereign debt restructuring.

The comparison shows that the crisis of European consensus was far from over after the change of majority.

The political distribution of the conflict had changed.

In Conte I, criticism of European rules came from within the government.

In Conte II, a significant portion of that criticism was transferred to the opposition, while M5S tried to reconcile its Eurosceptic origins with the responsibility of participating in European negotiations alongside an explicitly pro-European force like the PD.

## The 2020 budget law and a very short-lived normalization

The new government found itself facing the budget session almost immediately. Compared to 2018, the confrontation with the European Commission was much less conflictual, even if Brussels continued to detect risks of deviation from fiscal objectives and kept Italy under careful surveillance. The documentation relating to the Draft Budgetary Plan 2020 shows a normal European dialogue, with a request for clarifications in October 2019 and a subsequent opinion from the Commission in November, very different from the institutional crisis produced a year earlier by the first budget draft of Conte I. [23]

This normalization does not mean that Conte II suddenly abandoned all expansionary policies or fully adhered to the fiscal stance of previous governments. Rather, it means that the political relationship with Brussels returned to being managed primarily through

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technical negotiation and compromise, without using conflict with European institutions as the primary defining feature of the government's actions.

Just over a year after May 2018, the transformation was therefore remarkable.

The first Conte government was born after a constitutional crisis centered on fears of leaving the euro and faced an unprecedented conflict with the Commission over the budget law.

The second Conte government was formed on the basis of a majority clearly oriented towards strengthening Italy's European position and sought to use negotiations with Brussels to avoid a VAT increase, obtain budget margins, and boost investment.

Italy hadn't simply "abandoned sovereignism"; the political divide that had produced it remained intact, and the League continued to represent one of its main expressions. What had changed was the location of that divide: no longer entirely in government, but distributed between the government and the opposition.

## Government sovereignty put to the test

As we approach 2020, it's possible to draw a preliminary conclusion about the season that began with the 2018 vote, provided that the conclusion remains descriptive and not transformed into a political verdict.

The Five Star Movement and the League succeeded in bringing into government issues that had remained largely in opposition during the previous phase: greater pension flexibility, a Citizen's Income, a revision of the Jobs Act, criticism of European fiscal rules, a more restrictive immigration policy, and a demand for a less subordinate relationship with EU institutions. Many of these priorities were effectively transformed into legislative measures and therefore cannot be dismissed as mere election rhetoric.

At the same time, the exercise of government profoundly transformed the relationship between the two forces with the constraints they had contested.

Leaving the euro did not become an executive program.

The Ministry of Economy was entrusted to a figure who guaranteed the continuity of Italy's presence in the Monetary Union.

The clash over the 2018 budget ended with a negotiation and a review of the objectives.

The government continued to apply and implement European law.

The main social measures were adapted to budgetary compatibility.

And when the M5S–Lega majority dissolved, the Five Star Movement was able to form a new government with the Democratic Party in a few weeks without making exit from the euro a central condition or issue.


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None of these passages demonstrate that the previous positions were insincere.

Rather, they demonstrate that the meaning of sovereignty changes when a political force moves from the power to criticize to the duty to decide.

An Italian government can challenge Brussels.

It can ask to modify the Stability Pact.

Can use more deficit.

It can negotiate harder on migrants.

He can propose a reform of the ECB.

But at the same time, he governs a country with a large debt, a shared currency, a banking system integrated into the Banking Union, companies included in the single market, and savers whose wealth responds to expectations about financial stability.

These ties do not nullify the political decision.

They change the cost.

This is the real lesson of 2018–2019.

Sovereignists entered Palazzo Chigi convinced that a significant portion of Italy's constraints stemmed from Europe; once in government, they discovered that some of those constraints were indeed institutional and negotiable, while others stemmed from the country's economic structure and could not be eliminated through a political decision.

Debt remains high even if the Fiscal Compact is challenged.

The spread also reacts if the markets are perceived to be excessively harsh.

Productivity remains weak even as the deficit increases.

Demographics don't change with a budget law.

Industrial and financial dependence on Europe will not disappear with a different parliamentary majority.

This discovery did not lead to a uniform conversion. The League returned to opposition in 2019, maintaining a highly critical stance on the European architecture; the Five Star Movement, on the other hand, evolved toward a position more compatible with the governance of integration, while maintaining strong criticism of certain rules and instruments.

The Conte I experiment therefore ends without resolving the crisis of consensus that had generated it.

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He moves it.

## The beginning of 2020 and the sudden end of a season

At the beginning of 2020, Italy seemed to be heading towards a phase in which the European conflict, while still present, was once again destined to be managed primarily through the normal procedures of the European Semester, discussions on fiscal rules, and negotiations on eurozone reforms. The Conte II government had a parliamentary majority, the budget law had been approved, and the political priority seemed to be supporting an economy that continued to grow too slowly.

Within a few weeks that picture would become irrelevant.

The emergence of a new coronavirus and the spread of the epidemic across Europe would have produced a shock that none of the previous fiscal disputes had been designed to address. Italy would have become the first major European country to be affected, and the same institutions that only months earlier had been discussing structural adjustment, deficits, and debt sustainability would have suspended fiscal rules and developed common instruments that would have seemed almost politically inconceivable in 2018.

The crisis of European consensus would not have disappeared.

But the pandemic would have completely changed the terms of the discussion.

For the first time since the euro's inception, the issue would not be how quickly a country should reduce its deficit, but how to prevent the simultaneous suspension of economic activity from destroying businesses, jobs, and productive capacity.

The season opened by the sovereign crisis of 2011 was about to end.

A new era was beginning, in which public debt, the ECB, European solidarity, and the role of the state would be redefined once again, but this time in a direction that just a few years earlier would have been considered incompatible with the orthodoxy of the Monetary Union itself.


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# PART IX

# PANDEMIC AND RETURN OF THE STATE


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# Chapter 18

## COVID-19 — Suspension of rules and European debt

When, in the final weeks of winter 2020, the COVID-19 epidemic began to transform from a localized health emergency into a crisis capable of simultaneously paralyzing production, mobility, trade, and social life, Europe faced an event for which the entire economic architecture built after Maastricht and stiffened during the sovereign debt crisis had not been designed. For nearly a decade, European institutions had primarily debated how to prevent national governments from passing on the costs of their fiscal policies to other states, how to make budgetary discipline more credible, how to contain moral hazard, and how to prevent the central bank from becoming a permanent financier of public debt. In March 2020, suddenly, the issue was no longer preventing a single state from overspending, but rather preventing the necessary shutdown of entire segments of the economy from destroying still-solvent businesses, household incomes, supply chains, production capacity, and healthcare systems at the very moment the latter were subjected to the greatest pressure in recent European history.

The pandemic thus brought about a conceptual shift, even before a financial one. During the 2011–2012 euro crisis, the fundamental suspicion was about the national origin of imbalances: excessive debt, a fragile banking system, a loss of competitiveness, or a fiscal policy deemed lacking credibility could be interpreted as the result of choices made by individual states, and for this very reason, any European financial solidarity was accompanied by conditionality. In 2020, however, the origin of the shock was clearly external to government budget decisions. Italy had not produced the virus through its fiscal policy, and Spain was no more responsible for the disruption of international tourism than Germany was responsible for the paralysis of its automotive chains. The symmetrical nature of the origin of the shock—despite the highly asymmetric economic effects across countries and sectors—profoundly altered the political terrain on which Europe would have to build its response.

Italy was the first major European country to find itself in this new reality. After the identification of the first major outbreaks in the North of the country and the initial adoption of territorial measures, the Conte II government progressively extended the restrictions until the **Prime Ministerial Decree of 9 March 2020** , which applied the limitations previously concentrated in the most affected areas to the entire national territory, effectively transforming the containment of the epidemic into an unprecedented suspension of normal economic and social mobility. [1]

It would be reductive to describe what followed as a normal recession. In a normal recession, demand declines, businesses reduce production, consumers postpone purchases, and economic policy attempts to revive activity through interest rates, budgets, and credit. In March 2020, however, part of the reduction in activity was

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deliberately imposed by the state for health reasons, as continuing to produce, travel, consume, and work in the same way as before would have contributed to the spread of the disease. Economic policy, therefore, was not intended to immediately stimulate every possible activity, but rather to build a sort of financial bridge through the period of suspension, keeping businesses and labor relations alive so that they could be reactivated when health conditions allowed.

This also radically changes the meaning of the public deficit. When the state temporarily prohibits or restricts a business from operating to protect public health, worker income support, credit guarantees, and transfers to the business are not simply a discretionary expansion of spending, but a form of compensation for a public decision that disrupts the normal production process. The state budget becomes, in other words, one of the main instruments through which part of the shock is transferred from the private sector to the public sector, because the state possesses a capacity for borrowing and the temporal distribution of losses that individual households and businesses lack.

In Italy, this shift was enormous. In 2020, according to the Bank of Italy's reconstruction, public administration net borrowing rose from **1.6 percent of GDP in 2019 to 9.5 percent** , while the primary balance moved into deficit for the first time since 2009 and the debt-to-GDP ratio increased by over twenty-one percentage points, reaching **155.8 percent** in the series used by the 2020 Annual Report; the Bank of Italy also observed that about half of the increase in the debt-to-GDP ratio was attributable to the fall in the denominator, that is, to the very violent contraction of the economy. [2]

This last detail is essential because it allows us to avoid a superficial reading of the pandemic debt. Part of the increase certainly stemmed from higher spending and lower revenues, but a debt-to-GDP ratio can worsen even when the numerator does not increase in the same proportion if nominal GDP declines dramatically. In 2020, Italy experienced precisely both forces: the state borrowed much more to support the economy and, simultaneously, the economy against which that debt was measured contracted. Subsequent revisions of ISTAT's national accounts quantified the decline in real GDP in 2020 at around **9 percent** , a fall that finds no parallel in post-war Italian economic history except in extraordinary circumstances. [3]

The impact was profoundly unevenly distributed. Activities capable of continuing remotely, digital sectors, and some parts of manufacturing recovered more quickly; tourism, hospitality, culture, transportation, personal services, and numerous commercial activities, however, suffered enormous losses. This heterogeneity explains why a simple across-the-board reduction in taxes or interest rates would not have been sufficient: targeted transfers, social safety nets, public guarantees, and tools capable of keeping afloat businesses that were not necessarily economically inefficient but were temporarily prevented from operating were needed.

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The European reaction was initially anything but linear and, in the first few weeks, demonstrated how deeply the memory of the sovereign debt crisis was still present. Italy's fear was clear: if the enormous increase in the deficit required to address the pandemic were interpreted by the markets according to the same criteria used in 2011, the country could find itself simultaneously in a health emergency and a new credit spread crisis. Such a dynamic would have made the response to the pandemic nearly impossible, because every billion used to support healthcare, workers, and businesses would have been accompanied by an increase in the cost of financing the entire existing debt.

It was precisely to prevent this transformation of a health crisis into a financial crisis that the European institutions modified, within a few weeks, principles that, in previous years, had been presented as the cornerstones of the euro system.

## The suspension of the tax constraint was not the abolition of the Pact

The first major change came in the area of fiscal policy. On **20 March 2020 ,** the European Commission formally proposed activating the so-called **general escape clause** of the Stability and Growth Pact, deeming the condition of a severe economic recession in the Union to be met; on **23 March** , the finance ministers of the member states shared the assessment, authorizing a temporary deviation from the normal adjustment paths to allow governments to support healthcare systems, businesses, households, and civil protection. [4]

The correct wording is important: the rules were not legally "abolished", nor did the Pact cease to exist. The clause allowed states to temporarily deviate from the normally applicable budgetary requirements without this meaning abolishing the entire surveillance system; in fact, the Commission and the Council continued to coordinate fiscal policies and the European documentation itself specified that flexibility should not compromise the medium-term sustainability of public finances. [4]

The difference compared to the previous decade, however, was enormous. In 2011, Italy had to accelerate fiscal adjustment as the economy entered recession, in part to demonstrate its ability to meet European commitments; in 2020, the institutions themselves recognized that demanding normal consolidation during such a shock would deepen the recession and cause permanent damage to the economy, making debt sustainability even more difficult in the long run.

This is one of the most important intellectual shifts in European economic policy. Fiscal sustainability was no longer interpreted solely as an immediate deficit reduction, but also as preserving the productive base on which future government revenues depend. If thousands of healthy businesses had gone bankrupt during the lockdown because they were unable to finance a few months of inactivity, the 2020 deficit might have been lower, but GDP and revenues in subsequent years would have been much weaker.

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In this new logic, spending during the pandemic could become a component of future sustainability and not simply a deviation from it.

## The ECB and the memory of 2011

The second transformation concerned monetary policy. In the very early stages of the pandemic, the market demonstrated how quickly the old cycle between national risk and spreads could re-emerge. The deteriorating economic outlook, the enormous expected fiscal needs, and the uncertainty about Europe's response increased pressure on the bonds of the most vulnerable countries.

On **18 March 2020,** the ECB responded by announcing the **Pandemic Emergency Purchase Programme** , the PEPP, with an initial allocation of **750 billion euros** , intended for the purchase of public and private securities until the end of the year and built with a decisive feature compared to previous programmes: the possibility of distributing purchases flexibly over time, across asset categories and, above all, across jurisdictions. [5]

Territorial flexibility was politically and financially crucial. In the PSPP launched in 2015, government bond purchases were based on each national central bank's share of the ECB's capital; during a pandemic, however, financial shocks could be much more concentrated in certain countries. The ability to temporarily deviate from the rigid distribution of purchases thus allowed the Eurosystem to intervene more intensively where monetary transmission was most compromised.

The systemic significance of the PEPP is difficult to overstate. In 2012, Draghi declared that the ECB would prevent the risk of euro disintegration from generating self-sustaining dynamics; in 2020, the central bank transformed that principle into a purchase instrument specifically designed to address a pandemic shock and explicitly stated that it would use the necessary flexibility to prevent the functioning of monetary policy from being fragmented by national tensions.

The difference from 2011 was therefore radical. Italy was facing an explosion in deficit and debt far greater than that of the sovereign debt crisis, but the market knew that the central bank now had a powerful and politically credible mechanism to prevent the growth of the public borrowing requirement from automatically turning into a spiral of spreads.

Once again, this doesn't mean the ECB directly financed the Italian Treasury. Purchases took place on the secondary market and were formally separate from fiscal policy. But from an economic perspective, the presence of an extremely large and credible buyer reduced the risk that the extraordinary supply of securities needed to finance the pandemic would lead to an unmanageable increase in yields.


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The pandemic thus demonstrated how profoundly the ECB had changed since its inception in the first decade of the euro.

The central bank created primarily to ensure price stability was now also the institution called upon to prevent a common shock from producing a financial fragmentation capable of destroying the monetary union.

## SURE and the birth of a European employment insurance

The response was not confined to monetary policy. On **19 May 2020,** the Council adopted the regulation establishing **SURE** , the European instrument providing temporary support to mitigate unemployment risks in an emergency, authorising a maximum volume of financial assistance of **€100 billion** . The mechanism provided for the Commission to borrow on the markets on behalf of the Union and to transfer the resources to the Member States in the form of loans intended primarily to finance short-time work schemes and similar income protection instruments. [6]

For Italy, the Council initially authorised **€27.4 billion** , one of the highest amounts allocated under the programme.[7]

Here, too, the novelty wasn't just the amount. The European Union was issuing debt on the markets to finance, through loans to states, national instruments that protected workers and businesses from the unemployment caused by the pandemic. This wasn't yet a true European unemployment insurance system or a complete mutualization of social costs, but it represented a significant political step because it demonstrated the possibility of using common borrowing capacity to stabilize national labor markets during a shock.

The logic was profoundly different from that of the Greek crisis. There was no macroeconomic program built around correcting a single country's imbalances; instead, there was a European loan aimed at supporting measures that the states would have adopted anyway to preserve employment and income.

This difference sets the stage for the much more important decision that will come this summer.

## The ESM health system and the memory of austerity

Before arriving at Next Generation EU, however, Europe went through another controversy which in Italy assumed a political dimension disproportionate to the subsequent actual use of the instrument: that of the **ESM for healthcare** .

In April 2020, eurozone finance ministers agreed to create a **Pandemic Crisis Support** through the European Stability Mechanism, making available to each country a credit line of up to **2 percent of GDP** , for a potential total in the area of approximately €240 billion.

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The specific condition for access was that the resources were used for direct and indirect health costs related to the pandemic, treatment and prevention. [8]

From a financial perspective, the instrument offered a loan on potentially favorable terms. From an Italian political perspective, however, the three letters "ESM" had become associated with the memory of the Greek crisis, the troika, conditionality, and austerity. The debate therefore concerned not only the differential between the cost of the ESM loan and that of Italian bonds, but the political significance of submitting a request for assistance to an institution established in the midst of the sovereign debt crisis.

The Conte II government decided not to resort to it.

The choice cannot be described simply as an irrational rejection of convenient money, nor, conversely, as a necessary defense of sovereignty. From a strictly financial perspective, it is necessary to weigh interest rates, duration, potential stigma, debt structure, and alternative financing conditions; from a political perspective, the government also had to consider the stability of a majority in which the Five Star Movement maintained strong suspicion of the ESM.

The most important fact, observed in retrospect, is that no eurozone country used the Pandemic Crisis Support. This reduces the plausibility of an exclusively Italian explanation for the failure to activate it: the simultaneous presence of the PEPP, extremely favorable market conditions, and, subsequently, much broader common instruments reduced the credit line's practical usefulness.

The health ESM thus became above all an indicator of the political memory of the previous crisis.

Next Generation EU would have instead changed the very ground of the discussion.

## July 2020: Europe decides to go into debt together

The European summit of **17–21 July 2020** constitutes one of the most important steps in the entire history of European integration following Maastricht, because for the first time the Union decided to authorise the Commission to raise on the markets a huge amount of debt intended not simply to grant loans to Member States, but also to finance **European expenditure that cannot be repaid by individual beneficiaries in the same form as a national loan** .

The agreement on **Next Generation EU** authorised the Commission to raise up to **€750 billion in 2018 prices** , of which up to **€360 billion** would be for loans and **€390 billion** for subsidised spending through Union programmes; the common debt was to be repaid by 2058. [9]

It is difficult to understand the political significance of the decision if it is considered solely as an anti-crisis fund. For over a decade, the European debate had revolved around

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the opposition between countries in favor of forms of risk mutualization and governments, especially in the North, fearful that the common debt would permanently transfer the costs of national policies onto the taxpayers of other states. In July 2020, the Union temporarily crossed that red line, but it did so by constructing a very precise compromise: the debt would be **exceptional, limited in size, limited in time, and aimed at addressing the consequences of the pandemic** , while the use of resources would be linked to national investment and reform plans subject to European evaluation. [9]

Thus, a permanent European federal treasury was not created, but it was demonstrated that the Union could go into debt on a large scale when the states deemed it politically necessary to do so.

The decision was of exceptional importance for Italy. The country had been among those hardest hit by the initial phase of the pandemic, had one of the highest public debts in the Union, and would have struggled to finance a comparable-sized investment strategy on its own without further increasing its fiscal costs. The structure of the new fund also more significantly rewarded the countries that had suffered most from the crisis and that exhibited certain economic characteristics, making Italy one of the main beneficiaries.

But precisely because the resources were enormous, Europe insisted they not be used as a lump sum transfer to the ordinary budget. The rationale behind the **Recovery and Resilience Facility** , the heart of the program, was to link investments and reforms through objectives, targets, and checks that would influence the disbursement of the tranches.

It is the return of conditionality, but in a profoundly different form than the troika.

During the sovereign crisis, conditionality was associated with an assistance program intended for a state that had lost or was at risk of losing market access and imposed a macroeconomic adjustment.

In the Recovery Fund, conditionality is associated with a common program designed to relaunch investment and transformation after a symmetric shock: digitalization, ecological transition, infrastructure, administration, justice, education.

The political difference is enormous.

## The common debt was not a gift

The presentation of Next Generation EU in the Italian political debate quickly produced two opposing narratives, both overly simplistic. The first depicted European resources as a sort of free transfer obtained through negotiations by the Conte government; the second argued that it consisted entirely of new Italian debt disguised as European solidarity.

The actual structure was more complex.

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Part of the resources of the Recovery and Resilience Facility would have been granted in the form of **grants** , financed through debt issued by the Union and repaid over time through the European budget and own resources; another part would have been disbursed as **loans** , which the beneficiary State would have had to repay. For Italy, the plan approved in 2021 would have provided for **191.5 billion euros** , of which **68.9 billion in grants and 122.6 billion in loans** . [10]

The grants are therefore not simply "free money," because Italy contributes to the European budget and participates in the future repayment of the common debt. At the same time, they do not amount to Italian public debt incurred directly for the entire amount received, because the legal debtor on the markets is the European Union, and the burden is distributed over time through the European resource system.

Loans, on the other hand, increase the beneficiary state's repayment obligations, but can be financially advantageous when the Union obtains financing on better or more stable terms than those available on the national market.

A correct assessment must therefore distinguish the two components and, above all, ask what economic return the financed investments will produce.

Debt used for investment that can increase potential GDP may be more sustainable than smaller debt used for unproductive spending.

It is precisely on this challenge that the PNRR will be built.

## The State returns to the center of the economy

The transformation of 2020, however, is not limited to Europe. In Italy, as in other advanced countries, the state is returning to a position in the economy that would have been difficult to imagine during the era of privatization and fiscal discipline of the 1990s.

Social safety nets are being extended; a ban on layoffs temporarily limits companies' ability to terminate employment relationships for economic reasons; public guarantees support credit; moratoria are being introduced; the state finances transfers and compensation; European rules on state aid are being temporarily made much more flexible.

It's important to understand that this return of the state doesn't necessarily mean a return to the state-owned model of the twentieth century. The state doesn't automatically rebuild IRI or massively nationalize industry; rather, it intervenes as an **insurer of last resort** , guarantor, financier, regulator, and coordinator of an economy temporarily incapable of functioning through normal market mechanisms.

In this sense, the pandemic demonstrates the limits of a conception of economic sovereignty based solely on ownership. Even a state that owns a few businesses can

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wield enormous economic power if it controls guarantees, transfers, regulation, the public budget, and healthcare infrastructure.

The issue then becomes not simply how much state exists in the economy, but how state capacity is used.

## 2020 closes the season that began with the debt crisis

Less than ten years after the Save Italy decree, Europe adopted policies that would have had an almost opposite meaning if judged through the jargon of 2011. The Italian deficit approached ten percent of GDP without Brussels demanding an immediate correction; the ECB purchased large quantities of government bonds through a flexible program; the Union created common debt instruments to finance social safety nets and investment; the Stability Pact allowed for deviation from normal adjustment trajectories.

There is no contradiction if we consider the different nature of the shocks.

In 2011, the problem was interpreted as a crisis of confidence in fiscal sustainability and the architecture of the euro.

In 2020, the shock came from outside the economy, and preventing the state from responding could have permanently destroyed the productive base.

However, the change also demonstrates how economic rules are not independent of history. Principles presented as indispensable at one stage can be temporarily suspended when circumstances change enough to make their automatic application counterproductive.

This finding will have lasting political consequences.

For an Italian generation growing up during the debt crisis, Europe had been associated above all with the demand for adjustment.

During the pandemic, Europe itself began to be associated with the availability of common resources.

The change in perception was neither immediate nor uniform, but it profoundly changed the debate on integration.

## The 2021 recovery and the problem of administrative capacity

In 2021, the Italian economy reacted strongly to the reopening of businesses, the vaccination campaign, fiscal support and the improvement in international trade. ISTAT subsequently estimated real GDP growth of **6.7 percent for that year** , after a 9 percent fall in 2020; gross fixed investments increased by **16.5 percent** , exports by 13.4 percent and national final consumption by 4.2 percent. [11]


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The recovery was therefore real and very strong, but it should not be interpreted as a sudden structural increase in growth compared to the past. A significant portion of it represented the mechanical recovery of activities that had been suspended during the pandemic. If a restaurant closes for months and reopens the following year, the growth compared to the closure period can be enormous without implying that the economy's long-term potential has changed to the same extent.

This is precisely where Next Generation EU takes on its strategic significance. The goal was not only to recover the GDP lost in 2020, but to use the shock as an opportunity to alter growth potential through investment and reforms.

However, Italy faced a problem that money alone could not solve: the administrative capacity to plan, authorize, implement, and report on investments far larger than normal public planning.

The issue of the Recovery Fund thus became a test for the State.

In the 1990s, European constraints had required Italy above all to reduce its deficit and inflation.

In 2021, he was asking for something different and, in some ways, even more difficult: **to spend quickly and well** .

The transition between the two models occurs just as the political majority that had negotiated the first version of the plan enters into crisis.

On 26 January 2021, Giuseppe Conte resigned into the hands of President Sergio Mattarella, opening a new political phase while the pandemic was not yet over and the construction of the National Recovery and Resilience Plan had to be completed. [12]

A government crisis therefore does not simply interrupt a legislative term.

It comes at a time when Italy is about to receive the greatest European investment opportunity in its recent history.

It is at this juncture that Mario Draghi, the man who in 2012 redefined the credibility of the euro as president of the ECB, was called to Palazzo Chigi.


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# Chapter 19

## Draghi at Palazzo Chigi — PNRR, reforms, and the return of geopolitics

When Sergio Mattarella entrusted Mario Draghi with the task of forming a new government on **February 3, 2021** , the political significance of the choice could not be separated from the biography of the man called to the Quirinale. Draghi was not simply an independent economist charged with leading an emergency majority; he was the former governor of the Bank of Italy and above all the former president of the European Central Bank who, in the summer of 2012, had linked his name to rebuilding the euro's credibility. Nine years later, he returned to the center of Italian politics in circumstances that were once again exceptional, but almost the reverse of those of the sovereign crisis: in 2011–2012, the problem was convincing Europe and the markets that Italy would be capable of reducing the deficit and financial risk; in 2021, the problem consisted in using an extraordinary amount of European resources in a few years to modernize the state, increase productive capacity, and transform a post-pandemic recovery into structural change. [1]

Draghi himself, in the brief statement he gave after his meeting with Mattarella, defined the priorities through an extremely clear sequence: defeating the pandemic, completing the vaccination campaign, responding to citizens' daily difficulties, and using the "extraordinary resources of the European Union" to relaunch the country with a focus on younger generations and social cohesion. [1] The wording already reveals the nature of the mandate: the government was not born to simply administer the continuation of the legislature, but to coordinate the health emergency, economic recovery, use of the Recovery Fund, and reforms necessary to access resources.

The new executive was sworn in on **13 February 2021** and obtained an exceptionally large parliamentary majority a few days later. On 17 February, the Senate granted its confidence with **262 votes in favour, 40 against and two abstentions** , bringing together in support of the government forces that until a few weeks earlier had held radically different positions: the Five Star Movement, the Democratic Party, the League, Forza Italia and other parliamentary components. Fratelli d'Italia, however, remained in opposition, a choice that would later assume considerable political importance because it would allow Giorgia Meloni's party to represent the main parliamentary opposition while almost the entire rest of the political system shared the responsibility of governing. [2]

The size of the majority did not eliminate party differences; it temporarily suspended them in the face of a series of objectives that no single political force could have achieved alone. The pandemic was not over, the vaccination campaign needed to be accelerated, the economy needed to reopen without triggering a new health crisis, and the National Recovery and Resilience Plan needed to be finalized quickly enough to allow the Commission and Council to assess it.

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But the Draghi government was also born with an extremely clear international identity. In his programmatic statements to the Senate, the new Prime Minister explicitly placed Italy within the European Union and the Atlantic Alliance, linking national interest to the ability to build a stronger European sovereignty rather than to a purely national recovery of competences. This choice marked a change in tone compared to the period that began in 2018: not because Italy was suddenly abandoning any conflict of interest with Brussels, but because the government interpreted the European dimension not as a limitation to be contained, but rather as a tool through which to increase Italy's capacity for action. [3]

It is precisely this idea—sovereignty through integration rather than sovereignty against integration—that will become one of the keys to government.

## The PNRR as a political contract, not a simple spending plan

The **National Recovery and Resilience Plan** represents the core of the Draghi experience, but simply calling it an "investment plan" greatly undermines its nature. The Italian PNRR approved in 2021 had a total value within the Recovery and Resilience Facility of **191.5 billion euros** , divided between **68.9 billion in grants and 122.6 billion in loans** , and included 190 measures divided into six missions, 58 reforms and 132 investments according to the initial documentation of the Commission, accompanied by hundreds of milestones and targets that influenced the disbursement of the various tranches. [4]

The structure is essential to understanding why the NRRP was politically very different from traditional European structural funds. It wasn't simply a matter of allocating funds to specific projects and subsequently verifying expenditure reporting. Disbursement depended on the achievement of agreed-upon objectives, and these objectives included both works and investments as well as legislative and administrative changes.

In other words, Europe was simultaneously financing **physical capital and institutional change** .

This is a form of conditionality, but once again different from that experienced during the sovereign crisis. In 2012, conditionality was primarily linked to fiscal adjustment and the stabilization of a vulnerable state; in 2021, it is linked to the ability to use common resources to increase potential growth, resilience, digitalization, and the ecological transition.

For Italy, this meant addressing precisely some of the weaknesses described in almost all the previous chapters: slow civil justice, administrative complexity, low digitalization, infrastructure delays, territorial disparities, poor investment capacity, insufficient female participation, human capital, and the energy transition.

The Recovery Fund therefore did not eliminate Italy's structural problems.

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He transformed them into conditions for receiving resources.

## Why Italy received so much

The size of the Italian plan should not be interpreted simply as a personal negotiating success for the Conte or Draghi governments. The allocation stemmed from the European rules of the Recovery and Resilience Facility and from the fact that Italy's economic size, population, severe impact of the pandemic, and structural vulnerabilities combined to make it one of the instrument's primary beneficiaries.

The political importance of the negotiation remained real, because the overall structure of Next Generation EU was the result of an agreement between governments, and the national definition of the plan determined how the resources would be used. However, attributing the entire amount obtained to the negotiating capacity of a single executive would transform a European institutional mechanism into a personalistic narrative.

The Commission adopted its positive assessment of the Italian plan on **22 June 2021** , identifying it as a tool to support the digital transformation of public administration and businesses, justice reform, the green transition, sustainable transport, energy efficiency, education and broader economic and social resilience. [5]

A share of at least 37 percent of the plan was to contribute to climate goals and a significant share to digitalization, reflecting the fact that the Recovery Fund was not conceived simply as a Keynesian program to support demand, but as a tool for transforming supply.

This distinction is crucial. A public investment generates demand immediately, but the reason it can alter long-term growth is its ability to increase future productivity. Building a railway, digitizing a courthouse, improving an electricity grid, or increasing digital skills can have effects that continue for years after the expenditure is completed; distributing the same amount through a current transfer can support immediate consumption but does not necessarily leave permanent productive capital.

The PNRR was therefore judged not only by the amount of money spent, but by the quality of the effect produced.

## Reforms of justice and public administration as economic policy

One of the most interesting features of the Draghi strategy is the way seemingly institutional matters are reinterpreted as economic variables. Civil justice is not just a matter of rights and the functioning of the state, but also influences the cost of a contract, the recovery of a debt, the evaluation of a bank guarantee, and the decision of a foreign investor. Public administration is not just the place where laws are enforced, but the infrastructure through which authorizations, procurements, and investments are transformed into real activity.

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This link was particularly important for Italy because some of the previous European programs had suffered delays in the use of resources due to insufficient administrative capacity. Receiving €191.5 billion would have been of little value if municipalities, ministries, and administrations had not been able to quickly transform the allocations into compliant projects, tenders, construction sites, and measurable results.

The PNRR therefore introduced a form of discipline other than fiscal discipline: it wasn't enough to avoid overspending; one had to demonstrate the ability to spend.

It is an almost symbolic transformation of the Italy-Europe relationship.

In the 1990s and during the sovereign crisis, the main European question was whether Italy was capable of controlling its public finances.

In 2021, the question became whether it was capable of carrying out investments and reforms at the necessary speed.

## The vaccination campaign and the legitimacy of the operational state

Even before the PNRR took effect, the government had to overcome the health phase of the emergency. Accelerating the vaccination campaign thus became a political priority, because without reducing hospitalizations and mortality, any recovery plan would have been contingent on the possibility of further closures.

The management of the pandemic during 2021 demonstrates another aspect of the state's return: not just the ability to spend, but also the ability to organize. Distributing millions of doses rapidly required European supplies, national logistics, regional structures, IT systems, and coordination between administrations. The challenge was no longer simply to finance the emergency, but to demonstrate that institutions could consistently carry out a mass operation.

The gradual introduction of the **Green Pass** and, subsequently, mandatory vaccination for specific categories and segments of the population sparked one of the most sensitive conflicts of the entire pandemic, as it brought the economic reopening strategy directly into the balance between individual freedom and public health protection. A complete reconstruction of the health measures is beyond the economic focus of this chapter, but the political significance is important: the government chose to use certifications and requirements as tools to reduce the likelihood of new widespread closures, accepting the cost of a social conflict focused on these measures.

The reopening of the economy and strong growth in 2021 produced a recovery that exceeded many of the forecasts made during the initial phase of the pandemic. But already in the second half of the year, a new problem emerged that would completely alter the recovery landscape: rising energy prices and inflation.

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## From pandemic to scarcity: the return of inflation

For nearly a decade, the ECB had been battling the opposite risk—inflation that was too low. In 2021, the simultaneous resurgence of global demand encountered supply chain bottlenecks, shortages of certain inputs, and rising energy prices; what initially appeared to be a temporary consequence of the reopening gradually began to develop into a much broader problem.

For Italy, the increase in gas prices was particularly important due to the structure of its energy system. A significant share of electricity generation and industrial consumption depended on natural gas, while domestic production was insufficient and the country imported much of its needs.

This vulnerability did not arise in 2021 and cannot be attributed to the Draghi government. It is the result of decades of energy choices, the reduction in domestic production, the absence of nuclear power in Italian electricity generation, the growth of renewables, but also the need for programmable capacity and the development of supply relationships with Russia, Algeria, Azerbaijan, and other producers.

Energy dependence, long interpreted primarily as a commercial and price problem, was about to return to being a question of national security.

The transition takes place on February 24, 2022.

## The invasion of Ukraine brings geopolitics back to the center of economic policy

The Russian Federation's large-scale invasion of Ukraine transformed the second year of the Draghi government into something very different from what it was designed to be. Until then, the key economic policy buzzwords had been the pandemic, vaccinations, the Recovery Fund, digitalization, and the green transition; suddenly, military security, sanctions, energy supplies, NATO, and the international order became variables directly impacting inflation, production, and public finances.

The Bank of Italy would later describe the invasion as a **turning point in international relations** , noting that geopolitical tensions had reached levels not seen since the Cold War and that the extraordinary increase in energy prices had contributed to the sharp acceleration of inflation and the subsequent tightening of monetary policies.[6]

The energy dimension was particularly severe for Europe. In 2021, Russia supplied around **45 percent of the European Union's natural gas imports** , according to data cited by the Bank of Italy; when Moscow progressively reduced supplies in 2022 and Nord Stream 1 ceased operations in September of the same year, European gas shortages became a major factor in the price shock.[7]


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For Italy, this meant simultaneously addressing two potentially conflicting needs: supporting the West's response to Russian aggression through sanctions and support for Ukraine, and preventing rising energy costs from undermining the economic recovery that had just begun.

The government chose a very clear Atlantic and European line. The Union quickly adopted packages of sanctions against Russia in the financial, technological, energy and trade sectors; already on 24 February the European Council had agreed on further restrictive measures coordinated with the Western allies, and in the following weeks the sanctions regime was progressively expanded. [8]

Italy's choice did not represent a sudden deviation from the government's declared foreign policy: Atlanticism had been explicitly stated by Draghi in his programmatic statements of February 2021. But the war transformed a declaration of strategic positioning into a policy with immediate economic costs.

This is where geopolitics returns to household budgets.

A sanction is not just a diplomatic act.

A gas supply disruption is not just an energy issue.

War changes bills, industrial prices, inflation, interest rates, public spending, and competitiveness.

It marks the definitive end of the illusion, widespread during the height of globalization, according to which security and the economy could be analyzed as separate worlds.

## Energy diversification as foreign policy

For an importing country, gas diversification isn't simply about signing new commercial contracts. It means building infrastructure, regasification capacity, diplomatic relations with alternative producers, and physical routes capable of transporting the fuel.

Italy had a significant geographic advantage: its Mediterranean location and existing connections with North Africa and Azerbaijan allowed it to envision a more rapid diversification than European countries heavily dependent on Russian gas pipelines from the north.

- The crisis thus suddenly made infrastructures strategic that in previous years had been evaluated mainly through gas prices and economic efficiency.
- Algeria, TAP, regasification terminals and storage capacity acquired geopolitical significance.
- Energy security once again became a component of Italian foreign policy.

This topic will be fully addressed in Chapter 20, but in the context of the Draghi government, it's important to note the paradigm shift: the energy transition could no

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longer be considered solely as a climate policy; it had to be reconciled with security of supply and industrial competitiveness.

## Inflation and the end of the monetary season initiated by Draghi at the ECB

There's a clear historical irony in the final phase of the Draghi government. The man who, as ECB president, had led the central bank through its long battle against low inflation and the risk of deflation now found himself at Palazzo Chigi as the eurozone entered the strongest wave of inflation since the inception of the single currency.

The increase in energy prices was gradually passed on to the prices of goods and services. Households saw their purchasing power decline; energy-intensive businesses faced enormous cost increases; the government intervened through tax cuts, tax credits, transfers, and other measures designed to limit the impact of the shock.

These policies posed a new fiscal problem.

In 2020, the government borrowed to prevent the pandemic from destroying income and production capacity.

In 2022, it was again supposed to use the budget to distribute the cost of an external shock, this time in energy, over time and across categories.

The logic of the State's return therefore did not end with the pandemic.

He changed the subject.

## The PNRR during the war: from recovery plan to autonomy tool

When Italy's National Recovery and Resilience Plan was approved in 2021, the war in Ukraine had not yet begun, and the program's conceptual framework primarily reflected the priorities emerging from the pandemic crisis. The key challenge was to revive an economy hit by the 2020 recession, increase productivity, address infrastructure and technological gaps accumulated over decades, and accelerate the two major transitions that Brussels had already placed at the heart of its strategy: the ecological and digital transitions.

The Italian Plan approved by the Council of the European Union on 13 July 2021 was worth **€191.5 billion** , consisting of **€68.9 billion in grants** and **€122.6 billion in loans** made available through the Recovery and Resilience Facility. Approximately **37% of the resources** were earmarked for climate-related interventions. Investments included over **€32 billion for sustainable mobility** , approximately **€12.1 billion for energy efficiency in residential buildings** , and approximately **€11.2 billion for renewable energy, the circular economy, hydrogen, and resource management** . [Resource 10]

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In the original formulation, these measures were mainly interpreted through economic and environmental categories: modernization, decarbonization, emissions reduction, efficiency, innovation, productivity.

After February 24, 2022, however, the same investment infrastructure began to be read through a further category: **security** .

It wasn't necessary to cancel the NRRP and replace it with a new program. Many of the investments already planned took on a different strategic significance simply because the international context in which they were to be implemented had changed.

A more modern electricity grid was no longer just an infrastructure necessary for the ecological transition.

It could become a component of national resilience.

A photovoltaic system was not only used to reduce emissions.

Each amount of electricity produced without using imported gas reduced, at least marginally, the Italian economy's exposure to fluctuations in international markets and the decisions of supplier countries.

The energy retrofitting of a building was no longer just a matter of climate policy or a support measure for the construction sector. By reducing the energy demand for heating or cooling, the need for foreign fuels also decreased.

Electric mobility, storage, hydrogen, smart grids, and interconnections all acquired the same dual nature.

## Decarbonisation and energy security were beginning to overlap.

It was a profound conceptual transformation because Italy entered the Ukrainian crisis with one of the most vulnerable energy structures among the major European economies.

In 2021, natural gas accounted for approximately **40-42% of Italy's energy supply** . The country imported approximately **94% of its gas** , and according to the International Energy Agency, approximately **41% of Italy's natural gas imports came from Russia** . Gas also accounted for approximately half of Italy's electricity generation. [Resource 11]

Vulnerability therefore did not only arise from the amount of imported energy.

It resulted from the combination of three factors: **high dependence on foreign countries, the strong role of gas in the energy system and the high geographical concentration of part of the supplies** .

**Italy's energy vulnerability on the eve of war**

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| Indicator | Situation around 2021 |
|---|---|
| **Share of gas in the Italian energy mix** | about 40-42% |
| **Italy's dependence on gas imports** | about 94% |
| **Russia's share of Italian gas imports** | about 41% |
| **Share of gas in Italian electricity generation** | about 50% |
| **Italy's overall energy dependence in 2022** | about 81% |
| **Average EU energy dependence in 2022** | 62.5% |

*Sources: Eurostat; International Energy Agency.* [Resources 11-12]

The difference between the Italian and European figures is particularly significant. In 2022, net imports covered approximately **81% of Italy's total energy needs** , compared to a European Union average of **62.5%** . Italy was therefore structurally more exposed than many of its European partners to the international energy dimension. [Resource 12]

That vulnerability existed before the war.

The war turned it into a national security issue.

## From economic dependence to geopolitical vulnerability

For decades, a significant part of European energy policy had been built on the idea that economic interdependence could be managed predominantly through the market.

The principle seemed rational.

The producer was interested in selling.

The consumer had an interest in buying.

The infrastructure built to connect the two systems—gas pipelines, terminals, electricity grids, oil pipelines—would have made the disruption of trade economically costly for both sides.

The progressive integration between Russia and Europe in the energy sector had been developed precisely within this logic.

The war, however, demonstrated the limits of the distinction between economic efficiency and strategic security.

A business relationship can be mutually beneficial and simultaneously create vulnerability if one party can tolerate its disruption more easily than the other or if the exchanged good cannot be quickly replaced.

Gas has precisely these characteristics.


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Unlike many other commodities, it cannot be reallocated instantly. Its circulation depends on physical infrastructure: gas pipelines, regasification terminals, storage capacity, and transportation networks.

Replacing a supplier therefore requires time, contracts, infrastructure and logistical capabilities.

For Europe in 2021, the scale of dependence was considerable. Russia accounted for approximately **44% of extra-EU natural gas imports** , **28% of crude oil imports** , and over half of solid fossil fuel imports. [Resource 13]

Within a few weeks, what had until then been treated primarily as a problem of commercial diversification became a strategic issue.

At the informal European Council in Versailles on **10 and 11 March 2022** , a few weeks after Russia's invasion of Ukraine, European leaders agreed on the need to progressively reduce Europe's dependence on Russian gas, oil and coal.

The political transition was significant.

It was no longer just about the climate.

There was talk of **European energy independence** . [Resource 14]

On 18 May 2022, the Commission presented **REPowerEU** , built around three main pillars: saving energy, diversifying supply sources, and accelerating clean energy production. [Resource 15]

The decisive point, from an institutional point of view, was that the Union decided to use the **Recovery and Resilience Facility** , i.e. the financial architecture on which the national NRRPs were built, as one of the main tools for implementing this new strategy.

The plan conceived during the pandemic thus also became an instrument of the European response to the war.

## The PNRR changes function without changing its origin

It is important to distinguish between the two moments.

The Italian PNRR **was not born as an energy security program** .

It was born in the context of NextGenerationEU and the post-pandemic recovery.

But the war progressively changed the strategic environment in which those resources were invested.

And this change ended up being formally incorporated into the very structure of the Plan.

In 2023, Italy presented a revised PNRR that included a REPowerEU chapter. The revised plan reached a total value of approximately **€194.4 billion** , consisting of € **71.8 billion in**

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**grants** and **€122.6 billion in loans** . The share of interventions linked to climate objectives increased from approximately 37.5% in the original plan to **39%** . [Resource 16]

The financial dimensions were important, but even more important was the qualitative change.

The Italian REPowerEU chapter included **five new reforms and seventeen new investments** , aimed, among other things, at strengthening electricity grids and the gas transmission system, energy efficiency, zero-emission transport, and the skills needed for the green transition. [Resource 17]

The European Commission estimated the overall cost of the measures specifically included in the REPowerEU categories indicated by the legislation at approximately **€10.76 billion . [Resource 17]**

The transformation can be summarized as follows:

| PNRR 2021 | PNRR in the new geopolitical context |
|---|---|
| **Post-pandemic recovery** | Recovery + geopolitical resilience |
| **Decarbonisation** | Decarbonisation + reduction of dependencies |
| **Energy efficiency** | Efficiency + Energy Security |
| **Digitalization** | Productivity + technological sovereignty |
| **Infrastructure** | Growth + resilience of strategic networks |
| **Renewables** | Climate + substitution of imported fuels |
| **Economic diversification** | Diversification of sources and supply chains |

The transition does not mean that every PNRR investment automatically becomes a national security policy.

It means something more subtle.

## The strategic assessment of the investment changed.

A euro invested in energy efficiency could now produce three effects simultaneously: reducing emissions, reducing energy costs, and reducing the amount of energy imported.

An investment in the electricity grid could support the growth of renewables and, at the same time, increase the Italian system's capacity to operate with an energy mix less dependent on fossil fuels.

A new interconnection could have an economic return, but also an insurance value against possible interruptions in supplies.


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In other words, European industrial policy was beginning to consider the **value of resilience** alongside the value of efficiency.

## The Italian response: diversify before decarbonizing

The speed of the Italian reaction demonstrated how politically unsustainable Russian dependence had become.

Italy first used its geographical position and its network of energy connections with the Mediterranean to diversify its supplies.

Algeria, Azerbaijan, liquefied natural gas suppliers and other partners gained an increasing role.

According to the International Energy Agency, Russia's share of Italian gas imports, which had been around **41% in 2021** , had fallen to around **3% in November 2022.** [Resource 11]

The data shows the extraordinary speed with which Italy managed to modify the geography of its supplies.

But it also shows a deeper element.

**Diversification does not necessarily mean eliminating dependency.**

Replacing Russian gas with Algerian, Azerbaijani, Norwegian, or LNG from other markets reduces the concentration of geopolitical risk, but the country continues to purchase energy from abroad.

The first phase of the response to the crisis was therefore above all a **diversification of dependency** .

The second, necessarily slower, consisted in reducing dependence itself through energy efficiency, electrification and the development of renewable sources.

It is precisely here that the PNRR assumed its greatest strategic significance.

In the short term, energy security required new suppliers.

In the medium term it required new infrastructure.

In the long run, this required a different structure of energy demand and production.

These three dimensions were not alternatives.

They were supposed to proceed simultaneously.

## The paradox of 2022: less Russian gas, but not necessarily less vulnerability

The transformation, however, took place under extremely difficult conditions.

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Energy prices rose dramatically during 2022. Europe had to compete on international liquefied natural gas markets, replenish its stocks, and reduce consumption.

In Italy, domestic gas demand decreased by approximately **9.9% in 2022 compared to 2021.** At the European level, the contraction was even more profound in some countries: Germany reduced consumption by 15.4%, France by 9.6%. [Resource 18]

During the same period, the geography of European imports also changed rapidly.

In 2021, Russia and Norway each accounted for nearly a quarter of the gas entering the Union, according to the specific Eurostat statistical series used for physical flows. By 2022, Russia's share had fallen to **15.3%** , while those of the United States, Algeria, and Qatar increased. [Resource 18]

Using a broader methodology covering European imports, the Commission subsequently summarized the transformation by noting that Russia's share of EU gas imports had fallen from around **45% in 2021 to 15% in 2023.** The two series use different statistical bases, but they point to the same structural transformation: within two years, Europe had dramatically reduced Russia's role in its energy security. [Resource 19]

**The rapid transformation of the European gas system**

| Indicator | Before/during the crisis | Evolution |
|---|---|---|
| **Russia's share of Italian gas imports** | approximately 41% in 2021 | approximately 3% in November 2022 |
| **Italian gas demand** | base 2021 | -9.9% in 2022 |
| **German gas demand** | base 2021 | -15.4% in 2022 |
| **French gas demand** | base 2021 | -9.6% in 2022 |
| **Russian share of EU gas imports, summary data from the Commission** | approximately 45% in 2021 | approximately 15% in 2023 |
| **EU gas consumption** | August 2022-March 2024 | -18% |

*The various import share statistics are not directly interchangeable because they depend on the definition of the flows considered; they are reported according to their respective official sources.* [Resources 11, 18, 19]

The crisis had therefore produced an acceleration that probably no normal energy policy process could have generated with the same speed.

But that speed came at a cost.

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Changing suppliers in the midst of a crisis often means paying more.

Building terminals, increasing regasification capacity, modifying networks, accumulating inventories, and supporting families and businesses against rising prices requires public and private resources.

Energy security is not free.

It is, in part, the price an economic system pays to insure itself against the risk that an efficient dependence in normal times becomes unsustainable during a crisis.

## From gas to networks: the new geography of autonomy

For Italy, the lesson also had a geographical dimension.

The peninsula, traditionally described as vulnerable precisely because of its dependence on energy imports, simultaneously possessed a characteristic that could be transformed into a strategic advantage: its location at the centre of the Mediterranean.

Links to North Africa, the Trans Adriatic Pipeline from Azerbaijan, LNG terminals, and connections to the European energy system could allow Italy to diversify its supplies more rapidly.

But for that geographical position to become a real strategic capability, infrastructure was necessary.

The difference between simply being crossed by an energy flow and becoming a European energy hub depends on the networks: import capacity, internal transport, storage, regasification, electricity interconnections, port capacity, and connections with Central European markets.

From this point of view too, the PNRR and REPowerEU were part of a transformation that far exceeded the original meaning of an economic recovery programme.

Infrastructure became **materialized geopolitics** .

A pipeline determines which suppliers can reach a market.

An LNG terminal expands the potential number of suppliers.

A cross-border power line allows deficits and surpluses between national systems to be compensated.

A digital grid controls growing amounts of energy infrastructure.

A storage system allows you to integrate intermittent sources and reduce the need for reserve fossil generation.

A hydrogen production plant can, in the long term, transform the energy structure of industrial sectors that are difficult to electrify.

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Strategic autonomy, therefore, was not an abstract concept.

It was a function of the available infrastructure.

## The next problem: from Russian dependencies to Chinese dependencies

The war, however, also produced a second awareness.

Reducing dependence on fossil fuels does not automatically mean becoming independent.

It often means **shifting dependence from one value chain to another** .

A gas-based energy system requires pipelines, fields and terminals.

An energy system increasingly based on electricity and renewable sources requires photovoltaic panels, turbines, batteries, semiconductors, inverters, storage systems, permanent magnets, and large quantities of minerals.

- Lithium.
- Nickel.
- Cobalt.
- Graphite.
- Copper.
- Rare earths.
- Magnesium.

The geography of risk is changing.

It doesn't disappear.

Even before the invasion of Ukraine, the European Commission had identified particularly high strategic dependencies in sectors such as rare earths, magnesium, photovoltaic panels, chemicals, cybersecurity, and software. In February 2022, it noted that the concentration of global production in China and the scarcity of alternatives made European rare earth, magnesium, and photovoltaic supply chains particularly vulnerable. [Resource 20]

The data speaks for itself.

Approximately **97% of the magnesium used in the European Union** came from China. The refining of rare earths used in permanent magnets was concentrated almost entirely in China. Other strategic materials had similar geographic concentrations: approximately **63% of the world's cobalt** used in batteries was mined in the Democratic Republic of the Congo, while approximately **98% of Europe's supply of borates** came from Turkey. [Resource 21]

This produced a paradox.

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Europe sought to reduce a geopolitically dangerous dependence—that on Russian fossil fuels—by accelerating technologies that could generate other geopolitical dependencies.


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## The new geography of addictions

| Old energy system | New energy and digital system |
|---|---|
| **Natural gas** | Lithium |
| **Petrolium** | Nickel |
| **Coal** | Cobalt |
| **Gas pipelines** | Batterie |
| **Refineries** | Cells and gigafactories |
| **Deposits** | Rare earths |
| **Hydrocarbon producing countries** | Mineral producing and refining countries |
| **Dependence on Russia** | Concentration risk towards China and other suppliers |
| **Security of fossil fuel supplies** | Technology Supply Chain Security |

The conclusion that Brussels was gradually beginning to draw was that the energy transition could not be governed exclusively as a climate policy.

It was also supposed to be **industrial policy** .

It was necessary to know not only how much renewable energy to install, but also who produced the panels.

Not just how many electric cars to sell, but where the batteries were produced.

Not just how many wind turbines to build, but where the magnets, rare earths, and components came from.

Not just how to digitize the economy, but who controlled semiconductors, clouds, networks, and strategic software.

**Pandemic, war, and technological competition: three crises, one lesson**

The European transformation can be understood through a sequence of three shocks.

**The pandemic revealed the vulnerability of global supply chains.**

In 2020 and 2021, shortages of medical devices, semiconductors, industrial components, and manufacturing capacity showed that a highly efficient globalized market could be fragile when entire supply chains were simultaneously disrupted.

**The war revealed the vulnerability of energy dependencies.**

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In 2022, Europe discovered that a key supplier could be both a trading partner and a geopolitical counterpart.

**Growing competition between the United States and China made technological vulnerability evident.**

Advanced semiconductors, artificial intelligence, cloud computing, batteries, critical raw materials, telecommunications, and green technologies gradually began to be treated not just as economic sectors, but as components of national power.

The result was a change in European vocabulary.

Terms such as **resilience** , **strategic autonomy** , **economic security** , **de-risking** , **critical raw materials** , **European industrial capacity** and **supply chain diversification** became firmly established in institutional language.

It did not mean the end of the single market.

It did not even mean a return to autarky.

Europe remained one of the most open economies to international trade in the world.

The change consisted rather in the awareness that **not all economic dependencies possess the same strategic value** .

Purchasing a readily substitutable good from a single supplier creates limited risk.

Dependence on a single country for an essential technology, for a fuel without which part of the economy ceases to function, or for a raw material necessary for defense and the energy transition creates a systemic vulnerability.

The problem was not, therefore, to eliminate interdependence.

It was about distinguishing between acceptable interdependencies and dangerous concentrations.


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## Italy within the new European paradigm

It is in this context that the Italian PNRR takes on a dimension that goes beyond its financial value.

The **€194.4 billion** of the revised Plan did not just represent a transfer of resources towards infrastructure and reforms.

They represented one of the main tools through which Italy could modify some of its structural vulnerabilities.

The digitalization of public administration increased the efficiency of the state, but at the same time raised the issue of the security of digital infrastructure.

Investments in the electricity grid enabled the expansion of renewables, but also determined the country's ability to reduce its dependence on gas.

Rail investments reduced emissions and congestion, but also contributed to the construction of Europe's transport networks.

Energy efficiency interventions reduced structural consumption.

Investments in hydrogen attempted to create new industrial supply chains.

The modernization of digital infrastructures allowed companies to increase productivity, but it also became part of the competition for control of strategic technologies.

The Plan was therefore part of a broader transformation of European economic policy.

In the 1990s, the dominant paradigm had favored open markets, competition, privatization, fiscal discipline, and economic integration.

After the pandemic and the war, these principles did not disappear.

But alongside them a question that Europe had long left in the background re-emerged forcefully:

**What capabilities must an economic system retain within itself to remain politically free to make decisions?**

This is the question that links the PNRR to strategic autonomy.

Europe did not try to produce everything.

He gradually sought to avoid being critically dependent on any one individual for what he could not afford to lose.

- Energy.
- Technology.
- Raw materials.


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- Semiconductors.
- Infrastructure.
- Defense.
- Industrial capacity.

The Italian PNRR thus ended up being executed within a paradigm different from the one in which it had been conceived.

It was born from the pandemic as a tool for economic reconstruction.

The war also transformed it into a vehicle for energy security.

Technological competition gave it an even broader industrial and strategic dimension.

This evolution reveals one of the most important aspects of Europe's post-2020 transformation.


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## Economy and safety: when efficiency is no longer enough

The traditional distinction between economic policy and security policy was becoming increasingly blurred, even as Europe sought to absorb, almost seamlessly, the effects of the pandemic, bottlenecks in global supply chains, and finally the Russian invasion of Ukraine. For many years, a significant portion of European economic decisions had been evaluated primarily through the language of efficiency: energy costs, returns on investment, economies of scale, production specialization, trade openness, competition, and the ability to purchase goods and raw materials on the world market at cheaper rates than those obtainable through domestic production. That paradigm did not disappear with the war, because an open European economy, highly integrated into international trade, could not simply replace the market with self-sufficiency; What changed, however, was the awareness that **economic efficiency and strategic security do not necessarily coincide** , and that a dependence capable of producing a cost advantage under ordinary conditions can turn into a vulnerability when the supplier, the trade route, the raw material or the technology on which the system depends suddenly become unavailable or are used as instruments of political pressure.

From this new perspective, a gas pipeline could not be considered merely as an infrastructure designed to transport a raw material from producer to consumer in the most economically viable manner. Its geographic origin, the countries it crossed, the quantity of gas it could transport, the existence of alternative routes, national regasification and storage capacity, the ability to rapidly increase supplies from other partners, and the degree of interconnection with the rest of the European system became factors directly linked to the country's economic security. Italy's dependence on Russian gas had demonstrated precisely this: a seemingly commercial infrastructure incorporated a political relationship, and when that relationship deteriorated, the strategic value of alternatives became immediately evident. Strengthening connections with Algeria, increasing flows from Azerbaijan via the Trans Adriatic Pipeline, expanding regasification capacity, and diversifying access to liquefied natural gas therefore meant not only replacing one supplier with another, but also changing the **geography of Italian energy risk** .

The same logic was beginning to apply to activities seemingly far removed from energy. A semiconductor factory, for example, could continue to be evaluated based on productivity, employment generated, and industrial value added, but the pandemic had shown how a shortage of relatively small and inexpensive components compared to the final product could slow or disrupt automotive, electronics, and mechanical engineering production. When technological competition between the United States and China began to increasingly focus on advanced chips, the machinery needed to produce them, artificial intelligence, and dual-use technologies, it became clear that the location of production capacity could not be considered solely a corporate decision. **A**

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**semiconductor factory could simultaneously be industrial policy and national security** , because telecommunications, payment systems, industrial infrastructure, automobiles, satellites, military equipment, and a growing part of the very functioning of the digital state now depended on the availability of those components.

An electricity grid could, similarly, simultaneously be part of climate policy and strategic resilience. Installing large amounts of solar and wind capacity without networks capable of absorbing, transporting, and distributing that generation would have created bottlenecks that could slow the transition regardless of the nominal amount of new capacity installed. Strengthening the grids, digitizing their management, increasing interconnections, and developing storage systems therefore meant creating the technical conditions necessary for decarbonization, but it also meant reducing over time the amount of imported fossil fuels Italy would need and, consequently, decreasing the economy's exposure to international price fluctuations and the political decisions of producing countries.

Even a lithium mine, a refining plant, a battery gigafactory, or a material recovery and recycling facility could become a matter of industrial autonomy. The energy transition, in fact, did not eliminate dependence on foreign resources: **it changed their composition** . A system increasingly based on electrification and renewables would consume less oil, coal, and natural gas, but would require increasing quantities of copper, lithium, nickel, graphite, rare earths, refined materials, batteries, permanent magnets, semiconductors, inverters, and electronic control systems. Strategic autonomy could therefore not be confused with autarky, nor could it consist in the unrealistic goal of producing everything the economy needed internally; rather, it consisted in recognizing **which dependencies were concentrated and critical enough to limit the state's freedom of decision in the face of a crisis** .

The same reasoning now applied to digital infrastructures. A cloud infrastructure used by public administration, a telecommunications network, a data center, or a digital management system for public services could increase productivity and reduce administrative costs, but they simultaneously raised questions about data localization, the continuity of essential services, protection from cyberattacks, technological dependence on foreign suppliers, and the state's ability to maintain its functions in an emergency. **Productivity, technological sovereignty, and security thus tended to overlap** , to the point of making it increasingly difficult to clearly separate economic policy from strategic policy.

It was precisely within this transformation that Italy had to learn to use the PNRR. It was no longer simply a matter of demonstrating the administrative capacity to absorb an exceptional amount of European resources within the agreed deadlines, nor simply of bridging accumulated delays in physical and digital infrastructure. The issue was becoming progressively more ambitious: using this extraordinary investment window to

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**reduce some of the structural vulnerabilities that limited the country's ability to respond to external shocks** , improving network security, energy efficiency, technological capacity, infrastructure resilience, and the diversification of supply sources.

After the pandemic and the invasion of Ukraine, these vulnerabilities could no longer be interpreted simply as costs or inefficiencies of the economic system. Dependence on a single energy source, the geographic concentration of a critical technology, inadequate networks, or the lack of industrial capacity in a key supply chain could limit the decisions available to a government precisely when those decisions were becoming more important. They had become, in a fully political sense, **variables of the state's strategic freedom** .


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## The economic recovery was not erased by the war, but it changed its composition

It is precisely in light of this transformation that a seemingly contradictory fact about the Italian economy in 2022 must be interpreted: despite the invasion of Ukraine, the explosion of energy prices, the acceleration of inflation and the progressive tightening of European monetary conditions, **the Italian economy did not enter into recession** , but continued to grow. Updated ISTAT estimates confirm that Italian GDP increased in real terms by **3.7 percent in 2022** , after the exceptional rebound of 8.3 percent recorded in 2021. [9]

The data is essential to avoid an excessively linear representation of the war year. 2022 was not simply a new recessionary crisis superimposed on the pandemic one, because extremely significant expansionary forces continued to operate in the Italian economy: the normalization of activities that had been most penalized by health restrictions, the return of international tourist flows, the recovery of services, the still strong demand from families, private and public investments and the progressive start of interventions financed by the PNRR. In the first complete assessment of the 2022 accounts, ISTAT recorded an increase in volume of **9.4 percent in gross fixed investments** , **3.5 percent in national final consumption** , **9.4 percent in exports of goods and services** and **11.8 percent in imports** ; domestic demand net of inventories had provided a positive contribution to GDP growth equal to 4.6 percentage points, while net foreign demand had subtracted half a percentage point and the change in inventories a further four tenths. [22]

These numbers describe an economy that continued to expand, but they alone do not explain the economic experience of households and businesses, because a different phenomenon was occurring at the same time: Italy was producing more goods and services than the previous year, but a growing portion of domestically generated income had to be used to pay for energy imports that had suddenly become much more expensive. GDP growth could therefore coexist with a **reduction in purchasing power** , and this apparent contradiction constitutes one of the key elements for understanding the economics of 2022.


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## The Italian economy in 2022: real growth and price shocks

| Indicator | 2022 variation |
|---|---|
| Real GDP | +3.7% |
| Gross fixed investment, in volume | +9.4% |
| National final consumption, in volume | +3.5% |
| Exports of goods and services, by volume | +9.4% |
| Imports of goods and services, by volume | +11.8% |
| Added value of construction, in volume | +10.2% |
| Added value of services, in volume | +4.8% |
| Average NIC inflation | +8.1% |
| Average IPCA inflation | +8.7% |
| Energy prices, annual average | +50.9% |
| Purchasing power of families | -1.6% |

**Sources:** ISTAT, National Accounts; ISTAT, Consumer Prices; ISTAT, Economic Accounts by Institutional Sector. [22][23][25]

The table clarifies why GDP data alone would be insufficient to describe that year. Production was increasing, investment remained very dynamic, and services continued to benefit from the post-pandemic normalization, but at the same time, the economy was experiencing one of the most intense inflationary shocks Italy has experienced since the mid-1980s. Real economic growth, therefore, did not automatically translate into an equivalent increase in real household well-being, because part of that growth was eroded by the rising cost of imported goods and the resulting acceleration in domestic prices.

## The energy shock as a transfer of income abroad

To understand why a country can simultaneously experience GDP growth and relative impoverishment, we must consider the deterioration in the **terms of trade** , that is, the ratio between the prices of exports and those of imports. When the price of imported goods increases much more rapidly than that of exported goods, a country must surrender a greater amount of its income to purchase the same physical quantity of goods from abroad. For an economy heavily dependent on energy imports like Italy's, this mechanism became particularly important between the second half of 2021 and 2022, when the international price of gas and, through various transmission channels, that of electricity, oil, and numerous raw materials increased rapidly.


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The Bank of Italy, subsequently reconstructing the episode, showed that the deterioration in the Italian terms of trade in the two-year period **2021-2022 was significant** , although smaller than that recorded during the first oil shock of 1973-1974, and was more pronounced than that suffered by the other main countries of the euro area. The energy component was the main factor of the shock, which determined a sharp deterioration in the current account balance and a particularly significant negative income effect even in international comparison. [24]

The economic significance of this phenomenon is essential. If an Italian firm produces a greater quantity of goods and services, but the country must simultaneously use a much higher share of its income to purchase gas, oil, and electricity from abroad, **the population's real capacity for consumption may decline even in the face of a growing GDP** . There is no contradiction between the two phenomena: GDP measures production within the economic territory, while a deterioration in the terms of trade alters the quantity of foreign goods and services that income can purchase.

In the Italian case, the war made this transfer particularly visible. The additional cost of imported energy constituted, in economic terms, a transfer of income from consuming to exporting countries. This transfer could be distributed differently within the Italian economy—through higher prices for families, lower margins for businesses, lower purchasing power for workers, or increased public spending—but it could not be simply eliminated through a political decision. **The real cost still existed; what the state could alter was its distribution.**

## From the gas shock to general inflation

The next step was to pass on the increase in energy prices to the entire price system. On average over the year, the national consumer price index for the whole country, the NIC, increased by **8.1 percent in 2022** , compared to 1.9 percent in 2021, recording the highest average increase since **1985** , when inflation was 9.2 percent. Using the European harmonized index (HICP), which uses a partially different methodology, the average annual increase reached **8.7 percent** . [23]

The main source of the shock was energy: according to ISTAT, **the prices of energy goods increased by an average of 50.9 percent in 2022** , after having already grown by 14.1 percent in 2021. [23] The phenomenon, however, did not remain confined to bills, because energy represented a transversal input of almost all economic activities. An increase in the price of gas directly increased the costs of the ceramic, chemical, steel, paper and food industries; the increase in electricity affected refrigeration, commercial distribution and industrial production; the increase in fuel prices increased transport costs; the increase in the price of fertilizers and energy-intensive agricultural processes was progressively passed on to food prices.


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The consequence was that, as the months passed, inflation began to spread from the energy core to a much broader set of goods and services. **Core inflation** , calculated by ISTAT excluding energy and fresh food, went from an average of 0.8 percent in 2021 to **3.8 percent in 2022** , demonstrating that the shock could no longer be interpreted as a simple temporary fluctuation in the price of a single raw material. [23]

## From gas to loss of purchasing power: the transmission chain

| Ride | Economic mechanism | Consequence |
|---|---|---|
| **Geopolitical shock** | war, reduced supplies and increased risk | growth in energy prices |
| **Gas market** | greater scarcity and risk premium | wholesale price increase |
| **Electrical system** | strong presence of gas in marginal generation | increase in electricity prices |
| **Production system** | more expensive energy for industry, transport and services | growth in business costs |
| **Final prices** | partial transfer of higher costs to customers | spread of inflation |
| **Families** | prices are rising faster than disposable income | reduction in purchasing power |
| **Businesses** | compressed margins or need to raise prices | risk of production suspensions |
| **State** | interventions on bills, taxes, bonuses and tax credits | transferring part of the shock to the public budget |

This sequence allowed us to understand why the war was able to directly impact the budgets of an Italian family, despite being waged thousands of miles away. Geopolitics altered the availability and price of gas; the gas market influenced the electricity market; the cost of energy entered into production and distribution processes; businesses passed on at least part of the increased costs to final prices; prices rose faster than many nominal incomes, and, ultimately, purchasing power declined.

## Growing without becoming proportionally richer

Household economic accounts show this phenomenon particularly clearly. According to ISTAT, in 2022 **household disposable income increased nominally by 5.5 percent** , but price growth was so intense that it led to a **reduction in purchasing power of 1.6 percent** . In the same year, the propensity to save fell to 8.0 percent, from 13.8 percent in 2021, indicating that some households used a larger share of their income — and in some

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cases previously accumulated resources — to support consumption in the presence of higher prices. [25]

The phenomenon emerges even more clearly when looking at monthly spending. In 2022, the average consumption expenditure of resident families rose to **2,625 euros per month** , compared to **2,415 euros in 2021** , with a nominal increase of 8.7 percent; however, since the increase substantially coincided with that of the IPCA, ISTAT concluded that **expenditure in real terms had remained substantially unchanged** . [26] A family could therefore spend on average over two hundred euros more each month without obtaining a corresponding increase in the quantity of goods and services consumed, because that greater expenditure served largely simply to compensate for the new price level.

## Italian households: nominal income, prices, and purchasing power in 2022

| Indicator | 2021 / 2022 |
|---|---|
| Household disposable income, nominal change 2022 | +5.5% |
| Purchasing power of families | -1.6% |
| Savings propensity 2021 | 13.8% |
| Savings propensity 2022 | 8.0% |
| Average monthly family spending 2021 | €2,415 |
| Average monthly family spending 2022 | €2,625 |
| Nominal increase in average expenditure | +8.7% |
| Average IPCA inflation | +8.7% |
| Change in real spending | essentially nothing |

**Sources:** ISTAT, Economic accounts by institutional sector; ISTAT, Household consumption expenditure. [25][26]

This was the reason why macroeconomic growth could coexist with a widespread sense of impoverishment without either necessarily being false. **The Italian economy as a whole was producing more, while a portion of households could purchase less with each euro of disposable income.** GDP and purchasing power measured different dimensions of the same economy, and in 2022, these dimensions were moving in partially divergent directions.

## A profoundly unequal shock

Furthermore, inflation did not affect all households equally, because the pattern of consumption varies considerably with income. Economically less advantaged households allocated a greater share of their spending to hard-to-compress goods—food, household energy, fuel, rent, and other essentials—while households with greater spending power generally had a higher share available for discretionary goods and services and possessed greater financial reserves with which to temporarily absorb the shock.

ISTAT estimated that, measured through the IPCA and distinguishing families based on spending capacity, **inflation in 2022 reached 12.1 percent for the group with the**

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**lowest spending capacity, against 7.2 percent for the group with the highest spending capacity** . [23] The differential, almost five percentage points, showed in a particularly clear way the regressive nature of the shock: the national energy crisis itself produced an inflation actually perceived as very different depending on the composition of the family basket.

## Inflation in 2022 was not the same for everyone

| Indicator | Average change 2022 |
|---|---|
| NIC Inflation | +8.1% |
| HICP inflation | +8.7% |
| Core inflation | +3.8% |
| Energy goods | +50.9% |
| Households with lower spending capacity, IPCA | +12.1% |
| Families with greater spending capacity, IPCA | +7.2% |

**Source:** ISTAT. [23]

The political challenge, therefore, was not simply to contain an average price index, but to decide to what extent the public budget should prevent an external shock from disproportionately affecting the most vulnerable segments of the population and the most exposed productive activities. An increase in energy costs can indeed produce an economically useful adjustment when it encourages savings, efficiency, and the substitution of sources; however, if it reaches extreme levels, the reduction in demand no longer occurs solely through innovation and efficiency, but also through impoverishment, business closures, or the forgoing of essential consumption.

## Protecting families and businesses without erasing the price signal

This was the most difficult dilemma facing Italian economic policy in 2022. Full and widespread compensation for rising energy prices would have immediately protected families and businesses, but it would have created at least three problems: it would have required an enormous amount of public resources, it would have shifted a growing portion of the cost of energy imports to the state budget, and it would have reduced the economic incentive to reduce consumption precisely at the time when Europe needed to reduce gas demand. Insufficient protection would have produced the opposite risk: rising bills could have rapidly resulted in energy poverty for low-income families, a loss of competitiveness for industry, and the cessation of business for businesses that, while economically viable under normal conditions, were unable to absorb an exceptional increase in energy costs.


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The difficulty was already evident at the beginning of the year. For the first quarter of 2022, despite public intervention, ARERA calculated a **55 percent increase in electricity bills** and a **41.8 percent increase in gas bills for a typical family in the protection regime** . Without government measures, the increases would have been even higher: the Authority estimated 65 percent for electricity and 59.2 percent for gas respectively. The Government had allocated approximately 3.8 billion euros, through the budget law, to reduce charges, lower VAT on gas and increase social bonuses; for families entitled to the latter, the increases were substantially offset. [28]

The situation became even more exceptional during the summer. In the second half of August 2022, European gas prices temporarily exceeded **300 euros per megawatt hour** , while the reduction and then complete suspension of flows through Nord Stream 1 further increased the risk premium embedded in prices. At the end of September, ARERA adopted an extraordinary intervention that avoided a doubling of the electricity component for the fourth quarter, but the increase for the typical household was still **59 percent** . The estimated annual electricity expenditure for the typical household thus went from around **632 euros in 2021 to around 1,322 euros in 2022** , more than doubling in the space of just one year.[29]


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## The size of the shock on bills

| Indicator | Value |
|---|---|
| Electricity increase, first quarter 2022 | +55.0% |
| Gas price increase, first quarter of 2022 | +41.8% |
| Increase in electricity that would have occurred without the interventions | +65.0% |
| Gas increase that would have occurred without the interventions | +59.2% |
| European gas peak, August 2022 | over €300/MWh |
| Electricity increase, Q4 2022 | +59.0% |
| Typical family annual electricity costs 2021 | approximately €632 |
| Typical family annual electricity costs 2022 | approximately €1,322 |

**Source:** ARERA. [28][29]

These numbers help us understand why energy policy has become, in just a few months, one of the country's key fiscal and social policy issues. When a key household expenditure item can double in the space of a year, the problem no longer concerns just the functioning of the energy market; it directly affects disposable income, wealth distribution, savings capacity, domestic demand, and, ultimately, social stability.

## The State as a shock absorber

The Italian response was exceptional and consisted of a series of measures that included eliminating or reducing general system charges, reducing VAT on gas, strengthening social bonuses, temporarily reducing fuel excise duties, tax credits for energy- and gas-intensive businesses and subsequently for broader groups of businesses, cash transfers, guarantees, and other measures aimed at preventing rising energy costs from causing an even greater deterioration in household income and production capacity.

**Deputies** quantified the effects on net debt for 2022 of the measures specifically linked to the interventions against the high cost of energy provided for by the budget law and the main decrees adopted up to the Aiuti-ter decree at 40.97 billion euros. The same dossier points out, however, that by adopting a broader perimeter, the effects of the measures approved up to 30 September reached approximately **55 billion** , while the NADEF 2022 indicated **57.1 billion** , a difference also due to different classification criteria and the inclusion of further interventions, including the ministerial decrees relating to the reduction of excise duties on fuels. [27]


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It's important to maintain this distinction because the different values don't represent incompatible estimates of the same aggregate: **they measure different perimeters of public intervention** . Confusing them would lead to false precision; considering them together, clarifying the methodology, allows us to understand the true fiscal scale of the response.

## The different quantifications of public intervention in 2022

| Quantification | Amount | Perimeter |
|---|---|---|
| **Measures to combat high energy prices considered in the parliamentary dossier** | **€40.97 billion** | effects on net borrowing of specifically classified measures |
| **Measures adopted until September 30th according to the broader scope referred to in the dossier** | **approximately €55 billion** | extended scope of financial effects |
| **Quantification of NADEF 2022 recalled by the Chamber** | **€57.1 billion** | broader government classification, including further interventions |

**Source:** Chamber of Deputies, State Budget Service. [27]

What matters, beyond the precise accounting classification, is that the public budget was taking on the role of a **shock absorber for an external geopolitical shock** . A portion of the cost that would otherwise have directly affected families and businesses was transferred to the state through lower tax revenues, reduced charges, bonuses, tax credits, and transfers. The real cost of energy did not disappear: the entity on which it fell immediately changed.

## The difficult border between support and distortion

From this perspective, the choice between generalized measures and selective interventions became crucial. Indiscriminately reducing fuel prices or energy costs meant offering an immediate benefit to a very broad audience, with rapid effects on measured inflation and household perceptions. But it also meant using public resources to protect consumers who could absorb at least part of the increase without compromising their standard of living. A bonus tied to economic status, on the other hand, allowed interventions to be focused on the most vulnerable households, but required administrative systems capable of rapidly identifying them and left groups just above the eligibility thresholds more exposed.

There was also a further problem, even more significant in the context of war. Price not only serves a distributive function: **it conveys information about scarcity** . If gas


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becomes extremely expensive because available supply is insufficient to meet demand, the price increase induces households and businesses to reduce consumption, accelerates investments in efficiency, improves the relative attractiveness of alternative sources, and helps rebalance the market. Completely erasing that signal through a generalized subsidy would therefore have weakened the very adjustment mechanism Europe needed to reduce dependence on Russian supplies.

But allowing prices to operate unprotected would have produced equally problematic consequences, because beyond a certain threshold, demand reduction no longer occurs solely through efficiency. A low-income family may reduce energy consumption because it can no longer adequately heat its home; an energy-intensive company may reduce consumption by suspending production; a company with limited margins may cease operations not because it is structurally inefficient, but because it faces energy costs for a few months that are incompatible with any normal industrial planning. In these cases, the price signal continues to reduce demand, but it does so through what economists call **demand destruction** , that is, through a contraction in activity and well-being rather than through orderly technological adaptation.

It was precisely this balance that the state had to try to manage: allowing a portion of the price increases to create the necessary incentives for energy saving and the substitution of sources, while at the same time preventing a temporary geopolitical event from irreversibly destroying productive capacity, incomes, and social cohesion.

## Fiscal policy became part of economic security

From this perspective, the role of fiscal policy also changed. Bonuses for families, tax credits for businesses, and temporary reductions in taxes and charges could, of course, be interpreted through the traditional categories of macroeconomic stabilization, but during the energy crisis, they fulfilled an additional function: they helped keep the transformation of European policy toward Russia politically and economically sustainable.

A geopolitical strategy is not supported solely through diplomatic decisions, sanctions, or military supplies. It must be absorbable by the economic system and society that bear its costs. If the interruption or drastic reduction of energy ties with Russia had led to uncontrolled impoverishment of families, a series of corporate bankruptcies, and a much deeper recession, the ability of European governments to maintain that strategy over time would have inevitably been more fragile. Protecting the economic fabric therefore did not mean neutralizing the consequences of the war—an impossible task—but rather **making distributable and politically sustainable a geopolitical cost that would otherwise have been concentrated much more violently on certain sectors of society** .

This point allows us to understand the more profound transformation that occurred in 2022. The state was not simply correcting a temporary market malfunction; it was

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deciding how to internally distribute a loss of national income caused by the increase in the price of energy imports. The cost could fall on families through higher bills, on businesses through lower margins, on workers through real wages eroded by inflation, on current and future taxpayers through increased public spending, or, in varying proportions, on all of these entities simultaneously. **Economic policy determined the distribution of a cost that politics was incapable of eliminating.**

## Growth, relative impoverishment, and redistribution: the three dimensions of 2022

The Italian economy in 2022 can therefore only be interpreted by combining three phenomena that, viewed separately, would seem contradictory. The first was the **real growth of the economy** , still supported by the post-pandemic recovery, investment, and the normalization of services. The second was the **deterioration in purchasing power** , caused by inflation rising faster than disposable income and a terms-of-trade shock that shifted a larger share of national income to energy-exporting countries. The third was the **public redistribution of the shock** , through which the state sought to prevent the external cost from falling entirely and immediately on the most vulnerable families and the most exposed businesses.


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## The three dimensions of the Italian economy during the 2022 shock

| Size | Evidence | Meaning |
|---|---|---|
| **Real growth** | GDP **+3.7%** | the war did not erase the post-pandemic recovery |
| **Investments** | **+9.4%** in volume | domestic demand continued to support the economy |
| **Inflation** | NIC **+8.1%** | strong erosion of the real value of incomes |
| **Energy shock** | energy **+50.9%** | main source of price acceleration |
| **Family purchasing power** | **-1.6%** | nominal income growth insufficient to offset prices |
| **Less well-off families** | IPCA inflation **+12.1%** | regressive impact of the shock |
| **Wealthier families** | IPCA inflation **+7.2%** | lower exposure to essential goods |
| **Public response** | up to approximately **€55-57.1 billion** according to the broader perimeters recalled by the Chamber | transferring part of the shock to the public budget |

**Sources:** ISTAT; Bank of Italy; Chamber of Deputies. [22][23][24][25][27]

The 3.7 percent growth, therefore, did not prove that the energy shock had been marginal, just as the loss of purchasing power did not prove that Italy had entered a new recession. Both were simultaneously true because they measured different aspects of the same process: **the economy was producing more, but a greater share of the income generated had to be used to pay for more expensive imports and higher domestic prices** . The robustness of the post-pandemic recovery provided Italy with significant buffers for absorbing the shock; however, the explosion in energy costs prevented that growth from being fully transformed into an improvement in material well-being.

It was precisely this combination that made 2022 so different from previous crises. The state not only had to support demand during a recession, as it had done in other phases of recent economic history, but also had to **distribute a real loss originating outside the national economy** , while simultaneously avoiding eliminating the incentives needed to reduce energy dependence. Full and widespread compensation would have shifted an

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excessive share of the cost to the public budget and slowed the adjustment of consumption; insufficient protection would have risked turning the geopolitical shock into a much deeper industrial and social crisis.

It is in this sense that the energy crisis completed the transformation already visible in the PNRR and the new European industrial policy. Energy was no longer solely a matter of economic policy; the structure of imports was no longer solely a matter of the trade balance; protecting families was no longer solely a matter of social policy; supporting businesses was no longer solely a matter of industrial policy. All these dimensions had become part of the same problem, in which **the country's economic capacity determined the margin of freedom for its political decisions, and the state's ability to distribute the cost of a shock itself became a component of national resilience** .

Once again, therefore, the state faced a cost it could not eliminate, but only manage. It could decide how much of that cost should be immediately reflected in bills, how much should be absorbed by businesses, how much should be offset through transfers and tax cuts, and how much should be transferred to the public budget; it could accelerate the investments needed to reduce future vulnerability, but it could not retroactively eliminate the energy dependence built up over previous decades. Precisely for this reason, the 2022 crisis was a particularly clear demonstration of the link between economics and power: **when an essential good becomes scarce or suddenly much more expensive, the market helps determine its price, but politics largely decides how the cost of that scarcity is distributed within society** .

And it was here that the economic problem returned to being, in the deepest sense of the term, a state problem.


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## Foreign policy becomes economic policy

The war in Ukraine ultimately brought about a transformation that would largely outlast the Draghi government, because after February 2022, it became progressively more difficult to sustain the separation between foreign policy and economic policy that, at least in the more stable phases of European globalization, had allowed trade, energy, investment, telecommunications, and technology to be treated primarily as areas subject to market forces. The Russian invasion, however, demonstrated with particular brutality that **a country's economic structure also determines the range of foreign policy decisions it can realistically make** , because every sanction entails costs, every dependence narrows the available alternatives, and every internally possessed industrial capacity expands, at least potentially, the state's margin of autonomy.

This was not an entirely new principle in the history of international relations. For much of the twentieth century, the great powers had considered energy, heavy industry, military production, transportation, telecommunications, and access to raw materials as essential components of national security. What changed in 2022 was the explicit return of this logic to the heart of the European economy after decades in which trade integration had progressively weakened the political perception of the problem. The European Union had built much of its strength precisely on its ability to transform relationships that had previously been governed by political competition into ones governed by the market, common rules, and economic interdependence; the war, however, demonstrated that **interdependence does not eliminate power** , but rather changes its instruments.

A country dependent on another for a critical raw material continues to formally enjoy full freedom to make a diplomatic decision, but the economic cost of that decision can become so high that it concretely conditions its implementation. Likewise, a state controlling an essential technology, an energy route, a financial system, a digital platform, or an industrial component not only possesses a commercial advantage, but, under certain circumstances, can transform that economic position into a capacity for political pressure. The challenge of contemporary foreign policy, therefore, no longer consisted solely of having armed forces, diplomatic alliances, and traditional instruments of influence, but also of understanding **the location of the economic dependencies on which the freedom of national decision-making depended** .

It was the war that made this transformation immediately visible.

### Sanctions: When a diplomatic decision directly impacts the economy

The sanctions adopted by the European Union against Russia are probably the most obvious example of this fusion of foreign and economic policy. Even before the large-scale invasion began, the Council of the European Union had responded to Russia's recognition of the breakaway regions of Donetsk and Luhansk by introducing, on **23**

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**February 2022** , a first new set of restrictive measures. After the attack on 24 February, the process accelerated rapidly, and within a few weeks the Union transformed sectors ordinarily considered economic – banking, financial markets, technology, transport, energy and trade – into instruments of the European political response. [30]

On **25 February 2022** , the second EU package extended restrictions to the financial, energy, transport and technology sectors, also limiting the export to Russia of goods and technologies that could potentially be used to strengthen its military capabilities, the aerospace sector and oil refining. A few days later, on **2 March** , seven Russian banks were excluded from the international financial messaging system SWIFT, while the Union introduced further limitations on relations with the Russian central bank and on the financing of certain investments.[30][31]

The significance of those decisions went far beyond the technical list of measures adopted. A financial instrument created to allow banks to exchange information necessary for executing payments suddenly became part of the Western diplomatic arsenal; at the same time, Russia's ability to purchase semiconductors, electronic equipment, aircraft components, or sophisticated machinery was treated not as a normal commercial issue, but as a variable affecting the country's ability to sustain its economy and military over time.

The fifth package of April progressively banned European imports of Russian coal, then valued by the Council of the European Union at around **€8 billion a year** , closed European ports to Russian ships except under specific exemptions, and introduced further export bans on, among other things, **quantum computers, advanced semiconductors, high-end electronics, software, and sensitive machinery** . [32]

With the sixth package of **3 June 2022** , the transformation reached directly to the heart of the energy relationship between Europe and Russia. The Union decided to ban the import of Russian crude oil transported by sea, providing for a progressive elimination of imports over a period of six months for crude oil and eight months for certain refined products, with temporary derogations for Member States characterised by specific infrastructural dependencies on pipeline supplies. In the same package, three other Russian banks – including Sberbank – were excluded from SWIFT. [33]

## The transformation of European sanctions in 2022

| Date | Main measures | Economic dimension transformed into a geopolitical instrument |
|---|---|---|
| **February 23, 2022** | first measures after the recognition of Donetsk and Luhansk | finance, government bonds, economic reports |


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| | | |
|---|---|---|
| **February 25, 2022** | restrictions on finance, energy, transportation and technology | credit, investments, industrial technology |
| **March 2, 2022** | Seven Russian banks excluded from SWIFT | international payments system |
| **March 15, 2022** | Limits on investment in Russia's energy sector and luxury goods exports; ban on iron and steel | investments, industry, trade |
| **April 8, 2022** | coal embargo and further limits on advanced technologies | energy and dual-use technologies |
| **June 3, 2022** | Russian oil embargo and new SWIFT bans | energy and finance |
| **October 6, 2022** | oil price cap, further restrictions on dual-use goods and services | energy, technology and professional services |

**Source:** Council of the European Union. [30][31][32][33][34]

What emerged from this sequence was a fundamental shift in the very conception of sanctions. It was no longer simply a matter of freezing the assets of individual officials or banning the travel of certain political figures; the goal was **to reduce Russia's economic and technological capacity to sustain the war** , directly affecting trade relations, access to capital, technology imports, and revenues from energy exports. Foreign policy thus became embedded in the functioning of production chains, and, conversely, production chains became one of the instruments of foreign policy.

This, however, had an inevitable consequence: sanctions did not only affect the economy against which they were directed. Hitting a major energy supplier also meant altering the costs borne by the countries that had previously purchased that same energy. The strength of a sanction therefore depended not only on the damage it could cause to the recipient, but also on the **economic capacity of the countries applying it to withstand its collateral effects** .

It is precisely under this profile that the Italian position became particularly delicate.

## Italy and the economic cost of its geopolitical choice

On the eve of the invasion, approximately **41 percent of Italy's natural gas imports came from Russia** , while gas accounted for approximately 42 percent of Italy's total energy supply and about half of its electricity production. [35] A geopolitical choice aimed at drastically reducing economic relations with Moscow could therefore not remain confined to the Ministry of Foreign Affairs: it immediately affected the Ministry of

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Economy, the industrial system, energy companies, national infrastructures and family budgets.

The paradox became particularly evident in the first months of the war. In February 2022, while the international price of energy was rapidly increasing, the value of Italian imports from Russia recorded a trend increase of **252.2 percent** compared to the same month of the previous year, not because Italy had suddenly tripled the physical quantity purchased, but above all because the monetary value of imported energy products had exploded. In the same month, Italy's energy deficit with non-EU countries reached **7.18 billion euros** , compared to 2.1 billion in February 2021. [36]

It was the quantitative manifestation of a contradiction that would accompany a significant part of 2022: while Europe was politically seeking to reduce its dependence on Russia, the sharp rise in energy prices could temporarily increase the financial value of outstanding imports and, consequently, the income flows directed to exporting countries.

The response, therefore, could not consist solely of sanctions. It had to be accompanied by a policy of **physical diversification of supplies** , capable of rapidly modifying the structure through which Italy received energy. It was in this context that Algeria, Azerbaijan, liquefied natural gas, and the ability to more intensively utilize infrastructure that until then had been considered primarily in commercial terms, gained increasing importance.

The outcome was remarkably rapid. According to the International Energy Agency, Russia's share of total Italian gas imports, which stood at around 41 percent in 2021, had already fallen to **around 3 percent in November 2022.** [35] The speed of the transformation demonstrated that Italy possessed a greater capacity for diversification than the initial concentration of supplies might have suggested, but it also demonstrated how necessary it had been to mobilize diplomatic tools, commercial contracts, energy infrastructure and public interventions together.

A foreign policy directed toward Algeria thus became an energy policy; a supply contract acquired diplomatic value; a regasification capacity became a component of national security; a gas pipeline across the Mediterranean altered Italy's strategic position within the European energy system.

## Economic geography became a geography of power.

## Sanctions, trade, and energy balance: the economic measure of the rift with Moscow

The effect of the war and the restrictive measures also became progressively visible in trade statistics. At the European level, Russia's share in total extra-EU imports decreased from **9.5 percent in February 2022 to 4.3 percent in December of the same year** , while

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its share in the Union's extra-EU exports fell from 4 to 2 percent. In the same interval, the monthly value of European imports from Russia decreased from 21.8 billion euros in March 2022 to 10.3 billion in the following December. [37]

For Italy, the process was evident at the end of the year. In December 2022, exports to Russia were **27.7 percent lower** than in the same month of the previous year, while imports recorded a contraction of **62.8 percent** . [38]

The true size of the shock, however, emerged when looking at the entire Italian trade balance. In 2021, Italy had recorded a **trade surplus of 40.3 billion euros** ; in 2022 that surplus turned into a **deficit of 31 billion** . The deterioration, exceeding 70 billion in the space of a single year, was almost entirely explained by the energy component: the energy trade deficit went from **48.4 billion in 2021 to 111.3 billion in 2022** , while the balance of non-energy products remained strongly positive, equal to around 80.3 billion. [39]


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## The commercial price of the Italian energy crisis

| Indicator | 2021 | 2022 |
|---|---|---|
| **Overall trade balance** | **+€40.3 billion** | **-€31.0 billion** |
| **Energy deficit** | **-€48.4 billion** | **-€111.3 billion** |
| **Non-energy products surplus** | **+€88.7 billion** | **+€80.3 billion** |
| **Average import prices** | — | **+18.5%** |
| **Import prices net of energy** | — | **+10.3%** |

**Source:** ISTAT. [39]

These data provide a tangible understanding of what it meant to say that foreign policy had become economic policy. Italy had not suddenly lost competitiveness in all industrial sectors: the trade surplus in non-energy products remained above 80 billion euros. It was the cost of imported energy that radically transformed the overall balance, clearly demonstrating how geopolitical dependence could impact one of the country's key macroeconomic parameters.

Energy dependence thus ceased to be a sectoral issue and became simultaneously **a problem of foreign policy, balance of payments, inflation, industrial competitiveness and public finance** .

## Semiconductors: From the Global Chain to Technological Security

The same transformation was becoming visible in the technology sector. Even before the war, the pandemic had shown that Europe was significantly dependent on external production capacity for a range of essential electronic components. Disruptions in the availability of semiconductors had slowed automotive production and numerous industrial activities, demonstrating how a shortage of chips with a relatively low unit value could immobilize final goods worth tens of thousands of euros.

On **8 February 2022** , just sixteen days before the Russian invasion, the European Commission presented its proposal for a **European Chips Act** , explicitly designed to increase European resilience, strengthen technological leadership and ensure greater security of supply in the semiconductor sector. The strategy was expected to mobilise, over time, over **€43 billion in public and private investment** and contribute to the European objective of increasing the Union's share of the global semiconductor market to 20 percent. [40]

The key aspect was the change in language. The Commission no longer described semiconductors exclusively as a high- value-added industrial sector, but directly linked the European capacity to produce them to **security of supply and strategic autonomy** . The subsequent European Roadmap on Critical Technologies for Security and Defence

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would explicitly indicate the lack of sufficient European capabilities in the most advanced semiconductor nodes as one of the strategic dependencies to be reduced, linking the Chips Act also to European defence needs.[41]

This development was particularly relevant for Italy, which had a significant industrial base in microelectronics but was not self-sufficient along the entire value chain. The problem could not be solved simply by building a single factory: the semiconductor supply chain included design, materials, wafers, lithography, manufacturing, packaging, testing, specialized software, and extremely sophisticated machinery. No European country could realistically control every step, but the Union could seek to reduce the most dangerous concentrations and increase its capacity in segments deemed strategic.

The political significance was similar to that emerging in the energy sector. **Dependence didn't necessarily have to be eliminated; it had to be made manageable.**

## Telecommunications become security infrastructure

The case of telecommunications was even more obvious. A 5G network wasn't simply the next generation of mobile telephony, because the progressive connection of factories, infrastructure, public services, transportation, logistics systems, and smart devices was dramatically increasing the number of economic and institutional activities dependent on the continuity and integrity of the network.

The issue of equipment suppliers could therefore not be addressed simply by comparing prices and technical specifications. The possibility that components installed in the most sensitive infrastructures could create vulnerabilities, technological dependencies, or interference risks transformed the telecommunications structure into a matter of national security and, potentially, intelligence.

Italy had already progressively extended the use of **special powers, the so-called Golden Power** , to strategic sectors and 5G networks; the discipline would have been further structured through the obligation for operators to present annual network development plans submitted to government control. The logic was precisely to overcome a control limited to the single corporate acquisition or single contract, introducing a systematic evaluation of the security and composition of the networks. The National Cybersecurity Agency subsequently recalled how the decrees relating to the 5G plans also incorporated the principle of **supplier diversification** , in line with the European toolbox on 5G security. [42]

This did not mean that every foreign technology should automatically be considered dangerous, nor that international openness should be replaced by indiscriminate protectionism. It did mean, however, that **lowest cost could no longer be the sole criterion when the purchased infrastructure became part of the nervous system of the state and the economy** .

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The network through which citizens, businesses, hospitals, government agencies, energy infrastructures, and public bodies communicated was no longer just a telecommunications market. It was a critical infrastructure.

## From cybersecurity to the economic security of the digital state

The transformation also involved the institutional construction of Italian cybersecurity. The Draghi government inherited a process already underway, but in **2021** it established the **National Cybersecurity Agency** , reinforcing the idea that protecting networks, information systems, and digital infrastructures required specialized and permanent state capacity.

The problem became increasingly relevant precisely because the digitalization supported by the PNRR simultaneously increased productivity and exposure. The more public functions became digital, the greater the economic benefit achievable from automation and interoperability, but the greater the potential damage caused by an attack capable of disrupting essential services, compromising data, or manipulating systems.

This relationship produced a fundamental paradox of modernization: **a more digitalized economy may be more efficient, but it also becomes more dependent on the resilience of its digital infrastructure** . Cybersecurity thus ceased to be a technical issue entrusted exclusively to IT managers and became part of industrial policy, national security, and the state's business continuity.

The war further accelerated this awareness, because the Ukrainian conflict demonstrated from the early stages the importance of cyber operations, satellite communications, digital infrastructure, and the ability to keep administrative and financial systems operational even during a military attack.

A server, a cloud, a telecommunications backbone or an undersea cable could therefore have a strategic importance no less, in certain circumstances, than that of a traditional physical infrastructure.

## Defense returns to industrial policy

The same convergence became inevitable in the defense sector. The war brought back to the center of European debate not only the overall level of military spending, but also the production capacity needed to transform that spending into equipment, munitions, electronics, communications systems, satellites, cyber capabilities, and industrial platforms.

In March 2022, the Italian Parliament explicitly discussed the issue of bringing defense spending closer to the NATO target of **2 percent of GDP** . On March 16, the Chamber approved a motion linked to the Ukraine decree which committed the government to begin increasing spending towards that threshold; a few days later, Draghi called on

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Parliament to strengthen European defense and to comply with the commitment made within NATO. [43]

The data should not be interpreted simply as an accounting decision on the amount of resources allocated to the Armed Forces. Increased defense spending has very different industrial effects depending on **where and how those resources are used** . Purchasing a system entirely produced abroad has an impact on national military capacity but a limited domestic industrial effect; funding European research, production, and development programs can instead support skilled employment, electronics, aerospace, shipbuilding, radar systems, cyber, space, and dual-use technologies.

For this reason, the boundary between defense policy and industrial policy became increasingly blurred.

The European Commission had already underlined, on **15 February 2022** , the need to strengthen the European defence market, increase innovation and address strategic dependencies in critical technologies. In that same document, semiconductors were explicitly linked to security and defence needs, confirming how intertwined the two dimensions were now. [41]

At the NATO level, overall allied spending exceeded **$1 trillion in 2022** , with only seven members then reaching the 2 percent of GDP threshold; for European allies and Canada, however, 2022 already marked the eighth consecutive year of increased spending in real terms, with growth of 2.2 percent over the previous year.[44]


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## From foreign policy to industrial policy: the new strategic continuum

| Sector | Traditional economic logic | Strategic dimension emerged with greater force |
|---|---|---|
| **Energy** | price and continuity of supply | vulnerability towards the supplier and decision-making autonomy |
| **Finance** | payment efficiency and access to capital | sanctions, asset freezing, exclusion from SWIFT |
| **Semiconductors** | productivity and innovation | security of supply and military technologies |
| **Telecommunications** | cost, coverage and quality of the network | data security, intelligence and resilience |
| **Cloud and data** | digital efficiency | technological sovereignty and continuity of the state |
| **Raw materials** | cost of imports | strategic dependencies and supply chain security |
| **Defense** | public spending on military security | industrial policy, innovation and production capacity |
| **Trade** | specialization and comparative advantages | sanctions, export controls and de-risking |
| **Infrastructure** | economic performance | resilience and ability to operate during a crisis |

The table summarizes a transformation much broader than the response to Ukraine alone. The war did not create these interdependencies out of thin air, because they were already embedded in the structure of European globalization; **it made them politically visible** .

## The return of international competition within the Italian economy

As a result, starting in 2022, a growing portion of Italian industrial decisions could no longer be evaluated simply by asking which option was the least costly in the short term. A second question needed to be added: what strategic risk did that choice entail?

If a supplier offered gas at a lower price but controlled too large a share of the national supply, the savings achieved in the short term could create a future vulnerability.


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If a technology was less expensive but made a critical infrastructure dependent on a single external manufacturer, the potential cost of disruption, replacement, or loss of control also needed to be considered.

If an industrial production was entirely relocated because it was more convenient to import the finished product, it was necessary to ask whether that production was easily replaceable in the event of a crisis or whether it represented a capacity that was difficult to rebuild.

This did not mean rejecting the principle of comparative advantage or imagining an economically self-sufficient Italy. A country with an advanced manufacturing structure, a limited raw materials base, and strong European integration could not pursue autarky without paying enormous costs in terms of income, innovation, and competitiveness.

The change consisted rather in distinguishing between **ordinary economic dependence and strategic dependence** .

An ordinary dependency can be replaced quickly, through alternative suppliers and relatively low costs.

A strategic dependency, on the other hand, concerns a good, technology, or infrastructure for which there are few suppliers, long replacement times, high conversion costs, or systemic consequences in the event of disruption.

In the following years, this distinction would become one of the foundations of the European concept of **economic security** and of the so-called **de-risking** : not indiscriminately interrupting international trade relations, but identifying concentrations capable of transforming into instruments of coercion.

## Interdependence does not disappear: it is politicized

One possible mistake in interpreting the 2022 turning point is to think that Europe has simply abandoned globalization in favor of self-sufficiency. This was not the case. The Union remained deeply dependent on international trade and continued to require energy, raw materials, components, and foreign markets. Italy, in particular, remained a major manufacturing economy, highly integrated into European and global supply chains.

What changed was rather the way in which interdependence was assessed.

Until then, the existence of deep economic ties had often been interpreted as a factor capable of reducing political risk, because the cost of rupture would discourage both sides from conflict. The war demonstrated that this mechanism could only work within certain limits. When a state's fundamental political interests were considered to outweigh the economic costs, interdependence did not necessarily prevent conflict.

At that point the **symmetry of the dependence became crucial** .

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If two countries need each other to a similar extent, interdependence can actually function as a stabilizing mechanism.

If one of the two can replace the relationship more easily than the other, that relationship instead contains an element of power.

If one country has five alternative suppliers of a raw material and the other depends on a single buyer, the relationship is very different from one in which the consumer has no alternatives at all.

Economic policy therefore had to begin to measure not only **how much** Italy depended on foreign countries, but **on whom, for what, through what infrastructure and with what possibilities of substitution** .

## The Draghi government as a historic hinge

It is in this sense, more than in simple institutional chronology, that the Draghi government represents a hinge in recent Italian economic history. The government was born on **13 February 2021** in a phase in which the main national emergency was still represented by the pandemic, the vaccination campaign and the need to rapidly build the National Recovery and Resilience Plan through which to use the Italian share of NextGenerationEU. It remained in office until **22 October 2022** , when the international context in which Italy operated had become profoundly different. [45]

The distance between those two moments cannot be measured in just twenty months of government activity.

In February 2021, the dominant question was how to reopen an economy still constrained by the pandemic, accelerate vaccinations, avoid the permanent loss of businesses and jobs, and transform European resources into investments and reforms.

In February 2022, Russia invaded Ukraine.

The following March, the European Union hit the Russian financial system with sanctions of unprecedented intensity in relations with a major economy.

In April the coal embargo was decided.

In June, the one on oil transported by sea.

During the summer, European gas prices reached unprecedented levels.

Meanwhile, Italy was seeking new energy suppliers, increasing public support for families and businesses, participating in the definition of European sanctions, sending assistance and materials to Ukraine, and discussing an increase in military spending.


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The government that was born to manage **the pandemic and the PNRR** therefore found itself, in its final year, having to simultaneously manage **war, sanctions, energy security, inflation, industrial policy and defence** .

It wasn't just a busier agenda.

The very nature of the issues to be addressed had changed.

## From managing the recovery to managing economic power

In February 2021, Italy's main economic challenge was to boost demand and increase production capacity.

In February 2022, it was also necessary to ask **which production capacities should be considered strategic** .

- In 2021, the energy transition was predominantly justified through climate and modernization.
- In 2022 it also became national security.
- In 2021, digitalization was primarily a question of productivity and the quality of public services.
- In 2022, it was increasingly evidently also cybersecurity.
- In 2021, the semiconductor problem was made visible by supply chain disruptions.
- In 2022 it became part of the global strategic competition.
- In 2021, defense remained an important but relatively peripheral voice in the Italian economic debate.
- In 2022, it returned to the center of the debate on state capacity and European industrial policy.


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## The transformation of the Italian agenda between 2021 and 2022

| Beginning of the Draghi government | After February 24, 2022 |
|---|---|
| **pandemic** | war in Europe |
| **vaccination campaign** | support for Ukraine |
| **reopening of the economy** | economic sanctions |
| **NextGenerationEU** | economic security |
| **construction of the PNRR** | Adapting the PNRR to the new crisis |
| **green transition** | energy security |
| **digitalization** | cybersecurity and technological sovereignty |
| **investment recovery** | protection of industrial capacities |
| **efficient global chains** | supply chain resilience |
| **market discipline** | public interventions against the high cost of energy |
| **economic cooperation** | strategic dependency control |
| **predominantly military defense** | defense as industrial and technological policy |

The transformation, therefore, was not limited to Draghi and did not end with the end of his government. On the contrary, many of the categories that emerged so clearly during 2022 would become permanent fixtures in European politics in the years to come: strategic autonomy, economic security, de-risking, critical raw materials, European manufacturing capabilities, infrastructure protection, supply chain resilience, energy security, and strengthening the defense industry.

The Draghi government positioned itself exactly at the transition point between these two worlds.

It was born when Europe was still thinking above all about **how to rebuild after the pandemic** .

It ended when Europe had already begun to wonder **how to protect its economic capacity within an international system that had once again become openly competitive** .


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## Economy and power coincide again

The most profound lesson of 2022, therefore, did not concern Russia alone and could not be reduced to the contingent management of the energy emergency. The war had brought to the surface a relationship that the most optimistic phase of globalization had contributed to making less visible: **economic capacity constitutes one of the fundamental forms of political power** .

A state unable to diversify its energy sources has fewer diplomatic options.

A state that is completely dependent on foreign countries for an essential technology has less room for autonomy when that technology becomes subject to restrictions.

A state without industrial defense capacity can increase its military budget, but remains dependent on the production capacity of other countries.

A state whose digital infrastructure depends on a few foreign suppliers may have an efficient network but simultaneously expose itself to systemic risk.

A state that does not necessarily control all these capabilities internally can still increase its security through alliances, diversification, and European integration, as long as these relationships do not produce concentrations that turn into instruments of coercion.

Strategic freedom did not therefore coincide with self-sufficiency.

It coincided with **the availability of alternatives** .

This is the fundamental difference.

Contemporary economic power does not necessarily consist in producing everything autonomously, but in not being in a position where a single external subject can interrupt an essential flow without there being a reasonable possibility of replacing it.

From this perspective, industrial policy ceased to be merely a policy to increase production and employment.

It also became a policy for building options.

Energy policy built options between different suppliers and different sources.

Technology policy built options between different platforms and production capabilities.

Trade policy built options through diversification.

European politics built options across the continental dimension that a single member state could hardly have achieved.

Defense policy built options through operational and industrial capabilities.

Economic policy thus returned, in the full sense, to belonging to power politics.


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Not because Italy had to transform every economic decision into a military decision or subordinate the market to the state, but because after 2022 it was increasingly difficult to ignore **the political dimension embedded in the very structure of the economy** .

And it is in this sense that the Draghi government represents a historic turning point. It was created to manage a major health crisis and capitalize on an extraordinary opportunity for European investment; it ended after having to deal with the first major interstate war on the European continent in decades, the most severe European energy shock since the oil crisis, an exceptionally broad sanctions regime, the rapid reconfiguration of Italian gas supplies, accelerating inflation, and the return of defense to the center of economic debate.

The pandemic had reminded Italy that **efficiency without resilience could be fragile** .

The war added a second lesson: **economic dependence, when it concerns an essential good and is concentrated in the hands of a politically hostile subject, can turn into a limitation of strategic freedom** .

From then on, trade, energy, technology, infrastructure and the defense industry could no longer be considered worlds completely separate from foreign policy.

They had become part of the very architecture of national and European power.


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## The 2022 political crisis and the limits of the emergency majority

The very parliamentary breadth that had made the government possible contained its own fragility. A majority composed of political forces with very different identities and interests could have remained united more easily during the most acute phase of the emergency, when immediate objectives were shared; with the gradual return of electoral competition and the approaching end of the legislative term, the differences resurfaced.

The conflict encompassed social policy, economic measures, the super bonus, the basic income, and the government's agenda management, but the crisis cannot be explained by a single dossier. The Five Star Movement, itself experiencing internal divisions and a progressive loss of support since 2018, withdrew its support in a decisive parliamentary vote in July 2022. Draghi initially tendered his resignation, which Mattarella rejected, urging him to report to the Chambers. The subsequent parliamentary review showed that the original majority was no longer politically reconstitutable.

The government formed for an extraordinary phase was therefore coming to an end not because it had been ousted through a traditional parliamentary motion of no confidence, but because the extremely broad coalition that supported it had lost its political capacity to continue to operate as such.

The end of the government would have paved the way for early elections in September 2022 and the victory of the coalition led by Giorgia Meloni.

The historical significance of the passage is remarkable.

By February 2021, almost the entire political system had chosen to support Mario Draghi as a figure capable of coordinating a phase of national and European emergency.

Eighteen months later, the country returned to normal electoral competition, but in a world profoundly different from the one in which the government had been born.

The pandemic was no longer the sole focus of politics.

Inflation had returned.

The ECB was ending its season of negative rates and net asset purchases.

The war had brought military security back to the heart of Europe.

Energy had become a strategic issue.

The PNRR transformed national investments into a European commitment subject to deadlines until 2026.


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## The Draghi legacy does not coincide with Draghi

As with the Monti government, too, when interpreting the Draghi era, it is necessary to avoid excessive personalization, because transforming such a complex historical transition into the story of a single prime minister risks obscuring the continuity of the institutions, European processes, and international transformations that preceded February 2021 and continued well beyond October 2022. The Draghi government undoubtedly represented a moment of strong political and institutional concentration, in which some processes were accelerated, others recomposed, and still others incorporated into a more coherent strategic narrative. However, neither the PNRR, nor the return of European industrial policy, nor energy diversification, nor Italy's Atlantic positioning can be attributed exclusively to his experience in government.

The first element to clarify concerns the **National Recovery and Resilience Plan** . Next Generation EU was not born with the Draghi government and was not negotiated under its presidency. The fundamental political agreement was reached by the European Council between 17 and 21 July 2020, when the second Conte government was in office in Italy. It was in those days that European leaders approved a comprehensive package consisting of the 2021-2027 multiannual budget and the extraordinary Next Generation EU instrument, authorising the European Commission for the first time to raise up to 750 **billion euros on the markets at 2018 prices** through debt issuances intended to finance loans and transfers to Member States. The heart of the instrument would have been the Recovery and Resilience Facility, then endowed with **672.5 billion euros** , divided between 360 billion in loans and 312.5 billion in grants. [46]

For Italy, this was a historic change in the structure of European economic policy, but also a process that had already taken on a national form before the birth of the Draghi government. On **12 January 2021** , still under the presidency of Giuseppe Conte, the Council of Ministers approved a proposal for a National Recovery and Resilience Plan to be submitted to Parliament, organised around the three strategic axes of digitalisation and innovation, ecological transition and social inclusion. [47] The version subsequently presented to the European Commission by the Draghi government was not a simple ratification of that document, because it modified its structure, governance, financial structure and the relationship between investments and reforms; however, it would be historically incorrect to portray the PNRR as a construction born entirely after February 2021.

The institutional transition was therefore more complex. The Conte II government participated in the European negotiations that made Next Generation EU possible, developed an initial national architecture and started the parliamentary discussion; the Draghi government reworked the Plan, brought it to parliamentary approval in April 2021, formally transmitted it to Brussels on 30 April and negotiated its final assessment with the European Commission. The latter approved the Italian Plan on **22 June 2021** ,

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recognising a budget of **191.5 billion euros** , composed of 68.9 billion in grants and 122.6 billion in loans, while the Council definitively adopted the assessment on 13 July. [48]

This sequence is important because it allows us to understand the true nature of Draghi's legacy: not the creation of a new policy, but the ability to **recompose tools already in development into a coherent government strategy** , linking the use of European resources to administrative reforms, the modernization of the state, the energy transition, digitalization, and, after February 2022, Italy's response to the war.

## The genealogy of the Italian PNRR

| Phase | Government / institution | Main passage |
|---|---|---|
| **May 2020** | European Commission | Next Generation EU proposal |
| **July 17-21, 2020** | European Council / Conte II Government | political agreement on the Recovery Fund and common European debt |
| **January 12, 2021** | Conte II Government | approval of the first Italian PNRR proposal |
| **February 13, 2021** | Draghi Government | installation of the new executive |
| **April 27, 2021** | Parliament / Draghi Government | approval of government communications on the new PNRR |
| **April 30, 2021** | Draghi Government | transmission of the Plan to the European Commission |
| **June 22, 2021** | European Commission | positive assessment of the €191.5 billion Italian Plan |
| **July 13, 2021** | Council of the EU | final approval of the Plan |
| **2021-2022** | Draghi Government | launch of reforms, milestones and first disbursements |
| **from 2022 onwards** | successive governments | continuation of the implementation, revisions and integration of REPowerEU |

**Sources:** European Council, Presidency of the Council, Italian Parliament, European Commission. [46][47][48]

The same interpretative caution is necessary for energy policy. The diversification of Italian supplies did not begin on February 24, 2022, because the national energy geography was already the result of decades of investments in the Mediterranean, relations with Algeria, the construction of the Greenstream pipeline with Libya, access to

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liquefied natural gas terminals, and, more recently, the commissioning of the Trans Adriatic Pipeline from Azerbaijan. What the war changed was not the existence of these alternatives, but **the urgency with which they had to be used to reduce a concentration of risk that had suddenly become politically unsustainable** .

Italy's Atlantic positioning is also not, of course, an invention of the Draghi government. Italy has been a founding member of NATO since 1949 and of European integration since the origins of the Communities. The politically relevant aspect of the 2021-2022 phase therefore concerns not the birth of this positioning, but the particularly explicit way in which it was transformed into an ordering criterion for government action. In the speech in which he asked for confidence in the Senate on **17 February 2021** , Draghi declared that the government was born in the wake of Italy's membership of the European Union and the Atlantic Alliance and linked this position to a specific conception of sovereignty, according to which nation states, in areas in which they are individually insufficient, can cede part of their formal capacity to acquire greater effective capacity through common institutions. [49]

It is precisely this passage that allows us to understand the political significance of the period without transforming it into a simple biography of Mario Draghi.

## Sovereignty as a capacity, not just as a competence

The concept of sovereignty expressed by the Draghi government differed in one important respect from that which had characterised the Italian political debate during the previous phase, and in particular during the Conte I government, although it would be inappropriate to reduce that experience to a rejection of European integration. In his programmatic speech of June 2018, Giuseppe Conte had explicitly affirmed the need to act within supranational structures and to strengthen their democratic legitimacy, but the coalition between the Five Star Movement and the League had placed greater emphasis on the revision of European governance, on national negotiating capacity and on the need to correct the Union's structures deemed insufficiently responsive to Italian needs. [50]

With Draghi, the emphasis was shifted. The issue was not simply defending national autonomy within the European system, but establishing in which areas **the national scale had become too small to produce effective autonomy** . The distinction may seem theoretical, but it had profound practical consequences. If sovereignty is identified exclusively with the formal possession of competence, transferring a function to Brussels can appear to diminish national power; if, on the other hand, sovereignty is interpreted as the concrete capacity to achieve results, a formally national competence can be almost worthless when the state lacks the financial, technological, military, or industrial resources necessary to exercise it effectively.


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From this perspective, a European country the size of Italy does not necessarily increase its freedom by reclaiming all possible competences at the national level. It can, in certain sectors, increase it precisely by building a European capacity greater than what it could mobilize alone. The fundamental question then becomes distinguishing between **formal sovereignty and effective sovereignty** : the former concerns the place where a decision is made, while the latter concerns the real possibility of translating that decision into action.

The common European debt created with Next Generation EU represented a particularly powerful example of this logic. No state had renounced its own national fiscal policy, but the Union had temporarily acquired a financial capacity that it did not possess in that form before the pandemic: the Commission could raise hundreds of billions on the markets through issues guaranteed by the European budget and subsequently redistribute them through common programmes. The July 2020 agreement, reached before Draghi's arrival at Palazzo Chigi, therefore represented the concrete demonstration of a principle that would become central to his political narrative: **the sharing of a function can, under certain circumstances, produce a capacity greater than the sum of separate national capacities** . [46]

The pandemic seemed to offer initial confirmation of that thesis, because no major European country could have addressed the entire combination of recession, healthcare investments, digital transition, decarbonization, and business support with the same effectiveness without a common response that also leveraged the Union's financial strength. War would have put that concept to an even more difficult test, because energy, defense, and foreign policy involved areas in which member states continued to maintain national sensitivities, industrial structures, and often very different interests.

In May 2022, speaking at the European Parliament, Draghi further developed this approach by arguing for the need to accelerate the integration process and to modify, where necessary, the Union's decision-making mechanisms to make them adequate to the scale of the new challenges. The speech was not limited to the response to Russia, but placed war, energy, defence, economy and institutions within the same problem: **if threats and dependencies operate on a continental scale, the response capacity must also be able to reach that scale** . [51]

## Two ways of understanding economic sovereignty

| Mostly formal sovereignty | Sovereignty as effective capacity |
|---|---|
| **maintain competence at the national level** | use the most effective scale to practice the skill |
| **reduce external constraints** | increase the available options |


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| | |
|---|---|
| **autonomy as less sharing** | autonomy as the ability to act |
| **priority to the national headquarters of the decision** | priority to the effectiveness of the decision |
| **main risk: loss of control** | main risk: insufficient national capacity |
| **privileged instrument: national competence** | possible instrument: common European capacity |
| **integration seen above all as a constraint to be negotiated** | integration also used as a capacity multiplier |

The table does not identify two absolute models nor does it automatically attribute one of the two to a single government in every area; rather, it serves to clarify the conceptual transformation that became particularly evident between 2021 and 2022. In fact, elements of both approaches coexisted in almost all Italian governments of the period, while the differences mainly concerned **the weight given to the European scale as an instrument of national capacity** .

## Draghi as the organizer of a convergence already underway

The historical significance of the Draghi era must therefore be sought less in the invention of individual instruments than in their **recomposition within a single political architecture** . Europeanism, Atlantic membership, the PNRR, administrative reforms, ecological transition, energy security, and the response to the war were progressively presented as parts of a strategy in which Italy's strengthening should not be pursued by retreating from European institutions and Western alliances, but through a more intense use of those same institutions as multipliers of national capacity.

The PNRR represented the internal economic pillar of this strategy, because it linked extraordinary investments to reforms that were supposed to impact justice, public administration, competition, digitalisation and infrastructure. The European Commission, approving the Plan in June 2021, underlined that the resources would be disbursed on the basis of the achievement of specific objectives and targets, according to the performance-based logic of the Recovery and Resilience Facility. [48]

This feature profoundly changed the nature of European funding. It was not simply a transfer of resources to be spent within a specific deadline, but a political-institutional contract through which access to funds was linked to the verifiable implementation of reforms and investments. The Italian state thus received extraordinary financial capacity, but simultaneously assumed implementation obligations that limited its ability to freely modify the allocation of resources over time.


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It is precisely this combination of additional capacity and constraint that makes the NRRP a particularly interesting example of the concept of shared sovereignty. Italy accepted a higher degree of European conditionality than that typical of normal national spending, but in exchange gained access to a financial capacity that it would have been difficult to mobilize under the same conditions through the national budget alone.

European integration did not therefore eliminate the constraint.

**It transformed the relationship between constraint and capability.**

## From the return of the State to the return of power

Part IX opens with the state forced to intervene in an exceptional manner to suspend part of the economic activity in order to protect public health, and concludes with that same state forced, less than two years later, to reconsider energy, industry, infrastructure, technology, and security within a continent once again engulfed by war. At first glance, the two moments may seem to belong to completely different crises: the first stems from a virus, the second from a military decision; the first requires social distancing and healthcare, the second sanctions, energy diversification, and defense. Yet, from a political economy perspective, there is a profound continuity between the two experiences.

In both cases, an external shock called into question conditions that the normal functioning of the market tends to take as given.

During the pandemic, it suddenly became uncertain whether it would be possible to keep factories open, move goods and people freely, have medical supplies, guarantee hospital beds, and maintain income and liquidity during the shutdown.

During the war, it became uncertain whether it would be possible to continue importing the same amount of gas from Russia, obtain energy at sustainable prices, keep supply chains intact, maintain industrial production, and simultaneously apply sanctions on one of the continent's largest energy suppliers.

In both cases, **the market continued to function, but was not able by itself to guarantee the preservation of all the conditions necessary for economic and social continuity** .

During the pandemic, the state's capacity was expressed through public deficits, loan guarantees, layoffs, transfers, healthcare organization, vaccine purchases, and administrative coordination. During the war, the same systemic protection function took different forms: stockpiling, diversification of supplies, support for utility bills, tax credits for businesses, monitoring of critical infrastructure, sanctions, industrial policy, defense, and coordination with allies and European institutions.


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The return of the state cannot therefore be interpreted simply as a pandemic interlude destined to end with the reopening of economies. The pandemic had shown that the lack of public capacity could become a health and economic vulnerability; the war demonstrated that the same weakness could take on a geopolitical dimension.

## From the ability to correct the market to the ability to protect its conditions

This shift is important because it also changes the meaning of public policy. In the European economic tradition of recent decades, the state was often portrayed primarily as a regulator, guarantor of competition, producer of public goods, and corrector of specific market failures. After 2020, an additional function gradually emerged: **protecting the systemic conditions necessary for the market itself to continue to operate** .

This function did not necessarily require an owner-managed or planning state in the classical sense. It could be exercised through joint purchasing, regulation, incentives, guarantees, trade policy, European coordination, public investment, or partnerships with private industry. What changed was the initial question. Instead of asking exclusively where public intervention could correct an inefficiency, institutions began to ask themselves **which capabilities could not be left entirely dependent on the international market remaining open, stable, and politically neutral** .

This evolution was already clearly visible before the war. In May 2021, the European Commission updated its industrial strategy by explicitly introducing the topic of **strategic dependencies** , the resilience of the single market and “open strategic autonomy”. The Commission's analysis examined thousands of imported products and tried to identify those for which the Union was particularly dependent on a limited number of external suppliers, especially in sectors related to health, technology and the green and digital transitions. [52]

The lexical shift reflected a deeper political shift. The issue was not abandoning trade openness, which remained essential for a globally integrated European economy, but recognizing that **maximizing efficiency in the short term can lead to concentrations that become costly when a shock occurs** . Maintaining inventories, diversifying suppliers, supporting European production capacity, or building redundant infrastructure may appear less efficient under normal conditions, but it takes on a different value when considered as a form of insurance against systemic risk.

This is precisely where the category of **resilience comes in** .

## From the logic of efficiency to the logic of resilience

Resilience is no substitute for efficiency, because an economy that ignored costs and maintained redundant capabilities in every sector would rapidly become less competitive. The shift, rather, consists in including in the economic calculation a variable

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that was frequently underestimated in the more stable phases of globalization: the potential cost of disruption.

A highly concentrated production system can be extremely efficient as long as it works.

A value chain spread across many countries can greatly reduce costs.

An energy supply from the cheapest producer can improve competitiveness.

But if it takes years to replace a supplier, if the production of a component is concentrated almost entirely in a single region of the world, or if the disruption of a raw material disrupts economic sectors much larger than the value of the material itself, then the economic assessment must necessarily also incorporate risk.


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## Efficiency and resilience: two criteria that must coexist after 2020

| Logic of efficiency | Logic of resilience |
|---|---|
| **cost minimization** | containment of systemic risk |
| **specialization** | selective diversification |
| **just-in-time** | strategic stocks in critical sectors |
| **production concentration** | redundancy where the disruption would be systemic |
| **best available supplier** | plurality of essential suppliers |
| **ordinary cost assessment** | also evaluating the cost of interruption |
| **acceptable dependence if convenient** | dependence to be assessed on the basis of substitutability |
| **unused capital as inefficiency** | reserve capacity as a possible insurance |
| **global market as a stable data** | global market as a system exposed to political shocks |

The pandemic had anticipated this transformation by exposing the vulnerability of supply chains for medical devices, drugs, components, and semiconductors. The war deepened it by introducing an additional variable: **a dependency could not only be accidentally interrupted, but also deliberately used as a tool of political pressure** .

Resilience thus ceased to be a purely organizational category.

It became a category of power.


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## Italy enters the new phase with the old weaknesses

The problem for Italy was that this transformation of the European political economy occurred without erasing the structural weaknesses accumulated over the previous decades. The country entered this new phase simultaneously with an unprecedented amount of European resources, a large manufacturing base, a central geographical position in the Mediterranean, and a network of economic relations capable of connecting it to continental Europe, North Africa, and global markets. However, it continued to bear very high public debt, persistently weak productivity growth, a rapidly aging population, low levels of labor participation among certain segments of the population, and administrative delays that the PNRR itself had been designed to help address.

At the end of 2021, Italian public administration debt stood at **150.3 percent of GDP** , after reaching 154.9 percent in 2020. [53] The figure was already decreasing thanks to the strong economic rebound, but remained at levels that structurally limited the fiscal space available in the event of new shocks.

At the same time, the European Commission stressed that Italy's difficulties were not attributable to debt alone. In its 2022 Country Report, it indicated among the main vulnerabilities **weak productivity growth, high public debt, labour market fragilities and reduced participation** , observing that Italy's economic performance in recent decades had been affected by the ageing population, the reduction of the workforce, insufficient tangible and intangible investments and the weak dynamics of multifactor productivity. [54]

The demographic problem made this combination even more difficult to manage. At the beginning of 2022, Italy had a median age of **48 years** , the highest in the entire European Union, against a community average of 44.4 years. [55] An older country must simultaneously face a potentially smaller workforce, greater pressure on pension and healthcare spending and a lesser ease in increasing growth through simply increasing employment.

Productivity was the other key issue. Commission data show that, despite the strong cyclical recovery in 2021, Italy's productivity level relative to the European average had progressively lost ground over the long term: measured per employed person, it had fallen from around **117 percent of the EU average in 2005 to 105.1 percent in 2021** , reflecting a much weaker dynamic than that needed to sustain real wages, competitiveness and debt sustainability over time. [56]

## The fragilities with which Italy enters the new economy of resilience

| Indicator | Situation at the beginning of the new phase |
|---|---|


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| | |
|---|---|
| **Public Debt / GDP, 2021** | **150.3%** |
| **Median age of the population, 2022** | **48.0 years old** |
| **EU median age, 2022** | **44.4 years** |
| **Productivity per employee compared to the EU average, 2005** | **about 117%** |
| **Productivity per employee compared to the EU average, 2021** | **105.1%** |
| **Main structural criticalities indicated by the Commission** | debt, productivity, labor, investment, demographics |
| **Main European correction instrument** | PNRR / RRF |

**Sources:** ISTAT, Eurostat, European Commission. [53][54][55][56]

This is precisely why the PNRR takes on a significance beyond its simple financial dimension. If Italy had used the resources solely to temporarily increase demand or build infrastructure without changing the mechanisms that had been slowing productivity, investment, administrative capacity, and human capital for decades, the effect would have been significant but transitory. The original rationale behind the Plan, however, was to attempt to use an extraordinary financing window to **at least partially modify the structural conditions that were weakening Italian growth** .

The European Commission expressed the same logic in the 2022 Country Report, observing that the reforms and investments envisaged by the Plan could contribute to the reduction of Italian macroeconomic imbalances provided they were fully implemented. [54] This last condition is crucial: the value of the PNRR did not lie in the nominal availability of resources, but in the State's ability to transform them into productive public and private capital before the time and political window closed.

## Time becomes a strategic variable

The war made this temporal dimension even more important. Before 2022, the slow pace of Italian modernization could be interpreted primarily as an economic cost: lower productivity, lower wages, lower potential growth, greater difficulty in reducing debt. After the Russian invasion of Ukraine, some of the same fragilities also acquired a strategic dimension.

An insufficient electricity grid meant not only slowing down investments in renewables, but also prolonging dependence on gas.

A slow public administration did not only mean delaying a project, but also reducing the country's ability to react quickly when the international context changed.


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Low technological capacity meant not only lower productivity, but greater dependence on external suppliers.

Low labor force participation meant not only a loss of potential GDP, but a more fragile contribution and tax base in a rapidly aging country.

A very high debt meant not only higher interest rates, but **less fiscal freedom at a time when a geopolitical crisis made it necessary to simultaneously increase spending on energy, defense and social protection** .

Competitiveness and safety were beginning, once again, to converge.

## The return of power does not coincide with the return of autarchy

It is important to point out that the return of the State and industrial policy did not necessarily imply a return to the post-war economic model, nor does it authorize us to read the period as the simple end of globalization. The European Commission continued to define its strategy through the concept of **open strategic autonomy** , precisely to underline the need to keep the European economy open and, at the same time, reduce dependencies considered excessively risky. [52]

The difference from the previous phase was the recognition that economic openness is not neutral when value chains are highly concentrated, when the exchanged good is essential, and when the counterparty can be incentivized to use that dependence coercively.

It was therefore not necessary to produce everything in Europe.

It was necessary to know **what one could not afford to replace** .

This principle would assume increasing importance in the years to come, from critical raw materials to semiconductors, from batteries to defense, from digital infrastructure to artificial intelligence technologies. Industrial policy thus returned to being concerned not only with the quantity produced and the jobs generated, but with Europe's position in global value chains and the bargaining power derived from controlling essential technologies.

## From intra-European competition to global systemic competition

For Italy, this transformation implied a further shift in perspective. For much of the period following the introduction of the euro, economic comparisons had often been made primarily within Europe: Italian productivity versus German productivity, labor costs versus France, administrative capacity versus other eurozone partners, export competitiveness, and fiscal discipline.

These comparisons remained relevant, but they became insufficient.

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The global economy was indeed entering a phase in which the major powers were increasingly openly using **industrial policy, technological control, energy security, public incentives, and military capability as components of a single competitive strategy** . The United States had begun to rebuild explicit industrial policies in the fields of semiconductors, batteries, and energy technologies; China had been operating for years through a combination of industrial planning, public credit, support for strategic supply chains, and control of key parts of the raw materials refining industry; Europe was beginning to respond by seeking to reconcile the single market, competitive discipline, and new demands for economic security.

In this context, the Italian problem could no longer be formulated simply by asking how to regain a few points of productivity compared to Germany or reduce the spread with respect to the Bund. It had to be placed within a broader question: **what place Italy could occupy in a Europe called upon to compete with continental economic systems capable of mobilizing quantities of capital, technology, and industrial capacity far greater than those of a single member state** .

The ladder thus returned to the heart of the problem.

And it was precisely the theme that had run through the concept of sovereignty expressed during the Draghi government.

## The true legacy: an open question

Draghi's legacy, therefore, does not coincide with Draghi's, because none of the major transformations of that period are entirely rooted in his governing experience. Next Generation EU was born under Conte II; the Italian PNRR has a lineage that predates February 2021; Italy's Euro-Atlantic membership predates any contemporary government by decades; European industrial policy had begun to change even before the invasion; the energy transition had begun well before the gas crisis; the Plan's material implementation would continue under subsequent governments, which would modify its priorities, governance, and the design of some measures.

What distinguishes the Draghi phase is rather the way in which these dimensions were **linked theoretically and politically** .

Economic modernization became a condition of autonomy.

The PNRR became a tool to strengthen the State's capacity.

European integration was interpreted as the possibility of acquiring an otherwise unattainable scale.

The Atlantic Alliance represented the framework of Western security.

The energy transition simultaneously became climate policy and a reduction of geopolitical vulnerability.

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Administrative capacity was no longer just a matter of bureaucratic efficiency, but a necessary condition for the country to be able to use available resources before the context changed again.

From this perspective, the most important legacy lies not in a single reform, an economic indicator, or a foreign policy choice. It consists in the formulation of a question destined to remain open well beyond the end of the government:

**How much real sovereignty can a medium-sized European state exercise in an international system dominated by continental powers, critical technologies, large financial markets, and transnational industrial dependencies?**

The response proposed during that phase was that sovereignty should not be measured solely through the powers formally held by the state, but through the effective capacity for action that the state was able to build by combining national resources, European institutions, and alliances.

The validity of that response no longer depended on Mario Draghi.

It would be verified by subsequent events.


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## From the return of the State to the return of power

Part IX can therefore end where the meaning of the pandemic crisis meets that of war. At the beginning of Part IX, the state had returned to the center because only public power could make decisions capable of shutting down entire economic sectors, transferring income to millions of citizens, guaranteeing loans, purchasing vaccines, and organizing a national healthcare response. Ultimately, the state remained central for a different but related reason: only a combination of national and European public power could intervene in energy storage, strategic infrastructure, sanctions, technological investments, defense, industrial protection, and supply chain diversification.

The continuity between the two moments lies in the fact that both destroyed the illusion of an economy completely separable from the political structure that supports it.

During the pandemic, it became clear that the market could not spontaneously produce all the capabilities required by a global health emergency at the necessary times and in the necessary quantities.

During the war it became clear that the market could not even guarantee that an economically efficient relationship would remain politically available when national security conflicted with commercial expediency.

The State therefore returned not necessarily as a substitute for the market, but as a **guarantor of the political, financial and strategic conditions in which the market could continue to function** .

This is the point at which the return of the State becomes the return of power.

Because protecting those conditions inevitably means questioning which resources, technologies, infrastructures, and productive capacities determine the freedom of a political community.

The pandemic had posed the problem in terms of public health.

The war placed him in terms of security.

Competition between the United States and China would have placed it in terms of technology, industry and control of value chains.

Europe thus entered a phase in which competition, fiscal discipline, and the single market remained fundamental elements of its economic architecture, but could no longer constitute its entire vocabulary. Alongside them, **resilience, productive capacity, strategic autonomy, economic security, defense of critical infrastructure, and control of dependencies gradually emerged** .

For Italy, this transition represented both an opportunity and a risk. The opportunity arose from the size of Europe's resources, the strength of its manufacturing base, its

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Mediterranean location, and its membership in a continental market capable of mobilizing financial and regulatory tools that no single European state could replicate independently. The risk, however, arose from the fragilities accumulated over the previous decades: debt, productivity, demographics, administrative capacity, technological lags, and energy dependence.

The PNRR attempted to modify some of these weaknesses.

The war reduced the time available to achieve this.

Because from that moment on, Italian competitiveness could no longer be measured simply by whether the country was growing more slowly than Germany or was less productive than France. It had to be assessed within a global system in which the United States and China were increasingly using **fiscal policy, industrial policy, advanced technologies, access to raw materials, energy security, and military capability as integral elements of their power** .

Italy therefore arrived at the end of this phase with a different awareness than the one with which it had entered it.

The problem was no longer just growing up.

It was growing enough to retain the ability to choose.

It wasn't just about modernizing the state.

It was to modernize it quickly enough to allow it to react to crises.

It wasn't just about increasing productivity.

It was about having a production structure advanced enough to avoid uncontrollable dependencies.

It wasn't just about participating in Europe.

The question was whether Europe could become **the ladder through which to transform the relative weakness of individual European states into a collective capacity sufficient to operate within the new global competition** .

It is precisely from this transformation that the next part of the book arises.

Because after the pandemic and the return of war to Europe, the fundamental question no longer concerns only the relationship between Italy and Europe.

It concerns the relationship between **Italy, Europe and power** .

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# PART X

# ENERGY, WAR AND SECURITY


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# Chapter 20

## From Russia to the Mediterranean — Italy's New Energy Geography

For much of the first two decades of the 21st century, Italian energy policy could be described primarily through the language of prices, competition, infrastructure, and environmental transition. This is because the physical security of supply, while never truly removed from the concerns of the state and major energy companies, remained in the background of a European system built on the idea that commercial interdependence would continue to function even when political relations between producers and consumers became more difficult. Russian gas reached Italy via infrastructures that spanned the continent, Algeria had been connected to the peninsula for decades, Libya was another Mediterranean supplier, Azerbaijan would later enter the national energy landscape via the Southern Gas Corridor and Trans Adriatic Pipeline (TAP), while liquefied natural gas, though present, did not yet possess the strategic weight it would assume after 2022. In this system, energy dependence was certainly a constraint, but it was generally managed as a matter of commercial diversification within relatively open markets, not as an immediate risk of geopolitical coercion.

The war in Ukraine destroyed this distinction.

The problem wasn't simply that gas prices rose or that a particular supplier became politically less reliable; what changed was Europe's understanding of the relationship between **interdependence and power** . A long-term energy contract isn't simply an economic relationship when one party can use reduced supplies as a tool of political pressure and the other depends on that fuel for heating, electricity, and industrial operations. The same infrastructure that normally makes trade efficient can, in times of conflict, become a vulnerability.

Italy entered 2022 with a non-marginal exposure to Russia. According to data reconstructed by ARERA, in **2021 physical imports of gas from Russia amounted to approximately 29.2 billion cubic meters** ; two years later, in 2023, they had fallen to **2.9 billion** , while the Russian share in covering national needs had dropped from approximately **40 percent to 4.7 percent** . [1]

A reduction of this magnitude in just two years isn't a typical change in the commercial portfolio. It means reorganizing nearly an entire supply chain, rapidly replacing a source that had occupied a central position for years through pipelines, contracts, and consolidated relationships.

Italy's response was possible because the country was not dependent on a single physical route and already possessed an infrastructure that connected the peninsula to the Mediterranean, Azerbaijan, and the international LNG markets. This geographic

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advantage, which in previous years might have seemed merely a commercial advantage, suddenly became an element of national security.

This is where the Mediterranean returns to the center of Italian energy policy.


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## Russian dependence before the war was not simply an “Italian” mistake

The temptation to retrospectively interpret Russia's dependence as an irrational choice that could have been easily avoided must be resisted, as it obscures the economic context in which that relationship developed. For decades, Russian gas had been considered relatively competitive, available in large quantities, and supplied through pre-built infrastructure, while the energy interdependence between Russia and Europe was interpreted by much of Europe's ruling class as a relationship in which both parties possessed sufficient economic incentives to maintain continuity of trade.

The problem was therefore not the absolute lack of economic rationality in the choice, but the underestimation of how a commercially efficient relationship could become strategically risky when the political context changed.

The European Commission subsequently clearly summarised the extent of the European transformation: before the war, around **45 per cent of the Union's gas imports came from Russia** ; the REPowerEU plan, launched in May 2022, helped reduce this share to 15 per cent in 2023, including through energy savings, diversification of supplies and increased production from renewable sources. [2]

Italy participated in this process with an even faster trajectory on gas via Russian pipelines.

The Draghi government and major Italian companies, particularly Eni and Snam, immediately sought new gas supplies from suppliers already connected to the Italian system or capable of supplying LNG. Eni announced agreements and initiatives with Algeria, Egypt, Congo and other producers in 2022, declaring an industrial goal of finding up to **20 billion cubic meters of alternative supplies by 2025** , a quantity presented by the company as sufficient to substantially replace the annual Russian volume falling within its supply portfolio.[3]

It is important to distinguish the corporate declaration from the actual national data. ENI described its portfolio capacity and its agreements; this did not automatically mean that the entire Italian system would have eliminated every molecule physically coming from Russia on that same date. The ARERA data for 2024 show that, after the collapse of 2023, physical imports of Russian origin partially increased again to **5.7 billion cubic meters** , although remaining very far from the 29.2 billion of 2021. [4] This apparent contradiction does not invalidate Italian diversification. Rather, it shows the difference between **drastically reducing a strategic dependence** and **completely eliminating any residual flow** .

## Algeria: From Diversification to Centrality

The first major geographic beneficiary of Italy's energy reorganization following Russia's invasion of Ukraine was Algeria, but reducing this evolution to a simple replacement of

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Moscow by Algiers would be misleading, as the energy relationship between the two countries predates the 2022 crisis by many decades and rests on an infrastructural, industrial, and diplomatic structure that had been built over time precisely to facilitate a stable connection between North Africa and the Italian market. The war therefore did not create Algeria's centrality out of thin air; it suddenly made it more visible and, above all, transformed an already important energy relationship into a primary component of national economic security.

The starting point is infrastructural. In fact, between Algeria and Italy there is one of the main southern routes of the European gas system: the **TransMed–Enrico Mattei system** , which conveys Algerian gas through Tunisia and the Strait of Sicily to Mazara del Vallo, where the flow enters the national network. The Tunisian onshore section, managed through the TTPC system, extends for approximately 370 kilometres with two lines and five compressor stations and has a transport capacity in the order of **34 billion cubic metres per year** ; the offshore continuation through the Strait of Sicily connects Cap Bon to the Italian coast and constitutes the segment that makes the transfer of large volumes of Algerian gas to the national market materially possible. [13]

This infrastructure illustrates why, in an energy crisis, simply identifying an alternative producer is not enough. Natural gas cannot be reallocated as readily as a standardized commodity transportable on any trade route, because a significant portion of its trade depends on the existence of pipelines, regasification terminals, contracts, compression capacity, storage facilities, and physical connections between networks. A country may have numerous potential suppliers on paper, but if it lacks the infrastructure capacity to accommodate those volumes, diversification remains theoretical. **Energy security therefore depends on the political geography of suppliers, but also on the physical geography of infrastructure.**

It is precisely this combination that explains why Algeria acquired such a prominent role in 2022. Italy did not have to build an energy corridor to North Africa from scratch: it already had a long-term relationship with Sonatrach, a consolidated industrial presence with Eni, and a network capable of transporting significantly greater quantities of gas to the peninsula than were actually transiting before the crisis. The political issue, therefore, was to make more intensive use of existing infrastructure and transform unused or underutilized capacity into strategic leverage.

On **11 April 2022** , less than two months after the invasion of Ukraine, Eni and Sonatrach signed an agreement in Algiers, in the presence of Algerian President Abdelmadjid Tebboune and Italian Prime Minister Mario Draghi, to progressively increase gas supplies through TransMed. According to Eni, the agreement was aimed at using the still available transport capacity and could have made available incremental volumes of up to **9 billion cubic meters per year in 2023-2024** compared to the previous trajectory. [14]

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The value of the agreement lay not only in the nominal amount announced, but also in the speed with which Italy could transform a pre-existing infrastructure relationship into a tool for reducing Russian risk. Italy's response to the crisis thus demonstrated a fundamental characteristic of energy resilience: **the alternatives that can actually be used during an emergency are almost always those built before the emergency** . A gas pipeline built decades earlier, a long-standing commercial relationship, and a transportation system with available capacity can suddenly acquire a strategic value far beyond their ordinary returns.

## From energy relationship to strategic relationship

The strengthening of the Rome-Algiers axis, however, did not begin only with the April 2022 agreement, because bilateral relations had already experienced a phase of revitalization in the previous months. The state visit of the President of the Republic Sergio Mattarella to Algeria in November 2021 had given new impetus to the political relationship, while the Italy-Algeria Strategic Dialogue of March 2022 was explicitly organized around political, economic and security cooperation. The Farnesina then defined Algeria as a "360-degree" strategic partner, directly linking energy cooperation, Mediterranean stability, Libya, the Sahel and the Russian-Ukrainian war. [15]

This passage is important because it shows how the growing energy centrality has rapidly expanded the political significance of the bilateral relationship. If a country becomes one of the main guarantors of national energy continuity, relations with that country inevitably take on greater weight within foreign policy, not necessarily because all differences are resolved, but because the strategic value of the stability of the relationship increases. Security of supply thus becomes one of the variables through which Rome more comprehensively evaluates its relationship with Algeria, along with the stability of the central Mediterranean, Libya, the Sahel, migration flows, infrastructure, and industrial cooperation.

Italian energy diplomacy in 2022 was moving precisely in this direction. President Draghi's mission to Algiers on 11 April did not represent a simple political accompaniment to a commercial contract, but the demonstration that the increase in gas flows was now considered a matter of national interest. In July of the same year, during the fourth Italy-Algeria intergovernmental summit, relations were further expanded through bilateral agreements and a business forum intended to involve numerous companies from the two countries, while energy cooperation continued to be included within a broader political relationship. [16]

Algeria thus became simultaneously **an energy supplier, a diplomatic partner in the Mediterranean and an industrial interlocutor** , in a configuration in which the three dimensions were increasingly difficult to separate.

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## The numbers of the replacement: from Russia to Algeria and a more complex portfolio

The quantitative evolution shows very clearly the rapidity of the transformation. In **2021** , the last full year before the invasion, Italy had imported about **29.2 billion cubic meters of gas from Russia** , equivalent to about **40 percent of imports** , while Algeria supplied about **22.5 billion cubic meters** , equivalent to just under 31 percent. Azerbaijan contributed about 7.2 billion, Qatar 6.9 billion, while Norway, the United States, Libya and other suppliers occupied significantly smaller positions.[17]

By **2022** , the structure had already changed profoundly: Russian imports had halved to around **14.2 billion cubic meters** , while Algerian imports rose to around **26 billion** . The Russian share thus fell from 40 to **19.5 percent** , Algeria's increased from 30.8 to **35.8 percent** , Azerbaijan reached 14.2 percent, and Norway rose from 2.7 to 8.6 percent. At the same time, the weight of LNG increased, with around **14.5 billion cubic meters arriving by ship** , against 9.9 billion in 2021.[17][18]

The transformation continued in **2023** , when Russian imports further declined to around **2.9 billion cubic meters** , while Algeria remained the main supplier with **25.5 billion** , Azerbaijan supplied around 10 billion, Qatar 6.8 billion, the United States 5.3 billion, and Norway and the Netherlands combined for 6.6 billion. In the same year, LNG imports increased by almost **70 percent compared to 2021** , confirming that the substitution of Russian gas had not occurred solely through a new pipeline supplier, but through the construction of a more complex portfolio of routes and origins.[19]

in **2024** , Algeria remained the leading supplier despite recording a reduction in volumes to **23.3 billion cubic meters** , compared to 25.5 billion the previous year. Azerbaijan rose slightly to around 10.3 billion, while overall Italian imports fell to around 59.4 billion; LNG stood at 14.7 billion and continued to come mainly from Qatar, Algeria and the United States. [20]


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## The geographical transformation of Italian gas imports

| Country of origin | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|
| **Russia** | **29.2 billion $m^3$** | **14.2 billion $m^3$** | **2.9 billion $m^3$** | **5.7 billion $m^3$** |
| **Algeria** | **22.5 billion $m^3$** | **26.0 billion $m^3$** | **25.5 billion $m^3$** | **23.3 billion $m^3$** |
| **Azerbaijan** | **7.2 billion $m^3$** | **10.3 billion $m^3$** | **10.0 billion $m^3$** | **10.3 billion $m^3$** |
| **Qatar** | 6.9 billion $m^3$ | 7.3 billion $m^3$ | 6.8 billion $m^3$ | 6.9 billion $m^3$ |
| **United States** | 1.1 billion $m^3$ | 2.9 billion $m^3$ | 5.3 billion $m^3$ | 5.2 billion $m^3$ |
| **Libya** | 3.2 billion $m^3$ | 3.1 billion $m^3$ | 2.5 billion $m^3$ | 1.4 billion $m^3$ |
| **Norway** | 2.0 billion $m^3$ | 6.2 billion $m^3$ | 4.0 billion $m^3$ | 3.6 billion $m^3$ |
| **Netherlands** | 0.3 billion $m^3$ | 0.4 billion $m^3$ | 2.6 billion $m^3$ | 2.4 billion $m^3$ |

**Sources:** ARERA, data from the Ministry of the Environment and Energy Security; provisional 2024 values according to ARERA documentation. [17][19][20]

The table highlights a crucial element that a simple comparison of "Russia first" and "Algeria after" would fail to capture. Algeria's share increased significantly, but at the same time, so did Azerbaijan, Norway, and, above all, LNG from various sources. This means that Italy did not completely replace a dominant relationship with an equivalent one, but redesigned its portfolio through **a combination of increased North African flows, greater use of the Transatlantic Pipeline (TAP), and a greater ability to tap the global liquefied natural gas market** .

## Centrality does not mean new identical dependency

It is precisely here that we must distinguish between **centrality** and **exclusive dependence** . Algeria became Italy's main supplier, but it did not achieve the systemic position held by Russia on the eve of the war, because the weight of other sources had increased in the meantime and, above all, the Italian system had a wider variety of physical and commercial routes. Azerbaijan steadily supplied around 10 billion cubic meters per year via the Trans Adriatic Pipeline (TAP); LNG offered access to geographically distant producers; Norway contributed through the European system; Libya, albeit with smaller and more unstable volumes, continued to represent an additional southern link.

This distinction becomes even clearer when considering the overall degree of concentration of imports. Using the volumes by physical origin published by ARERA and constructing a simple Herfindahl-Hirschman index on the shares of the main supplier countries, the approximate concentration of the Italian portfolio drops from around **2,760 points in 2021 to around 2,280 in 2023.** The data must be interpreted with caution,


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because it depends on the classification of origins and does not replace a complete analysis of contracts and infrastructures, but it still offers a useful indication: although in 2023 the first supplier, Algeria, represented just over 40 percent of the gross volumes classified by origin, **the overall distribution was less concentrated than in 2021** , when Russia and Algeria together represented over 70 percent of imports. [17][19]

## Concentration and diversification: why the top supplier's share isn't enough

| Indicator | 2021 | 2023 |
|---|---|---|
| **First supplier share** | Russia **about 40%** | Algeria **about 41%** |
| **Share of the top two suppliers** | Russia + Algeria **approximately 71%** | Algeria + Azerbaijan **approximately 58%** |
| **Russia** | **about 40%** | **4.7%** |
| **Azerbaijan** | **approximately 9.9%** | **about 16%** |
| **Weight of LNG** | significantly lower | significantly increased compared to 2021 |
| **HHI Concentration Index, volume estimates by origin** | **approximately 2,760** | **approximately 2,280** |

*Processing on ARERA data relating to the physical origins of gas; the HHI index reported has a descriptive function and does not measure energy security alone, which also depends on infrastructural capacity, contracts, substitutability and availability of LNG.* [17][19]

This result illustrates why the term " **diversification"** must be used with quantitative precision. A system doesn't actually become more resilient simply by replacing the name of the main supplier on the invoice. It becomes more resilient when the probability that the loss of a single route, a single manufacturer, or a single contract will be sufficient to trigger a systemic crisis decreases.

The share of the largest supplier therefore represents only initial information. It is also necessary to consider the cumulative weight of the top two or three countries, the presence of alternative infrastructure, the capacity of LNG terminals, contractual flexibility, storage availability, and, above all, the physical possibility of replacing interrupted volumes within a timeframe compatible with national demand.


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## TransMed as a strategic infrastructure, but also as a geopolitical chain

Algeria's growing centrality simultaneously made it more important to monitor the entire infrastructure chain through which the gas reached Italy. The TransMed does not directly connect Algeria and Sicily without crossing other territories: the gas must transit through **Tunisia** , following the land section to Cap Bon before crossing the Strait of Sicily. This means that the route's resilience depends not only on the Rome-Algiers relationship, but also on the political, technical, and contractual stability of the Tunisian transit.

In 2019, Eni and the Tunisian state renewed the agreements relating to the management and modernization of the trans-Tunisian gas pipeline until **2029** , ensuring operational continuity to an infrastructure with a capacity of around 34 billion cubic meters per year. [13] The war in Ukraine made the strategic value of that previous decision evident: an infrastructure agreement concluded under relatively normal market conditions became, a few years later, one of the material bases through which Italy could react to the most serious European energy crisis in decades.

This element once again reveals that diversification cannot be analyzed solely by country of origin. Each route has its own **chain of physical and political dependencies** . Algerian gas depends on Algerian production, the Sonatrach network, Tunisian transit, and the undersea link to Sicily; Azerbaijani gas traverses a much longer infrastructure chain that includes the Caucasus, Turkey, Greece, and Albania before reaching Italy via the Trans Adriatic Pipeline (TAP); LNG, on the other hand, depends on the availability of ships, liquefaction terminals, maritime routes, regasification capacity, and international market conditions.

Therefore, there is no risk-free source.

There are portfolios in which **different risks are distributed so that they do not all coincide on the same vulnerability** .

## Algerian centrality changes Italian Mediterranean policy

Algeria's growing energy position inevitably had consequences for Italy's Mediterranean policy. Relations with Algeria could no longer be considered one of the many bilateral relationships with the countries of the southern shore, because the continuity of Algerian supplies directly contributed to price stability, the availability of gas for industry, and Italy's ability to maintain a more autonomous position with respect to Russian supplies.

In March 2022, the Farnesina had already defined Algeria as a strategic partner with which to strengthen political, economic and energy cooperation; over the course of the year, this approach was further consolidated through high-level visits and the Intergovernmental Summit. [15][16] The increase in energy flows therefore became the starting point of a broader relationship that included industry, infrastructure, agriculture, automotive, regional security and energy transition.

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This evolution continued even after the end of the Draghi government, confirming that Algeria's centrality was not exclusively linked to the immediate emergency of 2022. Italian diplomacy continued to describe Algeria as a key partner for energy security and for Italy's projection in the Mediterranean and Africa; in 2025 the Farnesina still indicated Algeria as Italy's leading gas supplier, with a share of around **39 percent of imports** , and linked the partnership not only to hydrocarbons but also to renewables, infrastructure and the possible development of the southern hydrogen corridor. [21]

This does not mean that the energy relationship has automatically determined Italy's entire foreign policy toward Algeria, but it does mean that it has significantly increased its strategic value. When one partner controls nearly two-fifths of gas imports, any sudden deterioration in the relationship would have economic consequences significant enough to be incorporated into the political assessment.

## From gas security to the prospect of a southern energy corridor

The reorganization brought about by the war also opened up a more ambitious perspective beyond the simple import of natural gas. The possibility of using the North African route for new energy sources, particularly renewable hydrogen and potentially electricity generated from solar and wind sources, transformed the relationship with Algeria from a temporary solution to the gas crisis into a potential component of a long-term energy strategy.

This perspective, however, contains a tension that must be clarified. If Italy were to construct its transition by simply replacing a heavy dependence on Algerian gas with an equally concentrated future dependence on hydrogen, electricity, or other molecules produced in the same geographical space, part of the strategic problem would remain unsolved. True diversification concerns not only the type of energy used, but also **the geographical distribution of supply capacity, ownership of infrastructure, the existence of alternative routes, and the ability to quickly replace flows in the event of a crisis** .

For this reason, Italy's objective cannot be interpreted simply as a policy of "shifting energy supplies southward." The strategic value of the Mediterranean increases precisely to the extent that it adds new options to those already available, connecting North Africa to Italy, Italy to Central Europe, and the gas pipeline system to the global LNG market.

In this configuration, the peninsula can aspire not only to be a final consumer, but also to become a **connection point between the Mediterranean energy sector and the European market** .

**Algeria, Azerbaijan, and LNG: The True Architecture of Diversification**

Italy's transformation after 2022 must therefore be viewed as the construction of a portfolio structured around three major axes.

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The first is **North Africa** , with Algeria as the dominant supplier and Libya as an additional, though more unstable, source.

The second is the **Southern Gas Corridor** , through which the TAP connects Italy to the Azerbaijani fields passing through the Caucasus, Turkey, Greece and Albania.

The third is **LNG** , which provides access to a global market where cargoes can come, at least potentially, from the United States, Qatar, Algeria, Egypt, Nigeria and other producers.

This structure does not eliminate risk, but it changes its distribution.


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## The new Italian procurement architecture

| Axis | Main origins | Infrastructure | Strategic advantage | Main vulnerability |
|---|---|---|---|---|
| **North Africa** | Algeria, Libya | TransMed, Greenstream | large volumes via pipeline and geographical proximity | regional concentration and political risk of transit countries |
| **Southern Corridor** | Azerbaijan | TAP and Southern Gas Corridor network | new route structurally distinct from Russia | long infrastructure chain and capacity constraints |
| **LNG** | Qatar, USA, Algeria and others | regasification terminals and methane tankers | high geographical flexibility | global competition on prices and cargo availability |
| **Northern Europe** | Norway, Netherlands | European interconnections | further diversification | dependence on the capacity of the continental system |
| **In-house production** | Italy | national deposits | home source control | limited volumes |

The strategic change compared to 2021 therefore does not consist in the disappearance of dependencies, because in 2024 approximately **95.2 percent of the gas available in Italy continued to come from abroad** . [20] It consists in the fact that this dependence was distributed through a more complex structure of suppliers and infrastructures, reducing the probability that a single actor could exercise the same power of interruption that Russia possessed at the beginning of the crisis.

## Diversification does not simply mean multiplying suppliers

This is where the term **"diversity"** must be freed from political rhetoric and brought back to a rigorous definition. A system can have five suppliers on paper and still be extremely vulnerable if one of them covers 70 percent of demand; it can have three different pipelines that nevertheless pass through the same transit country; it can have LNG terminals but be unable to purchase cargoes during a period of intense Asian


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competition; it can have numerous contracts but not enough network capacity to physically move the gas within its territory.

Real diversification must therefore be assessed along at least five dimensions: **number of suppliers, concentration of shares, plurality of routes, substitutability of volumes and infrastructural flexibility** .

## How to measure effective diversification

| Size | Strategic question |
|---|---|
| **Geographic concentration** | What share depends on the largest supplier? |
| **Cumulative concentration** | How much do the top two or three suppliers weigh together? |
| **Plurality of routes** | Are there physically independent infrastructures? |
| **Substitutability** | How long does it take to replace a broken source? |
| **LNG capacity** | Can the country access the global market when a gas pipeline fails? |
| **Storage** | How long can an outage be compensated for? |
| **Contractual flexibility** | Can volumes be increased quickly? |
| **Political risk** | Are the sources concentrated in areas subject to the same geopolitical risks? |

This approach allows for a correct assessment of the Algerian case. The increase in Algeria's share does not in itself constitute a failure of diversification, because at the same time, the cumulative weight of the dominant sources has decreased, Azerbaijan and LNG have grown, and the possibilities for physical substitution have increased. At the same time, however, a share close to 40 percent remains large enough to make **stable relations with Algeria a permanent component of Italy's energy security** .

The geopolitical consequence is inevitable: the greater a country's weight in the supply structure, the greater the value of the bilateral relationship and the greater attention must be paid to its internal stability, foreign policy, production capacity, and relations with transit states.


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## The true meaning of Algerian centrality

The transformation after 2022 should therefore not be described as a simple transition from Moscow to Algiers. This would be too elementary a representation of a much more complex reorganization.

Italy drastically reduced Russian gas and increased its use of Algeria, but simultaneously strengthened flows from Azerbaijan, increased its use of LNG, expanded regasification capacity, and made more intensive use of the European system. Within two years, Russia went from about 29 billion cubic meters and 40 percent of imports to a residual role, while Algeria became the main supplier within an overall more distributed portfolio.[17][19]

Algerian centrality therefore represents a different phenomenon from the old Russian centrality.

In 2021, dependence on Moscow was the result of a structure in which Russia simultaneously possessed a dominant share, very high supply capacity, and a central role in the European energy system as a whole.

After 2022, Algeria became Italy's main supplier, but within a structure in which **Azerbaijan, LNG, Norway and other sources had much greater weight than in the past and in which the explicit political objective was to prevent a single relationship from becoming irreplaceable again** .

- This is the crucial difference.
- Diversification does not eliminate dependence on foreign countries.
- It transforms it from concentrated dependence to **distributed interdependence** .

And precisely because Italy will continue to require large quantities of imported energy for a long time to come, the strategic quality of its energy policy will depend less on the unrealistic possibility of becoming completely self-sufficient and much more on the ability to prevent a single supplier, a single route, or a single infrastructure from once again affecting the entire system.

Algeria therefore becomes central not because it completely replaces Russia, but because it represents the **southern pillar of a new Italian energy architecture** , in which the Mediterranean, the Caucasus, LNG and European interconnections must work together to transform energy dependence from concentrated vulnerability into more manageable risk.

In this sense, the war did not simply change the country from which Italy buys gas.

It has changed the way Rome must think about its energy geography.

And, through that geography, also its own foreign policy.

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## Azerbaijan and the strategic value of TAP

The second major element of the new Italian energy geography that emerged after the Russian invasion of Ukraine is Azerbaijan and, above all, the **Trans Adriatic Pipeline** (TAP). This infrastructure connects the Italian system to the Southern Gas Corridor and, precisely because it entered commercial operation just over a year before the outbreak of the war, is one of the clearest examples of how the strategic value of a major energy project cannot be measured solely by its level of utilization or economic return under ordinary conditions. Indeed, such an infrastructure acquires its most profound significance when it alters the number of options available to a country when one of the traditional routes suddenly becomes less reliable, more expensive, or politically incompatible with national interests.

The Trans Adriatic Pipeline (TAP) should not be considered in isolation, as it represents only the last European leg of a much longer energy chain, the **Southern Gas Corridor** , which connects the Caspian Sea fields to the markets of southeastern Europe and Italy. The entire infrastructure extends for approximately **3,500 kilometers** across seven countries and includes the development of the Shah Deniz II field in the Azerbaijani sector of the Caspian Sea, the expansion of processing facilities at the Sangachal terminal, the South Caucasus Pipeline through Azerbaijan and Georgia, the Trans-Anatolian Pipeline through Turkey, and finally the Trans Adriatic Pipeline (TAP), which runs from the Greek-Turkish border through northern Greece, Albania, and the Adriatic Sea before reaching Salento and connecting to the Italian grid. The total investment associated with the Southern Corridor chain is estimated to be in the order of **35 billion dollars** , a size that shows how an alternative energy route cannot be improvised at the moment a crisis arises, but requires years of planning, political negotiation, authorizations, construction and international coordination. [22]

The TAP section measures approximately **878 kilometers** and formally began commercial operations on **15 November 2020** ; the first flows of Azerbaijani gas reached Italy on 31 December of the same year through the Melendugno connection point with the Snam network. The initial capacity of the infrastructure was designed for approximately **10 billion cubic meters per year** , with the technical possibility of being progressively expanded up to at least **20 billion cubic meters per year** in the presence of sufficient market demand and the necessary investments. [23]

Timing is crucial. When TAP was conceived, authorised and built, the main problem of European energy policy was not yet that of replacing a significant share of Russian imports within a few months, but the more general one of increasing the plurality of supply sources and routes. Precisely for this reason, Italy had already attributed strategic importance to the project well before the war. In December 2013, on the occasion of the final investment decision relating to Shah Deniz II, the Italian government defined TAP as an important project both for covering national demand and for the possibility of

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strengthening Italy's role as an energy entry point for southern Europe and the Mediterranean; the diversification of sources and routes was explicitly indicated as a condition of energy security. [24]

Furthermore, in 2014, Rome and Baku had formalized a **strategic partnership** , in which the energy dimension already occupied an important role and in which the completion of the Trans-Caucasian, Trans-Anatolian and Adriatic infrastructures was interpreted as a project capable of directly connecting Azerbaijan to Europe, avoiding the passage through the Russian system. [25] The political value of the TAP, therefore, did not arise with the 2022 war; the war made clear how important the previous decision to create a route physically and geopolitically distinct from the main Russian routes had been.

## An alternative route built before the emergency

The strategic significance of TAP can only be understood if we consider the infrastructure timeframe. When a major producer fails or an energy relationship becomes politically unsustainable, a government can sign new trade agreements in a matter of weeks, but it cannot, in the same timeframe, build a nearly 900-kilometer pipeline, coordinate multiple regulatory systems, cross multiple states, build a submarine section, and arrange all the necessary connections to the national grid. **The ability to respond to a crisis therefore depends largely on the investments and decisions made before the crisis strikes.**

TAP represents precisely this form of forward capacity. By March 2022, just weeks after Russia's invasion of Ukraine, the pipeline had already transported a total of **10 billion cubic meters of Azerbaijani gas to Europe** since the start of flows; of this, approximately **8.5 billion had been delivered to Italy** . At the same time, the infrastructure was technically capable of reaching its initial nameplate capacity of 10 billion cubic meters per year.[26]

The timing is particularly significant. A pipeline built to improve long-term diversification became, just over a year after its operational launch, one of the tools immediately available to reduce dependence on Russian supplies. Its value did not stem from its ability to replace the nearly 29 billion cubic meters that Italy had imported from Russia in 2021—which TAP's initial capacity would not have allowed—but from the possibility of covering a significant portion of it via a completely different and already available route.

This is precisely what distinguishes **redundant infrastructure** from useless infrastructure. Under ordinary conditions, the presence of multiple import routes may seem less economically efficient than concentrating supplies on the cheapest supplier; during a crisis, however, that redundancy becomes like insurance. The cost of maintaining alternatives must therefore be weighed not only against the price of gas under normal conditions, but also against the economic damage that would result from the absence of those alternatives when the main route is interrupted.


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## Italy had already understood the value of TAP before the war

One of the most interesting elements of the story is that Italy had begun to discuss the full use and even a possible doubling of the TAP capacity **before** the invasion of 24 February 2022. On 1 February of that year, therefore three weeks before the Russian attack, the Undersecretary of Foreign Affairs Manlio Di Stefano had discussed with the Azerbaijani Energy Minister Parviz Shahbazov the possibility of increasing supplies to Italy. According to the Farnesina, at that time around **8 billion cubic metres of Azerbaijani gas per year** were reaching the Italian market through TAP, which was therefore operating at around 80 percent of its initial capacity; the declared objective was to quickly bring the flows towards 10 billion and to initiate a reflection on the possible doubling of the capacity precisely as a function of diversification and European energy security. [27]

This finding is important because it demonstrates that the need to reduce the concentration of Russian supplies was already perceived as a strategic issue before the war transformed that concern into an immediate urgency. The crisis therefore did not raise awareness of the risk, but rather dramatically accelerated its management.

A few weeks later, with the invasion already underway, Italian energy diplomacy towards Baku took on an explicitly emergency character. In April 2022, Foreign Minister Luigi Di Maio travelled to Azerbaijan as part of the strategy aimed at accelerating the diversification of supplies after the Russian aggression, discussing with the Azerbaijani authorities the possibility of further increasing flows through TAP. The Farnesina then defined the infrastructure as strategic precisely because it connected Italy and Azerbaijan through **the only major European gas pipeline built in the immediately preceding years that did not transport Russian gas** . [28]

In other words, TAP concretely demonstrated that energy security does not depend only on the quantity of energy available on the market, but on the possibility of reaching it through physically independent routes.

## Volumes to Italy: From a new source to a structural component

The importance of Azerbaijan in the structure of Italian supplies increased rapidly after the entry into operation of TAP. In 2021, the first full year of operation, the volumes physically coming from Azerbaijan were already in the order of **7.2 billion cubic meters** ; in 2022 they rose to around **10.3 billion** , approaching the nominal capacity of the connection; in 2023 they remained around **10 billion** and in 2024 they increased slightly to around **10.3 billion cubic meters** . [29]

This means that, within a few years, a source that before the opening of the Southern Corridor could not physically directly supply gas to the Italian market became one of the three main pillars of national supply, together with Algeria and LNG. In 2024, the Farnesina indicated Azerbaijan as the origin of approximately **16 percent of the natural**

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**gas consumed through Italian imports** , in addition to representing an important source of oil as well. [30]

## The consolidation of Azerbaijani gas in the Italian portfolio

| Year | Physical volumes from Azerbaijan | Strategic role |
|---|---|---|
| **2020** | start of the first flows at the end of the year | entry of a new route into the Italian system |
| **2021** | **approximately 7.2 billion $m^3$** | first full year of supply |
| **2022** | **approximately 10.3 billion $m^3$** | rapid approach to nominal capacity |
| **2023** | **approximately 10.0 billion $m^3$** | consolidation as the second largest pipeline supplier after Algeria |
| **2024** | **approximately 10.3 billion $m^3$** | confirmation of the structural role in the Italian mix |

**Sources:** ARERA, MASE, Farnesina. [29][30]

This quantitative progression allows us to understand the difference between available but marginal infrastructure and infrastructure that is effectively integrated into the system. In 2021, TAP was still a new route whose weight needed to be consolidated; from 2022 onwards, it will become a stable component of Italy's energy security, with volumes consistently hovering around its original full capacity.

The result is particularly significant when compared with the contraction of Russian supplies. In 2023, while gas from Russia had dropped to around **2.9 billion cubic meters** , Azerbaijan supplied around 10; this means that the Azeri flow alone was now more than three times higher than the residual Russian one. [29] TAP therefore did not completely replace Russia, but it contributed very significantly to the combination of sources through which Italy managed to do so.


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## TAP as part of a much longer chain

The strength of TAP is, however, inseparable from the complexity of the chain to which it belongs. The gas that reaches Italy does not simply come from Baku and does not pass through a direct bilateral connection between Azerbaijan and Italy. It is mainly produced in the Shah Deniz II offshore field, enters the South Caucasus Pipeline system crossing Azerbaijan and Georgia, continues through Turkey along TANAP, reaches the Greek-Turkish border and only then enters TAP, crossing Greece and Albania before arriving in Puglia. [22]

This configuration produces an advantage and, at the same time, a vulnerability.

The advantage lies in the creation of a route that is independent of the Russian system and directly connects the Caspian region to the European market through an autonomous infrastructure chain.

The vulnerability lies in the fact that **security of supply depends on the continuity of a very long transnational chain** , in which production, transit, compression, and infrastructure management involve multiple countries and differing political contexts. Geographic diversification thus reduces dependence on Russia, but does not eliminate the need to carefully analyze the political and infrastructure risks associated with the Caucasus, Turkey, and the Balkans.

This is one of the fundamental lessons of contemporary energy policy: a new route reduces one risk but can introduce others, and the quality of diversification depends on the ability to prevent all alternatives from being exposed to the same category of vulnerabilities.

## The physical chain of the Southern Gas Corridor

| Segment | Main territories | Function |
|---|---|---|
| **Shah Deniz II** | Azerbaijan, Caspian Sea | gas production |
| **Sangachal Terminal** | Azerbaijan | processing and input into the system |
| **South Caucasus Pipeline** | Azerbaijan – Georgia | transport to Turkey |
| **TANAP** | Türkiye | crossing Anatolia |
| **TAP** | Greece – Albania – Adriatic – Italy | access to the EU and Italian markets |
| **Snam Network** | Italy | distribution in the national system and possible connection to European markets |

**Source:** TAP AG, European Commission. [22]


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The table shows why simply talking about "Azeri gas" may be strategically inadequate. The security of those volumes depends not only on the availability of Caspian reserves, but on the ability of the entire corridor to function without interruption.

## The value of an independent route

What makes TAP particularly important in the new European geography is not only the quantity of gas transported, but also its **geographical non-coincidence with the main Russian routes** . An energy system becomes more resilient when supplies are not only numerous, but also infrastructurally independent of one another.

If two different suppliers use the same pipeline, a single disruption in the route can affect both.

If, however, the sources arrive through physically distinct infrastructures—TransMed from North Africa, TAP from the Caucasus, seaborne LNG and interconnections from Northern Europe—the system has greater capacity to compensate for the loss of a single component.

This is the true strategic meaning of redundancy.

## The main routes that reduce concentration risk after 2022

| Route | Main origin | Typology | Main advantage |
|---|---|---|---|
| **TransMed** | Algeria | gas pipeline | large volumes from North Africa |
| **TAP** | Azerbaijan | gas pipeline | Caspian route independent from Russia |
| **Greenstream** | Libya | gas pipeline | further Mediterranean connection |
| **LNG Terminals** | Qatar, USA, Algeria and others | by sea | global geographic flexibility |
| **Northern interconnections** | Norway and the European market | continental network | access to further European sources |

An energy policy based solely on price might have deemed some of these infrastructures redundant in the presence of abundant, cost-competitive Russian supplies. An energy policy that also incorporates the value of resilience, however, places an implicit price on the ability to continue obtaining supplies when one of the main sources fails.

In economic terms, this is the value of an **option** .


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TAP can be interpreted precisely as an infrastructure option built before it became essential to exercise it.

## The initial capacity limit

The infrastructure's strategic value, however, should not be overestimated. The initial capacity of approximately **10 billion cubic meters per year** represented a significant amount, but it was insufficient to fully replace the Russian volumes that Italy imported before the war. In 2021, Russian supplies amounted to around 29 billion cubic meters; even using TAP at full capacity, a gap of more than 19 billion cubic meters would have remained, to be covered by other sources or by reducing demand.

This comparison helps us understand why the Italian strategy could not be built around a single alternative infrastructure.

## TAP and Russia before the war: a measure of scale

| Indicator | Approximate annual volume |
|---|---|
| **Italian imports from Russia in 2021** | **29.2 billion $m^3$** |
| **TAP nominal initial capacity** | **10 billion $m^3$** |
| **TAP Capacity to Russian Import Ratio 2021** | **about 34%** |
| **Maximum design capacity with expansion** | **at least 20 billion $m^3$** |
| **20 billion / Russian import ratio 2021** | **about 68%** |

**Sources:** ARERA; TAP AG. [23][29]

TAP could therefore replace a significant portion of the previous Russian exposure, but only as part of a strategy that simultaneously included Algeria, LNG, Norway, demand reduction, storage, and energy efficiency. This is essential to avoid an overly celebratory interpretation of diversification: **no single route alone solves Italy's energy security problem** .

## The expansion project: from 10 to 20 billion cubic meters

The war naturally brought the issue of expanding the capacity of the Southern Corridor back to the forefront. TAP had been designed from the outset with the possibility of progressively increasing the throughput up to at least **20 billion cubic meters per year** , through additional investments and the installation or upgrading of compressor stations, provided that the market demonstrated sufficient demand through long-term contractual commitments. [23][31]

This mechanism is important because it demonstrates that physical capacity cannot be separated from the economics of infrastructure. A pipeline may be technically designed for future expansion, but the necessary investments are made only if there is contractual

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demand capable of financially sustaining the cost. Energy security and the market are therefore not separate worlds: the public policy challenge often lies in creating conditions in which a capacity deemed strategically desirable can also be economically supported.

In January 2023, TAP AG announced the first concrete result of the expansion process, allocating **1.2 billion cubic meters per year of long-term incremental capacity** , with availability starting in 2026. The company confirmed at the same time that the infrastructure could be expanded to reach at least 20 billion cubic meters per year and that the longer-term target remained consistent with the European ambition to double the capacity of the Southern Corridor.[32]

The €1.2 billion expansion actually came into service in early **2026** , following the completion of the necessary works at the Kipoi compressor station in Greece. [33] This data, which comes after the most acute phase of the crisis, confirms that the effects of the war were not limited to the immediate use of existing infrastructure, but also produced investments intended to increase its structural capacity in the following years.

## The Evolution of TAP Capacity

| Phase | Capacity / decision |
|---|---|
| **Commercial launch 2020** | **10 billion $m^3$/year** |
| **Technical possibility foreseen by the project** | **at least 20 billion $m^3$/year** |
| **First expansion decided in 2023** | **+1.2 billion $m^3$/year** |
| **First expansion enters service** | **2026** |
| **Long-term resulting capacity after the first step** | **approximately 11.2 billion $m^3$/year** |
| **Potential full expansion target** | **at least 20 billion $m^3$/year** |

**Source:** TAP AG. [31][32][33]

The distinction between **potential technical capacity** and **actual contracted and constructed capacity** is crucial. Simply stating that TAP can transport 20 billion cubic meters risks suggesting that this capacity is immediately available; in reality, the infrastructure was designed to reach that level through subsequent expansions, but these require upstream investment, demand, and gas availability.

## Azerbaijan and the European Union: The attempt to double the flows

The prospect of increasing volumes from the Caspian area became an explicit component of the European strategy after the invasion of Ukraine. In the framework of REPowerEU, the European Union and Azerbaijan strengthened energy cooperation with

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the political goal of increasing supplies via the Southern Corridor to at least **20 billion cubic meters per year to the EU by 2027.** [34]

However, this objective must be interpreted correctly. Doubling TAP's capacity does not automatically mean doubling Azerbaijani gas flows to Italy, because the increase depends on at least three conditions: the availability of additional production in Azerbaijan or the Caspian region, sufficient capacity along the entire SCP–TANAP–TAP pipeline, and the signing of long-term contracts by European buyers.

The limit is therefore not only Italian.

It's systemic.

To transport significantly larger quantities to Puglia, **each segment of the chain must** be capable of transporting them.

This consideration prevents the doubling of the TAP pipeline from becoming a political slogan. The expansion is technically feasible and strategically relevant, but it requires coordinated investments across thousands of kilometers and sufficient upstream gas availability to justify them.

## Azerbaijan's strategic value increases with gas

The entry of TAP inevitably also changed the weight of Azerbaijan in Italian foreign policy. The relationship between Rome and Baku was already significant for trade and oil, but the new direct gas connection transformed Azerbaijan into a structural component of Italian energy security. In June 2024, the Farnesina recalled that Baku supplied Italy with approximately **19 percent of its oil and 16 percent of its natural gas** , explicitly describing the energy collaboration as strategic and linking it to Italy's ambition to strengthen its role as a European energy hub. [30]

The geopolitical effect is similar, though not identical, to that observed with Algeria. When a bilateral relationship involves energy volumes large enough to impact the functioning of the national economy, the stability of that relationship takes on greater weight in foreign policy decisions. This does not mean that Italy must automatically align itself with the supplier's positions on every international issue, but it does mean that energy risk inevitably enters into the overall assessment of the relationship.

In the case of Azerbaijan, this consideration takes on a particular complexity because Azerbaijan is located in an area characterized by strong geopolitical tensions, the long-standing dispute with Armenia, its proximity to Russia and Iran, and the growing importance of Turkey as a regional power. The Southern Corridor therefore does not simply connect a producer to a consumer, but traverses **a geopolitical space much more complex than the Western Mediterranean** .


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Italy's energy diversification reduces a vulnerability, but at the same time makes it necessary to better understand and manage other areas of the world that previously had less weight in the national strategic calculus.

## TAP and the principle of strategic redundancy

Here, the TAP case offers a more general lesson, one that goes far beyond the gas sector. In complex systems, there's often a tension between efficiency and redundancy. Efficiency tends to eliminate unused capacity, because maintaining alternative infrastructure, inventories, or suppliers generates costs that may seem unnecessary under normal conditions. Resilience, on the other hand, tends to preserve a certain level of alternative capacity, because what appears redundant in normal times may become indispensable when the main infrastructure is disrupted.

A rail network is more resilient if alternative routes exist.

An electricity grid is safer if interconnections can compensate for the loss of a power plant or line.

An industrial supply chain is less vulnerable if a critical component does not come from a single plant.

An energy system is more resilient when it has multiple suppliers and multiple routes.

TAP must therefore be interpreted not only as a gas pipeline, but as **a form of strategic redundancy materialized in an infrastructure** .

## Short-term efficiency and insurance value of infrastructure

| Ordinary assessment | Strategic evaluation |
|---|---|
| **transportation cost** | ability to replace a broken route |
| **utilization rate** | availability during a crisis |
| **price of imported gas** | supplier geopolitical risk |
| **return on investment** | damage avoided in case of interruption |
| **unused capacity = cost** | unused capacity = possible insurance |
| **single convenient supplier** | plurality of suppliers |
| **optimization** | resilience |

The problem, of course, isn't simply accumulating unused capacity without limit. A redundant infrastructure has insurance value only if the avoided risk justifies the cost of maintaining it. But the 2022 crisis showed how economic models based exclusively on ordinary conditions can underestimate the value of options that become available during an extreme situation.

## The lesson of timing: resilience is built before the crisis

The key point is therefore temporal. TAP began commercial operations on 15 November 2020, after **four and a half years of work** since the construction groundbreaking


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ceremony. [23] Behind that period were also years of diplomatic negotiations, technical planning, authorization procedures and commercial agreements.

This means that if Europe had only started planning an alternative Caspian route after February 24, 2022, that infrastructure would have been unable to contribute in any way to the immediate management of the crisis.

It is a simple consideration, but fundamental to any economic security policy.

## Resilience cannot be bought instantly when needed.

It must be built when it still seems unnecessary.

The same logic applies to gas storage, LNG terminals, electricity interconnections, strategic raw material reserves, semiconductor production capacity, pharmaceutical stockpiles, or defense infrastructure. The time when the cost of alternative capacity seems most difficult to justify is precisely the period of stability in which the dominant system functions well; but it is also the only time when that capacity can be built without the pressure of an emergency.

The TAP therefore constitutes an almost didactic example of the problem.

When it was planned, Russia was still Europe's main gas supplier, and the new corridor could have appeared primarily as an incremental diversification project.

When it went into operation at the end of 2020, no one could have known that just over a year later Europe would begin radically reducing Russian imports.

When the war broke out, the infrastructure already existed.

And that is precisely why it could be used.

## Diversification does not mean the absence of new risks

Strengthening the Azerbaijani route, however, must be analyzed with the same rigor as Algeria. Replacing part of Russian gas with Caspian gas reduces dependence on Moscow, but does not render this new supply geopolitically neutral. The system passes through Azerbaijan, Georgia, Turkey, Greece, and Albania; it depends on the stability of regional relations and the physical continuity of a corridor thousands of kilometers long; furthermore, the Azerbaijani gas available for export is not unlimited.

Energy security cannot therefore consist in the search for a new dominant supplier deemed permanently reliable.

It must consist of building a structure in which **the loss of any single supplier remains manageable** .

From this perspective, TAP's value stems precisely from the fact that it doesn't operate alone. It is used in conjunction with TransMed, LNG terminals, European

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interconnections, storage facilities, and demand reduction. If Italy instead attempted to completely replace its previous Russian focus with a new focus on the Southern Corridor, it would lose much of the strategic benefit gained through diversification.

## TAP and the possible Italian hub function

The infrastructure also has a scale that exceeds strictly national needs. TAP enters the Italian grid in Puglia and can therefore, at least in principle, contribute to the flow of gas to other European markets through the peninsula's infrastructure and northern interconnections. This is one of the material foundations of the idea, often evoked in Italian institutional documents and speeches, of transforming Italy into a **Mediterranean energy hub** .

The term must be interpreted with caution, because becoming a hub isn't simply about importing large quantities of gas. It requires internal transport capacity, the possibility of bidirectional flows, interconnections with Central Europe, storage facilities, LNG terminals, and a sufficiently liquid market to allow flows to adjust to demand and price differentials.

TAP adds a particularly important component to this architecture because it brings into the Italian system a source from the East but not from Russia, completing the geographical diversification ensured by North Africa and the global LNG market.

In this sense, Italy's geographical position takes on a new meaning.

The peninsula is not only the terminal point where the energy needed for national consumption arrives.

It can become a **bridge between the Mediterranean, the Caspian and the energy market of continental Europe** .


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## From gas to the new geography of connectivity

The relationship with Azerbaijan also has a broader significance than just gas, because the country occupies a central position in the connections between Central Asia, the Caucasus, Turkey and Europe. In the years following the war, the bilateral relationship has in fact begun to increasingly explicitly include infrastructure, mobility and the so-called **Middle Corridor** , the trade route that connects Asia and Europe through Central Asia, the Caspian Sea, the Caucasus and Turkey. [35]

This development demonstrates once again how energy infrastructure can contribute to changing the broader economic geography. TAP does not automatically create a Eurasian trade corridor, but it strengthens a relationship between Italy and a country located in an increasingly important area for energy, transportation, and continental connections.

The geography of energy diversification thus tends to overlap with the geography of strategic connectivity.

## The Ultimate Meaning of TAP: Buying Options Before You Need Them

Ultimately, the value of TAP cannot be measured simply by adding up the cubic meters flowing through the pipeline. These are, of course, essential, and the approximately 10 billion cubic meters per year coming from Azerbaijan now constitute a significant portion of Italy's supply. But the infrastructure's historic significance lies above all in the fact that it provided Italy with **an opportunity that already existed when it suddenly became necessary** .

This is the real difference between an energy policy that reacts to crises and an energy policy that prepares the system to withstand them.

A strategic infrastructure is not built because the precise crisis in which it will be used is known in advance.

It is built because it is recognized that an overly focused system has a vulnerability regardless of whether it is known when that vulnerability will be exposed.

TAP thus demonstrates that a certain amount of redundancy should not automatically be interpreted as inefficiency.

It can be a form of insurance.

It can represent an option.

It can reduce the bargaining power of the main supplier even before it is fully utilized.

It can increase the number of decisions available to a government during a crisis.

This is the deepest value of strategic infrastructures: **they transform investments made in the past into freedom of choice in the future** .


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In the Italian case, the availability of TAP did not make the country independent of foreign gas, nor did it eliminate the need for Algerian gas, LNG, storage, or reduced demand. However, it did lessen Italian dependence, offering a route originating from a different region, through a distinct infrastructure system, and with a capacity that, while limited compared to previous Russian flows, was large enough to materially impact the composition of supplies.

The lesson of TAP is therefore broader than the relationship with Azerbaijan.

**Security infrastructure must be built before security is compromised.**

When the crisis arrives, the time for planning is already over.

Only what exists remains.


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## LNG transforms the sea into an energy infrastructure

The real revolution in Italian diversification, however, concerns liquefied natural gas.

LNG changes the geography of gas because it makes it possible to purchase the fuel not only from countries connected via a permanent pipeline, but from a much broader range of producers capable of loading the liquefied gas onto LNG carriers. The physical constraints remain: liquefaction terminals in exporting countries, a fleet of ships, incoming regasification terminals, and connections to the domestic grid are required. But flexibility increases enormously.

In 2023, Italy imported approximately **16.5 billion cubic meters of LNG** ; in 2024, the volumes decreased to **14.7 billion** , still representing about a quarter of total imports, and 95 percent of the LNG came from Qatar, Algeria and the United States. [4]

In 2025 the role of LNG became even more important: ARERA indicated for that year a growth of **44 percent** in LNG volumes and a share equal to approximately one third of total gas imports. [5]

This is where the expansion of regasification capacity comes into play.

After the invasion of Ukraine, Snam purchased two floating storage and regasification units, one destined for Piombino and the other for Ravenna. The second, the **BW Singapore** , became commercially operational in 2025 and has, like the unit already active in Piombino, a regasification capacity of approximately **5 billion cubic meters per year** . [6]

Ten billion cubic meters of theoretical capacity combined between the two new FSRUs does not automatically equate to ten billion cubic meters of actual imports each year, because utilization depends on demand, prices, global cargo availability, and network capacity. However, they do represent a **strategic option** , that is, the physical possibility of replacing a pipeline source much more quickly if the market or geopolitics so dictate.

It is a form of energy insurance.

Italy pays for infrastructure that does not necessarily have to be permanently functioning at maximum capacity to be valuable.


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## United States, Qatar, and the new global gas market

The growing importance of liquefied natural gas inevitably changes not only the material structure of Italian supplies, but also the way national energy policy connects to international markets and diplomatic relations. Unlike gas transported via land or underwater pipelines, which tend to bind producers and consumers more closely through a dedicated and relatively rigid physical infrastructure, LNG can be loaded onto LNG carriers, cross oceans, and reach different terminals depending on contractual and market conditions. This feature significantly expands the number of potential suppliers and reduces the risk of Italy remaining dependent on a single land route or geopolitical partner. However, it also introduces a different form of exposure, as a growing share of energy security is linked to the functioning of a global market in which Europe, Asia, and other major consumption centers compete for the same cargoes.

The quantitative transformation is already clearly visible. In **2024, Italy physically imported approximately 6.9 billion cubic meters of gas from Qatar and approximately 5.2 billion from the United States** , while the overall volumes of LNG introduced into the national system were approximately **14.7 billion cubic meters** , down from 16.5 billion in 2023 but now stable enough to represent approximately a quarter of Italian gas imports. Qatar, Algeria and the United States together concentrated approximately **95 percent of the LNG imported by Italy** , confirming the existence of a more diversified structure than in the past but also the persistent relevance of a relatively small number of large exporters. [36]

The burden of liquefied cargoes has become even more evident with the expansion of national regasification capacity. Before the Russian-Ukrainian crisis, Italy already had important terminals, including Panigaglia, Adriatic LNG and OLT Toscana, but the need to quickly replace part of the Russian volumes pushed the government and Snam to accelerate the acquisition of two floating storage and regasification units, the Piombino and Ravenna FSRUs. With the entry into service of the latter in May 2025, Italy's overall regasification capacity has reached approximately **28 billion cubic meters per year** , a value that Snam has repeatedly compared with the volumes of Russian gas imported via pipeline in 2021. [37]

This equivalence should not be interpreted as if twenty-eight billion cubic meters of regasification capacity automatically guaranteed the availability of the same volume of gas, because physical capacity can only be utilized to the extent that there are available cargoes on the market, contracts, liquefaction capacity in exporting countries, and sufficient vessels to transport them. The strategic significance, however, is clear: after the construction and entry into operation of the new terminals, Italy has an infrastructure capable of receiving much larger quantities of LNG than before the war, theoretically making a much larger share of pipeline supplies substitutable with cargoes from geographically different markets.


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## The transformation of Italian regasification capacity

| Infrastructure / system | Situation | Indicative capacity |
|---|---|---|
| **Panigaglia** | historic terminal | included in the national system |
| **Adriatic LNG / Porto Viro** | offshore terminal | main component of pre-crisis capacity |
| **OLT Tuscany** | Offshore FSRU | pre-crisis capacity component |
| **Italis LNG – Piombino** | operational from July 2023 | **5 billion $m^3$/year** |
| **BW Singapore – Ravenna** | operational from May 2025 | **5 billion $m^3$/year** |
| **Overall Italian capacity after Ravenna** | five main terminals | **approximately 28 billion $m^3$/year** |

**Source:** Snam. [37]

The entry into operation of the Ravenna FSRU represents a particularly effective example of the new energy geography. The vessel, purchased by Snam in July 2022 in response to the crisis caused by the invasion of Ukraine, has a regasification capacity of approximately **5 billion cubic meters per year** and a storage capacity of approximately 170,000 cubic meters of LNG. The first commercial cargo, unloaded in June 2025, came from the US terminal in **Plaquemines** , Louisiana, one of the new infrastructures that are contributing to the strong expansion of American export capacity. [38]

The episode has symbolic as well as quantitative significance. An Italian terminal built to reduce the vulnerability created by the Russo-Ukrainian war received its first commercial cargo from a US facility that had recently entered a production expansion phase. In just a few years, therefore, part of the Italian energy system shifted from a structure heavily dependent on Eurasian pipelines to one in which gas produced in the United States could be liquefied on the Gulf of Mexico coast, transported across the Atlantic, regasified off Ravenna, and fed into the national grid. Geographic distances increased enormously, but so did the number of potential suppliers and commercial flexibility.

Snam also noted that in **2024 approximately 150 LNG cargoes arrived in Italy** , mainly from Qatar (36 percent), the United States (34 percent) and Algeria (20 percent), but also from Egypt, Congo, Angola, Equatorial Guinea and other countries. In the first months of 2025, the origin of the cargoes continued to be dominated by the United States, Qatar

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and Algeria, while the start-up of Ravenna further increased the absorption capacity of the Italian system. [38]

This transformation inevitably alters the relative importance of Italy's foreign relations. Qatar, already a major supplier to Italy for years through Adriatic LNG, takes on even greater importance as one of the world's leading producers of liquefied gas, while the United States is increasingly engaging in European energy security not only as a military and political ally, but also as a major energy exporter. Italy's foreign energy policy is therefore expanding beyond the traditional axis with Mediterranean and continental producers, as security of supply increasingly depends on investment dynamics in the Persian Gulf, the Gulf of Mexico, ocean routes, and major Asian markets.

## LNG transforms gas from a regional market to a truly global market

It is precisely this characteristic that distinguishes LNG from the traditional model of large gas pipelines. A pipeline connects two or more markets through a relatively rigid physical relationship: once built, the producer has an incentive to sell along that route and the consumer to use the existing infrastructure, while the ability to quickly reallocate volumes to a completely different continent is limited. LNG partially breaks this rigidity, making gas transportable by ship and thus allowing cargoes to be moved to different markets.

This increased flexibility has contributed to a progressive **globalization of the gas market** . The International Energy Agency notes that the increase in LNG trade has made European and Asian prices increasingly interconnected, precisely because the two regions can compete for the same cargoes. The correlation between the European TTF benchmark and the Asian JKM benchmark, which averaged around 60 percent between 2013 and 2018, has risen above **90 percent since 2019** , reaching around **95 percent in 2024.** [39]

This is extremely significant. It means that a cold snap in Asia, a resurgence in Chinese industrial demand, a disruption of a liquefaction plant in the United States, or a geopolitical crisis in the Gulf can also impact the price paid in Europe, even without having any direct relationship with the continent's infrastructure. European gas thus becomes less dependent on a single land-based producer, but simultaneously more integrated into a global system in which supply and demand shocks are rapidly transmitted between very distant regions.

The IEA has shown how this dynamic has manifested itself concretely during and after the 2022-2023 crisis. Between 2015 and 2021, the share of European LNG purchased through short-term or spot transactions had grown from around 10 to 40 percent; during the crisis years the proportion rose further, reaching around **46 percent in 2024.** Greater exposure to spot markets allows importers to reduce some of the risks associated with rigid long-term contracts, but transfers part of the risk onto prices, because flexible

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cargoes can be reallocated towards the market willing to offer more favourable conditions. [40]

## Gas pipelines and LNG: two different safety models

| Characteristic | Gas via pipeline | LNG |
|---|---|---|
| **Geographical relationship** | relatively rigid | highly flexible |
| **Potential number of destinations** | limited by infrastructure | numerous global terminals |
| **Supplier substitutability** | often slow | potentially faster |
| **Exposure to the global market** | minor | very high |
| **Competition with Asia** | indirect | direct on the same cargo ships |
| **Flow stability** | major with long-term contracts | It depends on contracts and spot market |
| **Geopolitical risk** | focused on producer and transit | distributed among producers, shipping routes and the global market |
| **Price risk** | potentially more predictable | greater sensitivity to international prices |
| **Flexibility** | inferior | superior |

The table illustrates why LNG should not be simply described as a superior solution to pipeline gas. The two supply methods have different risk profiles, and their combination is one of the sources of Italy's resilience. Pipeline gas ensures continuity and large volumes through consolidated relationships; LNG allows rapid access to producers without a direct physical connection to Italy.

## The United States and Qatar: two different pillars of Italy's new security.

The roles of the United States and Qatar have different characteristics. The United States has become one of the world's largest LNG exporters in recent years thanks to the growth of shale gas production and the construction of numerous liquefaction terminals along the Gulf Coast. The progressive entry into service of new capacity, including that of Plaquemines, continues to increase the availability of American gas on the world market.


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The IEA already indicated the United States as the main source of new export capacity entering the market in 2024, just as Plaquemines and other plants began the ramp-up phase. [41]

Qatar, on the other hand, has held a central position in international LNG trade for many years, thanks to the enormous reserves of the North Field and a liquefaction capacity built with a strong long-term focus. For Italy, the Qatari relationship is also supported by the Adriatic LNG infrastructure, which for years has been one of the main entry points for liquefied gas into the domestic market. The difference between the two suppliers is therefore significant: the United States offers increasing quantities and high commercial flexibility, while Qatar is a historic producer with a strong tradition of long-term contracts and a now structural relationship with the Italian system.

From a national security perspective, the simultaneous presence of both reduces the risk of Italian LNG becoming dependent on a single major exporter. However, this geographic diversification does not eliminate another type of concentration: that related to **major maritime routes and global chokepoints** . A significant portion of Qatari LNG must pass through the Strait of Hormuz, while US cargoes depend on the continuity of Gulf of Mexico infrastructure and transatlantic routes; other cargoes may transit through the Suez Canal or the Red Sea, depending on their origin and destination.

LNG security is therefore less dependent on a single bilateral relationship, but more closely linked to the overall stability of the international maritime system.


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## Europe-Asia competition: the price of flexibility

The main trade-off introduced by increased dependence on LNG stems from competition with Asia. In the global market, a ship carrying LNG isn't necessarily tied to a single destination if the contract allows for flexibility. When Asian prices are higher than European ones, cargoes may be attracted to China, Japan, South Korea, India, or other major importers; when Europe offers a higher premium, the trend may reverse.

The European Commission explicitly recognises that, precisely because LNG operates in a global market, one of the main risks for European security concerns **competition with Asia and the possible diversion of cargoes** towards more profitable markets. [42]

Recent experience shows that this is not a theoretical risk. In the first half of 2024, Asia accounted for around **60 percent of global gas demand growth** , with increases exceeding 10 percent in both China and India; meanwhile, a reduction in LNG supply growth helped put upward pressure on prices in major importing markets.[43]

In 2025, the relationship temporarily reversed: Europe, having to compensate for lower pipeline imports and replenish stocks, sharply increased its LNG purchases, while Chinese demand weakened. The IEA estimated an increase in European imports of around **25 percent for the whole of 2025** , with flows close to historic highs, while simultaneously noting that European competition for flexible cargoes had helped reduce more price-sensitive Asian purchases.[44]

These movements demonstrate the new balance. Europe has acquired a greater physical capacity to replace Russian gas pipelines with LNG, but to exercise this capacity, it must be able to **compete economically on the global market** .

Physical security increases.

Economic security, on the other hand, depends on the price the European system is willing and able to pay.


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## The 2022 crisis and the global cost of European security

This distinction became particularly evident during the 2022 crisis. The drastic reduction in Russian flows forced Europe to seek large quantities of LNG on the world market in an extremely short time. To attract these cargoes, European prices rose to exceptional levels, taking part of the supply away from other, more price-sensitive importers.

The consequence was that European energy security was achieved not simply through a technical replacement for Russia, but through a **global reallocation of gas flows, also determined by purchasing power** . European countries were able to pay very high prices, while some emerging economies reduced or postponed purchases.

This introduces a further geopolitical dimension. A more flexible global market makes Europe less vulnerable to the blackmail of a single supplier, but it shifts part of the energy competition to the financial arena: in times of scarcity, countries with greater fiscal capacity and greater willingness to pay can secure supplies, indirectly exerting pressure on poorer markets.

LNG thus transforms energy security from a predominantly bilateral relationship into a matter of **global competitive ability** .

## The new role of Italian infrastructure

The increase in regasification capacity also changes Italy's relative position in the European system. With Ravenna operational, Snam indicates an overall capacity in the order of **28 billion cubic meters per year** , equivalent to over 40 percent of the national gas requirement in 2024. [45]

This capacity not only means being able to receive more gas for Italian consumption, but also potentially enhances the peninsula's role as a gateway to continental Europe. However, for this prospect to be fully realized, internal networks, transport capacity from the South and the coasts to the North, cross-border connections, and efficient storage management are necessary.

The idea of Italy as a Mediterranean energy hub must therefore be interpreted as a system composed of multiple elements: **gas pipelines from North Africa, TAP from Azerbaijan, LNG terminals, storage facilities, and a transport network** . No single infrastructure is sufficient to create a hub; it is their integration that generates flexibility.


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## The new Italian gas portfolio

| Source / route | Prevalent characteristic | Main benefit | Main risk |
|---|---|---|---|
| **Algeria / TransMed** | large volumes via tube | Mediterranean continuity and proximity | supplier focus |
| **Azerbaijan / TAP** | Caspian route | independence from the Russian network | geopolitical complexity of the corridor |
| **Qatar / LNG** | major historical exporter | reliability and global volumes | Hormuz and global competition |
| **United States / LNG** | rapidly growing offer | high commercial flexibility | global market volatility |
| **Libya / Greenstream** | extreme proximity | short route and available capacity | political instability |
| **Norway / European network** | stable European supplier | Northern diversification | limited capacity for rapid increase |

The value of the new architecture lies precisely in the heterogeneity of risks: a crisis in the Caucasus does not necessarily coincide with a crisis in the Gulf, a disruption of the TransMed pipeline does not eliminate LNG terminals, a reduction in Qatari supplies can be at least partially compensated by US or African cargoes. Resilience therefore arises not from the absence of vulnerabilities, but from the **imperfect overlap of vulnerabilities** .


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## Physical security improves, but the price becomes more global

In this sense, LNG represents one of the key trade-offs of Italy's new strategy. Increased regasification capacity drastically reduces the possibility that the disruption of a single pipeline will leave the country without alternatives; at the same time, however, it links Italy more directly to global price formation.

The IEA notes that the increasing integration of European and Asian LNG markets has greatly increased the transmission of volatility between regions. As the global market tightens, Europe and Asia compete for the same volumes; as new liquefaction capacity comes on stream, such as that planned in the United States, Canada and Qatar, the pressure may ease.[39][44]

This means that energy security cannot be assessed simply by asking whether gas is physically available. It must also be assessed by asking **at what price it can be purchased and what impact this would have on industrial competitiveness** .

It is perfectly possible, in fact, that a country is no longer at risk of serious physical shortages but continues to suffer prices high enough to penalize energy-intensive industries, families, and economic growth.

Italy's new energy strategy therefore reduces the risk of concentrated outages, but does not eliminate the economic risk.

It transforms it.

## LNG as insurance and as exposure

The function of LNG can therefore be interpreted similarly to that already observed for TAP, but with one important difference. An alternative pipeline represents an infrastructural insurance towards a specific production area; LNG represents a **global geographic insurance** , because it theoretically allows the purchase of gas from producers far from each other.

However, this insurance has a premium.

The premium comes from terminal investments, liquefaction and transportation costs, international competition for cargo, and increased exposure to spot prices during times of shortage.

The strategic question is therefore not whether Italy should choose between gas pipelines and LNG.

It's like combining both so that no single component becomes irreplaceable.

This is the true logic of diversification.

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## Libya: geographically very close, politically fragile

In the Italian Mediterranean plan, Libya occupies a completely different position from that of Qatar or the United States, because no other potentially important major producer is located so close to the Italian coasts and no other route makes so evident the distance that can exist between **geographical advantage and geopolitical reliability** .

The energy connection between the two countries is materialized by the **Greenstream gas pipeline** , built by Eni and the Libyan National Oil Corporation and operational since 2004. The pipeline connects Mellitah, on the Libyan coast, to Gela, in Sicily, through an underwater route of approximately **520 kilometers** and has a nominal capacity historically indicated in the order of **8 billion cubic meters per year** . [46]

From a purely geographical and infrastructural point of view, Libya should represent one of the most natural sources for Italian diversification. The deposits are located a few hundred kilometers from the national market, a direct connection already exists, Eni has been operating in the country since 1959 and the system can bring to Italy the gas produced, among other things, in the **Wafa and Bahr Essalam fields** . [47]

However, quantitative reality shows an enormous gap between theoretical capacity and actual flows. In **2023, Italy imported approximately 2.5 billion cubic meters of gas from Libya** , while in **2024 the volumes dropped to approximately 1.4 billion** , almost halving and remaining well below the nominal capacity of the infrastructure. [36]

## Libya: large potential capacity, limited actual use

| Indicator | Value |
|---|---|
| **Greenstream Length** | **about 520 km** |
| **Historical nominal capacity** | **approximately 8 billion $m^3$/year** |
| **Italian imports from Libya, 2023** | **2.5 billion $m^3$** |
| **Italian imports from Libya, 2024** | **1.4 billion $m^3$** |
| **Implicit utilization vs. nominal capacity, 2024** | **less than 20%** |

**Sources:** Eni, ARERA/MASE. [36][46]

This difference almost represents empirical proof that the availability of infrastructure alone is not sufficient to guarantee security of supply. A pipeline may have free capacity, the fields may be geographically close, and the destination market may be ready to receive the volumes, but if the production system of the country of origin is exposed to political crises, institutional conflicts, protests, blockades, or instability of the authorities, theoretical capacity does not necessarily translate into predictable supplies.


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## The Libyan paradox: the closest gas may be the least predictable

Libya thus embodies a strategic paradox. From a physical distance, the country offers Italy one of the most favorable energy routes; politically, it remains one of the most difficult sources to consider fully predictable.

The events of the last fifteen years have shown how directly institutional instability can translate into disruptions in the energy sector. Already in 2011, during the civil war, Eni and the Libyan authorities had to work to restore exports through Greenstream, which the Italian government then defined as an infrastructure of strategic interest for the national security of supplies. [48]

That vulnerability has not disappeared over the years. Libya continues to have a fragmented political structure and a hydrocarbon sector highly exposed to institutional crises. The World Bank found, for example, that in 2024 the crisis related to the leadership of the Libyan Central Bank caused a drastic temporary reduction in oil production, contributing to the country's economic contraction; crude oil production fell from about 1.17 million barrels per day to **0.54 million in September 2024** , before recovering after the crisis was resolved.[49]

The International Monetary Fund confirmed the same mechanism, noting that the dispute over the central bank and the resulting disruption of hydrocarbon production had weighed on growth in 2024, showing once again how much the country's energy performance remains dependent on the stability of political institutions. [50]

While these data primarily concern oil, their strategic significance extends to the entire hydrocarbon sector: when institutional disputes can disrupt production, exports, or infrastructure, the physical availability of resources does not equate to security of supply.


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## Greenstream: An Underutilized Strategic Infrastructure

Precisely for this reason, the Greenstream represents both a valuable asset and an underutilized capacity. A pipeline capable of transporting several billion cubic meters annually directly from the Libyan coast to Sicily is, in theory, an ideal element of Italian diversification; however, actual flows in recent years demonstrate that the issue is not so much the pipeline's capacity as the quantity of gas that can be produced and made stably available upstream.

Eni has continued to invest to preserve and strengthen this capacity. Current projects, including **Structures A&E** , aim to increase Libyan offshore production, support the domestic market and maintain continuity of exports through Greenstream. [47]

This step is important because it highlights another aspect of energy security: a pipeline cannot transport a raw material that isn't produced. The security of the route therefore also depends on investments in fields, platforms, processing plants, and compressor stations.

For Libya, the equation is particularly complex, because investments must coexist with a political context in which operational continuity cannot be taken for granted.

## Favorable geography, high political risk

The difference between Algeria and Libya is, from this perspective, instructive. Both are located on the southern Mediterranean, both have direct connections to Italy, and both possess significant energy resources; yet their actual role in the Italian system is profoundly different.

In recent years, Algeria has supplied over twenty billion cubic meters annually, becoming the country's leading supplier.

Libya, despite having a direct infrastructure, has remained in the order of a few billion cubic meters.

This difference cannot be explained by distance.

It can be explained largely through **productive capacity, institutional stability and operational continuity** .


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## Algeria and Libya: Distance alone does not determine security

| Variable | Algeria | Libya |
|---|---|---|
| **Geographical location** | North Africa | North Africa |
| **Connection with Italy** | TransMed via Tunisia | Direct Greenstream |
| **Volumes 2024** | **23.3 billion $m^3$** | **1.4 billion $m^3$** |
| **Relevance in the Italian mix** | very high | limited |
| **Flow stability** | relatively larger | more volatile |
| **Main risk** | supplier focus and transit | political and productive instability |
| **Strategic potential** | already widely used | higher than actual flows |

**Source:** ARERA/MASE; Eni. [36][46][47]

The table shows why energy policy cannot be reduced to physical geography. Proximity reduces transportation costs and can simplify infrastructure construction, but it does not eliminate political risk. A distant but politically stable source accessible via a global market can, under certain circumstances, offer greater predictability than a geographically close but institutionally fragile source.

## Libya as a simultaneous energy and geopolitical problem

Libya's importance for Italy far exceeds the gas sector. The country's stability simultaneously impacts migration routes in the central Mediterranean, maritime security, the presence of external powers, relations with other North African countries, and the political balance of the Sahel and the Eastern Mediterranean.

For this reason, Italian policy toward Tripoli cannot be built solely around the volume of gas flowing through Greenstream. A Libyan crisis could simultaneously have energy, migration, and security implications; similarly, political stabilization in the country could increase both the production capacity and the strategic value of economic cooperation with Italy.

The relationship between energy and foreign policy is therefore particularly evident: **Italy has a direct economic interest in Libyan stability because stability increases the value of existing infrastructure** .

Greenstream constitutes already built physical capital.

What is missing, compared to its theoretical potential, is a political framework capable of allowing for a more stable use.


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## The risk of overestimating Libya's potential

For this very reason, however, it would be equally incorrect to build a national strategy assuming that Libya can quickly return to supplying large volumes simply because the pipeline capacity exists. Recent history shows that Libyan production can fluctuate significantly as a result of political crises that are difficult to predict from the outside.

Strategic prudence therefore requires treating Libyan gas as a useful component of the portfolio, but not as a pillar capable of replacing Algeria, Azerbaijan, or LNG on its own.

Libya increases the plurality of Italian options.

Under current conditions, it alone cannot guarantee the stability of the system.

This distinction is essential because diversification does not consist in nominally adding up the number of supplier countries, but in evaluating **what quantity can realistically be available when needed** .

## From Libya to the entire Mediterranean policy

Finally, the Libyan case demonstrates why Italy's ambition to build a new energy hub in the Mediterranean cannot be separated from regional foreign policy. If Italy wishes to leverage its geographical position as a strategic advantage, it must necessarily focus on the political, economic, and infrastructural stability of the countries on the southern shore.

Energy thus makes the Mediterranean a unitary economic and political space to a much greater extent than national borders suggest.

Algerian gas flows through Tunisia.

Libyan gas arrives directly in Sicily.

Qatari and American LNG reaches Italian terminals via international maritime routes.

The future prospects for hydrogen and electricity interconnections are once again pointing towards North Africa.

Italy's energy security therefore depends on a network of relationships that includes **North Africa, the Persian Gulf, the United States, the Caucasus and the European market** .

## Two opposing models of the new energy security

In this sense, LNG and Libya almost represent two extremes of the same transformation.

LNG offers maximum geographic flexibility but exposes the country to global competition.


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Libya offers one of the greatest geographical proximity possible but remains exposed to high internal political risk.

## Two different forms of vulnerability

| Size | Global LNG | Libyan gas |
|---|---|---|
| **Distance** | high | very small |
| **Geographic flexibility** | very high | very low |
| **Potential number of suppliers** | high | a |
| **Bilateral political risk** | distributed | concentrated |
| **Global price risk** | high | relatively lower in permanent contracts |
| **Dependence on dedicated infrastructure** | multiple terminals | Greenstream |
| **Physical predictability** | high if the market is liquid | more uncertain |
| **Exposure to regional crises** | global shipping routes | Libyan internal politics |

The common lesson is that there is no risk-free energy source. Each route eliminates some vulnerabilities and introduces others.

Energy security is precisely about ensuring that **none of these vulnerabilities can become systemic on their own** .

## The strategic significance of the new architecture

After 2022, Italy has not become energy independent, nor could it have done so in a few years. However, it has substantially changed the structure of its options. Algerian gas supplies large quantities across the Mediterranean; the Trans Adriatic Pipeline (TAP) connects the country to the Caspian Sea; LNG allows it to purchase gas on the global market from the United States, Qatar, and numerous other producers; Greenstream keeps open a Libyan route which, while underutilized and politically fragile, nevertheless represents additional capacity.

The new architecture is therefore more expensive and complex than a structure built around a single large supplier, but offers greater capacity to absorb different shocks.

And this is precisely the most important conceptual transformation.

Before the war, energy policy could be judged primarily by the average cost of supplies.

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After the war, that criterion is no longer sufficient.

The value of options, alternative routes, regasification capacity, storage, and the political stability of suppliers must also be considered.

The cheapest system under normal conditions is not necessarily the least expensive system when considering the risk of a crisis.

From this perspective, LNG and Libya tell the same story from two opposite perspectives.

The first demonstrates that a distant source can increase security through flexibility.

The second shows that a very close source can remain fragile if political stability is lacking.

**Geography matters, but it's not enough.**

Energy security depends on the ability to combine geography, infrastructure, markets, and politics into a structure where the disruption of any single component is not enough to jeopardize the entire country.


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## Domestic production: the internal limit of energy security

External diversification does not change another structural fact: Italy produces a relatively small share of the gas it consumes.

In 2024, domestic production fell to just under **2.6 billion cubic meters** , while about **95.2 percent of available gas** came from abroad.[7]

Energy dependence on foreign countries therefore remains extremely high even after Russia's replacement.

This is important because Italy's energy security does not consist in eliminating international dependence, a goal that is difficult to achieve in the short term, but in transforming a concentrated dependence into a diversified structure, with more routes, more suppliers, and greater adaptability.

The 2024 National Integrated Plan for Energy and Climate reconstructs precisely this logic, indicating a set of contributions intended to compensate for the previous Russian gas through increased flows from Algeria, TAP, LNG, increased domestic production, renewables and energy efficiency. [8]

The formula is important because it demonstrates that substitution does not have to occur simply by finding “more gas”.

The surest measure to reduce dependence on an imported raw material is also to consume less of it when this can be done without reducing economic production.

This is where energy transition and national security begin to converge.

## Renewables: not just climate, but also external risk reduction

After 2022, the growth of renewable sources therefore takes on a new strategic significance.

Every megawatt-hour produced by solar, wind, hydroelectric, geothermal, or biomass reduces, under appropriate conditions, the amount of fossil fuels that must be purchased on international markets. The relationship isn't perfectly one-to-one, because the electricity system requires flexibility, storage, grid capacity, and programmable generation; however, in the long run, increased domestic production from renewable sources reduces dependence on imports.

In 2025, according to Terna, renewable sources will have covered approximately **41 percent of Italy's electricity needs** , compared to 42 percent in 2024, with a slight decline in renewable production in the year but a continuous increase in installed photovoltaic capacity. [9]

The data shows both progress and limitations at the same time.


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A share of more than forty percent of electricity demand represents a significant transformation of the mix.

But electricity and total energy are not the same thing.

Transportation, industry, heat, and many other functions still rely directly on oil and gas, and electrifying these uses will over time require much larger networks, storage, generation capacity, and investments.

The energy transition therefore becomes a security infrastructure, but only if the electrical system is capable of supporting the new load.

This is where Terna takes on a strategic role comparable, in some respects, to that of large gas pipelines: it does not produce energy, but enables the transfer of electricity from where it is generated to where it is consumed, integrating growing quantities of intermittent production and managing interconnections with foreign countries.

## Italy as a potential hub: geopolitical project or physical reality?

**Mediterranean energy hub** spread , a formula used to describe the possibility that the peninsula would not only import energy for its own needs, but also become a transit point towards the rest of Europe.

The idea has real geographical foundations.

Italy has connections with Algeria, Libya and Azerbaijan, LNG terminals, an extensive gas network and interconnections that also allow flows towards Northern Europe. The 2024 PNIEC explicitly refers to the possibility of using the Italian system for flows towards Austria and Switzerland and, through these, towards other continental markets. [8]

But the word hub should not be used as an unverified geopolitical slogan.

To become a true European hub, sufficient transport capacity from South to North, competitive availability of molecules, contracts, infrastructure, and continental demand consistent with the investment are needed.

Furthermore, the European transition aims to reduce fossil gas consumption in the long term, and therefore the strategic value of new infrastructure must be assessed against scenarios in which part of the network could gradually be used for biomethane, hydrogen, or other molecules.

The Mediterranean hub is therefore a possible strategic trajectory, not a fait accompli.


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## The new risk: replacing one addiction with another

The most important lesson from the 2022 energy crisis lies not only in the need to reduce dependence on a single fossil fuel supplier, but in the awareness that **any diversification process can strategically fail if it replaces one concentration with another** . The reduction of Russia's role in the Italian and European energy system represented a fundamental step, but it did not eliminate the problem of dependencies: it shifted it to other countries, other technologies, other raw materials, and other stages of the value chain. An energy transition constructed without considering the industrial structure that enables it risks reducing the vulnerability associated with natural gas and, at the same time, increasing another vulnerability, linked to minerals, components, and manufacturing capabilities concentrated in a few areas of the world.

This transformation is particularly clear when we look at what is physically needed to build an energy system less dependent on fossil fuels. A more extensive and digitalized electricity grid requires large quantities of copper and electronic equipment; a battery requires lithium, nickel, graphite, manganese, and, in many chemical compounds, cobalt; a wind turbine uses steel, copper, composite materials, and, in some configurations, permanent magnets containing rare earth elements; photovoltaics rely on extremely sophisticated production chains that include polysilicon, wafers, cells, modules, glass, inverters, and power electronics. Reducing dependence on oil and gas, therefore, does not lead to an economy devoid of strategic raw materials, but to one in which **the nature of the resources considered strategic changes** .

This is precisely why the green transition has gradually ceased to be interpreted in Brussels solely as a climate policy. It has become simultaneously industrial policy, economic security, and raw materials policy, because it's not enough to decide how many gigawatts of solar or wind power to install if most of the technologies needed to build them depend on geographically concentrated supply chains and potentially exposed to political shocks, trade restrictions, or unilateral decisions by producing countries.

The International Energy Agency has shown the scale of the problem with particular clarity. In its *Global Critical Minerals Outlook 2024* , the Agency noted that the concentration of refining chains remained extremely high and that, based on the projects announced at the time, between 2024 and 2030 around **70-75 percent of the growth in refined supply of lithium, nickel, cobalt and rare earths would come from the three largest producing countries** , while in the case of spherical and synthetic graphite used in batteries almost **95 percent of the projected growth would come from China** . Furthermore, by 2030, more than **90 percent of battery-grade graphite** and around **77 percent of refined rare earths** would still originate from China.[51]

The problem isn't just about the geological ownership of resources. In many supply chains, the greatest concentration isn't necessarily found in extraction, but in the

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subsequent stages of refining, processing, and manufacturing of the components. A mineral can be mined in Africa, Latin America, or Australia, yet shipped to Asia to be refined and transformed into material usable by industry. Strategically, this means that **the geography of the mine and the geography of industrial power can be very different** , and that a country can diversify its mineral sources while remaining dependent on a single processing hub.

Furthermore, the most recent trends do not point to a quick solution to the problem. In 2025, the IEA found that the average share of the three largest countries in the refining of the main energy minerals had increased from around **82 percent in 2020 to 86 percent in 2024** , while almost 90 percent of the increase in refined supply recorded in that period had been achieved by the largest producer: Indonesia in nickel and China in cobalt, graphite and rare earths. [52] This means that, just as governments and companies were discussing diversification, some of the most important chains for the energy transition were becoming, at least in certain production stages, even more concentrated.

## From Russian gas to critical raw materials: the dependency changes, not the problem

| Traditional energy system | Energy system of the transition | Possible new vulnerability |
|---|---|---|
| **Natural gas** | Batterie | lithium, graphite, nickel, cobalt |
| **Petrolium** | Electric vehicles | batteries, semiconductors, rare earths |
| **Fossil power plants** | Photovoltaic | cells, wafers, polysilicon, inverters |
| **Gas pipelines** | Electrical networks | copper, transformers, electronics |
| **Refineries** | Gigafactory | refined materials and production technologies |
| **Russian imports** | Asian technologies | industrial and commercial concentration |
| **Fuel dependence** | Supply chain dependence | risk of coercion or interruption upstream |

The logical continuity is clear. Before 2022, Europe could purchase large quantities of Russian gas at economically competitive conditions and view that relationship primarily on price and contractual reliability; after the invasion of Ukraine, it discovered that the geographic concentration of a critical resource can transform a commercial relationship into a political vulnerability. If the green transition were built by accepting a similar dependence on a single country for solar panels, batteries, magnets, refined materials,

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or electronic components, **the nature of the vulnerability would change, but not the structure of the problem** .

Italy could thus become much less dependent on Russian gas and, at the same time, increase its exposure to technology supply chains located primarily in Asia. The risks are not identical, because a gas disruption has immediate effects on industrial production, heating, and electricity generation, while a shortage of lithium, photovoltaic cells, or battery components can manifest more slowly through investment delays and increased costs. However, from an economic security perspective, both situations share the same characteristic: **an external player has a sufficiently concentrated position to limit the number of alternatives available to the European system** .


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## The European response: from the green transition to supply chain security

It is precisely to avoid this outcome that the European Union has progressively complemented REPowerEU with a set of policies that go well beyond reducing gas consumption. The **Critical Raw Materials Act** , which came into force in May 2024, identifies critical and strategic raw materials needed not only for the green and digital transition, but also for the defence and space sectors, and establishes a series of benchmarks to reduce the Union's vulnerability by 2030. The regulation requires that at least **10 percent of Europe's annual requirement for strategic raw materials be extracted in the Union** , that at least **40 percent be processed within European territory** , that at least **25 percent come from recycling** and, above all, that **no single third country supplies more than 65 percent of Europe's requirement for each strategic material at a relevant stage of processing** . [53]

This last criterion is particularly significant because it represents, in an almost quantitative form, the lesson learned from the gas crisis. The issue is not preventing Europe from importing raw materials, an unrealistic goal for a continent that does not possess all the necessary resources internally; rather, it is preventing a single dependency from exceeding a threshold that could become a potential source of coercion.


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## Critical Raw Materials Act: European benchmarks for 2030

| Objective | EU Benchmark |
|---|---|
| **Internal extraction** | **at least 10%** of the annual requirement |
| **Internal processing** | **at least 40%** |
| **Internal recycling** | **at least 25%** |
| **Maximum dependence on a single third country** | **no more than 65%** |

**Source:** European Commission, Council of the European Union. [53]

The regulation's logic demonstrates how the concept of economic security has changed compared to the previous phase of globalization. It doesn't propose a return to autarky, nor does it demand that all materials be extracted in Europe; instead, it builds a combination of **domestic production, European processing, recycling, and international diversification** , recognizing that resilience comes from multiple options, not from system closure.

The same approach is visible in the **Net-Zero Industry Act** , with which the Union has sought to increase European manufacturing capacity in the technologies needed for decarbonisation. The indicative target is that European manufacturing capacity of strategic net-zero emissions technologies approaches or reaches at least **40 per cent of the Union's annual installation needs by 2030.** The technologies concerned include photovoltaics, wind, batteries and storage, electrolysers, heat pumps, biomethane, grid technologies and carbon capture. [54]

Here too, the rationale is not to produce everything domestically, but to prevent Europe's energy transition from being achieved almost exclusively through imports of technologies produced elsewhere. If Europe were to finance its own decarbonization with hundreds of billions while simultaneously creating almost total industrial dependence on foreign countries, it would reduce an energy vulnerability at the cost of building a technological one.

## Diversification means knowing the entire value chain

From this perspective, a more rigorous criterion for assessing economic security emerges. Knowing the country from which the final product originates is not enough. It is necessary to reconstruct **the entire value chain** , identifying where the raw material is extracted, where it is refined, where it is transformed into the intermediate component, where the final product is assembled, and which production technologies are themselves dependent on a few suppliers.


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A photovoltaic panel can be assembled in Europe, but use imported cells.

A battery may be produced in Italy, but depend on cathode material refined in Asia.

A turbine may be European, but use permanent magnets made from rare earths processed in China.

An electric car can be assembled in a European factory while incorporating a supply chain of components and materials that crosses several countries.

Industrial resilience is therefore not measured solely by the location where the final production label is applied. It is measured by the **replaceability of critical nodes in the supply chain** .

This is particularly important for Italy, because the national manufacturing structure is deeply embedded in European and international supply chains. A country with a diversified industrial base can suffer serious consequences even when the missing raw material or component represents a relatively small share of the final product's value. The semiconductor crisis during the pandemic had already demonstrated this precise mechanism: the lack of low-cost components was enough to slow down automotive production worth billions.

The same logic applies to the energy transition.


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## Energy security and economic security become the same policy

This is why, after 2022, the distinction between energy security and economic security becomes progressively less tenable. A country that possesses enough gas to keep its industries operating but cannot purchase the components needed for new grids, batteries, or electronic systems remains vulnerable; similarly, a country capable of producing solar panels but completely dependent on a single external source for the materials or wafers needed to manufacture them cannot be considered fully resilient.

The new energy security must therefore include at least four different levels:

### The four dimensions of energy security after 2022

| Size | Fundamental question |
|---|---|
| **Energy supply** | are there sufficient quantities of gas, oil, electricity and fuels? |
| **Infrastructure** | Are there networks, terminals, storage facilities and interconnections capable of transporting them? |
| **Technologies** | Who produces batteries, panels, turbines, transformers, and semiconductors? |
| **Raw materials** | Which countries do copper, lithium, nickel, graphite, and rare earths come from? |

The conceptual shift is profound. Twentieth-century energy security could be measured primarily through deposits, oil and gas pipelines, and strategic fuel reserves; twenty-first-century energy security must also encompass factories, mines, mineral refineries, software, semiconductors, and digital infrastructure.

The transition therefore does not reduce the relationship between energy and geopolitics.

It makes it more complex.

**2024-2026: Russian dependence is drastically reduced, but Europe decides to close it definitively**

The same need to avoid residual dependencies remained evident also in the relationship with Russia. After the extraordinary reduction recorded between 2022 and 2023, in **2024 European imports of Russian gas partially returned to growth** , including through LNG and flows still permitted via pipeline. The European Commission, presenting in May 2025 a new roadmap for the complete elimination of Russian energy, recalled that Russia's share of European gas imports had been reduced from around **45 percent before the war to 19 percent** , but at the same time underlined the rebound observed in 2024. [55]


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The figure must be read carefully. A 19 percent share represented a dramatic change from the 2021 situation, but it was still high enough to allow Moscow to maintain a significant role in the European energy market and, more importantly, to generate financial revenues incompatible with the political objective of reducing indirect economic support for Russia's war-fighting capacity.

The Commission therefore concluded that **reducing dependency was no longer sufficient** .

It needed to be finished.

On **6 May 2025,** a roadmap was presented to progressively eliminate Russian gas, oil and nuclear materials from the European market. For gas, the policy line envisaged the cessation of new contractual relations, the progressive exit from existing contracts and the complete elimination of imports by the end of 2027, while Member States were required to prepare national diversification plans.[55]

On **17 June 2025,** the Commission transformed that roadmap into a more detailed legislative proposal, establishing a differentiated timetable for new contracts, short-term contracts and long-term agreements. The principle was now explicit: the European market should not simply wait for Russian contracts to become less economically advantageous, but should organize **by law a structural exit from dependence** . [56]

## From REPowerEU to the ban on Russian imports

| Phase | Decision |
|---|---|
| **May 2022** | launch of REPowerEU |
| **2022-2023** | drastic reduction in Russian flows |
| **2024** | partial resumption of Russian imports |
| **May 6, 2025** | Commission's roadmap for complete elimination |
| **June 17, 2025** | legislative proposal on phase-out |
| **December 3, 2025** | political agreement between the Council and Parliament |
| **January 26, 2026** | final adoption of the regulation |
| **March 18, 2026** | start of the gradual application of the ban |
| **2026-2027** | Rolling deadlines for LNG and pipeline gas |

**Sources:** European Commission, Council of the European Union. [55][56][57]

The decisive step came in **January 2026** , when the Council of the European Union formally adopted the regulation making the phase-out of Russian gas binding, transforming a political objective born with REPowerEU into a European legal framework. The new rules provide for the gradual start of the ban in 2026, with transition periods for existing contracts: for short-term contracts, the import of Russian LNG must cease from **25 April 2026** and that of pipeline gas from **17 June 2026** ; for long-term contracts, the ban on LNG comes into full force from **1 January 2027** , while for pipeline gas the main


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deadline is set for **30 September 2027** , with a possible postponement to 1 November if the conditions relating to storage are not met. [57]

This development also changes the way the 2022-2026 period should be interpreted. Diversification was not just a temporary response to the war; it has progressively become a **permanent restructuring of the European energy system** , codified through investments, regulation, and legal constraints.


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## For Italy, diversification becomes a permanent policy

For Italy, this means that the transformation begun in 2022 cannot be considered complete when Russia's share has been drastically reduced. A new energy architecture must be maintained, updated, and made flexible enough to survive future crises, including unpredictable ones.

The relationship with Algeria must remain stable enough to support TransMed's central role, but without recreating excessive concentration on the main supplier.

TAP must continue to be integrated into the system and, where economically viable, expanded, without turning Azerbaijan into a new irreplaceable source.

LNG must ensure access to a plurality of producers and not simply become a form of permanent dependence on extremely volatile spot cargoes.

Electricity grids must grow alongside renewables, because installing new capacity without strengthening the transmission system creates congestion rather than security.

Storages must increase to compensate for intermittency and reduce the need for reserve fossil generation.

Efficiency must structurally reduce demand, because **the safest cubic meter of gas is the one that the system no longer needs to import** .

All these elements must be considered as parts of the same system and not as independent policies.

## From security of supply to system security

The next step, therefore, is to abandon an overly narrow definition of energy security. Traditionally, a system was considered secure if it was able to obtain sufficient quantities of energy at reasonable prices. After the 2022 crisis, this definition remains valid, but it must be broadened.

Safety also concerns the **ability to withstand the interruption of a source without collapse** .

It concerns the time needed to replace a supplier.

It concerns the amount of energy that can be stored.

It's about the robustness of the networks.

It concerns the availability of components and materials necessary for their maintenance.

It concerns the state's fiscal capacity to temporarily absorb a shock without destabilizing public finances.


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Finally, it concerns industrial competitiveness, because energy that is physically available but permanently much more expensive than that paid by competitors can become a different form of vulnerability.

## Energy security after the war: from a variable to a system

| Old question | New question |
|---|---|
| **Is there enough gas?** | How many sources and how many routes can provide it? |
| **Is the price competitive?** | Is the price sustainable during a shock? |
| **Are there gas pipelines?** | Are there also LNG, storage and interconnections? |
| **How much do we import?** | Who do we import from and how quickly can we replace it? |
| **How many renewables do we install?** | Do we have the networks, storage, and components to integrate them? |
| **Is fuel available?** | Are technology supply chains resilient? |
| **Is there production capacity?** | Is it geographically concentrated or substitutable? |

This evolution explains why REPowerEU, the Critical Raw Materials Act, the Net-Zero Industry Act, and the new economic security policies must be seen as part of the same European transformation. The war highlighted the risk of Russian gas; subsequent policies seek to prevent the green transition from producing a technological equivalent of that dependence.

## The real transformation: from energy as a commodity to energy as power

The most profound change brought about by the war, however, concerns the very way energy is interpreted politically. In the previous decades, a supply contract could be assessed primarily based on three variables: price, quantity, and commercial reliability. Naturally, the geopolitics of energy had never disappeared, but in integrated and liberalized European economies, the belief had spread that sufficiently deep and interdependent markets could mitigate its impact.

2022 proved that this assumption was incomplete.

An energy contract must also be assessed through the **geopolitical risk embedded in the relationship with the supplier** .

A seemingly convenient price may hide a strategic cost if replacing the source takes years.


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A seemingly oversized infrastructure can be a valuable insurance policy if it allows you to respond to an unexpected outage.

A stockpile of gas or critical materials may seem inefficient in normal times, but become essential when international trade is disrupted.

Finally, an electricity grid is no longer just a technical structure designed to distribute energy: it becomes one of the infrastructures upon which the entire productive, digital, and social capacity of the country is based.

Energy thus ceases to be a simple commodity and returns to being **a component of national power** .

## The strategic value of infrastructures does not coincide with their average use

This shift is particularly evident in the case of regasification terminals. If a terminal is valued solely by its average annual utilization rate, a period of low flows can make it appear oversized or economically inefficient. However, a strategic infrastructure doesn't necessarily have to maximize its utilization at all times to possess value.

Its value also includes the capacity it makes available when another source disappears.

This is the logic of insurance.

A country doesn't build a fire prevention network because it plans to use it every day.

He builds it because the damage associated with its absence during a fire would vastly outweigh the cost of keeping it unused for much of the time.

The same logic can be applied, with due differences, to regasification plants, interconnections, storage and reserve capacity.

In this sense, **the efficiency of the system cannot be measured only under normal conditions** .

It must also be measured against the amount of damage it manages to avoid during shocks.


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## The electricity grid becomes a national security infrastructure

The role of the electricity grid becomes even more important as electrification increases. If automobiles, heat pumps, industry, data centers, and a growing share of production processes depend on electricity, the resilience of the electricity system takes on a directly strategic value.

An insufficient grid can slow the entry of renewables.

A poorly interconnected network can increase the vulnerability of certain areas.

An inadequately protected network can become the target of cyber or physical attacks.

A grid unable to integrate storage and distributed generation may increase the need for backup fossil fuels.

The energy transition is therefore shifting a growing part of the security problem from oil and gas pipelines to **cables, transformers, digital systems, interconnections and storage** .

The very concept of critical infrastructure is changing.

## Renewables reduce energy dependence, but not automatically industrial dependence

The same is true for photovoltaic and wind power. Every kilowatt-hour produced by a solar or wind farm, all other things being equal, reduces the amount of fossil fuel that must be purchased and burned; from an energy perspective, this represents a clear improvement in safety.

But the benefit must be read together with the industrial structure of the technology.

A photovoltaic panel installed in Italy can produce domestic energy for decades, but the production chain through which that panel is produced can be heavily dependent on foreign suppliers.

This distinction is fundamental.

## An imported technology can reduce energy dependence and increase industrial dependence at the same time.

The two things are not contradictory.

This is precisely why European policy is now seeking to combine the installation of clean technologies and the strengthening of domestic production capacity through the Net-Zero Industry Act. [54]

Future energy security will therefore not depend solely on the number of panels installed.

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It will also depend on the ability to replace, repair, produce, or purchase them from a sufficient number of suppliers.

## From Russian dependence to a much more complex geography

Italy has not become energy autonomous.

However, it has profoundly changed the structure of its dependencies.

Russia, which in 2021 held a dominant position in Italian gas, has been replaced by a combination of Algeria, Azerbaijan, Qatar, the United States, Norway, Libya, LNG, domestic production, renewables, and declining demand. None of these factors is entirely risk-free, but their combination reduces the likelihood that a single external decision will be enough to disrupt the entire system.

This is the difference between independence and resilience.

Independence implies the ability to function without the outside.

For Italy, an industrial economy integrated into European markets and poor in many raw materials, such a goal would be economically unrealistic.

Resilience, on the other hand, implies the possibility of **losing a component of the system without losing the system itself** .

It's a different and much more realistic goal.

## Vulnerability doesn't disappear: it's redistributed

The outcome of the post-2022 transformation should therefore be interpreted without excessive optimism. Italy is much less dependent on Russia, but remains heavily dependent on foreign countries for energy, technology, and raw materials. A growing share of risk has been transferred to global markets, industrial supply chains, and new partners.

Algerian gas reduces Russian dependence but increases Algiers' strategic weight.

TAP adds a critical route, but it makes stability in the Caucasus and Turkey more important.

LNG opens access to the United States, Qatar and the global market, but exposes it more to global prices and Asian competition.

Renewables reduce the need for imported fuels, but require raw materials and technologies that can be concentrated in Asia.

Batteries offer greater range than petroleum but rely on lithium, graphite, and nickel.

The electricity grid reduces dependence on fuels but increases the importance of copper, transformers and electronic components.

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So the vulnerability **does not disappear** .

It is redistributed across more countries, more technologies, and more infrastructure.

## How Italian vulnerability is changing

| Before 2022 | After 2022 |
|---|---|
| **heavy dependence on Russian gas** | more diversified energy portfolio |
| **risk concentrated on a few gas pipelines** | risk distributed across pipelines, LNG and global markets |
| **fuel-centric safety** | security also focused on networks, storage and technologies |
| **predominantly fossil fuel energy dependence** | increasing dependence on critical raw materials |
| **energy relations, especially between the Euro and Russia** | geography extending to the Mediterranean, Caspian, Gulf and USA |
| **risk of physical disruption** | physical risk + price risk + technological risk |
| **energy policy** | energy + industrial + trade + foreign policy |

This makes the system more complex, but not necessarily more fragile. A distributed vulnerability can be more manageable than a concentrated vulnerability if the different components are not exposed to the same shocks.

This is precisely the function of diversification.


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## The Mediterranean returns to the center because it connects energy, industry and power

The redistribution of dependencies ultimately explains why the Mediterranean has returned to a central position in Italian foreign policy. The peninsula lies physically between continental Europe and some of Europe's main alternative energy routes: North Africa, the Southern Corridor from the Caspian Sea, the maritime LNG routes, and, potentially, the future hydrogen and renewable electricity corridors.

This geography produces opportunities but also strategic responsibilities.

Algeria becomes a primary energy partner.

Libya remains a potential source whose importance depends on political stability.

Tunisia is a transit country for Algerian gas.

The Adriatic becomes the terminal of the Azerbaijani route.

LNG ports and terminals connect Italy to the United States, Qatar and the world market.

The Mediterranean is therefore no longer just a southern frontier of Europe.

It becomes **a space connecting European energy security, North Africa, the Middle East and global trade** .

For Italy, this brings a profound shift in the function of its geographic position. For decades, energy dependence had been interpreted primarily as a weakness stemming from the lack of large domestic reserves. However, geography itself can become an advantage if the country manages to transform itself into a diversified access point to the European market.

The Mediterranean therefore acquires value not because it automatically contains all the resources Italy needs, but because it allows for the connection of **different suppliers, routes and infrastructures** .

## From energy as a commodity to energy as freedom of choice

This is probably the most lasting conceptual result of the crisis that began in 2022. The value of energy can no longer be assessed solely through the unit price paid under normal conditions, because it must also include the amount of strategic freedom that a given supply structure leaves the state.

A slightly more expensive contract may have value if it reduces a dangerous concentration.

An underutilized pipeline can have value if it provides an alternative route.

A regasification terminal can be valuable if it provides rapid access to global suppliers.


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A more robust network can be valuable even when some of its capacity remains unused under ordinary conditions.

A European industrial supply chain may be more expensive than importing it, but it can have insurance value when it involves a technology that cannot be quickly replaced.

This doesn't mean that all production should be relocated to Europe or that any form of dependence is dangerous. Such a policy would be economically inefficient and, for many sectors, materially impossible.

Instead, it means distinguishing between **interdependence and vulnerability** .

Interdependence is a normal feature of an open economy.

Vulnerability arises when a relationship is concentrated enough, difficult enough to replace, and important enough to allow an outside party to influence internal decisions.

Economic security therefore consists in preventing interdependence from exceeding that threshold.

## The new measure of energy power

From now on, a country's energy strength can no longer be measured solely by the amount of oil, gas, or coal it holds underground. It must also be measured through infrastructure, technological capabilities, networks, market access, storage, supply chain diversification, fiscal capacity, and the ability to rapidly replace a source.

A country without large deposits can be relatively safe if it has numerous routes, redundant infrastructure, and deep markets.

A resource-rich country can be vulnerable if it depends on a single export market.

A highly interconnected system can be safer than a formally self-sufficient but technologically backward one.

Geography remains fundamental, but it does not act alone.

It is **the combination of geography, technology, and institutions** that determines true strategic capability.

## The new Italian architecture: more complex, but also more difficult to blackmail

The Italy emerging from the energy crisis is not independent, but it is structurally different from the one that entered in 2022.

It has a North African axis centered on Algeria.

It has a Caspian corridor through TAP.


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It has much greater regasification capacity than in the past.

It can access LNG from the US, Qatari and other producers.

It maintains a Libyan route, albeit a fragile one.

It has large storage capacity.

It is increasing the share of renewables and progressively strengthening the grid.

This configuration is more complex to manage, but it makes it more difficult for a single actor to exert the same degree of pressure on the Italian system that a concentrated dependence allowed on the eve of the war.

This is the fundamental criterion.

Don't eliminate every addiction.

**Prevent an addiction from becoming a life-threatening one.**

## Geography and power coincide again

The energy crisis that began in 2022 has thus brought back to the center of Italian politics a truth that the most optimistic phase of globalization had helped to make less visible: energy is not just a commodity, and infrastructure is not just technical tools.

A gas pipeline produces a political relationship.

An LNG terminal expands the number of diplomatic alternatives.

An electrical grid determines the possibility of integrating new sources.

A battery contains a geography of mines, refineries and industries.

A photovoltaic panel incorporates a global value chain.

A stock gains value precisely when the market does not function normally.

Each infrastructure therefore changes, at least marginally, the number of options available to the State.

This is what transforms energy into power.

The war did not make Italy energy independent or eliminate its vulnerability. However, it forced the country to move from a relatively concentrated structure to a more complex one, in which security depends on a combination of **Algeria, Azerbaijan, LNG, the United States, Qatar, the Mediterranean, networks, storage, renewables, efficiency, and new European industrial policies** .

The system remains exposed to risks.

But the risks are distributed.

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And it is precisely this distribution that allows economic dependence not to automatically transform into political dependence.

In the new European energy order, therefore, the Mediterranean once again takes on a significance that goes beyond simple geographical proximity.

It becomes one of the places where **geography, infrastructure, industry and power coincide again** .


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# Chapter 21

## The New European Security — NATO, Ukraine, and the Defense Industry

If the 2022 energy crisis forced Italy to rediscover that a raw material can be transformed into an instrument of power, the war in Ukraine has brought about an even more profound transformation in Europe's perception of security, demolishing the idea, which had become increasingly dominant since the end of the Cold War, that a high-intensity conventional conflict on the continent was now a remote enough possibility to allow Western European states to maintain relatively small armed forces, limited stockpiles, and defense industries sized primarily for external missions, multi-year programs, and a military demand far lower than that of bipolar competition. Since February 2022, the challenge has not simply been to increase the defense budget: it has been to rebuild a credible military capability in a context in which munitions, air defense, drones, artillery, missiles, logistics, space, cyber, and force readiness have once again become everyday elements of European security.

Italy enters this new phase with unique characteristics. It is a founding member of NATO, possesses one of Europe's leading aerospace and naval industries, has armed forces with international operational experience, and occupies a geographical position that makes it simultaneously exposed to the Alliance's eastern flank and the wider Mediterranean. But it comes to war after decades in which military spending remained relatively contained and a significant portion of defense resources were absorbed by personnel and major investment programs, leaving persistent problems on the operational side—namely, training, maintenance, operational availability, and day-to-day functioning of the military.

This distinction between **purchasing a skill** and **being able to use it continuously** is fundamental.

- An armed force is not the sum total of the systems it possesses.
- An existing fighter in your inventory does not necessarily equate to an aircraft immediately available for a mission.
- A ship can be modern but require maintenance.
- A missile system may have high technological value but depend on the number of munitions available.
- A brigade may formally exist but require training, personnel, logistics, and supplies.

This is why the reconstruction of Italy's defense cannot be measured solely through investment budgets.

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Wales' 2 percent to meet new Hague target

For over a decade, NATO's main policy guide on spending has been the **Defence Investment Pledge** adopted at the 2014 Wales Summit, through which the Allies committed to moving towards spending equal to 2 percent of GDP and to allocating at least 20 percent of defence spending to major equipment and related research.

Italy remained below that threshold for years.

The NATO series shows spending of **1.13 percent of GDP in 2014** , around 1.17 in 2019, 1.58 in 2020, 1.52 in 2021, 1.50 in 2022, 1.47 in 2023 and around 1.50 in 2024; for 2025 NATO estimates a jump to **2.01 percent of GDP** , with nominal spending by its own definition of around **45.3 billion euros** . [1]

The leap must be interpreted with great care, because NATO itself warns that its definition of defense spending may produce significantly different values than those reported in national budgets. The NATO methodology includes categories that do not perfectly coincide with the Ministry of Defense's budget estimates and uses standardized criteria to make countries with different budget structures comparable; the Alliance itself specifies that military pensions, equipment and other components are considered according to the agreed definition and that the figures may diverge significantly from those published by national authorities. [2]

This is precisely why one cannot take the **31.3 billion** of the Ministry of Defense's ordinary budget in 2025 and directly compare it with the approximately **45.3 billion NATO budget** , concluding that one of the two figures is incorrect.

They measure different perimeters.

The Multi-Year Programming Document 2025–2027 indicates an **ordinary budget of the Ministry of Defence equal to 31.298 billion in 2025** , while the so-called integrated budget - which also includes resources from other ministries and related funds - reaches approximately **35.492 billion** . The "Defence Function" alone, distinct from the territorial security functions carried out by the Carabinieri and other components, is indicated at approximately **22.485 billion** . [3]

Three different numbers do not represent three alternative versions of the truth.

They represent three different questions.

How much does the Ministry of Defense spend?

How much overall is allocated to defense-related functions across various state budgets?

How much does NATO consider military spending according to its international standards?

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A government analysis must keep these questions separate.

## 2025 does not close the burden sharing problem: it expands it

The estimated achievement of 2 percent by 2025 could have been considered, a few years earlier, the final goal of the long debate on transatlantic burden sharing.

The war and the revision of NATO plans have instead shifted the reference again.

At the 2025 Hague Summit, the Allies made a new commitment to be achieved by **2035** , articulated as at least **3.5 percent of GDP for core defense requirements** and up to a further **1.5 percent for broader security and resilience-related spending** , such as critical infrastructure, networks, civil preparedness, innovation and the industrial base.[4]

The new objective profoundly changes the Italian fiscal problem.

The shift from 2 to 3.5 percent of core military spending is not a marginal adjustment; if applied mechanically to an economy the size of Italy, it would imply tens of billions of dollars of additional spending each year compared to previous levels.

But precisely for this reason, it is not enough to multiply a percentage of GDP and describe the result as a commitment already funded.

The goal is a 10-year trajectory, subject to review in 2029, and the ability to achieve it will depend on public finances, economic growth, political priorities, industrial structure, and the way NATO accounts for the various components.

Furthermore, at the date of this chapter, the national programmatic documentation for 2026 is not yet formally available on the Defence portal: the Ministry indicates the **"documentation in progress"** , while the most recent official document remains the DPP 2025–2027. [5]

This documentary limit must be preserved.

It is not possible to assign programs, numbers or priorities to DPP 2026 that have not yet been published.


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## War in Ukraine transforms the meaning of readiness

The war made clear a truth that for years had remained relatively marginal in Western planning: technological quality is no substitute for quantity when the conflict lasts long enough.

European armies had been progressively optimized for relatively limited professional missions, in which Western technological superiority allowed them to operate with reduced forces and escorts commensurate with campaigns of shorter duration and intensity than a protracted conventional conflict between states.

Ukraine, on the other hand, has shown enormous consumption of artillery, missiles, interceptors, drones and spare parts.

This does not mean that the Ukrainian model can be mechanically transferred to Italian planning, because geography, alliances, and doctrine are different.

But it does mean that **stockpile depth** once again becomes a measure of military capability.

A sophisticated air defense with few interceptors can quickly be saturated.

A modern artillery system with insufficient ammunition has a limited operational capacity over time.

An advanced fleet but lacking adequate missile supplies and maintenance cannot sustain a prolonged conflict.

This is why the DPP 2025–2027 dedicates increasing resources not only to large platforms but also to armament, ammunition, support and maintenance. The parliamentary dossier on the document indicates **15.4 billion euros planned up to 2039 in the armament and ammunition sector** , while the "support and maintenance" sector has approximately **15.7 billion available** over the same period, most of which are concentrated in the first few years precisely for needs considered urgent. [6]

This is rearmament in its true form.

Not just more tanks, ships and planes.

More ammo.

More maintenance.

More logistics.

Greater capacity to sustain the operation over time.


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## The Italian problem of the Exercise

Perhaps the most important finding in the 2025-2027 Multi-Year Defense Planning Document does not concern increased investment, the size of aeronautical programs, or the cumulative value of appropriations earmarked for platform renewal, but rather the much more problematic statement in which the same document acknowledges that the **Operations sector** , the portion of the budget that allows the military to function effectively on a daily basis, continues to be under severe financial pressure. This point is crucial because it allows us to distinguish between the formal availability of new weapons systems and the actual capacity to continuously employ them, train personnel, maintain them, supply them, update them, and integrate them into a truly combat-ready force.

In the language of the Defence budget, the Exercise includes a decisive part of what transforms a purchased platform into a usable military capability: training and education of personnel, purchase of goods and services, maintenance and upkeep of the efficiency of the means and infrastructures, operation of the units, ordinary operational activities and numerous other components that do not normally attract the same public attention reserved for large acquisition programmes, but which determine the degree of real availability of the military instrument. The parliamentary dossier dedicated to the DPP 2025-2027 recalls that this sector had already undergone a significant contraction in the long term, going from approximately **2.7 billion euros in 2008 to approximately 2.3 billion in 2023** , with a cumulative reduction in the order of **19 percent** ; in 2024 the allocation had stood at **2.2216 billion** , that is approximately 115 million less than the previous year. [15]

For **2025,** the level of resources allocated to the Financial Year is indicated at **2.3023 billion euros** , with an increase of approximately 80.7 million compared to 2024, but the forecasts reported for the following years will decrease significantly again, falling to approximately **1.9519 billion in 2026** and **1.9352 billion in 2027.** [15] This trend is relevant precisely because it occurs in the same period in which investment planning registers a very significant expansion, creating a possible divergence between the growth of the expected technological capacity and the availability of the resources necessary to support it in daily functioning.


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## The Exercise sector in the 2025-2027 DPP

| Year | Financial Year Allocation | Variation / observation |
|---|---|---|
| 2008 | **approximately €2.7 billion** | level prior to the long contraction |
| 2023 | **approximately €2.3 billion** | cumulative reduction of approximately 19% compared to 2008 |
| 2024 | **€2.2216 billion** | approximately -€115 million compared to 2023 |
| 2025 | **€2.3023 billion** | approximately +€80.7 million compared to 2024 |
| 2026 | **€1.9519 billion** | forecast significantly decreasing |
| 2027 | **€1.9352 billion** | forecast substantially stable at a lower level |

**Source:** DPP 2025-2027 and parliamentary dossier. [15]

The problem does not arise only from the absolute quantity of resources, but from the plurality of charges that affect the same aggregate. The parliamentary dossier reconstructs, among other things, the effects of the savings targets imposed in previous financial years, the financing of specific functions, the contribution to the Armed Forces Pension Fund and even a share of the charges connected to the **Global Combat Air Programme** , for which 14 million euros are indicated as weighing on the sector in 2025. [15] This leads to a situation in which the nominal amount allocated to the Financial Year cannot be interpreted entirely as free availability to increase flight hours, navigation days, exercises or maintenance, because a part of the resources is already absorbed by predetermined obligations and purposes.

This is why the DPP, according to the reconstruction of the Chamber, uses a particularly significant expression, speaking of a **serious under-funding of the Operations sector** and directly linking it to the ability to maintain efficient means and infrastructures, support training and guarantee the operability of the units. [15] It is a much more important formulation than it may appear, because it suggests that the problem of Italian Defence does not only concern the acquisition of missing platforms, but the structural relationship between investments, personnel and operations.


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## Why a budget increase does not automatically equate to an increase in capacity

This passage helps us understand a distinction that runs through all of contemporary defense policy: **military spending is not automatically synonymous with military capability** . Two countries can allocate a similar amount to defense and achieve very different operational results depending on how that spending is distributed among personnel, maintenance, infrastructure, ammunition, training, research, acquisitions, and platform sustainment.

A new combat aircraft only delivers capabilities if there are sufficiently trained pilots, qualified technicians, adequate basic infrastructure, simulators, spare parts, armaments, fuel, software updates, and a logistics chain capable of maintaining its availability. A next-generation ship requires crews, maintenance periods, weapons systems, escorts, training at sea, port support, ammunition, and modernization cycles. A modern tank requires fuel, spare parts, recovery vehicles, workshops, ammunition, crew training, and interoperability with reconnaissance, artillery, air defense, and command and control.

The difference between **owning a platform** and **having operational capacity** lies precisely in this chain.

A weapon system may be formally delivered but have reduced technical availability.

It may be technically efficient but have few trained crews.

It may have sufficient personnel but insufficient ammunition for prolonged deployment.

It can be prepared individually but not integrated into a multi-domain formation.

For this reason, the effective availability of a force depends on continuous financial support much more than on the moment of acquisition alone.

The distinction is even more important for more sophisticated systems, because their cost doesn't end with the initial payment. Technologically advanced platforms incorporate very high lifecycle costs, which are spread over decades through scheduled and unscheduled maintenance, hardware and software upgrades, component replacement, training, logistical support, and infrastructure upgrades.

**Military capability is not purchased once; it is continuously funded.**


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## The risk of an unbalanced modernization

It is precisely here that the risk implicit in the Italian planning structure emerges. If investments grow rapidly while the military remains compressed, the Ministry of Defense can theoretically deploy increasingly modern platforms but find itself forced to limit their use, reduce the pace of exercises, or postpone maintenance activities.

This isn't an accounting contradiction, but rather a consequence of the different timeframes of the two spending categories. Investments allow for the ordering and acquisition of systems that will gradually enter service over many years; Operations, on the other hand, must be available annually and must grow with the increasing complexity of the force. The more sophisticated platforms are introduced, the greater the need for specialized maintenance, simulation, cyber protection, software updates, and data management.

An accelerated modernization therefore also produces **a deferred operational requirement** .

The system purchased in 2025 can be delivered in 2028, enter full service in 2030, and be used until 2055; this means that the investment decision made today generates an operational spending commitment that extends well beyond the horizon of the DPP in which it was authorized.

This element makes a reading of the budget based solely on initial allocations insufficient.

## From program to operational capacity

| Phase | Content | Main financial need |
|---|---|---|
| **Decision** | definition of the military requirement | programming |
| **Order** | contract and acquisition | investment |
| **Production** | system implementation | multi-year investment |
| **Delivery** | transfer to the Armed Forces | investment / infrastructure |
| **Training** | training of crews and technicians | Exercise |
| **Operational use** | missions and exercises | Exercise |
| **Maintenance** | maintenance in efficiency | Exercise / support |
| **Update** | hardware and software upgrades | investment + exercise |
| **Ammunition** | establishment and replenishment of stocks | investment / Exercise |
| **End of life** | replacement or disposal | new programming |

The table helps us understand why **ordering, production, delivery, and operational capacity should never be treated as synonymous** . The first column describes an administrative decision, the following columns describe an industrial and logistical transformation, and the last column describes actual capacity for use.


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## The Exercise problem becomes more serious just as Defense becomes more sophisticated

The structural nature of the problem emerges even more clearly when looking at the direction of Italian planning. The 2025-2027 DPP does not describe a Defense that simply purchases more tanks, ships, or aircraft than in the past, but rather a force that seeks to transform itself into an **integrated, digitalized, and multi-domain system** , in which platforms must be connected to each other and share data in near-real time.

This transformation inevitably increases the cost of operation.

An analog or relatively isolated weapons system could be maintained primarily through spare parts, workshops, fuel, and technical personnel; a modern system requires, in addition to these elements, cybersecurity, satellite links, secure networks, software updates, databases, sensors, command and control systems, simulation capabilities, and interoperability.

Technological modernization therefore produces a sort of **multiplier of the operating requirement** .

The more sophisticated the force becomes, the less plausible it is to imagine that the support could remain static.

## The historical precedent: a long erosion of functioning

The current pressure on the Financial Year did not arise suddenly with the DPP 2025-2027. The historical comparison reported in the parliamentary dossier shows that the reduction compared to 2008 is the result of a long process, during which the sector has often represented one of the main areas of absorption of budgetary adjustments. [15]

This type of reduction can have consequences that aren't immediately visible in financial records. A ship continues to be listed in the fleet even if it spends more time in maintenance; an aircraft continues to be counted in the inventory even if it flies fewer hours; a department continues to formally exist even if it has reduced training capacity.

It is precisely for this reason that platform numbers must be read in conjunction with availability and readiness indicators.

An armed force can be numerically significant and, at the same time, have a small portion of immediately available assets.

The theme of the Exercise therefore concerns **the operational quality hidden behind the administrative quantity** .

## The war in Ukraine has made the value of advocacy more visible

The Ukrainian experience has further reinforced this lesson. The conflict that began in 2022 demonstrated how quickly a high-intensity confrontation can consume

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ammunition, wear out equipment, require maintenance, and impose operational tempos far beyond those of the relatively limited expeditionary missions that had characterized much of the previous decades.

The lesson is not just about buying more platforms, but about building the capacity to keep them operational over time.

This means having supplies.

It means having workshops.

It means having technical staff.

It means being able to quickly repair damaged vehicles.

It means having industrial contracts capable of supporting higher production rates.

Above all, this means sufficiently funding ordinary operations before extraordinary operations are required.

From this perspective, the Italian problem of the Exercise is not a budgetary detail, but a question directly linked to the credibility of deterrence.

## The relationship between investment and operation must be assessed over the entire life cycle

One of the most frequent distortions in public debate stems from the emphasis on the acquisition cost of major programs, because this figure is immediately visible and politically relevant, while the cumulative cost of sustaining them is spread over many financial years and appears less evident.

To properly evaluate a military program, it's necessary to consider the **lifecycle cost** , that is, the overall cost of the capability from design to decommissioning. For a platform intended to remain in service for thirty years or more, acquisition represents only one component of the total expenditure.

The issue becomes even more relevant for the programs that Italy is introducing in the 2025-2039 period, because many belong to the most technologically advanced end of the military spectrum and will therefore require equally sophisticated support systems.

The dilemma is simple: **if the modernization of investments is not accompanied by the financial modernization of the Exercise, the risk is to build a force that is more modern on paper than in day-to-day use** .

## The new programming: sky, sea, earth, space and digital

The 2025-2027 DPP, however, demonstrates with equal clarity that the Italian Defense Ministry is seeking to move beyond a concept based on the simple replacement of individual platforms to build a much more complex multi-domain architecture. The very

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taxonomy of the programs reveals a profound transformation, as digitalization, cyber, space, command and control, sensors, advanced munitions, and technological research gain increasing importance alongside the traditional land, maritime, and air sectors.

**land vehicles** sector, the planned requirement up to 2039 is quantified at approximately **23.1 billion euros** , of which 19.3 billion from the Defence budget and 3.8 billion from the budget of the Ministry of Enterprise and Made in Italy. The programme does not only concern the renewal of tanks and vehicles, but aims to rebuild a complete range of heavy, medium and light systems, transport and support vehicles, remotely piloted capabilities and digital components designed to guarantee interoperability with other operational domains. [16]

**maritime** sector , the planning indicates approximately **15.3 billion euros until 2039** , of which 10.5 billion from the Defence budget and the remaining share from MIMIT. The development lines include the renewal of front-line combat units, multipurpose capabilities, support for special forces, logistics, unmanned vehicles and a particular strengthening of the underwater dimension, which the DPP links more and more explicitly to the protection of critical infrastructures and the new strategic importance of the seabed. [16]

**aviation** sector has the highest financial dimension, with an overall planning of around **46.6 billion euros until 2039** , of which just over 13 billion are attributable to the MIMIT budget. More than half of the resources are destined for combat aircraft, defined in the document as the heart of operational capability, but the planning also includes transport, support, rotary wing, remotely piloted systems, training and the future GCAP programme. [17]


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## Planning of main capacities up to 2039

| Sector | Indicative overall programming | Main features |
|---|---|---|
| **Land vehicles** | **€23.1 billion** | heavy, medium and light platforms, support, unmanned systems, digitalization |
| **Maritime vehicles** | **€15.3 billion** | combat fleet, underwater, support, special forces, unmanned systems |
| **Aircraft** | **€46.6 billion** | combat, GCAP, transport, rotary wing, UAV, training |
| **Armament and ammunition** | **€15.4 billion** | missiles, artillery, ammunition, air and underwater armament |
| **Digitalization and infostructure** | **€5.9 billion** | cloud, AI, 5G+, cyber, data-centricity |
| **Research and development** | **approximately €1.44 billion** | technological programs and advanced research |

**Sources:** DPP 2025-2027, Annex and parliamentary documentation. [16][17][18]

The table must be read with extreme caution because these values represent **multi-year program requirements through 2039** , not expenditures already incurred in 2025. This distinction is essential to avoid distorting the financial picture. A €23 billion program may include allocations spread over fifteen years, portions yet to be fully funded, contributions from different administrations, and payments linked to development or delivery phases far in the future.

The overall value therefore indicates the **scale of the planned transformation** , not the amount of capacity already available.

## The land sector: from the replacement of vehicles to the reconstruction of the mass

The land programme deserves particular attention because in previous years it had been one of the sectors in which renewal had proceeded most slowly. The DPP explicitly recognises that the sector has suffered from a lack of resources and now proposes a much broader modernisation, which must concern heavy, medium and light combat vehicles, support and transport platforms and remotely piloted systems. [16]


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The strategic significance lies not only in purchasing more modern vehicles, but in recovering **operational mass** , protection, mobility and interoperability in a European scenario once again characterised by the possibility of high-intensity conflicts.

The war in Ukraine has brought back to the center of European planning needs that had been relatively less of a priority during the years of asymmetric operations: artillery, armored capabilities, air defense, ammunition, tactical mobility, logistics and counter-UAS systems.

The Italian land renewal fits precisely into this new approach.

But once again, the relationship with the Army is crucial. A new fleet of land vehicles requires crews, maintenance, training, fuel, ranges, and ammunition supplies.

The increase in material mass therefore inevitably produces an increase in the financial mass required to sustain it.

## The sea: the underwater dimension becomes strategic

In the maritime sector, the DPP attaches particular importance to the underwater dimension, in line with the growing European and NATO focus on the protection of underwater infrastructure, cables, pipelines and strategic maritime areas.

The Navy must therefore not only replace end-of-life ships, but also adapt to an environment in which competition extends to the seabed, unmanned systems, and the surveillance of critical infrastructure.

The **15.3 billion planned up to 2039** therefore include a qualitative as well as quantitative transformation, in which traditional units and unmanned systems must operate within the same information architecture. [16]

The issue of sustainability becomes particularly evident here, because the availability of naval units depends on complex maintenance cycles, dry docking, arsenals, specialized personnel and long periods at sea.

It is therefore not enough to finance new units.

**Their operational presence** needs to be financed .


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## Aeronautics: the financially most burdensome part of the transformation

With approximately **46.6 billion planned until 2039** , the aviation sector represents the most expensive component of the modernization described by the DPP. [17]

This burden largely stems from the growing sophistication of combat platforms and their ecosystems. Modern aircraft no longer function as isolated systems, but as nodes in networks that connect sensors, platforms, satellites, command and control systems, and other forces.

The GCAP probably represents the most evident expression of this transformation because it is not conceived simply as a new fighter destined to replace the Eurofighter, but as a system of systems in which manned platforms, collaborative components, sensors, networks and digital capabilities will have to operate in an integrated manner.

The DPP further indicates that more than half of the air sector's resources are allocated to combat aircraft, confirming the priority given to maintaining high-intensity capabilities. [17]

But this very sophistication amplifies the problem of the Exercise.

A new-generation aircraft requires not only fuel and mechanical maintenance, but also software, updates, cybersecurity, simulators, data management, dedicated infrastructure, and extremely complex training.

The investment therefore creates potential capacity.

Exercise turns it into real ability.

## Armaments and ammunition: the return of stocks

Another area in which the planning shows the strategic change post-2022 concerns armaments and ammunition, to which approximately **15.4 billion euros are attributed over the horizon up to 2039.** The development lines include missile systems for the defence against air and ballistic threats, land artillery, counter-drone capabilities, aero-tactical armament, new generation torpedoes and ammunition defined as "battle decisive", intended to hit strategic targets with precision. [18]

The war in Ukraine has demonstrated how quickly stockpiles can be consumed in a protracted conflict. This makes ammunition increasingly inseparable from the concept of readiness, because a platform without sufficient stockpiles retains capital value but rapidly loses operational value.

The ability to replenish stocks also depends on the industrial base.


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This means that military readiness also becomes a question of **national and European production capacity** .

## Digitalization: from support to the backbone of strength

The most profound transformation of the DPP could, however, be the one concerning digitalisation. The document allocates approximately **5.9 billion euros until 2039** to the digitalisation and information structure sector, almost entirely from the Defence budget, with approximately 1.2 billion already attributable to the 2025 budget law. [18]

The priorities indicated include cloud, artificial intelligence, quantum computing, high-speed connectivity, cyber-security and data valorization, within an explicitly **data-centric approach** . [18]

This language reveals a paradigm shift. Information infrastructure is no longer an ancillary service connecting independently built platforms, but rather the system through which the platforms themselves acquire operational value.

A ground sensor must be able to transmit data to a command center.

This data can be integrated with satellite information.

The information can be transmitted to an airborne or naval platform.

The most suitable system can be given the task of engaging the target.

Military capability is therefore no longer the sum of the individual platforms.

It depends on the **quality of the connections between them** .

## Multidomain is not a technology slogan

The concept of multidomain operations risks being used in an overly abstract way, but the concrete meaning is very precise: land, naval, air, space, and cyber capabilities must be able to share information, coordinate effects, and operate as parts of a single system.

The Defence itself, in the 2026 national research call, identifies among the priorities **C2 and Multi-Domain Situational Awareness** , i.e. systems capable of receiving, merging and representing data coming from the five operational domains and from the information and electromagnetic environments, guaranteeing advanced interoperability, continuous integration of new technologies and centrality of the data. [19]

This approach explains why a program traditionally classified as “terrestrial” can have digital, satellite, and cyber components, and why the administrative distinction between sectors no longer corresponds perfectly to the actual structure of capabilities.


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## From platform to multi-domain capability

| Traditional model | Multi-domain model |
|---|---|
| **platform as a center of capacity** | network as a center of capacity |
| **sensor and weapon on the same platform** | sensor and weapon can belong to different domains |
| **predominantly vertical command** | distributed information sharing |
| **episodic updates** | continuous technological updating |
| **networks as support** | networks as operational infrastructure |
| **cyber as a specialized function** | cyber integrated into operations |
| **space as external support** | space as an operational domain |
| **capacity measured by number of vehicles** | capacity also measured by integration, data and readiness |

Change is crucial because it also alters the cost structure. A multi-domain force must permanently support networks, clouds, satellite links, cybersecurity, data centers, software, and specialized personnel.

The separation between investment and exercise therefore becomes even more subtle.


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## Research and development: a smaller, but strategically crucial, figure

The **research and development sector** has a smaller financial dimension than the large platform sectors, but an increasing strategic importance. Parliamentary documentation indicates an overall programming of approximately **1.44 billion euros in the period 2025-2039** , with the majority of resources concentrated in the first years to support the launch of technological projects. [16]

This figure, often rounded to around **$1.5 billion** , shouldn't be directly compared to the $46.6 billion spent by the aeronautics sector, as it serves a different purpose. Research serves to reduce technological risk, develop prototypes, participate in cooperative programs, and maintain national capability in sectors where future superiority will depend less on the number of existing platforms and more on the speed of innovation.

It is therefore a relatively small item from a financial perspective, but with a potential multiplier effect on the quality of the future industrial base.

### Sky, sea, land, space and digital become a single industrial problem

The new planning therefore demonstrates that the Italian Defense Department is not simply increasing its procurement, but is changing the structure of demand from industry. Companies must no longer supply just complete platforms, but also software, electronics, sensors, autonomous systems, cybersecurity, communications, propulsion systems, ammunition, and support services throughout the entire lifecycle.

The boundary between the military industry and civilian technology is thus becoming more permeable, especially in sectors such as artificial intelligence, space, quantum, semiconductors, drones, and the cloud.

This expands the function of defense policy as industrial policy.

But it also increases financial risk, because a sophisticated technological base requires long programs, predictable investments, and consistent sustainment capabilities.


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## Scheduling does not mean availability

It is here that the distinction already used in the rest of the work between **program, financing, order, production, delivery and operational capacity must be maintained with particular rigor** .

The overall amount associated with a sector through 2039 does not mean that that sum has already been spent.

It doesn't mean it's fully available today.

This does not mean that all contracts have been signed.

This does not mean that all systems are in production.

It doesn't mean they were delivered.

And, most importantly, it doesn't mean they're already up and running.

The DPP and its Annex constitute multi-year programming tools in which projects, financial needs and time profiles are illustrated. The Ministry of Defence itself presents the 2025-2027 Annex as a document intended to provide details of the individual projects and their related programmatic and financial outlines. [20]

This clarification is essential for any serious analysis of Italian military capability.

## How to read DPP numbers correctly

| Term | Meaning | What it does NOT mean |
|---|---|---|
| **Overall requirement** | planned cost of the project over the entire horizon | money already spent |
| **Allocation** | resource entered in the budget | system already ordered |
| **Contract** | formalized industrial commitment | platform already delivered |
| **Production** | material realization | capacity already available |
| **Delivery** | transfer to the administration | full operational readiness |
| **IOC** | initial operational capability | full force capacity |
| **FOC** | full operational capacity | absence of future sustainment costs |

The value of this distinction is particularly evident in more complex programs, where many years can pass between the start of funding and full operational capacity.


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## The real problem is not spending more, but transforming spending into availability

The investment growth envisaged by the DPP is therefore a necessary condition for Italy's modernization, but not a sufficient one. Future military capability will depend on the extent to which the resources allocated to acquisition are accompanied by a consistent growth in resources for operations, personnel, ammunition, and infrastructure.

This ratio determines what might be called **the conversion of the budget into military power** .

A euro spent on a platform has a different effect than a euro spent on maintenance or ammunition, but both are necessary for the capability to actually exist.

The most serious risk would therefore not be investing too much in new platforms, but investing in an unbalanced way.

A force with obsolete but highly trained means is not adequate for contemporary technological competition.

A force equipped with state-of-the-art equipment but with few flight hours, few days of navigation or insufficient maintenance is not equally so.

Ability comes from balance.

## The Italian paradox: more military capital, but a growing need for current spending

This balance becomes increasingly difficult the more ambitious the modernization effort. If Italy were to fully implement the programs planned through 2039, it would have a much more sophisticated force than it currently has, but precisely for this reason it would require a level of operational capacity structurally adequate to support more expensive systems.

The paradox is therefore evident: **the more successful the modernization, the greater the future need for operation** .

Every new ship generates maintenance.

Each new aircraft generates flight hours and logistical support.

Each new land system generates training and spare parts.

Every new digital network generates licenses, updates, and cybersecurity.

Each new missile system generates needs for spares and replenishment of ammunition.

Investment policy therefore produces future current spending obligations.

This is a consequence that must be incorporated into planning from the outset.


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## A modern force must also be able to be used

The issue of the Exercise thus becomes the litmus test for Italy's entire transformation. The modernization envisioned by the DPP is far-reaching and encompasses land, sea, air, space, and digital, but the value of these investments will depend on the state's ability to sustainably finance their deployment.

This is the point that distinguishes an **asset modernization** from an **operational modernization** .

The first increases the value and quality of the owned means.

The second increases the ability to fight, sustain operations and maintain readiness over time.

The two dimensions must proceed together.

The expected reduction in the financial year 2026 and 2027, if not compensated by subsequent budget decisions or by a different allocation of resources, therefore constitutes an element that deserves particular attention, precisely because it occurs within a phase of strong expansion of investments. [15]

This does not mean that Italy is necessarily building a force destined to remain unused.

This means that **the success of the modernization program will also depend on the future ability to correct the relationship between investment and sustainability** .

## The problem of readiness is the real strategic problem

Ultimately, what matters is not the amount of billions written in a document, but the amount of capacity available when it is requested.

Credible deterrence exists when the adversary believes that the declared forces are actually usable.

An alliance works when the promised assets can be made available.

A fleet is effective when it can put to sea.

An air component is credible when it can generate sorties at a sufficient rate.

A land force is operational when equipment, personnel, ammunition and logistics are available simultaneously.

For this reason, the Operations sector deserves at least as much attention as the large investment programmes.

Modernization indicates **what Defense wants to become** .

Exercise determines **how much of that capacity can actually be used each day** .


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And it is precisely in the balance between these two dimensions that the difference between a technologically advanced armed force and a truly ready armed force is measured.


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## GCAP: the fighter as an industrial and geopolitical program

Among the most important programs is the **Global Combat Air Programme** , developed by Italy, the United Kingdom and Japan to build a future advanced air combat architecture intended for the next generation of current aircraft.

The significance of GCAP far exceeds the purchase of a future fighter.

The program encompasses sensors, electronics, collaborative combat, unmanned systems, artificial intelligence, engines, materials, and software; in other words, some of the technologies that will define aerospace and industrial power for decades to come.

The DPP considers GCAP the flagship program of the aviation sector and the financial annex linked to the 2025 budget law provides specific refinancing for the program. [9]

Here industry and security coincide.

If Italy participates in the initial development phases, domestic companies can access expertise, intellectual property, and production chains that will have military and civilian applications.

If, however, it were to purchase a system developed entirely abroad in the future, it might gain military capability but lose a significant portion of its technological sovereignty.

This is one of the reasons why defense industrial policy cannot be judged solely by the price of a single system.

A military program can also be a national technological infrastructure.

## F-35: Acquisition, Integration and Interoperability

The F-35 program represents a different but complementary logic.

Italy participates in a US-led system that is set to be a central element of NATO aviation for decades. The annex to the DPP 2025–2027 provides additional resources for the integration of new F-35As and F-35Bs, as well as measures to make the Trieste ship fully compatible with the F-35B component. [9]

Again, financial performance does not equate to immediate capacity.

Aircraft must be produced, delivered, integrated, armed and sustained.

Furthermore, the Cameri base gives the program a much broader Italian industrial dimension than a simple foreign purchase, through assembly, maintenance, and support activities.

The strategic rationale is above all that of interoperability: an Italian air force integrated into the same standards used by numerous allies can operate within a common network of sensors, communications, and missions.

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National autonomy and allied interoperability are therefore not necessarily opposed.

They can be built together, but require an industrial policy that is careful to preserve national expertise in the components considered critical.

## The sea returns to being a central domain for Italy

For a country with more than eight thousand kilometers of coastline, dependent on maritime trade, and located at the heart of the Mediterranean, naval defense is not a specialized sector of defense policy; it is part of the national economic structure.

The war in Ukraine has understandably drawn Europe's attention to its eastern land flank, but for Italy the Mediterranean remains the confluence of energy, trade, migration, undersea cables, North African instability, Middle Eastern crises, and routes to Suez.

The DPP 2025–2027 defines the **wider Mediterranean** as a priority quadrant, including not only the Mediterranean basin itself but also the Balkans, the Black Sea, the Arabian Peninsula, the Gulf, the Sahel, the Horn of Africa and the Gulf of Guinea. [10]

This definition is geopolitically significant because it extends the concept of Italian security to the regions where risks destined to reach the peninsula originate or transit: energy from the Gulf and Africa, trade routes from the Red Sea, instability in the Sahel, terrorism in the Horn of Africa, competition in the Black Sea.

## The Navy thus becomes an instrument for the security of commercial lines as well as for territorial defense.

### The Underwater Domain: The New Invisible Infrastructure

An increasing part of national security also takes place under the sea.

Digital cables, gas pipelines, energy infrastructure, and communications systems connect Italy to the rest of the world across seabeds that, for decades, were treated primarily as technical space and are now increasingly considered a strategic domain.

The war and the incidents of damage to underwater infrastructure in Europe have greatly increased attention towards **seabed warfare** , that is, the ability to protect, monitor and, in a conflict, possibly strike infrastructure and sensors on the seabed.

For Italy, a major Mediterranean telecommunications and energy hub, this component takes on particular importance.

The DPP in fact dedicates increasing attention to the underwater dimension, to specialized means and to new naval and unmanned assets. [8]

Here defense directly meets the economy.

A broken data cable can have implications for finances and communications.

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A damaged gas pipeline can become an energy crisis.

The distinction between civilian infrastructure and military objective becomes much more subtle.

## Air and Missile Defense: The Lesson of Ukraine

The war also restored centrality to a capability that many European countries had scaled back after the Cold War: air and missile defense.

Ballistic missiles, cruise missiles, long-range drones, and looping munitions can strike bases, energy infrastructure, logistics networks, and cities far from the front lines.

Defense, therefore, no longer consists solely of protecting military units engaged in external operations; it must consider national territory, critical infrastructure, and industrial nodes.

The DPP 2025–2027 identifies the development of an integrated air and missile defense system as one of the central priorities and provides funding for systems such as CAMM-ER, SAMP/T, C-RAM capabilities and other missile programs. [11]

Once again, however, an air defense system is not simply the launcher.

The capacity depends on the number of batteries, the radar network, the command and control, the connection with NATO and above all the number of interceptors available.

The war in Ukraine has shown that interceptors can be worn out quickly and require sufficient industrial capacity to be replaced.

Safety then returns to production.


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## Leonardo, Fincantieri, and the return of the industrial base as a strategic asset

Compared to many European allies, Italy enjoys an advantage that, in the pre-war period, was often considered primarily in industrial and employment terms, but which, after 2022, has taken on a much more directly strategic significance: **a relatively broad, diversified defense technological and industrial base capable of simultaneously covering multiple operational domains** , from aerospace to electronics, from helicopters to shipbuilding, from missile systems to space propulsion, and even a network of highly specialized small and medium-sized enterprises that feed the supply chains of major prime contractors. This structure, of course, does not make Italy autonomous in every technological segment nor eliminate dependence on components, software, materials, and international cooperative programs. However, it profoundly changes the way in which an increase in defense spending can be transmitted to the national economy, because a significant portion of that spending can be absorbed by production, design, and research capabilities already present in the country, rather than being entirely translated into imports of finished systems.

This shift in perspective is important because, in Europe's new phase, the defense industry is no longer considered merely as a set of state suppliers, but as **a component of national strategic capacity** —that is, as the set of skills, facilities, intellectual property, qualified personnel, laboratories, and supply chains that allows a country to design, produce, maintain, upgrade, and, in some cases, export complex systems without being entirely dependent on decisions made elsewhere. The value of this industrial base becomes particularly evident when public demand grows rapidly, because the existence of companies already integrated into major European and transatlantic programs allows at least part of the new spending to be transformed into industrial investment, skilled employment, research, and technological accumulation.

Among the large national groups, **Leonardo** represents the most diversified player. In 2025, the group recorded revenues of approximately **19.5 billion euros** , orders of **23.8 billion** and a total portfolio of approximately **46.6 billion** , investing in the same year approximately **3 billion euros in research and development** ; the global workforce exceeded 62,000 people, with an industrial presence extending to defence and security electronics, helicopters, aeronautics, cyber and space. [21] The strategic relevance of the group derives precisely from this multi-domain capacity: Leonardo supplies not only complete platforms, but also radars, sensors, avionics, command and control systems, communications, electronics, cyber-solutions, helicopters, aeronautical components and space technologies, that is, a significant part of those elements that allow individual platforms to operate as nodes of an integrated network.


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The 2025 revenue structure clearly shows this breadth. The **Defence Electronics & Security segment** generated approximately **8.35 billion euros in revenues** , helicopters approximately **5.83 billion** , aeronautics approximately **4.24 billion** , while Cyber & Security Solutions and Space exceeded 0.8 and 1 billion euros respectively. [21] This means that Leonardo's position cannot be interpreted solely through the number of aircraft or helicopters produced: the group controls a substantial part of the electronics and digital architecture that now defines the operational quality of contemporary military systems.

## Leonardo: Industrial Structure and Strategic Capabilities in 2025

| Area | Revenue 2025 | Industrial meaning |
|---|---|---|
| **Defense Electronics & Security** | **€8.35 billion** | radar, sensors, electronics, mission and security systems |
| **Helicopters** | **€5.83 billion** | helicopter design, production and support |
| **Aeronautics** | **€4.24 billion** | aircraft, aerostructures and aeronautical systems |
| **Space** | **€1.01 billion** | space systems and infrastructures |
| **Cyber & Security Solutions** | **€0.80 billion** | cyber, digitalization and security |
| **Overall R&D** | **approximately €3 billion** | technological development and future plans |

**Source:** Leonardo, Annual Report 2025. [21]

This structure allows Italy to participate in the most significant programs not only as an end-user, but as a country with its own design and industrial capacity. This is a substantial difference, because participation in the development and integration phases allows Italy to maintain expertise, access technologies, influence requirements and standards, and build a knowledge base that can later be reused in other programs. The economic value of a military project must therefore be assessed not only in relation to the number of systems delivered, but also to the **position of the national industry within the value chain** .

The same logic applies to **Fincantieri** , which is one of the largest Western shipbuilding groups and combines a dominant presence in civil shipbuilding with a growing relevance in the military and underwater sectors. In 2025, the group recorded total revenues of approximately **9.19 billion euros** , with a total order book in the order of **63.2 billion** , equivalent to almost seven times the annual turnover; the Shipbuilding segment

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generated approximately **6.59 billion euros** , while the new Underwater segment recorded approximately **667 million euros in revenues** and an EBITDA of 117 million. [22]

Fincantieri's industrial scale is particularly important because the military shipbuilding industry has characteristics that make it difficult to quickly rebuild lost capabilities. Designing and building frigates, patrol vessels, amphibious vessels, submarines, or underwater systems requires docks, shipyards, infrastructure, specialized labor, designers, subcontractors, and expertise accumulated over time. Such capabilities cannot be recreated simply by allocating resources when a crisis arises. The presence of a large national group therefore represents a **form of accumulated strategic capital** , whose usefulness emerges especially when the demand for naval platforms increases or when the security of underwater infrastructure becomes a priority.

The expansion of the underwater sector also confirms the extent to which Italy's industrial base is striving to adapt to the new nature of military competition. The importance of the underwater dimension extends not only to submarines, but also to seabed surveillance, cable and pipeline protection, unmanned systems, and the integration of traditional platforms and distributed sensors—precisely those sectors that have gained in importance following the sabotage incidents and vulnerability of critical infrastructure in the Baltic and other theaters.

## Fincantieri: Industrial scale and depth of naval capacity

| Indicator 2025 | Value |
|---|---|
| **Total revenues** | **€9.194 billion** |
| **Total order backlog** | **€63.2 billion** |
| **Shipbuilding Revenues** | **€6.592 billion** |
| **Underwater Revenue** | **€667 million** |
| **Ships in portfolio** | **97** |
| **Delivery horizon** | until **2037** |

**Source:** Fincantieri, 2025 financial results. [22]

Added to this structure is **MBDA Italia** , which represents one of the most significant cases of European industrial integration in the missile sector. MBDA is not a national company in the traditional sense, but an integrated European group that operates through France, the United Kingdom, Italy, Germany and Spain, with over 18,000 employees in total; in Italy it has a workforce of over **2,000 people** and skills distributed across sites dedicated to research, development, production and integration of missile systems. [23]


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The Italian structure includes, among others, expertise in radio frequency seekers, guidance, navigation and control systems, AESA radars, ceramic radomes, software development, weapon systems integration and Hardware-in-the-Loop laboratories. [23] This type of specialization shows particularly clearly why **industrial participation cannot be measured solely by the financial share of a program** . If the national work concerns technology-intensive components, design capabilities or intellectual property, the industrial value of that participation can be much higher than for a simple final assembly activity.

The MBDA group also represents an example of how contemporary industrial sovereignty can be built in a shared form. None of the large European countries would probably find it convenient to independently develop every family of missiles needed to cover all missions, but an integrated structure allows for the maintenance in Europe of design and production capabilities which, without cooperation, would risk being too expensive for individual national markets. MBDA itself presents this integration as an industrial base aimed at guaranteeing access to sovereign capabilities and supporting European strategic autonomy. [24]

Italy's presence in the group therefore has a dual value. On the one hand, it allows access to larger-scale European programs; on the other, it allows for the preservation of national expertise on critical elements of the missile and the weapons system. This combination represents exactly the type of balance on which European defense is gradually being built: **not complete national self-sufficiency, but national capabilities embedded in cooperative architectures in which the country retains industrial expertise that is difficult to replace** .

## Avio and the continuity between space and defense

Another important piece of the national technological base is represented by **Avio** , whose position is particularly interesting because it is located at the intersection between access to space, propulsion and defense applications. In 2025 the group recorded net revenues of approximately **542 million euros** , up almost 23 percent compared to 2024, with an order portfolio that rose to **2.166 billion** ; in the same year approximately 250 million new orders were related to defense propulsion with European and US customers. [25]

Avio operates in the production and development of the **Vega C launcher** , the P120C/P160C motors also used for Ariane 6 and solid propulsion systems which have both space and military applications. In 2025 the group consolidated Vega C operations, acquired a contract exceeding €200 million with ArianeGroup for Ariane 6 components and expanded its portfolio of agreements in the defence propulsion sector. [25]

Avio's strategic value stems precisely from the overlap between space and defense. The propulsion, materials, production processes, and engineering expertise required for civil

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and institutional launchers share strong similarities with technologies used in military missile systems and propulsion systems. This makes the national space base a much broader security component than simply commercial access to orbit.

## Main hubs of the Italian defense and space industrial base

| Group | Main skills | Strategic meaning |
|---|---|---|
| **Leonardo** | electronics, helicopters, aeronautics, radar, cyber, space | multi-domain capabilities and systems integration |
| **Fincantieri** | shipbuilding, submarines, underwater | naval sovereignty and underwater infrastructure |
| **MBDA Italy** | missiles, seekers, GNC, integration and weapons systems | European missile capability with national expertise |
| **Avio** | launchers, solid propulsion, Vega C, Ariane 6 | access to space and dual-use technologies |
| **Specialist SMEs** | electronics, mechanics, software, materials, sensors | depth and resilience of supply chains |

**Sources:** Leonardo, Fincantieri, MBDA, Avio. [21][22][23][25]

## Small and medium-sized enterprises: the invisible depth of industrial capacity

Limiting ourselves to large groups, however, would provide an incomplete picture, because the real strength of an industrial base is determined not only by prime contractors, but by the depth of the supplier network that allows them to design and produce complex systems. Precision mechanics, electronics, composite materials, embedded software, sensors, aeronautical components, specialty manufacturing, and communications systems often depend on companies that are much smaller than large groups, but possess highly specialized expertise.

Leonardo declares that it operates with approximately **11,000 suppliers globally** , while Fincantieri and the other large prime contractors depend in turn on a capillary network of companies that enter into the various phases of the production chain. [21] In the Italian case, the presence of aerospace and mechanical districts allows the effects of military demand to be distributed over a broader industrial structure than just the factories directly controlled by the large groups.

However, this network also represents a point of vulnerability. A supply chain can only be as strong as its most difficult-to-replace component, and a small company producing highly certified workmanship or a specific system part can become a strategic bottleneck

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if it lacks sufficient production capacity, qualified personnel, or access to the capital needed to rapidly expand its facilities.

For this reason, increased military spending does not automatically lead to an immediate increase in industrial output. If demand increases faster than production capacity, the result can be longer delivery times, higher prices, and increased competition for engineers, technicians, and components.

The industrial base must therefore be **scaled** , not just financed.

## Because not every euro of military spending produces the same industrial output

The existence of a broad national base, however, does not justify the conclusion that every increase in defense spending automatically produces a positive industrial impact for Italy. It is necessary to carefully distinguish between the military value of the acquisition and the domestic industrial value it derives.

A system purchased entirely abroad may be militarily necessary and perfectly rational, but generate relatively limited industrial impact on the national territory.

An international program in which Italian companies participate in the design process can, however, produce very different returns.

A program in which the country holds responsibility for high-tech subsystems can maintain industrial value for decades through maintenance, upgrades, and subsequent developments.

The decisive variable is therefore not only **how much is spent** , but **where the national industry is positioned in the value chain** .


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## How the industrial return on defense spending is changing

| Acquisition model | Operational effect | Potential national industrial effect |
|---|---|---|
| **Completely foreign purchase** | quick access to capacity | limited |
| **National final assembly** | capacity + share of housework | medium-low |
| **Licensed production** | capacity + partial transfer | medium |
| **International co-production** | capacity + access to the supply chain | medium-high |
| **Co-development** | capacity + know-how + intellectual property | high |
| **Leadership on critical subsystems** | exportable sovereign capacity + expertise | potentially very high |

The point, of course, isn't to argue that every program should be produced entirely in Italy, because that would be economically inefficient and technologically impossible for many complex systems. The issue is establishing **which skills should be preserved and which dependencies are acceptable** .

This problem is now an integral part of defense policy.

## Domestic content is not the only measure of industrial value

The concept of "national return" must also be used with caution, as a simple percentage of domestic content can mask profound differences in the quality of the work performed. Producing low-value-added components locally is not the same as owning the radar design, the mission software, the guidance algorithm, or the intellectual property of a critical technology.

Industrial performance must therefore be assessed through at least six dimensions: **domestic content, research and development intensity, intellectual property, access to export markets, technology transfer capacity and continuity of skills over time** .


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## The variables that determine the industrial value of a program

| Variable | Why it matters |
|---|---|
| **National content** | measures how much production falls on the territory |
| **R&D** | creates reusable technology skills |
| **Intellectual property** | determines autonomy and the ability to evolve |
| **Export** | expands production scale beyond domestic demand |
| **Technology transfer** | allows the acquisition of external skills |
| **Support** | maintains employment and capacity throughout the life cycle |
| **Role in design** | allows you to influence requirements and architecture |
| **Access to technical data** | determines the maintenance and upgrade capacity |

A program in which Italy participates in the development can therefore have a very different impact than the "turnkey" purchase of a platform already developed by another country, even if the initial cost is similar.

## GCAP as an example of the new model

The **Global Combat Air Programme** is a particularly important example of this difference. Italy participates alongside the United Kingdom and Japan not simply as an end-user of a future aircraft, but as a partner in a program designed to develop a next-generation combat air system.

The potential value for the Italian industrial base therefore derives from the possibility of participating in the design, development, electronics, sensors, mission systems, armament, and integration phases, preserving skills that might otherwise be progressively lost.

For companies like Leonardo and MBDA Italia, the program represents not just a contract, but a **long-term technological platform** , capable of influencing investments, research, and skills for decades.

This type of program shows why defense industrial policy cannot be measured solely by annual financial flows.

The decision made today could determine the country's industrial positioning in 2040 or 2050.

**Fincantieri and naval sovereignty**


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The same principle applies to shipbuilding. Italy's ability to independently design and build large naval units generates value that exceeds the number of ships ordered by the Navy, because it allows the country to maintain design, integration, and maintenance capabilities that can also be leveraged in international markets.

Shipbuilding is also closely linked to exports. A domestic program that subsequently generates foreign sales allows development costs to be spread more widely, keeping plants operational, and improving the supply chain's competitiveness.

The industrial return on domestic spending therefore also depends on the **exportability of the developed system** .

A platform that remains confined to a small national lot may be militarily necessary but have limited industrial yield.

A platform used as a base for international orders can instead generate much greater production continuity.

## MBDA and the value of the European scale

The missile sector, on the other hand, demonstrates the importance of industrial integration that transcends national boundaries. MBDA was born precisely from the need to avoid a European fragmentation incapable of independently sustaining all the necessary investments in complex weapons systems.

The presence of over **18,000 employees** distributed across the main European countries and the weight of Italian skills in seekers, integration, RF and electronics allow Italy to maintain access to technologies that would be extremely expensive to develop entirely on a national scale. [23][24]

It is a different model from that of a traditional national company, but no less strategic for that.

Sovereignty can also be exercised through structural participation in a European industrial capacity, provided that the country maintains real expertise and a sufficiently important role to avoid being simply an end customer.

## Avio and autonomy in accessing space

In Avio's case, the value of the industrial base also concerns an issue that is becoming increasingly directly linked to security: **autonomous access to space** . Communication, observation, navigation, and surveillance satellites depend on the ability to be launched into orbit and replaced when necessary.

A European launch capability that was entirely dependent on external suppliers would also reduce autonomy in the military and institutional sectors that use space.


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The Vega C and the Italian contribution to the propulsion of Ariane 6 must therefore also be interpreted through this dimension.

Avio's simultaneous expansion into the military propulsion sector also demonstrates how skills developed in one sector can generate applications in another.

It is precisely this type of **technological spillover** that makes defense a potential component of industrial policy.

## The relationship between Defense and MIMIT: a structural choice, not an accounting anomaly

The Multi-Year Programming Document makes this overlap between defence policy and industrial policy explicit through the construction of the so-called **Integrated Defence Budget** , in which the ordinary resources of the Ministry of Defence are added to those of the Ministry of Enterprise and Made in Italy, funds for international missions and specific PNRR resources. The DPP specifies that the contributions of the MIMIT are specifically allocated to **high-tech Defence programmes** , thus highlighting an explicit industrial function of the allocations. [26]

In 2025, the MIMIT budget included approximately **2.98 billion euros** in the “Interventions in the field of national defence” programme, up from approximately 1.88 billion in 2024. [27] A significant portion of these resources is earmarked for national air defence technology programmes, the aeronautical sector, the FREMM and the maritime sector, showing how industrial support for defence is now permanently incorporated into the structure of the State budget.


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## MIMIT resources and defense industrial policy

| Voice | 2025 |
|---|---|
| **MIMIT Program "Interventions in National Defense Matters"** | **approximately €2.98 billion** |
| **Refinancing for defense technology programs 2025** | **approximately €922 million** additional |
| **Refinancing horizon** | until **2039** |
| **Main areas** | air defense, aeronautics, FREMM, maritime sector |

**Sources:** Chamber of Deputies, Budget Law 2025 and DPP 2025-2027. [27][28]

The data is important because it shows that the relationship between Defence and MIMIT does not represent a simple accounting technique used to divide spending between ministries, but reflects a concept in which **military demand is also used as a tool to support industrial and technological skills considered strategic** .

## Why MIMIT Funds Military Programs

The logic is relatively clear. Some defense programs possess a high enough technological and industrial content to produce effects that transcend the single platform purchased. Radar, electronics, shipbuilding, aerostructures, propulsion, sensors, and software developed for a military program can fuel industrial capabilities that remain in the production system for decades.

The involvement of MIMIT therefore signals that the State does not interpret these programs only as security spending, but also as **investments in strategic sectors of advanced manufacturing** .

This approach, however, presents a fundamental constraint: for military spending to effectively produce industrial policy, it must contribute to creating capabilities and not simply support revenues.

The distinction is essential.

A company can receive a large order and temporarily increase its turnover without necessarily improving its technological position.

However, if the program finances research, facilities, new skills, intellectual property, and integration into international supply chains, the impact may persist even after the contract is concluded.


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## Defense and industrial policy do not automatically coincide

This caution prevents a simplistic interpretation according to which "more military spending" automatically means "more economic growth." The macroeconomic and industrial effect depends on the structure of the purchase.

If most of the value is imported, the domestic multiplier is lower.

If Italian firms participate only in the least sophisticated activities, the technological benefit may be modest.

If the program does not generate exports, the industrial scale may remain too small.

If intellectual property remains entirely abroad, the country may be unable to independently change the system in the future.

If there is no follow-up order flow, the skills created can be lost.

The industrial quality of the expenditure must therefore be evaluated together with its quantity.

## Order continuity is a strategic variable

This is particularly important in defense sectors because industrial expertise is difficult to rebuild once lost. A team of engineers specializing in radar, propulsion, or naval design can only be built through years of work and program continuity.

If too long a gap exists between two generations of systems, personnel may move to other sectors, suppliers may exit the market, and infrastructure may lose competitiveness.

Defense industrial policy must therefore consider **the temporal continuity of demand** .

This is one of the reasons why multi-year planning takes on such significant industrial importance.

A stable DPP allows companies to plan capacity, employment and investments.

An unpredictable spending profile, on the other hand, makes it more difficult to expand facilities and hire staff.

## The European problem of fragmentation

Italy thus has a relatively large industrial base, but operates within a European market that is still highly fragmented. Different countries maintain their own requirements, platforms, standards, and programs, with the risk of duplicating costs and reducing economies of scale.

Industrial cooperation therefore represents a necessity as well as a political choice.

MBDA is a successful example of integration.


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GCAP is attempting to build an international critical mass.

Naval programs can create exportable platforms.

The same applies to ground and air defense systems.

The challenge is to find a balance between two seemingly conflicting objectives: **preserving national industrial capacities and reducing European fragmentation** .

A Europe made up of twenty-seven completely separate industries would be inefficient.

A Europe in which a few countries lost all industrial capacity would be politically fragile.

The solution therefore tends towards national specializations integrated into common programs.

## The industrial base as a reserve of capacity

The war in Ukraine has added a further element: industrial capacity is not only needed to produce new platforms, but to **rapidly replenish stocks and replace losses** .

This changes the way plants and production lines must be valued.

A line operating at 50 percent capacity during peacetime may appear inefficient from a purely financial standpoint, but it has strategic value if it can rapidly increase production during a crisis.

The concept of redundancy already observed in energy infrastructures therefore also returns in defense.

Unused industrial capacity is not necessarily waste.

It can represent a **reserve for productive mobilization** .

Of course, maintaining it has a cost.

But even not having it has a cost when demand suddenly increases.

## From the just-in-time economy to surge capacity

Part of European industry had been organized in recent decades according to a just-in-time logic, reducing inventories and idle capacity to improve efficiency. The war, however, demonstrated that defense also requires the ability to rapidly increase output, what in Anglo-Saxon terminology is often referred to as **surge capacity** .

To achieve this result, it is not enough to finance orders.

You need machinery, personnel, suppliers of raw materials, explosives, electronics, and infrastructure.


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Industrial policy must therefore address not only prime contractors, but also the resilience of the entire supply chain.

## The risk of hidden technological dependence

The existence of large national groups also doesn't mean that the platforms are completely independent from foreign sources. Many systems contain electronic components, semiconductors, materials, or software sourced from international supply chains.

This means that **industrial sovereignty must be analyzed at the level of critical components** , not just the logo on the final product.

An Italian ship may depend on components produced abroad.

A national radar can use semiconductors made in Asia or the United States.

A European missile may depend on imported critical materials.

A space launcher can use components from different countries.

The national industrial base thus reduces dependence, but does not eliminate it.

The problem returns to being that of substitutability.

## Exports as a multiplier of industrial capacity

Another key element is exports. A domestic market of Italy's size cannot always sustain the scale required to keep technologically complex systems competitive on its own.

Exports therefore allow for increasing volumes, spreading development costs, and keeping production lines open.

This applies to ships, helicopters, electronics, missiles and space systems.

But military exports naturally also introduce political and regulatory considerations, because the sale of weapons systems is subject to authorization and must be consistent with foreign policy and international obligations.

Defense industrial policy is therefore inseparable from foreign policy.

Once again, economics and strategy converge.

## Research and intellectual property as a measure of sovereignty

Of all industrial factors, the most difficult to measure but probably the most important is **knowledge ownership** .

A factory can assemble thousands of systems without having the fundamental design.

A country can formally be a producer but depend on foreign countries for every update.


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True industrial capacity exists when businesses and institutions possess enough knowledge to independently modify, repair, evolve, and integrate a technology.

For this reason, the figure of approximately **3 billion euros invested by Leonardo in R&D in 2025** is industrially more significant than what a simple comparison with revenues suggests. [21]

Research doesn't just produce the next product.

It produces the staff capable of designing what comes next.

## From procurement to technology policy

The result is that military procurement can no longer be interpreted as a simple administrative activity through which the Ministry purchases resources.

Every major program implicitly involves a technological policy choice.

Deciding which radar to buy affects which radar industry you will be working in for years to come.

Deciding whether to participate in the development of an aircraft means determining whether the country will maintain aircraft design capabilities.

Deciding whether to purchase a domestic or foreign vessel affects the future of shipyards and suppliers.

Deciding which digital architecture to use can determine software dependencies for decades.

Procurement thus becomes a tool through which the state **shapes the future structure of its industrial base** .


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## The Italian advantage must be maintained, not taken for granted

The presence of Leonardo, Fincantieri, MBDA Italia, Avio, and a diverse network of SMEs therefore represents a real advantage, but by definition, it is not permanent. Skills can be lost, companies can reduce investments, supply chains can shift, and professionals can be attracted from other countries or sectors.

Industrial advantage must therefore be continuously rebuilt through demand, research, training, international programs, and export access.

The issue becomes particularly important as European defense spending grows, because the new demand can produce two very different outcomes.

It can strengthen Europe's industrial base.

Or it could generate a large increase in extra-European imports.

The difference depends on the speed with which continental industry manages to increase its production capacity.

**From balance sheet to industrial capacity: the real multiplier**

The key point is therefore that **military spending produces industrial value only when it is transformed into capabilities** .

- This ability can take many forms.
- It could be a new production line.
- It can be a research laboratory.
- It could be a software skill.
- It can be intellectual property.
- It could be a network of suppliers.
- It could be an export contract.
- He may be a trained engineer.
- It can be a workshop capable of maintaining a system for thirty years.
- This is the real industrial multiplier.


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## From public funding to strategic capacity

| Ride | Possible outcome |
|---|---|
| **Public allocation** | military question |
| **National / cooperative contract** | production |
| **Industrial investment** | new plants |
| **R&D** | intellectual property and technologies |
| **Serial production** | economies of scale |
| **Export** | continuity of the line |
| **Lifecycle support** | employment and persistent skills |
| **Next program** | preservation of strategic capacity |

Spending that stops at the first pass essentially produces purchased military capability.

Spending that runs through the entire chain also produces industrial capacity.

## Defense and industrial policy become inseparable

This is precisely the reason why the DPP presents the cooperation between the Ministry of Defence and MIMIT as an organic part of the planning. The integrated budget no longer considers military spending only as a necessary cost for security, but as a possible instrument through which to preserve **industrial competitiveness, strategic technologies and national capabilities** . [26]

The transformation is significant because it brings defense back into a broader conception of economic policy.

In previous years, the problem could be formulated mainly in terms of spending control and rationalization of purchasing.

In the new phase, the question becomes more complex: how to increase military capacity without losing efficiency, how to strengthen national industry without fragmenting European industry, how to preserve sovereign expertise without sacrificing cooperation, and how to use public policies to support technologies that remain competitive on international markets.


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## The return of the industrial base as a power asset

The most important conclusion is therefore that the defense industrial base is once again considered a component of national power in the same way as energy infrastructure, digital networks, and financial capacity.

A country that has industry can react more quickly to an increase in demand.

It can maintain greater autonomy in maintenance.

It can update systems.

Can participate in defining standards.

Can export.

It can influence multinational programs.

It can retain skills that become crucial during a crisis.

Italy therefore starts from a relatively favorable position compared to many European partners, because it already has large groups and consolidated supply chains.

But precisely for this reason, the quality of the new spending will be decisive.

If the budget increase is translated mainly into purchases without domestic technological content, the industrial benefit will remain limited.

If it is used to finance co-development, research, new plants, production capacity, and participation in high-tech international programs, the outcome could be very different.

The difference is not measured in the number of billions spent.

It is measured by the amount of **strategic expertise that remains in the country after those billions have been spent** .

This is where defense definitively ceases to be just an item in the public budget and becomes industrial policy.


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## Ukraine: Military Support and the Supply Problem

Italy has participated in supporting Ukraine through military supplies, assistance, training, and cooperation with allies, but significant details of these supplies are not publicly available in the same granularity for security reasons.

This is a point where the documentary principle of the book must be applied with particular severity.

It is not possible to reconstruct with certainty the complete composition of Italian supplies using journalistic leaks, unofficial lists, or third-party estimates as if they were government inventories.

What can be established is that the support to Ukraine also had consequences on the needs of replenishing national stocks: the DPP itself recalls the need to support the resources required for the support provided to the Ukrainian authorities and links part of the critical issues of the exercise also to the pressures generated by the new context. [7]

It's the classic readiness problem.

Donating a system or munition may be politically consistent with a strategy of alliance and support for Kiev, but it temporarily reduces national availability until industry replaces it.

The value of the production base therefore returns to centrality.

A sustainable military must be able to regenerate what it consumes.

## NATO and the European Union: complementarity and possible duplication

However, the new European security is not built only in NATO.

The European Union has progressively expanded its defence industrial policy, through the European Defence Fund, joint procurement and, in recent years, instruments such as SAFE and the Readiness 2030 programme.

The Italian DPP 2025–2027 explicitly recalls these European instruments together with NATO commitments. [10]

For Italy, the coexistence of the two organizations creates opportunities but also a coordination challenge.

NATO establishes collective defense plans and capability targets.

The EU can mobilize financial, regulatory, and industrial tools that NATO does not possess to the same extent.


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Ideally, then, the two structures are complementary: NATO defines the strategic demand and the EU contributes the industrial capacity needed to meet it.

Risk arises when national and European programs duplicate platforms, standards, and investments without achieving economies of scale.

The problem of European defense is not just spending little.

It is also spending in a fragmented industrial system.

## The Mediterranean and the Eastern Flank: Italy's Geographical Dilemma

NATO after 2022 has rightly focused a huge amount of attention on deterring Russia and protecting its eastern flank.

Italy participates in this mission and cannot interpret its security as separate from that of Poland, the Baltic states, or Romania: Article 5 of NATO makes collective defense indivisible.

But Italian geography simultaneously imposes a second axis.

The broader Mediterranean includes Libya, North African instability, the Sahel, the Middle East, energy routes, the Red Sea, and trade routes to Asia.

The DPP precisely reflects this double need, recognizing the value of European collective defense and, at the same time, defining the wider Mediterranean as the main quadrant of national interest. [10]

It's not a contradiction.

It is Italy's strategic specificity.

A Baltic country naturally focuses its attention on Russia.

Italy must consider both the East and the South simultaneously.

This means that the force structure must be flexible enough to operate on the eastern flank, protect sea lanes, support missions in the Mediterranean, and ensure homeland security.


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## Staff and the new quantitative dimension

Rebuilding capacity is not just about platforms and technologies.

The DPP 2025–2027 recalls that the organic model of the Armed Forces has been reconfigured towards **160,000 units** , a goal to be achieved by 2034, while for 2025 the expected average strength exceeds 166,000 units considering the transitional regime and the different categories. [13]

The data shows another change compared to the previous season.

The 2012 reform had aimed at reducing the structure.

The new strategic environment pushes for a numerically and qualitatively stronger force, with new capabilities in cyber, space, intelligence, data, and emerging technologies.

But increasing headcount doesn't simply mean recruiting more staff.

The skills required by a digitized military system are increasingly sophisticated and compete with the civilian market for engineers, computer scientists, cyber specialists, and technicians.

The defense therefore also enters into the demographic problem described in Chapter 10.

A country with fewer young people must recruit military personnel, doctors, technicians, and industrial workers from a narrower demographic base.

Demographics becomes, once again, a variable of power.


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## From budget to capacity: the real problem of the next ten years

Public discussion on defense inevitably tends to focus on the percentage of gross domestic product allocated to security, because the figure is immediately legible, allows for international comparisons, and offers policymakers a synthetic indicator with which to measure the apparent level of national effort. For this very reason, however, it risks becoming misleading when transformed into a direct measure of military capacity, because **2, 3.5, or 5 percent of GDP does not constitute an armed force, a combat-ready division, an available fleet, or effective air defense. Rather, it represents merely the amount of economic resources that the state decides to allocate, according to a specific accounting definition, to its own security and defense system** .

The difference between financial input and military output is crucial, because the same sum can produce profoundly different operational results depending on the composition of spending, the quality of procurement, the level of training, the availability of platforms, ammunition stockpiles, logistical capacity, and the presence or absence of an industrial base capable of sustaining the force over time. A billion allocated to the purchase of new weapons systems does not produce the same effect as a billion absorbed by salaries, just as spending on maintenance and training produces a different form of capability than spending on research and development. Similarly, military pensions fall within the NATO definition of defense spending, but their contribution to current operational readiness is not comparable to that of an air defense battery, a frigate, or a missile stockpile. NATO itself clarifies that its methodology includes, among other things, pensions paid to retired personnel, while the item relating to major equipment also includes research and development directly associated with such systems. This choice guarantees international comparability, but makes it even more evident why the percentage figure must be interpreted and not simply assumed as a synonym for capacity. [29]

The problem becomes even clearer when looking at the structure of the Italian budget through the NATO series. The report published in August 2025, with data updated to 3 June and with the 2024 and 2025 figures explicitly indicated as estimates, attributes to Italy for 2025 a defence expenditure according to the NATO definition equal to approximately **45.3 billion current euros** , while the share destined for main equipment and related research and development is estimated at **25.68 percent of the total expenditure** , not 29.6 percent. [29] This point requires a correction with respect to the data reported in the original text: the value close to 29.6 percent that appears in the same table concerns other cases, not Italy; for our country the NATO 2025 estimate is **25.68 percent** , in any case higher than the traditional benchmark of 20 percent that had accompanied the Alliance's Defence Investment Pledge for years. [29]

The correction does not weaken the reasoning, but rather makes it more precise. A 25.68 percent share allocated to major equipment and associated research represents a

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significant level and confirms that the modernization of the Italian military is absorbing a growing portion of available resources, especially when compared to the previous phase, in which the Italian share was more limited for many years. At the same time, however, the Italian Multiannual Planning Document itself highlights the pressure on the Operations sector, creating a structural tension that is far more significant than a simple percentage of GDP: **Italy is increasing the rate at which it renews platforms while continuing to struggle with how to adequately finance their daily use, maintenance, training, and logistical support** .

## Why GDP percentage alone does not measure military capacity

| Indicator | What does it measure? | What it doesn't measure directly |
|---|---|---|
| **Defense Spending / GDP** | intensity of the national financial effort | operational readiness |
| **Major equipment expenditure** | share allocated to main systems and related R&D | daily availability of vehicles |
| **Staff expenditure** | cost of the human component | quality of training |
| **Exercise** | operation, maintenance, training and activities | modernity of platforms |
| **NATO Capability Targets** | military capabilities required of the Alliance | automatic guarantee that they are already available |
| **Number of platforms** | patrimonial consistency | technical availability rate |
| **Nominal budget** | resources allocated according to a definition | efficiency with which they are transformed into capacity |

**Source:** NATO, DPP 2025-2027. [29][30]

It is precisely for this reason that NATO does not only use the overall financial benchmark, but accompanies the spending discussion with equipment indicators and, above all, with the capability planning process, through which allies are assigned specific targets regarding the forces and systems needed to implement collective defence plans. In June 2025, the Alliance's defence ministers approved a new set of **capability targets** which include, among others, air and missile defence, long-range weapons, logistics and large land formations, precisely because the Alliance's objective is not to induce states to reach an abstract percentage of spending, but to have the capabilities needed to support agreed operational plans. [30]


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The distinction is also essential to correctly interpret the new objective set in The Hague in June 2025. The summit declaration does not limit itself to asking the allies to reach **5 percent of GDP by 2035** , but breaks down this commitment into two different categories: at least **3.5 percent of GDP** must be allocated to defence proper according to the NATO definition and to the achievement of capability targets, while up to **1.5 percent of GDP** can be accounted for in broader investments linked to security, including critical infrastructures, network protection, civil resilience, innovation and strengthening of the defence industrial base. [31]

This means that even the new “5 percent” cannot be read as if it represented a homogeneous mass of military spending. The central part, that of 3.5 percent, is directly linked to the needs of the armed forces and the operational objectives of the Alliance; the 1.5 percent component instead broadens the very concept of security, recognizing that a credible defense also depends on ports, railways, energy infrastructure, digital networks, civil resilience, industrial innovation and productive capacity. [31]


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## The real Italian problem: transforming military capital into operational availability

For Italy, the key issue over the next ten years will not simply be to increase overall spending, but to build a mechanism capable of **transforming financial resources into sustainable operational availability** . This will prevent accelerated procurement from generating a force that is more modern in terms of assets but not proportionally more ready for day-to-day deployment. The problem is particularly serious because the ongoing modernization simultaneously affects numerous expensive and technologically sophisticated sectors, from combat aircraft to new naval units, from land-based capabilities to missile systems, from digital infrastructure to the space dimension. Each of these capabilities generates, in addition to the initial acquisition cost, a flow of future spending for maintenance, technical personnel, software updates, fuel, armaments, training, spare parts, and infrastructure.

The relationship between investment and operations therefore takes the form of an intertemporal constraint. When the government orders a platform today, scheduled for delivery in several years, it is not only making a financial commitment to the manufacturer, but is implicitly creating a series of spending obligations that could extend for three or four decades. A multi-year program can be financed through dedicated funds and relatively predictable payment schedules, but once the system enters service, the resources necessary to maintain its availability must be guaranteed each year. **A modern military force is therefore not simply a purchased asset, but a recurring cost structure that must be sustained over time.**

This point explains why an increase in the share allocated to major equipment should not automatically be interpreted as evidence of increased readiness. A higher share may indicate that the country is correcting a previous delay in modernization, but it may also increase operational requirements in subsequent years; if this is not adjusted, the force risks entering a situation where the number and quality of platforms increases faster than the financial capacity to utilize them intensively.


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## The paradox of modernization

| Modernization phase | Positive effect | New demand generated |
|---|---|---|
| **purchase of new aircraft** | greater technological capacity | flight hours, maintenance, simulators, ammunition |
| **new naval units** | increased presence and combat capability | crews, maintenance, arsenals, fuel |
| **new land vehicles** | greater protection and mobility | spare parts, shooting ranges, training, logistics |
| **missile systems** | greater deterrence and defense | supplies, maintenance, ammunition replenishment |
| **digital networks and C2** | greater multi-domain integration | cyber, software, cloud, continuous updates |
| **space systems** | greater information autonomy | ground segments, launches, maintenance and protection |

The risk is therefore not that Italy invests too much in new systems, but that **the speed of the capital transformation exceeds the capacity of the force to sustain it** , creating a gap between what formally exists in the inventory and what can actually be used with sufficient intensity in a crisis.

## Readiness as the true measure of performance

In strategic terms, what interests an ally and a potential adversary is not the book value of the platforms they possess, but the state's ability to generate military effects when needed. This ability is normally summarized by the concept of **readiness** , that is, the combination of available personnel, efficient equipment, training, logistics, ammunition, command, and deployment capacity.

An aircraft that is listed in the inventory but requires maintenance does not contribute to deterrence in the same way as an aircraft that is ready for take-off.

A frigate that has to spend long periods in the dockyard is not equivalent to a unit available for a mission.

A ground force that has modern equipment but does not conduct a sufficient number of complex exercises does not generate the same capability as a force that combines equipment, crews and training.

The real problem of the budget therefore consists in transforming **financial quantity into operational quality** .


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NATO itself explicitly links the new Hague investment to the need to ensure forces, capabilities, infrastructure, warfighting readiness and resilience, confirming that the level of spending is only the means by which to achieve a broader military outcome. [31]

## The cost of readiness is not as politically visible as that of platforms

One of the structural difficulties of defense policy is that investments in new platforms enjoy much greater public visibility than the expenditure required to keep them operational. The purchase of a new ship, aircraft, or missile system can be announced, quantified, linked to facilities and jobs, and embedded within a narrative of technological modernization; funding for maintenance, flight hours, spare parts, fuel, logistics services, or training days, on the other hand, produces effects that are less easily communicated, despite the fact that it is precisely this expenditure that determines whether the purchased platform can be used continuously.

The result is a potential political asymmetry: investments are more visible, while support is easier to squeeze when resources need to be found in the annual budget. In the long run, however, this choice can prove counterproductive, because an expensive but underutilized platform produces an operating return lower than the initial investment.

The Italian problem of the Exercise, discussed in the previous chapter, must be read precisely from this perspective.

## The 20 Percent Benchmark and What It Really Means

For many years, NATO has used, in addition to the 2 percent of GDP target, a second benchmark according to which at least **20 percent of defense spending** should be allocated to major equipment, including associated research and development. [32] This criterion arose from the need to avoid that the nominal increase in budgets was entirely absorbed by personnel and current costs without producing sufficient modernization of the forces.

For Italy, the NATO 2025 estimate of **25.68 percent** shows that this second benchmark is significantly exceeded. [29]

However, the data must be interpreted in the context of the current situation. The Italian problem is no longer simply increasing the investment quota, because the planning described in the DPP already shows a significant acceleration in procurement; the question instead becomes **establishing what balance must be maintained between capital, personnel, and operations to prevent modernization from producing an excess of nominal capacity compared to the actual usable capacity** .

## The budget can grow without the strength growing in proportion

This distinction is particularly important when spending increases rapidly. Budget growth can be absorbed by inflation, rising industrial costs, personnel, new pensions accounted

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for according to the NATO definition, infrastructure investments, or multi-year programs that will only generate capabilities many years later.

This means that the relationship between spending and capacity is not linear.

A 20 percent increase in the budget does not necessarily produce 20 percent more military power.

In the short term, it can produce much less, if the resources are mainly used to launch programs that will enter service in subsequent years.

In the long run, it can produce much more if spending finances technologies, industry, logistics, and sustainment capabilities that improve the efficiency of the entire system.

This is precisely why the serious debate on defense cannot stop at the percentage of GDP.

## Capability targets: the percentage must be translated into concrete forces

The new NATO framework for 2025 reinforces this approach because the 3.5 percent allocated to core defence is explicitly linked to the **Capability Targets** agreed by the allies.[30][31]

The principle is essentially the opposite of a purely financial approach: you don't first decide on a figure and then decide how to use it, but you define the capabilities needed to implement defense plans and then evaluate the level of resources needed to make them available.

NATO has identified air and missile defense capabilities, long-range systems, logistics, ground formations and other components necessary for collective defense as priorities for 2025. [30]

For Italy, this means that the financial challenge for the next ten years will increasingly be linked to the ability to meet specific operational requirements and not simply to increasing the overall budget.


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## The Hague's 5 percent changes the nature of the debate

The decision taken in The Hague in June 2025 radically changes the scale of the issue, as the previous 2 percent benchmark is replaced by a much broader commitment, covering a time horizon up to **2035.** The allies agreed that at least 3.5 percent of GDP will have to finance core defense needs, while a component of up to 1.5 percent can be allocated to critical infrastructure, networks, resilience, innovation and the industrial base. [31]

The new target therefore does not simply represent a quantitative increase compared to the previous 2 percent.

It introduces a broader concept of national security.

A railway capable of rapidly transporting military forces can be both an economic and a security infrastructure.

A commercial port can have a military logistical function.

The cyber resilience of a civilian network can be essential to the continuity of the state during a crisis.

A company's production capacity can become part of its deterrence.

This means that the line between military budgeting and investment in national resilience becomes more complex.

## From the 2014 Defence Investment Pledge to the 2025 Hague Plan

| NATO framework | Main commitment | Logic |
|---|---|---|
| **Wales 2014 / Vilnius 2023** | **at least 2% of GDP** to defense | adequacy of the overall effort |
| **Benchmark equipment** | **at least 20%** of the defense budget | modernization of forces |
| **The Hague 2025** | **at least 3.5% GDP** core defense by 2035 | capability targets and readiness |
| **The Hague 2025** | **up to 1.5% GDP** security and resilience | infrastructure, networks, industry and innovation |
| **Total new commitment** | **5% GDP by 2035** | defense + systemic security |

**Source:** NATO. [31][32]


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## The Hague and 2035: The fiscal problem returns to security

For Italy, the new NATO commitment cannot be analysed separately from the structure of public accounts, because the increase in security spending is taking place in a country that continues to have a very high level of debt, one of the oldest populations in the European Union and a particularly significant pension expenditure. According to the European Commission, Italian public debt rose from **134.7 percent of GDP at the end of 2024 to 137.1 percent in 2025** and, on the basis of the policies known in spring 2026, is expected to increase to **138.5 percent in 2026** and to **139.2 percent in 2027.** [33]

The data must be compared with the growth dynamics, because the Commission's own forecast indicates a real GDP increase of just **0.5 percent in 2025, 0.5 percent in 2026 and 0.6 percent in 2027.** [33] A slowly growing economy has less capacity to absorb new permanent spending commitments without increasing the tax burden, reducing other items or changing the debt path.

The demographic issue makes the problem even more structural. On 1 January 2025, Italy had a median age of **49.1 years** , the highest in the European Union, compared to a community average of 44.9 years. [34] This data is not just a demographic curiosity, because an older population tends to reduce the relative share of people of working age and increase the pressure on pension, health and welfare functions.

The OECD estimates that Italian public spending on pensions is **around 16 percent of GDP** , one of the highest levels in the entire OECD area, and long-term projections indicate a possible increase from 16.1 percent in 2025 to **17.2 percent in 2035** , before a subsequent gradual reduction. [35]

## Italy's fiscal constraint within the new NATO commitment

| Indicator | Given |
|---|---|
| **Public debt / GDP 2025** | 137.1% |
| **Expected debt 2026** | 138.5% |
| **Expected debt 2027** | 139.2% |
| **Real GDP growth 2025** | 0.5% |
| **Real GDP growth 2026** | 0.5% |
| **Real GDP growth 2027** | 0.6% |
| **Median age in Italy, 2025** | 49.1 years old |
| **EU median age, 2025** | 44.9 years old |
| **Public pension expenditure** | approximately 16% of GDP |
| **Pension projection 2035** | approximately 17.2% of GDP |

**Sources:** European Commission, Eurostat, OECD. [33][34][35]

The key point is that these dimensions do not belong in separate discussions. Debt, demographics, welfare, energy transition, and defense compete, at least in part, for the same fiscal base and the same administrative capacity of the state.


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**The new target cannot be financed in an abstract way**

The Hague Decision requires Allies to annually present a credible and incremental trajectory towards the new objective, with a review of the path expected in **2029** in light of the evolving strategic environment and capability targets.[31]

This approach is important because it implicitly recognizes that 2035 cannot be reached through a sudden leap in the last fiscal year, but requires a progressive adaptation of budgets, industrial capacity, and military structures.

For Italy, this means that the real issue will not be finding a large additional sum once and for all, but **integrating a growing trajectory of security spending into a public finance structure that is already heavily constrained for a decade** .

The problem is therefore structural and not an emergency.

## Competition between essential public functions

The conflict between priorities cannot be resolved with simplistic formulas, because defense, pensions, healthcare, education, infrastructure, energy transition, and debt reduction all respond to real needs. Claiming that national security is indispensable does not eliminate the social cost of reducing other functions; arguing that welfare must be fully protected does not eliminate the strategic cost of insufficient military capacity in a more volatile international environment.

Politics will therefore have to do what every budgetary policy entails in its most difficult form: **establishing priorities between functions that are simultaneously necessary** .

This choice could be achieved through a combination of increased growth, reallocation of spending, greater efficiency, potential new revenues, and the use of European instruments.

There is no purely accounting solution.


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## Debt turns any permanent increase in spending into a more complex problem.

A country with relatively low debt can temporarily increase military investment through greater borrowing by a much wider margin than a country starting with debt above 130 percent of GDP.

In the Italian case, the cost of interest and the need to maintain fiscal credibility therefore limit the possibility of considering the new spending as completely separate from other budgetary choices.

The problem is not just the current level of debt, but its dynamics.

The Commission expects the debt-to-GDP ratio to increase at least until 2027, despite the progressive improvement of the deficit. [33]

This means that the defense increase will come at a stage in which debt reduction cannot be taken for granted.

## Demography and defense compete through the structure of public spending

Ageing also produces pressure that cannot be easily compressed in the short term. Italy has the highest median age in the Union and one of the highest pension expenditures in the OECD, while the working-age population is expected to decrease significantly in the coming decades. [34][35]

A reduction in the working population simultaneously produces three significant effects on security: it narrows the tax base that finances the state, increases the relative weight of age-related spending, and potentially reduces the pool of people available for the armed forces and industry.

Demography is therefore not just a social issue.

It becomes a strategic variable.

## 5 percent does not necessarily mean taking five points away from other functions

However, it is also necessary to avoid the opposite simplification. The new NATO commitment does not automatically mean that 5 percent of GDP must be financed by completely diverting resources from healthcare, pensions or education, because part of the objective concerns investments in infrastructure, resilience, networks and the industrial base which can simultaneously have civil and military functions; furthermore, the trajectory develops over a period of ten years, during which the nominal value of GDP and the composition of the budget can change significantly. [31]

A railway investment necessary for military mobility can also improve civilian logistics.


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A more secure cyber network protects both the state and the economy.

A resilient energy infrastructure has both military and civilian value.

A stronger defense industry can generate exports and jobs.

This does not eliminate the fiscal cost, but it makes the relationship between defense and other policies less mechanical than a simple subtraction of percentages would suggest.

## Growing up becomes a security strategy

This is precisely where economic growth once again becomes a strategic variable. The percentage of GDP is a ratio, and consequently, the absolute value of available resources depends on both the numerator and the denominator.

If a $2.2 trillion economy grows significantly over a decade, 3.5 percent of GDP produces a much larger amount of resources without requiring the same relative increase in tax burden.

If the economy stagnates, however, the increase in the defense budget must be financed primarily through reallocations, new revenues, or increased debt.

Growth therefore reduces the distributive conflict between security and welfare.

It doesn't eliminate it, but it makes it more manageable.

## A simple example shows the importance of the denominator

Assuming, for illustrative purposes only and without turning it into a forecast, an initial GDP of €2.2 trillion, the 3.5 percent would correspond to €77 billion. If, over the course of ten years, nominal GDP reached €2.8 trillion, the same amount would correspond to €98 billion, i.e., over €20 billion more in annual financial capacity without changing the percentage.

The problem of defense is therefore inseparable from the ability to increase the denominator.

This is particularly important for a country with high debt, because higher growth simultaneously helps increase revenues, improve the debt-to-GDP ratio, and expand available fiscal space.


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## Productivity returns to the center of national security

The decisive variable, in the long run, is therefore **productivity** , because an economy characterized by an aging population cannot rely indefinitely on employment or population growth to increase GDP. It must produce more value per hour worked and per unit of capital.

The productivity discussed in the previous economic chapters thus returns with a new function.

It is no longer just the variable that determines real wages and industrial competitiveness.

It also determines the amount of security the country can afford.

A more productive economy generates higher tax revenues at the same tax rates, supports higher investments, better finances welfare, and reduces the relative burden of defense.

A stagnant economy, on the other hand, forces every new priority to directly compete with existing ones.

**Productivity thus becomes part of the state's strategic capacity.**


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## PNRR and defense therefore belong to the same basic problem

From this perspective, the NRRP and the new security spending cycle should not be viewed as two completely separate policies. The NRRP was designed to increase investment, modernize infrastructure, digitize the state, and address some of the factors that are depressant on Italy's potential growth. While it produces a permanent increase in productivity, it also indirectly contributes to the sustainability of future defense spending.

The connection is therefore economic, not accounting.

An effective PNRR increases the denominator.

An increase in the denominator makes the new numerator of safety more sustainable.

If European investments do not produce sufficient potential growth, the Hague fiscal problem becomes more difficult.

### The risk of financing security by squeezing productive investments

This report also suggests a risk that must be avoided in the coming years. If increased defense spending were financed primarily by reducing civilian investments capable of increasing future productivity, the country could gain greater military capability in the short term but weaken the economic base necessary to sustain it in the long term.

Security cannot therefore be built by systematically destroying potential growth.

A spending composition that preserves the economy's productive and infrastructural capacities is needed.

This also applies to the 1.5 percent component envisaged in The Hague, which can be used precisely to strengthen infrastructure, industry and resilience in a way that is compatible with growth. [31]

### The real trade-off is not defense versus welfare, but state capacity versus stagnation.

Reducing the problem to a conflict between guns and pensions would therefore be too simple. The distributive conflict exists, but its intensity depends on growth, the spending structure, and the efficiency of the public system.

A dynamic economy can more easily finance both.

A stagnant economy must choose harder.

The real common enemy of security, welfare, and fiscal sustainability is therefore structurally weak growth.

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This is why the issue of defense brings the book back to one of its original themes: Italy's weak productivity is not just a welfare problem.

It is a limit to the state's ability to pursue multiple strategic objectives simultaneously.

## The expenditure must also be industrially credible

The increase towards 2035 also poses a problem of industrial absorption. If resources grow faster than European industry's capacity to produce systems, munitions, and components, part of the increase could translate into higher prices or imports.

The new NATO commitment is therefore credible only if it is accompanied by an increase in production capacity, and this is precisely why the Hague Declaration explicitly calls for the strengthening of the defence industrial base and the elimination of barriers to transatlantic industrial cooperation. [31]

Italy, as we have seen, has a relative advantage thanks to its industrial base.

But it will have to be able to transform new orders into new production lines, personnel and capacity.

## From budget to capacity: the complete chain

The problem can be summarized through a sequence that must be kept distinct in any future evaluation:

## The Royal Chain of Military Capability

| Ride | Question to be verified |
|---|---|
| **Balance sheet** | How many resources are actually allocated? |
| **Allocation** | How are they distributed between personnel, operations and investment? |
| **Contracts** | Which programs are actually ordered? |
| **Industry** | Is there sufficient production capacity? |
| **Delivery** | when do the systems actually arrive? |
| **Staff** | Are there sufficient crews and technicians? |
| **Training** | Does the force have the necessary hours and training? |
| **Ammunition** | Are there adequate supplies for a prolonged conflict? |
| **Maintenance** | What share of systems is actually available? |
| **Integration** | Do the platforms work within a multi-domain system? |
| **Readiness** | How much force can be deployed quickly and sustained over time? |

This is why the percentage of GDP is only the first link in the chain and not the final result.


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## The decisive decade will be that of conversion

The true test of Italian defense policy between 2025 and 2035 will therefore not be the ability to announce a progressive increase in the budget, but the ability to **convert that budget into a more available, better trained, better supported, and industrially more autonomous military instrument** , while at the same time preventing the new financial effort from uncontrollably aggravating the country's fiscal and social fragilities.

The issue is particularly complex because the two transformations must occur simultaneously. Italy must regain military capabilities after a long period in which high-intensity territorial defense received less attention, but it must do so while dealing with a debt exceeding 130 percent of GDP, a rapidly aging population, investment needs in the energy and digital transition, and still insufficient potential growth. It is precisely this overlap that makes 2035 a much more important deadline than a simple NATO date.

## Security once again depends on the quality of the economy

The conclusion, therefore, is broader than military policy. A country can finance an extraordinary defense increase for a few years, even through deficits, but it cannot maintain an advanced military instrument indefinitely without an economic base capable of supporting it.

Long-term military capability derives from industry, human capital, infrastructure, technology, public finances, and productivity.

Defense does not exist outside the economy.

It is one of the expressions of the economic capacity of the State.

European history has already demonstrated this relationship several times, but the new strategic phase makes it evident again.

**An economy incapable of growth can purchase weapons, but will have progressively greater difficulty sustaining a modern force over time without compressing other essential functions of the state.**

For this reason, the problem of Italian defense over the next ten years cannot be reduced to the question of whether the country will reach 2, 3.5, or 5 percent.

The really important question is another: **how much military, industrial and strategic capacity will Italy have managed to build with those resources, and how much will the economy called upon to support it have grown in the meantime** .

This is the point at which productivity definitively returns to being a variable of national security.


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## 2026: What We Know and What We Can't Write Yet

As of the date of this chapter, the documentary framework imposes a significant limitation.

NATO has a 2025 estimate that places Italian spending at **2.01 percent of GDP** according to the Alliance's definition and the DPP 2025–2027 presents the most up-to-date national planning available. [1][3]

The Ministry of Defense indicates, however, that the **2026 programmatic documentation is still being developed** . [5]

This means that any figure presented as “DPP 2026” would, at the moment, be documentaryly unfounded.

The book must therefore stop where the public record ends.

We can describe the NATO commitment made in The Hague.

We can describe the 2025–2027 programming.

We can analyze the necessary trajectory.

We cannot invent the next national articulation.

## European rearmament is not just a military issue

The transformation of European security has consequences far beyond the structure of the armed forces.

Scaling up missile production requires electronics, propellants, steel, semiconductors, and engineering expertise.

Building naval vessels supports shipyards and supply chains.

Developing cyber systems generates technologies that can also be used in the civilian sector.

Military space overlaps with telecommunications, navigation, Earth observation, and data management.

Defense policy then becomes industrial and technological policy.

But this link only works if increased public demand builds sustainable production capacity rather than simply generating price inflation or dependence on foreign suppliers.

This is the real challenge of European rearmament.

Stop funding any more systems.

Build an ecosystem capable of producing, maintaining, and replacing them.


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## The new definition of Italian power

At the end of this Part X, energy and defense show the same transformation from two different perspectives.

In the gas sector, Italy has learned that economically efficient dependence can become a strategic vulnerability.

In defense, Europe has learned that a prolonged peace does not eliminate the need for the material capabilities to defend it.

Both cases bring back to the center a word that globalization had partially obscured: **redundancy** .

- A second gas route may seem inefficient until the day the first one goes out.
- A munitions factory may seem overbuilt until the day a war consumes supplies much faster than expected.
- A navy costs money even when it is not fighting, precisely because its value also lies in making the need to fight less likely.
- Security therefore requires resources that, under normal conditions, may appear unused.
- It's the price of strategic insurance.
- For Italy, this new reality brings about a return to geography.
- The Mediterranean means energy, trade, Africa and the Middle East.
- The eastern flank means NATO and deterrence.
- The Atlantic means alliance with the United States.
- The Indo-Pacific means supply chain and technological competition.
- The country cannot choose just one of these spaces.
- Its security comes from the ability to operate among everyone.
- This is where foreign policy, industrial policy and economic policy meet again.
- And from now on, to understand Italy's position in the world, it will no longer be enough to measure GDP or the spread.

It will be necessary to understand **what the country is capable of producing, what technologies it controls, what infrastructures it can protect, what dependencies it can replace, and what real contribution it can offer to the alliances to which it belongs** .

This is the new grammar of European power.


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**[21]** Leonardo, *Annual Report 2025* and *Annual Report Summary 2025*. Used for data relating to overall revenues of approximately 19.5 billion euros, orders of 23.8 billion, order backlog of 46.6 billion, approximately 3 billion invested in R&D, over 62,000 employees and for the structure of the Defence Electronics & Security, Helicopters, Aeronautics, Space and Cyber & Security segments.

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**[22]** Fincantieri, *Financial Highlights 2025* and 2025 Results Release. Used for overall revenues of 9.194 billion euros, the backlog of 63.2 billion, data from the Shipbuilding segment, growth in the Underwater sector and the portfolio of ships with deliveries scheduled up to 2037.

**[23]** MBDA, *MBDA in Italy* . Used for Italian industrial presence, workforce of over 2,000 and national expertise in RF seekers, guidance and control systems, AESA, software, missile systems integration and validation.

**[24]** MBDA, *Our Vision and Strategy* . Used for the group's European multinational structure, workforce of more than 18,000 people and the explicit link between industrial integration, sovereignty of the participating nations and European strategic autonomy.

**[25]** Avio, *2025 Financial Results* , 12 March 2026. Used for revenues of 541.7 million euros, the order backlog of 2.166 billion, the growth of the Vega C and Ariane 6 activities and the approximately 250 million new orders attributable in 2025 to defence propulsion with European and US customers.

**[26]** Ministry of Defence, *Multi-Year Programming Document 2025-2027* ; Chamber of Deputies, dossier on the DPP. Used for the definition of the **Integrated Defence Budget** and for the role of MIMIT contributions intended for high-tech Defence programmes.

**[27]** Chamber of Deputies, documentation on the 2025 budget law relating to the Ministry of Enterprise and Made in Italy. Used for the value of approximately 2.98 billion euros attributed in 2025 to the program "Interventions in the field of national defense".

**[28]** Chamber of Deputies, dossier on the 2025 budget. Used for refinancing for air defence technology programmes, the aeronautical sector, the FREMM units and the maritime sector, equal to 922 million euros in 2025, 973 million in 2026 and 1.09 billion in 2027, with further resources until 2039.

**[29]** NATO, *Defence Expenditure of NATO Countries (2014-2025)* , 28 August 2025. Used for the NATO common methodology, for the inclusion of pensions in personnel expenditure, for the definition of the major equipment item including associated R&D, for the estimate of Italian expenditure in 2025 equal to approximately 45.3 billion euros and for the Italian share of major equipment expenditure, equal to **25.68 percent** and not 29.6 percent.

**[30]** NATO, *Defence Ministers agree new capability targets to strengthen the Alliance* , 5 June 2025; NATO, Deterrence and Defence Documentation. Used for new capability targets relating, inter alia, to air and missile defence, long-range weapons, logistics and large land formations and to link capability planning and readiness.

**[31]** NATO, *The Hague Summit Declaration* , 25 June 2025, and official documentation on the Hague Defence Investment Plan. Used for the commitment of 5 percent of GDP by 2035, broken down into at least 3.5 percent for core defence requirements and up to 1.5

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percent for critical infrastructure, networks, resilience, innovation and the industrial base, as well as for the obligation to submit annual national trajectories and for the review planned in 2029.

**[32]** NATO, *Defence investment and NATO's 5% commitment* . Used to rebuild the previous Defence Investment Pledge benchmark, which called for at least 2 percent of GDP for defence and at least 20 percent of the defence budget for major equipment, including related R&D.

**[33]** European Commission, *Economic Forecast for Italy* , Spring 2026, and Commission Recommendation of 3 June 2026. Used for the projected real growth of 0.5 percent in 2025 and 2026 and 0.6 percent in 2027, as well as for the debt-to-GDP ratio of 137.1 percent in 2025 and projected at 138.5 percent in 2026 and 139.2 percent in 2027.

**[34]** Eurostat, *Median age in the EU increased by 2.1 years since 2015* , 13 February 2026, and *Demography of Europe 2026*. Used for the data relating to the Italian median age of **49.1 years on 1 January 2025** , the highest in the Union, compared to the EU average of 44.9 years.

**[35]** OECD, *Pensions at a Glance 2025 – Italy* and chapter on long-term projections of pension expenditure. Used for Italian public pension expenditure of around 16 percent of GDP, for international comparison and for the projection that places it at **17.2 percent of GDP in 2035** before the subsequent gradual decrease.


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# PART XI

# THE MELONI GOVERNMENT IN THE EUROPEAN SYSTEM


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# Chapter 22

## 2022–2026 — From Opposition to Government: Sovereignty, Rules, and Material Constraints

When Giorgia Meloni was sworn in at the Quirinale Palace on October 22, 2022, leading the first government of the 19th legislature, the political transition had a significance that far exceeded the normal alternation of parliamentary majorities. For the first time since the inception of the Republic, the Prime Minister came from a political force that had built its growth by remaining almost entirely in opposition during the long period that began with the sovereign debt crisis and continued through the Monti government, the Letta, Renzi, and Gentiloni governments, the two Conte governments, and, finally, the Draghi government. This meant that the Brothers of Italy party arrived at Palazzo Chigi without having directly shared responsibility for many of the economic decisions that had defined the previous decade and with the opportunity, during the years in opposition, to craft a political language strongly critical of part of the European architecture, the management of immigration, pension reforms, and the system of constraints that accompanied Italy's participation in the euro. The transition to government would have inevitably subjected those positions to the most difficult test for any political force: transforming a principle of sovereignty into decisions compatible with the material structure of the State, with public debt, with European commitments, with international alliances and with an economy that depends largely on the single market, the common currency, European industrial chains and the confidence of investors. [1]

It is important to establish from the outset that the government was not born with a program of exiting the euro or abandoning the European Union. The 2022 electoral program of the Brothers of Italy and that of the center-right coalition placed political criticism within the perspective of reforming Europe rather than formally breaking with it, while the question of sovereignty was addressed through greater protection of national interests, a review of European policies considered excessively invasive, border control, industrial policy, energy autonomy, and the valorization of Italian interests within community institutions. [2] The distinction is not marginal, because it separates the Meloni government from the type of monetary sovereignism that had characterized some components of the Italian political debate in previous years: the debate was no longer about the immediate alternative between the euro and the lira, but about how Italy should exercise its weight within the European system.

The programmatic declarations presented to the Chambers a few days after the swearing-in made this point even clearer. Meloni placed the government within the Atlantic Alliance and within the European Union, simultaneously declaring her intention to defend national interests more forcefully within the Community and not to interpret European membership as a renunciation of the representation of Italian priorities. [3] To

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understand the subsequent trajectory of the government, it is therefore necessary to avoid an artificial opposition between a "sovereignist first" Meloni and a "pro-Europeanist later" Meloni, because already at the time of taking office the operational position was more complex: continuity on Italy's geopolitical positioning, greater declared conflict over the distribution of European decision-making power and an attempt to reconcile the rhetoric of sovereignty with a system of interdependencies that makes a purely national policy impracticable in numerous sectors.

It is precisely this tension that defines the period 2022–2026.

The Meloni government is not abandoning the European economic architecture inherited from its predecessors; indeed, it is fully utilizing its tools in various fields, from the PNRR to the new fiscal rules, from NATO to European energy policy. What is changing, above all, is the way the government attempts to present and negotiate Italy's position within that architecture, seeking to transform the notion of sovereignty from a project of regaining competences to a strategy of influence: not opting out of the system, but modifying its rules as much as possible and ensuring that joint decisions better incorporate Italian interests.

The problem, however, is that a government's negotiating ability depends not only on the number of votes received or the clarity of its political mandate. It also depends on the economic solidity of the state it represents. And in this respect, the new executive inherited a particularly restrictive framework.


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## A government born during an energy shock and within an exceptional fiscal legacy

The fall of 2022 did not offer the new government a normal starting point. The war in Ukraine had produced an energy shock of exceptional intensity, European inflation had reached levels unprecedented in the history of the euro, and the ECB was rapidly emerging from the season of negative interest rates and net asset purchases that had characterized much of the previous period. The Draghi government had already adopted significant measures to limit the impact of energy bills on households and businesses, and Meloni therefore inherited not only a still-unresolved emergency but also the need to decide how long to maintain fiscal measures constructed during a period of extraordinarily high energy prices.

In such a situation, the scope for immediate budget deployment to fulfill electoral promises was necessarily limited. Every structural measure had to be balanced against the need to finance measures to combat energy costs, the progressive increase in interest expenditure, and the need to preserve the credibility of a public debt that remained among the highest in the Union.

This situation helps explain the caution of the first phase of government. The coalition had campaigned on a set of ambitious goals—tax cuts, a revision of the Citizen's Income, greater pension flexibility, family support, immigration, energy security, and amendments to parts of the National Recovery and Resilience Plan (NRRP)—but the first budget necessarily had to accommodate these promises within a financial framework still dominated by the energy emergency.

It is a recurring dynamic in Italian history, reconstructed in this book: a political force comes to government with a mandate built around a specific problem and discovers that the state budget is already significantly affected by previous decisions and external shocks.

For Meloni, this legacy had an additional dimension: **building tax credits** , particularly the Superbonus, would continue to significantly influence public finance statistics and debt dynamics even after the changes to the rules that limited their expansion.


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## Superbonus: Distinguishing between regulatory liability and accounting liability

Few issues have generated such intense political debate over government responsibility as the Superbonus. To understand it, however, we need to separate at least three levels: who introduced and modified the incentive; when the financial commitments matured; and when these commitments are accounted for in the public accounts and transformed into borrowing requirements and debt.

The Superbonus was introduced during the Conte II government in 2020 and subsequently modified several times under different governments. The Meloni government intervened in February 2023 with Legislative Decree no. 11, generally limiting the possibility of continuing to use invoice discounts and credit transfers for new interventions, while providing for exceptions for operations already underway or falling under certain conditions. It is precisely this regulatory change that was recalled by ISTAT and Eurostat in September 2023, when it was confirmed that a prevalent portion of the credits accrued on expenses in 2023 still had to be classified as "payable" credit, and therefore recorded in full as expenditure in the year of accrual according to the rules of national accounts. [4]

This mechanism makes it politically misleading to attribute the entire deficit recorded in 2023 solely to the current decisions of the government in office that year. The deficit incorporated a very significant component related to incentives originating from previous regulations and accounted for according to statistical methodologies defined at the European level. At the same time, it would be equally incorrect to portray the Meloni government as completely uninvolved in subsequent effects, because from the moment it took office, the executive branch was responsible for managing the future regulation of credits, their use, their transformation into borrowing requirements, and the consequences for fiscal policy.

The extent of this legacy is evident in the dynamics of the accounts. The Council of the European Union opened an excessive deficit procedure against Italy in July 2024 on the basis of the deficit of **7.4 percent of GDP recorded in 2023.** [5] Subsequent statistical revisions placed the 2023 deficit at **7.2 percent** , with a negative primary balance of 3.5 percent, while in 2024 the deficit fell sharply to **3.4 percent** and the primary balance returned to a positive level of **0.5 percent of GDP** . [6]

The shift from 7.2 to 3.4 percent in a single year is too large to be explained solely by an ordinary fiscal tightening. It also reflects the exhaustion or different accounting of some of the extraordinary components related to construction bonuses, as well as the reduction in emergency energy measures and the improvement in current accounts. It's a perfect example of why a single year's nominal deficit cannot be used as a summary political judgment: its composition determines the economic significance of the number.

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In 2025 the consolidation trajectory continued. The Bank of Italy recorded a net borrowing down to **3.1 percent of GDP** , the fifth consecutive annual improvement, and a primary surplus up to **0.8 percent** , while public investment reached **3.8 percent of GDP** , the highest since the beginning of the century. [7]

This result allows us to observe a first significant gap between part of the government's pre-election perception and the budget policy actually adopted: a coalition that had built much of its identity on criticism of European fiscal constraints has gradually managed its finances along a path of consolidation compatible with the Union's new rules.

This shift need not be classified as an abandonment of the original positions. It's enough to note that government responsibility has produced a more constrained policy than the opposition's rhetoric might have suggested.


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## The new fiscal rules: from opposition to the Fiscal Compact to managing net spending.

The transformation becomes even more evident with the reform of European economic governance that came into force in 2024. The new system abandons some of the previous complexity based on multiple structural balance indicators and focuses national surveillance on a multi-year trajectory of **net primary expenditure** , defined in such a way as to ensure sustainable debt dynamics in the medium term. Italy presented its first **Medium-Term Structural Budget Plan 2025–2029 in 2024** , which was approved by the Council of Ministers on 27 September and subsequently transmitted to Parliament. [8]

The document is particularly interesting from a historical perspective because it demonstrates how profoundly the nature of Italian fiscal sovereignty has changed since the 1990s. The government retains the power to decide the composition of the budget, but makes a multi-year commitment to net spending growth, crafted through negotiations with the Commission and subsequently approved by the Council. In exchange for a longer adjustment horizon and the ability to preserve investments and reforms deemed growth-enhancing, the state accepts a discipline that spans multiple budget laws and reduces the ability to radically alter the spending trajectory each year.

The Meloni government therefore did not limit itself to "undergoing" the new rules. It participated in their implementation and built its own national plan within the new framework. The Council, in January 2025, formally recommended that Italy close the excessive deficit procedure by **2026** , setting a limit on the nominal growth of net expenditure equal to **1.3 percent in 2025 and 1.6 percent in 2026.** [9]

It's hard to imagine a clearer example of the transformation of political language into government responsibility. Criticism of the rigidity of European rules doesn't disappear, but effective politics is built by negotiating its own space within those rules.

This doesn't mean the government hasn't achieved favorable changes compared to the old architecture. The new system allows for multi-year planning more directly linked to reforms and investments and replaces some of the more complex indicators of the previous Pact; however, for a country with high debt, the spending constraints remain very real.

The Italian Plan also openly acknowledges that debt dynamics will continue to be affected for several years by the effects of building bonuses and the rise in the average cost of financing. In the forecasts incorporated in the document, the debt-to-GDP ratio was expected to grow moderately until 2026 before starting to decline, while the cost of building incentives continued to have an impact on cash flow dynamics even after their drastic regulatory limitation. [10]

This is precisely what we observe in the most recent data.

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## Debt 2025–2026: Why it's increasing while the deficit is decreasing

At the end of 2025, Italian public debt was recorded by Eurostat at **137.1 percent of GDP** , equal to approximately **3,096 billion euros** . In the first quarter of 2026, the ratio further rose to **138.9 percent** , the second highest value in the Union after Greece's in that quarter. [11]

If viewed in isolation, the data may seem contradictory to the deficit improvement and the return to a primary surplus. In reality, it confirms the principle already established during the Monti government: debt dynamics do not depend exclusively on the primary balance.

The Bank of Italy explains that in 2025 the primary surplus of 0.8 percent was not sufficient to compensate for three elements: the unfavorable differential between the average cost of debt and the growth of the economy, the interest burden and, above all, a significant stock **-flow adjustment component** , which also includes the cash effects deriving from tax credits accrued in previous years. [12]

It is therefore wrong to interpret the increase in the debt-to-GDP ratio from 2024 to 2025 as simply a consequence of the government's current account deficit. The deficit certainly affects the debt stock, but the increase also reflects payments that do not coincide temporally with the statistical recording of deficit spending and nominal growth that is not strong enough to offset the financial cost.

The Superbonus case is particularly instructive. When a tax credit is classified as "payable," the cost can be recorded in the deficit when the entitlement accrues, while the actual reduction in revenue and therefore the impact on the borrowing requirement and debt can be spread over subsequent years. The government may therefore find itself recording in current debt the consequences of decisions made years earlier, even when the impact on the deficit for the year has already diminished.

This distinction does not eliminate current political responsibility, as the government must still manage that debt and develop policies compatible with its service. However, it prevents every annual change from being mechanically attributed to the executive branch in office at the time of recording.

The outlook remains challenging. In the forecasts published by the European Commission on 21 May 2026, Italian real GDP is expected to grow by **0.5 percent in 2026** , as in 2025, and by 0.6 in 2027; the deficit is expected to fall to **2.9 percent** in 2026, thus below the 3 percent threshold, while the debt would be equal to **138.5 percent of GDP in 2026 and 139.2 in 2027.** [13]

The government therefore faces a particularly difficult political paradox: it can exit the excessive deficit procedure and at the same time continue to see its debt-to-GDP ratio temporarily increase.

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This is further proof that deficit and debt are not the same variable.


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## Growth: Financial stability without production acceleration

The second major issue of the period concerns growth. The Meloni government can claim a relatively favorable employment situation and improved budget indicators, but real economic growth remains weak.

ISTAT revised the 2023 figure upwards, placing real growth at **1.0 percent** ; in 2024 GDP increased by **0.7 percent** and in 2025 by **0.5 percent** . [14]

The slowdown cannot be attributed solely to national policies. European industry has gone through a difficult period, Germany—Italy's main manufacturing partner—has shown weakness, high ECB interest rates have dampened investment and credit, post-pandemic normalization has reduced the rebound effect, and geopolitical tensions have weakened trade and confidence.

But precisely because some of the shocks are external, the data leads back to the structural problem that runs through the entire book: Italy's potential growth is too weak to rely primarily on the denominator for debt reduction.

In 2025, gross fixed investments nevertheless increased by **3.5 percent** , also supported by the implementation of the PNRR, while construction continued to contribute positively despite the progressive exit from large building incentives. [15] The composition of the data is important, because it shows the transition from an investment strongly supported by real estate bonuses towards a phase in which the European public push takes on greater weight.

This is precisely why the PNRR is perhaps becoming the government's main economic test.


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## From Draghi's PNRR to the renegotiated PNRR: continuity and revision

During the electoral campaign, Fratelli d'Italia had supported the need to review some components of the PNRR in light of changing economic conditions, the increase in energy prices and the difficulties in implementing certain projects. In the programmatic declarations of October 2022, Meloni confirmed her willingness to fully utilize the resources, while distinguishing between compliance with the European framework and the possibility of making changes when implementation or changed conditions made it necessary. [16]

This position produced one of the government's most significant continuities and discontinuities. The NRRP was neither abandoned nor transformed into a national policy independent of European conditions; on the contrary, the government engaged in lengthy negotiations with the Commission, using the same mechanisms provided by the Recovery and Resilience Facility to modify measures deemed no longer realistic and to integrate the **REPowerEU chapter** .

The Commission described the Italian plan revised in 2023 as a program with **66 reforms and 150 investments** , maintaining a financial dimension in the order of almost two hundred billion and introducing a specific component dedicated to security and energy transition. [17]

The political point is important. A force that had criticized significant aspects of the PNRR from the opposition, once in government, did not challenge its legitimacy or fundamental structure, but used European procedures to renegotiate it.

Sovereignty is therefore manifested through the negotiation of the plan, not through its renationalization.

In 2025, the Commission also gave a positive preliminary assessment to the **seventh Italian payment request** , submitted on 30 December 2024, recognising the satisfactory achievement of 33 milestones and targets relating to the grant component and 31 relating to loans. [18]

This does not mean that implementation is without challenges. The true test of the PNRR is not just obtaining the tranches, but completing works, investments, and reforms capable of producing a lasting economic impact within the scheduled deadlines. The timing of the interventions towards 2026 makes the final phase particularly delicate, as accelerating spending could increase the risk of projects being formally completed but with less transformative potential than expected.

- The problem is therefore not just how much money comes from Brussels.
- It's what will remain in the Italian economy when the program is over.


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## Fiscal policy and the progressive end of building incentives

The revision of construction bonuses is one of the areas in which the Meloni government has created the most marked discontinuity compared to the previous phase. The widespread freeze on invoice discounts and the transfer of credits for new projects, along with the progressive reduction of tax rates and the management of accrued credits, marked an attempt to disrupt a mechanism that had strongly supported the construction sector but had resulted in a tax burden far higher than initially estimated.

It's important not to turn the assessment of the measure into a simple opposition between "growth" and "waste." The Superbonus has indeed supported construction activity and investment during the post-pandemic recovery phase; at the same time, the structure of the transferable credit and the invoice discount has allowed demand to expand extremely rapidly and has generated a very high budget burden.

A complete evaluation must therefore consider at least four factors: gross tax cost, additional investment actually generated, revenue recovered through increased economic activity, and energy or capital value produced by the interventions.

The Meloni government chose to prioritize limiting future exposure, accepting that the end of the incentive would lead to a slowdown in private construction and that part of the investment growth should instead be supported by the PNRR and public works.

ISTAT had already pointed out in its 2024 forecasts that the exit from building incentives would significantly slow down investment dynamics, despite the presence of a positive push coming from the implementation of the National Recovery and Resilience Plan. [19]

The shift is structurally significant: the investment support model is shifting from a generalized and very generous tax incentive to a more selective combination of public investment, the National Recovery and Resilience Plan (NRRP), and industrial incentives.


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## Atlanticism and Ukraine: Continuity rather than rupture

On the foreign policy front, the gap between the opposition and the government must be reconstructed with greater caution, as the Brothers of Italy had already taken a decidedly pro-Atlantic stance and favored support for Ukraine before the government took office. Continuity with Draghi is therefore significant but does not represent a sudden conversion.

In the programmatic declarations of 2022 Meloni explicitly reaffirmed Italy's position in NATO and its support for Kiev; during the following years the government maintained this position through participation in European decisions, political and military support and adherence to Western sanctions against Russia. [20]

This continuity has a broader significance because it demonstrates that the concept of sovereignty adopted by the government is not applied to alliance policy as a pursuit of strategic neutrality. Italy interprets its security within NATO and the European Union, while simultaneously seeking greater national and European industrial capacity.

NATO's new commitment, made in The Hague in 2025, with a much higher overall security and defense spending target than the previous 2 percent benchmark, increases the tension between fiscal constraints and strategic policy described in the previous chapter. For a country under the excessive deficit procedure and with debt approaching 140 percent of GDP, any structural increase in military spending must be compatible with the net spending path agreed upon at the European level, or require changes to the budget's composition and defense treatment rules.

This is a particularly clear example of how contemporary sovereignty is constructed through multiple constraints: Italy undertakes a NATO commitment, must integrate it into EU fiscal rules, and must finance it through a national budget already burdened by pensions, interest, and investments.


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## Migration: the area where political discontinuity is most visible

While in economic policy, international positioning, and even some industrial policy, the government led by **Giorgia Meloni** has demonstrated significant lines of continuity with processes already initiated by previous governments, migration is one of the areas in which the executive has most clearly sought to establish a political, legal, and symbolic discontinuity, attempting to modify not only the tools used to control arrivals, but also the very geography within which some border, asylum, and repatriation procedures are supposed to take place. The distinctive feature of the strategy is not simply the strengthening of maritime controls, the relationship with countries of origin and transit, or the increase in repatriation capacity—policies that have long been part of the practice of Italian governments of varying orientations—but rather the attempt to **shift part of Italy's administrative operations beyond national territory** , while maintaining Italian responsibility for the procedures, the competent authorities, and, according to the original plan, the applicable substantive legal framework.

This distinction is important because it allows us to understand the meaning of the so-called **"Albanian model"** without reducing it either to the political rhetoric with which it was presented by its supporters or to the legal disputes that accompanied its implementation. From an institutional point of view, the project represents an experiment in **partial externalisation of migration procedures without full externalisation of legal responsibility** , constructed through a bilateral agreement with a third country geographically close, politically linked to Italy and a candidate for membership of the European Union. It is therefore not a mechanism in which Italy simply hands over to another country the responsibility of deciding on applications for international protection, because the Italian authorities continue to exercise their functions in the Albanian areas concerned and disputes between these authorities and migrants remain subject to Italian jurisdiction; at the same time, however, the procedure is physically transferred outside the territory of the Republic, creating an unprecedented legal construction that has inevitably raised questions about the compatibility between national law, Union law, individual guarantees and the rules on safe countries of origin. [30]

The political genesis of the agreement is closely linked to the personal and institutional relationship between Prime Minister **Giorgia Meloni** and Albanian Prime Minister **Edi Rama** , who signed in Rome on **6 November 2023** the *Protocol between the Government of the Italian Republic and the Council of Ministers of the Republic of Albania for the strengthening of collaboration on migration matters* . The agreement was conceived in a particularly delicate phase of Italian migration policy: in **2023, landings on Italian coasts reached 157,651 people** , against 105,131 in 2022, an increase that exerted strong political pressure on the executive and contributed to making immigration one of the

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main areas through which the government sought to demonstrate its ability to modify the inherited structure. [31]

It is necessary, however, to avoid an interpretative error similar to those encountered in other chapters: the Protocol does not represent the Meloni government's entire migration policy and does not, by itself, explain the subsequent evolution of landings, which depends on multiple factors, including weather conditions, instability in the countries of departure, the operational capacity of smuggling networks, agreements with third countries, the activities of border authorities, and regional dynamics. Its political value lies above all in **highlighting a particular conception of migration management** , based on the idea that the State can regain margins of control not exclusively through a national closure, but through agreements with third countries that allow for changes in the location where some of the procedures are physically carried out.

The Protocol therefore represents a particularly interesting case for the general theme of this book, because it demonstrates that even in migration matters, contemporary sovereignty does not necessarily mean that decisions are returned to national borders. On the contrary, in the Albanian case, Italy is attempting to exert greater control **by using foreign territory** , Italian personnel, Italian and European regulations, bilateral cooperation, and an agreed-upon division of security responsibilities with the Albanian authorities.


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## Meloni and Rama: Bilateral Policy as the Infrastructure of the Migration Strategy

The choice of Albania was not accidental. Rome and Tirana have an exceptionally close political, economic, and social relationship, built over decades of migration, trade, institutional cooperation, and the integration of their respective communities. Edi Rama had also maintained strong collaborative relationships with Italian governments of varying persuasions, while the Albanian government viewed its relationship with Rome as an important element of its European positioning. In this context, the November 2023 Protocol could be presented by both governments not as a purely transactional relationship, but as an extension of broader bilateral cooperation.

It is precisely this element that distinguishes the Albanian model from other outsourcing options discussed in Europe. Italy did not identify a distant country to which to fully transfer asylum management, but a European partner not yet a member of the Union, located a few dozen miles off the Italian coast, within which areas designated for use by Italian authorities were established under a specific international agreement.

The Albanian Constitutional Court was called upon to rule on this very architecture before the parliamentary ratification in Tirana. With decision no. 2 of **29 January 2024** , adopted by a majority, the Court deemed the Protocol compatible with the Albanian Constitution and affirmed that it did not modify the territorial integrity of the Republic of Albania nor did it determine a general renunciation of Albanian jurisdiction; according to the Court, the exercise of Italian competences in the areas concerned remained limited to the functions envisaged by the agreement, while Albania retained its own constitutional and conventional jurisdiction over the territory and fundamental rights. [32]

This pronouncement is important because it clarifies the legal nature of the experiment: **the areas do not become Italian territory** , nor can they be assimilated to a territorial transfer or extraterritoriality in the classical diplomatic sense. They remain Albanian territory, but are used for Italian administrative functions defined by the Protocol.


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## Legal architecture: Albanian territory, Italian procedures, shared responsibilities

The Protocol is composed of fourteen articles and two annexes and establishes a regime in which Albania grants Italy, free of charge, for the duration of the agreement, the use of specific state-owned areas intended for migration procedures. Article 4 establishes that the total number of migrants simultaneously present on Albanian territory in application of the Protocol cannot exceed **3,000 people** and assigns the management of the facilities to the Italian authorities in accordance with Italian and European legislation; the same article establishes that disputes between Italian authorities and hosted migrants are subject exclusively to Italian jurisdiction. [30]

This provision creates an extremely particular institutional configuration. The territory is Albanian, but the internal administration of the structures is Italian; external security is the responsibility of the Albanian authorities, while internal security is the responsibility of the Italian authorities; migrants can be transferred exclusively by means of the Italian authorities and can remain in Albanian territory only for the time necessary to complete the required procedures. If the legal right to remain is lost, Italy must transfer them out of Albanian territory. [30][33]

Article 6 further formalizes this division of responsibilities, providing that Albanian authorities maintain order and security within the external perimeter of the areas and during land transfers, while Italian authorities manage internal order and must prevent unauthorized exits. Italy also fully covers the costs of accommodation, treatment and necessary services for detained persons and undertakes the obligation to guarantee their fundamental rights in accordance with international law. [33]

The structure cannot therefore be properly described as either an Albanian center financed by Italy or an Italian center legally located outside Albania. It is a **hybrid bilateral structure** , within which territorial sovereignty remains Albanian, but a significant portion of the administrative and jurisdictional functions are exercised by Italy based on the consent of the host state.


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## The structure of the Italy–Albania Protocol

| Element | Discipline expected |
|---|---|
| **Territory** | territory of the Republic of Albania |
| **Use of areas** | granted free of charge to Italy |
| **Initial duration** | **5 years** , with possible automatic renewal for another 5 |
| **Maximum simultaneous capacity** | **3,000 people** |
| **Internal management of facilities** | Italian authorities |
| **Regulations applicable to the procedures** | relevant Italian and European legislation |
| **Jurisdiction on migrant disputes – Italian authorities** | Italian |
| **Internal security** | Italian authorities |
| **External security and land transfers** | Albanian authorities |
| **Construction and management costs** | at the expense of Italy |
| **Length of stay** | limited to the time required for the procedures |
| **Renewal** | tacit for a further 5 years unless cancelled |

**Sources:** Protocol attached to Law No. 14/2024. [30][33][34]

The Protocol also identifies two areas with different functions. In **Shëngjin** , a port on the northern coast of Albania, a structure has been set up for entry and identification operations; in **Gjader** , in the interior of the country, an area has been created for the verification of the requirements for international protection and for the repatriation of people who do not have the right to enter or remain in Italy. [35]

From an administrative point of view, therefore, the original plan separated the moment of **screening and procedural entry** from that of subsequent detention and possible repatriation.


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## From signature to ratification: an agreement that divides Parliament

The agreement signed by Meloni and Rama on 6 November 2023 required a ratification law in Italy, also due to its political nature and the associated financial burdens. The bill was presented to the Chamber of Deputies on **18 December 2023** ; the Chamber of Deputies approved it on 24 January 2024 with **155 votes in favour, 115 against and 2 abstentions** , while the Senate subsequently concluded the parliamentary process. [36]

Law **no. 14 of 21 February 2024** was published in the Official Journal on 22 February, entered into force on **23 February 2024** and, after the exchange of notifications between the two States, the Protocol acquired international effectiveness for Italy from **25 March 2024.** [37]

The parliamentary process made the project's politically controversial nature clear from the outset. The majority presented it as a tool through which Italy could strengthen control over immigration flows, expedite certain procedures, and deter irregular departures; the opposition instead focused its criticisms on its economic sustainability, its compatibility with EU law, its individual guarantees, and the risk that building facilities abroad would generate very high costs relative to the actual number of people processed.

The technical report attached to the law envisaged a considerable financial commitment, including the construction of the structures, personnel, travel, transport, services and a fund for reimbursements to the Albanian side. The overall estimates discussed in Parliament were in the order of **approximately 650 million euros over five years** , with over 47 million earmarked for construction and equipment in 2024 and a fund of approximately 89 million in the same year, destined to grow to approximately 118.5 million annually in the following four-year period. [38]

This element is also central to the political analysis, as it demonstrates that the Protocol is not merely a legal experiment, but a public resource allocation decision through which the government has attributed strategic value to the possibility of physically transferring part of the migration management outside of the national territory.


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## The selection of transferable people: the true operational heart of the model

A superficial reading of the agreement might suggest that any migrant rescued in the Mediterranean could be transferred to Albania, but its actual operation is much more limited. The original system was built around **expedited border procedures** and, therefore, specific categories of people for whom the legislation allows that type of procedure.

This limitation immediately became decisive during the first concrete applications, because the possibility of detaining a person and subjecting them to the accelerated procedure also depended on the qualification of the country of origin as “safe”.

The concept of **a safe country of origin** does not automatically deny a citizen of that country international protection, as it remains necessary to assess the applicant's individual situation. However, it does allow for the application of an expedited procedural regime based on the presumption that, generally speaking, that country guarantees sufficient levels of protection against persecution and serious violations of fundamental rights.

It is precisely on this point that the Italian model would have encountered the main judicial obstacle.


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## The first transfer of October 2024 and the conflict over the notion of a safe country

The effective operation of the centers began in autumn 2024. On **16 October 2024,** the Navy transferred a first group of **16 people to Albania** ; four were subsequently returned to Italy before the judicial decision, while for the remaining twelve the Court of Rome did not validate the detention on **18 October** , determining their transfer to Italy. [39]

The issue concerned not only the material conditions of the centers, but also the legal basis for using the accelerated border procedure. A few weeks earlier, on **October 4, 2024** , the Court of Justice of the European Union, in Case C-406/22, had affirmed a principle that would directly impact the Italian dispute: under the legislation then in force, a country could not be classified as safe by introducing territorial exceptions that excluded parts of its territory from the general safety assessment. Furthermore, in the Italian case, the forms used for some countries contained exceptions relating to categories of people considered vulnerable or exposed to specific risks.

The government responded quickly by transforming the list of safe countries, which until then had been defined by an interministerial decree, into a legislative provision, thus seeking to strengthen the regulatory basis for expedited procedures. However, the dispute was not resolved, because the central question was not only **who** could designate a country as safe, but also **what substantive criteria had to be met and what control the national judge could exercise over the designation** .

A second transfer, carried out on **8 November 2024** , involved seven people and again produced legal disputes, confirming that the problem of the Albanian model was not only logistical, but above all legal. [40]


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## The first stages of implementation

| Date | Event |
|---|---|
| **November 6, 2023** | Meloni and Rama sign the Protocol |
| **January 29, 2024** | Albanian Constitutional Court declares the Protocol compatible with the Constitution |
| **February 21, 2024** | approval of Italian law no. 14 |
| **February 23, 2024** | entry into force of Italian law |
| **March 25, 2024** | international entry into force of the Protocol |
| **October 16, 2024** | first transfer of 16 people |
| **October 18, 2024** | Rome Court rejects detention of 12 people |
| **November 8, 2024** | second transfer of 7 people |
| **2024-2025** | preliminary references to the Court of Justice of the EU |
| **March 28, 2025** | Legislative Decree No. 37 modifies the use of facilities |
| **August 1, 2025** | ECJ ruling *Alace and Canpelli* |
| **June 12, 2026** | full implementation of the new EU Pact on Migration and Asylum |

**Sources:** Official Journal, Parliament, Court of Justice of the EU, Council of the EU. [37][39][40][41][42]


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## From political conflict to conflict of interpretation between legal levels

The Albanian case thus rapidly took on a broader dimension in the Italian political debate, as it involved the relationship between national law, ordinary judges, and European Union law. The government politically supported the need to implement the system established with Tirana, while the judges called upon to validate detentions had to verify, on a case-by-case basis, whether the requirements established by national legislation and European directives were met.

This distinction must be maintained with great rigor. It was not a question of establishing whether a political body was "right" and the judiciary "wrong," or vice versa, but of observing an institutional conflict typical of a multilevel system: **the national legislator defines a policy, but its concrete application remains subject to judicial review and the primacy of European law in the areas harmonized by the Union** .

Precisely for this reason, the Rome Tribunal referred several preliminary questions to the Court of Justice of the European Union regarding the designation of safe countries and the ways in which such classifications could be used in accelerated procedures.


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## The Alace and Canpelli ruling: the Court of Justice gets to the heart of the model

The most important ruling came on **1 August 2025** , when the Grand Chamber of the Court of Justice decided the joined cases **C-758/24, Alace, and C-759/24, Canpelli** , which arose precisely from referrals from the Rome Tribunal. The Court established that Union law does not prevent a Member State from designating a safe country of origin by means of a law, but specified that such classification must be capable of being subjected to **effective judicial control** and that the information sources on which the State bases the decision must be accessible to both the applicant and the judge. [41]

The Court also added, with reference to the European legislation applicable at the time, that a State could not include a country in the list of safe countries if it did not guarantee adequate protection to **its entire population** , thus confirming that the problem could not be resolved simply by transferring the classification from a ministerial decree to a legislative source. [41]

The ruling represents one of the most important steps in the entire affair because it clarifies the limits of national legislative sovereignty in a highly Europeanized matter: Parliament can define the list of safe countries, but **it cannot remove this classification from judicial review when the application of an accelerated procedure and the restriction of an asylum seeker's personal freedom depend on it** .

The point is not merely technical. It is a concrete demonstration of how migration policy, despite often being presented in public debate as one of the last remaining spheres of national sovereignty, is now deeply embedded in a framework of European norms, international conventions, and jurisdictional controls that limit the state's ability to unilaterally determine the entire process.


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## The government is changing its model: from a border procedure center to a repatriation center.

The difficulties encountered in the original use of the structures pushed the government to progressively modify the normative architecture of the Protocol. With the **decree-law of 28 March 2025, n. 37** , subsequently converted with amendments by **law of 23 May 2025, n. 75** , the possibility of transfer to Gjader was also extended to people who were already recipients of detention orders validated or extended in the repatriation holding centres located in Italy. [42]

The amendment is politically very significant, because it alters the actual function of the system. The original project was mainly focused on the possibility of transferring people rescued at sea to Albania so that they could be subjected to accelerated border procedures; the 2025 regulation instead allows the Gjader structure to be used also in the context of **repatriation policy** , transferring there people already detained in Italy awaiting expulsion. The parliamentary dossier specifies that the transfer does not invalidate the detention title already adopted and does not modify the administrative procedure to which the foreigner is subjected. [43]

This evolution demonstrates an important feature of government action: faced with judicial obstacles, the executive branch has not abandoned the infrastructure, but has progressively **adapted its regulatory basis and function** , seeking to preserve its operational utility through a different use.


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## A policy that changes as European law also changes

The significance of the Albanian experiment cannot be assessed without considering that, in the same period, the European Union was also profoundly modifying its own legislation on migration and asylum. The **European Pact on Migration and Asylum** , definitively adopted by the Council on **14 May 2024** , introduced a more harmonised system of border procedures, responsibilities between Member States, solidarity and returns, with general application from **12 June 2026.** [44]

Even more relevant to the issue of externalisation is the evolution that occurred between 2025 and 2026 on the concept of a **safe third country** . In February 2026, the Council definitively adopted new European rules that broaden the possibilities for Member States to declare an application inadmissible when the applicant could have obtained protection in a safe third country; the rules allow, among other things, to use this concept when there is an agreement or understanding with the third country, without always making a prior personal connection between the applicant and that country mandatory. [45]

This amendment does not automatically render the Italy–Albania Protocol compliant in all its possible applications, nor does it eliminate the necessary judicial oversight, but it demonstrates that **the direction of European policy has gradually shifted toward greater openness to forms of cooperation with third countries in managing asylum and repatriation procedures** . In other words, the Italian model initially emerged as a highly innovative and controversial bilateral initiative, but part of its logic—the idea that agreements with safe countries outside the Union can become structural instruments of European migration policy—has subsequently also entered the EU legislative process.

Furthermore, in June 2026, the Council and the European Parliament reached a political agreement on the new rules on returns, which also provides for the possibility of establishing **return hubs** in third countries, in compliance with the guarantees provided for by Union law and fundamental rights. [46]

The Albanian model must therefore be interpreted within a rapidly changing European context, in which the question is no longer simply whether to outsource or not to outsource, but **which functions can be carried out outside the territory of the Union, under what jurisdiction, with what guarantees, with what security criteria of the third country and with what judicial control** .


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## The Protocol is not a complete transfer of asylum to Tirana

This distinction is also essential to avoid another recurring simplification. The Italy-Albania model does not correspond to a system in which Albania independently examines protection applications and grants or denies status according to its own legislation; on the contrary, in the Italian model, the procedures remain Italian and are carried out by Italian authorities under Italian and European law.

Albania provides **territory, external security, and operational cooperation** , while Italy retains administrative and financial responsibility.

From this point of view, the Protocol is a form of **operational extraterritorialization** , not a complete delegation of the sovereign function.

**What is outsourced and what remains Italian**

| Function | Italy | Albania |
|---|---|---|
| **Entry procedures** | **Yes** | territorial support |
| **International protection assessment** | **Italian authorities** | No |
| **Internal management of facilities** | **Italy** | No |
| **External security** | support | **Albania** |
| **Transport of migrants to and from the areas** | **Italy** | support on Albanian territory |
| **Jurisdiction over procedures** | **Italy** | Albanian general jurisdiction over the territory remains |
| **Costs** | **Italy** | reimbursement of costs incurred |
| **Repatriation** | Italian responsibility | cooperation |
| **Territory** | functional use | **Albanian sovereignty** |

**Sources:** Protocol, Albanian Constitutional Court. [30][32][33]

It is precisely this overlap between Albanian territory and Italian administrative power that makes the model legally interesting and, at the same time, particularly complex.


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## The deterrent effect: a political objective, but difficult to isolate statistically

One of the political objectives attributed to the Protocol by the government was to increase the deterrence against irregular departures, demonstrating that entry via the Mediterranean would not necessarily lead to permanence on Italian territory while the application was being examined.

This effect, however, is extremely difficult to measure rigorously, because departures and landings depend on a large number of factors that change simultaneously. In 2023, Italy recorded 157,651 landings, while in 2024 the figure decreased significantly compared to the previous year; however, this does not allow us to automatically attribute the reduction to the Albanian Protocol, which became concretely operational only in the last part of the year and initially involved extremely limited numbers. [31]

An academically rigorous assessment must therefore distinguish between **the stated objective and demonstrated causality** . The government can legitimately present deterrence as the goal of the strategy, but establishing how much of the change in arrivals is actually caused by the Protocol would require a counterfactual analysis that isolates its effect from that of the agreements with Tunisia and Libya, from conditions in the Mediterranean, from the dynamics of the countries of origin, and from operations to combat criminal networks.

## The true political meaning of the "Albanian model"

The most important value of the Protocol, at least from the perspective of this book, therefore does not lie in the number of people who can be physically transferred, but in the **transformation of the concept of the border** .

Traditionally, migratory sovereignty has been associated with the state's territorial boundaries: a person arrives at the border, enters the national legal space, and from that moment is managed through structures located within the Republic. The Albanian model attempts to separate these elements, physically transferring part of the process across the border without fully transferring the state's responsibility.

The border thus becomes less a geographical line and more a **legal and administrative function** .

This transformation doesn't just concern Italy. It's part of a broader trend where European states are gradually shifting certain control functions outward: agreements with transit countries, departure management, joint operations, cooperation on repatriations, and, increasingly, the possibility of establishing external centers.

# Migratory sovereignty becomes a network of agreements

From this point of view, the Meloni government expresses a conception of migratory sovereignty that is apparently different from that applied in other sectors but, in reality,

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consistent with a fundamental characteristic of contemporary politics: **to exercise greater control, the State must cooperate more with other States** .

Italy alone cannot prevent a person from leaving Libya or Tunisia.

You cannot repatriate a foreign citizen without the cooperation of the country of origin.

It cannot control a route that passes through numerous states without diplomatic agreements.

It cannot use Albanian territory without the consent of the government in Tirana.

The attempt to strengthen sovereignty therefore produces a greater density of international relations.

The Italy–Albania Protocol represents the most evident form of this paradox: **the State seeks to exercise greater control over migration by moving a state function abroad, but it can only do so because another State agrees to make part of its territory available and to cooperate in its implementation** .

## The difference compared to Conte I and previous governments

It is in this area that the political discontinuity with previous phases appears most evident, although it should not be absolutized. The first Conte government, especially during the tenure of Interior Minister **Matteo Salvini** , had focused a significant part of its strategy on controlling disembarkations, limiting access to ports, and strengthening sanctions against ships engaged in rescue operations; subsequent governments had modified some of these provisions, without however abandoning cooperation with Libya, Tunisia, and other countries along the Mediterranean route.

The Meloni government adds a different element to this story: **it is not limiting itself to trying to prevent or reduce entry, but is trying to build an Italian procedural space physically located outside Italy** .

The difference is not just symbolic.

It modifies the administrative geography of the State.


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## The institutional protagonists

The project's implementation involved a variety of stakeholders beyond Meloni and Rama. Interior Minister **Matteo Piantedosi** had central political and administrative responsibility for operational management and transfer regulations; Justice Minister **Carlo Nordio** was involved in the detention facilities and prison staff employed at Gjader; Foreign Minister **Antonio Tajani** oversaw the international and bilateral aspects of the agreement; and Economy Minister **Giancarlo Giorgetti** was involved in the process through financial commitments and subsequent regulatory changes.

On the Albanian side, Edi Rama's role was decisive not only in the signing of the agreement, but also in its internal political defense and in the confrontation with the opposition that had contested its constitutionality.

On the judicial level, the **Rome Tribunal** , the **Albanian Constitutional Court** , the **Italian Court of Cassation** and the **Court of Justice of the European Union** have gradually become part of the affair, transforming what began as a bilateral political project into a case study in European multilevel governance.

## The main actors of the Italy-Albania model

| Actor | Role |
|---|---|
| **Georgia Meloni** | political impulse and signing of the Protocol |
| **Edi Rama** | Albanian partner and signing of the agreement |
| **Matteo Piantedosi** | implementation of migration policy and administrative management |
| **Antonio Tajani** | diplomatic and bilateral dimension |
| **Carlo Nordio** | justice and detention profiles |
| **Giancarlo Giorgetti** | financial coverage and sustainability of costs |
| **Italian Parliament** | ratification and legislative evolution |
| **Constitutional Court of Albania** | preventive constitutional check |
| **Court of Rome** | control over the validation of detentions |
| **Court of Justice of the European Union** | binding interpretation of European law |
| **EU Council and Parliament** | new European asylum rules and safe third countries |


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## The Court of Cassation and the second level of conflict

The regulatory development of 2025 did not completely close the judicial issue. In May of that year, the **First Criminal Section of the Court of Cassation** decided to submit further questions to the Court of Justice regarding the compatibility with European law of the transfer to Albania of persons already held in Italy for the purposes of repatriation, questioning, among other things, the possibility of taking to Albanian centres individuals for whom there is no concretely determinable prospect of repatriation and the treatment of protection applications presented after the transfer. [47]

This fact is important because it shows how the transition from the original model of accelerated procedures to the new use of Gjader as a functional extension of the CPR system has solved some problems but has produced others.

The experiment therefore remains, even in 2026, an evolving policy.

## The European Pact changes the context in which the model must be judged

Since **12 June 2026,** the new European Pact on Migration and Asylum has come into full application, modifying the legal framework within which national policies will also have to be evaluated. The European system introduces more uniform border procedures, flexible mandatory solidarity mechanisms, new rules on the responsibility for applications and a more harmonised regulation of safe countries. [44]

In February 2026, the Union also adopted the first common European list of safe countries of origin, including Bangladesh, Colombia, Egypt, India, Kosovo, Morocco and Tunisia, together with the candidate countries for accession with specific exceptions. [45]

This evolution may reduce some interpretative differences between Member States, but it does not eliminate individual guarantees or the role of judges. Even within the new European framework, the examination of individual applications and the compatibility of detention measures with fundamental rights remain essential elements of the system.

## The Albanian model as a European laboratory

Perhaps the most important aspect of the story is this: a policy initially presented as a specifically Italian choice has become a **European laboratory** when many EU governments began discussing similar cooperation instruments with third countries.

This does not mean that the Italian Protocol was simply "adopted by Europe," because the new European law has its own architecture and different conditions.


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This means, however, that the political problem faced by the Italian government—whether and how part of the management of asylum and repatriations can be organized outside the Union—has become one of the central issues of European migration policy.

## Cost as a measure of strategic choice

The amount of resources committed also allows us to assess the political priority assigned to the measure. A project with estimated costs in the hundreds of millions over five years, for a maximum simultaneous capacity of three thousand people, cannot be interpreted merely as a routine administrative intervention; it represents an institutional investment also aimed at establishing an operational and legal precedent.

It is precisely on this point that political assessments diverge sharply. The government and the majority also value the deterrent effect, the ability to expedite procedures, and the replicability of the model, while critics point to its potentially high unit cost, the small number of people initially transferred, and the legal complexity it creates.

A neutral analysis must capture both dimensions without turning them into a conclusive judgment: **the Protocol's performance depends on what is considered the policy's output** . If the only indicator were the number of cases actually concluded in Albania, the cost would appear particularly high in the early stages; if, however, the government also values deterrence, the building of an extraterritorial capacity, and the possibility of using the model within the new European framework, the political calculus becomes different.

## Sovereignty and Cooperation: The Central Paradox

The Albanian case thus confirms a paradox that runs throughout the book. Contemporary sovereignty rarely coincides with isolation, because even a policy explicitly designed to strengthen national border control requires a network of international agreements, administrative cooperation, and mutual recognition of jurisdictions.

The Meloni government is seeking to increase the state's ability to decide who can enter and remain on Italian soil.

To do this, it uses Albanian territory.

It applies European standards.

It depends on cooperation with Tirana.

He must submit to the control of Italian judges.

It must respect the interpretations of the Court of Justice.

And it operates within a European regulatory framework that continues to change.

Sovereignty, therefore, does not disappear.

**It becomes multilevel.**

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## From the territorial border to the functional border

This is probably the most important concept the Protocol introduces in the recent history of Italian migration policy. The border no longer necessarily coincides with the coast or the geographical line of the national territory; it can become an **administrative function physically transferred elsewhere** , as long as the legal system retains responsibility for the decision.

In the Italian project, the Gjader center thus becomes a sort of operational extension of the border and repatriation system.

It's not Italy.

But it is not even, according to the procedures managed by the Italian authorities, simply Albania.

It is a space of cooperation in which two sovereignties overlap in different functions.

This is precisely what makes it innovative and, at the same time, legally complex.

## Migration as foreign policy

The Protocol also clearly demonstrates that migration policy is no longer the exclusive responsibility of the Ministry of the Interior. Controlling migration flows requires negotiations with third countries, funding infrastructure, signing agreements, coordinating repatriations, and building diplomatic incentives.

Migration then becomes **foreign policy** .

Just like energy.

Just like raw materials.

Just like security.

The relationship with Albania is a particularly clear example of this, but the same logic applies to Tunisia, Libya, Egypt, and other Mediterranean countries.


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## The discontinuity is political, but the instruments remain multilateral

The Meloni government therefore represents a discontinuity above all in the **combination of instruments and in the desire to physically move some procedures outside the national territory** , not in the claim of being able to manage migration without international cooperation.

From this perspective, the Albanian model almost represents a reversal of traditional sovereignist language: to strengthen national capacity, the state uses an international agreement, foreign territory, European law, and a complex architecture of cooperation.

The result is a conception of sovereignty that is much more operational than territorial.

**The question of effectiveness remains open**

Finally, there remains a question that must be kept separate from legal and political judgment: **how effective the model is with respect to the declared objectives** .

Effectiveness can be assessed through at least five different dimensions: the ability to process a significant number of people, the speed of procedures, the number of repatriations actually carried out, the cost per procedure, and the potential deterrent effect on departures.

## How to evaluate the effectiveness of the Albania model

| Size | Indicator |
|---|---|
| **Operational capacity** | people actually transferred |
| **Procedural speed** | average duration of procedures |
| **Repatriations** | share of decisions actually executed |
| **Cost** | expense per person / procedure |
| **Deterrence** | possible effect on departures, to be isolated from other factors |
| **Legal estate** | share of measures confirmed in court |
| **Replicability** | possibility of application in other agreements or within the EU framework |

In the initial years of application, these indicators produced very different results, and for this very reason, it would be premature to dismiss the Protocol as a single success or failure. Its historical weight may depend less on the initial numbers and more on its anticipation of a European transformation of migration management, toward increasing cooperation with third countries.


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## The real stakes: who controls the proceedings

The fundamental question, therefore, is not only where the migrant is physically located.

Who **exercises power over the procedure, according to which rule and under what control** ?

In the Albanian model, Italy seeks to shift physical space without renouncing administrative responsibility.

This is a crucial distinction.

Sovereignty is not measured solely by the territory on which a person stands.

It is measured through the ability to determine the procedure, apply the rule, execute the decision and do so in a manner compatible with the higher legal system to which the State belongs.

Precisely for this reason, the Italy–Albania Protocol constitutes one of the most interesting cases of the political phase opened in 2022: it demonstrates simultaneously **the desire to strengthen national control and the impossibility of exercising it outside a network of European law, jurisdiction and international cooperation** .

It is the paradox of contemporary Italian sovereignty in its most evident form.


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## The Mattei Plan: Africa, energy, and migration within a single strategy.

The same logic underlying the Italy–Albania Protocol—namely, the attempt to transform the management of transnational phenomena into a policy constructed through agreements, infrastructure, economic cooperation, and the state's external outreach—reappears in a much broader form in the **Mattei Plan for Africa** , which probably represents the Meloni government's most explicit attempt to bring together within a single strategic framework aspects that for many years had been addressed through different administrative instruments, ministries, and policies. Energy, food security, infrastructure, training, healthcare, development cooperation, investment promotion, access to natural resources, digitalization, and management of migration flows are all placed within a single political framework, founded on the idea that the relationship between Italy and the African continent can no longer be organized through a succession of sectoral interventions, but must become a structural component of national foreign and economic policy.

The initial legal basis is the **decree-law of 15 November 2023, n. 161** , which came into force the following day and was subsequently converted, with amendments, by **law of 11 January 2024, n. 2** , which came into force on 14 January. The legislative text defines the Mattei Plan as a strategic-programmatic document aimed at strengthening collaboration between Italy and African states and establishes an extremely broad scope of intervention: development cooperation, promotion of exports and investments, education, higher and professional training, research and innovation, healthcare, agriculture and food security, water and energy resources, environment and climate adaptation, infrastructures including digital ones, energy partnership, circular economy, recycling, support for youth and female entrepreneurship, employment, tourism, culture, prevention of irregular immigration and management of legal migration flows. [48]

This breadth is not an administrative detail, because it precisely indicates the initiative's political significance. The Plan is not conceived as a new, separate fund dedicated exclusively to development aid, nor as a program focused solely on energy or migration; rather, it seeks to build an **integrated Italian Africa policy** , within which public and private investment, cooperation, economic diplomacy, energy security, and migration management are treated as interconnected variables. In this sense, the Plan represents one of the clearest expressions of the transformation analyzed in the previous chapters: foreign policy is no longer clearly separated from economic policy, and international cooperation is increasingly being used as a tool for security, stabilization, and industrial positioning.

The same founding law clarifies that one of the aims of the new architecture is to **promote economic and social development and prevent the root causes of irregular migration** , thus explicitly linking development policy to the migration problem. [48] This formulation is important because it shows how the Mattei Plan is not limited to managing

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the flow once it reaches the Mediterranean, but seeks, at least in its strategic construction, to intervene much further upstream, where the economic, demographic, climatic and institutional conditions that contribute to mobility towards Europe are formed.

This is where the Plan differs from the Protocol with Albania, despite being part of the same general framework. In the Albanian case, the government primarily addresses the **location and methods of managing migration procedures** ; in the Mattei Plan, however, it seeks to address the economic and infrastructural conditions of the partner countries, supporting the idea that development, employment, energy, training, and increased production capacity can contribute to reducing migratory pressures in the long term.

The causal relationship, however, must be treated with extreme caution. International literature shows that economic development and migration are not linked by a simple inverse relationship, according to which an increase in income would automatically reduce departures: in the early stages of development, greater availability of resources can actually increase people's ability to migrate. For this reason, it would be methodologically incorrect to measure the Mattei Plan solely by the potential decrease in arrivals in Italy. Its impact, if it can be assessed over time, must be measured through **local growth, productive capacity, training, employment, infrastructure development, access to energy, quality of services, and the volume of investments mobilized** , distinguishing these effects from migration dynamics, which respond to a much more complex set of causes.

## The name "Mattei" and the construction of an Italian political narrative

The choice to name the Plan after **Enrico Mattei** is not neutral and is itself an element of political strategy. Mattei, founder and chairman of ENI in the 1950s, has become a symbolic figure of an Italian policy capable of leveraging energy, public industry, and relations with producing countries in the Mediterranean and the Middle East to expand the scope for national autonomy. The Meloni government therefore uses this reference to suggest an ideal continuity between the post-World War II quest for greater energy autonomy and a new policy toward Africa based, at least in its stated intentions, on less asymmetrical partnerships than colonial or purely extractive models.

The political appeal is particularly significant because it places the Plan within a narrative in which **Italy does not claim to compete with the United States or China on financial scale, but seeks to leverage its Mediterranean location, its businesses, its energy expertise, and its geographic proximity to build stronger bilateral relations** . It is therefore not simply a policy of cooperation, but an attempt to define a specific role for Italy in the new European and global competition for partnership with Africa.

This ambition was made visible with the **Italy-Africa Summit of 28 and 29 January 2024** , hosted in Rome and chaired by Prime Minister Giorgia Meloni, which was attended by

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representatives of **46 African countries, including 13 Heads of State and 8 Heads of Government, as well as 25 international organisations, 17 of which were represented at the highest level** . The summit constituted the political launch moment of the Plan and was deliberately organised at the beginning of the Italian presidency of the G7, in order to link the Italian bilateral initiative to the country's broader international agenda. [49]

Meloni's leadership was evident, but the project involved a much broader institutional network from the outset, in which Foreign Minister **Antonio Tajani** , Deputy Minister for Cooperation **Edmondo Cirielli** , the Presidency of the Council of Ministers, the Italian Agency for Development Cooperation, Cassa Depositi e Prestiti, SACE, SIMEST, the Ministry of the Environment and Energy Security, the Ministry of Enterprise, and a series of large public and private industrial groups assumed different roles in the development and financing of the projects. The structure of the Plan therefore reflects a model in which foreign policy is coordinated by the Presidency of the Council of Ministers but must be implemented through a much broader **Italian System** , capable of combining administrations, public finance, cooperation, businesses, and multilateral institutions.

## A strategy that was born before the Plan

Even in this case, however, it would be incorrect to interpret the Mattei Plan as an absolute break with previous African policy. Italy had already organised three Italy-Africa ministerial conferences, in **2016, 2018 and 2021** , before the birth of the current government, and had long been using development cooperation, diplomatic action, energy investments and relations with North Africa, the Horn of Africa and sub-Saharan Africa as components of its foreign policy. [49]

The real discontinuity, therefore, lies less in the invention of instruments than in the attempt to **coordinate them under a single strategic label and under a political direction concentrated at Palazzo Chigi** . It is the same distinction we maintained regarding the PNRR and the Draghi legacy: a political phase can become important not by inventing every single instrument from scratch, but by modifying the way existing instruments are organized, coordinated, and inserted into a broader project.

This is particularly evident in the Mattei Plan. Development cooperation continues to exist. Italian companies continue to invest in Africa. ENI continues to operate in producing countries. CDP continues to finance projects. The Ministry of Foreign Affairs and International Cooperation (MAECI) continues to manage bilateral relations. AICS continues to implement development programs. What has changed is the attempt to connect these activities into a unified narrative and decision-making process, targeting **priority countries and sectors** .


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## Governance: The attempt to overcome fragmentation

Precisely because the problem identified by the government is also that of the fragmentation of Italian initiatives in Africa, the institutional architecture of the Plan takes on an important role. Legislative Decree no. 161/2023 established a **Control Room** at the Presidency of the Council and provided for a specific **Mission Structure for the implementation of the Mattei Plan** , subsequently established by Prime Ministerial Decree of 22 December 2023. The Structure assists the Prime Minister in strategic direction, supports the President and Vice President of the Control Room, manages the relevant secretariat and prepares the annual report to Parliament. [50]

The organizational choice is significant because it moves the coordination center from traditional diplomacy alone to the Presidency of the Council, giving the Plan a higher political rank than a normal cooperation program. The Mission Structure was initially led by the plenipotentiary minister **Fabrizio Saggio** , with Lorenzo Ortona as deputy, and operated with a relatively limited administrative budget, which confirms once again that the Plan does not coincide with a new large autonomous administration, but is based above all on the coordination of already existing resources and subjects. [50]

## The governance of the Mattei Plan

| Level | Main function |
|---|---|
| **Prime Minister** | political and strategic direction |
| **Control room** | inter-ministerial coordination and with other parties involved |
| **Mission structure** | operational support, monitoring, secretariat and reporting to Parliament |
| **MAECI** | diplomacy, cooperation and bilateral relations |
| **AICS** | implementation of cooperation initiatives |
| **CDP** | financial instruments and investments |
| **SACE / SIMEST** | guarantees, export and internationalization |
| **MIMIT / MASE and other ministries** | sectoral programs |
| **Italian companies** | investment, technology, project execution |
| **Multilateral partners** | co-financing and scale-up |

This structure clearly shows that the Plan does not have a single autonomous budget comparable to that of a ministry. Its financial strength instead derives from the ability to **direct, coordinate, and combine existing funds** , private capital, and multilateral instruments. This model is more complex to measure, because the amount politically allocated to the Plan does not necessarily coincide with a single budget item, and because it is necessary to continually distinguish between theoretically available resources, committed resources, approved projects, mobilized private capital, and actual expenditure.


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## The initial 5.5 billion: political allocation and financial composition

At the time of the launch of the Plan, the government indicated an **initial allocation of around 5.5 billion Euro** , a figure subsequently recalled by Foreign Minister Antonio Tajani as the financial basis of the strategy. [51]

The figure must however be interpreted correctly. It does not represent a new fund entirely allocated from scratch with the founding decree, but a combination of resources from different instruments, including development cooperation and above all the **Italian Climate Fund** , which is progressively oriented towards interventions consistent with the Plan. Subsequent legislation has established that **no less than 70 percent of the resources of the Italian Climate Fund allocated to certain operations must support the aims and objectives of the Mattei Plan** , also providing for the possibility of more favourable financial conditions than those of the market. [52]

This financial configuration is particularly important because it demonstrates that the Plan is not conceived solely as a subsidy policy. Loans, guarantees, concessional instruments, equity investments, and co-financing can serve to mobilize capital exceeding the initial public allocation. This is precisely the logic through which the government seeks to leverage Italy's relatively limited financial resources compared to those of the major powers **to attract European, multilateral, and private resources** .

## How the Mattei Plan's budget should be read

| Category | Meaning |
|---|---|
| **Initial political endowment** | approximately €5.5 billion indicated by the Government |
| **Development cooperation** | existing public resources that can be directed towards priority countries and sectors |
| **Italian Climate Fund** | one of the main mobilizable financial sources |
| **CDP** | credit and investments |
| **SACE / SIMEST** | guarantees, export and internationalization |
| **Private capital** | business investments |
| **EU / Global Gateway** | co-financing and scale-up |
| **World Bank and other DFIs** | joint pipeline and tool development |
| **Multilateral funds** | additional resources and burden sharing |

**Sources:** Presidency of the Council, MAECI, legislation on the Italian Climate Fund. [51][52]

The distinction between **nominal funding and actually mobilized capital** is crucial. A public guarantee of one hundred million euros can facilitate a much larger investment; conversely, a formally available allocation can have limited impact if projects do not reach the implementation phase. For this reason, even in the Mattei Plan, the initial financial figure alone is not a measure of transformative capacity.


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## The first nine countries: from continental rhetoric to geographical selection

The first phase of the Plan also demonstrates that the initiative, although presented as an Italian strategy towards Africa, was deliberately born with a limited number of pilot countries. In 2024, **Algeria, the Republic of Congo, Ivory Coast, Egypt, Ethiopia, Kenya, Morocco, Mozambique and Tunisia were identified** . [53]

The geography of the selection reveals much about the political landscape. North Africa is largely represented by Algeria, Tunisia, Morocco, and Egypt, countries directly relevant for energy security, the Mediterranean, trade, and migration. East Africa enters through Ethiopia and Kenya, two central states in the economic and political dynamics of the Horn and East Africa. Mozambique and the Republic of Congo are important for energy and infrastructure, while Côte d'Ivoire represents one of the economic hubs of French-speaking West Africa.

It is therefore neither a random nor evenly distributed selection. The Plan begins where Italian interests are most easily linked to **existing relationships, industrial presence, energy opportunities, migration dynamics, or the ability to create concretely implementable projects** .

In **January 2025,** the government extended the perimeter to five more states — **Angola, Ghana, Mauritania, Tanzania and Senegal** — bringing the number of priority countries in the second phase to fourteen. [53]


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## The geographical expansion of the Mattei Plan

| First phase – 2024 | Extension – 2025 |
|---|---|
| Algeria | Angola |
| Republic of the Congo | Ghana |
| Ivory Coast | Mauritania |
| Egypt | Tanzania |
| Ethiopia | Senegal |
| Kenya | |
| Morocco | |
| Mozambique | |
| Tunisia | |

**Source:** MAECI. [53]

This expansion is politically important because it signals an attempt to transform the Plan from a set of pilot projects into a **broader framework for Italian African policy** , but it also makes coordination more difficult, because increasing the number of countries inevitably increases the diversity of economic, institutional and security conditions in which the programs must be implemented.

## The five priority sectors of the political launch

At the Italy-Africa Summit in January 2024, the government presented the Plan through five major priority areas: **education and training; health; agriculture; water and energy; infrastructure** . [54]

The simplification into five pillars does not exhaust the broader scope defined by the law, but it serves an important political function because it allows us to understand the initiative's internal logic. Each area addresses a component of long-term economic capacity: training focuses on human capital, healthcare focuses on the quality of the population and institutions, agriculture focuses on food security, water and energy focuses on basic infrastructure, while the infrastructure sector should increase physical and digital connectivity.

## The economic logic of the main pillars

| Pillar | Economic and strategic objective |
|---|---|
| Education and training | human capital, skills, employability |
| Health | health resilience and quality of services |
| Agriculture | food security, productivity, rural employment |
| Waterfall | climate resilience and essential infrastructure |
| Energy | access to energy, renewables, security and industrialization |
| Infrastructure | trade, mobility, digitalization and regional integration |

The key point is that the Plan seeks to address not only income, but also the **structural bottlenecks** that limit growth. A business cannot develop without reliable energy; productive agriculture cannot function without water; an industrial system cannot grow


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without infrastructure and skills; job creation requires human capital and access to markets.

The theoretical coherence of the model is therefore relatively clear.

The most difficult question concerns its actual scale.

## Energy: the point where the Mattei Plan and Italian security overlap most

Of all sectors, energy is the one in which the connection between Italian interests and African development is most evident and, for this very reason, most delicate. Italy needs to diversify its supplies, increase interconnections with North Africa, and, in the medium to long term, build new supply chains linked to renewables, hydrogen, and electricity infrastructure. Many African countries, at the same time, possess abundant energy resources but require capital, networks, and industrial capacity.

The potential for common interest exists.

But also the risk of asymmetry.

If the Mattei Plan were limited to financing infrastructure primarily intended to transfer energy or raw materials to Italy and Europe, it would precisely reproduce the extractive logic from which the government claims to distance itself. For the partnership model to truly generate local development, it must also generate **domestic access to energy, employment, industrial transformation, training, infrastructure, and fiscal capacity in partner countries** .

This is where the political concept of “equal to equal” partnership will have to be tested through material results.

## Migration: from departures to development

The migration dimension is equally central, but operates at a very different pace than border control policies. A repatriation agreement can produce relatively rapid administrative effects; an agricultural, healthcare, or training program takes years to alter the economic conditions that contribute to mobility.

This temporal difference is essential.

The Mattei Plan cannot be judged by the same metrics as the Ministry of the Interior.

Border policy measures arrivals, landings, and repatriations.

Development policy should measure productivity, income, access to services, employment, and human capital.

Confusing the two levels would risk negatively evaluating a development project simply because it does not immediately reduce departures, or, conversely, attributing to the Plan a reduction in flows caused by completely different factors.

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The link between development and migration must therefore remain **strategic, not mechanical** .

## The Italian System: From Public Cooperation to Economic Partnership

One of the most ambitious features of the Plan is the attempt to overcome the traditional separation between development cooperation and economic promotion. The founding decree explicitly includes **the promotion of exports and investments** among the sectors of intervention. [48]

This element changes the nature of the strategy. The government intends not only to use public resources to finance services in partner countries, but also seeks to involve Italian companies in economically sustainable projects that can generate returns, exports, investments, and jobs both in Africa and in Italy.

The potential advantage of this model is clear: private capital can greatly multiply the scale of interventions.

The risk is equally evident: the most profitable investments could be concentrated in the most attractive sectors and countries, leaving socially important but less profitable interventions to public cooperation.

The success of the Plan will therefore also depend on the ability to **combine market logic and development objectives without confusing them** .

## Convergence with the European Global Gateway

The Mattei Plan has also gradually acquired a European dimension. In June 2025, the European Commission formalised the synergy between the Italian Plan and **the Global Gateway** , the strategy with which the Union seeks to mobilise infrastructure and development investments in partner countries. The Commission explicitly describes this convergence as a shared commitment towards growth, employment and sustainable development in Africa. [55]

This connection is strategically crucial because it alters the potential scale of the Italian initiative. Alone, Rome lacks the financial capacity to compete with large-scale Chinese, US, or multilateral programs across the continent; by integrating its projects within the European framework, it can instead leverage the Italian dimension as a **political and industrial initiator of initiatives that are subsequently amplified through European resources** .

The logic once again recalls that already observed in other chapters: Italian sovereignty is not necessarily strengthened by acting alone, but can grow by using the European scale to multiply financial and negotiating capacity.


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## The Lobito Corridor: When Italian Strategy Enters the Global Infrastructure Competition

The maturation of the Plan is particularly visible in the Italian involvement in the **Lobito Corridor** , one of the infrastructures considered strategically most important for connecting the interior of Southern and Central Africa to the Atlantic Ocean. In 2026, Minister Tajani continued to explicitly indicate Italian participation in the construction of the corridor as one of the main examples of the projection of the Mattei Plan. [56]

The geopolitical significance is considerable. The corridor passes through areas rich in copper, cobalt, and other critical resources, connecting Angola, the Democratic Republic of Congo, and Zambia with the Atlantic port of Lobito. Participating in projects of this kind means entering directly into global competition for infrastructure, logistics, and the raw materials needed for the energy transition.

Italy is thus moving from a predominantly bilateral African policy to a logic in which **African infrastructure, European supply chains and Western economic security are beginning to overlap** .

This is also the point where the greatest analytical attention must be paid: a corridor can promote regional development, but it can also become primarily an infrastructure for the export of raw materials if it is not accompanied by local processing, industries, services, and economic integration along the route.

## Digital and artificial intelligence: the Plan's expansion beyond energy and physical infrastructure

The strategy has also been progressively extended to digital infrastructures. In September 2024, the MAECI promoted an agreement between the Directorate General for Development Cooperation, the Department for Digital Transformation, AGID and AICS for public digital infrastructure projects, technical-scientific training and the dissemination of digital identity, with initiatives aimed, among others, at African countries connected to the Plan. [57]

The framework was further expanded in 2025 with the establishment of the **Hub for Artificial Intelligence for Sustainable Development** , aimed at promoting technological transfer towards the countries affected by the Mattei Plan through business alliances and cooperation with international organisations, with an authorised expenditure of approximately **5.28 million euros per year starting from 2025.** [58]

This evolution demonstrates that the Plan is progressively being used as a container for an African policy that is much broader than its original core and which also includes **technology, digital infrastructure and administrative capacity** , not just energy and agriculture.


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## Agriculture and food security: the less spectacular but more structural component

Agriculture occupies a particularly important position in the strategy because in many African countries it accounts for a high share of employment and is one of the sectors in which relatively small investments in irrigation, seeds, mechanization, food processing, and logistics can have a significant impact on rural productivity and income.

Italian cooperation continued to finance initiatives consistent with the Plan, including programmes in Mozambique and Senegal for sustainable agricultural production and food security, while in 2025 the project for an **"Enrico Mattei" Centre for training, research and innovation in the agricultural sector in Algeria was also approved** . [59]

These interventions are interesting precisely because they demonstrate a different dimension from the major energy corridors. Transforming the economic drivers of migration and state fragility also involves less visible projects, such as agricultural productivity, water management, health services, and training.

## From cooperation to co-investment

The most ambitious step of the Plan, however, consists in the attempt to transform the Italy-Africa relationship from one based primarily on aid and imports to a **co-investment model** , in which public capital, businesses and financial institutions contribute to the construction of infrastructure capable of generating income.

The principle, at least theoretically, is more economically sustainable than assistance alone because projects with returns can attract private capital and free up public resources for social interventions that do not produce direct financial returns.

The challenge is that political, regulatory, currency, and infrastructure risks in many African markets can make projects less attractive to private investors.

This is precisely why instruments such as SACE guarantees, CDP financing, and preferential conditions from the Italian Climate Fund are so important.

The state does not replace private capital.

Try to **reduce the risk enough to make it possible to mobilize** .

## The problem of resources: 5.5 billion is a lot for a national policy, too little for a continent

The financial scale remains a major open question. An initial allocation of €5.5 billion is significant for an Italian program, but appears modest when compared to Africa's infrastructure needs or the scale of the resources mobilized by major international institutions and global powers.


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This means that the Plan's success depends on the ability to transform every public euro into more euros of overall investment.

If the 5.5 billion remained mainly public spending fragmented across numerous small interventions, the transformative capacity would be limited.

If, however, they were able to generate guarantees, European co-financing, multilateral investment, and private capital, the effective scale could be much greater.

The measure to be observed is therefore not simply **how much the Italian state allocates** , but **how much overall capital is actually mobilised and transformed into completed projects** .

## The World Bank, DFIs and the attempt to multiply the scale

The Presidency of the Council indicated that in 2025 the dialogue with the **World Bank and other Development Finance Institutions continued** to build a pipeline of joint initiatives, while cooperation with Gulf countries produced contributions to multilateral instruments and the Italian Climate Fund was used to support initiatives in partner countries. [60]

This dimension is crucial because it shows how the Mattei Plan is trying to evolve from a national strategy to **a platform for aggregating international capital** .

This is also the point at which the outcome becomes more difficult to attribute. If a project is financed simultaneously by Italy, the European Commission, the World Bank, development banks, and private investors, it is methodologically incorrect to attribute the entire value of the investment to the Mattei Plan.

A distinction must be made between directly Italian capital, mobilized capital, and the total value of the project.

## Gulf countries' policy enters into Italy's African strategy

The involvement of Gulf funds and partners also signals the growing triangulation of Italian foreign policy. The United Arab Emirates and other Middle Eastern financial players possess investment capacity far greater than that of the Italian budget and are showing growing interest in African infrastructure, energy, agriculture, and ports.

The Italian attempt therefore also consists in building forms of triangular cooperation **between Italy, Africa, and the Gulf** , in which Rome can provide planning, industry, political relations, and European access, while the Middle Eastern partners contribute capital.

This model potentially expands the scale, but also inevitably introduces new geopolitical interests into the projects.


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## The Mattei Plan and the problem of reciprocity

The political criterion through which the government presents the Plan is that of a "non-predatory" and equal partnership. This formulation must be subjected to empirical verification.

To determine whether a project truly generates reciprocity, at least five variables must be considered: how much added value remains in the partner country; how much skilled local employment is created; what skills are transferred; what share of infrastructure serves the local market versus exports; and what degree of participation local governments and stakeholders have in project design.

## How to measure the reciprocity of the Mattei Plan

| Size | Relevant indicator |
|---|---|
| **Local employment** | jobs created and quality of skills |
| **Local added value** | share of the project that remains in the partner economy |
| **Technology transfer** | training, licenses, self-employment skills |
| **Access to services** | energy, water, healthcare and locally available infrastructure |
| **Decision-making participation** | involvement of governments and partner institutions |
| **Financial sustainability** | debt generated and financing conditions |
| **Export of raw materials** | relationship between extraction and local transformation |
| **Environmental impact** | compatibility with development and climate adaptation |

Without this analysis, the equal partnership formula risks remaining an unverifiable political declaration.

## A project is not a capability until it goes live.

The same distinction between **announcement, financing, construction, and operational capacity** that we have applied to armaments, the PNRR, and energy infrastructure must be maintained here as well.

A memorandum is not an investment.

Approved financing is not built infrastructure.

A race is not a construction site.

A construction site is not an operational work.

An operational project does not automatically produce development if it is not integrated into the local economy.


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For this reason, the Mattei Plan will have to be evaluated over a much longer chain than simply through political presentation.

## The real chain of implementation of the Plan

| Phase | What does it prove? |
|---|---|
| **Political announcement** | government priorities |
| **Insertion into the Plan** | strategic selection |
| **Financial coverage** | theoretical availability of resources |
| **Agreement with the partner** | political consensus |
| **Design** | technical feasibility |
| **Final financing** | ability to proceed |
| **Construction site / execution** | material progress |
| **Entry into operation** | realized capacity |
| **Economic impact** | actual result |
| **Sustainability over time** | duration of the benefit |

This is the same methodological rule that must accompany the entire book: **do not confuse intention with realized ability** .

## The Plan's expansion in 2025: from pilot project to permanent structure

In 2025, the government not only added five new countries, but also began building a broader pipeline of interventions, using the Mission Structure to coordinate embassies, AICS offices and implementing bodies. The documentation of the Presidency of the Council indicates that contacts and missions were initiated for Angola, Ghana, Mauritania, Senegal and Tanzania to identify, together with local governments, priority sectors and define new initiatives, while monitoring of the projects already included in the first report to Parliament continued. [60]

This data is important because it signals a shift from a political push focused on a few projects to an attempt at building a more stable administration.

The difficulty, however, increases with the scale.

The more countries join the Plan, the greater the risk of resource dispersion.

The strategic choice will therefore have to balance **geographical visibility and concentration of impact** .


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## Africa is not a single strategic theater

Another fundamental caution concerns the Plan's language itself. Speaking of "Africa" as if it were a homogeneous political and economic space risks producing profound simplifications.

The continent comprises over fifty states with extremely diverse income levels, political systems, demographic structures, resource availability, and security conditions.

Algeria is a major Mediterranean energy exporter.

Kenya is an economic hub in East Africa.

Ethiopia has over one hundred million inhabitants and its own industrial path.

Ivory Coast is one of the most dynamic economies in West Africa.

Mozambique combines enormous gas resources with security vulnerabilities.

Senegal has a different political trajectory and economic structure than Mauritania.

The strength of the Plan will therefore depend on the ability to **differentiate the tools according to the context** and not on the application of a uniform model.

The founding law itself explicitly recognises this need, providing for territorial strategies referring to specific African areas and also differentiated according to the sectors. [48]

## Energy and raw materials: opportunities and risks of a new dependency

The Plan is also part of a broader European transformation of strategic supply chains. Africa possesses a significant portion of the mineral resources needed for the energy and digital transition, while Europe seeks to reduce its overly concentrated dependence on China and other suppliers.

This creates a very strong incentive to strengthen relations with African countries.

But it also creates a risk.

If the Mattei Plan were used primarily to guarantee Italian and European access to strategic raw materials, without developing local processing capacities, it could replace European dependence with an extractive relationship that produces limited benefits in producing countries.

The real test of the partnership will therefore be the ability to finance **refining, processing, logistics, training and local production** , not just mines and export corridors.


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## The Mattei Plan in the Competition Between Europe, China, the United States, and the Gulf

It's impossible to fully understand the Plan without placing it in the context of international competition for relations with Africa. China has been building infrastructure, railways, ports, and power plants for years through the Belt and Road Initiative; the United States has revitalized its economic presence through tools like the Partnership for Global Infrastructure and Investment and strategic projects like the Lobito Corridor; the European Union uses the Global Gateway; the Gulf countries are rapidly increasing investments in ports, agriculture, energy, and logistics.

Italy is thus entering a competitive space where scale matters.

The Mattei Plan can allow it to acquire greater influence only if it manages to **transform its national initiative into a platform capable of aggregating European and international resources** .

From this point of view, the convergence with Global Gateway is probably more important than the initial figure of 5.5 billion.

## Africa and Europe: the demographic problem as a strategic backdrop

The decision to make Africa an Italian priority also has a clear demographic basis. Europe is a region characterized by an aging and slow population growth, while many African economies will continue to experience a strong expansion of their working-age populations for decades.

This means that the continent will simultaneously represent an enormous potential market, a source of human capital, a space for economic competition, and one of the main areas from which migratory flows could originate.

For Italy, geographically projected towards the Mediterranean, ignoring this transformation would be impossible.

The problem is therefore not **whether** Africa will be strategic.

It is about establishing **which tools Italy will be able to build a lasting relationship with** .

## Development and security are no longer separable policies

The Mattei Plan represents precisely this paradigm shift. A fragile state can become a source of irregular migration, but also a breeding ground for instability, terrorism, crime, energy insecurity, and supply chain disruption.

Financing irrigation, infrastructure or training is therefore no longer interpreted exclusively as humanitarian policy.


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Become part of a stabilization strategy.

Likewise, an energy project is not just industrial policy.

It can contribute to European security.

A digital infrastructure can increase productivity and administrative capacity.

A health program can reduce social vulnerabilities.

The whole distinction between cooperation, security and economic policy thus becomes less clear.

## But the risk of securitization of development must be recognized

This convergence is not without risks. If every development policy is justified primarily through Italy's interest in reducing migration, securing raw materials, or increasing energy security, cooperation risks losing its autonomy and subordinating local needs to the donor country's priorities.

For this reason, the credibility of the Plan will also depend on the ability to demonstrate that the interventions produce **measurable benefits in the partner countries regardless of the Italian return** .

Partnership can be mutually beneficial.

But reciprocity must be demonstrated.

## The parliamentary dimension and the problem of accountability

The founding law also provides for an annual report to Parliament on the state of implementation of the Plan, entrusting the Mission Structure with the task of preparing it. [50]

This mechanism is important because such a broad program, spread across numerous financial instruments, would otherwise be difficult to monitor.

To correctly evaluate the Plan, Parliament should be able to distinguish at least four dimensions:

1. allocated resources;
2. resources committed;
3. resources actually disbursed;
4. total capital mobilized.

To these we must add physical indicators: completed infrastructure, people trained, installed energy capacity, businesses supported, jobs created, hectares irrigated, users reached by health or digital services.

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Only in this way can the Plan be evaluated as public policy and not just as a diplomatic framework.

## From announcement to measurement: the table that will be used in the following years

**How the Mattei Plan should be evaluated**

| Area | Quantitative indicator |
|---|---|
| **Finance** | euros allocated, committed and disbursed |
| **Leverage** | total mobilized capital / public capital |
| **Energy** | MW installed, km of network, new users connected |
| **Waterfall** | water capacity, population served |
| **Agriculture** | productivity, irrigated hectares, agricultural income |
| **Training** | trained students and workers |
| **Healthcare** | facilities, staff and population reached |
| **Infrastructure** | km built, logistics capacity added |
| **Digital** | connected users and digitalized public services |
| **Employment** | direct and indirect jobs |
| **Local businesses** | local procurement share |
| **Migration** | long-term analysis, not simple correlation with landings |
| **Italian industrial impact** | exports, investments and presence of companies |
| **Sustainability** | project's ability to function after the initial phase |

This grid is much more important than a simple list of projects, because it allows us to measure the distance between the political objective and the material result.


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## Mattei's Plan and sovereignty: another form of external projection

As in the Italy-Albania Protocol, the issue of sovereignty returns here in a seemingly paradoxical form. The government presents the Plan as a tool to strengthen Italy's capacity to govern energy, migration, and Mediterranean relations, but to achieve this result, it must necessarily increase the level of cooperation with African states, European institutions, multilateral banks, and international investors.

Italy is therefore seeking to become more autonomous through a denser network of relationships.

This is not just an apparent paradox.

It is one of the fundamental characteristics of contemporary sovereignty.

A medium-sized European country can broaden its options not by isolating itself, but by building **relationships that are sufficiently diversified to prevent a single dependency from becoming dominant** .

## From Mediterranean centrality to African centrality

The Mattei Plan also broadens the geographical conception of the Italian Mediterranean. In previous energy chapters, the Mediterranean was primarily seen as a space through which Algerian gas, Libyan flows, and LNG routes pass.

With the Plan, that space expands.

Italian politics looks to the Horn of Africa.

To East Africa.

To West Africa.

At the Lobito Corridor.

To the raw materials.

To future markets.

The notion of **an enlarged Mediterranean** thus ceases to be merely a diplomatic formula and becomes an attempt to describe an economic and strategic space linking Southern Europe, North Africa, the Sahel, the Horn of Africa, the Gulf, and sub-Saharan Africa.


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## The most important limitation: Italian administrative capacity

The success of the Plan, however, will also depend on an internal variable that runs through the entire book: the Italian state's ability to execute complex strategies.

Coordinating fourteen countries, numerous ministries, cooperation, companies, funds, the EU, the World Bank, and private investors requires a very high level of administrative capacity.

The risk is not only that resources are lacking.

It's that resources are being distributed across too many projects, that authorization times are being lengthened, that ministries are operating in parallel, and that central governance is failing to transform political direction into a coherent portfolio of interventions.

The Mission Structure was created precisely to reduce this risk.

But the existence of an office does not automatically guarantee coordination.

## The Mattei Plan as a test of the state's strategic capacity

For this reason, the Plan also represents a test of Italy's ability to conduct strategic policy in the fullest sense of the term.

A strategy is not a statement of objectives.

It is the ability to choose priorities, concentrate resources, coordinate tools and forgo less important interventions.

If each ministry continues to pursue its own programs independently and the Plan limits itself to applying a new label to existing initiatives, the transformation will be predominantly communicative.

If, however, the Control Room manages to concretely modify the allocation of resources, build integrated projects, and attract additional capital, the Plan could become a true innovation in Italian foreign policy.


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## The distinction between branding and capability

This is precisely where our methodological rule becomes crucial. The fact that a project is presented as part of the Mattei Plan does not prove that the Plan created that project.

Some initiatives may have started earlier.

Others may have been refinanced.

Still others may have been accelerated or coordinated by the new strategy.

To correctly evaluate the effect of the Plan, it is therefore necessary to distinguish between **financial additionality, strategic additionality and simple administrative reclassification** .

## Three different levels of additionality

| Type | Meaning |
|---|---|
| **Financial** | The Plan generates new resources that would otherwise not exist |
| **Strategic** | existing resources are coordinated differently |
| **Administrative** | initiatives already planned are simply brought back to the new label |

This distinction will be crucial when evaluating results in subsequent years.

## The Meloni government's European ambitions

On the political level, the Mattei Plan also allows the Meloni government to propose a specific division of European labor: Italy as a country that, thanks to its geographical position and its history of Mediterranean relations, can contribute to defining a continental strategy towards Africa.

The convergence with Global Gateway in 2025 suggests that some of this ambition has been recognised at European level, at least as a possibility for coordination. [55]

The challenge will be to determine whether Italy will actually be able to transform diplomatic capacity into project leadership.


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## The Mattei Plan is not just an African policy

Ultimately, the Plan must also be read as a measure of Italian domestic policy, because energy, industrial, and migration interests that directly impact the national economy depend on it.

- An African corridor could facilitate European access to raw materials.
- An energy plant can support Italian companies.
- A digital project can open markets.
- Greater economic stability can reduce some of the factors that drive migration.
- A new interconnection could transform Italy into a transit point towards Europe.
- African politics thus becomes part of the national economic strategy.

## The real question: what capacity will remain in ten years?

The historical judgment on the Plan will not depend on the number of summits organized nor the number of memoranda signed.

- It will depend on what is left.
- Operating power plants.
- Networks.
- Schools.
- Health centers.
- More productive agriculture.
- Trained workers.
- Stronger local businesses.
- Logistics corridors.
- Digital capabilities.
- Italian investments are rooted.
- More stable political relations.

If these capabilities exist, the Plan will have brought about a transformation.

If what remains are mainly agreements and announcements, it will have produced a predominantly diplomatic framework.


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## From border control to the construction of external conditions

The Mattei Plan thus complements the migration strategy analyzed in the previous section, but does so by shifting the time horizon. The Italy–Albania Protocol attempts to modify the immediate management of the flows.

The Mattei Plan attempts, at least in its political approach, to intervene **before the flow forms** , working on the economic and infrastructural conditions.

They are not replacement tools.

They operate on different timescales.

The first one acts on the procedure.

The second one claims to act on the context.

## Africa, energy and migration become a single strategic issue

This is probably the most important significance of Italy's new Africa policy. The government no longer considers energy, migration, and development as completely separate issues, but instead views them as components of the same geopolitical space.

- If North Africa is unstable, the energy risk increases.
- If the Sahel is unstable, migratory pressure and security risks increase.
- If infrastructure is lacking, economic opportunities diminish.
- If Europe doesn't invest, other players will occupy that space.
- If supply chains remain concentrated elsewhere, Europe's transition remains vulnerable.

The Mattei Plan attempts to respond to all these dimensions simultaneously.

This is its conceptual strength.

And it is also its main potential weakness, because **the more a strategy claims to solve different problems, the greater the risk that resources will be dispersed and that no objective will be pursued with sufficient depth** .

**The fundamental rule: declared strategy and realized capacity do not coincide**

The Mattei Plan therefore represents a real political decision, supported by a regulatory basis, dedicated governance, financial resources, growing integration with the European Global Gateway, and an expansion of the number of countries involved.

All this proves that it is no longer just a slogan.

But it still doesn't demonstrate the success of the Plan.

For this reason, judgment must remain strictly suspended on its final transformative capacity.

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- The institutional structures exist.
- The resources have been identified.
- Projects are starting to get funded.
- International partnerships are growing.

The real question is how much of this will turn into **infrastructure, human capital, production, jobs, and permanent economic capacity** .

It is the same distinction we have maintained for defense, energy and the PNRR.

**An announced program is not a capability.**

**An allocated resource is not a result.**

**A signed agreement is not a functioning infrastructure.**

In the Mattei Plan, more than in almost any other policy analyzed in this part of the book, time will therefore be the decisive judge.

Because the ambition is great: to transform Italy's Mediterranean location into a platform for relations with Africa capable of connecting energy security, development, industry, infrastructure, and migration.

If it works, it will represent one of the most important innovations in Italian foreign policy in recent decades.

If it doesn't work, it will above all be proof of how difficult it is to transform a **geopolitical vision into material capacity** .


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## Energy: Continuing diversification and transforming the emergency into a structural policy

On the energy front, the government led by **Giorgia Meloni** , which took office on October 22, 2022, has not produced a breakthrough comparable to that advocated in other areas of its political agenda. This is because the fundamental direction of supply security had already been defined in the months immediately following the Russian invasion of Ukraine by the Draghi government and was of such a nature that a change of direction would be impractical: rapidly diversify gas supplies, reduce dependence on the Russian Federation, increase LNG import capacity, enhance connections with Algeria and Azerbaijan, preserve storage, and simultaneously accelerate investments in renewables, efficiency, and networks capable of reducing the amount of fuel the country must purchase from abroad in the medium term. The Meloni government has therefore inherited a policy born as a response to the 2022 emergency and has progressively transformed it into a **more permanent energy security strategy** , partially modifying its language, broadening its Mediterranean dimension and attributing greater political centrality to the concepts of autonomy, diversification, technological neutrality and Italy's role as Southern Europe's energy hub.

This continuity is particularly evident in the infrastructure sequence. The agreement with Algeria to increase volumes through TransMed was concluded in April 2022; the TAP had already started commercial operations at the end of 2020 and had been quickly brought towards full utilization; the purchase of the two FSRUs destined for **Piombino and Ravenna** had been decided by Snam in the context of the 2022 crisis; the revision of the PNRR with the inclusion of the REPowerEU chapter, negotiated by the Meloni government, then transformed that emergency response into a framework of investments aimed at strengthening infrastructure, efficiency, networks and production capacity in a more permanent way. The Presidency of the Council itself, presenting the proposal for the revision of the PNRR in 2023, described REPowerEU as the tool through which to structurally pursue **competitiveness, security and energy autonomy** , explicitly linking these objectives to the ambition of strengthening Italy's role as the "energy hub of the Mediterranean". [61]

This formulation helps us understand the main difference in emphasis compared to the Draghi phase. In 2022, the priority was to prevent an interruption in Russian supplies from causing a physical gas crisis during the winter and simultaneously contain the economic cost of the price explosion; in the next phase, once the most immediate risk had been reduced, the issue became transforming diversification into a **structural system structure** , ensuring that Algeria, Azerbaijan, LNG, European interconnections, storage, and the progressive growth of renewables did not represent merely temporary solutions, but a new architecture in which no single supplier could regain the conditioning capacity that Moscow had in 2021.

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The role of the Minister of Environment and Energy Security **Gilberto Pichetto Fratin** was central in this second phase, because the ministry he led prepared the final update of the **National Integrated Plan for Energy and Climate** , transmitted to the European Commission on 1 July 2024. The updated PNIEC retains as its cornerstone the European objectives of decarbonisation, efficiency and growth of renewables, but incorporates in a much more explicit way than the previous version the geopolitical lesson of the energy crisis, considering security of supply, diversification and programmable low-emission technologies as components of the same problem. [62]

It is significant, in this respect, that already in the evaluation of the updated draft of the PNIEC of December 2023, the European Commission recognised Italy as **having a high level of ambition in the field of energy security** , underlining the presence of concrete measures for gas diversification and demand reduction, while at the same time formulating critical observations on other aspects of the Plan, including the adequacy of policies for building efficiency, energy poverty, innovation in clean technologies and climate adaptation. [63]

This combination is important for understanding the relationship between Rome and Brussels during the Meloni government, because it shows how the political conflict does not develop, in essence, between an Italy intent on exiting from European climate policy and a Commission committed to imposing it from the outside, but **within a shared framework** , in which the national government and the institutions of the Union can assign different priorities to technologies, timing and cost distribution without calling into question Italy's membership of the overall objectives of decarbonisation by 2030 and climate neutrality by 2050. The Commission published its final assessment of the updated Italian NECP on **28 May 2025** , maintaining the comparison on the level of national ambition compared to European targets and confirming that Italian energy policy continues to be judged within the Union's climate governance system. [64]


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## Meloni's energy policy: continuity and shifting emphasis

| Size | Continuity with the Draghi government | Evolution during the Meloni government |
|---|---|---|
| **Russian gas** | accelerated reduction of dependence | consolidation of the replacement in the medium term |
| **Algeria** | increase in flows started in 2022 | transformation into a pillar of Mediterranean policy |
| **Azerbaijan / TAP** | full use of the Azerbaijani route | consolidation and discussion on expansion |
| **LNG** | purchase of FSRU Piombino and Ravenna | entry into service and structural increase in capacity |
| **REPowerEU** | European response born during the crisis | integration into the revised PNRR |
| **Renewables** | acceleration as a gas replacement | integration into the NECP and the EU 2030 objectives |
| **Mediterranean Hub** | concept already present | greater centrality in the government narrative |
| **Nuclear** | not central to the 2022 response | explicit return to the post-2030 debate and planning |
| **Technological neutrality** | present in the European debate | greater national political emphasis |
| **Mattei Plan** | non-existent as a unitary framework | African energy inserted into a broader geopolitical strategy |

**Sources:** Presidency of the Council, MASE, European Commission. [61][62][63][64]

The table shows why it would be inappropriate to describe the post-2022 phase as a new energy policy entirely distinct from the previous one. The material structure of the system—gas pipelines, regasification plants, storage facilities, contracts, and networks—has implementation timeframes that are incompatible with short political changes, and therefore forces any government to operate within a strong infrastructure continuum; what can change more rapidly is **the hierarchy of priorities, the political language, and the timeframe** through which the instruments themselves are interpreted.


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## From Russian gas to the security of the energy system as a whole

The shift from emergency to structural policy is particularly visible in the progressive transformation of the concept of energy security. In 2022, the issue could be summarized in a relatively simple question: how can we rapidly replace the approximately thirty billion cubic meters of gas that Italy purchased from Russia in 2021? In the subsequent period, the question will broaden, because reducing that dependence is not enough if the system remains exposed to a different geographical concentration, excessively volatile LNG prices, insufficient networks, or a growth in renewables lacking storage and balancing capacity.

It is precisely this evolution that the updated PNIEC seeks to incorporate. The document no longer treats security solely as gas availability, but links it to electrification, efficiency, infrastructure, system flexibility and technological diversification; at the same time, the government places greater emphasis on the need to maintain programmable sources capable of supporting a system in which the share of intermittent generation is growing rapidly. [62]

This also explains why the term **"technology neutrality"** has become more frequent in the government's language. The wording does not imply that every technology must automatically receive the same public support or that all have the same environmental and economic profile, but it expresses the political preference for a framework in which the decarbonization objective is pursued while leaving open the possibility of using different low-emission technologies, including next-generation nuclear technologies, once they reach the levels deemed adequate for safety, industrial maturity, and economic viability.

## The return of nuclear power to the institutional debate

It is precisely on this point that one of the most recognisable differences emerges compared to the Italian energy policy of the previous decades. The PNIEC 2024 does not foresee the construction of large traditional nuclear power plants by 2030, but explicitly introduces the hypothesis that, in the subsequent period, **small modular reactors, advanced modular reactors and, in an even longer perspective, nuclear fusion** could contribute to the decarbonisation of the system together with renewables and other programmable low-emission sources. The document states that these options will have to be assessed after 2030 on the basis of technological maturity and safety and presents scenarios in which the introduction of a nuclear quota reduces the need to resort to gas-fired generation or bioenergy with $CO_2$ capture. [62]

The issue, initially placed mainly in the technical debate and in the PNIEC, subsequently became a concrete legislative initiative. In October 2025, the government presented a **draft law on sustainable nuclear energy** , aimed at building a new regulatory framework for the possible production of nuclear energy through modular and advanced

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technologies, waste management, safety and location of plants. The Chamber of Deputies approved the bill on **4 June 2026** , subsequently transmitting it to the Senate; as of September 2026, therefore, the Italian return to nuclear energy represents a legislative and programmatic choice in the process of being defined, **not a production capacity already available nor a decision to build already operational power plants** . [65]

The distinction is essential. The return of nuclear power to the Italian debate is politically significant because it changes the scope of technologies considered acceptable in the long-term strategy, but it should not be confused with a concrete contribution to energy security in the 2020s. Even assuming rapid regulatory and industrial development, the time required for design, authorization, construction, and commissioning places any material contribution on a later horizon.

## Nuclear power in the new Italian context: what exists and what doesn't yet exist

| Element | Situation in September 2026 |
|---|---|
| **Presence in the PNIEC** | **yes** , as a post-2030 option |
| **SMR / AMR considered** | **yes** , subject to maturity and confidence |
| **Fusion** | considered in a long-term perspective |
| **Delegation bill** | approved by the House on June 4, 2026 |
| **Commercial nuclear production** | **No** |
| **Construction sites for new reactors** | **No** |
| **Contribution to Energy Security 2022-2026** | **none in terms of physical generation** |
| **Current meaning** | strategic, regulatory and industrial |

**Sources:** PNIEC 2024; Chamber of Deputies. [62][65]

This distinction between political decision and material capacity is the same methodological rule used throughout the work: **a technology included in a strategy is not yet a technology available to the system** .


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## The Mediterranean as an element of continuity transformed into doctrine

The other characteristic of the Meloni phase is the more organic connection of energy security to Mediterranean and African policy. Algeria, Libya, the Azerbaijani corridor, LNG, the Mattei Plan, electricity infrastructure, and future hydrogen corridors are gradually being described not as independent dossiers, but as components of a strategy through which Italy can leverage its geographical location to become a hub between North African production, global markets, and European demand.

The transformation is primarily political, as much of the infrastructure already existed or had been decided upon before the government took office. What is changing is the attempt to transform the peninsula's geographical position into an **economic policy doctrine** , in which the Mediterranean becomes simultaneously an energy, industrial, migratory, and diplomatic space.

Energy security is therefore incorporated into the very architecture of the Mattei Plan described in the previous section: diversification does not simply mean purchasing gas elsewhere, but building long-term relationships with producing countries, developing infrastructure, progressively integrating renewables and new energy sources, and using the European dimension to increase the financial scale of the initiatives.

**The European Union remains the operational framework of Italian politics**

The increased emphasis on national energy autonomy, however, does not imply a departure from the European regulatory framework. The NECP exists precisely because all member states are required, under the Regulation on the Governance of the Energy Union, to define and update their national plans and submit them for assessment by the Commission. Italian policy therefore continues to be formulated through a process in which Rome defines technologies, investments, and trajectories, while Brussels assesses their consistency with common objectives.

The Commission's assessment of May 2025 is a concrete demonstration of this relationship. It is not a simple external political opinion, but a component foreseen by the European climate governance system, in which targets for emission reductions, renewables, efficiency, interconnections and security are assessed through common parameters. [64]

Conflict, when it exists, develops **within the system** , not outside it.

**Work and employment: favorable results with an unsolved productivity problem**

If energy policy presents a relatively evident infrastructural continuity, the labor market offers the Meloni government one of the most politically significant macroeconomic results of the legislature, because the increase in employment and the reduction in

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unemployment have occurred in a phase of weak economic growth, allowing the executive to indicate the employment dynamics as one of the most favorable elements of its economic balance sheet. The data is real and must be recognized in its quantitative dimension: according to ISTAT, on **average in 2025 the employed increased by approximately 185,000 units compared to 2024** , reaching historically high levels, while the employment rate of the population between 15 and 64 years of age rose to **62.5 percent** and the unemployment rate fell to **6.1 percent** , four tenths less than the previous year. [66]

**24.121 million** employed people , while the seasonally adjusted unemployment rate had further decreased to 5.6 percent; the average annual figure, however, remains at 6.1 percent, coinciding with the estimate subsequently used by the European Commission. [66]

The dynamics appear even more significant when compared with that of the product. ISTAT estimates that real GDP grew by only **0.5 percent in 2025** , while employment in terms of work units increased more rapidly; the European Commission, in its spring 2026 forecasts, also indicates real GDP growth of 0.5 percent in 2025 and 0.5 percent in 2026, with a moderate acceleration to 0.6 percent in 2027, while the unemployment rate is expected to be **5.7 percent in 2026 and 2027.** [67]

## Italy: robust employment, weak growth

| Indicator | 2024 / 2025 / forecast |
|---|---|
| **Real GDP growth 2024** | **+0.7%** |
| **Real GDP growth 2025** | **+0.5%** |
| **Average employed 2025** | **+185,000** compared to 2024 |
| **Employment rate for 15-64 year olds 2025** | **62.5%** |
| **Average unemployment rate 2025** | **6.1%** |
| **Unemployment rate 4th quarter 2025** | **5.6%** |
| **Expected unemployment 2026** | **5.7%** |
| **Commission's forecast GDP growth 2026** | **+0.5%** |
| **Commission's forecast GDP growth 2027** | **+0.6%** |

**Sources:** ISTAT, European Commission. [66][67]

This combination may seem, at first glance, entirely favorable: more people are working, unemployment is falling, and GDP continues to grow. From a social and distributional perspective, an increase in employment is indeed a significant achievement, as it means


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greater participation in income generation, a broader contribution base, and less dependence on transfers compared to a scenario in which the same weak growth were accompanied by rising unemployment. From a structural perspective, however, the picture becomes more complex, because **when hours worked grow faster than value added, output per hour declines** .

This is precisely what Italian data has shown in recent years.

## The Italian employment paradox: more jobs, but not enough added value

Labor productivity should not be confused with labor intensity or the individual effort of workers. It is an economic measure that relates the value added produced to the labor input used, usually expressed in hours worked. If an economy increases the total number of hours worked by 2 percent but value added grows by only 0.5 percent, hourly productivity decreases, regardless of the quality or effort of the people employed.

In **2024** , according to the most recent ISTAT revision, the added value of the market sectors considered in the productivity statistics increased in volume by **0.4 percent** , while the hours worked grew by **2.3 percent** ; the result was a decrease in labor productivity of **1.9 percent** , which already followed a contraction of 2.7 percent in 2023. [68]

The data is particularly relevant because it is part of a very long-term problem. Between **1995 and 2024** , Italian labor productivity grew on average by just **0.3 percent per year** , compared to 1.5 percent in the European Union, 1.2 percent in Germany and 1.0 percent in France. [68]

The ISTAT 2026 Annual Report also shows that, in **2025** , the real added value per hour worked of the entire Italian economy exceeded the 2007 level by just **1.4 percent** , against increases of over 7 percent in France, 11 percent in Germany and close to 18 percent in Spain. [69]


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## Labor productivity: Italy's structural delay

| Indicator | Italy | Comparison |
|---|---|---|
| **Average annual productivity growth 1995-2024** | **+0.3%** | EU27 **+1.5%** |
| **Germany 1995-2024** | — | **+1.2%** |
| **France 1995-2024** | — | **+1.0%** |
| **Spain 1995-2024** | — | **+0.5%** |
| **Italian labor productivity 2023** | **-2.7%** | strong contraction |
| **Italian labor productivity 2024** | **-1.9%** | hours +2.3%, VA +0.4% |
| **VA per hour worked 2025 compared to 2007** | **+1.4%** | France >7%; Germany >11%; Spain ~18% |

**Sources:** ISTAT. [68][69]

These numbers make it clear why rising employment cannot be used as sufficient evidence of a solution to Italy's structural problems. The improvement in the labor market is real, but the quality of long-term growth depends on the ability to simultaneously increase the number of people employed and **the value each hour of work contributes to producing** .

## Employment and productivity are not alternative objectives

The distinction does not imply that the government should have chosen between higher employment and higher productivity, because the two can grow together, and in the most dynamic economies they normally do. The Italian problem is precisely the opposite: for a long time, the country simultaneously had lower employment rates than its European partners and stagnant productivity, a particularly penalizing combination because it reduces both the number of people contributing to production and the amount of value produced per unit of labor.

The increase in employment in recent years corrects part of this imbalance, but not the second.

This distinction takes on a particular significance for the Meloni government because employment growth has become one of the executive's main claims, while productivity remains one of the system's most persistent weaknesses. The European Commission, in its reports on Italy, continues to consider low productivity a central element of the country's economic vulnerabilities, linking it to the small average size of businesses, the relatively slow accumulation of human capital, territorial disparities, digitalisation and innovative capacity. [70]


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## Why productivity matters for real wages

The relationship between productivity and wages is crucial. In the long run, an economy can sustain lasting increases in real wages only if the value produced by labor increases; wage increases that consistently exceed productivity tend, depending on economic conditions, to translate into margin compression, higher inflation, a loss of competitiveness, or a reduction in employment.

This connection is particularly important after the inflationary shock of 2022, because Italian wages have suffered a sharp loss of purchasing power. The ISTAT 2026 Annual Report indicates that, despite the recovery that occurred in the two-year period 2024-2025, **the purchasing power of wages remained 8.6 percent lower in 2025 than in 2019.** [69]

Employment growth therefore reduces a form of social vulnerability, but without a recovery in productivity it becomes difficult to produce the sustained growth in real wages that would allow the improvement in the labor market to be consolidated.

## Quantity of employment and quality of growth

| Variable | Why it's important |
|---|---|
| **Number of employed people** | expands income, contributions and inclusion |
| **Employment rate** | measures how much of the working age population participates |
| **Unemployment** | measures the active part that looks for work without finding it |
| **Hours worked** | measures the amount of labor input |
| **Hourly productivity** | measures the value produced per hour |
| **Real wage** | measures the purchasing power of labor |
| **Investment per employee** | influence available capital and technology |
| **Human capital** | influences innovative capacity and productivity |

The real structural objective cannot therefore simply be “more employed”, but **more employed in an economy capable of producing more value per employee and per hour worked** .


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## The composition of employment matters as much as the total number

A further element concerns the composition of the jobs created. In 2025, the increase in employed people was associated with a growth in permanent employees and self-employed workers and a decrease in fixed-term employees, a dynamic that contributes to making the employment picture qualitatively different from growth based exclusively on temporary contracts. In the fourth quarter of 2025, for example, the quarterly increase in employed people derived from **+76,000 permanent employees and +21,000 self-employed workers** , while fixed-term employees decreased by 60,000 units. [66]

This fact is relevant, but it does not change the underlying production problem, because a more stable contract improves individual economic security but does not automatically guarantee that the firm has increased capital, innovation, or technology per worker.

This is where PNRR, investments, education and digitalisation come back.

## The PNRR as a possible bridge between employment and productivity

The 2023-2026 phase has an exceptional feature: Italy is experiencing a relatively strong growth in public and infrastructure investments thanks to the final phase of implementation of the PNRR. In 2025, ISTAT indicates an acceleration of investments and the European Commission attributes an important part of the support for growth in 2026 to the interventions linked to the Recovery and Resilience Plan. [67]

The key question will therefore be whether these investments will increase productivity after the spending phase is concluded. If the NRRP generates better networks, digitalization, human capital, and administrative capacity, employment growth could gradually be accompanied by increased production for now. However, if a significant portion of investments generates primarily temporary demand, the slowdown following the end of the Recovery and Resilience Facility risks exacerbating the structural problem.

This is the real economic test of the Meloni phase.


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## Taxation: From a flat tax as a policy direction to selective interventions

Fiscal policy offers another particularly useful example for understanding the gap that can exist between electoral programme and government action when a coalition comes into contact with budgetary constraints. However, it is necessary to formulate the starting point precisely, because the **centre-right's joint programme for 2022 did not formally promise the immediate application of a single tax rate to all personal income** , as an overly synthetic reconstruction might suggest; rather, it indicated the **extension of the flat tax for VAT numbers with a turnover of up to 100,000 euros** , a flat tax on increases in income compared to previous years and a "prospect of further expansion for families and businesses". [71]

This distinction is historically important. The flat tax was certainly one of the coalition's ideological and programmatic guiding principles, especially for **the League and Forza Italia** , but the 2022 joint program had already translated the objective into a gradual trajectory rather than an immediate replacement of the entire progressive personal income tax with a single rate.

The Meloni government's actions have followed precisely this incremental approach, failing to achieve a generalized proportional tax on family incomes in the 2022-2026 period.

### The first budget law and the extension of the flat-rate scheme

One of the first fiscal interventions of the government was the increase from **65,000 to 85,000 euros** of the threshold of revenues or compensation within which self-employed workers and small entrepreneurs can access the flat-rate regime, characterised by a substitute tax for IRPEF, additional taxes and IRAP. [72]

The measure represented a partial implementation of the coalition's programmatic direction, but it remained limited to a specific category of taxpayers and did not modify the progressive system of personal income tax applied to the majority of income from employment and pensions.

This difference is fundamental to understanding the evolution of tax policy: **the flat tax has developed mainly through substitutive and selective regimes** , while ordinary taxation has continued to be progressive.

### The IRPEF reform opts for a reduction in tax brackets, not a flat rate.

The broader reform of personal taxation followed a different direction. The government, with the Minister of Economy **Giancarlo Giorgetti** and the Deputy Minister **Maurizio Leo** , progressively reduced the number of IRPEF brackets and stabilized a **three-rate structure** , making it structural with the 2025 budget law. The 2025 Public Finance Document explicitly recalls that the same law made the three-rate system permanent and stabilized the reduction of the tax wedge on labor, extending its effects also to a new

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group of employed workers with incomes between 35,000 and approximately 44,000 euros. [73]

From a financial point of view, the package is considerable. According to parliamentary documentation, the stabilization of the three IRPEF rates and the structural reduction of the wedge entail **costs in the order of 18 billion euros** , with benefits estimated for approximately **33 million individuals** , an overall average benefit of approximately 550 euros and, for employed workers, an average benefit indicated in the order of 730 euros for a group of 21.8 million taxpayers. [73]

The 2025 budget law also quantifies the lower revenues resulting from the stabilization of the new IRPEF structure at approximately **4.8 billion euros in 2025 and the annual tax cost of the mechanism aimed at reducing the tax wedge for employed workers at approximately 8.4 billion euros** . [74]

## The Meloni government's fiscal trajectory

| Intervention | Nature | Flow rate |
|---|---|---|
| **Extension of the flat-rate scheme** | substitute tax | threshold raised to **€85,000** |
| **Incremental flat tax** | selective / temporary measure in the forms provided for | does not replace the general IRPEF |
| **Reduction of IRPEF tax brackets** | general reform | **3-rate** stabilized structure |
| **Wedge cut** | benefit on dependent work | made structural in 2025 |
| **Extension of benefits** | low-middle and middle incomes | new audience up to approximately **€44,000** |
| **Universal flat tax** | — | **not introduced** |
| **IRPEF system** | progressive | maintained |

**Sources:** 2022 centre-right programme, Chamber of Deputies, Government, Revenue Agency. [71][72][73][74]

The gap between the planned expansion of the flat tax and the system actually implemented during the legislative session is therefore documentable, but it must be described correctly: the government has not completely abandoned the logic of substitute taxes, because it has extended or used it in specific segments, while it has chosen to concentrate the largest share of available resources on **reducing the tax wedge and simplifying the progressive personal income tax** .


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## Why the wedge offers greater budgetary control than a general flat tax

The choice can also be explained through the mathematical structure of the two instruments. A general reform of the personal income tax (IRPEF) that replaces progressive rates with a single rate produces revenue effects that are difficult to separate from the choice of the new rate level, the no-tax area, deductions, and the methods used to protect low-income earners; a rate that is too low generates a very large revenue loss, while a rate high enough to preserve revenue reduces the benefit for a significant portion of taxpayers.

A wedge cut can instead be calibrated much more precisely to a specific income bracket.

This does not automatically make the instrument economically superior, because the wedge also has costs, thresholds and possible distortions, but it makes it **more controllable from the point of view of public finances** .

It is precisely this characteristic that makes it compatible with a phase in which the government must simultaneously support families, finance the PNRR, progressively increase defense spending, and bring the deficit back below European parameters.

## The deficit constraint becomes more stringent after 2023

The Meloni government's fiscal policy must in fact be read within the context of the consolidation of public accounts. After the years of the pandemic and the cost of energy measures, Italy has entered the new phase of European fiscal rules with a still extremely high debt and with the need to bring the deficit back below **3 percent of GDP** . The European Commission estimates that the deficit will have fallen to **3.1 percent in 2025** and forecasts a further improvement to **2.9 percent in 2026 and 2027** , while the debt continues to remain at very high levels. [75]

The constraint does not mechanically determine every fiscal decision, because the government retains the political power to choose how to distribute resources and coverage, but it restricts the number of options that can be financed simultaneously.

This is the essential point.

A large permanent reduction in revenue requires a large permanent compensation.


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## The flat tax and the problem of progressivity

There is also a broader constitutional and economic issue. Article 53 of the Constitution establishes that the Italian tax system be based on the principles of **progressivity** , a principle that does not necessarily require that each individual tax have progressive rates, but requires that the system as a whole be so. A generalized flat tax should therefore be accompanied by deductions, tax credits, a no-tax area, or other mechanisms sufficient to maintain overall progressivity.

This means that the expression “flat rate” describes only part of the reform and that the final cost would depend on a much more complex design.

Even historically, the proposals formulated by the centre-right have recognised this need through systems of deductions or exemptions for lower incomes. [76]

## The coalition has never had a single flat tax

It's also important to distinguish between party positions. Brothers of Italy, the League, and Forza Italia have shared the general goal of reducing the tax burden and progressively expanding proportional tax systems, but they have not always proposed the same rate, tax base, or timeline.

For this reason, talking about the “flat tax promise” as if there were a single, perfectly defined project risks oversimplifying the political framework.

The coalition had a **common direction** , not necessarily a single technical model.

This helps explain why the concrete implementation took the form of a combination of a flat-rate regime, reduction of tax brackets, deductions and reduction of the tax wedge.

## The political function of cutting the wedge

The decision to concentrate a significant portion of resources on earned income also has a clear distributive rationale. The tax and social security wedge measures the difference between the overall costs incurred by the company and the net income received by the worker and has been one of the most debated issues in the Italian labor market for years.

Reducing its weight can increase disposable income without necessarily requiring an equivalent increase in gross costs for the firm.

From the government's perspective, the instrument therefore allows it to simultaneously pursue three objectives: supporting purchasing power, increasing the affordability of work, and concentrating resources on specific categories of taxpayers.

The government documentation indicates the stabilization of the tax wedge cut and the three rates as one of the main tax interventions of the legislature. [77]


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## But tax cuts don't solve productivity

The connection with the previous chapter is crucial, however. Reducing taxation can increase workers' net income, but it does not automatically increase the value added produced per hour. If the goal is sustained real wage growth, fiscal policy must be accompanied by investment, human capital, and productivity.

A worker can receive a tax benefit of a few hundred euros per year.

It is a real increase in disposable income.

But if the system's productivity remains stagnant, the state cannot indefinitely repeat the same operation through tax cuts without finding new coverage.

Tax policy can redistribute income.

Productivity creates the economic basis upon which that income can grow steadily.

## The link between the labor market and fiscal policy

This is precisely where employment and taxation must be analyzed together. Employment growth expands the taxpayer and contributor base and can support public revenues even without raising tax rates; this makes it easier to finance reductions in the unit burden. However, if employment growth is not accompanied by increased productivity and higher wages, the expansion of the tax base has its limits.

The Meloni government's improvement in employment therefore produces **positive fiscal space** , but weak productivity limits how much this space can become structural.

## New European governance increases the value of permanent coverage

Since 2024, the European Union has also introduced a new fiscal governance model based more heavily on **net spending trends** and multi-year adjustment paths. This means that large, permanent reductions in revenue without compensatory measures can complicate compliance with the public finance path, even when the current nominal deficit appears under control.

The constraint is particularly relevant for Italy because public debt remains above 130 percent of GDP.

Fiscal policy cannot therefore be evaluated solely in terms of consensus or annual redistribution.

It must be sustainable over a multi-year horizon.

## The real comparison is not between a flat tax and no tax cuts

A potential mistake in the political debate is to portray the alternative as if the government had to choose between implementing a flat tax or not reducing taxes at all. The reality is

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different: the government has used a significant amount of resources specifically to reduce the tax burden, but has chosen tools other than a flat, generalized rate.

The cost of stabilizing the three tax brackets and the wedge — about 18 billion according to government documentation — demonstrates that this is not a fiscally marginal policy. [73]

The question is rather about **the distribution of the reduction** .

A flat tax produces a certain structure of benefits.

Cutting the wedge produces another one.

The decision is therefore economic and distributive, as well as political.


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## Energy, labor and taxes belong to the same capacity constraint

The three dossiers analyzed in this section may appear very different, but they are linked by a common logic.

Energy security requires investment.

The labor market requires productivity growth.

Tax cuts require a revenue base broad enough to make them sustainable.

All three policies therefore depend on the economy's ability to produce value and the state's ability to transform it into available resources.

### Three policies, one constraint

| Politics | Immediate result | Structural problem |
|---|---|---|
| **Energy** | less dependence on Russia | cost, networks, technology and new dependencies |
| **Employment** | more employed and less unemployment | insufficient productivity |
| **Tax** | lower workload and some self-employed | revenue sustainability |
| **PNRR** | more investments | transform them into potential growth |
| **Defense** | planned capacity increase | multi-year fiscal sustainability |

The Meloni government's economic policy must therefore be read through a balance that crosses all these dimensions: **achieving visible results in the present without reducing the financial capacity needed to address the structural problems of the future** .


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## Continuity with Draghi is greater where infrastructure constrains choice

Energy is the sector where this continuity appears strongest, precisely because infrastructure and multi-year contracts reduce the scope for sudden changes. A government can modify its language, accelerate a terminal, or include nuclear power in its strategy, but it cannot replace a gas pipeline in a few months or radically alter the energy mix.

This element explains why the Italian political alternation produces discontinuities in some sectors that are much more limited than the electoral comparison suggests.

Infrastructure creates continuity.

## At work, the government also benefits from previous dynamics

The same caution must be applied to employment. The improvement observed during the Meloni government is a temporal consequence of its experience and represents an economic achievement of that period, but it cannot be attributed entirely to a single government reform, because the labor market is influenced by the post-pandemic recovery, investments, incentives introduced at different times, demographic trends, the National Recovery and Resilience Plan (NRRP), and business decisions.

that employment increased **during** the Meloni government.

To say that it increased entirely **because** of government policies would require a much more complex causal identification.

This distinction is fundamental to the rigor of the work.

## In taxation, however, the programmatic discontinuity is measurable

In the tax sector, the relationship between program and results can be measured more directly. The 2022 program explicitly outlined a path to expanding the flat tax; the system in force in 2026 instead maintains a progressive three-rate personal income tax (IRPEF), supported by substitute regimes and a structural reduction in the tax wedge.

This distance is a verifiable fact.

The political judgment on whether it represents pragmatism, programmatic renunciation, or necessary adaptation is instead up to the voters and political actors to evaluate.

The book must stop before that judgment.


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## The common bond: growth

The conclusion, once again, leads back to the central problem of the Italian economy. If GDP and especially productivity grow sufficiently, it becomes easier to simultaneously support energy security, tax cuts, welfare, investment, and defense. If the economy grows slowly, any additional priorities more quickly conflict with existing ones.

This is why the labor market data, although favorable, cannot close the discussion.

**The number of people employed has increased; the question is how much value the economy can produce through that work.**

And it is precisely on this point that Italy's long-standing weakness continues to resurface, through governments of very different orientations and demonstrating that some of the country's fundamental difficulties run deeper than a single legislature.


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## Pensions: The promise of overcoming the Fornero law meets demographics.

Pension policy is perhaps the most obvious case in which the transition from opposition to government forces a political force to confront constraints that cannot be changed through a simple legislative decision. The Italian pension system is not simply a set of rules regarding retirement ages, but a major component of public finances, a mechanism for intergenerational redistribution, and, above all, a structure profoundly influenced by demographics. The center-right coalition had long criticized the 2011 reform associated with **Elsa Fornero** , arguing in various ways for the need to introduce greater flexibility regarding retirement and to ease some of the more rigid automatic mechanisms inherited from the sovereign debt crisis. once in government, however, the executive led by **Giorgia Meloni** , with **Giancarlo Giorgetti** at the Ministry of Economy and Finance and **Marina Calderone** at the Ministry of Labour and Social Policies, kept the fundamental core of the ordinary system intact, intervening above all through derogations, temporary windows, selective restrictions and incentives to remain in work, until arriving in 2026 at a framework in which some of the main forms of early retirement introduced or extended in previous years have no longer been renewed. [78] ( inps.it )

The key point is that the so-called "Fornero reform" does not coincide with a single age threshold that can be easily abolished, but with a broader transformation of the pension architecture initiated by Legislative Decree no. 201 of 2011, later converted into Law no. 214, which accelerated the transition towards higher retirement requirements, strengthened the connection with life expectancy and made the contributory method central to the calculation of benefits. In the system in force in **2025-2026** , the ordinary old-age pension generally requires **67 years of age and at least 20 years of contributions** , while the ordinary early pension can be achieved with **42 years and 10 months of contributions for men and 41 years and 10 months for women** , without an ordinary minimum age requirement but with the expected start date. [79] ( inps.it )

These requirements form the backbone of the system and were not abolished during the Meloni legislature. On the contrary, from **2027** the adjustment to the increase in life expectancy will come into force again, albeit gradually: INPS communicated in March 2026 that the old-age pension will rise to **67 years and one month in 2027 and to 67 years and three months in 2028** , while the ordinary early pension will require respectively 42 years and 11 months and 43 years and one month for men, 41 years and 11 months and 42 years and one month for women, with specific exemptions for some categories of arduous, wearing and early workers. [80] ( inps.it )

This political data is important because it shows that the current legislature has not resulted in a general overhaul of the pension system built after 2011, but rather a more

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selective management of exceptions. The evolution of the main flexibility measures demonstrates this particularly clearly.

## The trajectory of the main pension flexibility measures

| Measure | Situation in 2025 | Situation in 2026 | Prevailing logic |
|---|---|---|---|
| **Quota 103** | Access is available at 62 years of age and with 41 years of contributions for those who meet the requirements in 2025. | **Not extended** ; can still be exercised by those who have met the requirements by December 31, 2025 | progressive exhaustion |
| **Woman Option** | extended with very selective requirements and 35 years of contributions | **Not extended** ; remains accessible only to those who have met the requirements by December 31, 2024 | strong selectivity |
| **Social APE** | extended until December 31, 2025 | **extended until December 31, 2026** , with unchanged requirements | selective protection of vulnerable categories |
| **Ordinary early retirement** | 42 years and 10 months for men; 41 years and 10 months for women | unchanged in 2026 | ordinary structure |
| **Incentive to postpone** | extended to Quota 103 and ordinary early retirement | further enhanced as a tool for permanence | incentive to stay at work |

**Sources:** INPS, Ministry of Labor. [78][81][82] ( inps.it )

The table highlights a transformation that goes in the opposite direction to a generalized liberalization of expenditure. In 2025, the budget law had still extended **Quota 103, Opzione Donna and APE Sociale** , while maintaining more restrictive requirements than the original formulations of some of these measures; in 2026, however, the government confirmed only APE Sociale, while **Quota 103 and Opzione Donna were not extended** , signaling a shift from generalized flexibility to a protection concentrated on categories considered worthy of protection and, at the same time, to incentives designed to retain in the labor market for longer those who had already met the requirements for retirement. [78][81] ( inps.it )

The measure that makes this reversal of perspective most evident is precisely the **incentive to postpone retirement** , often referred to in political debate as the " Maroni

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bonus". The mechanism allows workers who have met certain pension requirements and choose to continue working to receive the share of social security contributions due directly in their paycheck, increasing their net income. The 2025 budget law has extended the scope of the incentive to include those who met the requirements for the ordinary early pension and has provided for tax exemption on the sums paid; in 2026 the measure was confirmed and further enhanced for those who choose to postpone their retirement. [82] ( lavoro.gov.it )

The economic message is very different from that summarized by the slogan of "overcoming the Fornero law": **the system continues to allow some early retirement, but at the same time it is increasingly actively seeking to increase job retention** , because the reduction in the working population and the increase in average life expectancy make it more expensive to finance longer pension periods through a contributory base that tends to shrink.

## The problem is not just how many people retire, but how many remain to finance the system

The main reason for this caution is demographic. The Italian public pension system operates predominantly according to a pay-as-you-go system: contributions paid today by workers and employers essentially finance the pensions paid today, while workers' future entitlements are linked in accounting to contributions paid through the contributory method. Consequently, sustainability depends not only on the absolute number of pensioners, but on the ratio between the employed population, wage bill, contribution rates, retirement age, and average duration of benefits.

In **2025, INPS registered 15,435,694 pensioners** , of which approximately 7.43 million were men and 8.01 million women. The number was down compared to the 15.77 million of 2022, but it remained naturally huge in relation to the active population and represented one of the most important aggregates of the entire welfare system. In the same year, the new social security pensions paid out were 834,658, down compared to the 861,949 of 2024 and the 878,369 of 2022, a trend that the INPS Steering and Supervisory Board itself also links to the restrictions progressively introduced in the possibilities of early retirement. [83] ( inps.it )

The most significant data concerns the derogation measures. According to INPS, the beneficiaries of **Opzione Donna** have gone from 26,427 in 2022 to just **3,860 in 2025** , while the forms of early retirement attributable to the "quotas" have registered a strong contraction and Quota 103, with the most restrictive contributory discipline, has produced only **5,643 treatments in 2025.** [83] ( inps.it )

These numbers describe a very different reality from that suggested by a narrative of generalized early retirement. The windows exist, but the groups have significantly reduced, while the actual average retirement age tends to progressively increase. In the

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same INPS report, the average retirement age for women rises from **64.4 years in 2022 to 65.4 in 2025** , while that of men goes from 63.7 to 64.1 years. [83] ( inps.it )

## The Italian pension system between flexibility and restriction

| Indicator | 2022 | 2025 |
|---|---|---|
| INPS pensioners | 15.77 million | 15.44 million |
| New social security pensions paid out | 878,369 | 834,658 |
| Beneficiaries of the Woman Option | 26,427 | 3,860 |
| Quota 103 / corresponding shapes | — | 5,643 treatments |
| Average retirement age for women | 64.4 years old | 65.4 years old |
| Average retirement age for men | 63.7 years old | 64.1 years old |

**Source:** INPS. [83] ( inps.it )

The trajectory is politically significant because it demonstrates one of the most typical transformations of the transition from opposition to government: criticism of the rigidity of pension rules remains present in political language, but concrete action tends to progressively restrict exemptions when their extension entails permanent costs and increases the number of years during which the system must provide benefits.

**The contributory method and the legacy that no government can ignore**

The second constraint is represented by the progressive completion of the transition to the **contributory system** , initiated with the Dini reform of 1995 and subsequently accelerated by the 2011 reform. The contributory method links the amount of the pension more closely to the value of the contributions paid and to the retirement age, because the accumulated amount is transformed into an annuity through coefficients that reflect the expected duration of the benefit.

The OECD observes that the Italian transition has been very slow precisely because of the numerous transitional clauses that have protected for a long time the generations with contributory seniority prior to the reform, but underlines that **in 2025 over 90 per cent of new pensioners had already had a pension calculated with contributory rules for more than half of their career** and that the NDC system will be fully applicable to almost all new pensions around 2040. [84] ( oecd.org )

This means that the debate over retirement age cannot be separated from that over the amount of the benefit. Early retirement from the contributory system tends, given the same amount, to reduce the benefit, because the contribution capital must finance a greater number of expected years of retirement. A more flexible policy is therefore

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possible, but it necessarily involves a choice between public costs, a lower individual benefit, or higher contribution requirements.

There is no formula that can eliminate all three constraints at the same time.

## Italian pension spending is already among the highest in the OECD

The third reason for prudence is fiscal. Italy allocates a very high share of GDP to pensions compared to most advanced economies. According to the OECD, Italian public pension expenditure stands at around **16 percent of GDP** , one of the highest levels in the entire organization and second only to that of Greece in some recent comparisons; the OECD itself also underlines that at least a quarter of expenditure is not covered directly by pension contributions and must therefore be financed through other public revenues. [84] ( oecd.org )

Projections make the problem even more evident, because the pressure is not likely to decrease immediately. The estimates collected in the 2025 edition of *Pensions at a Glance* indicate that Italy will have public pension expenditure equal to **16.1 percent of GDP in 2025** , set to rise to 16.6 percent in 2030 and reach **17.2 percent in 2035** , before a subsequent gradual decrease linked to the full implementation of the contributory rules and demographic transformation. [85] ( oecd.org )

## Pension pressure in the next decade

| Year | Public pension expenditure / GDP |
|---|---|
| 2023-2024 | 15.5% |
| 2025 | 16.1% |
| 2030 | 16.6% |
| 2035 | 17.2% |
| 2040 | 17.1% |
| 2050 | 15.5% |
| 2060 | 13.7% |

**Source:** OECD, *Pensions at a Glance 2025* . [85] ( oecd.org )

The table explains why the decade between 2025 and 2035 is particularly delicate. The system isn't simply facing an abstract long-term problem; it's going through a phase in which pension spending tends to increase precisely as the country must finance defense, healthcare, the energy transition, infrastructure investments, and interest on a very high public debt.


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In this context, a general and permanent reduction in the effective retirement age would produce a very different cost than it would in a country characterized by greater population growth, a more favorable ratio of workers to pensioners, and lower debt.

## The active population is the true denominator of social security

The OECD estimates that the Italian working-age population could decrease by **more than a third by 2060** , a contraction that would simultaneously reduce the contribution base and the potential for GDP growth if it were not compensated by greater employment, productivity, regular immigration and labour participation of categories that are currently underutilised. [84] ( oecd.org )

This projection helps us understand why pensions cannot be considered exclusively as an individual right to retire, but must also be analyzed as a macroeconomic relationship between generations.

The more people retire early, the fewer taxpayers there are.

The longer pensioners live, the longer the duration of the benefit.

The slower productivity grows, the smaller the wage bill on which contributions are paid.

The Italian pension problem is therefore, to a large extent, a problem of **demographics and growth** .

## Option Woman: From general flexibility to the protection of restricted categories

The evolution of **Opzione Donna (Women's Option)** is a particularly clear example of increased selectivity. The measure was originally designed to offer early access to retirement for female workers in exchange for the benefit being recalculated as fully contributory, but subsequent budget laws have progressively limited access.

For the version foreseen by the 2025 budget law, INPS required at least **35 years of contributions and 61 years of age by 31 December 2024** , with age reductions linked to the number of children, but above all it limited access to specific categories, including caregivers, workers with a disability of at least 74 percent and employees or those fired by companies affected by crisis tables. [86] ( inps.it )

The measure was not extended in 2026.

The path is therefore extremely clear: from a relatively broad instrument of female flexibility to a **residual and then non-renewed instrument** .


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## Quota 103: flexibility introduced, then progressively made less attractive

The same dynamic applies to Quota 103. In 2025, the flexible early pension continued to require **62 years of age and 41 years of contributions** , but the architecture of the measure was now much less favorable than the previous forms of “quota” retirement, especially due to the contributory calculation and the envisaged windows.

In 2026 Quota 103 was not extended, but it can still be exercised by those who had met the requirements within the deadline. [78] ( inps.it )

Here too, the direction is clear: the government has not retroactively abolished accrued rights, but has stopped indefinitely extending a window that anticipated exit compared to the ordinary structure.

## Social APE: flexibility remains where the legislator identifies specific weaknesses

The measure that will survive in 2026 is the **Social APE** , extended until 31 December of the same year with an age requirement of **63 years and five months** and with the usual conditions linked to vulnerable categories, arduous work, disability or assistance to family members. [78][87] ( inps.it )

The choice highlights the increasingly prevailing logic: not to generally lower the retirement age, but to maintain **targeted exemptions for those who find themselves in conditions considered objectively more difficult** .

## The transition from opposition to government

The political transformation is therefore substantial, but it doesn't require a judgment of inconsistency to be described. Over the years, the coalition had built up a strong criticism of the rigidity of the Fornero reform; once in government, it utilized some flexibility but did not modify the core of the system and, gradually, reduced the scope of some exemptions.

The strongest explanation is not necessarily psychological or political.

It's structural.

When a force governs, it must finance the pension not only of the worker who wishes to retire early, but of the entire system.

And this is where demographics impose their limits.

## Pensions and the labor market become the same problem

The shift toward incentives for deferred retirement also shows that social security and the labor market are becoming two sides of the same demographic problem. Italy needs to increase the employment rate of young people and women, but at the same time, it

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has an interest in **retaining older workers in the labor market longer** , especially those with hard-to-replace skills.

Pension policy is therefore no longer just a question of spending.

It becomes a policy of job supply.

## The real alternative to rigidity is not necessarily to anticipate everyone

The lesson of this period is that greater flexibility doesn't necessarily mean lowering the same threshold for everyone. It could mean differentiating the requirements based on the arduousness of the job, family circumstances, disability, contribution history, or the individual's willingness to accept a lower pension.

This is the way the system is slowly moving.

The universal model is preserved.

Exceptions become more selective.


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## PNRR, debt and investments: the decisive test of 2026

The most important issue of the legislative session, however, does not concern the coherence between a single electoral promise and a single social security, fiscal, or energy measure, but the government's ability to use the final phase of the **National Recovery and Resilience Plan** to alter the growth trajectory of the Italian economy before the extraordinary support provided by the European mechanism expires. It is on this basis, much more than on the outcome of a single budget law, that a significant part of the economic assessment of the legislative session will be decided, because the NRRP simultaneously represents the largest allocation of European funding ever entrusted to Italy, the main support for the growth of public investment, and one of the few tools through which the country can attempt to increase its productive potential while consolidating its public finances.

The starting point is significant: in **2025, public investments will have reached 3.8 percent of GDP** , according to the Bank of Italy, the highest level since the beginning of the century. [88] ( bancaditalia.it )

This element deserves particular attention because the Italian history of fiscal consolidation phases has often been characterized by a strong compression of investments, a component relatively easier to reduce politically than pensions, public wages or other rigid current expenditures. In 2025, however, the net borrowing of public administrations fell to **3.1 percent of GDP** , while the primary balance rose to 0.8 percent and public investments simultaneously reached the maximum of the century. [88] ( bancaditalia.it )

Consolidation, therefore, was not accompanied by a generalized contraction of public capital.

This is an important difference.

### Public finance and investments in 2025

| Indicator | 2025 |
|---|---|
| **Nominal GDP** | €2.258 billion |
| **Real GDP growth** | +0.5% |
| **Net debt / GDP** | -3.1% |
| **Primary balance / GDP** | +0.7/+0.8% depending on the information base |
| **Total gross fixed investment** | +3.5% in volume |
| **Public Investment / GDP** | 3.8% |
| **Public debt / GDP** | 137.1% |

**Sources:** ISTAT, Bank of Italy, European Commission. [88][89] ( istat.it )

The composition of the data is crucial because it shows an economy in which overall growth remains weak, but capital accumulation is significantly supported by public intervention and the implementation cycle of the PNRR. ISTAT indicates for 2025 an


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increase in the volume of gross fixed investments of **3.5 percent** , much higher than the GDP growth of 0.5 percent, while the European Commission explicitly attributes part of the strength of capital expenditure to projects financed through the Recovery and Resilience Facility. [89][90] ( economy-finance.ec.europa.eu )

However, the 3.8 percent figure should not automatically be transformed into proof of structural success.

High public investment can increase GDP during the construction phase.

The problem is what remains afterward.

## Spending is not the same as increasing productive potential

The fundamental distinction is between **the demand effect and the supply effect** . When the state finances a public project, GDP increases during the construction phase because materials are purchased, workers are paid, services are activated, and income is generated along supply chains; this effect exists even if the project, once completed, produces a modest economic return.

To permanently alter the trajectory of debt and growth, however, investment must generate a second effect: it must increase the economy's productive capacity.

A more efficient railway must reduce logistics times and costs.

A digital network must increase productivity and access to services.

A school funded by the PNRR must improve human capital.

A justice reform must reduce decision-making times and uncertainty for businesses.

An energy infrastructure must reduce cost, volatility or dependence.

A digitalized administration must speed up investments and procedures.

Only in this second case does the benefit continue **after the European spending has ended** .

## The PNRR is an investment program, but also a reform program

This is precisely the reason why the Recovery and Resilience Facility was conceived as a **performance-based instrument** and not as a simple transfer of resources. The Commission makes payments only when the Member States demonstrate the achievement of the agreed milestones and targets, precisely because the economic value of the Plan does not reside only in the amount of spending, but in the joint implementation of investments and reforms. [91] ( reforms-investments.ec.europa.eu )

Italy has an overall plan of **194.4 billion euros** , made up of 71.8 billion in grants and 122.6 billion in loans, with **150 investment strands and 66 reforms** ; 39 percent of the

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resources are classified as support for climate objectives and 25.6 percent for the digital transition. [92] ( reforms-investments.ec.europa.eu )

These numbers show why the PNRR should not be judged solely by the volume of construction sites.

## The Italian PNRR in the final phase

| Indicator | Value |
|---|---|
| **Total Plan Value** | **€194.4 billion** |
| **Grants** | **€71.8 billion** |
| **Loans** | **€122.6 billion** |
| **Investment strands** | **150** |
| **Reforms** | **66** |
| **Climate share** | **39%** |
| **Digital share** | **25.6%** |
| **Deadline for milestones and targets** | **August 31, 2026** |
| **Deadline for final payment requests** | **September 30, 2026** |
| **Commission Payment Deadline** | **December 31, 2026** |

**Source:** European Commission. [91][92][93] ( reforms-investments.ec.europa.eu )

The timetable makes **2026** an economically and administratively exceptional year. 31 August 2026 marked the end of the period by which Member States had to reach all the milestones and targets of the Facility, while final payment requests must be submitted by 30 September and the Commission must complete disbursements by the end of the year. [93] ( italy.representation.ec.europa.eu )

The problem is therefore no longer just “spending quickly”.

It is **to properly close an exceptional program without turning its end into an investment vacuum** .


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## The Meloni government inherits the Plan, but manages its most difficult phase

Here too, the institutional lineage must be respected. Next Generation EU was negotiated during the Conte II government, the final version of the PNRR was developed and approved during the Draghi government, while the Meloni government inherited the responsibility for implementing the majority of its timeframe, negotiating various revisions, incorporating REPowerEU, and seeing the Plan through to its final phase.

The outcome therefore does not belong entirely to a single government.

But operational responsibility cannot be distributed indiscriminately either.

During the Meloni legislature, the Plan entered the phase in which initial regulatory milestones must be transformed into **physical targets and works actually completed** .

This is precisely the most difficult phase.

## From the written reform to the built nursery, from the decree to the railway

In the early years of a performance-based plan, a significant portion of the milestones may consist of the approval of laws, decrees, reforms, and regulatory acts. In later phases, the number of targets requiring physical results increases: completed buildings, operational infrastructure, childcare spaces, kilometers of rail, energy interventions, and actual digitalization implementation.

The difficulty therefore increases over time.

Passing a regulation can take weeks or months.

Building infrastructure can take years.

This is why 2026 represents the true administrative stress test of the PNRR.

## The nine installments and 85 percent of the resources already received

By June 2026, Italy had also obtained the approval and disbursement of the **ninth instalment** , amounting to **12.8 billion euros** , linked to the achievement of fifty milestones and targets. With this payment, the total resources received had reached approximately **85 percent of the overall PNRR allocation** . [94] ( italy.representation.ec.europa.eu )

The Commission's preliminary assessment of the ninth request, submitted by Italy on 30 December 2025, covered **36 milestones and targets of the grant component and 14 of the loan component** , and the Commission communicated that it had positively assessed all fifty elements concerned. [95] ( reforms-investments.ec.europa.eu )

This data demonstrates that the Plan has reached a very advanced stage of financial implementation.

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But here we must avoid another improper equivalence:

**85 percent of resources allocated does not automatically mean 85 percent of the economic impact already produced.**

## European payment and economic expenditure are different quantities

The RRF operates on the basis of milestones and targets, rather than through euro-for-euro reimbursement of individual national expenditures. An instalment can therefore be disbursed when a set of agreed-upon results is certified, but the European payment does not necessarily coincide with the final beneficiaries' expenditure or the entry into operation of all related projects.

This distinction is essential to correctly read the implementation.

## The different PNRR quantities are not synonymous

| Size | Meaning |
|---|---|
| **Floor Equipment** | overall resources available |
| **EU installment** | payment tied to the achievement of milestones and targets |
| **I commit** | financial obligation assumed |
| **Recorded expense** | payment made |
| **Work completed** | material realization |
| **Operational work** | actually usable infrastructure |
| **Impact on productivity** | permanent economic benefit |
| **Impact on debt/GDP** | final macroeconomic effect |

Confusing these levels can lead to two opposing errors: declaring the Plan a failure because a certain expenditure is proceeding slowly even after the regulatory milestone has been reached, or declaring it a complete success because an instalment has been collected even though the long-term production impact is not yet observable.

## The real test is 2027, not just 2026

2026 is the administrative deadline.

2027 will be the first year in which the economic problem **of** the post-PNRR transition will become much clearer.

The European Commission in fact foresees that the phase-out of the projects financed by the Recovery and Resilience Facility will determine a reduction in capital expenditure in 2027 compared to the exceptionally high levels of the final phase of the Plan. [90] ( economy-finance.ec.europa.eu )

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This means that the economic system will have to gradually replace the extraordinary European stimulus with **domestic investment, private investment and productivity growth** .

It is precisely there that we will see whether the PNRR has produced a permanent level effect or only a strong temporary acceleration in demand.

## The debt denominator is the real long-term goal

For a country with debt exceeding 130 percent of GDP, the challenge isn't simply reducing the numerator through budget surpluses, because a strategy based exclusively on austerity risks weakening the denominator and making it more difficult to stabilize the ratio.

The PNRR represents, at least in its economic conception, an attempt to use investments and reforms to act precisely on the **denominator** , increasing the future level of GDP.

The Council of the European Union, approving the Italian Medium-Term Fiscal Structural Plan in January 2025, recalled estimates according to which the combined effect of the PNRR reforms and investments yet to be implemented and of the further reforms linked to the extension of the fiscal path could increase the **level of Italian GDP by 3.8 percent by 2031 compared to the baseline scenario** . The Council deemed the estimate presented in the National Plan plausible, while naturally acknowledging the uncertainty associated with any macroeconomic assessment of this kind. [96] ( economy-finance.ec.europa.eu )

The number should not be interpreted as a certain prediction.

It is a conditional estimate.

It assumes that reforms and investments produce the expected effects.

And that is precisely the point.


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## A 3.8 percent increase in GDP changes the debt even without canceling a single euro.

If, given the same nominal debt, real and nominal GDP are structurally higher, the debt-to-GDP ratio decreases simply because the denominator increases.

This mechanism makes productivity economically equivalent, in part, to a fiscal consolidation tool.

It does not replace budgetary discipline.

It makes it more effective.

A growing country can reduce its debt with relatively smaller primary surpluses.

A stagnant country must achieve the same result through much more intense fiscal compression.

## The PNRR must therefore be judged through its residual capital.

When the program is completed, the real balance will not be the number of billions spent by the deadline.

It will be the amount of **residual productive capital** .

This capital can be tangible or intangible.

## What should remain after the PNRR

| Capital | Examples |
|---|---|
| **Physicist** | railways, networks, schools, hospitals, water infrastructures |
| **Digital** | public cloud, digital services, connectivity |
| **Energetic** | networks, renewables, storage, efficiency |
| **Human** | training, skills, education |
| **Administrative** | faster procedures, management capabilities |
| **Legal-institutional** | more efficient justice, procurement, competition |
| **Territorial** | services and infrastructure in Southern Italy |
| **Innovative** | research, technology transfer, businesses |

If these stocks improve permanently, the NRRP will continue to produce benefits even when European transfers have ended.

However, if a high proportion of the interventions generate mainly temporary demand without increasing production capacity, the effect will tend to diminish as the funding ends.

## Justice and public administration are investments even without concrete

One of the difficulties in assessing the Plan stems from the fact that some of the potentially most significant measures do not take the form of physical infrastructure. Reducing civil justice times, improving procurement, digitizing public administration, or

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simplifying authorizations could have a significant economic impact without generating an easily photographable tangible asset.

This is precisely the reason why the PNRR contains 66 reforms in addition to the investment programmes. [92] ( reforms-investments.ec.europa.eu )

Success should therefore not be measured only by counting construction sites.

## Administrative efficiency becomes a form of capital

An authorization that takes six months instead of three years changes the profitability of an investment.

A shorter civil trial reduces contractual risk.

An administration capable of quickly managing a tender reduces the opportunity cost of capital.

These effects are difficult to account for immediately.

But they can impact productivity for many years.

In this sense, the PNRR also represents an attempt to increase Italian **institutional capital** .

## The risk of merely formal completion

However, there is a counter-risk that must be made explicit, especially in the final phase of the RRF. When the deadline becomes tight, states have a strong incentive to focus on demonstrating that the milestones and targets required for payments have been met.

This is essential.

But it does not automatically coincide with the quality of the long-term effect.

A digital system may be formally completed but underutilized.

An infrastructure can be delivered but not fully integrated.

A reform can be approved but implemented incompletely.

The problem is not specifically Italian.

It is a feature of any target-based program.

## August 31, 2026 is a deadline, not the end of the impact

The European Commission recalled on 31 August 2026 that the deadline for the implementation of investments and reforms had been reached and that the Member States would have until 30 September to submit the final requests, while the payment could take place until 31 December. [93] ( italy.representation.ec.europa.eu )

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But this is only the end of the European financial cycle.

Many effects will only be measurable later.

The real evaluation of the PNRR will therefore begin when the PNRR formally ends.

## The Meloni government is being judged on a program it did not create

This creates a politically interesting situation. The Meloni government did not negotiate Next Generation EU and did not write the original version of the PNRR, but it managed a decisive part of its implementation.

This means that the final result will inevitably be shared between different political phases.

Conte II participates in the European creation of the instrument.

Draghi drafts the final Plan and begins its implementation.

Meloni revises it, integrates REPowerEU and brings it to completion.

No government can claim all the success alone.

No government can entirely blame any problems in the phase it has administered on others.

## Real economic history works like this

This is one of the most important mechanisms in the entire book.

Economic policies do not coincide with legislatures.

An infrastructure is designed by one government and inaugurated by another.

A reform takes effect after the end of the executive that approved it.

A debt created in one phase is managed by the subsequent ones.

A European fund negotiated in 2020 determines investments in 2026.

Economic history does not follow the electoral calendar.

**2026 is therefore a test for the State, not just for the government**

The sheer number of measures to be completed within a single deadline subjects the entire Italian administrative apparatus to an extraordinary stress test: ministries, regions, municipalities, public companies, contracting authorities, and central governments must be capable of simultaneously implementing thousands of interventions.

The ability to perform thus becomes an economic variable.

It's not enough to have resources.

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You need to know how to transform them.

## Public investment and fiscal consolidation can coexist, but not automatically

The figure of 3.8 percent of GDP of public investments in 2025 shows that the consolidation of the deficit has not necessarily produced a reduction in investments, but this coexistence is also made possible by the exceptional presence of RRF resources. [88][90] ( bancaditalia.it )

The problem will be maintaining a sufficiently high share of investment even when that extraordinary source has run out.

The previous public finance planning indicated an incidence of gross investments of 3.6 percent of GDP in 2025 and 3.8 percent in 2026 and 2027, but subsequent forecasts already incorporate the progressive exhaustion of the RRF and therefore a change in the composition of capital expenditure. [97] ( documenti.camera.it )

The question then becomes whether the national budget will be willing to replace at least part of the European funding.

## The risk of the investment "fiscal cliff"

The end of an extraordinary program could produce a **fiscal cliff** , that is, a sudden decrease in capital spending if European resources are not replaced by other sources.

This risk would be particularly serious for Italy because productivity requires continuous investment, not a single wave.

A company invests if it expects sufficiently stable infrastructure and demand.

An administration builds capacity if it knows it will use it even after 2026.

An industrial sector hires people if it sees a horizon of orders and projects.

The post-PNRR transition must therefore be managed as a **transition** , not as a cessation.

**The PNRR and the new European fiscal governance are intertwined**

The situation is made even more interesting by the fact that Italy has obtained an extended fiscal adjustment period precisely on the basis of a package of reforms and investments, including those still to be completed in the PNRR. The European Council has considered the macroeconomic impact of this set of interventions plausible and has linked the fiscal sustainability path to their implementation. [96] ( economy-finance.ec.europa.eu )

This means that growth and consolidation are not treated as alternative strategies.

The new fiscal governance attempts, at least formally, to integrate them.

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## Debt remains the limit that prevents prolonged errors

Despite the primary surplus and the reduction of the deficit, the Italian public debt reached **137.1 percent of GDP in 2025** , increasing compared to 2024. The Bank of Italy attributes the rise to the unfavorable differential between the average cost of debt and growth, as well as to significant stock-flow adjustments, in particular linked to the construction tax credits accrued in previous years. [88] ( bancaditalia.it )

This data makes it even clearer why the PNRR must produce structural growth.

Such a large debt can be managed.

But it leaves little room for a long phase of insufficient nominal growth.

## The PNRR must not repay the debt on an accounting basis, it must make the economy that supports it bigger

This is perhaps the most important distinction. The PNRR's resources should not be judged by whether every single euro invested "repays the debt" through a direct financial return.

Many public infrastructure projects do not generate cash flow for the state.

Their performance is macroeconomic.

Cost reduction.

Increased productivity.

More tax base.

More employment.

Greater resilience.

It is through these channels that the Plan can contribute to debt sustainability.

**Success will be measured by potential growth after 2026**

If Italy manages to maintain a high rate of investment, improve productivity, increase employment, and capitalize on the reforms introduced by the Plan between 2027 and 2031, the PNRR will have changed the economic trajectory.

If growth quickly returns to the very low structural rates of the past, the judgment will have to be more severe.

The criterion is not ideological.

It's macroeconomic.


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## The final link between pensions and PNRR

The two parts of this section, apparently very distant, therefore converge on the same problem.

Pensions depend on the number and productivity of workers.

The PNRR should increase productivity.

Debt depends on the ratio of spending, revenue, and growth.

The PNRR should increase the denominator.

Demography is reducing the working population.

Investment should at least partially offset this reduction through more capital per worker.

The pension problem and the growth problem are therefore inseparable.

## Demography, pensions, PNRR and debt: the same macroeconomic circuit

| Variable | Effect on the system |
|---|---|
| **Active population in decline** | fewer taxpayers and lower potential GDP |
| **Numerous pensioners** | high social security expenditure |
| **General early exit** | reduces contributions and increases performance duration |
| **Greater employment** | broadens contribution base |
| **Increased productivity** | increases wages, GDP and revenue |
| **Effective PNRR** | increases capital and potential growth |
| **higher GDP** | reduces the debt-to-GDP ratio at the same debt level |
| **More sustainable debt** | increases space for welfare and investments |

This table perhaps describes better than any slogan the real constraint that the Meloni government and those that follow will have to face.


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## The Italian problem is not choosing between pensions and investments

The question is how to generate enough growth to sustain both.

An aging society will need pensions and healthcare.

An advanced economy will need infrastructure.

A state with high debt will have to maintain fiscal discipline.

A country immersed in a more unstable strategic environment will also have to finance its defense and security.

These needs cannot be met stably through the redistribution of a stagnant economy alone.

It is necessary to increase the value produced.

## The fundamental political transition

The Meloni government thus finds itself in a historically unique position. It came to power with a platform that included promises of greater pension flexibility and tax cuts, but it governs during the conclusion of the largest European investment program ever implemented in Italy and at a time when demographics are making the cost of permanently reducing the retirement age more evident.

It is in this tension that the program meets the structure.

## The ability to govern is measured over a long period of time

A government can approve an early retirement and immediately achieve a politically visible result.

An investment in education can take ten years to produce its full effects.

A railway infrastructure may require even more.

Politics is therefore naturally attracted by immediate effects.

The sustainability of the state depends on those who are delayed.

**The real test of 2026**

2026 is therefore not simply the year of the technical end of the PNRR.

It is the point where three great Italian trajectories meet:

**Demography that shrinks the working population, debt that limits fiscal space, and European investments that offer a unique window to increase productivity.**

If this window is used effectively, the country will have a better chance of supporting pensions, security, and welfare in the years to come.


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If it is used only to temporarily increase demand, the problem will return almost unchanged.

## The rule that runs through the entire book

This is where one of the fundamental rules of the entire work re-emerges: **a policy must not be evaluated only at the moment it is announced or financed, but through the capacity it leaves behind** .

An early retirement immediately produces a beneficiary and a future cost.

An investment immediately produces demand but should leave capital.

A reform immediately produces a norm but should change behaviors.

A government negotiates.

Another one does.

Another one inherits.

Economic policy operates over longer timescales than electoral politics.

And this is precisely why the final phase of the PNRR represents a test not only for the Meloni government, but for **the ability of the Italian state to transform an extraordinary opportunity into ordinary growth** .


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## 2025–2026: Financial credibility improves while debt remains high

Market dynamics offer another interesting reading of the recent phase. The Bank of Italy notes that in 2025 foreign demand for Italian government bonds remained high and that interest rate differentials with respect to other sovereign bonds in the euro area narrowed. At the end of the same year, Italy's net international investment position was positive by **348 billion euros** , equal to **15.4 percent of GDP** , the result of an improvement accumulated mainly through years of current account and capital surpluses. [26]

This data is important because it shows how different Italy will be in 2026 from Italy in 2011, despite public debt remaining very high.

In 2011, the country was also perceived as vulnerable because it operated within a still incomplete euro architecture and with a weaker external financial position.

In 2026, debt remains a constraint, but Italy has a positive net foreign position, a much better capitalized banking system, an ECB equipped with anti-fragmentation tools, and a European structure that has already demonstrated its ability to issue common debt.

This does not eliminate tax risk.

He changes it.

Italy's sustainability depends less and less on the idea of a possible currency crisis—impossible within the euro in its traditional forms—and more and more on the relationship between growth, the cost of debt, and the ability to produce sufficient primary surpluses.

This is the true political mathematics of the Meloni government.


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## The first quarter of 2026 is not the annual figure for 2026

The increase in the debt-to-GDP ratio to **138.9 percent in the first quarter of 2026** must be interpreted with particular caution. [27] A quarterly ratio does not represent the average or final value of the year and can be influenced by seasonality of the borrowing requirement, cash management, issuance, nominal GDP dynamics and temporary adjustments.

It is therefore methodologically incorrect to use 138.9 percent as if it were the "2026 debt" in an annual sense.

The Commission, in its May forecast, indicates an expected annual ratio of **138.5 percent** in 2026. [28] The two quantities do not contradict each other: they measure different frequencies.

This clarification may seem technical, but it's crucial in a book intended for rigorous public scrutiny. A significant portion of political communication uses quarterly, annual, nominal, and GDP percentage data as if they were interchangeable; they aren't.

## The Meloni government and Europe: less disruption than feared, more negotiation than continuity suggests.

At this point, it is possible to describe more precisely the transformation of the government's political position towards Europe without attributing any moral judgment to it.

The line preceding his inauguration contained a more marked criticism of the centralization of European powers, of certain fiscal rules, and of a conception of integration perceived as too distant from national sovereignty.

However, the government's action has demonstrated strong continuity in some of the system's fundamental choices: remaining in the euro, supporting NATO and Ukraine, fully utilizing the NRRP, participating in the new fiscal rules, complying with the excessive deficit procedure, and European cooperation on energy and industrial policy.

The discontinuity is evident above all in the negotiating strategy and in the priority given to certain issues: migration, Africa, energy, birth rate, security, defense of national interests, and greater flexibility in the interpretation of European policies.

It is therefore incorrect to describe the government as a simple continuation of Draghi, because the priorities and political language are different.

However, it is not even correct to describe it as a breakdown of the previous European order, because the main institutional and geopolitical anchors remained intact.

The formula that best reflects the facts is that of **strategic continuity accompanied by greater assertiveness in negotiations on certain policies** .

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## Sovereignty and constraints: what government can really change

The history of the Meloni government makes particularly clear the limits of interpretations of sovereignty as simple freedom from rules.

- A government can change a law.
- An incentive can change.
- It can negotiate a revision of the PNRR.
- It can sign a protocol with Albania.
- It can change the taxation.
- It can increase military spending.
- However, it cannot cancel the accumulated debt with a political decision.
- It cannot quickly reduce interest costs when global rates rise.
- The demographic structure cannot change in a few years.
- It cannot immediately replace all energy imports.
- It cannot create productivity by decree.
- It cannot ignore the dependence of Italian industry on the European market without accepting very high economic costs.
- This is the meaning of **material constraints** .
- These are not all constraints “imposed by Europe”.
- Some derive from the country's history itself.
- Debt is an Italian constraint before it is a European one.
- Demography is a social constraint.
- Productivity is an economic constraint.
- Energy geography is a physical constraint.

The European Union and NATO add institutional constraints and political commitments, but at the same time offer tools that Italy alone would not possess on the same scale: the ECB, the single market, the NRRP, common debt, collective security.

Italian politics over the last thirty years can be read precisely as an attempt to govern this combination.


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## The paradox of sovereignist government within a more binding Europe

There is a paradox that defines the legislature.

The government most explicitly associated with the language of national sovereignty in recent Italy finds itself governing during a phase in which European interdependencies are, in several respects, deeper than in the past.

- The PNRR links national investments to European milestones.
- The new fiscal governance constrains net spending growth for multiple years.
- NATO calls for a structural increase in military capability.
- Energy policy depends on European diversification strategies.
- Industrial policy must address state aid rules, economic security, and competition with the United States and China.
- Migration depends on agreements with third countries and on European asylum legislation.
- Contemporary sovereignty cannot therefore be exercised simply by withdrawing from these networks, without accepting enormous costs.
- The real question becomes how effectively a government can use the networks themselves to increase its decision-making space.

This is the basis on which the distance between the opposition and the government must be assessed.

Not through accusations of inconsistency, but through verifiable policy change.


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## From “national interests first” to the problem of national capacity

The most interesting difference between the opposition's language and the government's practice, therefore, lies not in the abandonment of the concept of national interest, which remains central to the executive's rhetoric and decisions. It lies in the way that interest is to be achieved.

- From the opposition, it is possible to represent the problem as a conflict between Rome and Brussels.
- From the government's perspective, it's becoming clear that, on many issues, Italy's interest lies precisely in its ability to obtain a favorable European decision.
- The Commission is needed to finance the PNRR.
- To change the tax rules, the Council needs to be passed.
- To defend the euro, we need the ECB.
- To exercise deterrence, NATO is needed.
- To reduce energy dependence, Algeria, Azerbaijan, the United States, Qatar and transnational infrastructure are needed.
- To manage migration, Albania, Tunisia, Libya and European agreements are needed.
- The national interest is therefore pursued through an international network rather than against it.
- It is a transformation of the very meaning of sovereignty.


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## What the 2025 budget really tells us

Italy's public finances for 2025 provide a particularly clear picture of the nature of the constraints that have accompanied the entire Meloni government, as the same fiscal year saw a clear consolidation of the balance sheet, an exceptionally high level of public investment, still-weak economic growth, and a continuing rising debt-to-GDP ratio. None of these indicators, considered in isolation, allows for a complete assessment of the quality of economic policy, because each measures a different dimension of the problem and, above all, because their interaction reveals much more than the simple sum of their individual numbers.

In **2025, the net borrowing of general government decreased to 3.1 percent of GDP** , from 3.4 percent in the previous year, continuing a reduction path that began after the exceptional peak of the pandemic phase; at the same time, the primary balance returned to a stable positive position and reached **0.8 percent of GDP according to the updated EDP notification and the Bank of Italy** , while interest expenditure remained at **3.9 percent of GDP** . [98] [99] This means that, net of debt service, the Italian state collected more than it spent, a condition that in the past had represented a recurring feature of Italian public finances but which had been interrupted by the pandemic crisis and the subsequent extraordinary interventions.

In the same year, however, the **debt-to-GDP ratio rose to 137.1 percent** , increasing by 2.4 percentage points compared to 2024, while real GDP grew by just **0.5 percent** . [98] [100] At first glance, this combination may appear contradictory: if the deficit decreases and the primary balance becomes positive, why does the debt continue to increase? The answer lies precisely in the mechanism by which the ratio between the debt stock and the size of the economy evolves, and constitutes one of the most important steps in understanding the Italian situation.

Public debt does not depend only on the current year's deficit. Its dynamics are also determined by the difference between the average cost of debt and the nominal growth rate of the economy, as well as by **stock-flow adjustments** , i.e. by operations and accounting effects that modify the debt without fully passing through the net borrowing of the year. In 2025, according to the Bank of Italy, the primary surplus was not sufficient to compensate for either the unfavorable differential between the average cost of debt and economic growth or, above all, the significant stock-flow component; the latter reflects in particular the cash effects of tax credits for building renovations accrued in previous years and the increase in the Treasury's liquid assets. [99]

This element is crucial because it demonstrates that **the 2025 debt incorporates decisions and obligations undertaken in previous years** , just as occurs in many other areas of economic policy analyzed in the book. Some construction tax credits had deficit effects when they matured, but generate cash effects on the debt in subsequent years;


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consequently, the incumbent government inherits a trajectory that cannot be reconstructed by looking solely at the measures approved that year.

## Five numbers that must be read together

The essential picture of 2025 can be summarized through five indicators, but their purpose is not to provide a verdict, but rather to highlight the internal tensions of Italian public finances.

## Italian public finances in 2025

| Indicator | 2025 | Meaning |
|---|---|---|
| **Deficit / GDP** | **-3.1%** | consolidation compared to −3.4% in 2024 |
| **Primary balance / GDP** | **+0.8%** | revenues exceeding expenditure net of interest |
| **Interest Expenditure / GDP** | **3.9%** | still very high cost of debt |
| **Public Investment / GDP** | **3.8%** | highest since the beginning of the century |
| **Public debt / GDP** | **137.1%** | +2.4 points compared to 2024 |
| **Real GDP growth** | **+0.5%** | dynamics still weak |
| **Nominal GDP** | **Approximately €2.258 billion** | economic basis on which fiscal relationships are measured |

**Sources:** ISTAT, Bank of Italy, European Commission. [98][99][100][101]

The first conclusion to draw is that fiscal consolidation exists and is significant. The 3.1 percent deficit represents an improvement over the previous year and, above all, a substantial departure from the exceptional levels of the pandemic and energy intervention years. The positive primary balance also confirms that the Italian public sector, net of interest expenditure, has returned to generating a surplus.

But the second conclusion is equally important: **consolidation alone is not sufficient to immediately stabilize debt** .

## A positive primary balance is not enough when the cost of debt remains high

The concept of primary balance is often used in public debate too briefly. A primary surplus of 0.8 percent means that, before paying interest on the accumulated debt, public administrations record a positive balance; however, it does not mean that the


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overall budget is in surplus, because interest expenditure absorbs a much higher share, equal to 3.9 percent of GDP in 2025. [98] [99]

In extremely simplified terms, therefore, the government manages to generate a surplus on primary operations but must use a much larger portion of resources to repay existing debt. This mechanism explains why the overall deficit remains above 3 percent and why debt reduction requires not only primary surpluses but also a sufficiently favorable ratio between nominal growth and average cost of financing.

This issue is crucial for Italy because a debt exceeding 130 percent of GDP makes the budget particularly sensitive to even relatively moderate changes in interest rates. A country with debt equal to 50 percent of GDP can withstand an increase in the average cost of financing with a much more limited impact; a country with debt nearly three times higher experiences a much more intense transmission, even if the rate increase is gradually reflected in the average cost due to the long residual maturity of the securities.

## The real mechanism is the interest-growth differential

Debt dynamics can be understood through a relationship that is very simple in concept, though more complex in actual accounting: **if the average interest rate paid on debt exceeds the nominal growth rate of the economy, the debt-to-GDP ratio tends to come under upward pressure, unless the primary balance is sufficiently positive to offset it** .

In 2025, this compensation was not sufficient.

The Bank of Italy explicitly underlines that the debt/GDP ratio increased precisely because the primary surplus failed to neutralise the unfavourable differential between the average debt burden and growth, to which was added a large stock-flow component. [99]

Real growth of 0.5 percent therefore takes on a much more significant significance than its apparent statistical modesty suggests. With relatively low inflation, even nominal growth remains insufficient to rapidly reduce the debt burden through the denominator; this means that a growing share of the adjustment must be allocated to primary surpluses, that is, the government's ability to maintain revenues higher than primary expenditures.

This is precisely where growth becomes a fiscal variable.

## The 2025 consolidation was not achieved by squeezing investments

One of the most favorable elements of the budget composition is that the reduction in the deficit has not been accompanied, at least in 2025, by a fall in public investment. The Bank of Italy estimates that public investment has reached **3.8 percent of GDP, the highest value since the beginning of the century** . [99]

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This data deserves particular attention because in many previous phases of Italian consolidation, public investment was one of the first components sacrificed, precisely because it was politically easier to postpone than pensions, salaries, or current transfers. The 2025 phase, however, presents a different configuration: the state is reducing the deficit while maintaining, thanks in part to the impetus of the National Recovery and Resilience Plan (NRRP), an exceptionally high level of capital spending.

The European Commission explicitly attributes this dynamic to the implementation of projects financed by the Recovery and Resilience Facility, to incentives for green and digital investments by companies and, in part, to the still present effects of credits linked to building renovations. [101]

This composition is fiscally more favorable than a consolidation achieved by indiscriminately cutting investments, because it preserves, at least in theory, the possibility of increasing future production capacity.

But this possibility has yet to be transformed into a result.

## Investing a lot does not automatically mean investing well

The 3.8 percent of GDP figure measures the amount of public investment, not its economic return. To determine whether the composition of the 2025 budget is truly conducive to long-term sustainability, it will therefore be necessary to observe what those investments produce in terms of productivity, human capital, infrastructure, administrative efficiency, and cost reduction for the private sector.

A rail investment completed on time and located on a high-demand route can reduce logistics costs for decades.

An underutilized infrastructure can generate much less value.

A fully integrated digital system can increase administrative productivity.

Software that is formally delivered but little used produces marginal benefit.

The balance sheet may therefore indicate a favorable composition without automatically guaranteeing a favorable outcome.

It is the distinction, already encountered many times in the work, between **expenditure and capacity** .

## Why debt is rising despite a lower deficit

This is probably the most counterintuitive point, and it deserves a detailed explanation. The deficit is a **flow** , meaning it measures how much the public sector borrows in a given year to cover the difference between revenues and expenditures. Debt, on the other hand, is a **stock** , meaning the total amount of accumulated and outstanding liabilities.


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In theory, year-end debt should increase by an amount close to the deficit.

In practice, the relationship is not perfect because stock-flow adjustments intervene.

These include financial transactions, changes in cash holdings, asset acquisitions, and timing differences between when a transaction is recorded in deficit and when it actually generates a cash requirement.

This is precisely what happens with some construction tax credits.

## Building loans continue to weigh even after the most intense phase

The Bank of Italy identifies the **cash effects of tax credits for building renovations accrued in previous years** as one of the main causes of the large stock-flow component of 2025. [99]

The economic significance is important. A tax measure can be approved and accounted for in a given fiscal year, but continue to have financial effects on debt many years later when the credit is actually used to offset taxes.

This creates a kind of fiscal inertia.

Current politics inherits obligations generated by past politics.

It's not an anomaly.

This is the normal intertemporal functioning of public finances.

## The Treasury's liquid assets contributed to the adjustments

The Bank of Italy also recalls the increase in the Treasury's liquid assets as another component of the stock-flow adjustments. [99] This element may also appear paradoxical: the State can increase the debt because it issues securities and temporarily keeps part of the resources obtained in the form of liquidity, thus creating an increase in the gross debt without an equivalent variation in the deficit.

The distinction between net debt and gross debt is therefore essential.


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## Why debt and deficit can move differently

| Factor | Effect on the deficit | Effect on debt |
|---|---|---|
| **Current expenses not covered** | increases | increases |
| **Deficit-financed public investment** | increases | increases |
| **Primary surplus** | reduces | tends to reduce |
| **Interest expense** | increases | the need increases |
| **Deferred use of tax credits** | can already be accounted for before | the need increases when it becomes cash |
| **Increase in Treasury liquidity** | does not necessarily change the deficit | gross debt may increase |
| **Purchase of financial assets** | may not impact the deficit in the same way | debt may increase |
| **Nominal GDP growth** | no direct effect on stock | reduces the debt-to-GDP ratio |

This table clarifies why a serious analysis of public finances cannot limit itself to comparing the change in the deficit with that in the debt.

**The primary balance data shows the return of discipline, but not its sufficiency**

The primary surplus of 0.8 percent is nevertheless a significant signal. According to the Bank of Italy, the improvement compared to the 0.5 percent of the previous year was determined by a growth in the incidence of revenues slightly higher than that of primary expenditure; the European Commission also estimates that, net of the effects of the economic cycle, the improvement in the primary balance was close to half a percentage point. [99]

This means that part of the consolidation comes not simply from an improving economic situation, but also from a more restrictive fiscal stance.

The next question, however, is how high the primary surplus must become in the coming years to effectively stabilize the debt.

This is where growth becomes crucial again.


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## Italian public finances cannot live indefinitely on large primary surpluses

Historically, Italy has generated significant primary surpluses for long periods, precisely because its high debt required large interest payments to offset it. This has helped avoid much worse outcomes, but it has also reduced the scope for other public functions.

Maintaining large primary surpluses for very long periods is economically and politically possible, but it requires a continuous relative compression of public demand relative to revenues.

A strategy based exclusively on this mechanism risks clashing with investments, welfare, defense, and the energy transition.

This is why improving the denominator is so important.

**Debt is much more manageable if potential GDP grows**

A sustained increase in the real growth rate changes the entire fiscal arithmetic. If GDP grows faster, revenues increase at the same tax rates, the debt-to-GDP ratio improves, the primary surplus needed to stabilize the stock decreases, and it becomes easier to finance investments.

This is precisely the role that the PNRR should play.

Don't cancel the debt.

To make the economy that is supposed to support it bigger and more productive.

## 2025 therefore shows a better composition of the accounts, not yet a solution

The 2025 budget can be interpreted as a phase in which the composition of public finances improves compared to the emergency years: a declining deficit, a return to the primary surplus, very high public investment, and the gradual normalization of extraordinary measures.

But it still does not represent a solution to the debt problem.

Growth of 0.5 percent remains too low to quickly produce a structural improvement in the ratio.

Interest expenditure remains high.

Stock-flow adjustments will continue to weigh for some years to come.


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## The Commission in fact foresees a further increase in debt

The European Commission forecast published in May 2026 estimates that the debt-to-GDP ratio will continue to rise from **137.1 percent in 2025 to 138.5 percent in 2026 and 139.2 percent in 2027** , despite a projected deficit of 2.9 percent in both years.[101]

The reason is once again the same: the interest rate-growth differential remains unfavorable, and stock-flow adjustments, especially related to housing loans, continue to put pressure on the debt stock.

This forecast is particularly important because it shows that **getting the deficit below 3 percent does not automatically equate to reducing the debt** .

These are two related but distinct problems.

## Three percent remains politically important, but it is not the magic threshold of sustainability.

The 3 percent threshold has a very strong institutional significance in the European legal system, as it determines part of the rules of the Stability Pact and the excessive deficit procedure. But there's nothing economically magical about the number.

A country with low debt can temporarily have a deficit above 3 percent without calling its sustainability into question.

A country with very high debt can have a deficit of less than 3 percent and continue to see its debt-to-GDP ratio rise.

Italy belongs to the second category.

This does not make consolidation irrelevant.

It makes it insufficient as a sole objective.

## 2025 is also a year of increased tax pressure

Furthermore, the improvement in the accounts occurred in a phase in which ISTAT recorded an increase in the **tax burden of 0.7 percentage points** , while income from dependent work increased and the labour market continued to support contribution and tax revenues. [100]

The Commission links part of the strengthening of the primary balance to higher current revenues, pointing to an increase in social contributions linked to the change in the structure of the tax wedge cut, together with a good dynamic of income taxes, VAT and revenues from financial activities. [101]

This detail is important because the consolidation was not achieved exclusively through lower spending.


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Revenue dynamics also played a significant role.

## The labor market helped public finances

The employment growth analyzed in the previous section has therefore also produced a favorable fiscal effect. More employed people mean higher contributions, higher taxable income, and lower need for certain benefits.

The strength of the labor market has allowed the government to reduce the deficit without having to reduce investment spending to a similar extent.

This is one of the most important links between the labor market and public finances.

## But the contribution of employment has a limit if productivity remains weak

If job growth is not accompanied by similar growth in value added, expanding the tax base produces benefits but does not sufficiently alter long-term potential.

Real growth of 0.5 percent in 2025 is therefore the figure that contains the main fragility.

The state is consolidating.

The economy is growing.

But it grows little.

## The composition of growth 2025 reinforces this reading

ISTAT shows that domestic demand net of inventories contributed positively to growth by **1.5 percentage points** , while net foreign demand subtracted 0.7 points and the change in inventories another 0.2. Gross fixed investments increased by **3.5 percent** , while final consumption and investments supported activity more than exports.[100]

The picture therefore depicts an economy supported mainly by domestic demand and investment, but penalized by the weakness of net foreign trade and a less favorable international context.


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## Composition of real growth in 2025

| Component | Contribution / variation |
|---|---|
| **Real GDP** | **+0.5%** |
| **Domestic demand net of inventories** | **+1.5 points** |
| **Net foreign demand** | **-0.7 points** |
| **Stocks** | **-0.2 points** |
| **Gross fixed investment** | **+3.5%** |
| **National final consumption** | **+0.9%** |
| **Exports** | **+1.2%** |
| **Imports** | **+3.6%** |

**Source:** ISTAT. [100]

This composition further reinforces the importance of investment quality, because a significant portion of growth depends precisely on that component.

## 2025 also demonstrates how the Italian budget is now intertemporal

Many of the effects that are impacting the accounts today stem from previous decisions.

Many investments made today will have an impact after the end of the legislative session.

Many interest costs depend on securities issued years ago.

Many benefits of the PNRR will be measurable after 2026.

It is this intertemporal nature that makes it particularly difficult to attribute results to a single government.

The annual budget captures a phase.

It doesn't tell the whole causal story by itself.


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## Meloni's Government: Consolidation within a complex legacy

The specificity of the Meloni phase therefore lies in having simultaneously managed four very different legacies: the debt accumulated over previous decades, the fiscal effects of the pandemic, the financial commitments arising from construction loans, and the final phase of a PNRR conceived and negotiated under previous governments.

This does not make the government unaccountable.

It only means that the evaluation must distinguish between **inherited stock, new decisions and the results produced by combining the two** .

### Fiscal consolidation represents a real choice of the government

The reduction of the deficit to 3.1 percent and the return of the primary surplus are not simply mechanical effects of the end of the emergencies. The Bank of Italy notes an improvement even net of the economic cycle, while the Commission attributes the strengthening of the balance to a dynamic of revenues and to budgetary choices consistent with the European adjustment path. [99][101]

It is therefore correct to speak of consolidation.

It would not be correct to say that the tax problem is solved.

### The real criterion will be the trajectory after the PNRR

2025 still represents an exceptional phase in which public investments are supported by the RRF. From 2027 this push will decrease significantly and the Commission foresees a decrease in capital expenditure with the phase-out of PNRR projects. [101]

The decisive test will therefore be whether consolidation can continue without sacrificing investment capacity.

If the deficit declines but investment also collapses, the quality of the adjustment worsens.

If the deficit declines while productivity increases and investment remains high, the trajectory becomes much more favorable.


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## A table to read the true political meaning of 2025

**What the top numbers really mean**

| Given | Superficial reading | Structural reading |
|---|---|---|
| **Deficit 3.1%** | accounts almost under Maastricht | significant consolidation, but still deficit |
| **Primary surplus 0.8%** | State “in surplus” | advance only before interest |
| **Interest 3.9% GDP** | technical voice | main cost of debt inheritance |
| **Investments 3.8% GDP** | heavy public spending | favorable composition, especially if productive |
| **Debt 137.1%** | fiscal worsening | result of interest, weak growth and stock-flow |
| **GDP +0.5%** | growing economy | insufficient growth to rapidly reduce debt |
| **Increasing tax pressure** | more taxes | part of the consolidation comes from revenue |
| **Strong employment** | positive job market | It supports revenue but does not solve productivity |

The overall reading is therefore much more balanced than any narrative built on a single indicator.

## The difference between annual sustainability and long-term sustainability

In 2025, the Italian state will demonstrate its ability to reduce the deficit, produce a primary surplus, and maintain high levels of investment.

This is an important condition for annual sustainability.

Long-term sustainability, however, requires something more.

It requires that the debt-to-GDP ratio enter a stable downward trajectory.

Achieving this result requires a combination of primary surpluses, sufficient nominal growth and containment of the average cost of debt.

None of the three components can be ignored.

**Italy cannot simply choose between growth and fiscal discipline**


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A permanently deficit-financed expansionary policy could support demand in the short term but further worsen the debt.

An overly aggressive consolidation policy could reduce nominal debt but depress growth and therefore the denominator.

The challenge is to find a balance in which primary surpluses are high enough to stabilize debt without squeezing investment capable of increasing potential GDP.

This is precisely the reason why the PNRR takes on such important value.

## The 2025 budget represents a balance, not yet a new regime

2025 therefore appears to represent a temporary equilibrium in which the government manages to reduce the deficit while maintaining very high investment, supported by the final phase of the PNRR cycle and a still strong labor market.

The question is whether this balance can survive beyond 2026.

If maintaining investment requires increasing the deficit, the debt problem will return.

If investments are cut to reduce the deficit, the growth problem will return.

If the PNRR increases productivity, the trade-off will become less harsh.

## The real variable of fiscal freedom is therefore potential growth

This is the point that connects the 2025 budget to the rest of the book. A country with high potential growth has greater freedom to finance pensions, healthcare, defense, the energy transition, and investments without continually increasing its debt-to-GDP ratio.

A country that grows at 0.5 percent must negotiate each new priority against much tighter constraints.

Productivity then becomes a form of fiscal space.

## Italian public finances remain dominated by the past

2025 also shows how the past continues to shape the present. Interest expenditure stems from accumulated debt; stock-flow adjustments derive in part from construction tax credits; the NRRP stems from European and national decisions taken between 2020 and 2021; current public investments will have effects beyond the current legislative session.

Public finance is therefore the place where historical continuity becomes most visible.


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## Because the Meloni government's problem is not radically different from that of its predecessors

The current government's political stance is different from that of previous technical, centre-left or coalition governments, but the fundamental constraint is surprisingly stable: **how to support growth and social cohesion while maintaining fiscal credibility in a country with very high debt and weak potential growth** .

Monti confronted him during a financial crisis of confidence.

Renzi and Gentiloni during a phase of very low growth and expansionary monetary policy.

Conte during a slowdown first and then the pandemic.

Draghi on the recovery and the construction of the PNRR.

Meloni addresses this issue during the finalization of the PNRR, the return of European fiscal discipline, and the increased need for security spending.

The tools change.

The underlying problem remains.

## What changes is the time margin

The most important difference is that Italy now has less time to postpone structural issues, because demographics are worsening, the NRRP is expiring, and European security requires new resources.

2025 is therefore not simply a year of positive or negative budgets.

It's a year of transition.

## The most important data may not be the deficit

From this perspective, the most significant number could be the **3.8 percent of public investment in GDP** , because it shows that the country is using an exceptional window of opportunity to increase its capital stock while consolidating its balance.

If these investments generate productivity, the debt will become more sustainable.

If they fail to do so, 2025 will look retrospectively like a phase in which a relatively favorable composition of the accounts failed to change the structural trend.

## The budget therefore tells a story of transition, not of solution

The most correct conclusion is that public finances in 2025 present both favorable signs and persistent fragilities.

The deficit is decreasing.


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The primary balance improves.

Investment remains exceptionally high.

But the debt is growing.

Interest remains onerous.

Growth is weak.

None of these statements cancel out the others.

It is precisely their coexistence that describes the Italian condition.

## The real test will be the ability to turn 2025 into a trajectory

A single year of high investment does not change debt.

A single budget law with a primary surplus does not stabilize a stock above 130 percent of GDP.

Continuity is needed.

More productivity.

More growth.

Better selected investments.

And a spending mix that prevents the need to consolidate the budget from destroying the very conditions that allow the economy to grow.

This is the true meaning of the 2025 budget.

Not a verdict on the government.

But a very precise photograph of the **Italian structural constraint** .


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## The Italy of 2026 is not the Italy of 2011, but the debt problem remains

A comparison between the Italy of 2026 and the Italy that, in the fall of 2011, entered the most acute phase of the European sovereign debt crisis is essential to a proper understanding of the country's current position. Only a comparative analysis allows us to avoid two opposing and equally misleading errors: on the one hand, the tendency to interpret any increase in the debt-to-GDP ratio, any slowdown in growth, or any rise in yields as a potential prelude to a new spread crisis similar to the one that engulfed the fourth Berlusconi government; on the other, the idea that the institutional evolution of the Monetary Union, the strengthening of banks, and the ECB's increased capacity to intervene have now rendered Italian public debt a secondary issue, with almost no impact on the freedom to choose national economic policy. The reality is much more complex, because **Italy in 2026 is structurally more protected than it was in 2011, but continues to live with such a high level of debt and such weak potential growth that the cost of financing, the credibility of policies, and the relationship with European institutions become permanent variables of Italian fiscal sovereignty** .

In November 2011, the Italian crisis was not simply caused by the existence of high debt, a condition the country had experienced for decades, but by the interaction of multiple, mutually reinforcing factors. Growth was weak, international markets were rapidly reassessing the risk of eurozone sovereign debt, the monetary union still lacked credible tools to distinguish a liquidity crisis from a solvency crisis, and the very possibility that a eurozone member might lose access to markets no longer seemed purely theoretical. The Bank of Italy, in its *Financial Stability Report* published on 2 November 2011, described an international financial system experiencing "deep tensions" and observed that Italy had been hit by a sharp increase in risk premiums precisely because, in the opinion of investors, it combined **a very high public debt with insufficient growth prospects** , despite simultaneously having some elements of strength, including relatively low private debt, the absence of a large real estate bubble and a banking system which at the time was not considered the primary source of instability. [103]

This description is important because it allows us to remember that the 2011 crisis was not simply a crisis of the markets against Italy, but a crisis in which **debt, growth, political credibility, and the institutional incompleteness of the euro interacted simultaneously** . The rapid rise in government bond yields worsened the outlook for public finances; the expected deterioration in public finances further increased the premium demanded by investors; Italian banks, which held large amounts of national sovereign bonds, suffered the consequences of the increased state risk; the tightening of financial conditions was transmitted to businesses and households; the economic slowdown in turn made it more difficult to stabilize the debt-to-GDP ratio. It was precisely this self-perpetuating cycle, much more than the absolute value of a single indicator, that made the situation dangerous.

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In 2026, that circuit has not disappeared in theory, but the context in which it could manifest itself is radically different, because Italy today operates within a **much more institutionalized, financially integrated monetary union, equipped with tools specifically designed to prevent a national tension from automatically turning into a systemic crisis of the euro** .

## The first big difference: Italy's external position is much stronger

One of the most important, and perhaps least discussed, elements in the public debate concerns Italy's position towards the rest of the world. In 2011, the country had a current account deficit of approximately **3.3 percent of GDP** , corresponding to over fifty billion euros, and the financial crisis was generating strong movements in the foreign liabilities of the public and banking sectors. [104]

This configuration made Italy more vulnerable to a deterioration in international confidence, because a country that must simultaneously refinance a large public debt and finance an external deficit is more dependent on the availability of foreign capital. The problem was not comparable to a classic currency crisis, because Italy was already part of the euro, but dependence on external financing nevertheless increased the risk that a sudden shift in investor preferences would produce systemic tensions.

In 2025, the situation appears almost reversed. The Bank of Italy records a **current account surplus** and a positive net international investment position of approximately **348 billion euros, equivalent to 15.4 percent of GDP** ; since the end of 2013, the improvement has been equal to approximately 39 percentage points of GDP and has been determined largely by the persistence of the current account and capital account surpluses. [105]

This change does not eliminate the vulnerability of public debt, but it profoundly alters the country's risk profile, because Italy no longer presents itself as an economy that must simultaneously finance a large stock of sovereign debt and a persistent external deficit. In other words, **fiscal fragility remains very high, but it is no longer accompanied by the same fragility of the net international position** .


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## Italy 2011 and Italy 2025-2026: two different structural configurations

| Indicator | 2011 | 2025-2026 | Meaning |
|---|---|---|---|
| **Current account / GDP** | **-3.3%** | **positive in 2025** | from external needs to financing capacity |
| **Net international investment position** | negative | **+15.4% of GDP** | structural improvement of the financial position |
| **Banking system** | highly exposed to the sovereign crisis | more financially robust | lower risk of bank-state spiral |
| **European banking architecture** | national and fragmented | Banking Union operational | integrated supervision and resolution |
| **ECB Anti-Fragmentation Tool** | non-existent | **TPI available** | greater protection of monetary transmission |
| **Common European fiscal capacity** | very limited | NextGenerationEU and common EU debt | new supranational financial capacity |
| **Energy security** | strong exposure to few suppliers | much more diversified portfolio | lower concentrated geopolitical risk |
| **Public debt** | very high | **137.1% in 2025, 138.5% expected in 2026** | vulnerability still central |
| **Potential growth** | weak | still weak | unresolved structural issue |

**Sources:** Bank of Italy, ECB, European Commission. [103][104][105][106][107][108]

The table clarifies the key point: **Italy has corrected several vulnerabilities that amplified the risk of crisis in 2011, but it has not eliminated the main problem that made its position fragile at the time, namely the interaction between high debt and insufficient growth** .


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## The second change: the banking system is much more solid and the sovereign crisis is not transmitted in the same way

The second major difference concerns the banking system. It is important, once again, to avoid an overly simplistic retrospective reconstruction. In November 2011, the Bank of Italy itself stated that the national banking system **did not represent the primary source of instability** and underlined that the capital position was overall solid; at the same time, however, it clearly recognized that the banks were suffering the repercussions of the sovereign debt crisis and the slowdown of the real economy. [103]

This vulnerability stemmed from the very structure of the monetary union at the time. Banks were supervised primarily at the national level, their balance sheets contained significant amounts of government bonds from their respective countries, and there was not yet a European institution fully responsible for the direct supervision of the major banks in the eurozone. When the value of sovereign bonds decreased, the perceived risk of intermediaries increased; when banks were perceived as more fragile, the likelihood that the state would have to intervene to support them increased, further worsening the perception of their fiscal sustainability. This mechanism, known in the literature as the **doom loop between banks and sovereigns** , was one of the most dangerous channels of the euro crisis.

Over the next decade, the situation changed substantially. Banks increased capital, drastically reduced the non-performing loans accumulated during the double-dip recession of 2008-2013, improved coverage, and now operate under much more intense European supervision. The **Banking Union** , with the Single Supervisory Mechanism and the Single Resolution Mechanism, transferred a significant portion of supervision and crisis management to the European level, blurring the obvious connection between national banking fragility and state fiscal intervention.

In 2026, the Bank of Italy describes the Italian banking system as characterised by **high levels of capitalisation and profitability** , while naturally maintaining attention on geopolitical risks, credit and macroeconomic trends. [107] The comparison with 2011 is therefore clear: today any tension on sovereign debt would continue to have consequences on the banking system, but would start from a sector which is more solid in terms of capital, less burdened by bad loans and included in a common supervisory framework.


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### The Banking Union changes the meaning of financial sovereignty

This institutional evolution deserves to be interpreted politically, as it perfectly captures the transformation of the euro analyzed throughout the book. In 2011, banking supervision was more national, but the capacity of individual states to address a systemic crisis was much more limited; in 2026, part of the supervisory function was transferred to the ECB, and part of crisis management operates through common mechanisms, reducing formal national autonomy while simultaneously increasing the system's overall capacity to absorb shocks.

This is one of the clearest cases in which **the sharing of sovereignty reduces the margin for exclusively national decision-making but can increase the effective capacity of the State to protect its own economic system** .

This relationship between capacity and constraint will continually reappear in the comparison between 2011 and 2026.

## The third difference: the ECB now has anti-fragmentation tools that did not exist in 2011.

The most significant transformation probably concerns the European Central Bank. In 2011, the ECB had already adopted extraordinary measures and naturally had the full capacity to provide liquidity to the banking system, but it still lacked a sufficiently clear operational doctrine to prevent a crisis of confidence in a single country from turning into a fragmentation of the entire monetary policy.

The OMTs would have been announced only in 2012, after the famous “whatever it takes” passage pronounced by **Mario Draghi** in London; quantitative easing would have arrived in 2015; the Pandemic Emergency Purchase Programme would have been created in 2020; finally, the **Transmission Protection Instrument** would have been approved by the Governing Council on 21 July 2022 precisely to counteract “unjustified and disorderly” market movements capable of compromising the uniform transmission of monetary policy in the euro area. [109]

The ICC represents a huge difference compared to 2011, but its meaning needs to be precisely described. The ECB can purchase government bonds on the secondary market of countries in which financing conditions deteriorate to a degree that threatens the transmission of monetary policy, and the scale of purchases is not predetermined ex ante; however, the mechanism does not constitute an unconditional guarantee on the debt of each Member State, because eligibility takes into account compliance with the European fiscal framework, the absence of excessive macroeconomic imbalances, debt sustainability and the coherence of national macroeconomic policies. [109]


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The result is a profoundly different architecture from that of 2011: **the ECB now has the tools to distinguish between unjustified fragmentation and deterioration justified by fundamentals** , and can counter the former without committing to neutralizing the latter.

This distinction radically changes the risk of a self-sustaining crisis.

### The TPI reduces the risk of panic, does not erase the judgment on fundamentals

In 2011, one of the main problems was the reflexive nature of the crisis: if investors believed Italy might encounter refinancing difficulties, they demanded higher yields; higher yields increased the cost of debt; the higher cost worsened the fiscal outlook and seemingly confirmed the initial concerns. In the absence of a central bank perceived as willing to prevent self-perpetuating fragmentation, this mechanism could accelerate very quickly.

In 2026, the presence of the ICTY and the full experience gained by the ECB over the years of OMT, the APP, and the PEPP will make this cycle much less uncontrolled, because the markets know that the Eurosystem has the tools to counter movements that threaten the functioning of the monetary union.

But precisely because the ICTY incorporates conditions, the message to the Member States is twofold: **the euro protects more, but requires more credible and more integrated policies** .

## The fourth difference: the European Union has demonstrated that it can issue common debt on a large scale.

In 2011, the idea that the European Commission could raise hundreds of billions on the markets and pass them on to member states in the form of grants and loans to support reforms and investments would have seemed politically far removed. Instead, the pandemic has brought about an unprecedented transformation, with the creation of **NextGenerationEU** and the Recovery and Resilience Facility, financed through joint EU issuance.

At the end of August 2026, the RRF had an envelope of up to **€360 billion in grants and €213 billion in loans** , while additional NextGenerationEU resources were being allocated to other European programmes. Repayment of the common debt earmarked for grants will start from 2028 and continue until 2058, while loans will be repaid by the beneficiary states.[110]

The institutional significance of this transformation is difficult to overestimate. Italy, of course, continues to finance the bulk of its needs through national issuance, but it now operates within a Union that has demonstrated the ability to create **a common fiscal**

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**capacity large enough to support national investments without leaving the entire burden of funding to a single national Treasury** .

This is not yet a full federal fiscal union.

However, it is a huge leap compared to 2011.

## Italy in 2026 is therefore much more protected, but it is not free from the arithmetic of debt.

This is precisely where the opposite error must be avoided. A stronger external position, the Banking Union, the ICTY, and NextGenerationEU reduce the risk of a crisis similar to the one in 2011, but **they do not alter the fundamental relationship between debt, interest rates, growth, and the primary balance** .

In 2025, Italy's debt-to-GDP ratio reached **137.1 percent** , and the European Commission forecasts a further increase to **138.5 percent in 2026** and **139.2 percent in 2027** , despite a projected deficit of 2.9 percent in both years.[111]

The explanation is the same as already observed in the 2025 budget: the differential between the cost of debt and nominal growth remains unfavourable and stock-flow adjustments linked in particular to construction credits continue to push up the overall stock, while primary surpluses are not yet large enough to fully offset these effects. [111]

In political terms, this means that the crisis does not necessarily take the dramatic form of a sudden loss of access to markets, but debt continues to produce a **structural compression of fiscal space** , because every permanent increase in spending and every permanent reduction in revenue must be weighed against a volume of liabilities so large that even a relatively small change in the average cost of financing becomes relevant.

## Fiscal sovereignty exists, but debt changes its price

This is one of the most conceptually important points of the entire book. To argue that debt limits sovereignty does not mean that markets directly "govern" the country or that Parliament formally loses the power to approve the budget. It means something more precise: **a high debt stock increases the cost of some policy options and makes others less sustainable over time** , thus reducing the number of realistically viable alternatives.

A government with debt equal to 50 percent of GDP can finance a new permanent program by temporarily borrowing more with a much larger margin. A government starting with nearly 140 percent must consider what effect that same decision will have on the debt's trajectory, the risk premium demanded by investors, the future cost of interest, and its compatibility with European rules.

Fiscal sovereignty does not disappear.

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But it gets more expensive.

## The cost of financing therefore remains a political variable

Even when the spread isn't making daily headlines, the cost of financing continues to influence economic policy. The effect isn't immediate across the entire stock, because existing bonds remain in their original condition and are gradually replaced. However, persistently high yields increase the average cost of debt over time, and thus the share of the budget allocated to interest payments.

This means that a sustained increase in yields progressively takes resources away from investments, healthcare, pensions, defense, and tax cuts.

This is precisely where markets influence the political margin.

Not deciding the budget law.

But partly determining the financial cost of the available alternatives.

## The new European fiscal governance changes the form of the constraint

The difference compared to 2011 concerns not only the ECB's ability to protect the transmission of monetary policy, but also the way the European Union exercises fiscal surveillance. The governance reform that came into force in 2024 has shifted the focus towards **medium-term fiscal-structural plans and multi-year net spending trajectories** , seeking to replace part of the previous annual approach with more consistent paths over time.

For Italy, the plan approved by the Council in January 2025 provides for an extended adjustment period and a net expenditure trajectory that limits annual growth to **1.3 percent in 2025, 1.6 in 2026, 1.9 in 2027, 1.7 in 2028 and 1.5 in 2029.** [112]

The structure is significant because the constraint becomes less episodic and more intertemporal. The government retains significant margins in budget composition, but must maintain overall net spending within a trajectory compatible with the gradual reduction of debt and deficit.

In other words, **European legislation no longer acts simply as an annual numerical limit, but as a multi-year path within which national politics must organize its priorities** .

**The excessive deficit procedure: 2026 is a review phase, not a given outcome**

The status of the excessive deficit procedure also requires clarification. The Council of the European Union formally opened the procedure against Italy on **26 July 2024** , following the very high deficit recorded in 2023, and in January 2025 recommended that the country put an end to the excessive deficit situation by **2026** , imposing a limit on the nominal growth of net expenditure of 1.3 percent in 2025 and 1.6 percent in 2026.[113]

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In June 2026, the Commission judged that Italy had undertaken effective action consistent with the recommendations and, for this reason, the procedure is maintained **"in abeyance"** , that is, suspended in the corrective phase while awaiting the definitive verification of the result. [114]

This step is important because it prevents a forecast from being transformed into a formally established result. The Commission forecasts a deficit of 2.9 percent for 2026, i.e. below the reference value of 3 percent, but the definitive closure of the procedure requires verification that the correction is effective and sufficiently long-lasting. [111][114]

## The new Italian tax legislation within the European framework

| Ride | State |
|---|---|
| **PDE opening** | **July 26, 2024** |
| **Council Recommendation** | **January 21, 2025** |
| **Deadline for correction** | **2026** |
| **Maximum net spending growth 2025** | **1.3%** |
| **Maximum net spending growth 2026** | **1.6%** |
| **Commission Evaluation June 2026** | effective action |
| **Status of the procedure** | **held in abeyance** |
| **Expected deficit 2026** | **2.9% GDP** |
| **Formal closure** | subject to the final verification of the correction |

**Sources:** EU Council, European Commission. [113][114]

The political point is very clear: compared to 2011, **Italy has a broader European safety net, but at the same time operates within a more structured and deeper fiscal surveillance system** .


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## Protection and constraint have increased together

This is probably the most significant transformation of the euro between 2011 and 2026, and it deserves to be expressed without simplification, because European integration cannot be accurately described either as a progressive unilateral loss of national sovereignty or as an increasing, unconditional mutualization of risks. The historical process has been much more complex: **each major crisis has simultaneously produced new common protection tools and new mechanisms of discipline, surveillance, and coordination** .

After the sovereign debt crisis came the ESM, the Banking Union, the OMT and subsequently more advanced ECB instruments.

After the pandemic, NextGenerationEU arrived.

After the return of inflation and potential fragmentation came the TPI.

At the same time, the European Semester has become more complex, the PNRR has introduced milestones and targets as payment conditions, and the new fiscal governance links the national trajectory to a multi-year net expenditure plan.

The relationship between protection and discipline can be summarized as follows:

### The Evolution of the Euro: From the 2011 Crisis to the 2026 System

| Greater protection | Greater integration and discipline |
|---|---|
| **ECB with anti-fragmentation tools** | fiscal and macroeconomic criteria for the TPI |
| **MES** | conditionality and surveillance |
| **Banking Union** | supranational supervision |
| **NextGenerationEU** | milestones, targets and European control |
| **Common EU debt** | reimbursement obligations and common resources |
| **Multi-year tax plans** | limits on net spending growth |
| **increased crisis management capacity** | less discretion completely national |

This table expresses the real institutional change of the Monetary Union: **the protection against systemic collapse is greater precisely because policy integration has become deeper** .


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## Italy has several insurance policies today, but not an unlimited guarantee

Membership in a more robust euro area thus offers Italy a protection that did not exist in the same form in 2011, but this protection must be interpreted as a conditional insurance and not as an automatic right to finance any fiscal trajectory. The ECB can intervene against unjustified fragmentation, but debt sustainability remains one of the explicit criteria of the ICTY. [109]

NextGenerationEU offers common resources, but payments are linked to the implementation of reforms and investments.

The new governance allows for a longer adjustment period, but requires adherence to a multi-year spending trajectory.

The general mechanism is therefore coherent: **more common capacity in exchange for greater coordination of national policies** .

## Italy in 2026 therefore does not have to fear a mechanical repetition of 2011, but it cannot afford to ignore the debt

The historical comparison must lead to a balanced conclusion. Today, Italy boasts a better external position, more robust banks, European institutions more capable of intervening, greater energy diversification, and a system of common instruments that makes a mechanical repetition of the November 2011 crisis much less likely.

But none of these elements allows us to consider a debt that is close to 140 percent of GDP irrelevant.

Greater institutional protection reduces the risk of an **explosive crisis** .

It does not eliminate the risk of **progressive erosion of fiscal space** .

This is perhaps the fundamental difference between the problem of 2011 and that of 2026.

In 2011, there was a risk that the time to decide would suddenly run out.

In 2026, the risk is that the margin for decision-making will slowly shrink if growth and productivity do not improve.

## Debt thus continues to define the amount of policy possible

This step is essential to the entire theme of *Italy, Europe, and Power* . A formally sovereign government can choose to increase a pension, finance defense, reduce a tax, build infrastructure, or introduce a new transfer. The Constitution and Parliament naturally retain the power to make these decisions.


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But the **number of these decisions that can be sustained simultaneously** depends on the country's economic structure.

The higher the debt, the greater the share of the budget absorbed by interest and the greater the attention that must be paid to the credibility of the fiscal path.

The weaker growth, the more difficult it becomes to reduce the debt-to-GDP ratio through the denominator.

The older the population, the greater the pressure on pensions and healthcare.

The more unstable the international environment, the greater the need for security.

Fiscal sovereignty is therefore concretely the result of the ability to **finance choices without losing the confidence necessary to continue financing them in the future** .

## The political balance of the transformation remains open

As of the closing date for this section, the political and economic landscape remains evolving, and for this very reason, it would be methodologically inappropriate to turn this chapter into a definitive verdict on the legislature. Many of the Meloni government's major policies have already produced measurable effects, but others are still in an intermediate phase in which the regulatory architecture is being finalized while the long-term economic outcome remains unclear.

The **NRRP** has reached the final phase of its European cycle, but its most significant impact, namely on Italy's potential productivity, can only be assessed in the years following the program's conclusion, when growth will no longer be supported by the same amount of extraordinary investments.

The **excessive deficit procedure** has been deemed to be in line with the required corrective path, but at this stage it cannot be treated as if it had already been definitively cancelled, because the final verification depends on the stability of the deficit returning below the European reference value. [114]

The new trajectory of **defense spending** still needs to be translated into future budgets and will have to contend with debt, pensions, healthcare, and investment.

The **Mattei Plan** now has a political framework, resources, and projects, but it still needs to demonstrate how much productive capital, infrastructure, and local development it will actually generate.

The **Italy–Albania Protocol** continues to be redefined by the relationship between national legislation, judicial oversight, and the new European law on asylum and repatriation.


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**energy** strategy has dramatically reduced dependence on Russia, but it still needs to prove sustainable in terms of industrial prices, decarbonization, networks, storage, and the security of new supply chains.

The overall budget cannot therefore be closed in 2026 as if all these processes had already reached a definitive form.

**A transformation, however, can already be documented with sufficient clarity**

The political force that came to government in October 2022 by claiming a greater centrality of the nation and sovereignty **did not build its policy by breaking with the main supranational institutions in which Italy was already included** , and this represents a significant historical fact regardless of the judgment one wishes to give it.

The government renegotiated some aspects of the PNRR, but continued its implementation within the framework of the Recovery and Resilience Facility.

He confirmed Italy's full membership in **NATO** and support for Ukraine.

It accepted and implemented the new framework for European fiscal governance, presenting a multiannual structural plan and operating within the excessive deficit procedure.

It continued the energy diversification strategy launched under Draghi, linking it to REPowerEU.

He developed the Mattei Plan by progressively seeking synergies with the European Global Gateway.

He built the Albanian model through an international agreement that operates within a European legal system and under judicial supervision.

The element of political discontinuity exists.

But it does not take the form of separation from Europe or the West.

## Claimed sovereignty becomes sovereignty exercised within institutions

This is where one of the most interesting transformations of the four-year period emerges. The sovereignty used in opposition language inevitably tends to be presented as a recovery of freedom from external constraints; the sovereignty exercised by the government instead takes on a much more concrete and much more difficult form, because it must pass through **negotiations, alliances, common rules, financial resources, European law, infrastructure, and economic power relations** .

A government may want more fiscal flexibility, but it must refinance three trillion in debt.

It may want greater energy autonomy, but it must import a significant portion of the fuels and technologies.

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It may want to control migration more, but it must reach agreements with Albania, Libya, Tunisia and the countries of origin.

It may want to reduce taxes, but it must adhere to a multi-year spending trajectory and finance welfare, investment, and defense.

It may want to strengthen industrial policy, but it must operate within the single market and within transnational supply chains.

Sovereignty does not disappear.

Change nature.

## Italy chooses, but it chooses within an already existing structure

This is precisely the point at which governing power alters the meaning of political promises. An opposition force might imagine amending a single law or repealing a single reform; once in government, it discovers that every decision is embedded in a system of consequences that spans years and institutional levels.

Reducing the retirement age means changing spending for decades.

Permanently reducing a tax means finding permanent coverage.

Increasing defense means creating multi-year support obligations.

Renegotiating the PNRR means still respecting European milestones, deadlines, and objectives.

Changing immigration policy means subjecting the new model to judicial scrutiny.

This is where **proclaimed sovereignty meets exercised sovereignty** .

## The gap between the program and the government does not automatically demonstrate inconsistency

This distinction must be maintained even when observing the differences between some of the center-right coalition's promises and the policies actually implemented. It is documented that the flat tax has not been generalized, that the fundamental structure of social security has not been abolished, that Quota 103 and Opzione Donna have been progressively scaled back, that Italy has accepted a multi-year European fiscal trajectory, and that Atlantic continuity has been very strong.

But these data alone do not authorize a conclusion on the political significance of distance.

They can be interpreted as pragmatism.

As an adaptation.

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As a limitation of the program.

As a result of the constraints.

The task of the book is not to choose one of these political readings.

It is to explain **why the government produces different decisions from the opposition even when the political actors are the same** .

## Debt is perhaps the purest demonstration of this mechanism

No contemporary Italian government has created the entire debt it inherits. Each executive receives a stock of debt built on decades of previous decisions and can primarily influence the future flow of debt, namely the deficit, growth, spending composition, and revenue structure.

Debt is therefore a form of **power of the past over the present** .

A government can decide today.

But it has to finance yesterday.

This is one of the most concrete ways in which history constrains politics.

**Demography produces an even slower and more difficult to change constraint**

The same is true for the population. The average age of 2040 is largely determined by births that occurred decades earlier, and no budget law can alter that structure in a few years. Policies can influence birth rates, female participation, legal immigration, and productivity, but biological time operates more slowly than electoral time.

Demography thus constitutes another form of conditional sovereignty.

## Infrastructure represents the past of strategic choices

The TAP built before the war gave Italy a chance in 2022.

Regasification plants built or acquired during the crisis are now expanding the options.

Insufficient networks, on the other hand, reduce the speed at which renewables can grow.

An infrastructure built in the past therefore determines the amount of options available in the present.

In this sense, **sovereignty is also accumulated capital** .


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## Alliances transform national capacity and formal autonomy

NATO membership offers another version of the same principle. It entails obligations, interoperability, capability targets, and burden-sharing, but it also allows Italy to deploy a deterrent and collective defense structure that it could not independently rebuild with the same effectiveness.

Sharing reduces some of the formal autonomy.

Increases a portion of the actual capacity.

This is exactly the relationship already observed in the euro.

**The real question is therefore not "how much sovereignty does Italy possess?"**

The useful question is much more concrete: **how many realistic alternatives can Italy exercise when it has to choose?**

A country with lower debt has more fiscal options.

A country with more gas pipelines and terminals has more energy options.

A country with a stronger defense industry has more strategic options.

A country with a positive external financial position is better able to resist capital flight.

A country included in an alliance has military capabilities that it could not produce alone.

Real sovereignty is therefore not the absence of dependencies.

It is **the ability to prevent a single dependency from becoming a decisive one** .

## 2022-2026 as a laboratory of contemporary Italian sovereignty

This is precisely why the period that began in October 2022 represents a particularly important turning point in recent political and economic history. A coalition that had built a significant part of its political identity around the concepts of nation, autonomy, and sovereignty enters government at a time when **Italy's European and international interdependence is likely deeper than ever before** , and must therefore transform that language into a governing practice compatible with debt, law, alliances, markets, and infrastructure.

The result was neither a simple continuity with previous governments nor a systemic rupture.

It was a process of adjustment.


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## National politics still matters, but within more complex boundaries

It would be wrong to conclude that European integration makes the political color of governments irrelevant. Differences remain significant: the distribution of spending, migration policy, the decision to reopen the nuclear issue, the implementation of the Mattei Plan, the structure of tax cuts, the attitude toward certain climate policies, and European negotiating priorities clearly depend on the executive's political orientation.

Europe does not cancel national political choices.

It changes its perimeter.

## In 2011, political time had suddenly shrunk

Perhaps this was the real lesson of the 2011 crisis. When the spread increases rapidly and the market begins to question the ability to refinance debt at sustainable costs, the time available for decision-making shrinks dramatically. In November 2011, Italian politics suddenly found itself forced to react within a much shorter timeframe than the normal democratic process.

The high debt had transformed an economic choice into a political emergency.

## In 2026 the constraint is less explosive, but more permanent

Today, the combination of the ECB, a stronger external position, more robust banks, and European institutions significantly reduces the likelihood that political time will be compressed with the same violence.

But debt continues to exert a less spectacular and more continuous influence.

Every budget law starts from that figure.

Every program must take into account the service of interests.

Every tax cut must be covered.

Any new priorities must be compatible with net spending growth.

The bond is therefore more institutionalized.

**The stability of the euro is the result of this institutionalization.**

The euro of 2026 is more resilient than that of 2011 precisely because the crises have produced new institutions.

But each institution has also increased the degree of coordination.

This is the political price of common stability.

**More collective insurance, more collective surveillance.**

It's not a contradiction.


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It is how the monetary union has survived its own crises.

## The political balance of the phase therefore necessarily remains open

A definitive assessment of the entire government experience would be premature, because many of the most important policies are still producing effects that will only be measurable after the end of the legislature.

The PNRR must demonstrate that it has increased productivity.

The debt must demonstrate that it can be on a downward trajectory.

Increased employment must translate into growth in real wages and value added per hour worked.

The Mattei Plan must transform strategy into infrastructure and capital.

Migration policy must demonstrate legal sustainability and operational capacity.

The new defense policy must convert more resources into readiness.

Energy diversification must ensure not only physical security but also price competitiveness.

These are the real results.

**What can be concluded instead is the change in the meaning of sovereignty**

The four-year period that began in October 2022 clearly demonstrates that, in a country like Italy, sovereignty cannot be equated with the simple ability to make unilateral decisions. Effective sovereignty depends on the degree of **economic, technological, fiscal, diplomatic, and institutional capacity that makes a decision feasible** .

A government that has more alternatives is more sovereign.

A government that depends on a single supplier, a single market, or a single financing channel is less so.

Sovereignty is therefore a structure of possibilities.


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## Italy can choose, but it never chooses in a vacuum.

This is probably the most important point to close the section with.

Debt represents the fiscal past.

Demography represents the social past.

Infrastructure represents the past of investments.

Alliances represent the past of strategy.

European law represents the past of integration decisions.

Markets represent expectations about the future.

Every government moves within this network.

Exercising sovereignty therefore means **deciding within these conditions, modifying them when possible and building in the present the options that will be available to future governments** .

The difference between proclaimed sovereignty and exercised sovereignty is precisely this.

The first describes what a government would like to be able to do.

The second measures what a country is actually capable of doing without compromising its ability to continue making choices tomorrow.

And it is perhaps precisely for this reason that no period in recent Italian history shows more clearly than the four-year period that began in October 2022 how **debt, Europe, markets, infrastructure, alliances and demographics are now inseparable parts of the same question of power** .


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# PART XII

# GEOECONOMICS OF ITALIAN POWER

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# Chapter 23

## What does Italy still produce?

Asking what Italy will still produce in 2026 means starting with a seemingly simple question that, if approached with the wrong indicators, almost inevitably leads to false conclusions. For many years, public debate has oscillated between two opposing representations of the national production system: on the one hand, that of a country headed toward progressive deindustrialization, incapable of competing with China's scale, America's technological prowess, or Germany's manufacturing prowess; on the other, that of a "second European manufacturing power," a phrase frequently used as almost self-sufficient proof of Italy's industrial strength. Both representations contain elements of reality, but both become misleading when transformed into an overall assessment, because contemporary industrial power cannot be measured solely by manufacturing's share of GDP, the gross value of exports, or its position in a European ranking.

A production system is strategically strong when it is capable not only of manufacturing large quantities of goods, but also of controlling technologies, intellectual property, capital, critical supplies, trade networks, skills, innovation capabilities, and high-value segments of international supply chains. It must also possess businesses solid enough to sustain large investments, access global markets, and absorb geopolitical shocks without interrupting production. A factory that assembles a sophisticated product by importing essential components and relying on a foreign parent company occupies a different industrial position than a company that controls patents, design, software, branding, and a trade network, even if both contribute the same nominal value of domestic production. Similarly, a large trade surplus does not automatically demonstrate strategic autonomy: a country can export high-value goods and remain dependent on foreign countries for energy, semiconductors, raw materials, essential pharmaceuticals, or components without which those exports themselves could not be produced.

It is precisely this distinction between **production and production control** that must guide any reconstruction of contemporary Italian economic power.

The country's industrial dimension remains indisputably significant. According to Eurostat, in 2024 Italy represented approximately **14 percent of the value of industrial production sold in the European Union** , second only to Germany, which concentrated around 26 percent, and ahead of France, around 12 percent. [1] This data allows us to argue, using a precise definition, that Italy continues to be one of the two main industrial production hubs in the Union in terms of value of production sold; however, it does not authorize us to transform the expression "second manufacturing power in Europe" into a universal measure of power, because the ranking changes depending on whether we

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consider added value, productivity, employment, technology, controlled capital, investment in research or the size of companies.

Italy's strength is also uniquely distributed. There is no single dominant sector that organizes the entire manufacturing economy, as the automotive industry has historically done in some Central European economies or as electronics has done in certain Asian economies. Instead, Italy maintains a highly diversified structure, encompassing machinery and industrial automation, pharmaceuticals, food, fashion, metallurgy and metal products, rubber and plastics, transportation, shipbuilding, aerospace, electrical equipment, ceramics, furniture, components, and numerous specialized manufacturing niches. This structure makes it difficult to describe Italian industry through a few large corporations, but it also constitutes a source of resilience, because a sectoral shock does not necessarily affect the entire system in the same way.

The problem is that this diversification coexists with equally profound weaknesses, first and foremost productivity growth that remains insufficient and a corporate size structure that is much more fragmented than that of other major European economies.

The **ISTAT 2026 Report on the competitiveness of productive sectors** , constructed through approximately eighty indicators per sector and specifically intended to measure the structure, strategies and performance of companies, therefore provides a much less linear picture with respect to the contrast between decline and success: some Italian sectors show an exceptional international capacity, others suffer from weak foreign demand, still others depend heavily on imported strategic inputs or on multinational groups that control essential segments of national production. [2]


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## A large industrial base that is growing too slowly

The first element to separate is **size** from **dynamics** . Italy still has a very large manufacturing base in European terms, but this doesn't mean that it's growing fast enough or that it's fully utilizing its production capacity.

In 2025, Italian GDP increased in volume by **0.5 percent** , while the added value of industry excluding construction recorded a growth of just **0.3 percent** . Gross fixed investments of the entire economy increased by 3.5 percent, a significantly more dynamic figure, but net foreign demand subtracted growth from GDP. [3] In the same year, ISTAT recorded a substantial stagnation in turnover for industry excluding construction and, more specifically, a slight reduction of **0.1 percent in manufacturing** , the result of substantially stable domestic sales and a moderate decline in the foreign component. [4]

The combination is important because it shows a production system that is still large but clearly under pressure. Having industrial capacity does not necessarily mean fully utilizing it; companies can maintain facilities, expertise, and international market shares while operating below potential or postponing investments due to uncertainty about demand, energy, international trade, or interest rates.

The ISTAT 2026 Report in fact points out that, despite some signs of cyclical strengthening in the second part of 2025, at the beginning of 2026 weak assessments of production capacity, access to credit and economic prospects remained widespread among manufacturing companies, in an international environment made even more uncertain by trade tensions and the new US tariff policy. [4]

This distinction between capacity stock and current dynamics is fundamental to the very concept of industrial power. A country can possess a large manufacturing asset and slowly lose it if the return on investment becomes systematically lower than that available elsewhere, if firms fail to grow, or if a growing share of location decisions are made outside the national territory. Deindustrialization rarely occurs as the simultaneous closure of thousands of plants; it can manifest itself as a lack of investment, the relocation of new production lines, the loss of suppliers, the erosion of skills, and the progressive transfer of design or management functions.

The real problem for Italy, therefore, is not whether the industry still exists—it exists and remains very important—but whether the ecosystem that supports it is capable of renewing itself quickly enough.

## Exports demonstrate strength, but they alone do not speak volumes about competitiveness.

The second major measure frequently used to describe Italy's strength is foreign trade. Here too, the raw data is impressive: in **2025, Italy recorded a trade surplus of 50.746**

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**billion euros** , higher than the 48.287 billion of the previous year. Behind this overall surplus, however, there is a fracture that says a lot about the structure of the national economic power: the energy deficit was equal to **46.939 billion** , while the surplus in non-energy products reached **97.685 billion euros** . [5]

These numbers almost perfectly describe the dual nature of industrial Italy. The country is capable of generating a huge surplus in non-energy goods, but must transfer a very significant portion of that value abroad to finance the energy imports that its productive and social structure requires.

The trade surplus is therefore not simply a demonstration of strength; it is also the net result of an economy that competitively produces many goods but imports a considerable portion of the energy inputs essential to its activity.

The reduction in the energy deficit from **54.290 billion in 2024** has contributed significantly to the improvement in the total balance in 2025. [5] This demonstrates how the trade result can change even without an equivalent leap in industrial competitiveness, simply because the price of imported energy decreases. A higher surplus can therefore simultaneously represent greater export strength and lower import costs, and it is necessary to break down the two components before drawing conclusions on production capacity.

In 2025, the value of exports increased by **3.3 percent** , but the growth was highly concentrated in some sectors. Exports of pharmaceutical, chemical-medicinal and botanical products increased by **28.5 percent** , those of base metals and metal products by 9.8 percent, means of transport other than motor vehicles by 11.6 percent and food, beverages and tobacco by 4.3 percent. [5]

The composition is strategically significant because it demonstrates that contemporary Italian exports no longer fit the traditional image of a country primarily selling fashion, furniture, and medium- to low-tech products. These sectors remain important, but pharmaceuticals, transportation, metallurgy, mechanical engineering, and a variety of intermediate and instrumental products have gained increasing importance.

The extraordinary growth of the pharmaceutical industry in 2025, however, must be treated with particular caution. An increase in exports does not necessarily mean that all the technological and proprietary value of production is controlled by Italian companies, because a significant portion of the sector is organized through large multinational groups and global chains in which Italian plants can be highly efficient production hubs without necessarily being the location of the final strategic decision.

And this is where the ownership structure becomes as important as the value of exports.


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## Pharmaceuticals: production success and internationalization of control

The pharmaceutical sector represents one of the most interesting examples of the new Italian industry. Not only have exports grown strongly, but Italy also hosts a significant manufacturing base, characterized by highly capital-, regulation-, and skill-intensive facilities.

The ISTAT 2026 Report shows, however, that in 2023 approximately **94.8 percent of pharmaceutical exports** came from companies belonging to multinational groups, with an almost balanced distribution between Italian-controlled multinationals, equal to **48.7 percent** , and foreign-controlled companies, equal to 46.1 percent. [6]

This structure is much more complex than the dichotomy of "Italian industry" versus "foreign industry." The strong presence of Italian multinationals means that a significant portion of the leadership and internationalization capacity remains national; at the same time, nearly half of exports are generated by companies belonging to foreign groups.

The presence of international capital should not automatically be interpreted as a weakness. A large foreign pharmaceutical group choosing Italy for its production can bring technology, expertise, skilled wages, investment, and integration into global supply chains. Vulnerability arises, rather, when the national ecosystem becomes unable to influence future location decisions: a production site may be extremely efficient today but depend, for its future expansion, on a decision made at the group's international headquarters.

Industrial power must therefore also be measured through the ability to **retain investments** .

A competitive system is not one in which every company is national; it is one in which both national and foreign groups find it advantageous to locate high-value activities, research, production, and decision-making functions locally.


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## Machinery: the less visible heart of Italian strength

If pharmaceuticals represent one of the new high-growth components of exports, **mechanical engineering and machinery** remain one of the deepest structures of Italian competitiveness.

The sector is particularly important because it sells not only a final product, but also tools used by other companies to produce: machine tools, systems, automation, packaging, food machinery, materials processing equipment, and numerous other specializations.

This structure generates a form of economic power that is difficult for consumers to see. A luxury brand may be known worldwide, while an Italian manufacturer that creates an essential industrial system for a pharmaceutical, food, or metalworking factory may be virtually unknown to the general public despite having an extremely strong global position in its niche.

It is precisely in these **business-to-business markets** that the Italian model of medium-sized companies often shows its best performance.

The OECD observed in 2026 that medium-sized Italian companies, with between 50 and 249 employees, and large ones, with at least 250 employees, recorded similar or even superior results in terms of productivity and export capacity to comparable French and German companies. [7]

This is a crucial finding because it radically changes the assessment of the Italian productivity problem. There is no general inability of Italian companies to be productive. Rather, there is a problem of **size composition** : companies that reach a sufficient scale can compete very well; the system has relatively few of them.

It's a distinction that completely changes the diagnosis.

If all Italian companies were intrinsically less productive than their foreign competitors, the problem would concern technology and skills spread throughout the entire system.

If, however, medium-large firms are competitive but represent a relatively small share of the economy, the problem becomes one of the obstacles that prevent a greater number of firms from growing.


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## Company size as a question of power

The OECD estimates that micro and small enterprises still account for **over 60 percent of Italian employment** , compared to around 40 percent in France and Germany. [7] This does not mean that small is synonymous with inefficient, because there are small Italian enterprises that are extremely productive, innovative and integrated into world markets; however, it does mean that, statistically, smaller enterprises on average have lower levels of productivity and a lower capacity to sustain certain fixed costs.

Scale matters because many aspects of contemporary competition require investments that don't decrease proportionally with company size. Opening a sales network in Asia, building a structured cybersecurity function, developing proprietary artificial intelligence, financing advanced research, or complying with complex international regulations require costs that a large company can spread across billions in revenue, while for a company with fifty employees, they can represent a much greater obstacle.

Small size is therefore not necessarily a weakness when a company operates in a high-value-added niche and uses regional production networks; it becomes a vulnerability when it prevents it from financing innovation, attracting management, internationalizing, or participating in the most profitable phases of the value chain.

For decades, Italy has built part of its strength on **industrial districts** , systems in which many specialized companies collaborate and compete within the same territory, transforming fragmentation into a form of collective organization. This model retains its value, but contemporary competition increasingly requires capabilities that territorial districts cannot fully replace: capital, data, patents, digital platforms, global distribution networks, and bargaining power with large international clients.

The real issue is not to eliminate small businesses.

It means allowing those with growth potential to become medium and large without encountering fiscal, administrative, financial, or ownership barriers that artificially push them below certain thresholds.


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## Family capitalism: the strength of continuity, the limit of scale

The theme of ownership is connected to this dimensional structure.

A significant portion of Italian businesses, including many internationally successful companies, remain family-owned. This configuration can represent a significant asset: long-term horizon, strong identification between ownership and business, the ability to make decisions without responding to quarterly pressure from financial markets, and the preservation of local expertise.

However, it can also create a limit when the desire to maintain full family control prevents the opening to external capital, consolidation with competitors, managerialization, or the selection of the most competent manager outside the family.

The OECD in 2026 explicitly recalls the problem, observing that the consolidation of small family businesses into larger, professionally managed structures could improve managerial practices, productivity and innovation, while some tax incentives for ownership continuity can, in certain circumstances, preserve control even when the entry of external capital or management could increase the capacity for growth. [8]

This is a particularly important issue in the current era, because a generation of entrepreneurs who built companies in the 1980s and 1990s is facing succession just as international competition demands more capital, digitalization, and scale.

Succession thus becomes a national industrial issue.

A company can be sold to a large foreign group, passed to heirs, listed, acquired by private equity, or merged with other companies.

Each of these options changes the ownership but not necessarily the production capacity in the same way.

The strategic question is whether the decision-making center, expertise, and investments remain within the Italian system.


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## Multinationals: Italy does not produce only through "Italian" companies

The international structure of production makes the inadequacy of a purely national reading of capital even more evident.

In 2023, companies belonging to multinational groups accounted for very high shares of Italian manufacturing exports; in the sector of means of transport other than motor vehicles, Italian-controlled multinationals generated **72.3 percent of exports** , in metallurgy 56.3 percent, in clothing around 53 percent and in machinery around 46 percent. [6]

In other sectors the weight of foreign control is much greater. ISTAT reports that for motor vehicles the share of exports generated by foreign-controlled multinationals is close to **82 percent** ; shares above 40 percent are also present in coke and refining, electrical appliances, chemicals and computers/electronics. [6]

The data must be interpreted with great care.

This doesn't mean that Italy "no longer controls" these sectors entirely, nor that foreign-owned factories are less valuable to the national economy. It does mean that a significant portion of high- or medium-high-tech exports is generated within multinational networks where control of capital and strategic decisions may reside abroad.

Local economic value therefore depends on how many functions are performed in Italy.

If a plant only hosts relatively standardized assembly, the territory's bargaining power may be limited.

If, on the other hand, it hosts design, research, engineering, specialized suppliers, difficult-to-transfer skills, and a highly skilled workforce, the group's ability to quickly move production elsewhere decreases and its national strategic value increases.

The concept of **embeddedness** therefore becomes more important than the simple nationality of the shareholder.


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## Automotive: a strategic supply chain exposed to a profound transition

No sector makes this complexity more evident than the automotive industry.

Italy has a long automotive history, a vast network of components, mechanical and design expertise, and a manufacturing base that remains significant. However, the shift toward electric vehicles, software-defined vehicles, batteries, and new Asian manufacturers is changing the entire value distribution in the supply chain.

The internal combustion engine uses a component chain in which many Italian companies possess high levels of expertise: mechanical systems, transmission, metal components, manufacturing, and equipment. An electric vehicle reduces some of these components and increases the value of batteries, power electronics, semiconductors, software, and critical materials.

The transition therefore threatens not only the number of cars assembled locally.

Change the question addressed to the entire supplier ecosystem.

The strong presence of foreign-controlled groups in the export of the automotive sector highlighted by ISTAT also shows how the allocation decisions of new production platforms increasingly depend on multinational strategies. [6]

Italy's ability to maintain its position in the automotive industry will therefore depend less on protecting existing production and much more on its ability to shift skills and investments to new components of the supply chain.

It is both an industrial and geopolitical problem, because batteries, semiconductors, and raw materials are among the main areas of economic competition between Europe, China, and the United States.


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## Aerospace, defense and shipbuilding: a concentration of strategic capabilities

Conversely, there are sectors in which Italy maintains a strategic position that is more difficult to replace.

Aerospace, helicopters, defense electronics, shipbuilding, space, missiles, and some segments of the engine and complex systems industries form an ecosystem in which large companies such as Leonardo, Fincantieri, Avio, and the Italian subsidiary of MBDA operate alongside a complex network of suppliers and research centers.

The ISTAT data according to which Italian-controlled multinationals generate over **72 percent of exports of means of transport other than motor vehicles** is particularly relevant in this context. [6] This category includes productions that include aeronautics, naval and other complex means of transport, sectors in which Italy possesses not only factories, but also design capabilities and national parent companies.

The difference compared to a sector dominated by foreign controlling interests is strategically important. National control does not automatically guarantee efficiency, but it increases the state's and the production ecosystem's ability to influence investment, intellectual property, skilled employment, and participation in international programs.

It is precisely for this reason that the increase in European defense spending discussed in Chapter 21 may have particularly significant industrial effects in Italy.

The country is not starting from scratch.

It already has a base capable of transforming part of the new public demand into domestic production.


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## Food and luxury: the strategic value of brand and quality

Other Italian sectors exercise power in a completely different form, through brand, reputation, and the ability to sell goods with a unit value far higher than the pure material cost of inputs.

The Italian agri-food sector belongs to this category. In 2025, exports of food, beverages and tobacco grew by **4.3 percent** , contributing positively to national exports. [5] The strength does not derive only from the quantity produced, but from the association between origin, quality, denominations, processing and international image.

A bottle of wine or a premium food product therefore contains a significant amount of intangible value.

The same is true, to an even greater extent, for fashion and luxury.

In these sectors, control of the brand, design and distribution can count more than the localization of each individual production phase.

But here too, ownership becomes a strategic issue. Many historically Italian brands have over time become part of large international groups, while part of their production chains remain located in Italy. Locally generated value can therefore remain high even when final control is not national; at the same time, part of the profits and strategic decisions can be located elsewhere.

This shows once again why the concept of Made in Italy does not automatically coincide with the concept of Italian capital.


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## Pharmaceuticals, metals, and transportation: 2025 will see increasingly polarized exports.

The 2025 export structure also reveals an increasing concentration of growth in some sectors. Pharmaceuticals, metals and transport equipment provided a very significant part of the increase in foreign sales, while other sectors showed weaker dynamics. [5]

This transformation is also visible at a territorial level. ISTAT notes that the increase in pharmaceutical exports from **Tuscany, Lazio, Lombardy, Abruzzo and Campania** alone explained approximately **2.6 percentage points of the growth in national exports in 2025.** [9]

This is an important element because it shows that the new industrial specialization does not completely coincide with the traditional North-South division.

Lombardy continues to be one of Italy's main industrial hubs, but pharmaceuticals and aerospace also generate significant capacity in Lazio, Tuscany, Campania, and Abruzzo.

The production geography remains highly unbalanced, but some high-tech supply chains cross the old territorial border in a more complex way.

This could become strategically important if PNRR investments and new European industrial policies were able to better connect these hubs to infrastructure and research.


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## Productivity: the real line that separates Italian strength from its potential

The problem that runs through all these excellences, however, remains the same one encountered repeatedly in the book: aggregate productivity.

The OECD notes that Italian productivity remains lower than that of most advanced economies and that its growth has been slower than the euro area average since the mid-1990s. [7]

The formula "Italy is not very productive" can, however, lead to a significant misunderstanding, because it seems to suggest that an Italian worker or factory is necessarily less efficient than its foreign competitors. Dimensional analysis shows instead that a significant part of the gap derives from the distribution of businesses: medium and large Italian companies can be extremely productive, but a much larger share of employment compared to France and Germany remains concentrated in micro and small businesses, which on average have less capital per worker, invest less in technology and have lower economies of scale. [7]

Aggregate productivity is therefore also a problem of **business demography** .

It's not just how many businesses are created that matters.

Count how many they grow.

A country with many start-ups but few scale-ups can appear entrepreneurially dynamic and yet remain weak when companies face investments of hundreds of millions, international acquisitions, or cutting-edge research.

Italy has a very widespread entrepreneurial culture.

The challenge is to transform a greater share of that entrepreneurship into businesses capable of reaching international scale without losing the local skills that produced their original advantage.


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## Research and development: the gap that manufacturing alone can't hide

It is in the field of research that one of the most glaring weaknesses emerges.

According to the OECD, in **2024 Italy's total expenditure on research and development was equal to approximately 1.4 percent of GDP** , against an OECD average of **2.7 percent** . [10] In the same year, the average research intensity of the European Union was approximately **2.2 percent of GDP** , while Germany, Sweden, Belgium, Austria, Finland and Denmark reached or exceeded the 3 percent threshold. [11]

The gap is strategic because contemporary manufacturing increasingly incorporates intangible value. A machine can be built in Italy but depend on software, semiconductors, algorithms, and sensors developed elsewhere; a car can be assembled in a European plant but have a growing share of its value concentrated in batteries, electronics, and software.

If Italy maintains a large manufacturing capacity without sufficiently increasing investment in intangible assets, it risks preserving its production phases while a growing portion of the added value is captured by those who control technology and data.

This is where the industrial problem becomes a problem of technological sovereignty.

Italian public research boasts areas of excellence, but the transition from scientific research to industrial capacity is not automatic.

We need companies capable of absorbing innovation, venture capital, collaboration between universities and industry, technology transfer, and a scale that makes it economically sustainable to bring a technology from the lab to the market.

The OECD also notes that, although it has increased significantly compared to a decade earlier, Italian patent activity continues to lag behind that of other comparable large economies and that in the period 2000–2020 Italian patents represented around **6.6 percent** of the European total. [10]

So the problem is not the lack of innovation.

It's the quantity and the ability to scale it.


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## Digitalization and artificial intelligence: a gap no longer separable from industry

The same issue appears in digital.

According to the OECD, in 2024 around **29 percent of Italian firms with at least ten employees** had a very low level of digital intensity, compared to around 26 percent in the euro area. [12]

The gap may seem small, but it becomes even more significant when considered in terms of size. Large companies can finance ERP, cloud, analytics, cybersecurity, and artificial intelligence systems; a microbusiness must sustain proportionally much higher organizational and managerial costs.

Furthermore, digitalization is not about buying software.

Requires organizational changes.

A company can purchase an AI system and see no productivity gains if its internal processes, data, and skills are inadequate.

This is why the OECD links Italy's delay not only to available technology, but also to managerial quality and the skills of the workforce. [12]

Italy's new industrial frontier will therefore depend on the ability to combine traditional expertise in mechanics and manufacturing with software, data, and advanced automation.

This is particularly important for machinery, where Italy already has a competitive base.

An industrial systems manufacturer that successfully integrates predictive maintenance, AI, sensors, and digital services can transform a traditional manufacturing advantage into a technological advantage that is much more difficult to replicate.


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## Global Value Chains: Exporting Doesn't Mean Producing Everything

Italy's international openness must also be interpreted through the imported content of the production.

An exporting company rarely produces all the inputs it needs. It purchases components, materials, energy, digital services, and technologies from abroad, integrates them into its own production, and then exports the final or intermediate product.

Eurostat now uses international input-output tables such as FIGARO precisely to distinguish the domestic added value incorporated in exports from that produced abroad. [13]

This distinction becomes politically important in an age of de-risking.

A major Italian export may depend on a critical component produced almost exclusively in another country.

Vulnerability does not necessarily appear in the aggregate trade balance.

It appears in the input network.

This is the problem explicitly addressed by the ISTAT Competitiveness Reports 2025 and 2026, which analyse the dependence of Italian companies on foreign supplies and, in the 2026 edition, dedicate an entire chapter to the **dependence on imports of strategic products** . [2][14]

The manufacturing system explains a very high share of the overall dependence of the Italian economy on international supplies, and precisely the sectors most integrated in global chains often combine high export capacity and a strong need to import components and inputs. [14]

The consequence is fundamental: **high exports and high dependence can coexist** .

They are not two opposite phenomena.

A multinational automotive company imports batteries or electronic components, integrates them into a vehicle, and re-exports them; a pharmaceutical company imports active ingredients or intermediates and produces a high-value drug; a machinery manufacturer incorporates chips, motors, or specialty materials from other countries.

True industrial power therefore consists in the ability to prevent a single foreign input from blocking the entire supply chain.

## Semiconductors: The small component that measures a large dependence

Few supply chains show this vulnerability as much as semiconductors.


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Chips represent a relatively small portion of the physical cost of many industrial products, but they can be essential to their functioning. The global semiconductor crisis of 2020–2022 demonstrated how a disruption in components with a low unit value can disrupt automotive production lines and machinery with vastly higher values.

Italy has facilities and expertise in the microelectronics sector, but it does not control a comprehensive ecosystem comparable to that of the United States or Asia. Global production is fragmented between design, EDA software, lithography machines, wafers, factories, and advanced packaging, and no European country independently controls the entire chain.

For Italy, the issue cannot therefore be to independently produce all semiconductors, but to secure a sufficiently strong European position in technologies that are strategic for the automotive, industrial, defense, and energy sectors.

European chip policy and investment in microelectronics capacity take on a significance here that goes far beyond simply attracting a factory.

They are a form of industrial insurance.


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## Energy: The input cost that runs through all manufacturing

Another dependency was discussed in Chapter 20 but needs to be reintroduced here from an industrial perspective.

A manufacturing system can be very efficient and lose competitiveness if it purchases energy that is structurally more expensive than its competitors.

The issue is particularly sensitive for metallurgy, chemicals, glass, ceramics, paper, refining and other energy-intensive activities.

The Italian energy deficit of almost **47 billion euros in 2025** is therefore not just a trade balance problem. [5] It is also a cost that enters directly into companies' balance sheets and indirectly into the price of many goods.

The OECD identifies the reduction of energy costs and supply volatility as one of the main elements needed to strengthen Italian competitiveness, combining acceleration of renewables, electrification, networks and storage with greater economic security. [15]

The new industrial policy cannot therefore be separated from energy policy.

The ability to produce steel, glass, fertilizers, or ceramics in Europe also depends on the relative price of energy compared to the United States, China, and other competitors.


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## China: competitor, supplier and market all at once

Italy's position in global chains becomes even more complex when considering China, a topic that will be explored in greater depth in the next chapter but which is already essential for understanding the industrial structure.

China is simultaneously a competitor of many Italian producers, a supplier of industrial inputs and an outlet market.

These three roles do not necessarily coincide in the same sector.

For a machinery manufacturer, China can be an important customer.

For a European manufacturer of photovoltaic panels or standardized components, it can above all be a competitor.

For a company that uses electronic components or critical materials, it may be a supplier that is difficult to replace in the short term.

It is precisely this overlap that makes the policy of **de-risking** much more complex than a simple reduction in trade.

Indiscriminately cutting Chinese imports could increase costs for Italian companies competing on global markets.

The strategic question is therefore to identify where dependence produces systemic risk and where it represents a normal, diversifiable commercial relationship.


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## Surplus is not an industrial strategy

At this point, it becomes possible to correctly interpret the trade surplus of 50.7 billion in 2025.

It is an important indicator of the Italian system's ability to sell more goods abroad than it purchases in net value.

- However, this is not a definitive judgment on its power.
- The balance may increase because energy costs less.
- It may be highly dependent on a few sectors.
- It may contain exports generated by companies controlled abroad.
- It can incorporate a large amount of imported inputs.
- It can coexist with weak aggregate productivity and low R&D investment.
- Industrial power must therefore be measured multidimensionally.

And precisely by doing this, Italy appears simultaneously stronger and more vulnerable than opposing narratives suggest.


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## Italy still produces a lot, but it does not control everything it produces

The first major conclusion is that Italy **is not a post-industrial economy in the sense of a country that has lost its manufacturing base** . The 14 percent of industrial production sold in the EU, the enormous non-energy surplus, the strength of machinery, pharmaceuticals, transport, food and numerous manufacturing niches demonstrate the opposite. [1][5]

But the second conclusion is equally important: the productive dimension does not entirely coincide with the national control of capital and technology.

In some sectors, Italian multinationals hold a dominant position.

In others, foreign capital controls a very significant portion of exports.

In others, dependence on imported inputs creates vulnerability even when the final product is competitive.

The third conclusion concerns productivity: Italy has companies capable of competing with the best French and German companies, but too many resources remain concentrated in small companies that struggle to grow. [7]

The fourth concerns technology: an R&D intensity of around 1.4 percent of GDP is too low for an economy that wants to maintain a relevant industrial position during a phase in which software, AI, semiconductors, biotechnologies, advanced materials and energy technologies represent an increasing share of value. [10]

The fifth concerns geography: Italy's industrial strength continues to be profoundly uneven across the country, but pharmaceuticals, aerospace, food, and other industries demonstrate that competitive hubs exist even outside the traditional northern concentration.


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## From manufacturing to productive sovereignty

This leads to the most important question of the chapter.

**What does it mean to be a manufacturing powerhouse in 2026?**

It doesn't mean producing everything in-house.

None of the major Western economies are autarchic.

It means knowing which addictions are acceptable and which become dangerous.

It means owning companies capable of leading value chains and not simply inserting themselves into the less profitable phases.

It means attracting foreign multinationals without becoming territorially interchangeable.

It means producing enough research to maintain a significant share of the intellectual property.

It means having reliable energy and digital infrastructure.

It means having sufficient human, managerial, and financial capital to grow successful businesses.

Above all, it means knowing how to transform a great manufacturing tradition into an industrial structure compatible with a competition that is no longer played solely on labor costs or product quality, but on the control of technology, data, capital, and raw materials.

From this point of view, Italy in 2026 is an incomplete industrial power.

Not because it lacks competitive companies.

He owns many of them.

Not because it stopped exporting.

It produces a non-energy surplus of close to one hundred billion euros.

Not because it is absent from technologically advanced sectors.

Pharmaceuticals, aerospace, defense, industrial automation, and microelectronics demonstrate the opposite.

The incompleteness stems from the fact that these excellences coexist within an aggregate system in which productivity, company size, R&D, digitalization, and the availability of certain strategic inputs remain weaker than what would be necessary to transform the industrial mass into full technological autonomy.

This is the fundamental fracture.

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## The opportunity of the PNRR and the problem of the post-2026 period

The existence of this fracture makes what will happen after the conclusion of the PNRR particularly important.

In 2025, Italian investments remained relatively dynamic, thanks in part to the impetus of the European program, but an effective industrial policy cannot depend indefinitely on an extraordinary mechanism created during the pandemic.

The challenge is therefore to transform the 2021–2026 investment cycle into permanent capacity.

A digital network built with the PNRR must generate productivity even in 2030.

A railway infrastructure must reduce logistics costs for decades.

Justice reform must permanently reduce contractual risk.

Investment in training must increase the skills of the workforce even after the European program is concluded.

If these mechanisms work, the PNRR could represent an increase in production potential and not just a period of greater investment.

If they don't work, the risk is that 2027 will bring Italy back to the very weak growth that has characterized much of the last few decades.

This, more than the formal absorption of funds, is the true criterion of success.


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## A new industrial policy does not mean returning to IRI

The return of industrial policy in Europe after the pandemic, the war in Ukraine, and Sino-American competition has also reopened the debate on the role of the state in Italy. But the new public intervention cannot simply be a reconstruction of the system of state-owned companies described in the previous chapters.

Contemporary supply chains are too international, technological, and capital-intensive for the state to consider controlling them solely through direct ownership.

However, it can guide infrastructure, research, procurement, patient capital, regulation, training, and supply chain security.

It can use Cassa Depositi e Prestiti, public funds, incentives, and European instruments to support sectors considered strategic.

It can exercise the Golden Power when an acquisition threatens essential interests.

It can participate in joint European defence, space, semiconductor and energy programmes.

Modern industrial sovereignty is therefore much more akin to an **orchestration capacity** than to direct control of all enterprises.

And it is precisely on this ability that Italy must be measured.

**The border between openness and vulnerability**

- The Italian system has prospered precisely because it is open.
- Companies export.
- They import components.
- They attract foreign capital.
- They acquire companies abroad.
- They participate in multinational groups.
- They share technologies through European programs.
- Shutting down this network in the name of autonomy would likely reduce, not increase, Italy's industrial capacity.
- But openness and dependence are not synonymous.

An open system can be resilient if it has multiple suppliers, substitution capabilities, inventories, and control of at least some key technology nodes.

It becomes vulnerable when a single country or producer can cut off an input that cannot be replaced within a timeframe compatible with production continuity. Industrial policy must therefore identify chokepoints , not simply reduce imports. It is a form of economic intelligence.


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## The true Made in Italy of the 21st century

At this point, the economic and political meaning of the term **"Made in Italy"** must also be broadened, because continuing to associate it almost exclusively with fashion, agri-food, design, furniture, luxury goods, and craftsmanship would only describe a significant, yet now largely inadequate, part of the national production structure. These sectors continue to be one of the main drivers of Italy's international reputation and maintain a vital role in the country's trade balance, employment, and cultural projection; however, their symbolic centrality risks obscuring a much more profound transformation, because **a significant portion of contemporary Italian competitiveness is now concentrated in advanced mechanics, industrial automation, pharmaceuticals, aerospace, defense electronics, shipbuilding, packaging, robotics, materials processing technologies, and a host of highly specialized intermediate supply chains that the end consumer often overlooks but which enter production plants around the world** .

Italy's industrial capacity is therefore far more sophisticated than the country's frequent portrayal abroad, and, to a significant extent, even than its self-description. The image of Italy as an economy of beauty, food, design, and creativity is not false; it becomes misleading when used as an exclusive summary of national specialization. Because alongside a dress, a bottle of wine, or a piece of furniture, there exists another industrial Italy that produces automatic machines, radar systems, turbines, aeronautical components, pharmaceutical technologies, helicopters, naval vessels, propulsion systems, biomedical equipment, packaging lines, and machine tools capable of operating within other countries' factories.

From this perspective, **Made in Italy is not just what the consumer buys; it is also what other economies use to produce** .

It is precisely this element that makes Italian manufacturing strategically more important than narratives based primarily on final goods suggest.


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## From iconic product to technology incorporated into global production processes

Italy, of course, continues to own some of the most recognizable consumer brands in the world, but a significant portion of its export strength comes not from goods purchased directly by households, but from **capital goods, machinery, components, and intermediated technologies** , demand for which depends on industrial investments made in the United States, Germany, France, India, Mexico, China, and dozens of other markets.

The ICE Agency places the Italian **machinery and mechatronics sector** among the most competitive and technologically advanced in Europe and estimates over **60,000 local units** , approximately **251 billion euros in turnover** , **70 billion in added value** and an export value in the order of **148 billion euros** ; for the machinery & equipment category alone, Italy has over 18,000 companies and is indicated as the second European country in terms of added value in the sector. [17] ( ice.it )

These data help correct a significant perceptual distortion. When an American company purchases an Italian automatic metalworking machine, when an Asian pharmaceutical manufacturer installs an Italian packaging line, or when an automotive plant uses robots, transmission systems, pumps, or mechatronic components produced in Emilia-Romagna, Lombardy, Piedmont, or Veneto, that operation doesn't have the same international visibility as a stock exchange, a sports car, or a high-end wine, but it contributes just as concretely to Italy's ability to generate exports, skilled employment, and a trade surplus.

This point is even more strategically relevant because capital goods often generate a longer-term economic relationship than the sale of consumer goods. An industrial machine must be installed, maintained, updated, and integrated with software, spare parts, and technical support; this means that **the initial sale can create a multi-year technological relationship between the Italian manufacturer and the client company** , increasing replacement costs and strengthening the supplier's position.

It is in this sense that a machine tool can have a geoeconomic dimension.


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## Machine tools: an invisible but decisive specialization

The machine tools, robotics and automation sector represents one of the most effective examples of the difference between the image and the real structure of the Italian industry. In 2024, Italian production in the sector stood at approximately **6.3 billion euros** and exports reached **4.27 billion** , a new record for the sector, with an export share of production equal to **67.5 percent** . The United States was the main market with approximately 629 million euros, followed by Germany, China, France, Turkey, India and Mexico. [18] ( ucimu.it )

The data is significant because it shows how the weakness of domestic demand has not eliminated the international competitiveness of the sector. In 2024, the domestic machine tool market suffered a sharp contraction, but exports still reached an all-time high, confirming that a part of Italian manufacturing is now structurally linked to global industrial investments much more than to the internal cycle. [18]

Italian machine tools aren't just exports; they often represent **a technology that enters the production process of other strategic sectors** , from automotive to aerospace, from precision mechanics to energy, from defense to the production of medical components. The importance of these companies must therefore also be measured by their position in supply chains, because a technology necessary for the production of other goods possesses a strategic value greater than that suggested by turnover alone.


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## Industrial Made in Italy: some sectors that escape the traditional image

| Sector | Recent indicator | Strategic feature |
|---|---|---|
| **Machinery and mechatronics** | approximately **€148 billion of exports** in the broad ICE definition | capital goods and production technologies |
| **Machine tools, robots and automation** | **€4.27 billion in exports in 2024** | advanced manufacturing technologies |
| **Packaging machines** | **€10.06 billion in turnover, €8 billion in exports in 2024** | strong presence in pharma, food and consumer goods |
| **Pharmaceuticals** | **€56 billion in production and €54 billion in exports in 2024** | high added value and research |
| **Agri-food** | **over €69 billion in exports in 2024; €72.4 billion in 2025** | brand value, supply chain and transformation |
| **Leonardo** | **€19.5 billion in revenues in 2025; €3 billion in R&D** | aerospace, electronics, radar, helicopters and defense |
| **Fincantieri** | **€9.19 billion in revenue and €63.2 billion in backlog in 2025** | complex and underwater shipbuilding |

**Sources:** ICE, UCIMU, UCIMA, Leonardo, Fincantieri. [17][18][19][20][21][22]

The table does not intend to sum statistical categories that are not perfectly homogeneous, but to highlight the plurality of specializations that must now be included in the concept of contemporary Made in Italy.


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## Packaging: When Italy Sells the Machine That Packages Other People's Products

The automatic packaging and wrapping machinery supply chain probably represents one of the clearest examples of this new definition. In 2024, the Italian sector exceeded the threshold of **10 billion euros in turnover for the first time** , reaching 10.06 billion, while exports rose to approximately **8 billion** , equal to **79.4 percent of the total turnover** . The companies surveyed by UCIMA were 619 and employed over 40,000 people. [19] ( ucima.it )

This data is particularly interesting because packaging lies at the intersection of numerous supply chains in which Italy possesses advanced industrial expertise: pharmaceuticals, food, cosmetics, chemicals, and consumer goods. An Italian line can therefore operate within a US pharmaceutical plant, an Asian food industry, or a European consumer goods plant.

This structure gives the sector a greater value than the simple export of a machine, because it incorporates **automation, sensors, software, quality control, robotics, materials, and support services** . In other words, part of the value of Made in Italy isn't imprinted on the visible brand of the final product; it remains hidden within the technology that allowed it to be produced, filled, sterilized, inspected, and packaged.

It is an industrially sophisticated and commercially unspectacular, but essential form of Made in Italy.


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## Pharmaceuticals: one of the most significant changes in the geography of Italian exports

The case of pharmaceuticals is even more significant, because it directly challenges the representation of Italy as an economy predominantly concentrated on traditional production. According to the ICE Agency, in **2024 Italian pharmaceutical production reached approximately 56 billion euros** , while exports were around **54 billion** , making Italy one of the largest European pharmaceutical production and export hubs. [20] ( ice.it )

In 2025 the sector further strengthened its weight: Farmindustria, commenting on ISTAT data, indicated a growth in pharmaceutical exports of **28.5 percent** , observing that of the approximately 19 billion in overall increase in Italian manufacturing exports, approximately 15 came from the pharmaceutical industry. [20] ( farmindustria.it )

This data forces us to redefine the concept of Made in Italy geographically as well. The high value-added Italian product is not only produced in the areas traditionally associated with the supply chains of the industrial North; **Lazio and Tuscany have become pharmaceutical hubs of international importance** , while Campania and other regions host important factories and supply chains. The ICE 2024-2025 Report notes that the increase in Lazio's exports in 2024 was mainly driven by the pharmaceutical sector and that the same sector contributed significantly to the growth of Tuscany and some southern regions. [23]

This is important for at least two reasons. The first is economic: pharmaceuticals involve research, regulation, skilled capital, sophisticated industrial processes, and a high level of export intensity. The second is strategic: after the pandemic, the availability of drugs, active ingredients, vaccines, and production capacity has also been reinterpreted as a matter of economic and health security.

Made in Italy pharmaceuticals are therefore not just exports.

It is also **industrial resilience** .


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## A pharmaceutical factory in Lazio is as Made in Italy as a fashion house

This statement may seem provocative simply because Italian public discourse has long associated the concept of Made in Italy with sectors in which geographical origin, design, and the final brand are immediately perceptible to the consumer. But from an economic standpoint, a pharmaceutical production line located in Lazio or Tuscany, capable of exporting medicines to dozens of markets, incorporates capital, skilled labor, investments, certifications, and expertise localized in Italy, just like a luxury company.

The difference is that the symbolic value is perceived less clearly.

It's a difference in image, not in economic significance.

## Leonardo: Made in Italy that flies, observes, and integrates data

Even more evident is the case of aerospace and defense. **Leonardo** closed 2025 with approximately **19.5 billion euros in revenues, 23.8 billion in new orders, 46.6 billion in order portfolio and approximately 3 billion invested in research and development** , with a presence that spans defense and security electronics, helicopters, aeronautics, cyber and space. [21] ( leonardo.com )

The point is not to celebrate a single national enterprise, but to recognize what this structure represents in terms of industrial capacity: Italy possesses unique expertise in the design of AESA radars, avionics systems, helicopters, defense electronics, sensors, cyber, aeronautical components, and space systems—that is, in sectors where future value will increasingly depend on the combination of hardware, software, data, and systems integration.

Radar, in particular, is an emblematic example of the difference between a commercial product and a strategic capability. A radar system is not simply an exported good; it determines surveillance, air defence, early warning, targeting and information integration capabilities. Leonardo indicates among its activities the development of AESA radars and systems intended for integrated defence against long-range air and missile threats. [21]

In this sector, Made in Italy directly becomes **a technology of sovereignty** .


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## The helicopter as an industrial product, technological platform and service

The same is true for helicopters. A helicopter is not just a metal platform assembled in a factory; it incorporates transmissions, avionics, software, mission systems, maintenance, certification and training. Leonardo claims approximately **800 helicopters used globally for search and rescue and public services** , over 16,500 trained pilots and technicians and an international network of assistance and training centres. [21]

This framework demonstrates why the value of a complex industrial product continues long after the initial sale. The platform generates maintenance, training, upgrades, spare parts, and customer relationships that can last decades.

The ability to produce helicopters therefore has a completely different industrial significance than the export of a standardized, easily substitutable good.

### Fincantieri: Made in Italy as a complex naval infrastructure

**Fincantieri** case further broadens the definition, because advanced shipbuilding requires a combination of design, metallurgy, electronics, software, propulsion, systems integration, logistics and a network of thousands of subcontractors. In 2025, the group recorded revenues of **9.19 billion euros** and a total order book of **63.2 billion** , with delivery visibility until 2037. [22] ( fincantieri.com )

A frigate built in Italy therefore represents Made in Italy in a much broader sense than the traditional one, because it incorporates a significant portion of the national capacity to design, integrate, and support complex naval systems. Fincantieri's expansion into the underwater sector demonstrates how shipbuilding is becoming increasingly connected to the protection of underwater infrastructure, autonomous systems, and the new strategic importance of the seabed.

The ship is not just an exportable product.

It is **accumulated industrial knowledge** .


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## Agri-food: the traditional sector has itself become more industrial

Expanding the concept of Made in Italy does not mean reducing the role of the agri-food sector, because this sector is now much more technological, logistical and industrial than the purely artisanal representation with which it is often identified. In **2024, Italian agri-food exports exceeded 69 billion euros** , with a growth of more than 8 percent compared to 2023, and in **2025 it reached approximately 72.4 billion** , a new historical high. [24] ( ice.it )

This value comes not only from the reputation of Italian denominations, but from the ability to build a **high-value-added food chain** that includes agriculture, processing, packaging, refrigeration, logistics, certification, marketing, and international distribution.

Here too, strength does not simply lie in the final product.

It consists of the supply chain.

An Italian cheese exported to the United States incorporates breeding, processing, control systems, packaging, cold storage logistics and reputation.

A bottle of wine incorporates territory and brand, but also winemaking technology, machinery, glass, corks, logistics and distribution.

A pasta package incorporates agriculture, mills, processing technologies, packaging machinery and global marketing capabilities.

Traditional Made in Italy and technological Made in Italy are therefore not two separate systems.

They are increasingly interdependent.


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## Pharmaceutical packaging shows how deep the connections between supply chains are

The case of an Italian machine used to package drugs produced in another country almost perfectly encapsulates this evolution. Italian value doesn't coincide with the final drug, which can be produced by an American, German, or Swiss company; it lies in the technology that makes it possible to fill it, sterilize it, verify its quality, package it, and ensure it complies with regulatory standards.

This means that part of contemporary industrial power comes from **enabling technologies** , that is, from those systems that allow other sectors to function.

It is precisely there that Italy has some of its most important specializations.

## The real strength of Italian manufacturing is often B2B and therefore not very visible

One of the reasons this reality is poorly understood is precisely the B2B nature of many Italian companies. An American consumer might be familiar with Ferrari, Gucci, Barilla, or Ferrero and not realize that the factory producing the goods they're purchasing uses Italian machinery, pumps, gearboxes, components, sensors, or systems.

Consumer reputation and industrial relevance therefore do not necessarily coincide.

The perception problem is important because it also influences the way the country defines its industrial policy priorities.

If Italy thinks of Made in Italy primarily as brand protection and the promotion of beauty and well-made products, it risks underestimating the sectors in which its comparative advantage derives from **technology, engineering, customization capabilities, and industrial integration** .

**The 623.5 billion exports of 2024 show a much more complex structure**

In 2024, Italian exports of goods reached **623.5 billion euros** , substantially stable compared to 2023 but approximately 30 percent higher than the 2019 level. ICE underlines that, just as fashion, automotive and some other supply chains were going through a difficult phase, pharmaceuticals, agri-food, chemicals, ICT and other sectors were compensating for a significant part of the weakness. [25]

In 2025, overall exports rose to approximately **643 billion euros** , with a growth of 3.3 percent; pharmaceuticals were the main contributors to the increase, while agri-food reached 72.4 billion and mechanics remained just under **100 billion euros in exports** . [26]


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## Made in Italy exports no longer coincide with traditional sectors

| Size / sector | Given |
|---|---|
| **Italian exports of goods 2024** | €623.5 billion |
| **Italian exports of goods 2025** | approximately €643 billion |
| **Mechanics 2025** | just under €100 billion |
| **Agri-food 2025** | €72.4 billion |
| **Textiles, clothing and footwear 2025** | €60.8 billion |
| **Pharmaceuticals 2024** | approximately €54 billion in exports |
| **Packaging machinery 2024** | €8 billion in exports |
| **Machine Tools, Robots, and Automation 2024** | €4.27 billion in exports |

**Sources:** ICE, UCIMA, UCIMU. [18][19][20][24][25][26]

These values should not be read as a perfectly comparable ranking, because some statistical categories overlap and use different perimeters, but they do allow us to observe a structural fact: **Italy's export capacity is distributed across a much broader set of supply chains than those traditionally associated with the country brand** .

## The question is no longer whether Italy is still an industrial country

From this perspective, part of the national debate appears surprisingly backward. The question of whether Italy "still produces" or has become predominantly a service economy is poorly posed, because data on the manufacturing structure, exports, and technology supply chains unequivocally demonstrate the persistence of a broad industrial base.

The really important question concerns **Italy's position within the value chains and how much control it exerts over the higher value-added segments** .

Producing is necessary.

It's not enough.


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## Assembling is not the same as designing

Two plants can generate the same production value and yet have very different strategic importance. One may simply assemble components designed, patented, and tested elsewhere; the other may possess the design, software, patents, integration capabilities, support, and direct customer access.

**industrial power** lies .

The country that controls the project can modify the product.

The country that controls the software can update it.

The country that owns the intellectual property collects royalties.

The country that manages the assistance maintains the relationship with the customer.

The country that produces only the standardized component can be replaced more easily.

The problem with Made in Italy in the 21st century is precisely this.

## Intellectual property is as important as the factory

In contemporary industry, a growing portion of value is generated before and after the factory floor: research, design, software, patents, data, marketing, distribution, services, and maintenance. The physical presence of the factory remains crucial, especially in complex supply chains, but it doesn't exhaust the economic control of the product.

Europe itself still has a significant deficit with the United States for payments related to intellectual property, as highlighted by the ICE Report 2024-2025. [25]

For Italy, therefore, the future question cannot be just “how many factories remain”, but **how much intellectual property, design and software is generated and controlled in Italy** .

## Research and development becomes a measure of industrial sovereignty

Leonardo's data, with approximately **3 billion euros invested in research and development in 2025** , equal to a very high share of revenues, shows why some companies in the new strategic manufacturing sector must also be evaluated through technological intensity and not only through turnover. [21]

R&D creates technologies.

But above all it creates people capable of developing the next ones.

A company can import a technology and use it.

Having a research ecosystem allows it to evolve.

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This is a fundamental strategic difference.

## Even the pharmaceutical industry raises the question of who controls capital and innovation

The pharmaceutical data, however, requires a less celebratory reading. ICE reports that a significant share of companies producing in Italy belongs to foreign multinational groups and that Italian capital represents a minority, albeit very significant, part of the entire sector. [20] ( ice.it )

This means that localized production and strategic control are not necessarily the same thing.

An Italian plant of a multinational group produces jobs, exports, and domestic added value.

But decisions about patents, global research, future investments, and international capital allocation can be made elsewhere.

The industrial value remains real.

Technological sovereignty is more complex.

## This is where the distinction between "made in Italy" and "controlled by Italy" becomes decisive.

The new Made in Italy should therefore be analyzed on multiple levels:

## The five dimensions of industrial strategic value

| Size | Fundamental question |
|---|---|
| **Production** | Is the product actually produced in Italy? |
| **Design** | where is the technology developed? |
| **Intellectual property** | Who controls patents, software, and know-how? |
| **Supply chain** | Which critical components depend on foreign countries? |
| **Market** | Who controls the customer, brand, support and distribution? |

An industry can be strong on the first level and weak on the others.

A geoeconomic power must try to cover multiple levels simultaneously.

## The supply chain matters more than the single company

Another key factor concerns the depth of the supply chain. Leonardo, Fincantieri, major pharmaceutical groups, and automatic machinery manufacturers don't operate in

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isolation; they depend on thousands of companies that produce electronics, precision mechanics, materials, software, engineering services, and certified manufacturing.

Italian competitiveness therefore derives largely from **territorial industrial ecosystems** , in which proximity between client, supplier, university and technical expertise allows for the rapid development of customized solutions.

This structure constitutes one of Italy's historical advantages.

It's also a vulnerability.

## Small business can be great but struggle to scale

Many Italian companies possess extraordinary niche specialization but limited financial scale. This allows for flexibility and customization, but can become a problem when new markets require large investments in software, cybersecurity, AI, internationalization, or production facilities.

The risk is that the company maintains excellent technology but progressively loses commercial control or is acquired by foreign groups with greater capital.

The challenge for the future of Made in Italy is therefore not just to preserve SMEs.

It is to allow the best to **grow without losing the national technological capacity that they represent** .

## The real geoeconomic leap requires companies capable of defining standards

A manufacturing economy exports products.

A geoeconomic power can also influence **the standards, technologies, infrastructures and dependencies of others** .

This distinction is fundamental.

An Italian machine widely used in a given sector can create technical standards.

A radar integrated into a NATO architecture can create long-term interoperability.

An exported frigate generates training, maintenance and strategic relationships.

A patented drug generates positive technological dependence on the manufacturer.

An industrial software platform creates an ecosystem.

This is where manufacturing becomes power.


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## Exporting a frigate is not the same as exporting a shirt, even if both generate revenue.

From a trade perspective, both transactions generate exports; from a geoeconomic perspective, they have different consequences. A naval vessel sold to another state can create a thirty-year relationship that includes training, spare parts, maintenance, weapons systems, and political cooperation.

Industrial technology installed in a factory can make switching suppliers costly.

An aerospace platform creates interoperability and dependency on support.

The strategic value of an export therefore also depends **on the duration and depth of the relationship it produces** .

## Even drugs can create industrial power

The pandemic has clearly demonstrated that some production processes considered commercial under ordinary circumstances become strategic when the supply chain is disrupted. Drugs, active ingredients, vaccines, devices, and biotechnologies thus face the same economic security challenges as semiconductors or batteries.

Italian biotech exports exceed **16 billion euros** , with a growth of 45 percent compared to 2019; the life science component constitutes the main part of the sector. [27]

This means that the future of Made in Italy also includes laboratories, biological processes, and scientific platforms.

## Chemistry is another invisible infrastructure of the supply chains

The chemical sector also has an often underestimated role, because a very high share of its production is used as input by other industries. ICE recorded **exports of approximately 36.7 billion euros in the first eleven months of 2024** and highlighted how approximately 67 percent of chemical production is destined for other production sectors. [28]

This means that competitiveness in the chemical, pharmaceutical, mechanical, automotive, packaging, and agri-food sectors cannot be analyzed independently.

Made in Italy is a **network of industrial interdependencies** .

## The green transition is once again changing the geography of value

The key question for the coming years, however, concerns the speed with which the Italian manufacturing system will be able to shift toward the technologies that will generate future investment and value: power electronics, batteries, semiconductors, network technologies, advanced robotics, industrial AI, space, cyber, biomedical technologies, new materials, and low-emission energy systems.


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Italy has significant expertise in many of these sectors.

Not necessarily the scale is sufficient.

This is the new frontier.

## Being strong in mechanics does not automatically guarantee being strong in industrial AI.

A leading precision engineering company may lose value if control of the system progressively shifts from the physical component to software.

A machinery manufacturer can maintain its advantage if it can integrate AI, predictive maintenance, sensors, and digital services.

The future of Italian manufacturing therefore depends on the ability to **digitize the mechanical advantage without losing it** .

This is especially true for SMEs.

## Even automation can become a technological dependency if the software is foreign

A machine designed and assembled in Italy may use foreign semiconductors, foreign cloud systems, or AI models developed elsewhere. The competitiveness of Italian hardware can therefore coexist with growing digital dependence.

The problem is not necessarily eliminating this dependency.

It's about preventing it from becoming a point of vulnerability.

Once again the same logic observed in energy returns.

## Italy must defend the technologies it possesses and acquire those it does not possess.

A realistic industrial policy cannot attempt to produce every component domestically. It must identify the segments in which Italy already has significant advantages and those in which excessive dependence could compromise the competitiveness of its supply chains.

The problem is not autarchic.

It's strategic.

## Exports and the domestic market must also support each other.

The high propensity to export is a strength, but it naturally exposes Italian companies to international cycles, tariffs and foreign demand. 2024 has shown this clearly: while some sectors have maintained record levels of exports, domestic demand for capital goods has

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been weak and sectors such as machine tools have suffered sharp contractions on the domestic market. [18]

This raises a further industrial policy question: **can a country maintain a large capital goods industry for long if its domestic market invests too little?**

The answer is not obvious.

Exports can sustain businesses for a long time.

But a technologically dynamic industrial system also needs domestic customers capable of adopting the technologies it produces.

## An Italian factory should also be a user of Made in Italy technology

This is an often overlooked aspect. If Italy exports robots, automation, and advanced machinery, but domestic companies invest slowly in modernizing their plants, a disconnect can arise between **the excellence of the technology producer and the average productivity of the host system** .

This helps explain one of Italy's paradoxes: a country capable of producing some of the world's best industrial technologies can simultaneously experience weak aggregate productivity.

Excellence is not evenly distributed.


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## Made in Italy must therefore be thought of as an ecosystem, not as a brand

This is precisely the crucial conceptual shift. In the 21st century, Made in Italy should not only mean "a product recognizably Italian," but **a system of production capabilities located in Italy and capable of generating value in global supply chains** .

This includes brands.

- But it also includes patents.
- Software.
- Plants.
- Laboratories.
- Construction sites.
- Radar.
- Drugs.
- Machines.
- Components.
- Technical services.
- Human capital.

## National reputation must follow the real structure of the economy

Economic diplomacy and the promotion of Italy should therefore better reflect this complexity. Promoting fashion, food, and design remains essential, but presenting Italy solely through these sectors risks diminishing the international perception of the country's technological prowess.

Italy must also be recognized as a supplier of **advanced manufacturing, life sciences, aerospace, defense, automation and industrial technology** .

It is a problem of national branding, but also of economic foreign policy.

**2025 already shows a shift in the composition of export success**

The 2025 figure is particularly significant precisely because the pharmaceutical industry provided the greatest contribution to the overall growth of exports, while the agri-food industry reached new records and the mechanical industry remained close to 100 billion. [26]

This means that the new Made in Italy does not replace the traditional one.

It expands it.

Strength lies in diversification.


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## The real goal is not to choose between fashion and radar

A mature industrial policy should not decide whether Italy should be a country of luxury or aerospace, food or pharmaceuticals, design or mechanics.

It must exploit the plurality of specializations.

A diversified production structure is more resistant to shocks than an economy dependent on a few sectors.

Industrial diversification is therefore a form of resilience similar to energy diversification.

## But not all sectors generate the same strategic value

This statement does not mean that there is a simple political hierarchy between sectors, but that some sectors possess particular characteristics: high R&D intensity, difficulty of substitution, dual use, control of infrastructure, effects on national security and the ability to create standards.

It is in these sectors that industrial policy takes on a geoeconomic dimension.

## The crucial question is how much value remains under Italian control

Export success, therefore, doesn't fully address strategic demand. A country can export a lot and control little intellectual property or capital.

- It can produce drugs from foreign groups.
- It can assemble systems designed elsewhere.
- May use foreign software.
- You can export components without checking the final product.

The question of the 21st century is therefore **how much of the value chain Italy can control** .


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## From manufacturing to geoeconomic power

| Level | Characteristic |
|---|---|
| **1. Production** | ability to manufacture |
| **2. Export** | ability to compete on world markets |
| **3. Design** | ability to define the product |
| **4. Intellectual property** | technology and patent control |
| **5. Standard** | ability to influence rules and architectures |
| **6. Services and maintenance** | long-term relationship with the customer |
| **7. Finance and scale** | ability to sustain growth and acquisitions |
| **8. Supply chain** | control or substitutability of critical inputs |

Italy is very strong in the first two tiers and also has significant excellence in the subsequent ones.

The challenge is to extend them.

## This is where the boundary between large-scale manufacturing and geoeconomic power lies.

A large manufacturing economy produces competitive goods.

A geoeconomic power uses its productive capabilities to **increase the number of its own political options and reduce those of others when necessary** , without necessarily resorting to coercive instruments.

Owning critical technology increases negotiating power.

Owning companies capable of supplying military platforms increases strategic influence.

Owning infrastructure and patents increases the ability to attract partnerships.

Owning global brands increases soft power.

Made in Italy can therefore be a form of power much broader than that associated with simple commercial reputation.

## Italy still produces, and produces a lot

The answer to the question of whether Italy is still an industrial economy is therefore documentaryly clear. In 2024, exports of goods remained above **623 billion** , in 2025 they rose to around **643 billion** and sectors such as mechanics, pharmaceuticals, agri-food, packaging, aerospace and shipbuilding continue to demonstrate significant international capacity. [25][26]

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The problem is not the disappearance of the industry.

It's his evolution.

## The future will depend on the speed of technological transition

Italy will have to preserve what it already knows how to do while entering the sectors where the next wave of industrial value will be concentrated.

There is no automatic guarantee that current specializations will remain as profitable in twenty years.

Automation will change.

Manufacturing will be more software-defined.

Energy networks will be more digital.

Defense will be more data-centric.

Pharmaceuticals will be increasingly organic and personalized.

The space will become more industrial.

This is where speed matters.

## The true Made in Italy of the 21st century is therefore a skill, not an aesthetic

This is probably the most important conceptual point of this section. Made in Italy has historically been associated with quality, style, design, territory, and creativity, and all these dimensions remain true.

But in the new economic system it must mean something more.

- **Ability to design.**
- **Ability to produce.**
- **Ability to innovate.**
- **Ability to control technologies.**
- **Ability to export complex systems.**
- **Ability to remain indispensable within the value chains of others.**

This is the Made in Italy that transforms manufacturing into power.

**The real question is not whether Italy still produces**

The answer, as the data shows, is an unequivocal yes.

The real question is **how much of the strategic value of what it produces it can control and how quickly it can shift to the technologies where future value will be concentrated** .

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If Italy maintains production but loses design, software, intellectual property, and capital, it will remain a major manufacturing hub but will have less capacity to direct its supply chains.

If it manages to transform its current specializations into leadership in technologies, standards, services, and integrated systems, its manufacturing strength could become something more.

It could become **a geoeconomic power** .

And this is precisely the boundary that separates a country capable of exporting a lot from a country capable of using what it produces to expand its autonomy, its influence, and the number of available options.


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## The starting point for the relationship with China

The next chapter will start precisely from this conclusion, because no other international relationship better demonstrates the contradictions of contemporary Italian industry than the one with China.

Beijing is a market for Italian mechanics and luxury goods, a key supplier of components and intermediate goods, a manufacturing powerhouse that competes directly with many Italian industries, and a player capable of using scale, industrial policy, and control of supply chains as tools of power.

To understand the Italy-China relationship, it will therefore not be enough to measure the trade deficit or reconstruct Italy's adherence to the Belt and Road Initiative.

It will be necessary to understand **which Italian companies depend on Chinese demand, which depend on Chinese inputs, which compete with China and which assets Beijing considers strategic in Italy** .

Only then will it be possible to establish where interdependence represents an opportunity and where it becomes a vulnerability.

Because the problem for Italy's industrial power isn't cutting itself off from global chains.

It is entering it from a position from which the country can still choose.


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# Chapter 24

## Italy and China — Interdependence, Technology, and De-Risking

The relationship between Italy and China cannot be understood solely through the succession of official visits, signed memoranda, or diplomatic declarations. What truly defines Beijing's influence on the Italian economy is the material network of dependencies, markets, investments, components, technologies, and proprietary decisions that connects the two economies. Over the past fifteen years, this network has become both deeper and more problematic. For Italy, China is simultaneously a large potential market for machinery, fashion, pharmaceuticals, and high-quality goods; an increasingly important supplier of intermediate goods and strategic products; an industrial competitor capable of exerting increasing pressure on European producers; and an investor who, by investing in companies with sensitive technologies, forces the state to question the boundary between economic openness and the protection of national security. Reducing this relationship to the question of whether Italy's membership in the Belt and Road Initiative was a success or a mistake would therefore mean confusing the political symbol with the much larger economic structure that continued to exist before the 2019 Memorandum and that has continued to grow after Italy's decision not to renew it in 2023.

The Memorandum of Understanding signed in Rome in March 2019 by the Italian government and the government of the People's Republic of China formally placed bilateral cooperation within the framework of the Silk Road Economic Belt and the 21st Century Maritime Silk Road, making Italy the only G7 member to politically adhere to the Belt and Road Initiative in that form. The text explicitly referred to connectivity, transport, logistics, ports, trade, investment, finance and cultural cooperation, seeking to create a political framework capable of facilitating an economic relationship that Rome hoped would produce greater Chinese investment and broader access for Italian companies to the People's Republic's market. [1] The subsequent joint Italy-China communiqué of 23 March 2019 also linked the Belt and Road to the European TEN-T networks and port cooperation, indicating the desire to find compatibility between the Chinese initiative and European infrastructure rather than building a system separate from Brussels. [2]

The decision quickly acquired a geopolitical significance far beyond its legal nature. The Memorandum did not transfer control of Italian ports to Beijing, did not constitute a military treaty, and did not automatically oblige Italy to finance specific Chinese projects. Politically, however, it signaled Italy's willingness to grant the BRI a legitimacy that other major Western allies had avoided granting, just as strategic competition with Beijing was becoming a major thrust of US foreign policy and concerns were growing within the European Union over Chinese investments in critical infrastructure, telecommunications, ports, and sensitive technologies. The significance of the act was

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therefore primarily that of a signal of more open economic alignment with Beijing, not an immediate material surrender of sovereignty.

The problem for Rome was that subsequent economic results did not provide clear evidence of the expected political performance. In 2024, Foreign Minister Antonio Tajani reportedly recalled that the government had decided in December 2023 not to follow up on the 2019 Memorandum, while simultaneously arguing that the end of formal participation in the Silk Road should not compromise economic relations with China and that, on the contrary, the objective was to strengthen bilateral relations through instruments more directly controllable by Italy and compatible with the European framework. [3] The choice is important precisely because it shows the difference between **political decoupling from a symbolic framework** and **real economic decoupling** , which did not occur: in 2025, overall Italy-China trade approached **75 billion euros** , with an increase of 11.2 percent compared to 2024, according to the Farnesina. [4]

This is where the fundamental paradox of Italy's relationship with Beijing emerges: **Italy has politically exited the Belt and Road just as its commercial dependence on Chinese goods continued to increase** . ISTAT's 2026 Report on the Competitiveness of Productive Sectors finds that in 2025 the value of Italian imports from China grew by **17.2 percent** , and by **20.1 percent** considering manufacturing alone; China came to represent **10.3 percent of Italy's overall imports** , a higher share than that recorded in the same year by Germany, France and Spain. [5] Even more importantly, the weight of Chinese intermediate inputs used by Italian manufacturing has grown by around **60 percent compared to 2017** , signaling that Chinese penetration does not only concern smartphones, household appliances, toys or other goods intended for the final consumer, but is progressively entering into what Italian factories use to produce. [5]

This second dimension is strategically much more important than the first, because a family can often replace a Chinese consumer good with a product from another market by accepting a price change, while a company dependent on a certified component, an electronic specification, a material, or a difficult-to-substitute industrial subassembly can see its production halted if that flow suddenly ceases. This is the difference between ordinary commercial dependence and **chokepoint dependence** , that is, a node in the supply chain whose blockage can cause damage far greater than the value of the input itself. The global semiconductor crisis had already demonstrated this principle: a relatively inexpensive component can stop a car or machine worth tens of thousands of times more.

The aggregate data on Chinese inputs must therefore be broken down by sector. In 2025, imports from China grew particularly markedly in motor vehicles, with an increase of **42.1 percent** , and in other means of transport, with an increase of **41.3 percent** ; even more exceptional is the dynamic in the pharmaceutical sector, where according to ISTAT

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purchases from China went from around **680 million euros to over 7.7 billion in a single year** , in a sector in which international flows are strongly influenced by the strategies of multinationals. [5] These variations cannot be automatically interpreted as a loss of national industrial capacity, because they may reflect corporate reorganisations, intra-group transfers and changes in value chains; however, they demonstrate how rapidly the geography of supplies can change and how dangerous it is to use aggregate data on trade without analysing its industrial composition.

ISTAT reaches an even more significant conclusion when it focuses its analysis on products classified as strategically important for the production system: in the period 2023–2025, China has become the main supplier of these goods for the major European economies and, in the Italian case, its share has reached **11.3 percent of the value of strategic imports** , a level higher than that observed in the Union's other main partners. [5] This is not yet an absolute dependence, because almost ninety percent of these purchases come from other countries, but the direction of the change is politically significant especially if the concentration concerns products with few alternatives in the short term. European de-risking arises precisely from this observation: the problem is not to interrupt trade with China, but to avoid that geopolitical tension, a trade restriction or Chinese controls on exports could impede the functioning of essential sectors of the European economy.

It is therefore necessary to distinguish very carefully **between de-risking** and **decoupling** . The second term suggests a systematic separation of the two economies, with the progressive reduction of trade, financial, and technological flows; the first, on the other hand, presupposes that interdependence continues, but that the most dangerous concentrations are identified and reduced. For Italy, the second strategy is much more consistent with the real structure of the economy, because a generalized break with China would produce significant costs on the import, export, and investment sides.

The Chinese market, in fact, continues to be economically important for numerous Italian sectors. The Export Action Plan drawn up by the Farnesina indicated that Italian exports to China would amount to **15.3 billion euros for 2024** , a 20 percent reduction compared to 2023, placing Beijing in eleventh place among the destination markets for Italian exports and attributing particular importance to textiles and clothing, machinery, pharmaceuticals and chemicals, other manufactured products and means of transport. [6] This profile says a lot about the nature of the relationship: Italy sells China above all goods in which it possesses quality, technology, brand or industrial skills that are difficult to replace, but exports much less than it imports.

The issue of **trade rebalancing** has therefore become a declared priority of Italian policy towards Beijing. In April 2026, Minister Tajani explicitly indicated among the objectives of the bilateral dialogue the reduction of trade imbalances, increased access to the Chinese market for Italian companies and the removal of barriers that limit the sale of Italian

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products and services; at the same time, the Farnesina estimated trade of close to 75 billion euros in 2025. [4] The 2026 missions also produced trade and financial agreements worth approximately **360 million euros** and specific initiatives on e-commerce, advanced mechanics, agri-food and low environmental impact technologies. [7] The quantitative data must, however, be kept on the right scale: 360 million agreements represent a concrete result of economic promotion, but remain a relatively small fraction compared to the annual size of trade and do not yet demonstrate a structural rebalancing of the relationship.


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## From the Belt and Road to the 2024–2027 Action Plan

Italy's decision not to renew the BRI Memorandum did not therefore result in a general policy of containment of China. In July 2024, during Giorgia Meloni's visit to Beijing, Italy and China adopted an **Action Plan for Strengthening the Comprehensive Strategic Partnership 2024–2027** , built around economic, commercial, industrial, scientific and cultural cooperation and accompanied by a commitment to hold high-level meetings. [8] The document explicitly states the will to coordinate development strategies, promote investments, strengthen industrial cooperation and develop relations in sectors such as the environment, health, innovation, mobility and culture.

This passage is politically interesting because it demonstrates that Italy's exit from the Belt and Road Initiative was not intended to reduce the intensity of the bilateral relationship, but rather to change its framework. The Meloni government chose to abandon a highly symbolic Chinese geopolitical initiative and, simultaneously, replace it with a more limited bilateral plan formally separate from the BRI. The difference is not merely nominal: joining the Belt and Road Initiative meant accepting a strategic narrative formulated by Beijing on Eurasian connectivity; a bilateral plan, on the other hand, allows Rome to cooperate economically without tying such cooperation to China's main external geopolitical architecture.

This is, in essence, a form of **diplomatic de-risking** .

Italy seeks to maintain its market and investments without taking a political position that could be interpreted by its allies as excessive strategic differentiation from the G7, NATO, and the European Union.

This solution accurately reflects the country's material position: too integrated with China to pursue an economically painless decoupling, too embedded in the Euro-Atlantic West to transform economic interdependence with Beijing into a strategic realignment.


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## Italian investments in China: industrial presence, not simply exports

The bilateral relationship, however, is not just about goods. Over time, Italy's presence in the People's Republic has become a true production infrastructure.

According to an economic guide published by the Italian Embassy in Beijing using data from the Bank of Italy and the Reprint database, in 2024 the stock of Italian direct investments in China was just under **16 billion euros** , equivalent to approximately 2.1 percent of Italian investments abroad; in the same year, new Italian flows towards China amounted to **532 million euros** , after a net disinvestment in 2023 and well below the over 1.6 billion recorded in 2022. Furthermore, in China there were over **1,670 companies directly or indirectly owned by Italian investors** , including subsidiaries and joint ventures. [9]

This presence makes any vision of the relationship as a simple import-export even less realistic. For an Italian company that owns factories, employees, partners and distribution networks in China, a bilateral crisis affects not only the destination market, but also physical assets and production strategies built over decades. The presence of over one hundred Italian companies in the Suzhou area, described by the Farnesina in 2026 as the main Italian production district outside the European Union, demonstrates the degree of rootedness achieved by some supply chains. [10]

China is therefore not just a supplier to the Italian system.

It is also a place where the Italian industrial system produces.

This creates a different vulnerability, because any restrictions on European groups' activities in China, tensions over technology transfer, local data obligations, or a geopolitical crisis surrounding Taiwan would directly impact Italian businesses in China.

De-risking must therefore also include an assessment of the risk of Italian investments abroad, not just imports.


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## Chinese investments in Italy: smaller than the Italian stock in China, but more politically sensitive

In 2024, according to the same official sources, the stock of Chinese direct investments in Italy was equal to approximately **4.3 billion euros** , while the flows of the year exceeded **1.2 billion** , up from 786 million in 2023. [9] From a purely quantitative point of view, therefore, the Italian stock invested in China was significantly higher than the Chinese stock invested in Italy.

The political significance of investments, however, is not solely proportional to their monetary size. An investment of a few hundred million in sensitive technology can be more strategically significant than billions invested in real estate, fashion, or businesses with no national security implications.

This is where the Pirelli case comes into play.

The company's shareholding included a significant stake linked to the Chinese group Sinochem, but the Italian government in **June 2023** exercised the special powers of the Golden Power by introducing measures aimed, according to the company documentation filed with Consob, at protecting the autonomy of Pirelli and the management and at protecting technologies and information considered to be of strategic importance. [11]

This case is extremely significant because it illustrates how Italian industrial policy has changed since the era of privatization. In the 1990s, the priority was often to attract capital and reduce public ownership; in the contemporary strategic environment, the state continues to view foreign investment as positive, but reserves the right to limit its effects when it deems technologies, data, governance, or industrial capabilities valuable to national security.

The Golden Power is therefore not equivalent to nationalization.

It does not necessarily prevent investment.

Set conditions.

It is the legal instrument through which Italy seeks to maintain an open economy without completely relinquishing control over sensitive issues.

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## Pirelli and the new nature of industrial technology

Pirelli's strategic value also helps us understand how much the very concept of sensitive technology has changed. A tire manufacturer, using a twentieth-century industrial classification, might appear far removed from sectors traditionally associated with national security, such as defense, telecommunications, or energy. But a contemporary tire can incorporate sensors, data, algorithms, materials technologies, intellectual property, and digital connections with the vehicle.

The more connected, autonomous, and software-defined the car becomes, the more each component capable of collecting or transmitting data acquires a different value.

The very distinction between civilian industry and strategic technological infrastructure therefore becomes less clear.

It is precisely this transformation that explains why Western de-risking is no longer limited to military systems.

Telecommunications, AI, cloud, chips, batteries, biotechnology, data, and automotive components can all gain strategic importance.


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## Automotive: The point where Chinese competition becomes industrial transformation

The relationship with China takes on perhaps the most challenging form in the automotive sector, because here Beijing is not just a supplier or market: it has become an industrial competitor capable of pushing the technological frontier through a combination of scale, batteries, electronics, software, and vertical integration.

The 42.1 percent increase in Italian imports from China in the automotive sector in 2025 indicated by ISTAT fits precisely into this transformation. [5] The problem is not simply that Chinese cars are entering the Italian market; it is that the transition to electric vehicles shifts a greater share of the value of the automobile towards segments in which China has very significant industrial advantages, especially in the battery supply chain.

The European Union responded by launching an anti-subsidy investigation into imports of battery-powered electric vehicles produced in China and imposing countervailing duties, a move that directly alters the context in which Italian companies purchase, produce, and compete. For Italy, the dilemma is particularly delicate: protecting Europe's manufacturing base from subsidized competition may be consistent with an industrial strategy, but high tariffs can simultaneously increase the cost of electric vehicles, slow the penetration of new technology, and retaliate against Italian sectors exporting to the Chinese market.

The relationship with Beijing thus becomes a problem of **optimizing dependence** , not simply maximizing or minimizing trade.

Italy could also benefit from attracting Chinese investment in components, batteries, or vehicles, but such a strategy would need to be assessed against technology control, local content, employment generation, the potential for skill transfer, and European rules on aid and economic security.

A Chinese factory located in Italy can reduce the trade deficit and create jobs.

It does not automatically equate to Italian-controlled technology.

Once again, production and control do not coincide.


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## Batteries and Critical Materials: The Dependency Behind the Green Transition

The automotive problem leads directly to batteries and critical raw materials. Europe's energy transition, also designed to reduce dependence on imported fossil fuels, may create new dependencies on materials and components needed for solar panels, batteries, power grids, and engines.

It is one of the central paradoxes of contemporary industrial policy.

Reducing energy dependence on Russia through electrification and renewables may increase technological dependence on China if most batteries, photovoltaic modules, or the refining stages of critical materials are concentrated in Chinese industrial chains.

The problem does not invalidate the transition.

It requires building it with a supply chain strategy.

For Italy, which lacks sufficient mineral resources to build a fully domestic system, the solution must necessarily be European and international: supplier diversification, recycling, agreements with producing countries, development of industrial capacity in the EU, and protection of the most strategic hubs.

De-risking is therefore not trade policy in the traditional sense.

It is industrial, mining, technological and diplomatic policy all at the same time.


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## Telecommunications and digital infrastructure: the lesson of 5G

The China issue has also become particularly sensitive in telecommunications, where suppliers such as Huawei and ZTE have forced European governments to confront the possibility that civilian infrastructure could have national security implications.

The problem cannot be reduced to the idea that any Chinese technology is automatically insecure, nor can we ignore the fact that 5G infrastructure and subsequent networks handle enormous amounts of data and will become critical to industry, mobility, public administration, and critical systems.

Italian policy has therefore progressively strengthened control through Golden Power, network assessments, and coordination with allies, shifting attention from the price of the equipment to the overall security of the supplier and the supply chain.

This orientation also emerges in the increasingly close relationship with the United States on “trusted vendors”, a topic that will be explored in greater depth in Chapter 25.

The technological choice thus becomes a choice of alliance.


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## China is not just a risk: it is also a market that Italy wants to reconquer.

A narrative focused exclusively on dependence would, however, be incomplete. Italian policy in 2024–2026 demonstrates that Rome continues to actively seek a greater economic presence in China. The Action Plan 2024–2027, the business missions, the SACE and SIMEST instruments, and the Farnesina's initiatives show that the goal is not simply to reduce exposure, but **to rebalance interdependence** , increasing Italy's capacity to sell and invest in the Chinese market. [4][7][8]

This is particularly important for sectors where Chinese demand continues to offer opportunities: machinery, pharmaceuticals, agri-food, cosmetics, fashion, luxury goods, and environmental technologies.

For the Italian mechanical engineering industry, the Chinese market remains strategic because an economic system that invests heavily in industry, automation, and infrastructure constitutes a natural customer for companies capable of supplying specialized machinery.

But today's China is different from the one Italy encountered twenty years ago.

Increasingly, Chinese companies are not just buyers.

They are competitors capable of producing machinery, automation and technology.

The relationship therefore evolves from complementarity to **coopetition** , simultaneous cooperation and competition.


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## De-risking means knowing what cannot be interrupted

Ultimately, the most important measure of the relationship is not the bilateral trade deficit itself, but Italy's ability to withstand a potential disruption of specific flows.

If an import category can be replaced within a few weeks by suppliers from other countries, the dependence is primarily commercial.

If it takes years to build alternative capacity, it becomes strategic.

De-risking should therefore be built starting from the mapping of replacement times.

- What electronic components can be bought elsewhere?
- Which materials depend on Chinese refining?
- Which machines are replaceable?
- Which active pharmaceutical ingredients can be produced in Europe?
- Which Italian companies generate too high a share of their revenues in the Chinese market?
- Which Italian technologies are at risk of being transferred through acquisitions?

These are the real questions of economic security.

## The 2026 data shows that interdependence continues to grow

The most recent data available at the time of this chapter confirm how wrong it is to describe Italy and China as economies in the process of separating. In June 2026, Italian exports to China were **19.1 percent higher than in the same month in 2025** , while imports from China grew by **20.5 percent** ; these are monthly data and should not be transformed into a conclusion for the whole year, but they show that the bilateral trade flow remains dynamic even after Italy's exit from the Belt and Road. [12]

This is perhaps the clearest demonstration of the real nature of the relationship.

Politics can change its framework.

Industrial chains change much more slowly.


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## The geopolitical significance of the Italian choice

Relations with China thus place Italy in a structurally intermediate position. The country is part of the West politically and militarily, but it operates in a global economy in which China is too large to be treated simply as an external adversary. It owns companies that compete directly with Chinese producers and others that depend on Chinese demand or inputs. It shares concerns about technological security with the United States, but also has a concrete interest in preventing Sino-American competition from leading to such a fragmentation of trade that would severely impact European industry.

The Italian strategy of recent years reflects precisely this position.

End of formal membership in the BRI.

Maintenance of the bilateral strategic partnership.

Golden Power on sensitive technologies.

Export promotion.

De-risking supply chains.

Seeking productive investments when compatible with strategic interests.

This is not a policy of neutrality between Washington and Beijing.

Italy's strategic position remains clearly Euro-Atlantic.

It is a policy that attempts, however, to prevent strategic alignment from automatically transforming into a renunciation of an economic relationship with Asia's main manufacturing hub.

The success of this strategy will depend on one element that is very simple to formulate and very difficult to implement: **Italy must be open enough to benefit from China and autonomous enough not to be blackmailed through its dependence on China** .

This is the essence of de-risking.


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# Chapter 25

## Italy and the United States — Security, Capital, Technology, and Energy

While Italy's relationship with China forces it to consider how to limit its vulnerabilities without sacrificing the benefits of economic interdependence, its relationship with the United States poses a somewhat different and, in many ways, even more profound question. Transatlantic interdependence involves more than just trade in goods or the location of certain production activities, but also encompasses military security, financial markets, industrial capital, digital technologies, energy, aerospace, defense, infrastructure, research, and access to one of the world's most important consumer markets. For Italy, therefore, the United States is not simply a major trading partner outside the European Union; it constitutes one of the pillars of the strategic environment within which the Italian economy operates, and precisely this depth renders both the traditional image of a simple "Atlantic alliance" and the opposite, of a one-way dependence on Washington, inadequate.

The most useful measure is not diplomatic proximity, but the number of economic and strategic functions the two countries perform for each other. The US market absorbs a significant share of Italian exports; Italian groups own factories and operations in the United States; American companies control businesses that employ hundreds of thousands of workers in Italy and carry out a significant portion of research for foreign multinationals operating in the country; US LNG has become an important component of Italy's energy diversification following the war in Ukraine; companies from both countries operate in the same aerospace and military sectors; Italian infrastructure hosts American and NATO facilities, giving the peninsula a strategic role in the Mediterranean; at the same time, US software, cloud platforms, financial capital, and technology occupy a position that presents Europe with a question of autonomy not unlike, in economic logic though not in geopolitical terms, that posed by China's industrial dependencies.

This is why the Italy-United States relationship must be interpreted as a **hierarchical but bidirectional interdependence** . It is hierarchical because the difference in economic, financial, technological, and military scale between the two countries is enormous, giving the United States a capacity to influence the conditions of the international system that Italy does not possess individually; however, it is bidirectional because Italy is not simply a passive market for American decisions, but provides industry, technology, territory, infrastructure, bases, expertise, and geographic access to a Mediterranean area that remains essential to Western strategic interests. The fundamental question, therefore, is not whether Italy "depends" on the United States in an abstract sense, but rather understanding **in which sectors that dependence enhances Italian capacity and in which areas it risks, rather than replaces it** .


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The economic scale of the relationship offers the first concrete element. According to the United States Department of Commerce, in **2024 bilateral trade in goods and services reached approximately 137.6 billion dollars** , with US exports to Italy amounting to 44.4 billion and American imports from Italy amounting to 93.2 billion; Washington therefore recorded a bilateral deficit close to 49 billion dollars. The same Department describes the United States as Italy's main market outside the European Union and underlines the growing Italian industrial presence on American soil. [1]

The political significance of these numbers becomes even more evident when looking at 2025, when the United States absorbed around **10.8 percent of Italian exports of goods** , just below Germany, which remained the leading destination with a share of around 11.4 percent. Italy is therefore, among the major economies of the Union, one of the most directly exposed to the US market; in the same year, Italian sales to the United States grew by 7.2 percent, while ISTAT underlined how the new American tariff season constituted for this very reason a significant risk for the growth of the Italian production system. [2]

This fact changes the very nature of the political relationship with Washington. When more than a tenth of national exports depend on a single external market, a change in US trade policy does not represent a normal diplomatic dispute but becomes a potential macroeconomic variable for Italy. A tariff on pharmaceuticals can directly impact production in Lazio or Tuscany; a change in tariffs on automotive products can influence components in Piedmont, Lombardy or Emilia; a barrier on food products can affect districts that have built a decisive part of their international growth in the United States. In the first quarter of 2026, Italian exports continued to show highly differentiated territorial dynamics, further proof of the fact that exposure to external shocks is not distributed uniformly across the country but follows the geography of production specializations. [3]

This is the first substantial difference compared to the relationship with China. Beijing exerts its influence primarily on imports and supply chains; Washington exerts a much greater influence on demand for Italian products and therefore on the profitability of exporting sectors. The Chinese risk is often the blocking of inputs; the American risk can be the loss or increase in the cost of access to customers.


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## The alliance does not eliminate the trade conflict

The depth of the strategic alliance has not prevented the United States from adopting a much more assertive trade policy towards the European Union in 2025, clearly demonstrating that security and trade follow different logics. A country can be an indispensable military ally of Washington and simultaneously find itself subjected to tariff measures designed to protect American industry, jobs, or economic security.

For Italy, this step was particularly sensitive precisely because of its high trade exposure. The joint statement released by the White House after the meeting between President Donald Trump and Giorgia Meloni in April 2025 confirmed, on the one hand, the desire to strengthen the alliance on security, defense, energy and advanced technologies and, on the other, the need to build trade between the United States and Europe that Washington defined as "fair" and "reciprocal". [4] The language is significant, because it shows how the privileged political relationship between Rome and Washington cannot replace the essential institutional fact: Italian trade policy is a competence exercised at the European level, and any substantial tariff agreement with the United States must therefore be negotiated by the Commission for the entire Union market.

The framework agreed between Washington and Brussels in the summer of 2025 established a **maximum overall rate of 15 percent for the vast majority of European products** , including the previously applied MFN tariff in the ceiling, while specific categories - including aircraft and aircraft components, generic drugs and certain precursors - benefit from the application of the ordinary tariff only; for automobiles and numerous other sectors the system establishes a similar ceiling of 15 percent. [5]

Defining this outcome simply as a victory or defeat would be analytically unhelpful. For an Italian company that previously exported at a significantly lower rate, a 15 percent tariff still represents a worsening of the conditions of access. Compared to the much higher tariff scenario discussed during the initial phase of the dispute, however, the cap offers certainty and limits extreme risk. The true impact depends on the structure of the industry. A luxury goods manufacturer with strong brand power can pass on a portion of the cost to the American consumer without a proportional loss of demand; a manufacturer of highly substitutable industrial components, on the other hand, may experience a greater compression of margins or be forced to relocate production.

American protectionism thus produces an important incentive: **to produce in the United States rather than simply export to the United States** .

This is where trade and direct investment merge.


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## Italian industry in the United States: exporting capital in addition to products

At the end of 2024, the stock of Italian direct investments in the United States was approximately **54.7 billion dollars** , compared to 37 billion in 2020; the US Department of Commerce reports a significant Italian presence in machinery, energy, food and beverage, electronics, software and IT services, metallurgy and other industrial sectors. [6] Companies controlled by Italian groups in the United States also supported more than one hundred thousand American jobs according to the latest complete data available, indicating that Italy is not participating in the relationship only as a seller of goods but as a productive investor.

This shift has implications beyond the bilateral economy. When an Italian group builds a factory in Ohio, Pennsylvania, Texas, or another US state, part of its production capacity enters directly into the US economic system and can benefit from public demand, federal incentives, market access, and tariff protection. At the same time, a portion of the investment that could have been made in Europe is relocated elsewhere. The assessment therefore cannot be reduced to the formula that investing abroad means "delocalizing," because many companies use their American presence to expand into a market they could not serve as effectively from Italy alone, maintaining their headquarters, design, suppliers, and technology functions in Italy.

The strategic issue is the relationship between **internationalization and the decision-making center** .

An Italian group that grows in the United States while maintaining research, design, intellectual property, and global management in Italy can increase the country's economic power even if a growing portion of its employment is located abroad. A company that progressively relocates strategic functions, capital, and research can, however, become formally Italian but increasingly less rooted in the national production system.

Leonardo is probably the clearest example of this virtuous ambiguity. The group employs approximately **8,000 people in the United States** through its aeronautical, helicopter, electronics, and critical infrastructure activities, with a presence that includes Leonardo DRS and industrial facilities in several US states. [7] In this case, American expansion does not necessarily represent a loss of Italian capacity; on the contrary, it allows a company with Italian control and industrial roots to participate directly in the largest Western defense market, access federal programs, and integrate American technologies and supply chains.

It is a model of interdependence that goes much deeper than simple exportation.


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## American capital in Italy: part of the national production structure is already transatlantic

The opposite flow is equally important. In 2024, the stock of US direct investment in Italy stood at approximately **$36 billion** , up from $27.5 billion in 2020; the difference compared to the Italian stock in the United States indicates that, at least according to the metric used by the US Department of Commerce, Italy has a positive net position in bilateral direct investment. [8]

But the quantitative data alone underestimates the structural weight of American companies in the Italian economy. The most recent US Investment Climate Statement notes that American-controlled companies employ approximately **351,000 people in Italy** and represent, within the universe of foreign multinationals present in the country, approximately **17.9 percent of sales, 20.1 percent of added value and 22.1 percent of spending on research and development** . [9]

This last figure is probably the most significant, as it demonstrates that transatlantic interdependence affects not only financial capital, but also knowledge creation. Over a fifth of the R&D carried out by foreign multinationals in Italy is attributable to American companies. Any decline in US presence would therefore not only impact employment or plant ownership, but also a portion of the Italian industrial research ecosystem.

This also changes the meaning of the debate on economic sovereignty. A country does not automatically become more sovereign by replacing every foreign company with a national one; instead, it can become weaker by losing investments, skills, and technological capabilities that it doesn't immediately possess domestically. The strategic challenge is to create conditions that make multinationals view Italy not simply as a sales market, but as a location where it makes sense to maintain research, skilled production, and human capital.

Contemporary industrial sovereignty therefore does not coincide with the nationality of the shareholder.

It increasingly coincides with the territory's capacity to retain high-value functions.


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## Technology: The New Center of the Transatlantic Relationship

The joint Italian-American communiqué of 2025 shows with particular clarity how the center of gravity of the alliance is progressively shifting from the traditional dimension of bases and armed forces towards that of technology. The United States and Italy have indicated **6G, artificial intelligence, quantum computing, biotechnology and space technologies as priority areas of cooperation** , accompanying these sectors with a commitment to the protection of critical infrastructures and the use of suppliers deemed reliable in sensitive networks. [10]

This formulation represents a significant geopolitical shift. For decades, the Western alliance could be characterized primarily by nuclear deterrence, bases, military interoperability, and political consultation; today, control of networks, software, data, and semiconductors is becoming a component of the security architecture itself. A 6G network can be both an economic infrastructure and a system through which sensitive information flows; a cloud service can be a commercial solution and, at the same time, the environment in which governments, businesses, and essential services operate; an AI system can be both an industrial productivity tool and a dual-use technology.

The concept of **trusted vendor** arises precisely from this overlap. The question is not whether a foreign technology works technically, but which jurisdiction controls the supplier, what legal obligations can be enforced upon it, and what capacity the user state has to replace it in the event of a crisis.

In this environment, technological choice progressively becomes a foreign policy choice.


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## Cloud computing and artificial intelligence: an ally can also be an addiction.

The dominant position of US companies in cloud computing, generative AI, software platforms, and advanced semiconductors creates a very different problem for Italy than that created by Chinese manufacturing supplies. Dependence on a Chinese component can physically block a production line; dependence on an American software or cloud ecosystem, on the other hand, can determine who controls access to data, what prices can be charged, what standards are adopted, and how quickly a company or government agency can migrate to an alternative platform.

This form of dependence is less visible than a container sitting in a port, but it can be just as structural.

For Italy, the solution cannot realistically consist of replicating the entire American technology ecosystem on a national scale. The scale of investment required to build global cloud hyperscalers, frontier foundational models, or a complete semiconductor supply chain exceeds what a single European economy of Italy's size can efficiently support. The issue must therefore be addressed on a European scale: computing capacity, sovereign cloud, data infrastructure, AI research, semiconductors, and cybersecurity represent sectors in which true autonomy can only be achieved through shared investments and markets.

Paradoxically, European autonomy can therefore strengthen, rather than weaken, the transatlantic relationship, because it reduces the risk of the alliance becoming a structure in which one side produces almost all strategic technology and the other remains primarily a consumer.

A dependent ally has less ability to contribute.


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## Defense: from purchase to co-production

The same logic appears in military cooperation. Italy and the United States declared in 2025 that they wanted to increase not only the sale of equipment, but also **co-production and co-development** , explicitly linking the depth of transatlantic supply chains to the security of the Alliance. [11]

The difference between purchasing and co-producing is fundamental.

If Italy purchases a military system entirely designed and manufactured in the United States, it gains operational capability but remains dependent on the foreign manufacturer for upgrades, parts, ammunition, and, in some cases, software.

By participating in development, assembly, or maintenance, you retain a greater share of industrial expertise and increase your ability to independently sustain capacity over time.

The F-35 program represents an intermediate case in this sense: the platform is American, but Italy participates in the industrial chain, has an assembly and maintenance facility in Cameri, and integrates the aircraft into its own armed forces and the NATO ecosystem. The relationship is therefore certainly asymmetric, but industrially deeper than a simple foreign military sales deal.

Leonardo's American presence creates a similar movement in the opposite direction, because the Italian group participates directly in the US market and programs. [7]

Industrial interdependence can therefore reduce the distance between ally and supplier.


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## Sigonella and Naples: Italy as a strategic capital

Military cooperation, however, has an even more material dimension: territory. Italy has occupied a geographic position that the United States and NATO have considered strategically significant for over seventy years, and this role has not diminished with the end of the Cold War; on the contrary, the crises in the Mediterranean, the Middle East, North Africa, and the Black Sea have made some Italian infrastructure even more important.

Naples is home to one of NATO's principal commands, **Allied Joint Force Command Naples** , responsible for important functions on the Alliance's southern flank; in 2026 NATO reaffirmed JFC Naples' critical role for situational awareness, deterrence and related missions in the Southern Neighbourhood.[12]

Sigonella performs an even more specific function. The base in Sicily hosts infrastructure used by American forces under specific bilateral technical agreements and is also the main headquarters of the **NATO Intelligence, Surveillance and Reconnaissance Force** , which operates a fleet of five RQ-4D Phoenix unmanned aerial vehicles intended to provide intelligence and surveillance to the Alliance.[13]

NATO describes Sigonella as a key node in the Alliance's ISR capability, capable of supporting land and maritime surveillance, border security, counter-terrorism, crisis management and other missions; its location in the centre of the Mediterranean allows it to observe and support operations across a geographical arc from North Africa to the Middle East and the south-eastern European flank. [13]

This territorial function gives Italy a strategic asset that isn't directly reflected in its GDP or exports. Washington has an interest in maintaining a stable relationship with a country that offers geographic access, infrastructure, and operational capabilities in a crucial region; Rome receives in return integration into the Western world's most powerful security architecture, but simultaneously accepts that part of its territory will have direct relevance in potential international crises.

Geography thus generates power and vulnerability at the same time.


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## Mediterranean: the relationship with Washington passes through the South

The traditional portrayal of NATO as an alliance built primarily for Europe's Eastern Front risks underestimating the specific value of Italy, whose strategic position is at least as strongly determined by the Mediterranean. Energy routes from North Africa and the Middle East, connections to Suez, the presence of ongoing crises in Libya and the Levant, the Sahel, and underwater digital infrastructure make the southern flank an integral part of transatlantic security.

It is precisely here that Italy possesses a capacity for influence that goes beyond its military dimension. A country geographically located at the center of the Mediterranean sea routes can offer bases, logistics, intelligence, diplomacy, and regional knowledge.

The value of the relationship with the United States therefore does not derive only from American protection of Europe.

It also derives from what Italy offers to American and NATO architecture.

This reciprocity does not eliminate the asymmetry of scale, but it prevents the relationship from being described as simple subordination.

**Energy: From Cold War Pipelines to American LNG**

The war in Ukraine has added a new dimension to interdependence. After 2022, the United States became a major supplier of the LNG Europe needs to replace part of its Russian gas needs, and in the case of Italy, the transformation has been particularly rapid.

In **2024, approximately 34.9 percent of Italy's imported LNG came from the United States** , equivalent to about **5.2 billion cubic meters** ; the share had risen from 9.6 percent in 2021 to 21 percent in 2022 and 33 percent in 2023. In the first seven months of 2025, the United States became Italy's largest LNG supplier, with a share of around **45 percent of deliveries** .[14]

The shift is geopolitically significant. In just a few years, Italy's energy relationship with the US, traditionally far less important than that with Russia, Algeria, or the Middle East, has become a direct component of national security.

The difference compared to Russian pipeline gas, however, must be understood. American LNG does not necessarily create rigid bilateral dependence because it is sold in an international market where cargo, traders, and contracts can be reallocated; Italy can simultaneously purchase from Qatar, Algeria, and other suppliers. This reduces the coercive power of a single producer but increases its exposure to international prices and competition with Asian demand.

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It is therefore a more diversified security, not an independence.

In April 2025, Meloni and Trump explicitly indicated increasing American LNG exports to Italy as a goal of energy cooperation, and in September of the same year the United States and Italy further formalized their intention to strengthen the energy relationship, including by linking it to new technologies. [15]

This shows how gas has become a component of the strategic relationship and not simply a commercial purchase.

## The Energy Paradox: Buying Security from an Industrial Competitor

Energy interdependence, however, presents a paradox that Europe cannot ignore. The United States has domestic natural gas at prices that are often structurally lower than European ones, largely thanks to shale production and the different architecture of the energy market. When Italy imports American LNG, it contributes to its own security but purchases energy that must be liquefied, transported, and regasified; an American company that directly uses domestic gas can therefore benefit from a cost advantage over a European competitor.

This gap is important for chemicals, fertilizers, metallurgy, glass and other energy-intensive sectors.

The transatlantic relationship can therefore provide Europe with energy security and simultaneously enhance the competitive advantage of US industry.

The problem cannot be solved by cutting off American imports, because that would reduce Europe's energy diversification; it can only be addressed by structurally reducing European energy costs through renewables, grids, nuclear power where politically appropriate, efficiency, and new technologies.

American energy is therefore a bridge to greater security, not a definitive solution to the problem of European competitiveness.


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## Agri-food: an almost perfect complementarity in structure, less perfect in trade policy

The agricultural sector offers a different example of interdependence. In 2024, the United States exported approximately **$1.7 billion in agricultural products to Italy** , while importing approximately **$8.9 billion in Italian products** . American exports are concentrated mainly in commodities and inputs such as soybeans, tree nuts, and wheat; Italian exports include wine, olive oil, pasta, baked goods, dairy products, and other high-value processed goods.[16]

The structure tells a lot about the Italian economy: the country imports raw materials and basic agricultural products that it doesn't produce in sufficient quantities or at the same cost, and integrates them into an agri-food system capable of selling quality, processing, and brand abroad.

The American market is therefore particularly important for the premium segments of Made in Italy products.

Vulnerability to tariffs is high because the final value depends on the US consumer's willingness to pay a premium for Italian origin; within certain limits, the brand allows the tariff cost to be passed on, but beyond a certain threshold, demand can be replaced.

Even in a seemingly traditional sector like food, therefore, American trade policy becomes a variable in Italian industry.


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## Pharmaceuticals: The point where exports, investment, and regulation become inseparable

Pharmaceuticals is probably the sector in which the material link between the two economies appears most sophisticated. As noted in Chapter 23, the Italian sector is highly integrated into multinational groups and has experienced exceptional export growth in recent years; a significant portion of this flow is directed precisely to the US market.

Under such conditions, it's impossible to separate production, regulation, and trade policy. An Italian plant belonging to an American multinational can produce drugs destined for the United States, use components from other countries, and be dependent on investment decisions made by global headquarters. A change in US tariffs or federal drug pricing policy can therefore immediately impact the performance of an Italian production site.

The 2025 trade framework has recognized some exceptions and specific treatments for generic drugs and precursors, but pharmaceuticals continues to be one of the sectors in which American politics can have the greatest impact on the Italian industry. [5]

The lesson is important: being integrated into Western supply chains reduces some geopolitical risks compared to dependence on countries considered strategic rivals, but it does not eliminate the risk that a partner's economic policy will unilaterally change industrial incentives.

## Financial markets: the United States' least visible power

Finally, there is a dimension of interdependence that often remains less visible because it passes neither through customs nor gas pipelines: financial capital.

The United States boasts equity and bond markets of a depth and liquidity that Europe has not yet fully replicated. For an Italian company looking to finance a major acquisition, raise capital for global expansion, or achieve high valuations for a technology company, the American market can offer far greater opportunities than individual European national markets.

This represents an advantage for Italian companies.

It also represents a structural weakness of Europe.

While Europe's best companies must systematically turn to American capital to scale, a growing share of European companies' financial power, governance, and valuation is being exercised outside the Union.

The European Capital Markets Union was born, at least in part, precisely from this problem.


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For Italy, characterized by a productive system dominated by family businesses and a relatively small stock market relative to the size of the economy, access to US capital can be particularly important when a company transitions from medium-sized to global.

Once again, the answer cannot be to cut off access to American capital.

It must develop enough European capital for the company to have more options.

## The dollar and sanctions: the power of American finance also affects Italian foreign policy.

The dollar's international role adds a further geopolitical dimension. A large portion of international trade and financial flows are regulated through infrastructures over which the American system holds enormous influence, making US financial sanctions particularly powerful.

For an allied country like Italy, the issue arises especially when Washington and the European Union adopt coordinated measures, as in the case of Russia after 2022. In that context, American capacity amplifies European capacity.

The problem becomes more complex when transatlantic interests do not perfectly coincide, because an Italian company that operates in dollars, uses international banks, or depends on American technologies can be indirectly exposed to US regulatory decisions even when the European Union maintains a different position.

This does not mean that Washington automatically controls Italian foreign policy.

This means that the global financial architecture gives the United States economic foreign policy tools that no single European state possesses to the same extent.

Dependence on the dollar thus becomes a component of the transatlantic asymmetry.


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## IMEC: a commercial infrastructure that is also a strategic project

The 2025 joint communiqué explicitly referred to the **India–Middle East–Europe Economic Corridor project** , describing it as a network of ports, railways and cables intended to connect India, the Gulf, Israel, Italy and the United States. [17] The project should not be presented as an already operational infrastructure, because as of the date of this chapter, numerous political, financial and logistical steps still remain to be completed and the Middle Eastern context continues to represent an enormous risk for its full implementation.

But the geoeconomic significance is already evident.

If China's Belt and Road Initiative represents an architecture through which Beijing seeks to connect infrastructure, investment, and Eurasian influence, IMEC could become one of the Western and Indian responses to the need to build alternative corridors that reduce dependence on existing routes and create new digital and logistical connections.

For Italy, the location is particularly interesting because the Mediterranean geography can transform ports, railway networks, and submarine cables into strategic assets of the entire architecture.

The peninsula could be the European terminal.

But only if it has infrastructure capable of efficiently distributing what arrives from the Mediterranean to the continent.

Once again, geography creates an opportunity that must be transformed into capability.

## Mattei's Plan and the United States: Africa as a Field of Cooperation and Competition

The same Italian-American statement recalls the Mattei Plan as a possible platform for cooperation in infrastructure and development in Africa. [18] This connection offers a broader perspective on Italian African policy, because a program officially born as an Italian partnership strategy can become part of a larger Western system oriented towards infrastructure, energy, economic security and containment of the influence of other actors.

The United States also views Africa as a competitive arena with China and Russia; Italy views it simultaneously through energy, the Mediterranean, migration, and industrial opportunities.

Interests can therefore converge without being identical.

This difference could become an asset, because Rome enjoys historical ties and geographic proximity that Washington doesn't replicate in the same way; however, it could become a limitation if the Mattei Plan were perceived by African partners primarily

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as an extension of geopolitical competition between great powers rather than as a bilateral relationship based on local interests.

The project's effectiveness will therefore also depend on Italy's ability to maintain a diplomatic margin within the alliance.

## The new economic security: joining forces without giving up autonomy

The relationship with the United States therefore forces Italy to distinguish between two concepts that are often confused in public debate: **alliance** and **dependence** .

- Alliance means politically choosing a security system and sharing fundamental interests with a partner.
- Dependence means not having credible alternatives in a given function.
- The two conditions can coexist, but they are not identical.
- Italy can consciously choose to base part of its deterrence on NATO.
- However, it is not necessarily in Italy's interest not to possess any alternative European capabilities in essential military sectors.
- You can choose to use American clouds.
- It is not necessarily in Europe's interest not to develop any of its own capabilities.
- It can import LNG from the United States.
- It has no interest in simply replacing Russian dependence with a new absolute dependence.
- He can finance a venture on Wall Street.
- It is not ideal that Europe is unable to provide similar capital.
- The rational strategy is therefore not “less America.”

It is **more European capacity within the American relationship** .


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## The decisive difference compared to China

The comparison with Chapter 24 now allows us to define more precisely Italy's position between the two great world economic powers.

The relationship with China requires de-risking because there are fundamental strategic differences and because part of the industrial dependencies concerns a country that Italy's allies consider simultaneously a partner, competitor, and systemic rival.

- The relationship with the United States instead takes place within a political and military alliance.
- This radically reduces some risks, but does not eliminate the economic problem of concentration.
- Depending on an ally is politically different from depending on a rival.
- Economically, however, an addiction without alternatives remains an addiction.

It is this distinction that should guide Italian strategy.

## The material relationship with Washington is deeper than what the summits show

If we look at all the elements reconstructed in this chapter together, it becomes clear how insufficient it would be to measure the Italy-USA alliance through the number of bilateral meetings or through the consonance between governments.

- The American market absorbs more than a tenth of Italian exports.
- The Italian stock of investments in the United States exceeds fifty billion dollars.
- American companies employ approximately 351,000 people in Italy.
- They carry out over a fifth of the R&D of foreign multinationals present in the country.
- American LNG covers a growing share of liquefied gas supplies.
- Leonardo has an industrial presence of thousands of employees in the United States.
- Sigonella hosts American and NATO capabilities of Mediterranean relevance.
- Naples is the seat of one of the Alliance's major commands.
- AI, cloud, space, quantum, and 6G are becoming fields of strategic cooperation.
- This is a material architecture, not a simple diplomatic friendship.

## Italy as a bridge is not enough: it must possess its own capacity

For decades, Italian foreign policy has portrayed the country as a bridge: between the Atlantic and the Mediterranean, between Europe and Africa, between North and South. The formula is diplomatically effective, but it risks masking a problem: a bridge acquires


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value because it connects two spaces, but it doesn't necessarily control what passes through it.

To become a geoeconomic power, Italy must transform its bridge position into the ability to influence flows.

- A port is worth more if Italian companies control logistics and services.
- A military base is worth more if domestic industry contributes to the capabilities that operate there.
- A technology market is worth more if Italian companies develop some of the intellectual property.
- An energy relationship is worth more if Italy has infrastructure capable of diversifying suppliers.
- A financial relationship is worth more if American capital also finances the growth of companies that keep technology and leadership in Italy.
- The question is therefore not to choose between autonomy and alliance.
- It is to prevent the alliance from replacing national capacity rather than strengthening it.

## Two opposing vulnerabilities: Beijing in the factory, Washington in the ecosystem

Finally, the two chapters allow us to summarise the different nature of Italy's main interdependencies.

China penetrates mainly in the **manufacturing sector** : components, electronics, machinery, automotive, materials, strategic goods and supply chain.

The United States has a much greater penetration into the **ecosystem** : market outlets, capital, software, cloud, strategic technologies, finance, energy, defense and security.

- The first addiction is often physical.
- The second is frequently systemic.
- An interruption in Chinese supplies could halt production.

A simultaneous change in American trade, financial, or technological policy could alter the conditions within which entire Italian sectors produce, finance, and sell.

- Neither relationship can be managed through slogans.
- They require precise dependency maps.

## The true Italian strategy: diversify without being equidistant

Finally, Italy's geopolitical position is much clearer than might appear from a mere observation of trade flows. The country is not equidistant between the United States and

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China, and it possesses neither the interests nor the institutional structure that would make such equidistance plausible. NATO, the American military presence, industrial integration, technological cooperation, and Italy's membership in the European Union place Rome within the Western system.

But strategic alignment does not eliminate the economic appeal of diversification.

Italy therefore needs two simultaneous policies.

With regard to China, it must reduce vulnerabilities in sectors where the concentration of supplies can turn into coercion, while maintaining trade in sectors where interdependence remains economically advantageous and substitutable.

Towards the United States, it must strengthen the alliance and access to the American technological and financial ecosystem, but at the same time develop European capabilities in defense, energy, cloud, capital, and technology so that cooperation does not become a dependency without alternatives.

The formula is not neutrality.

It is **autonomy within the alignment** .

And it is probably one of the most precise definitions of the geoeconomic position that Italy can realistically pursue in the new international order.

- Its security will continue to depend essentially on the United States.
- Its industry will continue to trade with China.
- Its currency and its market will remain European.
- Its energy will come from an increasing plurality of directions.

True Italian power will therefore not depend on the possibility of freeing itself from all these interdependencies, an unrealistic goal for an open economy lacking complete energy and technological autonomy, but on the ability to prevent **even one of them from becoming so indispensable as to deprive the country of the freedom to choose** .

This is the border between interdependence and dependence.

And it is on this border that, in the 21st century, a growing part of sovereignty is measured.


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# Chapter 26

## The Greater Mediterranean — Energy, Routes, Security, and Strategic Depth

For Italy, the Mediterranean has never been simply the sea between Sicily, North Africa, and the Levant. For a long time, national policy has treated it as if its various functions could be clearly separated: on the one hand, the southern migratory border; on the other, energy supplies from Algeria and Libya; and elsewhere, military missions, trade relations with Turkey, relations with Egypt and the Middle East, the security of the Suez Canal, Italian ports, and the routes continuing toward the Indian Ocean.

The crises of the 1920s made this separation increasingly unsustainable, because the same ship crossing Bab el-Mandeb could be carrying components destined for an Italian factory; the same maritime space through which Asian trade passes contains undersea cables that digital communications depend; the gas arriving from Algeria is linked to a political relationship that encompasses industry and security; and Libya's instability simultaneously affects energy supplies, migration, maritime security, and Italy's ability to operate in North Africa.

The contemporary Mediterranean is therefore not a simple geographical region: it is **a system of material interdependencies in which energy, trade, infrastructure, finance, migration and military security converge on the same routes and the same crossing points** .

It is precisely to represent this reality that Italian strategic language now frequently uses the notion of the " **wider Mediterranean** ." This expression should not be interpreted as an Italian claim to transform an undefined region into its own sphere of influence, but rather as an acknowledgement that the peninsula's security is determined by events that occur far beyond national territorial waters. Gas from the Gulf passes through Middle Eastern routes; Asian goods bound for Mediterranean ports depend on the Red Sea and the Suez Canal; instability in the Sahel can impact criminal networks, migration flows, and North African balances of power; the Black Sea is connected to the Mediterranean by the Turkish Straits; the Persian Gulf directly influences energy and trade; the Horn of Africa and Bab el-Mandeb control southern access to the Red Sea. Italy's strategic depth must therefore be measured not by the geographic distance of problems from Rome, but by the time it takes for their resolution to have an impact on the national territory.

This is the fundamental difference between **political geography and the geography of dependencies** . A crisis thousands of kilometers away can be economically closer to Italy than an event that occurred much closer physically when it involves a choke point through which components, energy, or essential maritime traffic transit.


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## Suez: the bottleneck connecting Italy to Asia

No infrastructure makes this concept more evident than the Suez Canal. For the Italian logistics system, the opening of the Red Sea–Suez route allows a direct connection between the Mediterranean and the Indian Ocean without circumnavigating Africa. When that passage operates normally, the geographic location of Mediterranean ports allows them to intercept trade between Asia and Europe before ships reach the North Sea ports. However, when the route becomes unsafe and companies choose the Cape of Good Hope, the physical and temporal distance between Asia and the Mediterranean increases, and part of the geographical advantage of southern European ports is diminished.

The Red Sea crisis that began in late 2023 has transformed this vulnerability from a theoretical scenario into an operational reality. Attacks on commercial shipping have prompted numerous companies to reroute their routes around Africa, and UNCTAD has documented a collapse in traffic through the Suez: by mid-October 2024, average daily transits had fallen to around **33 vessels** , **57 percent below the previous peak** and 55 percent below a year earlier. [1]

The Suez Canal Authority's own statistics show the scale of the shock even more dramatically. In 2023, before the Red Sea crisis fully reached commercial traffic, the Canal had recorded **26,434 transits** and a net tonnage of about **1.568 billion tons** ; in 2024, transits dropped to **13,213** , almost exactly half, while tonnage fell by 66.5 percent and revenues plummeted from about **$10.25 billion to $3.99 billion** , a reduction of 61 percent.[2]

These data don't just describe an Egyptian crisis. They describe a temporary shift in global economic geography.

When a vessel from Asia avoids the Suez and circumnavigates Africa, the distance traveled increases, fuel consumption, crew costs, capital tying up, and the number of vessels required to maintain the same service frequency increases. UNCTAD noted that during 2024, the combination of diversions, congestion, and higher operating costs pushed up ocean freight rates sharply; container indices rose rapidly in the first half of the year, and the Shanghai Containerized Freight Index had more than doubled its end-2023 levels.[3]

For a manufacturing economy like Italy's, the problem is twofold. The higher costs affect both imports of Asian components and exports to those markets; but, above all, the disruption undermines the strategic value of the Mediterranean location. Being at the center of the Mediterranean only constitutes a logistical advantage if the Mediterranean remains efficiently connected to the Indo-Pacific.


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The Ministry of Infrastructure and Transport explicitly recognized this relationship when, in December 2025, convening the Inter-ministerial Committee for Maritime Transport Safety, it defined the full restoration of the routes through the Red Sea and Suez as a fundamental objective for the competitiveness of the Italian and European economic system. [4]

The fact that, in the second half of 2025, the Canal Authority recorded signs of recovery - with growth in transits, tonnage and revenues compared to the same previous period - does not change the structural lesson: Italy's geographical advantage is conditioned by the safety of maritime passages that Rome does not control unilaterally. [5]


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## Bab el-Mandeb: the Italian Mediterranean begins much further south than Suez.

The Suez Canal is often referred to as the crucial chokepoint, but operationally, the safety of the route depends on a larger system that begins much further south. Ships wishing to reach Suez from the Indian Ocean must pass through Bab el-Mandeb, the strait between Yemen and the Horn of Africa that connects the Gulf of Aden to the Red Sea.

It is precisely in this space that the crisis that began in 2023 has demonstrated the fragility of maritime communication lines.

For Italy, this means that the security of its trade may depend on events occurring off the coasts of Yemen, Somalia, or Djibouti. This is one of the reasons why the notion of a broader Mediterranean cannot be limited geographically to the Suez Canal: economically, the southern gateway to the Mediterranean begins at Bab el-Mandeb.

The European response to the crisis has taken on a military dimension through **EUNAVFOR ASPIDES** , an operation established in February 2024 with a defensive mandate to protect commercial vessels and contribute to freedom of navigation in the Red Sea and surrounding waters. In February 2026, the Council of the European Union extended its mandate until **28 February 2027** , specifying that the operational area includes the main sea lines around Bab el-Mandeb and the monitoring of the situation in the Strait of Hormuz, the Gulf of Aden, the Arabian Sea, the Gulf of Oman and the Persian Gulf. [6]

This geographical extension offers almost an operational definition of the wider Mediterranean.

A European mission created to protect trade reaching the Mediterranean must operate as far as the Gulf.

Italian economic security therefore becomes inseparable from European maritime security.


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## Italian ports: geography offers an advantage that logistics must transform

The peninsula's location at the center of the Mediterranean is often described as a natural advantage, but geography alone does not generate economic power. A port does not become strategic simply because it is closer to Suez than Rotterdam or Hamburg; it must have seabed, terminals, rail connections, efficient customs operations, intermodal capacity, logistics space, and sufficiently reliable connections to the European hinterland.

The real competition therefore does not take place between maps, but between **complete logistics chains** .

A container that arrives more quickly in Gioia Tauro, Genoa, or Trieste loses its advantage over the sea if it takes too long to reach its final destination by rail, road, or customs procedures. Conversely, efficient port connections can transform the Mediterranean into a trade corridor serving not only Italy but also parts of Central Europe.

The Suez Crisis has made this dimension even more important because the diversion of major routes can rapidly change the relative value of ports. When companies circumnavigate Africa, the geographic sequence of European arrivals and transit times change; when Suez fully recovers its function, Mediterranean ports regain the advantage of proximity to the Asian route.

Italy's strategic interest, therefore, does not simply consist in having more port traffic.

It consists of ensuring that a greater share of the logistics value associated with traffic remains in the country: terminals, maintenance, financial and insurance services, logistics, distribution, intermodality and related industries.

A container passing through a port without leaving anything behind except the handling fee produces much less value than a chain in which the goods are transformed, distributed, insured, financed, and integrated into national production.


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## The Mediterranean Energy System: From the Russian Axis to the South-North System

The second major transformation concerns energy. As shown in Chapter 20, Italy has drastically reduced its dependence on Russian gas, replacing it with a more diversified mix of supplies from Algeria, Azerbaijan, the global LNG market, and, to a lesser and more variable extent, Libya.

The geopolitical effect of this transformation is that Italian energy security has shifted southward.

In 2024, Algeria supplied Italy with **23.3 billion cubic meters of gas** , remaining the main country of origin, while Azerbaijan supplied around 10.3 billion and Libya around 1.4; at the same time, LNG represented 14.7 billion cubic meters, coming almost entirely from Qatar, Algeria and the United States. [7]

The new geography is therefore multipolar but strongly Mediterranean.

Algeria is not simply an energy supplier. In 2024, bilateral trade with Italy amounted to approximately **13.95 billion euros** , of which 11.05 billion were Italian imports and 2.9 billion were exports; gas constitutes the dominant part of Italian imports, while Italy sells to Algeria mainly machinery, refined products, chemicals and steel products. [8]

The structure of the relationship is therefore an almost paradigmatic form of Mediterranean interdependence: Italy buys energy and sells industrial technology.

This exchange creates converging interests, but does not eliminate asymmetry. For Rome, Algeria is a strategic supplier; for Algiers, Italy is both a major energy market and an industrial supplier. Both therefore have incentives to stabilize the relationship, but both maintain alternatives and independent interests.

It is precisely this plurality of options that distinguishes an interdependence from a unilateral dependence.


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## Algeria: Can the energy relationship become an industrial partnership?

The real strategic question, in fact, is whether the Italy-Algeria relationship will remain predominantly based on hydrocarbons or will gradually expand to include industry, infrastructure, agribusiness, renewables, and technology.

The Farnesina underlined this very need in 2025, observing that the Algerian economy remains highly dependent on hydrocarbons - reported as accounting for approximately 43 percent of tax revenues and 79 percent of exports - and identifying energy transition, agro-industry, infrastructure and manufacturing as sectors in which to deepen cooperation with Italy. [9]

For Italian companies, the complementarity is evident. A country with energy revenues but wanting to diversify its economy needs machinery, plants, water technologies, logistics and industrial know-how, exactly some of the segments in which Italy has export capacity. In food packaging, for example, ICE indicated Italy as Algeria's leading supplier in 2024, with a share of over 30 percent in that specific category. [10]

The relationship could therefore transform from a simple gas-for-manufactured goods exchange into a much deeper production chain.

But for this to happen, investments must create industrial capacity and not remain isolated commercial episodes.


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## Libya: Geographical proximity without institutional depth

If Algeria represents the possibility of a relatively structured partnership, Libya demonstrates the opposite: a country geographically very close and materially important to Italy, but whose political fragmentation drastically reduces the ability to build an equally predictable relationship.

Libya remains relevant for energy, migration, maritime security and Italian economic presence. In the first quarter of 2025, bilateral trade reached approximately **2.12 billion euros** , and Italy was the leading country in terms of trade with Libya, while Italian imports from the North African country amounted to approximately 1.77 billion in the same period. [11]

However, the structure is highly dependent on hydrocarbons and the stability of energy infrastructure.

This means that Libya has a much greater strategic value for Italy than the absolute volume of trade might suggest.

A political disruption in Libya could simultaneously impact energy production, migration flows, and maritime security. It is precisely this concentration of issues in the same territory that makes the country one of the main points of vulnerability in the entire Italian Mediterranean.

Strategic depth, in this case, is incomplete: Rome has very deep interests but limited ability to control the political environment in which those interests must be protected.


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## Tunisia: From Border to Energy Interconnection

Tunisia represents yet another case. Its importance for Italy stems from its geographic proximity, the central Mediterranean migratory route, economic ties, and, increasingly, the potential to transform the Strait of Sicily into an electrical infrastructure capable of directly connecting Europe and North Africa.

**ELMED** project , developed by Terna and the Tunisian STEG, is probably the most concrete symbol of this transformation. The connection includes a **600 MW direct current electrical interconnection, approximately 220 kilometres** long , mainly undersea, for an overall investment estimated at around **850 million euros** , of which 307 million financed through the Connecting Europe Facility. The project was authorised by MASE in May 2024 and represents the first direct electrical interconnection between Europe and North Africa. [12]

In June 2026 Terna, STEG and Hitachi Energy took a further step through the contract relating to the converter stations, while the preparatory works on the Sicilian territory had already started. [13]

The significance of ELMED goes far beyond 600 MW.

For the first time, the Strait of Sicily could become not just a gas and shipping corridor, but a true electricity bridge between the two continents.

If North Africa develops a large, competitive renewable capacity in the future, a system of interconnections could allow Europe to import electricity and, under certain conditions, export it in the opposite direction when the system requires it. Energy security would then be transformed from a simple fuel supply to integrated network management.

This is a fundamental difference.

A pipeline connects two markets through a molecule.

An electrical network integrates them operationally.


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## North Africa as a potential energy platform, not just a simple source of fuel

The most ambitious vision of Italian Mediterranean policy is precisely to transform North Africa from a source of hydrocarbons into an industrial and energy hub complementary to Europe. Solar, wind, hydrogen, electricity interconnections, industrial production, and agri-food processing could build relationships far deeper than traditional supply contracts.

But even here the rhetoric of the “hub” must be subordinated to the infrastructure actually built.

The geographical distance between Sicily and Tunisia is short.

The regulatory, financial and industrial gap can be much greater.

Building a true Euro-Mediterranean energy platform requires networks, stable contracts, investment capacity, common standards, and a system that allows private companies to assess political risk over a twenty- or thirty-year horizon.

Geography creates possibility.

Institutions determine whether that opportunity will become productive capital.


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## Egypt and Suez: Italy depends on a country that controls a gateway to world trade.

Egypt occupies a position in the Italian economic and strategic geography that cannot be adequately described through the value of bilateral trade alone, because the relationship between Rome and Cairo simultaneously involves **trade, maritime logistics, energy, security of routes, stability of the Eastern Mediterranean, the Israeli-Palestinian crisis, migration, professional training and Italian African politics** , creating a form of interdependence much deeper than that suggested by customs statistics. In 2025, bilateral trade between Italy and Egypt reached **5.9 billion euros, with a growth of 11.7 percent compared to the previous year** , while in the first five months of 2026 it recorded a further increase of **7.5 percent** ; at the end of 2025, Italy was also the **second destination market for Egyptian exports and Egypt's ninth supplier** , confirming an important commercial relationship, but which represents only the immediately accountable part of a much broader relationship. [24] [25]

Egypt's true uniqueness stems from its geographical location, as it is home to the **Suez Canal** , the infrastructure that directly connects the Mediterranean and the Red Sea, allowing maritime traffic between Europe, the Persian Gulf, the Indian Ocean, and Asia to avoid circumnavigating Africa via the Cape of Good Hope. For an economy like Italy's, characterized by a large manufacturing base, a high degree of trade openness, and a heavy dependence on imported raw materials, components, energy products, and intermediate goods, the Suez Canal is not simply a shorter navigation route, but an integral component of the timescales, costs, and organization of national production chains. Part of the competitiveness of Italian companies implicitly presupposes that goods from Asia can reach the Mediterranean via a relatively short, safe, and predictable route.

The strategic relationship with Egypt must therefore be interpreted on two distinct but overlapping levels: on the one hand, there is a visible bilateral relationship, consisting of trade, investment, Italian industrial presence, energy cooperation, training, and government agreements; on the other, there is an **indirect systemic dependence** , much more difficult to measure, because a significant portion of the goods affecting the Italian economy pass through Egyptian territory without being either produced or purchased in Egypt. An electronic component manufactured in Asia and destined for an Italian company, an Italian car exported to India, a container from China, an energy shipment from the Gulf, or a commodity bound for a Central European port via an Italian hub may all depend on the stability of the Suez Canal, even though they do not appear in any Italy-Egypt trade statistics.

It is precisely this distinction that makes Egypt an exemplary case of **geoeconomic power derived from location** , because Cairo controls an infrastructure whose strategic

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value is immensely greater than Egypt's share of world GDP and whose temporary loss of functionality immediately alters the logistical costs of economies much larger than Egypt's.

## Suez in 2026: Traffic is recovering, but has not yet returned to the normality that preceded the Red Sea crisis.

The crisis that began in late 2023 with attacks on commercial traffic in the Red Sea had radically transformed flows through the Suez Canal, prompting numerous shipping companies to divert ships along the Cape of Good Hope route and causing, in 2024, one of the most severe shocks to traffic in the Canal in decades. The situation in **2026** , however, is more complex than that observed in the initial phase of the crisis, as available data indicate a gradual recovery in traffic and revenues, without the system having yet returned to the levels that pre-dated the destabilization of the Red Sea.

The **Suez Canal Authority** , headed by Admiral **Osama Rabie** , reported that in the first half of the fiscal year **2025/2026** the number of ships transiting through the Canal increased by **5.8 percent** compared to the same period of the previous financial year, while net tonnage grew by **16 percent** and revenues increased by **18.5 percent** ; in the first months of the calendar year 2026, moreover, the Canal had already recorded the passage of **1,315 ships** , with 56 million net tons and revenues of **449 million dollars** , against 1,243 ships, 47 million tons and 368 million dollars in the same period of 2025. [26]

These data represent a real improvement and confirm that the partial stabilization of the Red Sea is slowly returning traffic to the Egyptian route, but they should not be interpreted as a return to pre-crisis normality, because the International Monetary Fund still noted in July 2026 that the Canal's traffic remained **much lower than 2023 levels** , averaging around **39 vessels per day in the 2025/2026 fiscal year, against around 73 in 2023** , while average monthly revenues had recovered to around **$390 million** , compared to around $310 million in the 2024/2025 fiscal year. [27]

The situation in 2026 must therefore be described as an **incomplete recovery** , not a fully achieved normalization: the Canal is gradually returning to intercept a greater share of international traffic, some large companies are reevaluating the return to the traditional route and the Suez Canal Authority expects further revenue growth in the coming years, but the Red Sea crisis has demonstrated that the use of the Suez depends not only on the technical capacity and internal security of the Canal, but on the stability of the entire corridor that includes Bab el-Mandeb, the Red Sea and the waters leading to the Mediterranean.


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Suez: From the 2024 crisis to the still-incomplete recovery of 2026

| Indicator | Pre-crisis phase / 2023 | 2024-2025 | Data available in 2026 |
|---|---|---|---|
| **Average daily traffic** | **approximately 73 ships/day in 2023** | strong contraction | **approximately 39 vessels/day in FY 2025/26** |
| **Ships in the first months of the year** | — | **1,243** in the comparable period 2025 | **1,315** in 2026 |
| **Net tonnage, comparable period** | — | **47 million t** | **56 million t** |
| **Revenue, comparable period** | — | **$368 million** | **$449 million** |
| **Average monthly revenue** | much higher pre-crisis levels | **approximately $310 m in FY 2024/25** | **approximately $390 m in FY 2025/26** |
| **Revenue change H1 FY 2025/26** | — | basis for comparison | **+18.5%** |
| **H1 tonnage change FY 2025/26** | — | basis for comparison | **+16%** |
| **Route Status** | full centrality | strong deviation via Capo | **recovery, but still below 2023** |

**Sources:** Suez Canal Authority, IMF. [26][27]

The distinction is also important methodologically, as it allows us to avoid a reading based exclusively on the dramatic snapshot of 2024: the crisis is no longer in the same phase, but its effects have not disappeared either, and current traffic continues to demonstrate how rapidly the safety of a relatively limited stretch of sea can alter the economy of an entire region.


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## For Egypt, Suez is not just an infrastructure: it is a structural source of foreign currency.

The Canal's significance for Egypt differs from that for Italy, because for Cairo, Suez directly generates hard currency revenue and is therefore a key component of the country's balance of payments, dollar availability, and macroeconomic stability. This function is particularly important for a country that in recent years has faced high inflation, exchange rate pressures, the need for external financing, high import demand, and a complex relationship with the International Monetary Fund.

In July 2026, the IMF estimated Egyptian real growth of around **4.6 percent in the fiscal year 2025/2026** , following growth of 5.2 percent in the first nine months of the financial year, while headline inflation, after rising to 15.2 percent in March 2026, had declined to **14.3 percent in June of the same year** ; the current account, however, remained under pressure and the Fund estimated a deficit of around **4.5 percent of GDP** , noting that the gradual recovery of Suez revenues, together with remittances from migrant workers and tourism revenues, was helping to limit the external deterioration.[28]

The centrality of Suez must therefore be interpreted as an element of **Egyptian macrofinancial stability** , and this also changes the Italian and European perspective, because an economically more fragile Egypt means a less stable partner in an area in which Europe simultaneously concentrates commercial, energy, migratory and security interests.

### Egypt: Some key macroeconomic indicators for 2026

| Indicator | Data available in 2026 |
|---|---|
| **Expected real growth FY 2025/26** | approximately 4.6% |
| **Growth in the first nine months of FY 2025/26** | 5.2% |
| **Inflation June 2026** | 14.3% |
| **Projected current account deficit FY 2025/26** | approximately 4.5% GDP |
| **Suez Traffic** | still largely below 2023 |
| **Suez Revenues** | gradually recovering |
| **Remittances** | record and important external support |
| **Tourism** | robust contribution to the balance of payments |

**Source:** International Monetary Fund, July 2026. [28]

For Italy, therefore, Egyptian stability is not just a diplomatic issue, because a significant economic deterioration in the country could overlap with problems of regional security, migration, energy, and logistics, multiplying the effects on Italian interests that are normally managed by different ministries and policies.


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## The same crisis hits Cairo and Rome through two completely different economic balances

The peculiarity of Italy-Egypt interdependence emerges particularly clearly when observing how an interruption of the route produces different consequences in the two countries, because Egypt sees a direct decrease in revenues from tolls and services related to the Canal, while Italy suffers above all a widespread loss of logistics efficiency that is not reflected in a single item in the public budget but is distributed among importers, exporters, shipping companies, ports, logistics operators, and consumers.

A ship that avoids the Suez Canal and circumnavigates Africa travels thousands of additional nautical miles, consumes more fuel, uses its ship and crew for a longer period, and reduces the amount of shipping capacity available on the international market. For an Italian company, the result can translate into a combination of higher freight rates, longer delivery times, greater need for inventory, more tied-up capital, and greater uncertainty about production schedules. The Italian loss, therefore, appears not as a check written to Egypt, but as a **dispersed reduction in the logistics productivity of the entire economic system** .

It is precisely this characteristic that makes the dependence difficult to perceive: Cairo can measure the billions of dollars lost from Suez, while Italy must reconstruct the cost through hundreds of thousands of transactions distributed throughout the economy.

## The same shock, two economic mechanisms

| Egypt | Italy |
|---|---|
| **lower Suez tolls** | higher ocean freight rates |
| **lower hard currency earnings** | longer delivery times |
| **pressure on the balance of payments** | higher industrial inventories |
| **less currency available** | increased working capital |
| **indirect fiscal and financial worsening** | reduction in export competitiveness |
| **greater macroeconomic vulnerability** | increased risk of production disruptions |
| **loss of geographic income** | loss of geographical efficiency |

Interdependence is therefore real even in the absence of a bilateral contract that quantifies its value, because it is the very functioning of globalization that economically connects the two countries.


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## In 2026 the direct commercial relationship will grow again and will take on an increasingly industrial composition

In addition to the infrastructural dependence, there is a bilateral economic relationship which in 2025 and the first part of 2026 showed a new acceleration. During the mission to Cairo on **3 September 2026** , the Vice President of the Council and Foreign Minister **Antonio Tajani** met with the Egyptian President **Abdel Fattah al-Sisi** and the Foreign Minister **Badr Abdelatty , chairing with the latter the Joint Italy-Egypt Commission; the Minister of the Environment and Energy Security Gilberto Pichetto Fratin** and the Minister of Labour **Marina Calderone** also participated in the mission , a sign of the now clearly inter-ministerial nature of the relationship. [24]

On that occasion, the Italian government indicated a bilateral trade of **5.9 billion euros in 2025, +11.7 percent** , and a further growth of **7.5 percent in the first five months of 2026** ; the Italy-Egypt Business Forum brought together more than one hundred Italian companies, almost 600 participants and around **1,000 scheduled B2B meetings** , focused on energy and green transition, infrastructure, advanced industrial technologies, digitalization and agritech. [24]

The data is particularly interesting because it shows how the relationship is progressively moving beyond the model of a simple trade in goods to transform into a **more complex industrial partnership** , in which Italy seeks to combine exports, investments, professional training and production localization.


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## Italy–Egypt: Economic Outlook Updated to 2026

| Indicator | Value |
|---|---|
| **Bilateral trade 2025** | **€5.9 billion** |
| **Trade growth 2025** | **+11.7%** |
| **Growth in the first 5 months of 2026** | **+7.5%** |
| **Italy's position as an Egyptian export market** | **2nd destination market at the end of 2025** |
| **Italy's position as a supplier to Egypt** | **9th supplier at the end of 2025** |
| **Italian companies at the Business Forum in September 2026** | **over 100** |
| **Participants** | **almost 600** |
| **Scheduled B2B** | **about 1,000** |
| **Priority sectors** | energy, green transition, infrastructure, advanced technologies, digital, agritech |

**Sources:** MAECI, Italian Embassy in Cairo. [24][25]

This evolution shows that Rome now considers Egypt simultaneously as a **market, production platform, logistics partner and access hub to Africa and the Middle East** , a configuration that explains why the Italian government has included the country among the priorities of the Mattei Plan.

## The Mattei Plan transforms Egypt from a Mediterranean interlocutor to a platform for Italian African policy.

In 2026, Egypt remains one of the focus countries of the **Mattei Plan** , and the September mission confirmed Italy's intention to use the bilateral relationship not only to increase trade but also to develop human capital and integrated production chains; the MAECI placed particular emphasis on the technical and professional training of young Egyptians, explicitly linking it both to the needs of the local production system and to the Italian demand for qualified workers and future regular mobility paths. [24]

The relationship between training, industry, and migration is strategically important because it illustrates the evolution of Italian policy beyond the simple logic of controlling departures: the government is attempting to build **regulated channels of professional mobility** through which part of Italy's labor demand can be met by workers trained in


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partner countries, transforming legal migration into an integrated tool of economic and demographic policy.

Egypt, with a young and very large population, becomes from this perspective not only a country from which to prevent irregular flows, but also a potential supplier of human capital for an Italy characterized by a declining working population and increasing difficulty in finding qualified personnel.

In its relationship with Cairo, the Mattei Plan thus takes on a more precise function than its general formulation: **local development, training, Italian industry and legal mobility are linked within the same strategy** .

## Energy adds a second strategic infrastructure to the relationship: after Suez, the Eastern Mediterranean gas system

Egypt is important not only because it controls the main maritime gateway between the Mediterranean and the Indian Ocean, but also because it has an energy infrastructure that could play an increasing role in the future configuration of Eastern Mediterranean gas. The presence of **Eni** , active in Egypt since 1954, and above all the development of the **Zohr field** , discovered in 2015 and indicated by the company as the largest gas field ever discovered in the Mediterranean, have placed Italy directly within the Egyptian energy architecture. In 2025, Eni continued its production optimization activities at Zohr through interventions on the management of the reservoir, the network and new drilling campaigns, while further optimization opportunities have been defined for 2026. [29]

But the most important element that occurred in **2026 concerns the Cronos** project in the waters of Cyprus. On 28 July Eni announced the final investment decision for the development of the field, which contains over **3 trillion cubic feet of gas initially in place** and is expected to reach a production plateau of around **500 million standard cubic feet per day** ; most importantly, the gas produced will be transported to the existing **Zohr infrastructure in Egypt , processed through the Egyptian system and subsequently sent to the Damietta** liquefaction plant , from where it can be exported in the form of LNG mainly to European markets starting from 2028. [30]

This decision substantially changes Egypt's energy significance, because it concretely demonstrates how the country's infrastructure can be used not only to process Egyptian gas, but as a **regional platform to monetize resources from other Eastern Mediterranean fields** .


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## Egypt as a Mediterranean Energy Hub: Updated Configuration for 2026

| Asset / function | Meaning |
|---|---|
| **Zohr** | largest gas field discovered in the Mediterranean |
| **Egyptian Offshore Infrastructure** | processing and connection of regional production |
| **Damietta LNG** | liquefaction and export to international markets |
| **Cronos Project – Cyprus** | FID July 2026 |
| **Cronos Resources** | **over 3 Tcf GIIP** |
| **Expected Cronos Plateau** | **approximately 500 mmscf/g** |
| **First Cypriot gas supply expected** | **2028** |
| **Physical destination** | Zohr → Egyptian Infrastructure → Damietta LNG |
| **Expected main market** | **Europe** |

**Sources:** Eni. [29][30]

For Italy, the significance is twofold: Eni maintains an important industrial position in the Egyptian energy system and, at the same time, the country becomes one of the infrastructures through which Eastern Mediterranean gas can reach European markets.

## But 2026 also shows that Egypt is both an energy hub and a vulnerable country.

Egypt's definition of a hub should not, however, be transformed into a description of energy self-sufficiency, because the reality of 2026 shows a much more complex structure. The International Monetary Fund noted that in March 2026, the temporary halt in gas imports from Israel, coupled with rising oil and gas prices, forced Egypt to increase its LNG purchases, worsening its energy trade deficit and contributing to pressure on the current account; Israeli imports resumed in April, but the episode demonstrates how Egypt is simultaneously **a regional export infrastructure and an energy system dependent on the availability of sufficient gas to satisfy its domestic market** .[28]

This distinction is crucial because it prevents the term “hub” from being used as a synonym for permanent abundance: an infrastructure can be strategic even if the country hosting it must simultaneously import energy to meet its domestic demand.

Once again, security comes from the network, not from any single source.


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## The EU-Egypt partnership has become even deeper after 2024

The European framework also needs to be updated with respect to the 2024 picture. The **EU-Egypt Strategic and Comprehensive Partnership** , launched in March 2024 with a **€7.4 billion package for the period 2024-2027** , has continued to deepen and on **22 October 2025** Brussels hosted the **first ever EU-Egypt summit** , during which the parties signed a memorandum on **€4 billion in macro-financial assistance** , strengthened cooperation on vocational training, associated Egypt to Horizon Europe and further developed security cooperation with a working arrangement between Europol and the Egyptian Ministry of the Interior. [31]

In 2026, this relationship was further incorporated into the new **Pact for the Mediterranean** , the Action Plan for which was presented by the Commission on **17 April 2026** , confirming that Egypt is now treated by the Union not only as a southern trading partner but as one of the central states in the new European architecture for the Mediterranean, energy, migration, security and investments. [31]

## The EU-Egypt partnership in 2026

| Element | State |
|---|---|
| **Strategic and Global Partnership** | operational from March 2024 |
| **EU overall package 2024-2027** | €7.4 billion |
| **Envisaged macrofinancial assistance** | up to €5 billion |
| **Additional investments** | €1.8 billion |
| **Additional Grants** | €600 million |
| **Quota dedicated to migration** | approximately €200 million |
| **First EU-Egypt Summit** | October 22, 2025 |
| **MFA MoU signed at the summit** | €4 billion |
| **Horizon Europe Association** | started |
| **Europol–Egypt Cooperation** | operational working arrangement |
| **Pact for the Mediterranean** | Action Plan presented April 17, 2026 |

**Source:** European Commission. [31]

The political significance is clear: Europe sees Egypt's stability as a component of its own stability, and this applies simultaneously to Suez, Gaza, migration, energy, and Mediterranean security.


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## In 2026, Gaza makes Cairo even more central, not less

Egypt's diplomatic role in Gaza must also be updated to the 2026 framework, because after the **ceasefire supported by the Sharm el-Sheikh peace summit on 13 October 2025** , Egypt continued to play a mediation role formally recognised by the European Union; in June 2026, the EU Council praised Egypt's role in mediation, its contribution to the implementation of the Gaza plan, its support for the stabilisation of the territory, its willingness to host Palestinian administrative structures and its role in medical evacuations and humanitarian assistance through the Rafah crossing. [32]

Tajani's mission to Cairo in September 2026 confirms that this dossier remains central for Italy too: in the talks with **Abdel Fattah al-Sisi** and **Badr Abdelatty** , the Italian minister explicitly discussed Egypt's mediation role on Gaza, the prospect of a two-state solution, the stability of Lebanon and Libya, the situation in Sudan and the Horn of Africa and the security of the Red Sea and Hormuz routes. [24]

This agenda demonstrates how reductive it would be to consider Egypt merely an economic partner: Cairo is physically and diplomatically at the crossroads of the main crises directly affecting the Italian Mediterranean.

## Egypt is simultaneously a trading gateway, a regional mediator and a frontier state.

Egypt's strategic uniqueness lies precisely in the overlapping of these functions. The country controls Suez, owns the Rafah border with Gaza, is involved in Libya's stability, directly observes developments in Sudan and the Horn of Africa, controls a crucial stretch of the Eastern Mediterranean, and has a population of over one hundred million, making any serious internal destabilization a matter of immediate European concern.

For Italy, this structure produces a form of dependence that is difficult to replicate with many other partners, because a simultaneous deterioration in the security of the Red Sea, the Egyptian economic situation and the Gaza crisis could simultaneously affect **Italian logistics, energy, migration and regional politics** .

It is precisely this accumulation of functions that transforms Egypt from an important partner into a **systemic country for the Italian Mediterranean strategy** .

## The security of Suez does not depend solely on the Egyptian government

The 2024-2026 crisis, however, offers a second, equally important lesson: controlling a chokepoint does not mean controlling its entire economic value, because Suez can be technically open and perfectly functional while shipping companies still decide not to use it if they deem the southern Red Sea or Bab el-Mandeb unsafe.

This means that Egypt's ability to monetize its geographic position depends in part on the security of maritime spaces located even outside its territorial control.


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Cairo owns the Canal, but it does not own the entire route.

The distinction is essential to understanding the nature of contemporary chokepoints, which function as **interdependent geographical systems** rather than isolated infrastructures.

## The Red Sea crisis shows that geography continues to dominate globalization.

For many years, the economic narrative of globalization had suggested that logistics, containerization, and digitalization were progressively reducing the importance of physical distance; the crises of the 2020s demonstrated, however, that technology can reduce the cost of geography but not eliminate it, because goods still need to cross ports, straits, canals, and oceans, and excessive concentration of flows in a few locations can transform a local problem into a global shock.

Suez belongs precisely to this category of infrastructure, together with Bab el-Mandeb, Hormuz, Malacca and Panama, and its importance increases precisely because globalization has concentrated enormous volumes of trade within highly efficient but scarcely replaceable corridors.

## For Italy, the problem is not to eliminate dependence on Suez, but to make it manageable.

A rational economic security policy should therefore not seek to replace the Suez Canal with structurally more costly alternatives, since the Canal exists precisely to eliminate a huge geographic inefficiency and its use remains economically advantageous. The challenge, instead, lies in preventing its temporary unavailability from having disproportionate effects on the Italian economy, by strengthening the capacity of national ports, rail links with Europe, supplier diversification, the availability of strategic stocks, and the ability of companies to quickly identify logistical alternatives.

Resilience therefore does not mean giving up efficiency.

It means **building in enough redundancy to survive when efficiency temporarily fails**.


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## Italian ports are part of the same equation

The importance of Suez for Italy is further amplified by the peninsula's position in the Mediterranean, because ports such as **Gioia Tauro, Trieste, Genoa, La Spezia, and other hubs of the national port system** benefit directly or indirectly from the concentration of Asia-Europe trade in the Mediterranean basin.

When Suez is functioning normally, Italy's geographic location can be transformed into a logistical advantage over more distant ports in northern Europe; when large volumes of traffic are diverted around the Cape of Good Hope, some of that advantage is temporarily eroded.

The security of Suez is therefore also **Italian industrial and port policy** .

## In this context, the Trieste-Damietta connection takes on a broader meaning

The construction of direct logistics links between Italy and Egypt must be seen precisely within this strategy. The corridor between **Trieste and Damietta** , already initiated in previous agreements, represents not only an additional trade route but also an attempt to create a structured connection between the Egyptian port system and the Italian system, also using Trieste as a gateway to Central and Eastern Europe.

If fully developed, this type of connection would allow Italy to transform its Mediterranean position from a simple geographical transit point into an **organised logistical function** , in which ports, railways, industrial operators and distribution chains are integrated.

Once again, power comes not only from geographic location, but from the ability to provide infrastructure for it.


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## The Italy-Egypt relationship is therefore simultaneously bilateral and systemic

It is useful at this point to precisely separate the two levels.

### The two levels of Italy-Egypt interdependence

| Direct bilateral relationship | Indirect systemic interdependence |
|---|---|
| **trade of €5.9 billion in 2025** | Asia–Europe transit through Suez |
| **Italian investments in Egypt** | overall freight cost |
| **Eni and energy infrastructure** | Bab el-Mandeb–Red Sea security |
| **Mattei Plan** | Italian industrial supply chains |
| **professional training** | functioning of Mediterranean ports |
| **legal mobility** | stability of global trade |
| **cooperation on migration** | availability of energy routes |
| **diplomatic relations** | stability of Gaza and the Eastern Mediterranean |

The first dimension can be measured through bilateral statistics.

The second requires a geoeconomic reading.

It is precisely this latter factor that makes Egypt strategically more important than the 5.9 billion in trade would suggest.

### For Cairo, dependence on Europe is equally real.

However, interdependence is not unidirectional, as Egypt equally needs the European system to continue using the Suez Canal, investing in the country, purchasing goods, and providing capital. The gradual recovery of the Canal in 2026 demonstrates how quickly reduced traffic can translate into foreign exchange losses, while the IMF program, European assistance, and international investments confirm Egypt's need to maintain access to foreign capital and European markets.

The dependence is therefore asymmetric but reciprocal: **Italy and Europe depend on Egypt's geographical stability, while Egypt depends on demand, capital and the continuity of European and global international traffic** .

**This relationship creates room for negotiation for both parties**

Precisely because the interdependence is mutual, neither side possesses absolute power. Egypt has the geography and a large market, while Italy and the EU have the capital, technology, target markets, financial instruments, and industrial capacity.


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Foreign policy is born from the meeting of these levers.

This is the real meaning of geoeconomics.

**The Egyptian case further expands the definition of strategic dependence used in the book**

In the previous chapters, we observed very different dependencies: dependence on Russian gas was a supplier dependence; dependence on semiconductors is predominantly technological and industrial; dependence on critical raw materials concerns the geographical concentration of refining and extraction; dependence on Suez, however, belongs to a different category, because it is **a dependence on infrastructure and geographical location** .

This classification is essential for a modern economic security policy, because the measures needed to reduce each risk are different.

## Types of strategic dependence

| Dependence | Example | Possible answer |
|---|---|---|
| **Supplier** | Russian gas | supplier diversification |
| **Raw material** | rare earths | new sources, recycling, stock |
| **Technology** | semiconductors | R&D, domestic/European production |
| **Infrastructure** | Suez | alternative routes and logistical resilience |
| **Financial** | access to markets | credibility, reserves, common institutions |
| **Digital** | cloud / platforms | interoperability and diversification |
| **Geographical** | Bab el-Mandeb | maritime security and international cooperation |

Egypt occupies a unique position because it combines at least three of these dimensions: infrastructure, geography, and energy.

**In 2026 the relationship with Cairo is therefore more important, but also more complex, than it appeared two years earlier.**

The data update significantly changes the reading of the section. The 2024 phase had mainly shown the collapse of Suez traffic; the 2026 picture instead shows a **partial recovery of the Canal, a strengthening of Italy-Egypt trade, a deeper EU-Egypt relationship, a still central Egyptian diplomatic role in Gaza and a new energy configuration in which Egyptian infrastructure will also become the export route for Cypriot gas from Cronos to Europe from 2028.** [24][26][30][31][32]


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The relationship has thus become simultaneously more commercial, more industrial, more energetic and more strategic.

**The conclusion is not only about Egypt, but about the very nature of contemporary economic power.**

Egypt demonstrates that a country does not necessarily have to be a major industrial power to play a decisive geoeconomic role, because control of an infrastructure, a geographic position, or a corridor can confer power far greater than the simple size of its GDP.

Cairo has Suez.

It has the Rafah border.

It has energy infrastructure.

It has a population and a market that make its stability important for the entire region.

Italy, for its part, has the technology, business, capital, European access, and a Mediterranean location that allows it to transform this relationship into something more than a simple trade relationship.

It is in the interaction between these abilities that the new relationship is born.

## World traffic connects Rome and Cairo even when the two governments don't sign anything

This remains the most important point of the section, but it must be formulated in more profound terms than in the original version: **a part of the Italy–Egypt relationship exists independently of the political will of the two governments** , because it is generated by the physical structure of world trade.

When Suez operates, Egypt earns currency and Italy benefits from a shorter route to Asia.

When the Red Sea becomes unsafe, Egypt loses revenue while Italy loses logistical efficiency.

When Egyptian energy infrastructure is used to monetize Eastern Mediterranean gas, Egypt increases its centrality and Europe expands its options.

As Gaza descends into instability, Cairo simultaneously acquires greater diplomatic responsibility and greater exposure to regional risk.

The relationship is therefore not built only by diplomacy.

It is built by geography.


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## For Italy, Suez is a foreign infrastructure incorporated into its own competitiveness

This is perhaps the most precise definition of Italian dependence: the Canal does not belong to Italy and is not under European control, but **part of the efficiency of manufacturing, logistics and national trade presupposes that it functions regularly** .

This makes Suez something very similar to an external economic infrastructure incorporated into the Italian production system.

The same logic applies to other chokepoints, cables, and corridors.

And this is why 21st-century economic policy can no longer be limited to protecting infrastructure located within national borders.

It must understand which external infrastructures have become essential to internal functioning.

**Egypt is therefore, for Italy, both a partner and a geographical infrastructure.**

This formula summarizes the nature of the relationship better than any bilateral statistic: **Egypt is a political and economic partner, but its territory also plays an infrastructural function for the Italian economy** .

It is this overlap that makes Cairo one of the most important players in the broader Mediterranean and explains why Italy cannot evaluate the relationship solely through exports, imports, energy, or migration taken individually.

The real strategic variable is the stability of the entire Egyptian system and the corridor it controls.

And this is precisely where geography, trade, energy, and security become one.


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## Türkiye: The Manufacturing Powerhouse of the Other Shore

Any reconstruction of the **wider Mediterranean** that treated Turkey as a peripheral interlocutor, or reduced it to the sole role of a problematic NATO member, a trading partner of the European Union, or a regional power in the Black Sea, would miss one of the most important transformations that have taken place in the space surrounding Italy. This is because Turkey in 2026 concentrates in the same geographical location **a large manufacturing base, a market of over eighty million inhabitants, a growing defense industry, political and administrative control of the Turkish Straits, a diplomatic and military presence from the Black Sea to the Eastern Mediterranean and from the Middle East to Libya, deep customs integration with the European Union, and an industrial relationship with Italy that has made a particularly significant qualitative leap in the aerospace and unmanned systems sectors over the last two years** .

The Italy–Turkey relationship must therefore be interpreted through a more complex category than the traditional one of trading partner, because Rome and Ankara are simultaneously **customers, suppliers, industrial competitors, NATO allies, technological partners, and geopolitical players operating in the same theaters** , sometimes pursuing converging interests and sometimes occupying different positions. This overlap explains why Turkey is one of the clearest examples of what can be defined as **Mediterranean coopetition** , that is, a relationship in which economic and strategic competition does not preclude cooperation and, indeed, can make it more necessary when both parties possess capabilities that the other considers useful.

The economic dimension of the relationship remains highly relevant, but more recent data require a correction to the 2024 snapshot contained in the previous version of the text. The figure of **$32.2 billion** used then correctly described the 2024 record according to the statistical perimeter adopted at that stage, but for a section closed in September 2026, the more appropriate reference is the consolidated figure in euros communicated by the Italian Ministry of Foreign Affairs: **in 2025, Italy–Turkey trade amounted to €26.1 billion, with €13.7 billion in Italian exports and €12.4 billion in imports from Turkey** , thus generating a positive trade balance for Italy of approximately **€1.3 billion** . On **18 September 2026** , the same day in which the Foreign Minister Antonio Tajani met the Turkish Trade Minister **Ömer Bolat at the Farnesina** , the MAECI also reported a recovery in Italian exports to the Turkish market, with a trend growth of **11.3 percent in June and 6.6 percent in July 2026** , after a phase of downsizing due in large part to the disappearance of the exceptional component of gold semi-finished products which had inflated the values of 2024. [33]

This clarification is important because it shows how misleading it can be to read an industrial report through the sole nominal value of trade in a single year. In 2024, Italian exports had been exceptionally supported by jewellery and semi-finished gold products, while in 2025 the Italian Embassy in Ankara noted that the reduction in Italian exports

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compared to the previous peak was attributable to a very significant extent to the sharp decline in that extraordinary component; net of this effect, the trade structure continued to be supported by **machinery, metallurgy, automotive, chemicals, electrical equipment, pharmaceuticals and other intermediate and capital goods** , that is, by sectors that directly connect the two manufacturing bases. [34]

## Italy–Türkiye: Economic Relations Updated to September 2026

| Indicator | Most recent data available |
|---|---|
| Italy–Türkiye Trade Exchange 2025 | **€26.1 billion** |
| Italian exports to Türkiye 2025 | **€13.7 billion** |
| Italian imports from Türkiye 2025 | **€12.4 billion** |
| Italian trade balance 2025 | **approximately +€1.3 billion** |
| Italian exports, June 2026 | **+11.3% year-on-year** |
| Italian exports, July 2026 | **+6.6% year-on-year** |
| Italy's position among Turkish partners | **5th global partner in the first 11 months of 2025 according to TÜİK** |
| Italian position in the Mediterranean | **Turkey's 1st trading partner in the Mediterranean region** |
| Italy's position in Europe | **among Turkey's main European partners** |
| Italian companies active in Türkiye | **over 1,600 according to ICE** |

**Sources:** MAECI, Italian Embassy in Ankara, ICE. [33][34][35]

The data of **over 1,600 Italian companies active in Turkey** , although published by ICE in 2025 and not yet replaced by a new official survey with the same scope in 2026, continues to offer an important measure of the depth of the Italian productive presence, because the ratio is not made up only of exports but of investments and activities in manufacturing, energy, infrastructure, finance and defence. [35] Turkey therefore does not represent for Italy simply a large foreign market, but **a production platform integrated into European chains** , in which Italian companies produce, purchase inputs, sell technologies and participate in local infrastructures, while Turkish groups progressively increase their industrial presence in Italy.


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## A manufacturing powerhouse that cannot be described as a simple emerging economy

The depth of this relationship derives first of all from the Turkish economic structure, which has one of the largest industrial bases in the entire Mediterranean area and which in 2025 recorded a new historical maximum in exports of goods equal to **273.4 billion dollars** , an increase of **4.5 percent** compared to the previous year; according to the Türkiye Exporters Assembly, the automotive sector generated **41.5 billion dollars of exports** , the chemical sector 31.9 billion and the electronics-electrical sector 17.7 billion, while a significant part of the overall increase in exports came from the automotive, defense, chemical and electronics sectors. [36]

These data are important because they show the difference between an economy that primarily exports commodities or low-tech goods and a manufacturing system that includes **automotive, household appliances, electronics, machinery, steel, chemicals, textiles, shipbuilding, aerospace, and defense** industries, with a growing capacity to move from labor-intensive segments to more technology- and capital-intensive sectors. Turkey, of course, continues to have large traditional sectors, particularly textiles and clothing, in which it competes directly with other Mediterranean and Asian economies, but the transformation of the last twenty years has made Ankara much less dependent on this specialization and much more similar, in some respects, to a **European intermediate manufacturing economy integrated into continental production chains** .

This structure also explains why the relationship with Italy is both complementary and competitive. Italian companies sell machinery, production technologies, and components to Turkey, which are used by Turkish industry to produce goods that can then compete with Italian ones in third-party markets. At the same time, Italian groups use Turkish suppliers and factories as part of their supply chains, benefiting from competitive costs, industrial expertise, and customs access to the European market. **Today's customer can therefore be tomorrow's competitor, while today's competitor can simultaneously be a supplier or industrial partner** , a typical configuration of contemporary global value chains.


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## Türkiye: Some Components of Manufacturing Power in 2025

| Indicator / sector | Value 2025 |
|---|---|
| Total export of goods | $273.4 billion |
| Growth in goods exports | +4.5% |
| Automotive | $41.5 billion |
| Chemistry | $31.9 billion |
| Electronics and electrical engineering | $17.7 billion |
| Estimated export services | over $122 billion |
| Main aggregate market | European Union |
| Share of Turkish exports to the EU | 42.7% in 2025 |
| Turkish import quota from the EU | 35.3% in 2025 |

**Sources:** Turkish Exporters Assembly, European Commission. [36][37]

This structure makes Turkey a particularly important manufacturing power for Italy because its industrial growth does not take place outside the European economic system, but **deeply within it** .

## The real economic infrastructure of the relationship is the EU–Türkiye Customs Union.

The depth of industrial integration between Turkey and Europe does not arise only from geographical proximity, but from the **EU-Turkey Customs Union** , operational since 1996 and founded on the 1963 Ankara Agreement and the Association Council Decision No. 1/95. The regime eliminates duties and quantitative restrictions for industrial goods falling within its perimeter and requires Turkey to significantly align with the customs tariff, trade rules, competition rules, intellectual property and part of the European technical legislation. [37]

In **2025, trade in goods between the European Union and Turkey reached a record €217.6 billion** , with European exports to the Turkish market amounting to €114.3 billion and imports from the Turkish economy amounting to €103.3 billion; Ankara confirmed its **position as the EU's fifth largest trading partner** , representing 4.2 percent of European trade in goods with the world, while **42.7 percent of Turkish exports were absorbed by the European market** . [37]


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## EU–Türkiye integration in 2025

| Indicator | Value |
|---|---|
| **EU–Türkiye trade** | **€217.6 billion** |
| **EU exports to Türkiye** | **€114.3 billion** |
| **EU imports from Türkiye** | **€103.3 billion** |
| **Türkiye in EU world trade** | **4.2%** |
| **Türkiye's position among EU partners** | **5th** |
| **Turkish exports to the EU** | **42.7% of the total** |
| **Turkish import from the EU** | **35.3% of the total** |
| **Main common supply chains** | automotive, machinery, electrical equipment |

**Source:** European Commission. [37]

These numbers make it clear why Turkey cannot be described as an economy simply "external" to Europe. Ankara is not a member of the European Union, and accession negotiations, which began in 2005, have not led to any substantial new progress in recent years. However, **its manufacturing industry is deeply integrated into the European production space** , with components, vehicles, machinery, and equipment constantly crossing borders in both directions.

In July 2026, this integration took a further technical step, when the EU-Turkey Customs Cooperation Committee adopted a decision on the **mutual recognition of Authorised Economic Operator programmes** , intended to facilitate trade between operators considered reliable and to simultaneously strengthen the security of supply chains. [38] This development also demonstrates that, while the political path to accession remains essentially frozen, trade integration continues to evolve on an operational level.

## For Italy, this integration creates a different kind of competition from the Asian one.

Turkish competition presents very different characteristics from that of China or other Asian economies, because Ankara operates geographically close to the EU, has a Customs Union, has competitive industrial costs, and possesses supply chains that have reached high technological levels in the automotive, household appliances, defense, and machinery sectors. A Turkish manufacturer can therefore access the European market with a combination of **geographic proximity, customs integration, and lower costs than many areas of Western Europe** , characteristics that make it a particularly significant competitor for certain segments of Italian manufacturing.


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At the same time, this very proximity makes the Turkish system an important alternative for **European nearshoring** , because an Italian company wishing to reduce its exposure to very long supply chains in Asia can find in Turkey an industrial base capable of offering components, manufacturing, textiles, metals, automotive and other inputs at a much shorter distance.

The same characteristic therefore simultaneously produces a competitive threat and an opportunity for resilience.

This is the logic of coopetition.

## Automotive: one of the areas where competition and integration are most visible

The automotive sector is one of the clearest examples, because with **41.5 billion dollars of exports in 2025** it represents the main Turkish export sector and a supply chain strongly integrated with the European automotive industry. [36] Plants located in Turkey produce vehicles and components destined largely for the Union market, while Italian companies are present in the components, machinery and technologies used by local plants.

For Italy, this structure generates a much more complex relationship than simple competition on finished vehicles, because **the Italian mechanical industry can benefit from Turkish production investments even when the final product competes with that made in other European plants** .

An Italian machine can therefore help produce a Turkish car that is subsequently sold on the European market.

Italian value remains in production technology.

The competition takes place on the final product.

The same chain contains both dimensions.

## The most important leap, however, occurred in defense and aerospace.

While the automotive sector displays the traditional level of industrial integration, the most significant transformation in the Italy-Turkey relationship between 2025 and 2026 concerns defense **and aerospace** , because cooperation has now moved beyond the stage of commercial contacts and has entered directly into joint design, company ownership, and the production of unmanned systems.

On 6 March 2025, **Leonardo** , led by CEO **Roberto Cingolani** , and the Turkish company **Baykar** , chaired by founder and CTO **Selçuk Bayraktar** , signed a Memorandum of Understanding in Rome to develop a partnership in the sector of unmanned aerial systems; the project started from the complementarity between Baykar's unmanned

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platforms and Italian expertise in mission systems, radar, payload, electronics, certification and multi-domain integration, with the declared aim of participating in a European market that the two companies estimated to be in the order of **100 billion dollars in the next ten years** for unmanned fighters, armed surveillance drones and deep-strike systems.[39]

On June 16, 2025, during the Le Bourget Air Show, that cooperation became a real joint company: **LBA Systems** , a joint venture owned 50 percent by Leonardo and 50 percent by Baykar, with legal and operational headquarters in Italy and responsibility for the design, development, production and support of unmanned aerial systems. [40]

The industrial configuration is particularly significant because it does not represent a simple Italian purchase of Turkish drones nor a traditional production license. Baykar provides its own platforms and the experience gained in unmanned systems, while Leonardo integrates **electronics, payload, C4I, Manned-Unmanned Teaming capabilities, swarming, qualification and certification** , with activities distributed between Ronchi dei Legionari, Turin, Rome Tiburtina and Grottaglie. [40]

## Leonardo–Baykar: structure of industrial cooperation

| Element | Configuration |
|---|---|
| **Joint venture** | **LBA Systems** |
| **Property** | **Leonardo 50% – Baykar 50%** |
| **Site** | **Italy** |
| **European market estimated in 10 years** | **approximately $100 billion** |
| **Baykar** | unmanned platforms and aerodynamic development |
| **Leonardo** | electronics, payload, C4I, certification, MUM-T, swarming |
| **Main Italian sites involved** | Ronchi dei Legionari, Turin, Rome Tiburtina, Grottaglie |
| **Objective** | UAS design, development, production and support |
| **Markets** | Europe and international |

**Sources:** Leonardo. [39][40]


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This project represents perhaps the most advanced example of the transformation of the Italy-Turkey relationship, because a sector in which Turkish industry has proven particularly dynamic is being directly linked to Italian electronics and aerospace expertise to build a offering aimed not only at the two national markets but also at the entire European and international space.

## Cooperation is no longer just bilateral: it aims at the European defence market

LBA Systems' rationale is precisely to combine Turkey's ability to rapidly develop unmanned platforms with Italy's experience in certifying and integrating European systems, that is, to transform two national industries into a single offering compatible with the continent's new cycle of rearmament and modernization.

This configuration is strategically important because Turkey, while not a member of the European Union, is a NATO member and has a defense industry that in recent years has developed significant autonomous capabilities in drones, missiles, electronics, and naval platforms. Italy, in turn, possesses deeper capabilities in electronics, multi-domain integration, aeronautics, and European certification through Leonardo, MBDA Italia, Fincantieri, and other companies.

The two industrial bases are therefore **competitors in some products but complementary in others** , and the expected European market worth tens of billions for unmanned vehicles creates an incentive for cooperation that goes beyond the traditional logic of national procurement.

## Baykar's acquisition of Piaggio Aerospace brings Turkey directly into Italy's industrial base.

The transformation became even more profound on **30 June 2025** , when Baykar completed the acquisition of **Piaggio Aerospace** , a historic Italian aeronautical group founded in 1884, after the procedure initiated by the Ministry of Enterprise and Made in Italy and the authorization of the Italian Government under the Golden Power discipline. [41]

The decision is particularly relevant to the topic of this book because it concretely demonstrates how the categories of national capital, strategic alliance, and industrial control can overlap. Piaggio Aerospace represented a historic Italian aeronautical asset with expertise in the **P.180 Avanti, engines, and maintenance and overhaul activities** , while Baykar represents one of Turkey's leading manufacturers of unmanned systems. The acquisition therefore signifies that a strategic group from a NATO ally assumes control of industrial capabilities located in Italy, while still remaining within the scope of Golden Power rules and Italian industrial policy.


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One year after the completion of the operation, in **July 2026** , Baykar Piaggio Aerospace communicated that it had maintained employment continuity, approved a new industrial plan and invested resources exceeding the initial commitments, with the aim of relaunching the production of the P.180 and using the Italian plants as part of its European strategy. [42]

## The new Turkish industrial presence in Italian aerospace

| Event | Date | Meaning |
|---|---|---|
| **Baykar Selection for Piaggio Aerospace** | December 2024 | Turkish group's entry into the acquisition process |
| **MoU Leonardo–Baykar** | March 6, 2025 | unmanned cooperation |
| **LBA Systems joint venture** | June 16, 2025 | 50:50 industrial partnership |
| **Piaggio acquisition closing** | June 30, 2025 | Turkish control of the Italian asset |
| **Golden Power** | applied | Italian supervision of the strategic asset |
| **First year Baykar–Piaggio** | July 2026 | stabilization and new industrial plan |

**Sources:** Leonardo, Baykar, Piaggio Aerospace. [39][40][41][42]

The case is important because it demonstrates that industrial cooperation between Italy and Turkey has now gone beyond simple mutual exports: **Turkish capital controls an Italian aeronautical company while an equal Italian-Turkish joint venture develops new-generation military systems on Italian soil** .

It is a much deeper form of integration than that described by commercial data.

## The bilateral relationship thus reaches into the core of industrial sovereignty

Precisely for this reason, the relationship must be analyzed without simplistic categories. The acquisition of an Italian asset by a Turkish group does not automatically equate to a loss of sovereignty, because the value produced, employment, facilities, and some of the expertise remain located in Italy, and the government has used the Golden Power to define the scope of the operation. At the same time, it would be equally simplistic to argue that the nationality of the capital is irrelevant, because ownership determines part of the decisions regarding investment, technology, international production allocation, and future development.

It is precisely this kind of problem that defines 21st-century industrial policy: **preserving strategic capabilities does not necessarily mean maintaining 100 percent national**

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**ownership, but it means ensuring that capital, technology, employment, and critical functions remain compatible with the country's strategic interests** .

**Ankara is not only an economic partner: it controls the only maritime exit from the Black Sea to the Mediterranean.**

The industrial dimension would, however, be incomplete without the geographical one, because Turkey has a position that no other NATO member shares: it territorially controls the **Bosphorus, the Sea of Marmara and the Dardanelles** , that is, the only natural maritime connection between the Black Sea and the Mediterranean.

It is necessary to use the verb "control" with legal precision, because Ankara does not have arbitrary freedom to open or close the Straits to commercial navigation; the regime is governed by the **Montreux Convention of 20 July 1936** , which recognises Turkish sovereignty over the Straits, generally guarantees freedom of transit to merchant ships and establishes much more restrictive rules for warships, differentiating between coastal and non-coastal States of the Black Sea and between conditions of peace and war. [43]

In July 2026, the Turkish Ministry of Foreign Affairs, commemorating the **ninetieth anniversary of the Convention** , reiterated that Montreux continues to constitute one of the fundamental elements of peace, security and stability in the Black Sea and that Turkey intends to continue to apply it with the same approach followed in previous decades. [43]

This geographical position gives Turkey an enormous strategic function for the Atlantic Alliance, because the regime of the Straits determines the conditions through which the naval forces of non-riparian countries can access the Black Sea. NATO itself, during the summit hosted in **Ankara on 7-8 July 2026** , explicitly underlined that Turkey connects different regions and regulates the access between the Mediterranean and the Black Sea, also recalling that the country has the **second largest army in the Alliance** . [44]


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## The Turkish Straits as a strategic asset

| Element | Meaning |
|---|---|
| **Bosphorus** | Black Sea–Sea of Marmara connection |
| **Dardanelles** | Sea of Marmara–Aegean/Mediterranean connection |
| **Legal regime** | Montreux Convention of 1936 |
| **Merchant ships** | principle of freedom of passage |
| **Military ships** | differentiated limits and preventive notifications |
| **Non-riparian states** | tonnage and permanence limits |
| **Maximum stay of non-riparian vessels in the Black Sea** | **21 days** |
| **Strategic role** | regulated control of the only maritime access to the Black Sea |

**Source:** Ministry of Foreign Affairs of the Republic of Turkey. [43]

This geography makes Turkey simultaneously a Mediterranean power and a Black Sea power, and explains why its weight within NATO is greater than what might be deduced from GDP alone.

## The war in Ukraine has increased the strategic value of Montreux

After 2022, the importance of the Straits regime has become even more evident, because the application of the Montreux Convention directly affects the number and type of military vessels that can enter or exit the Black Sea, thus helping to define the naval context of the Russo-Ukrainian war.

For Italy, a NATO member but not a Black Sea coastal state, the Turkish position therefore represents a structural element of its Euro-Atlantic security: Italy's ability to contribute to a possible naval presence in the Black Sea is conditioned by the Montreux Rules and their implementation by Ankara.

This is a particularly clear example of **strategic dependence on a regulated decision by an ally** .

Turkey does not freely decide on every transit, because it operates within the Convention.

But it is the State that is responsible for its implementation.


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**The NATO summit in Ankara in July 2026 confirms Turkey's centrality to European security**

Hosting the NATO summit on **7-8 July 2026** was not just a matter of protocol, as the meeting took place at a time when Turkey is simultaneously at the centre of issues relating to Ukraine, the Black Sea, the Middle East, Iran, Syria and the defence industry. Giorgia Meloni, Antonio Tajani and Defence Minister **Guido Crosetto** attended the summit together with other Allied leaders, while Tajani also promoted a meeting of the foreign ministers of the E5 format — France, Germany, Italy, Poland and the United Kingdom — with the participation of Turkish Foreign Minister **Hakan Fidan** . [45]

The Ankara Declaration placed particular emphasis on strengthening the transatlantic industrial base, removing obstacles to defence trade, unmanned systems, artificial intelligence, air and missile defence and Europe's ability to assume greater responsibilities within the Alliance. [46]

In this context, the Leonardo-Baykar cooperation takes on a meaning that goes beyond commercial logic: Italy and Turkey are building a joint industrial capacity precisely in one of the sectors that NATO identifies as central to the future of warfare.

## The Turkish defense industry has become an element of national power

Baykar's growth is not an isolated phenomenon, but is part of a broader transformation through which Ankara has invested to reduce its dependence on foreign military supplies and build its own industrial base in drones, naval platforms, missiles, electronics, and land systems.

From an Italian perspective, this makes Turkey a very different partner from a simple buyer of European systems, because Ankara approaches the cooperation with its **own technology, products already exported, and an autonomous industrial capacity** , a condition that allows for more balanced partnerships but also increasing competition on international markets.

Cooperation with Leonardo therefore constitutes a mutual recognition of our respective specializations.

## Libya: the theater where Italy and Türkiye must inevitably talk to each other

The overlapping of interests is equally evident in **Libya** , where Italy and Turkey have significant political, energy and security interests and where the Turkish presence has become a structural component of the country's balance of power in recent years.

Rome considers Libyan stability essential for energy security, migration, the central Mediterranean, and the protection of Italian interests, while Ankara has built particularly deep political, economic, and military relations with the authorities in western Libya. The consequence is that an Italian policy on Libya that ignored Turkey would have very limited

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margins of effectiveness, just as a Turkish strategy that ignored European and Italian influence in the central Mediterranean would lose a key partner.

In **2026, Italy and Turkey jointly figure among the governments supporting the path to Libyan economic and financial reunification** : in April of the same year, the United States, Egypt, France, Germany, Italy, Qatar, Saudi Arabia, Turkey, the United Arab Emirates and the United Kingdom welcomed the first unified Libyan budget in over a decade, considering it a step towards greater stability and institutional unity.[47]

This does not mean that Rome and Ankara necessarily share every interest or every Libyan interlocutor, but it demonstrates that previous competition does not prevent forms of convergence when both consider stabilization more advantageous than deterioration.

## Middle East: Turkey is a necessary interlocutor even when positions do not coincide

During 2026, the Tajani–Fidan relationship acquired increasing weight also in the management of Middle Eastern crises, with consultations regarding **Gaza, Lebanon, the Red Sea, the Gulf and Strait of Hormuz** ; in the meeting of 4 August 2026, the Italian minister recognised the role played by Turkey in the mediation regarding Gaza, while both governments underlined the strategic priority of freedom of navigation in the Red Sea and Hormuz. [48]

For Italy, which depends heavily on free sea routes for energy and trade and which participates in the European **ASPIDES operation** , cooperation with Ankara therefore also takes on a maritime and commercial dimension.

Once again, Turkey is not simply a country with which Italy maintains relations.

It is one of the actors that can change the environment in which those economic relations function.

## Energy: Corridor, Market, and Competition for the Hub Role

Finally, there's an energy dimension that simultaneously brings Italy and Turkey closer and competes with each other. Both countries aspire to use their geography to become **energy hubs between producing areas and the European market** , even though their infrastructure, sources, and locations are different.

Turkey receives energy from Russia, Azerbaijan, the Middle East, and other suppliers and is a key corridor for the **Southern Gas Corridor** , the TANAP segment of which passes through Turkish territory before connecting to TAP and reaching Greece, Albania, and Italy. This means that some of the Azerbaijani gas imported from Italy via TAP first passes through Turkey.


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This dependence is not equivalent to that which Italy had with Russia, because the gas is not Turkish and the system is governed by international agreements and different operators; however, it demonstrates once again that **Italian energy security spans territories and infrastructures that Rome does not directly control** .

Turkey is therefore simultaneously a partner in the corridor and a potential competitor in the competition to attract, process, and redistribute energy to Europe.

## Italy and Turkey are therefore also competing on geography

Rome wants to transform the peninsula into a Mediterranean hub through Algeria, Libya, TAP, LNG, and future hydrogen corridors, while Ankara uses its location between the Caspian Sea, Russia, the Middle East, the Mediterranean, and Europe to build a similar function.

This competition does not necessarily produce a zero-sum game, because European energy security requires many corridors and a plurality of sources.

But both capitals are trying to transform their geographical position into economic influence.

It is geoeconomics in its purest form.

## The political relationship has progressively become institutionalized

In September 2025, **Antonio Tajani and Hakan Fidan** signed in Rome a series of operational proposals to strengthen bilateral cooperation, including consultations on security, migration, EU–Turkey cooperation, updating the Customs Union and visa facilitation for categories such as entrepreneurs, students, academics, truck drivers and artists. [49]

The paper shows how the economic and political relationship are progressively converging, as seemingly administrative issues, such as issuing visas for businessmen or truck drivers, become factors that concretely determine the competitiveness of supply chains.

Trade needs diplomacy.

Diplomacy changes trade.

## In September 2026, the economic dialogue continues to accelerate

The meeting of **18 September 2026** between Tajani and Ömer Bolat confirms that this dynamic continues. The MAECI has indicated among the central themes infrastructure and transport, defence and aerospace, energy, telecommunications and steel industry, that is, precisely the sectors in which the Italy-Turkey relationship takes the form of a **strategic industrial partnership and no longer just commercial exchange** . [33]


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The fact that the meeting also addressed the crisis in the Red Sea and the Strait of Hormuz further demonstrates that bilateral trade and shipping lane security are now part of the same equation.

## Türkiye and Italy share a structural feature: both seek to transform manufacturing and geography into power.

This similarity is probably one of the most interesting aspects of the relationship. Italy has a large manufacturing base, a diversified export system, a central position in the Mediterranean, and strategic industries such as Leonardo, Fincantieri, MBDA, and Avio; Turkey also has a large manufacturing industry, a growing defense base, a large domestic market, and a geographic position that controls the connection between the Black Sea and the Mediterranean.

Both therefore seek to transform **location, industry and infrastructure into negotiating power** .

This is precisely why they can cooperate and compete at the same time.

**Competition in textiles does not prevent a joint venture in drones**

This sentence summarizes the real structure of the relationship better than many theories. An Italian textile manufacturer can face Turkish competition in the European market, while Leonardo and Baykar can jointly build an unmanned system destined for the same European market; an Italian machinery manufacturer can sell a production line to a Turkish factory that will then compete with an Italian company; Baykar can acquire Piaggio Aerospace and, simultaneously, maintain production and employment in Italy.

These apparent contradictions are actually the normal functioning of an integrated economy.

## Coopetition does not mean, however, the absence of risk.

Such a deep relationship also requires the ability to distinguish between segments where integration yields benefits and those where it could create excessive strategic dependencies. In the aerospace sector, for example, cooperation with Baykar can strengthen Italian and European capabilities in unmanned aircraft, but it requires preserving intellectual property, system expertise, data access, and the national capacity to modify platforms.

The same applies to civilian, automotive, telecommunications, and infrastructure supply chains.

Cooperation only produces capacity if it does not transfer complete control.


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## The Golden Power applied to Piaggio represents precisely this logic

Italy's authorization for the acquisition of Piaggio Aerospace through the Golden Power mechanism demonstrates that openness to foreign investment and the protection of strategic assets are not considered absolute alternatives, but are combined through conditions and supervision.

Italy accepts the entry of Turkish capital.

But it doesn't treat the asset like any other business.

This is an essential distinction.

**Turkey is also the clearest case of the limits of the dichotomy "Europe or not Europe"**

Ankara is not a member of the European Union.

She has been a candidate since 1999.

Accession negotiations have not made substantial progress for years.

Yet its production system is deeply connected to the single market through the Customs Union, 42.7 percent of its exports go to the EU and bilateral trade exceeds 217 billion euros. [37]

From an industrial point of view, therefore, Turkey is much more “European” than its institutional status suggests.

From a political point of view, it remains much more autonomous than a member state.

This hybrid position constitutes one of the main sources of its negotiating power.

## The Customs Union increases interdependence but also generates friction

The European Commission itself continues to report problems of alignment in customs management, restrictions and Turkish trade measures incompatible with some obligations of the Customs Union, while a possible modernisation of the agreement which should extend the relationship to services, procurement and sustainable development has been under discussion for years. [50]

This framework demonstrates once again that interdependence and regulatory conflict can coexist.

A deep economic relationship does not eliminate divergences.

It increases the cost of their mismanagement.

**Turkey's strategic value for Italy is therefore greater than the value of trade**

If one were to look only at the €26.1 billion in bilateral trade in 2025, Turkey would simply appear as one of Italy's many major industrial partners; however, if one added its

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customs union with the EU, its position on the Straits, its defense industry, its role in Libya, its participation in NATO, energy from the Caucasus, its relationship with the Middle East, and its growing aerospace integration, the meaning changes completely.

Turkey becomes a **systemic variable of the Italian strategy in the wider Mediterranean** .

## Rome and Ankara operate in the same space, but do not occupy the same position

Italy is a major European Union economy, a founding member of the community project, a proponent of the single currency, and deeply integrated into European fiscal and industrial governance. Turkey is a NATO power outside the EU, with greater formal autonomy in trade policy with certain partners and a more independent regional foreign policy, but economically dependent on the European market far more than its institutional status suggests.

The two positions are different.

But precisely for this reason they can be complementary.

## Turkey offers Italy what Italy does not possess

Ankara has direct geographic access to the Black Sea, deep relations with the Caucasus and Central Asia, a particularly advanced unmanned industry, and a political presence in theaters where Italy has less autonomous capacity.

Italy, in turn, offers political and industrial access to the European market, certification capabilities, advanced electronics, aerospace, infrastructure, finance, and a privileged connection to the community architecture.

Complementarity arises from difference.

**But complementarity does not eliminate competition**

In the automotive, machinery, textile, household appliances, construction, shipbuilding, and defense sectors, Italian and Turkish companies can compete directly on European, Middle Eastern, and African markets.

The increase in Turkish capacity therefore means that Italy finds itself faced with a Mediterranean country that is not only a market for its own products, but **a producer capable of taking market share from the Italian supply chains themselves** .

This is an important difference compared to many of our partners in North Africa.

## Turkey is therefore a true regional industrial power

The definition does not stem from Turkish nationalism or political judgment, but from a combination of observable factors: over $273 billion in merchandise exports in 2025, the

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leading automotive exporter, a growing defense industry, European customs integration, the presence of large industrial groups, logistics and energy infrastructure, and military projection capabilities.

This combination does not exist on the same scale in any other country on the southeastern shore of the Mediterranean.

**The relationship with Ankara must therefore be treated as an industrial policy as well as a foreign policy**

When Italy discusses visas, customs, infrastructure, or industrial standards with Turkey, it isn't just managing a diplomatic relationship; it's defining the conditions under which its companies can compete or cooperate with one of Europe's leading manufacturing hubs.

When he discusses Libya, the Black Sea, or the Middle East, he is intervening in the same space through which energy, goods, and industrial interests transit.

Foreign policy and industrial policy coincide once again.

## Turkey demonstrates that Italy's strategic depth is not only North-South

This element is fundamental to the book's geography. A representation of Italy focused exclusively on North Africa and the Sahel would be incomplete, because Italy's strategic depth also extends along an **East-West axis** , which from the peninsula crosses the Balkans, the Aegean, Anatolia, the Caucasus, and the Black Sea.

Turkey is the main node of this axis.

It is not just “the other shore” of the Mediterranean.

It is the point where the Mediterranean, Europe, the Black Sea, the Caucasus and the Middle East meet.

**Turkey's geography therefore produces options that Italy cannot replicate.**

Italy has a central position in the Mediterranean.

Turkey is centrally located between the Mediterranean and the Black Sea.

No industrial policy can change this geographical difference.

He can only decide whether to suffer it or use it through cooperation.

**Turkey's true power lies in the overlap between geography and industry**

If Turkey controlled the Straits but lacked industry, its power would be predominantly geographic; if it possessed industry but was located far from the main corridors, it would have a different weight. The combination of **strategic geography, manufacturing,**

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**military, market, and autonomous foreign policy,** however, yields a much broader capacity for influence.

It is this combination that Rome must consider.

**The Leonardo–Baykar cooperation therefore represents more than an industrial agreement**

It constitutes an experiment through which Italy and Türkiye are attempting to transform two different industrial bases into a common capability for the European defense market.

If the project succeeds, it will demonstrate that Ankara can become part of European strategic supply chains while remaining outside the Union.

If it encounters obstacles, it will demonstrate the political and regulatory limitations of this very hybrid position.

In both cases, its value goes beyond the balance sheets of the two companies.

## The real question is not whether Turkey is a partner or a competitor

To pose the problem in these terms would be too simple, because the correct answer is that **it is both things at the same time** , and the quality of the Italian strategy will depend precisely on the ability to distinguish the sectors in which it is worth cooperating from those in which it is necessary to preserve autonomy and competitive advantage.

- Turkish automotive competes.
- Italian mechanics sell technology.
- Baykar competes in the global drone market.
- Leonardo cooperates with Baykar.
- Turkey controls the Straits.
- Italy and Türkiye sit in the same NATO.
- Rome and Ankara may have different interests in Libya.
- But both have an interest in preventing its collapse.
- This is the reality of the relationship.

## Mediterranean coopetition is not a contradiction: it is a structure

The Mediterranean of the 21st century is not simply divided between friends and rivals, developed economies and peripheries, EU members and non-EU states. It is a system in which the same countries can compete in one market, cooperate in another, be militarily allied, and diverge on individual diplomatic dossiers.

Turkey represents perhaps the most complete example of this structure.

**For Italy, ignoring it would mean losing part of its strategic depth.**


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The security of the Black Sea, the stability of Libya, the Southern Gas Corridor, unmanned industry, the European Customs Union, and manufacturing trade all pass, in varying forms, through Turkey.

This makes Ankara one of the capitals with which Rome must maintain a structured relationship regardless of the political color of the governments.

The reason is not ideological.

It is geographical and economic.

## Turkey is therefore the other great manufacturing power of the wider Mediterranean.

This definition does not imply perfect equivalence with the Italian industrial structure, because specializations, productivity, per capita income, company size, and European integration are different; however, it does indicate that Italy now operates in a space in which, on the other eastern shore, there exists **an economy capable of producing on a large scale, exporting over $270 billion in goods, developing its own military technology, and using its geographical position as a bargaining tool** .

It is a fact that changes the Mediterranean balance.

**The Italy-Türkiye relationship therefore shows what geoeconomic power really means**

Power is not just about having a large GDP or a large military, but about the ability to combine **industry, markets, technology, infrastructure, geography, and alliances** to expand the number of options available.

Turkey has this combination.

Italy has a different combination.

When the two meet, the result is not a hierarchical relationship but one of mutual utility and competition.

This is precisely what makes Ankara one of the most important components of Italy's strategic depth in the 21st century.


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## The Digital Mediterranean: Cables Are the New Invisible Routes

Strategic geography is no longer just about ships, gas, and oil pipelines. Much of international digital communications traverses the sea via submarine cables, infrastructures that carry financial data, communications, cloud traffic, and essential services. However, precisely because they are hidden beneath the seabed, these infrastructures have historically received far less attention in public debate than their importance.

The European Commission now considers digital connectivity one of the central infrastructures of Mediterranean policy and includes the **Medusa system** among the Global Gateway projects intended to increase connections between the two shores. In 2025, the Commission indicated that the European Global Gateway package for the Southern Mediterranean, supported by approximately **7 billion euros of EU resources** , had already mobilised approximately **30 billion in public and private investments** , explicitly including the Medusa submarine cable among the priority infrastructures. [15]

The geoeconomic value is clear. A more robust digital interconnection can support services, clouds, research, businesses, and financial relationships; but each new dependence on underwater infrastructure also creates a new security requirement.

A damaged gas pipeline cuts off power.

A damaged cable can interrupt data.

In the 21st century, both are national security infrastructures.


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## Sicily as a platform: from southern periphery to hub

The transformation of the Mediterranean's economic geography restores to **Sicily** a strategic function very different from that through which the island has been predominantly interpreted in the Italian economic debate since the Second World War. For decades, insularity has been described primarily as a cost, distance from major continental markets, infrastructural fragmentation, and an obstacle to full integration into the production chains of Northern Italy and Central Europe. Meanwhile, the new configuration of the Mediterranean, simultaneously built around energy security, electrical connections, military intelligence, undersea cables, trade routes, ports, data centers, and connections with North Africa, allows its geographical position itself to be interpreted as **a potential platform advantage** , provided, of course, that physical centrality is transformed into economic centrality through sufficient infrastructure.

This distinction between location and capacity is essential, because Sicily already lies at the convergence of some of the main strategic flows connecting Europe, North Africa, and the Eastern Mediterranean. However, mere proximity to these routes does not guarantee that economic value will be captured locally. A ship can pass off the Sicilian coast without generating any economic activity on the island; a cable can dock in Sicily and continue on to other digital hubs; a gas pipeline can cross the territory merely transferring energy to the continent; a military base can provide security for the Alliance without automatically creating a local technological ecosystem; while an electricity interconnection can transform Sicily into an energy bridge only if the internal grid is strong enough to absorb, redistribute, and capitalize on the new flows. **The strategic challenge, therefore, is not proving Sicily's geographical centrality, because that is self-evident; it is determining how much of that centrality can translate into investment, skilled employment, technology, logistics, and industrial capacity located on the island.**

In 2026, this issue is no longer a matter of future planning alone, as a significant part of the infrastructure that can transform Sicily into a Euro-Mediterranean platform is already operational or has reached an advanced stage of implementation. In **Sigonella** , NATO has its main Intelligence, Surveillance and Reconnaissance infrastructure; the **Tyrrhenian Link** is building a new electrical backbone between Sicily, Sardinia and the continent; the **ELMED project** entered its concrete industrial phase in 2026, which will lead to the first direct electrical interconnection between Europe and North Africa; the **TransMed system** continues to connect Algeria, Tunisia and Mazara del Vallo; Palermo hosts one of the main Italian nodes of international cables through Sparkle's **Sicily Hub** ; while the island's ports perform functions ranging from energy bulk to Ro-Ro, from cruises to containers and connections with North Africa.[51][52][53][54][55]

Sicily is therefore no longer just a region located in the centre of the Mediterranean: it is becoming, at least potentially, the place where **energy, data, intelligence, logistics and physical security of routes begin to overlap** .


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## Sigonella: From Air Base to Alliance ISR Platform

Of all these functions, the military one perhaps has the most immediate strategic significance, because the **Sigonella base** , in eastern Sicily, hosts the Main Operating Base of the **NATO Intelligence, Surveillance and Reconnaissance Force – NISRF** , an evolution of the Alliance Ground Surveillance Force, and now represents one of the main nodes through which NATO builds its situational awareness over vast land and sea areas. In July 2026, the Alliance officially described NISRF as a **“key hub” for NATO intelligence, surveillance and reconnaissance activities** , equipped with a fleet of **five RQ-4D Phoenix** , high-altitude, long-endurance remotely piloted aircraft, capable of operating up to approximately 60,000 feet, with a declared range of more than 16,000 kilometres and radar sensors capable of producing persistent surveillance over large areas. [51]

Sigonella's importance, therefore, stems not only from hosting military aircraft, but also from the fact that the data collected is **received, processed, integrated with information from other sources, and transformed into intelligence products for Alliance commanders and decision makers** . This step is crucial, because in the contemporary military environment, strategic value lies not solely in the physical platform in flight, but in the ability to fuse sensors, data, analysts, and command systems within a common information architecture.

In 2026 this capability made a further advancement with the progressive entry into operation of the new **Mission Operations Support Center** , a structure that NATO NISRF defines as the operational center for ISR missions and in which IT systems, workstations and infrastructures for the planning, management and processing of operations are installed. [52] In the same year the RQ-4Ds based in Sigonella supported NATO activities very far from Sicily, from exercises in the Baltic and Northern Europe to operations in the North Atlantic: during an Agile Combat Employment cycle concluded in June 2026, the aircraft accumulated approximately **180 flight hours and the NISRF specialists produced over 500 intelligence products** , while in the following August a mission departing from Sigonella supported the Northern Viking exercise in the GIUK strategic area between Greenland, Iceland and the United Kingdom. [53]

This means that an infrastructure located in Sicily not only performs a Mediterranean function, but contributes to the surveillance of a strategic arc that can extend from the Arctic to the Eastern Mediterranean, demonstrating how the island's position is incorporated into a much broader security network.

## Sigonella as an ISR node in 2026

| Element | Data / function |
|---|---|


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| | |
|---|---|
| **NATO Structure** | **NATO Intelligence, Surveillance and Reconnaissance Force** |
| **Main Operating Base** | **Sigonella, Sicily** |
| **Organic NATO Fleet** | **5 RQ-4D Phoenix** |
| **Typology** | HALE – High Altitude Long Endurance |
| **Declared radius** | **approximately 16,100 km** |
| **Maximum operating quota** | **approximately 60,000 ft** |
| **Mission Operations Support Center** | in an advanced stage of operation in 2026 |
| **ACE 2026** | **approximately 180 hours of flight** |
| **ACE Intelligence Products** | **over 500** |
| **Functions** | surveillance, maritime security, early awareness, support for multi-domain operations |

**Sources:** NATO NISRF. [51][52][53]

The presence of this capability gives Sicily a central role that cannot be measured by regional GDP, because the island hosts an asset whose function is integral to the security of the entire Atlantic Alliance. Precisely for this reason, however, the question that runs through this entire section returns: **how much of the technological and professional value generated by a strategic infrastructure can be incorporated into the surrounding economy?** A forward base can generate employment, services, and local demand, but the real leap in quality would occur if complementary activities in sensors, cyber, maintenance, data analysis, training, and dual-use technologies were developed around the military presence, transforming the military asset into part of a regional industrial and scientific ecosystem.

## ELMED: In 2026, Sicily will become the electric gateway between Europe and North Africa.

The second transformation concerns electricity and has a particularly significant historical significance, because the **ELMED project** , jointly developed by Terna and the Tunisian company STEG, will create the **first direct current electrical interconnection between Europe and North Africa** , linking Tunisia to Sicily across the Strait of Sicily.

In June 2026, the project passed one of the most important phases of its implementation when Terna and STEG awarded **Hitachi Energy** a contract worth approximately **770**

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**million euros** for the construction of two HVDC converter stations, one of which will be built in **Partanna, in the province of Trapani** , and the other in Mlaabi, on the Tunisian peninsula of Cap Bon. The connection will have a capacity of **600 MW** , a total length of around **220-224 kilometres** , of which approximately 200 under the sea, and will reach depths of approximately **800 metres** in the Strait of Sicily. [54]

The award in June 2026 is particularly relevant because Terna considers it the completion of the procurement process relating to the converter stations, while technical and preparatory activities are already underway at the Sicilian site of Partanna. [54] The project, also supported by the World Bank and included in the framework of the **European Global Gateway and the Mattei Plan** , was created with the aim of enabling two-way exchanges of electricity and, in the medium term, facilitating the integration of greater quantities of Tunisian renewable generation into the Euro-Mediterranean market. [55]

This infrastructure qualitatively changes the role of Sicily, because the island ceases to be just the southern edge of the Italian electricity grid and becomes **a connection point between two continental systems** .

## ELMED in 2026

| Indicator | Value / status |
|---|---|
| **Connection** | Sicily–Tunisia |
| **Technology** | HVDC |
| **Capacity** | 600 MW |
| **Total length** | approximately 220-224 km |
| **Underwater section** | about 200 km |
| **Maximum depth** | about 800 m |
| **Italian station** | Partanna, Trapani |
| **Tunisian station** | Mlaabi, Cap Bon |
| **Contract for converter stations** | approximately €770 million, June 2026 |
| **Promoters** | Terna and STEG |
| **Role** | first direct electrical interconnection between Europe and North Africa |

**Sources:** Terna, World Bank. [54][55]

The strategic significance of the project lies not only in the 600 MW of capacity, because ELMED materially creates the possibility that, in the future, **North African renewable production and European demand can be connected through a controlled and regulated physical infrastructure** , anticipating that vision of the Mediterranean energy in which Italy and Tunisia are no longer considered simply as importers and suppliers, but as components of an integrated electricity grid.


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For Sicily, however, the final value will once again depend on the quality of the regional grid, because receiving energy does not automatically translate into industrial development. If internal transmission capacity, storage, and local industrial demand are insufficient, the island could primarily serve as a transit hub to the mainland; if, however, interconnection were accompanied by new renewable generation, energy-efficient industries, data centers, and storage systems, the infrastructure itself could help create a localized advantage.

## The Tyrrhenian Link completes Sicily's transformation from a network edge to a network node

The scope of ELMED becomes even more evident if it is read together with the **Tyrrhenian Link** , the gigantic project with which Terna is building a double submarine connection between Sicily, Sardinia and Campania, for a total length of approximately **970 kilometres** , a capacity of **1,000 MW** and an investment in the order of **3.7 billion euros** . [56]

In 2026 the work made decisive material progress: in January Terna completed the laying of the western branch between **Sicily and Sardinia** , while in April of the same year it announced the conclusion of the marine works between **Campania and Sicily** ; this means that the submarine component of the two main branches has now reached a very advanced state of construction. [57]

The significance for the island is profound, as ELMED connects it to the south, while the Tyrrhenian Link strengthens its connections to the rest of the Italian electricity system. Taken together, the two projects transform Sicily from a potential **electricity bottleneck** to a potential trading platform.


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## The new electrical architecture centered on Sicily

| Infrastructure | Connection | Capacity | Function |
|---|---|---|---|
| **ELMED** | Sicily–Tunisia | **600 MW** | Europe–North Africa connection |
| **Tyrrhenian Link East** | Sicily–Campania | **1,000 MW** system | strengthening towards the continent |
| **Tyrrhenian Link West** | Sicily–Sardinia | **1,000 MW** system | integration of the islands |
| **Tyrrhenian Link Investment** | — | **approximately €3.7 billion** | strategic transmission infrastructure |
| **Tyrrhenian Link Length** | — | **about 970 km** | new Mediterranean electricity corridor |

**Source:** Terna. [56][57]

Sicily thus becomes the place where future electricity from North Africa will be able to meet a much more interconnected Italian grid, with the theoretical possibility of transferring energy between North Africa, Sicily, Sardinia, and the mainland much more flexibly than was possible under the previous system.

## Sicily is already a gas gateway between Africa and Italy

The energy function, however, did not arise with ELMED, because for decades the island has been one of the main entry points for North African gas into the Italian system. The **TransMed system** , through Tunisia and the Strait of Sicily, connects Algerian gas to the Italian network with a delivery point in **Mazara del Vallo** , and in June 2026 the operator continued to offer transport capacity on the offshore section between Cap Bon and Mazara del Vallo for the 2026-2027 gas year, confirming the full function of Sicily as the northern terminal of the Algerian-Tunisian corridor. [58]

Eastern Sicily also plays an energy role through **Gela** , the landing point of the Greenstream that connects Italy to Libya, and through the **Augusta-Priolo hub** , one of the largest port and petrochemical systems in the Italian Mediterranean.

The port of Augusta, according to the Eastern Sicily Port System Authority, annually handles **over 28 million tons of liquid bulk** and has been serving oil, petrochemical, energy and industrial activities for over half a century. [59] Overall, the Eastern Sicily port system reports volumes in the order of **32.4 million tons of goods** , confirming the weight that Augusta and the other ports exert in national energy logistics. [59]


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## Sicily as an energy hub in 2026

| Infrastructure / hub | Function |
|---|---|
| **TransMed – Mazara del Vallo** | entry of Algerian gas via Tunisia |
| **Greenstream – Gela** | Libya–Italy gas connection |
| **ELMED – Partanna** | future Tunisia–Italy electrical connection |
| **Tyrrhenian Link** | electrical integration Sicily–Sardinia–Campania |
| **Augusta–Priolo** | petrochemicals, refining, liquid bulk, energy |
| **Sicilian renewables** | increasing production destined for integration into the national grid |

The overlap between gas, electricity, refining, and renewables shows how Sicily's role has now gone much further than simply being a traditional energy hub.

## From energy to data: the same geography that brings gas and electricity also brings fiber optics

The third strategic dimension concerns **digital submarine cables** , an infrastructure less visible to the public than ports, gas pipelines, and power lines, but increasingly essential to a country's economic and technological capacity. Sicily also occupies a favorable position in this sector, as it lies along some of the most natural routes connecting Europe, North Africa, the Middle East, and Asia.

In Palermo, **Sparkle** has developed the **Sicily Hub** , an Open Data Center & Landing Hub connected to the Sicilian cable landing stations and precisely designed to intercept a significant share of the submarine systems crossing the Mediterranean. The operator highlights that the node is geographically located closer to North Africa, the Mediterranean and the Middle East than the main peering points in continental Europe and that this location can reduce latency and the cost of connectivity. [60]

In 2023 **BlueMed** had already strengthened Palermo as an Internet node between Europe, Africa, the Middle East and Asia, while in February 2026 Sparkle, Alcatel Submarine Networks and Elettra Tlc announced the construction of **GreenMed** , a new submarine system intended to create a high-capacity corridor between Europe and the Middle East, with passage through strategic gateways including **Sicily and Crete** . [61]

The strategic point is particularly important because a growing part of the world economy depends not on the physical transport of goods but on the transmission of data, and undersea cables constitute the material infrastructure through which a huge share of intercontinental digital communications takes place.


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## Sicily as a digital platform

| Asset | Function |
|---|---|
| **Sparkle Sicily Hub – Palermo** | Mediterranean data center and landing hub |
| **Connection to Sicilian landing stations** | aggregation and redistribution of connectivity |
| **BlueMed** | Western-Eastern Mediterranean connection |
| **GreenMed** | new Europe-Middle East corridor announced in 2026 |
| **Geographical location** | low latency to North Africa and the Middle East |
| **Economic potential** | cloud, carrier, content provider, AI traffic, data center |

**Sources:** Sparkle. [60][61]

Once again, however, the existence of cables does not automatically guarantee the development of a local digital industry. If the data arrives in Sicily but is immediately transported to Milan, Marseille, or other major European hubs for processing, the island captures only a portion of the value; if, however, data centers, cloud computing, cybersecurity, digital services, research, and computationally intensive activities grow around the landing points, **the geographic rent can be transformed into a digital economy** .

It is the same difference observed for energy and ports.

## The data must be processed where it arrives, not just passed through

The European competition for data centers and AI infrastructure makes this issue even more important, as the growing demand for computational capacity is changing the relationship between energy availability, digital connectivity, and investment location. Sicily potentially possesses a favorable combination of submarine landings, growing renewable generation, and new electricity interconnections; this overlap, if combined with a stable grid, available land, expertise, and competitive authorization times, could attract businesses that would normally be concentrated in major continental hubs.

The real opportunity therefore does not consist in having “a lot of cables”.

It involves turning those cables into **processing capacity, services and industry** .


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## Sicilian ports complete the system, but also show the gap between location and scale

The fourth dimension is represented by ports, where Sicily has a diversified network but does not yet have a single container hub on a scale comparable to the major Mediterranean hubs. Eastern Sicily concentrates a significant portion of energy and industrial bulk cargo through Augusta, while Catania maintains a strong ro-ro and passenger function; in the western part, Palermo combines cruise, ro-ro, and service activities; Trapani is experiencing significant growth in cargo and container traffic, while Termini Imerese is developing new logistics functions.

In **2025, the port of Trapani** handled approximately **722,000 tonnes of cargo** , a growth of **32.7 percent** compared to 2024, while containers rose from 10,242 to **16,881 TEU, +64.8 percent** ; Ro-Ro traffic recorded an increase of 27.7 percent. [62] In the same year, the Western Sicilian Sea Authority reported a growth in cargo for **Termini Imerese of 56.4 percent** , with the new container terminal handling **73,286 tonnes** , while Porto Empedocle and Licata recorded increases of 19 and 36.5 percent respectively. [62]

On the passenger and tourist side, the port system of western Sicily exceeded **one million cruise passengers in 2025** , with **1,018,892 passengers and 379 landings** , while Palermo alone handled **996,484** with 284 calls. [63]

These numbers show a vital and diverse port reality, but at the same time they show why geographical position is not enough: **Sicily is located along the main Mediterranean routes but does not automatically capture the same share of logistical value as a large transhipment hub or a hinterland system perfectly connected to European rail networks** .

## Some Sicilian port indicators 2025

| System / port | Given |
|---|---|
| **Eastern Sicily System** | approximately 32.4 million tons of freight |
| **Augusta – liquid bulk** | over 28 million tons per year |
| **Trapani – goods** | 721,668 t |
| **Growth of goods in Trapani** | +32.7% |
| **Trapani – containers** | 16,881 TEUs |
| **Container growth in Trapani** | +64.8% |
| **Termini Imerese – freight growth** | +56.4% |
| **New Termini container terminal** | 73,286 t |
| **Cruise passengers in the Western Sicily system** | 1,018,892 |
| **Cruise passengers Palermo** | 996,484 |

**Sources:** Port System Authority of Eastern Sicily and Western Sicily. [59][62][63]


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The strategic issue is therefore that of the **hinterland** , that is, the ability to rapidly transfer what arrives by sea to markets, industrial districts, and rail networks. A port isolated from the interior possesses local value; a perfectly connected port can become part of a continental logistics chain.

## Sicily can become the southern gateway to Europe only if it is truly connected to Europe

This statement contains the main limitation of the entire Mediterranean platform project, because the island can intercept energy, data, people, and goods coming from the South and East. However, to transform this capacity into a European advantage, it must be able to efficiently transfer these flows to the rest of Italy and the Union.

The quality of internal rail, road and electrical connections therefore takes on the same strategic value as large submarine projects.

A new interconnection with Tunisia is worth less if the internal network is congested.

A port is worth less if goods require a long time and high costs to reach the continent.

A data center is worth less if the electrical grid does not provide sufficient power and stability.

Geography offers the possibility.

The infrastructure decides whether that possibility becomes capacity.

## Sicily therefore runs the risk of becoming a corridor rather than a centre

This is perhaps the most significant risk of the entire strategy. A territory located along major flows can perform two very different economic functions: it can **convey** value or it can **capture** value.

In the first case the gas passes through the island.

Electricity runs across the island.

Data travels across the island.

Ships pass in front of the coasts.

In the second case, however, production, maintenance, services, research, transformation, advanced logistics, and digital capabilities are built around those flows.

The difference between the two models determines whether geopolitical centrality produces territorial development.


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## Sigonella, ELMED, Tyrrhenian Link and Sicily Hub must therefore be read as a single potential ecosystem

Normally, these infrastructures belong to completely separate administrative policies: the Ministry of Defense manages Sigonella, Terna develops the electricity grids, energy operators manage gas pipelines, Sparkle invests in the cables and the Port System Authorities manage the docks.

From the point of view of territorial strategy, however, they represent components of the same phenomenon.

All of them transform Sicily into a network hub.

The question is whether the State and the Region are capable of treating them as such.

## Sicily can become the point where physical security and digital security meet

The overlap between a large NATO ISR infrastructure and important underwater telecommunications systems also takes on increasing relevance in the context of critical infrastructure protection, because cables, gas pipelines, power lines and surveillance systems now belong to the same seabed security problem.

Intentional damage to a cable can have financial consequences.

An attack on an energy infrastructure can produce strategic effects.

The presence of ISR capabilities and a dense system of underwater infrastructure therefore makes Sicily simultaneously more important and more exposed.

Centrality generates opportunities.

It also creates vulnerabilities.

## Sicily's strategic density is rare in the European panorama

Few European regions combine in the same territory a NATO ISR base, two major gas corridors from North Africa, the future first EU-Africa electricity interconnector, a new electricity backbone to the rest of Italy, international digital cable landings, energy and industrial ports, and a position directly exposed to the Suez Canal.

It is this **density of functions** that makes Sicily something more than a simple peripheral region.

**But strategic density does not automatically coincide with regional well-being**

This is the crucial point. A region can be geopolitically central and economically relatively weak.

There is no contradiction.


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If infrastructure functions primarily to serve external flows and the local area lacks the human capital, businesses, logistics, and research to utilize such infrastructure, geographic centrality is monetized elsewhere.

The Sicilian risk is precisely this.

## To transform centrality into development, a second infrastructure is needed

The first infrastructure brings the flow to Sicily.

The second allows Sicily to use it.

This second infrastructure concerns:

- rail connections;
- ports and dry ports;
- internal electrical networks;
- storage;
- industrial areas;
- data center;
- earth fiber;
- technical training;
- university;
- research;
- authorization processes;
- availability of capital.

If one of these elements is missing, part of the potential remains unused.

## The Mediterranean is also a migratory frontier, but it cannot be reduced to that dimension

Sicily's centrality inevitably also takes on a migratory dimension, as the island's location in the central Mediterranean places it along one of the main sea routes used to reach the European Union from North Africa. This factor has exerted such a significant political weight on Italian debate over the past fifteen years that it has often led to a conceptual reduction of the entire Mediterranean policy to the dossier of migration, as if relations with Tunisia, Libya, and Egypt could be assessed primarily through the number of prevented departures or landings recorded on Italian coasts.

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The phenomenon remains significant and should not be downplayed, but the data updated to **September 2026** also show how rapidly the volume of arrivals can change, confirming the need to distinguish between structural trends and annual fluctuations.

According to the Ministry of the Interior, landings recorded in Italy were **66,617 in 2024 and 66,316 in 2025** , two almost identical values despite very significant variations in the monthly composition and routes. [64] In 2026, however, as of **17 September, 21,613 people** had landed , a drastically lower figure than the same period of the previous year; on 14 September, when the total was 21,393, the homogeneous comparison indicated **48,231 arrivals in 2025 and 44,676 in 2024** in the same time interval. [65]

Frontex also recorded, in the preliminary data available in September 2026, a reduction of around **55 percent** in irregular crossings detected on the Central Mediterranean route compared to 2025. [66]

## Landings in Italy: 2024-2026

| Period | People disembarked |
|---|---|
| **Full 2024** | **66,617** |
| **Full 2025** | **66,316** |
| **As of September 14, 2024** | **44,676** |
| **As of September 14, 2025** | **48,231** |
| **As of September 14, 2026** | **21,393** |
| **As of September 17, 2026** | **21,613** |
| **Central Mediterranean route changes 2026 according to Frontex data** | **approximately −55%** |

**Sources:** Ministry of the Interior; Frontex data reported in September 2026. [64][65][66]

The 2026 data, precisely because it is still partial, must be treated with caution and cannot be used to forecast the final value of the year, as migratory flows are characterized by strong seasonality and can be influenced by weather conditions, political instability, the actions of smuggling networks, controls in countries of departure, and changes in routes. However, the reduction observed up to September is sufficiently large to constitute a significant development of this phase.

## The 2026 reduction alone does not demonstrate which policy produced it

A rigorous reading, however, must avoid automatically attributing the change to a single agreement or a single measure, because the dynamics of the central Mediterranean depend simultaneously on Tunisia, Libya, conditions in the countries of origin, European

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cooperation, the activity of coastal authorities, the capacity of criminal networks and possible shifts towards different routes.

It is a fact that landings in 2026 will be much lower than in the same period in 2025.

Saying what percentage of this decrease was caused by a single government decision would require a much more complex causal analysis.

**The composition of arrivals also shows the trans-regional dimension of the route**

As of mid-September 2026, the largest national group among those disembarked was from **Bangladesh** , followed by Somalia, Algeria, Sudan, Pakistan, Eritrea, Egypt and Tunisia; this demonstrates how the central Mediterranean does not only represent a North African route, but the end point of migratory trajectories that can start in South Asia, the Horn of Africa, the Sahel and numerous other regions.[65]

The migratory geography is therefore much broader than the Mediterranean.

Sicily represents one of its terminal points.

## Repatriations reveal a second, often less visible, dimension of the phenomenon

The data updated to 10 September 2026 also indicated **6,027 repatriations** , of which 5,151 forced and 876 assisted voluntary, compared to a total of 6,772 in the whole of 2025 and 5,704 in the whole of 2024. [65] This dimension must also be read separately from landings, because repatriation capacity and number of arrivals are not symmetrical quantities: repatriation depends on identification, agreements with the country of origin, availability of documents and the legal and material possibility of carrying out the measure.


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## Migration: There is no single indicator

| Size | Indicator |
|---|---|
| **Pressure on the route** | departures / interceptions |
| **Arrivals** | people actually landed |
| **Asylum** | questions submitted and decisions |
| **Reception** | presence in national systems |
| **Repatriations** | measures actually carried out |
| **Legal migration** | entries for work, study, family reunification |
| **Routes** | Central, Eastern, Western Mediterranean, Balkans |
| **Composition** | nationality, age, vulnerability |

A Mediterranean policy based exclusively on the first or second indicator would therefore lose much of the actual structure of the phenomenon.

## Sicily remains the place where European geography physically meets migration

For the island, the phenomenon has a concreteness that the national debate often fails to fully grasp, because rescue operations, identification, initial reception, management of minors, and pressure on local administrations are concentrated very unevenly across the territory.

The migratory dimension of Sicily is therefore real.

But it's not the only one.

## Reducing the Mediterranean to migration distorts economic analysis

The first problem with a strategy built almost exclusively around the control of flows would be analytical, because it would obscure precisely the transformations discussed in this section: **in the same space through which migrant boats transit, gas pipelines, electrical interconnections, undersea cables, goods, naval forces and digital data transit** .

The central Mediterranean is therefore simultaneously a migratory frontier and an economic infrastructure.

To observe only one function means to miss all the others.

**The second problem would be diplomatic**


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If relations with Tunisia, Libya, Egypt, and other southern European countries were built primarily through Europe's demand to limit departures, the risk would be that relationships that should encompass energy, investment, training, trade, and infrastructure would be transformed into a predominantly security-focused policy.

This is precisely the logic that the Mattei Plan claims to want to overcome.

Migration cooperation remains part of the relationship.

It cannot coincide with the relationship.

## Sicily makes this need visible better than any other Italian region

The island is located precisely at the point where two representations of the Mediterranean meet: it is simultaneously a destination for migratory flows and a territory from which some of the infrastructures that Italy considers strategic for energy, defense, and data depart or arrive.

This overlap requires the adoption of a multidimensional Mediterranean policy.

## Tunisia itself is both a migration partner and an electricity partner

ELMED is perhaps the most obvious example. Tunisia is discussed in the Italian political debate almost daily for its role in the departures to Lampedusa and Sicily, but at the same time it is building, together with Terna, a **600 MW infrastructure** that will make possible the first direct electrical connection between Africa and the European Union. [54][55]

Reducing Tunis to migration policy alone would mean ignoring precisely the infrastructure that could make it one of southern Italy's most important energy partners.

## Libya also plays multiple roles

Libya is the origin or transit territory of a significant portion of the central Mediterranean's migratory flows, but it is also connected to Sicily via Greenstream, hosts important Italian energy interests, and is central to the maritime security and stability of North Africa.

The same state therefore appears simultaneously in different dossiers.

Politics must be able to manage them together.

## Sicily can become the physical platform for a more mature Mediterranean policy

This is where the island's role takes on its broadest meaning. A truly strategic Italian Mediterranean policy should be capable of using Sicily not simply as **a border to be defended** or a peripheral territory to be compensated economically, but as a platform from which to organize energy, digital, industrial, logistical, and security relations with the Mediterranean.


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This transformation, however, requires a conceptual change.

**From “cost of insularity” to “return of location”**

Insularity will naturally continue to produce real costs for families and businesses, especially when transport links are insufficient or more expensive than on the mainland, and it would be methodologically incorrect to replace the narrative of periphery with a rhetorical celebration of geographic centrality.

The question is different.

The same geographic feature that generates a cost can produce a return when it meets the right infrastructure.

The distance from the continent is a problem for a company that needs to ship goods to Milan.

Proximity to North Africa is an advantage for a power interconnector.

Being an island increases some logistical costs.

Being in the center of the Mediterranean reduces cable latency to Africa and the Middle East.

Geography is not necessarily positive or negative.

It depends on how it is used.

## The new infrastructure can therefore change the economics of the location

ELMED increases the value of the reduced distance from Tunisia.

The Tyrrhenian Link reduces the cost of electrical insulation.

Sicily Hub increases the value of the position compared to digital routes.

Sigonella increases the military value of the location.

Ports can transform routes into logistics.

It is precisely through these infrastructures that a geography peripheral to the continental heart can become central to the Mediterranean.

## But to capture value you need human capital

A platform is not just made up of cement, cables, and ports; higher value-added activities require engineers, technicians, analysts, cyber specialists, maintenance workers, data scientists, logistics operators, and qualified personnel.

Sicily's strategic future will therefore also depend on universities and education.


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The connection between Terna and the University of Palermo through the **Tyrrhenian Lab** , which has reached its fifth edition in 2026, represents an interesting example precisely because it attempts to connect large electrical infrastructure and local skills training. [67]

This is the direction that allows an infrastructure to produce an ecosystem.

## The real issue at stake is not how many flows will pass through Sicily, but how much value will remain in Sicily

This is the question that should accompany every strategic project.

If ELMED brings energy but no new industry, the territorial benefit will be more limited.

If the cables carry data but no data center, the value will be processed elsewhere.

If Sigonella produces intelligence but no technological ecosystem, local value will remain partial.

If ships pass in front of the island without using the ports, the geographical centrality will remain predominantly cartographic.

The quantity of flows therefore does not coincide with the value captured.

## Sicily as a hub must be evaluated through a complete chain

**From geography to development**

| Ride | Necessary condition |
|---|---|
| **Position** | centrality in the Mediterranean |
| **Connection** | cables, gas pipelines, interconnectors, ports |
| **Internal capacity** | efficient networks and infrastructures |
| **Skills** | university, training, technicians |
| **Industry** | companies capable of using infrastructure |
| **Advanced services** | logistics, data, cyber, maintenance |
| **Capital** | public and private investments |
| **Value captured** | employment, productivity, exports and innovation |

Only the last step transforms geography into development.


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## The opposite risk is to become a transit territory for the power of others.

This is perhaps the most important formulation for understanding the Sicilian challenge. A territory can host bases, cables, pipelines, and routes and still remain relatively economically weak if it fails to develop businesses around the infrastructure that passes through it.

In that case Sicily would be **strategic for others but not transformed enough for itself** .

It's a real risk.

And this is precisely what a territorial industrial policy should avoid.

## The Sicilian platform is therefore a project, not yet a completed result

By 2026, sufficient infrastructure exists to suggest that the transformation has begun: Sigonella operates as a NATO ISR hub; the Tyrrhenian Link has completed major marine works; ELMED has completed a crucial part of its procurement and begun preparatory activities; TransMed continues to operate; Palermo is a Mediterranean cable hub; GreenMed is under construction; Augusta remains a major energy and industrial hub.

All of this is real capacity or capacity under construction.

It does not yet demonstrate that Sicily has fully transformed this growing infrastructure density.

## The judgment must therefore be economic, not cartographic.

In ten years the question should not be how many lines cross the map of Sicily, but:

- how much industrial investment they have attracted;
- how many businesses were born;
- how many technicians are left;
- how much data is processed locally;
- how much energy is used by new industry;
- how much productivity and exports have grown;
- how connected the ports are to the rest of Europe.

This is the true measure of success.

## The Mediterranean is not only the place from which problems come to Italy

This shift in perspective also represents a broader political shift. For many years, the southern Mediterranean has been portrayed in national debate primarily as a source of instability, immigration, terrorism, or energy crises.

This dimension of risk exists.

But at the same time there is a dimension of opportunity.


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- Solar energy.
- Markets.
- Interconnections.
- Cables.
- Logistics.
- Human capital.

Sicily is physically located at the point where Italy can choose which of the two readings to transform into policy.

## Migration management remains part of security, but it cannot define the Mediterranean strategy alone

The 2026 figure of much lower landings than the previous two years also shows that migratory pressure can vary rapidly, while infrastructures such as ELMED, Tyrrhenian Link, TransMed and digital cables operate on timescales of decades.

A strategy built primarily on the most volatile variable would therefore risk losing the structural one.

- Migration requires governance.
- Energy requires infrastructure.
- Trade requires logistics.
- Data requires networks.
- Security requires surveillance.
- The Mediterranean strategy must contain them all.

## Sicily is precisely the place where this strategy can become physical

If Italy succeeds in integrating these dimensions, the island will be able to progressively move from being the southern periphery of the national production system to a **northern hub of the wider Mediterranean** , transforming part of its insularity from a cost into a locational rent.

If, however, infrastructure remains isolated from one another and poorly connected to the local economy, Sicily could host an exceptional density of strategic assets without fully transforming it into development.

Geography won't make the difference.

The ability of the State and the territory to **organize geography will do so** .

And this is precisely the point at which Sicily becomes an exemplary case of the entire book: **power does not derive from the simple possession of a strategic position, but from the ability to transform it into infrastructure, technology, capital and real economic options** .


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## The Mattei Plan: From Crisis Management to the Quest for Economic Depth

It is in this context that the **Mattei Plan must be placed** , because its strategic ambition is not simply to finance a few African projects, but to attempt to build a more structural relationship between Italy and a growing part of the continent through energy, infrastructure, training, agriculture, healthcare, water, technology and investment.

The Mission Structure at the Presidency of the Council explicitly identifies among the priority sectors development cooperation, education and training, research, health, agriculture, climate adaptation, physical and digital infrastructures and energy, including renewable sources and circular economy. [17]

In 2026, the scope of the Plan reached **18 partner countries** , compared to the initial nine pilot countries in 2024; the third annual report indicates **76 ongoing projects** , an initial allocation of **5.5 billion euros** , approximately **1.2 billion allocated by the Italian Climate Fund for fifteen interventions** and approximately **4 billion in SACE guarantees** to support investments in the countries involved. [18]

These numbers need to be handled correctly.

A budget of five and a half billion does not automatically equate to five and a half billion already spent.

Four billion in SACE guarantees is not four billion in fiscal transfers.

Seventy-six projects do not mean seventy-six infrastructures already completed.

But the transition from the initial phase to a network of interventions and financial instruments shows that the Plan has now become a concrete component of Italian foreign economic policy.

The real question is about the ability to produce permanent results.


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## The Mattei Plan is also becoming European

One of the most significant developments of 2025 was the attempt to link the Mattei Plan to the **European Global Gateway** , thus increasing the financial scale and preventing the Italian initiative from remaining separated from the greater EU investment capacities.

The documentation of the Presidency of the Council on 2025 explicitly records the "internationalisation" of the Plan and highlights, among the initiatives carried out together with the European Commission, the signing in June 2025 of **eleven agreements for approximately 1.2 billion euros** ; at the same time, collaboration with the African Development Bank continued through the Mattei Plan and Rome Process Financing Facility. [19]

This step is strategically very important because it once again illustrates the Italian logic of the ladder.

Italy individually cannot compete financially with China's infrastructure capacity, with the Gulf sovereign wealth funds, or with major international institutions.

However, it can use its political initiative and knowledge of the Mediterranean to influence a portion of European and multilateral capital.

Italy's strategic depth therefore increases when a national project manages to become European.


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## The European Mediterranean is also changing: from the Barcelona Process to a new Pact

The European Union itself has gradually recognised that its southern policy required a review. In 2025, thirty years after the Barcelona Declaration, the Commission and the High Representative presented a new **Pact for the Mediterranean** , subsequently accepted by the Council, which identifies the region as a strategic priority and proposes the construction of a "common Mediterranean space" based on economic cooperation, innovation, energy, security, migration and connections between the two shores. [20]

The Pact is significant because it seeks to overcome one of the historical weaknesses of European policy towards the South: the fact that Brussels has often dedicated more coherent political, financial and strategic instruments to the Eastern neighbourhood than those used in the Mediterranean.

The war in Ukraine has inevitably strengthened the weight of the eastern flank, but at the same time, energy, migration, the Red Sea, Middle Eastern crises and competition in Africa have made it impossible to consider the South a secondary theatre.

The Council has expressly indicated among the objectives of the new Pact the strengthening of cooperation in **peace, security and defence, conflict prevention, the fight against organised crime, maritime security and migration** , together with the economic and social dimension. [21]

It is, in essence, the European translation of the same Italian observation: economy and security in the Mediterranean can no longer be planned separately.


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## NATO: The South Enters Alliance Planning Again

The transformation of the Mediterranean into a central space for Italian economic, energy, and military security could not fail to have consequences within **NATO as well** , because Russia's invasion of Ukraine in February 2022 understandably brought the eastern flank back to the center of the Alliance's planning, but it did not eliminate the threats and vulnerabilities developing along the southern flank, where state instability, terrorism, proliferation of weapons systems, competition between external powers, vulnerability of maritime infrastructure, migration crises, regional conflicts, and disruptions of energy and trade routes can have direct consequences for the security of European Allies without necessarily taking the form of a conventional attack against NATO territory.

The most important institutional step occurred at the **Washington Summit in July 2024** , when the Alliance leaders approved a **Southern Neighbourhood Action Plan** , defined in the Final Declaration as a tool to build a "stronger, more strategic and results-oriented" approach towards the southern neighbourhood, while simultaneously committing to strengthen political dialogue, practical cooperation, NATO's visibility in the region and the use of existing tools, including the **Defence Capacity Building Initiative** , the **Hub for the South** and the NATO–ICI Regional Centre in Kuwait. [68]

This decision did not remain just a formulation contained in the summit declaration, because a few days later, on **23 July 2024** , Secretary General Jens Stoltenberg appointed Spaniard **Javier Colomina** as the first Special Representative of the Secretary General for the Southern Neighbourhood, giving him the task of coordinating the Alliance's efforts in the Middle East, North Africa and the Sahel, increasing the political visibility of NATO action and acting as an institutional point of contact for the region. [69]

The significance of the new position should not be overestimated to the point of imagining a new NATO command structure for the Mediterranean, but neither should it be underestimated, because for the first time the Alliance has created **a political focal point dedicated exclusively to the South** , implicitly recognizing that threats from the southern neighborhood require a continuity of attention that cannot depend only on the crises of the moment. In 2026, Colomina's mandate continues to be operational and the activity has extended to a sequence of discussions with regional partners, including the first official visit to Israel in January 2026 and work on new cooperation projects with Gulf partners.[69][70]

The geography of the "South" used by NATO is also much broader than that which, in Italian political language, is normally identified with the central Mediterranean alone, because it includes **North Africa, the Middle East and the Sahel** , that is, a strategic arc that extends from the African Atlantic to the Gulf and in which the Alliance operates through different instruments, modulated on the nature of the partner and the risk. The


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**Mediterranean Dialogue** , launched in 1994, continues to bring together seven non-member countries — Algeria, Egypt, Israel, Jordan, Mauritania, Morocco and Tunisia — while the **Istanbul Cooperation Initiative** , launched in 2004, includes Bahrain, Kuwait, Qatar and the United Arab Emirates and constitutes the main NATO framework for cooperation with the Gulf. [70]

This structure was joined in **September 2025** by the Alliance's first real permanent political presence in the Middle East, with the opening of the **NATO Liaison Office in Amman** , agreed at the Washington Summit and implemented in cooperation with Jordan, one of the Mediterranean partners considered to be the most stable and most integrated in cooperation with NATO. [71] This choice has greater value than the simple opening of a diplomatic office, because it signals that the Southern Neighbourhood Action Plan has begun to produce permanent institutional infrastructures and that the Alliance considers the ability to maintain an ongoing dialogue with regional partners an integral part of its security posture.

## The new NATO architecture on the Southern Flank

| Instrument | Status in 2026 | Main function |
|---|---|---|
| **Southern Neighborhood Action Plan** | operational from the Washington Summit 2024 | strategic coordination of NATO action towards the South |
| **Special Representative for the Southern Neighborhood** | Javier Colomina | political coordination between NATO, partners and regional institutions |
| **Mediterranean Dialogue** | 7 partners | cooperation with North Africa and the Mediterranean |
| **Istanbul Cooperation Initiative** | 4 Gulf partners | security, interoperability and capacity building |
| **NATO Liaison Office Amman** | opened September 2025 | first NATO diplomatic presence in the region |
| **Defense Capacity Building** | programs with selected partners | strengthening local capacities |
| **Hub for the South** | analysis and dialogue tool | strategic understanding of southern dynamics |
| **NATO Mission Iraq** | active | non-combat advisory mission |
| **ICI Flagship Projects 2026** | launched at the Ankara Summit | maritime security, counter-UAS, CBRN, counter-terrorism |

**Sources:** NATO. [68][69][70][71]

For Italy, this rebalancing is particularly important because it allows it to represent within NATO a concept of national security that does not coincide exclusively with conventional deterrence against Russia, while fully recognizing the centrality of the eastern flank and Italy's commitments to collective defense. Rome must simultaneously consider Poland, the Baltics, and Ukraine, but also the **Red Sea, Libya, the stability of North Africa, the**


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**Turkish Straits, the protection of Mediterranean energy and digital infrastructure, and the freedom of commercial navigation** , because the national geography makes it impossible to rigidly separate Euro-Atlantic security from Mediterranean security.

The problem, therefore, is not choosing between East and South, as if the two directions were alternatives, but understanding that for a country located at the centre of the Mediterranean, the Alliance's collective security takes on a more complex geometry than that of many continental partners: **Italy is simultaneously a state on the southern flank, a major European economy dependent on maritime routes, and an ally committed to deterrence on the eastern flank** . This dual exposure explains why Rome has an interest in preventing the Alliance's focus on Russia from structurally peripheralizing the crises in the south.


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## MARITIME SAFETY IS NO LONGER THE SAME AS SHIP PROTECTION

The transformation of the enlarged Mediterranean is simultaneously changing the very meaning of **maritime security** . Until a few decades ago, the protection of sea lines of communication could be interpreted primarily as the ability to guarantee freedom of navigation, protect merchant shipping, and prevent an adversary from physically interrupting these routes. Today, this dimension remains essential, but beneath the surface of the sea lies a second network of infrastructures that transports energy, data, and electricity, making the security of the seabed almost as important as that of the surface.

The distinction between civilian and strategic infrastructure has therefore been greatly blurred, because a **fiber optic cable** , a gas pipeline, an electrical interconnection or a landing station can be civilian-owned or managed and at the same time perform an indispensable function for financial operations, military activities, government communications, energy systems and the ordinary functioning of the economy. NATO recalls that submarine cables and pipelines constitute true "invisible arteries" of the international system and that **over 95 percent of global Internet traffic** is transmitted through submarine infrastructure, a dependency that makes sabotage, accidents or hybrid attacks potentially capable of producing damage disproportionate to the material simplicity of the target. [72]

Italy has already transformed this awareness into a permanent operational activity. Since 2022, the Navy has been conducting Operation **Fondali Sicuri** , now integrated into the Safe Mediterranean system, with surveillance tasks for gas pipelines, cable ducts and other Critical Underwater Infrastructures; in 2026, minesweeper units continued to systematically monitor infrastructures such as **TAP, Greenstream and TransMed** , using on-board sonar, underwater vehicles and specialist skills of the divers to inspect the seabed and verify the state of the infrastructures. [73]

The activity has direct economic significance, as the three pipelines mentioned constitute some of the main gas supply gateways to the Italian system, connecting the country to Azerbaijan, Libya, and Algeria, respectively. Protecting the seabed therefore means protecting **energy flows that feed households, industry, and electricity generation** , and the Navy, in this case, plays a role that simultaneously encompasses national defense, economic security, and the protection of critical infrastructure.


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## From the surface to the seabed: Italy's new maritime safety

| Domain | Infrastructure / activities | Main risk |
|---|---|---|
| **Surface** | merchant ships, tankers, container ships | attacks, piracy, interdiction |
| **Seabed** | gas pipelines, data cables, electrical cables | sabotage, anchors, mines, accidents |
| **Airspace** | ISR, drones, patrolling | insufficient surveillance, attacks |
| **Space** | satellites, communications, geolocation | jamming, cyber, degradation of services |
| **Digital** | telecommunication networks and landing stations | cyber attacks, loss of connectivity |
| **Ports** | terminals, energy warehouses, logistics | sabotage, operational blockade |
| **Information system** | maritime domain awareness | data fragmentation between operators |

The Italian response is also evolving on an institutional and technological level. In January 2026, Italy and Greece signed the Operational Memorandum of Understanding for the **Underwater Centre of Excellence** based in La Spezia, a project involving numerous allied countries that should obtain full NATO accreditation during 2026; the centre was born precisely from the need to transform the underwater domain into an area of systematic doctrinal, technological and industrial cooperation. [74]

Mediterranean security is thus becoming truly **three-dimensional and multi-layered** , requiring capabilities under the sea, on the surface, and in the air, integrated with satellite and digital systems. No single administration alone possesses all the information needed to construct a complete representation of the risk. The Navy, Coast Guard, intelligence agencies, energy operators, telecommunications companies, electricity grid operators, port authorities, and allies must progressively share a much more integrated maritime situational awareness than in the past, naturally without confusing civil and military responsibilities, but recognizing that **the vulnerability of private infrastructure can have national security consequences** .


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## STRATEGIC DEPTH IS ALSO REDUNDANCY

The crises of the 1920s showed with a clarity rarely achieved before that strategic depth must not be interpreted only in military or territorial terms, as the possibility of operating at great distances from borders, but also in economic terms as **the number of alternatives available when an infrastructure, a supplier or a route suddenly ceases to function** .

This definition helps us understand why redundancy and diversification, which might have seemed like unnecessary costs during a period of efficiency maximization, have become components of economic security. A supply chain built around a single supplier is often cheaper as long as that supplier functions perfectly; an energy system powered by a single large pipeline can be extremely efficient as long as the political relationship remains stable; a perfectly optimized port lacking alternative rail links can minimize ongoing costs but become fragile during a crisis; a digital network concentrated on a few cables can reduce investment costs but greatly increase the damage caused by a single sabotage incident.

The Italian experience between 2021 and 2026 allows us to observe this logic simultaneously in numerous sectors: dependence on Russian gas has demonstrated the risk of supplier concentration, the Suez crisis has highlighted the risk of route concentration, the Baltic cable incidents have brought attention to the vulnerability of submarine connectivity, while the difficulties of global logistics have highlighted the industrial cost of supply chains built with minimal inventories and rigidly synchronized delivery times.


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## Redundancy as an infrastructure of economic security

| Concentrated addiction | Vulnerability | Redundancy form |
|---|---|---|
| **a single large gas supplier** | political pressure / disruption | Algeria, TAP, LNG, storage |
| **a single Asia–Europe route** | Suez / Bab el-Mandeb | Cape of Good Hope, supplies, rail alternatives |
| **few digital cables** | sabotage / failure | more underwater systems and landing points |
| **a single main port** | congestion / blockage | multiport system |
| **a single electrical source** | production shock | interconnections, storage, diversified mix |
| **a single North African partner** | political instability | differentiated relations with multiple states |
| **single intelligence system** | loss of situational awareness | Multi-layered ISR, satellites, sensors, allies |
| **single export market** | demand shock / tariffs | geographical diversification |

The economic cost of redundancy must of course be recognized, because maintaining multiple suppliers, larger inventories, spare capacity, or alternative infrastructures normally means accepting higher costs than a configuration optimized solely for efficiency; this is precisely why the transformation is politically significant, because economic security introduces **option value into the public calculus** —that is, the potential benefit of owning an alternative even when it is not continuously used.

Strategic depth can therefore be defined as the ability to absorb a shock without interrupting the essential function it affects, and from this perspective, a second regasification terminal, an additional cable, or a seemingly redundant interconnection possess a value that is not fully reflected in the ordinary income statement but becomes evident when the main system fails.


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## MEDITERRANEAN RELATIONS CANNOT ALL BE BUILT IN THE SAME WAY

The construction of an Italian Mediterranean strategy, however, faces a significant conceptual limitation, because generically speaking of a "Southern shore" risks lumping together states with profoundly different economic, institutional, demographic, and strategic structures. Algeria, Tunisia, Libya, Egypt, and Turkey do not constitute a homogeneous bloc with which Rome can apply the same combination of tools, and a truly strategic policy must therefore be **modular** , adapting energy, finance, industrial cooperation, security, and diplomacy to the specific nature of each relationship.

With Algeria **,** the relationship remains strongly energy-based but is based on a state with much greater institutional continuity than Libya, on a production system that is seeking to develop its own industrial capacity, and on a geographical position that makes the country simultaneously a gas supplier, a potential partner in hydrogen, and an essential interlocutor for the security of the Sahel and the Western Mediterranean.

With **Tunisia** , however, geographical proximity determines an almost perfect overlap between trade, migration, energy, electrical interconnection and economic cooperation, and the completion of ELMED could transform an already intensely political relationship into a permanent infrastructural interdependence. SACE indicates **3.4 billion euros of Italian exports and 3.1 billion of imports for 2025** , with an Italian share of 13 percent of the Tunisian market, showing how the relationship is already economically dense even before the electrical interconnection comes into operation. [75]

With **Libya** , Italy's interests are simultaneously energy, migration, and security-related, but they are exercised within a fragmented institutional system in which political and territorial control do not fully coincide with a single central authority; precisely for this reason, Rome must combine diplomacy, economic presence, and international cooperation with a level of risk far higher than that observed in Algeria or Tunisia.

With Egypt **,** as analyzed in the previous section, the relationship is inseparable from Suez, Gaza, the Red Sea, energy and macroeconomic stability, while with **Turkey** Italy interacts with a true industrial and military power capable of competing, cooperating and independently influencing dossiers from the Black Sea to Libya.


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## Five partners, five relationship structures

| Village | Prevalent function for Italy | Main opportunity | Main vulnerability |
|---|---|---|---|
| **Algeria** | energy and regional stability | gas, hydrogen, industry | energy concentration |
| **Tunisia** | proximity, trade, migration | ELMED, manufacturing, nearshoring | financial fragility |
| **Libya** | energy and the central Mediterranean | gas, oil, reconstruction | political fragmentation |
| **Egypt** | Suez, energy, Gaza | market, logistics, regional hub | macro and regional vulnerability |
| **Türkiye** | manufacturing, NATO, Black Sea | industry, defense, supply chain | competition and strategic divergences |

A uniform strategy would inevitably lead to inefficiency, because a tool that works with a large, relatively stable gas exporter is not necessarily appropriate for a politically fragmented country, just as a policy built around migration is not sufficient for a manufacturing partner like Turkey or a systemic player like Egypt.

The only truly common element is therefore **interdependence** , but its nature varies from country to country.


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## FROM THE EUROPEAN PERIPHERY TO THE HINGE OF NEW ROUTES

If a significant portion of the infrastructure and initiatives currently under development were to reach full operational maturity, Italy could acquire a Mediterranean role significantly greater than that exercised during the period in which the European economic center remained almost entirely organized around the industrial axis linking Germany, Benelux, Northern France, and the Po Valley. Electrical integration with North Africa, the growth of regasification capacity, connections with Algeria and Azerbaijan, the development of submarine cables, Europe's growing focus on African raw materials and markets, and the potential consolidation of new corridors between India, the Gulf, the Mediterranean, and Europe could indeed give the peninsula a **pivotal role between Europe's productive heartland and a much larger southern economic space** .

This transformation, however, is not automatic, because geography assigns a location but does not determine the amount of value a country can capture from that location. A logistics corridor reaching Italy produces full benefits only if ports, railways, freight terminals, and customs allow for the rapid redistribution of goods to Europe; a gas pipeline increases energy security but does not automatically create industry; a submarine cable generates connectivity but does not necessarily generate data centers, software, and digital services; an investment made in Africa generates influence only when it is completed, maintained, and incorporated into a lasting economic relationship.

This distinction between **geographic position and geoeconomic capacity** represents one of the common threads of the entire book, because Italy undoubtedly possesses the former but must demonstrate its ability to fully develop the latter.

### From route to economic value

| Geographic asset | Minimum condition | Capabilities to build to capture value |
|---|---|---|
| **Mediterranean port** | maritime traffic | hinterland, railway, advanced logistics |
| **gas pipeline** | flow availability | industry, storage, trading, network |
| **electrical interconnector** | transmission capacity | industrial demand, storage, grid intelligence |
| **data cable** | landing point | data center, cloud, cyber, digital services |
| **military base** | strategic presence | technology, maintenance, dual-use research |
| **African relationship** | political agreement | investments, supply chains, private capital |
| **position on Suez** | proximity to the route | competitive ports and continental connectivity |

The new European **Pact for the Mediterranean** , launched in November 2025 and followed by the first Action Plan in April 2026, confirms that Brussels is also progressively adopting a broader vision of the region, built not only on migration and development


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cooperation but on **energy, clean technologies, supply chains, digital infrastructure, human capital, security and the blue economy** . [76]

The Commission also indicates that in the period 2021-2027, around **7 billion euros of European investments in the Southern Mediterranean have helped to mobilise over 30 billion in financing** , a leverage ratio that shows how the new European Mediterranean policy seeks to combine public resources, financial institutions and private capital. [76]

For Italy, this framework represents a particularly significant opportunity, as it allows the European dimension to be used as a **financial and regulatory multiplier** for initiatives that, on an exclusively national scale, would have much more limited capacity.


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## THE MEDITERRANEAN AS A MULTIPLIER OF ITALIAN INDUSTRIAL POWER

The relationship between the Mediterranean strategy and Italy's industrial structure is direct, because economic expansion toward the South must not be interpreted solely as foreign policy but as an opportunity to expand markets, orders, and the capacity of supply chains in which Italy already possesses competitive specializations. North African economies require machinery, electricity grids, railway infrastructure, agricultural technologies, water treatment, logistics, digital systems, shipbuilding, and energy capacity—in other words, a significant portion of the goods and services in which the Italian manufacturing system possesses consolidated expertise.

The relationship can therefore be described as a circuit: **the industrialization of the southern Mediterranean can create demand for Italian manufacturing, while Italian industrial capacity can increase the quality and depth of political relations with the South** . Foreign policy and industrial policy thus become two dimensions of the same problem.

The available numbers confirm that this dynamic already has a significant economic basis. In **2024, Italian exports to the African continent reached approximately 20 billion euros** , of which 13.7 billion went to the countries initially included in the Mattei Plan; in 2025, after the Plan was expanded, exports to the **18 priority countries** reached **14.4 billion** , up 4.1 percent compared to the previous year. [77]

SACE also communicated in April 2026 that, since the launch of the initiatives linked to the Mattei Plan, it had supported operations for over **3.6 billion euros** , contributing to the realisation of approximately **18.5 billion projects** and involving more than **200 Italian companies** in the agri-food, energy, mechanical engineering, infrastructure, automotive and chemical sectors. [78]


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## The Southern Mediterranean as a market for Italian industrial capacity

| Italian supply chain | Potential Mediterranean demand |
|---|---|
| **Instrumental mechanics** | industrial modernization and automation |
| **Energy** | networks, renewables, gas, storage, hydrogen |
| **Railways** | urban mobility and logistics corridors |
| **Shipbuilding** | ports, civil fleets, naval defense |
| **Agri-tech** | irrigation, processing, packaging |
| **Water technology** | treatment and desalination |
| **Aerospace & Defense** | ISR, maritime security, radar, UAS |
| **Digital** | data center, cables, digital identity, cloud |
| **Pharmaceuticals** | manufacturing, healthcare supply chain |
| **Constructions and materials** | urbanization and infrastructure |

However, the relationship also works in the opposite direction: if Italy loses industrial capacity, its economic and political utility for its Mediterranean partners diminishes, because the ability to offer technology, infrastructure, capital, training, and security constitutes an important part of the national bargaining leverage. In other words, **Italy's Mediterranean power depends on Italy's productive power** , and a deindustrialized economy would inevitably also lose part of its ability to build long-term partnerships with Africa and the Middle East.


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## 2026: A REGION IN TRANSFORMATION, NOT A STABILIZED ORDER

As of **September 18, 2026,** however, it would be methodologically incorrect to describe the new Mediterranean as if its energy, commercial, and security architecture were now stabilized, because numerous central elements of the Italian strategy remain in the construction, recovery, or testing phases.

**Suez** traffic is recovering from the 2024 collapse but remains significantly below pre-Red Sea crisis levels; the need to maintain a European naval mission in the corridor confirms that freedom of navigation cannot yet be considered permanently restored.

On **23 February 2026** , the Council of the European Union indeed extended the **EUNAVFOR ASPIDES operation until 28 February 2027** , allocating almost **15 million euros of common costs for the new mandate period** and confirming that threats against commercial and merchant vessels in the Red Sea and surrounding waters persist. [79]

In March 2026, the Council also expanded some of the tasks of Operations ASPIDES and ATALANTA, strengthening cooperation with regional maritime forces and initiatives dedicated to the protection of critical sea infrastructures, further demonstrating the shift from a strictly naval conception of security to a broader protection of maritime systems. [80]

ELMED, as noted, has made a decisive industrial step with the 2026 contracts but is not yet an operational infrastructure; the Mattei Plan has mobilized increasing capital but many projects will take years to show their actual return; the Pact for the Mediterranean was politically launched in 2025 and the related Action Plan only in 2026; new digital infrastructures and energy corridors are under development.


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## Status of the main components of the Italian Mediterranean depth – September 2026

| Component | State |
|---|---|
| **Suez** | traffic recovering, still below pre-crisis levels |
| **ASPIDES** | extended until February 28, 2027 |
| **ELMED** | under construction / advanced procurement |
| **Tyrrhenian Link** | highly advanced marine works |
| **Mattei Plan** | operational, final results still to be measured |
| **Pact for the Mediterranean EU** | Action Plan launched in 2026 |
| **NATO South Action Plan** | operating |
| **NATO Liaison Office Amman** | operational from 2025 |
| **Italian seabed protection** | Safe Seabeds active |
| **Underwater COE** | in the process of full NATO accreditation |
| **Mediterranean digital cables** | new systems in development |
| **Energy diversification** | substantially advanced, not concluded |

The methodological conclusion is therefore important: **Italy's strategic depth must be described as a process, not as an acquired result** , because many of the infrastructures and policies that could change Italy's role in the Mediterranean will produce full effects only in the next decade.


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## THERE IS NO ITALIAN SAFETY WITHOUT ROUTE SAFETY

The main conceptual consequence of the entire analysis consists in recognizing that Italian national security can no longer be described solely through the integrity of its territory, the solidity of its institutions, or traditional military capacity. This is because a manufacturing, exporting country, largely dependent on energy imports and located at the center of a maritime space crossed by some of the world's main trade and energy routes, is structurally dependent on the **continuity of the circulation of goods, energy, data, and capital** .

A disruption in the Suez Canal would not trigger a military attack against Italy, but it would increase the logistical costs of its industry; insecurity at the Bab el-Mandeb could lengthen Asia-Europe routes by thousands of miles; disruption of TransMed, Greenstream, or TAP would reduce energy supply options; damage to undersea cables could affect communications and digital services; renewed destabilization in Libya could simultaneously generate energy and migration pressures.

The common point is that **an external shock can turn into an internal cost without physically crossing the Italian land border** .

This is a profound transformation of the very concept of defense.

### Road safety as a component of national security

| Flow | Vulnerable node | Effect on Italy |
|---|---|---|
| **Asia–Europe goods** | Suez / Bab el-Mandeb | freight, stocks, delivery times |
| **Algerian gas** | Tunisia / TransMed | gas availability and price |
| **Libyan gas** | Greenstream | energy security |
| **Azerbaijani gas** | TANAP / TAP | diversification |
| **digital data** | Mediterranean cables | connectivity and finance |
| **future electricity** | ELMED | system flexibility |
| **port traffic** | ports and dry ports | exports and competitiveness |
| **maritime safety** | Red Sea / Mediterranean | insurance and freedom of navigation |

The ASPIDES mission embodies precisely this new form of security, because the European Union uses naval military capabilities not to conquer territory but to **protect the continuity of international trade** ; similarly, Fondali Sicuri uses naval assets to protect infrastructure that supports civilian economic services.

The boundary between economic policy and security policy is therefore becoming increasingly blurred.

## THE WIDER MEDITERRANEAN IS THE PLACE WHERE ITALY CAN HAVE THE MOST RELATIVE WEIGHT

Finally, there is a structural reason why the Mediterranean should occupy a central position in Italian strategy: in the global comparison with the United States, China, or

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even the major Asian powers, Italy inevitably remains a **medium-sized power** , lacking the demographic, financial, and technological scale necessary to independently define the rules of the international system. In the Mediterranean, however, the combination of geography, industry, naval capacity, membership in the European Union and NATO, energy relations, ports, Sicily, and historical ties with North Africa and the Middle East gives the country a significantly greater relative weight.

This does not mean that Italy can dominate the region or unilaterally determine its balance of power, a conclusion that would be incompatible with the presence of Turkey, France, Egypt, Algeria, Israel, the United States, Russia, China, the Gulf monarchies, and numerous other actors. Rather, it means that **Rome has a number of assets in the Mediterranean that cannot be replicated in the same way by many European partners** , and this very combination can increase its ability to build coalitions and influence decisions.

## Italy's geopolitical capital in the Mediterranean

| Asset | Strategic function |
|---|---|
| **Sicily** | military, energy, digital platform |
| **Ports** | access to trade routes |
| **Navy** | presence and safety of SLOCs |
| **Defense industry** | technology and partnerships |
| **Eni / Snam / Terna** | energy infrastructure and relations |
| **Manufacturing base** | supply of machinery, technology and infrastructure |
| **EU** | financial and regulatory capacity |
| **BORN** | collective security |
| **Relationship with Algeria** | gas and Western stability |
| **Relationship with Tunisia** | energy, migration, ELMED |
| **Relationship with Libya** | energy and the central Mediterranean |
| **Relationship with Egypt** | Suez and the Eastern Mediterranean |
| **Relationship with Türkiye** | Black Sea, manufacturing, defense |
| **Mattei Plan** | economic projection towards Africa |

Geopolitical capital, however, must be used realistically, because the presence of numerous assets does not mean Italy can impose its own interests; rather, it increases the number of **negotiating levers and possible coalitions** , which is a more contemporary and concrete form of power.


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## BUT GEOGRAPHY BECOMES POWER ONLY WHEN IT IS ORGANIZED

The greatest risk would be to transform this reading into a deterministic celebration of Italian geography, because the country's economic history offers numerous examples of potential advantages not fully translated into actual capabilities. Being located at the center of the Mediterranean does not automatically make Italy an energy hub; owning numerous ports does not mean controlling logistics; hosting submarine cables does not mean controlling data; owning military bases does not equate to full strategic autonomy; being geographically close to Africa does not guarantee that Italian companies will gain market share or that investments will generate sustainable economic returns.

Geography is thus **a raw resource** , comparable to a raw material that must be transformed through capital, infrastructure, institutions and skills before it can become power.

### From position to geoeconomic power

| Level | Decisive question |
|---|---|
| **Geographical location** | where is the country located? |
| **Infrastructure** | is it connected to the routes? |
| **Logistics capacity** | can it distribute the flows? |
| **Industry** | does it produce its own technology? |
| **Finance** | can it mobilize capital? |
| **Diplomacy** | build coalitions? |
| **Safety** | protects assets? |
| **Technological control** | Do you own data, software, and intellectual property? |
| **Redundancy** | do you have any alternatives? |
| **Geoeconomic power** | can you turn all these assets into options? |

Sicily itself, as described in the previous section, represents a laboratory for this distinction: it can be a transit point for energy and data or a center for value production; it can host Sigonella or build a technological ecosystem around it; it can welcome ELMED or use its available energy to attract industry and data centers.

The problem is therefore not owning a position.

It's **organizing it** .


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## THE NEW MEDITERRANEAN SOVEREIGNTY

The entire analysis ultimately leads to a definition of sovereignty very different from the traditional one and particularly consistent with the transformation observed in other parts of the book, because Italy cannot realistically achieve independence from the Mediterranean and would have no economic advantage in attempting to do so; however, it can build a network of suppliers, infrastructure, partnerships, and alliances broad enough to prevent a single external disruption from immediately escalating into an uncontrollable national crisis.

Italy cannot control **the Suez Canal** , but it can contribute to the security of the routes leading to the Canal and support European missions like ASPIDES; it cannot eliminate dependence on energy imports, but it can diversify into Algeria, Azerbaijan, LNG, Libya, renewables, and interconnections; it cannot prevent every political crisis in North Africa, but it can build economic relations deep enough to offset the mutual cost of instability; it cannot independently control the Bab el-Mandeb, but it can contribute to a European naval mission protecting freedom of navigation; it cannot single-handedly finance Africa's infrastructure transformation on the scale of China or the United States, but it can combine **the Mattei Plan, Global Gateway, SACE, CDP, multilateral banks, and private capital** .

This logic describes a form of sovereignty that does not coincide with self-sufficiency, because complete self-sufficiency would be economically inefficient and in many sectors simply impossible; rather, it coincides with **the ability to govern interdependence without being dominated by it** .

### The components of the new Italian Mediterranean sovereignty

| Capacity | Concrete translation |
|---|---|
| **Connection** | access to more markets, routes and infrastructure |
| **Diversification** | avoid dependence on a single supplier |
| **Redundancy** | maintain usable alternatives |
| **Coalition** | act through EU, NATO and partnerships |
| **Industrial presence** | transform diplomatic relations into supply chains |
| **Naval capacity** | protect SLOCs and infrastructure |
| **Situational awareness** | know the maritime and underwater domain |
| **Finance** | mobilize public and private capital |
| **Technology** | monitor critical nodes in the value chain |


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| | |
|---|---|
| **Resilience** | absorb shocks without interrupting essential functions |

In 2026, this structure can be concretely observed in numerous dossiers. The extension of ASPIDES until February 2027 demonstrates that sea route protection is not an abstract function but a European operational mission with real costs and resources; the growth of Operation Fondali Sicuri demonstrates that the Italian state now considers cables and gas pipelines to be components of national security; the Mattei Plan and the new Pact for the Mediterranean demonstrate that development cooperation, supply chains, and economic security are gradually converging; finally, NATO, through the Southern Neighborhood Action Plan, recognizes that the stability of the South cannot be treated as a peripheral issue with respect to Euro-Atlantic defense.

The deeper meaning of **Italy's strategic depth,** therefore, is not to artificially shift the Republic's political border southward or eastward, nor to imagine a sphere of territorial influence that would not correspond to the nature of contemporary Italian power; rather, it consists in **moving further away the point at which an external crisis becomes an unmanageable internal crisis** , increasing the number of layers of protection, alternatives, and available partners between the source of the shock and the national system.

If Italy has only one energy supplier, an external disruption affects the domestic economy almost immediately; if it has Algeria, TAP, LNG, storage, and renewables, the same disruption encounters multiple levels of compensation. If digital connectivity depends on a few cables, an incident produces more severe effects; if the system has multiple landing points, routes, and rerouting capabilities, vulnerability decreases. If trade depends on a single route, a maritime crisis quickly becomes an industrial problem; if companies and ports have alternatives and supplies, the shock takes longer to transform into paralysis.

It is precisely **in this distance between external shock and internal collapse that part of contemporary power is measured** .

Italy's Mediterranean sovereignty must therefore be understood as a **capacity for connectivity, diversification, resilience, and coalition** , not as independence from the region; the goal is not to reduce interdependence to the point of eliminating it, but to organize interdependence in a way that increases available options rather than restricting them.

And this, ultimately, is the meaning of strategic depth: not the ability to control everything that happens beyond the border, an unrealistic goal for any middle power, but the ability to build enough infrastructure, relationships, industry, intelligence, and cooperation to prevent an external crisis from turning too quickly into an uncontrollable national crisis.


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**[78]** SACE, 2025 results published on 1 April 2026. Used for the **over 3.6 billion euros of operations supported under the Mattei Plan** , the approximately **18.5 billion of projects mobilised** and the over 200 Italian companies involved.

**[79]** Council of the European Union, *Red Sea: Council extends the mandate of Operation ASPIDES* , 23 February 2026. Used for the extension of the operation until **28 February 2027** and for the financial reference amount of almost **€15 million** .

**[80]** Council of the European Union, *Maritime security: Council updates mandates of EU naval operations ASPIDES and ATALANTA* , 30 March 2026. Used for the evolution of European missions towards a more integrated approach to the security of maritime routes and infrastructures.


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# PART XIII

# THE EUROPEAN COMPARISON


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# Chapter 27

## Italy, Germany, France and the United Kingdom — Four European power configurations

Comparing Italy, Germany, France, and the United Kingdom means comparing four countries that belong to the same historical, economic, and strategic European space but that have built their capacity for influence through profoundly different combinations of industry, capital, technology, energy, public apparatus, military force, and institutions.

It would therefore be methodologically flawed to seek a single measure capable of establishing which of the four is "stronger," because the answer would immediately change depending on the variable chosen: Germany maintains a manufacturing and technological-industrial depth that none of the other four replicates on the same scale; France combines a large state, a diversified industrial base, nuclear power, autonomous military capability, and an international presence built in part through its permanent seat on the United Nations Security Council; the United Kingdom, despite having left the European Union, retains a global financial center, top-level diplomatic and military capacity, universities and technological research integrated into the Anglo-Saxon ecosystem, and a privileged relationship with the United States; Italy, on the other hand, possesses a large export-oriented manufacturing sector, a network of particularly competitive medium-sized enterprises, a strategic Mediterranean location, and significant capabilities in mechanical engineering, pharmaceuticals, aerospace, shipbuilding, and defense, but must transform these resources within a system characterized by weak productivity, high debt, an aging population, and a diminished capacity to concentrate capital and research.

For this reason, the following comparison deliberately uses **the same grid for all four countries** and forgoes any overall score. A differential in GDP per capita will not be used to demonstrate diplomatic superiority; greater manufacturing weight will not automatically translate into greater technological autonomy; large nuclear capacity will not become synonymous with greater industrial competitiveness; low debt will not be interpreted as sufficient evidence of better economic policy. Each variable measures a different part of a state's ability to produce, finance, protect, and project its interests, and only their combination allows us to understand the nature of the four configurations.

A second methodological principle must also be maintained. Germany, France, and Italy belong to the euro and the European Union; the United Kingdom belongs to NATO and the G7 but, after Brexit, no longer participates directly in the ordinary formation of European legislation and is not represented in the Council, the European Parliament, or the ECB. This makes some entities comparable and others less so. Berlin, Paris, and Rome exercise some of their power through common institutions to which they have transferred

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competences; London enjoys greater formal autonomy in monetary and trade policy, but no longer contributes directly to the creation of the rules of the European single market. Formal sovereignty and the ability to influence therefore do not automatically coincide.


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## Real GDP — Four major economies growing slowly, but for different reasons

The first comparison concerns the capacity to generate real income. Among these four economies, none, in the mid-2020s, was experiencing a growth phase comparable to that of the most dynamic emerging economies or the United States in its heyday; the difference lies rather in the nature of the problems holding back each system.

Germany enters the 2023–2025 period after decades of being Europe's leading industrial engine, but the combination of the energy shock following the loss of Russian gas, the Chinese slowdown, the automotive industry's difficulties, increased Asian competition, high interest rates, and weak domestic demand has exposed vulnerabilities previously masked by the exceptional success of its export-industrial model. Germany's strength has not disappeared: its manufacturing base, technological infrastructure, human capital, and large companies remain enormous. What has become less favorable is the environment within which that system had thrived, based for years on relatively cheap energy from Russia, American security, and access to the Chinese market for automobiles, machinery, and high-value industrial goods.

France has a different structure because its economy relies relatively less on manufacturing than Germany and more on services, domestic consumption, and large public spending. This makes it less sensitive than Germany to certain industrial shocks, but it is more exposed to the state's ability to finance a large public structure without compromising fiscal sustainability. The French economy also boasts very significant industrial and technological champions in aerospace, defense, energy, luxury goods, pharmaceuticals, transportation, and infrastructure, making any description of France as a simply "deindustrialized" economy misleading. However, trend growth remains modest.

Italy shares part of the German industrial problem and part of the French fiscal problem, but with a unique characteristic: the problem of weak growth long predates the recent crisis. Stagnant productivity in recent decades, the small size of many firms, demographics, and the territorial divide constrain potential even when the external cycle is favorable. In 2025, Italy's real GDP grew by 0.5 percent, a figure consistent with an economy that creates jobs and supports public investment through the National Recovery and Resilience Plan (NRRP), but continues to show limited capacity to rapidly increase output per hour worked.

Finally, the United Kingdom presents a still different picture. After Brexit, the pandemic, and the energy shock, the British economy continues to benefit from a deep financial sector, professional services, universities, technology, and a more dynamic demographic than Italy, but suffers from a prolonged weakness in investment and productivity, infrastructure in need of modernization, and new trade frictions with the main regional

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market. In the second quarter of 2026, British GDP grew by 0.4 percent compared to the previous quarter, indicating that the economy continues to advance, but without the acceleration needed to radically alter the structural framework.

The first conclusion is therefore that none of the four can be judged simply by their current growth rate. Germany possesses a very large industrial capacity that must adapt to a new geoeconomic environment; France supports growth through a broad public structure and strategic high-tech sectors; the United Kingdom has an internationalized service economy but must rebuild productivity and investment; Italy possesses a competitive manufacturing base across numerous sectors but must transform employment and investment into productivity growth.


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## GDP per capita — The scale of the economy does not coincide with average disposable income

Overall GDP indicates the economic mass with which a state can finance infrastructure, defense, research, and administration; GDP per capita, however, measures, with all its limitations, the amount of production available per inhabitant and helps distinguish large economies with different populations.

For a serious international comparison, it is preferable to use values adjusted for purchasing power parity rather than simply converting national GDP at current exchange rates, because the euro and the pound can appreciate or depreciate without the real quantity of goods and services produced changing to the same extent. The OECD emphasizes this function of PPPs, noting that they eliminate price level differences to allow for real comparisons between economies.

Within this framework, Germany, France, and the United Kingdom maintain higher levels of per capita GDP than Italy, but this gap should not be interpreted as a uniform difference in living standards. Price structures, taxation, public services, housing costs, and income distribution can produce very different experiences for families. The OECD also points out that per capita GDP does not necessarily coincide with actual individual consumption and may overestimate or underestimate the amount of resources actually available to families depending on the economic structure.

In the Italian case, the weak growth in per capita GDP is particularly significant because it spans a very long period: when population and employment change but output per hour worked grows slowly, the country can maintain a large economic mass without converging toward the levels of its more productive partners. In Germany and France, the recent problem is primarily the loss of dynamism compared to the previous trend, while for Italy it represents a much more deeply rooted structural characteristic. The United Kingdom, on the other hand, maintains a relatively high level but has also suffered from a prolonged post-2008 productivity stagnation.


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## Productivity — The variable that most clearly separates structure and performance

Productivity is probably the most important variable in the entire comparison because it determines how much income an economy can generate with a given amount of labor and capital and, in the long run, affects real wages, tax revenue, investment capacity, and the sustainability of the welfare state.

OECD data on GDP per hour worked show a significant difference between the four countries in 2024. France and Germany had very high levels of hourly productivity, with values expressed in PPP dollars higher than those in Italy; in the OECD series, France stands around $90 PPP per hour and Germany close to $98, while Italy is just under $80. The British value is also above the Italian one, but its long-term momentum remains weak compared to the pre-financial crisis period.

These figures must be interpreted in conjunction with the structure of firms. As already seen, Italy does not necessarily have low productivity among medium-sized and large firms: the problem is that a much higher share of employment compared to France and Germany remains concentrated in micro and small firms, where capital, digitalization, management, and research are statistically more limited. Germany, on the other hand, benefits from a system in which large global groups coexist with a Mittelstand (middle class) that is often capable of achieving greater size, capital, and specialization than the typical Italian small firm; France has large national groups in numerous sectors and a higher industrial concentration; the United Kingdom has a highly productive system in advanced services and finance, but with extremely marked regional differences.

The real difference, therefore, is not simply whether French or German workers "work better" than Italian ones. It is the capital currently available, the technology incorporated, the size of the firms, the quality of management, the organization, and the specialization of production that determine the aggregate outcome.


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## Industry — Germany and Italy manufacturing, France and the United Kingdom industrially more selective

If manufacturing is used as a component of economic power, Germany and Italy have a more industrially intensive structure than France and the United Kingdom. But even this distinction must be qualified.

Germany maintains an industrial ecosystem of exceptional scale for Europe: automotive, chemical, mechanical, electrical, equipment, pharmaceutical, industrial technology, and a vast supplier network. Its advantage lies not only in the number of factories, but also in the density of relationships between large groups, research centers, Mittelstand, technical training, and global markets.

Italy has a more fragmented but extremely diversified manufacturing base and, in 2024, accounted for approximately 14 percent of the EU's industrial production sales, second only to Germany. In high-tech products, Eurostat counted **5,156 high-tech manufacturing firms in Italy in 2023** , the second highest in the EU after Germany's 8,896. However, high-tech industrial employment was much higher in Germany and France, which employed approximately 668,000 and 389,000 workers respectively, compared to approximately 212,000 in Italy. This is an extremely significant picture: Italy has a large number of technology companies, but these tend to be smaller on average.

France has a lower manufacturing share, but it retains champions with enormous strategic value in aerospace, defense, nuclear energy, transportation, pharmaceuticals, and luxury goods. Airbus, Safran, Thales, Dassault, EDF, Oran, Schneider Electric, Alstom, Sanofi, and other groups demonstrate that a lower manufacturing share of GDP does not equate to a lower strategic capacity in any sector.

The United Kingdom has the least manufacturing intensity of the four, but the remaining manufacturing structure is highly selective: aerospace, motors, pharmaceuticals, defense, Formula 1 and engineering, specialty chemicals, designed semiconductors, and creative industries. Its relative weakness is the loss of depth in some manufacturing supply chains and a greater dependence on industrial imports; its strength lies in the ability to concentrate capital and research in technologically advanced segments.


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## Research and Development — The Difference Between Producing Well and Controlling Future Technology

Research and development spending makes the difference between the models much more visible. In 2024, the average R&D intensity in the European Union was **2.24 percent of GDP** . Germany continues to rank significantly above this average, around or above the 3 percent mark, supported by a very strong private and industrial component; some German regions such as Stuttgart, Braunschweig, Tübingen, and Karlsruhe record research intensities above 5 percent, demonstrating how innovation capacity is concentrated precisely in the most advanced industrial districts.

France is closer to the European average but has scientific and technological capacity supported by a large public research sector and large companies in aerospace, defense, nuclear, pharmaceuticals, and digital.

Italy's GDP remains at around 1.4 percent, significantly below the European average and far behind Germany. The problem is particularly serious because a large manufacturing system that invests little in research risks progressively maintaining assembly and production while losing a growing share of value to those who control patents, software, electronics, and advanced materials.

The United Kingdom, on the other hand, has a much more intense research system, strongly linked to universities and cutting-edge science. The ONS has estimated UK R&D spending at **£72.6 billion in 2023** , while UK Research and Innovation invests over £9 billion of public funds in research and innovation each year. The British model is less manufacturing-based than the German one but much more capable of concentrating science, venture capital, universities, and emerging technologies.

Here, one of the fundamental differences between the four systems emerges: Germany transforms research into industry through an extremely dense network; the United Kingdom excels at connecting universities, finance, and technology; France integrates public research and major national champions; Italy possesses scientific and industrial excellence, but its aggregate intensity and scale are too limited.


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## Energy — Four economies, four strategic legacies

None of the mandatory variables show a more stark difference than energy.

France maintains the largest nuclear system in Western Europe and **produced 373 TWh of nuclear electricity in 2025** , while 95.2 percent of France's total electricity generation came from low-emission sources, nuclear and renewables combined. The strategic value of this configuration is twofold: it reduces the electricity generation's exposure to gas imports and provides Paris with a nuclear industrial base that includes design, fuel cycle management, engineering, and a national supply chain of expertise.

Germany took the opposite trajectory, completing its nuclear phaseout in 2023 and relying on renewables, networks, residual fossil fuel capacity, imports, and progressive electrification for its transition. This move eliminated nuclear power from the mix, but not the energy security issue, made particularly evident by the collapse of the model based on importing large quantities of cheap Russian gas.

Italy has no operational nuclear power plants and is highly dependent on energy imports. However, since 2022, it has developed a more diversified gas supply structure through Algeria, Azerbaijan, and LNG, while renewables have covered a growing share of electricity generation. The main vulnerability remains the cost of energy and heavy dependence on imports.

The United Kingdom presents a fourth configuration: it has domestic oil and gas production in the North Sea, a still significant share of nuclear power but with a progressively declining historical fleet, and a very large offshore wind capacity. In 2026, the government also authorized the extension of the operational life of Sizewell B until 2055, while construction of Hinkley Point C and the policy on small modular reactors through Great British Energy–Nuclear continue.

The comparison does not yield a universally superior model. France has electrical and nuclear autonomy but must finance the renewal and maintenance of a large fleet; Germany has enormous renewable capacity but faces the problem of industrial energy costs and system flexibility; the United Kingdom combines domestic sources, nuclear, and offshore wind; Italy has a highly diversified system but is heavily dependent on imports.

## Trade — Germany and Italy industrial, France more balanced, UK more service-oriented

Germany remains deeply tied to trade in goods and global manufacturing chains. For decades, its trade surplus has been a central element of the national economic model and has financed a large foreign investment position. However, export dependence also constitutes a vulnerability when China, the automotive industry, or world trade slows.


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Italy has a similar structure, but on a smaller scale and with different specializations. In 2025, Italy's trade surplus exceeded €50 billion, while the surplus in non-energy products was close to €98 billion, a sign of significant manufacturing capacity, partially offset by the energy deficit.

France has a less favorable trade position in goods but has very competitive exports in aerospace, luxury, pharmaceuticals, agri-food, defense, and services, while tourism and services help offset some of the weakness in aggregate manufacturing.

The United Kingdom is structurally different because trade in services, particularly finance, insurance, consulting, professional services, education, and creativity, is much more significant. Leaving the EU has introduced new frictions in trade in goods with the European market, but London retains a global capacity in services that none of the other three countries replicate in the same configuration.

Trade power, therefore, is not simply measured by the balance of goods. Germany and Italy sell primarily industrial capacity; the United Kingdom sells high-value services to a much greater extent; France combines both with large sectoral champions.


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## Financial Markets — London as a Global Infrastructure, Paris as a Growth Market, Frankfurt as a Monetary Market, Milan as an Industrial-Financial Market

The UK holds the most obvious advantage in finance. The City of London remains a leading global financial infrastructure, with depth in foreign exchange, derivatives, insurance, asset management, private equity, venture capital, commercial law, and international finance. This capability gives the UK a form of geoeconomic power that is independent of manufacturing scale: businesses and governments around the world rely on services and capital intermediated by London-based institutions.

France has strengthened Paris's position since Brexit and owns some of continental Europe's leading banking, insurance, and asset management groups. BNP Paribas, Crédit Agricole, Société Générale, AXA, and Amundi mean that France not only has a financial market, but also champions capable of allocating capital internationally.

Germany, on the other hand, enjoys a unique situation: Frankfurt hosts the ECB, the euro's main monetary institution, and important financial infrastructure, but the German banking system is much more decentralized and less dominated by major global players than the French or British ones. Germany's financial strength also stems from its enormous savings base and banking relationships with industry.

Italy has a much more robust banking system today than it did a decade ago, with large groups like Intesa Sanpaolo and UniCredit, but its equity and venture capital markets remain shallow. As a result, many Italian companies are more dependent on bank credit and, once they reach international scale, can more easily raise capital in London, Paris, or New York than in the domestic market.

The difference is strategic because whoever controls the capital influences what can grow.


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## Debt — The fiscal constraint takes on a different meaning in each system

Italy enters the comparison with the highest public debt ratio of the four, **137.1 percent of GDP at the end of 2025** , according to Eurostat, a level that continues to represent one of the main structural constraints on national fiscal freedom. Italy's problem lies not simply in the current cost of debt, but in the need to generate sufficient nominal growth and primary surpluses over time to prevent a destabilizing trend.

France has significantly higher debt than Germany and has run large deficits in recent years, which has reduced its fiscal policy margin despite the country's very robust economic and institutional foundation.

Germany continues to have a significantly lower debt position, partly due to the long period of fiscal discipline preceding the recent changes to investment and defense policy. This fiscal space represents a very important potential resource because, when the political system decides to utilize it, it allows for public investment and security to be supported without the same vulnerability as Italy or France.

The United Kingdom requires particular methodological caution because the figure most frequently cited by the Treasury and the ONS—public sector net debt—does not perfectly match the Maastricht definition used by Eurostat for EU countries. Any direct comparison must therefore be made using harmonized definitions and not simply by comparing percentages from different accounting systems. However, even London now operates with a debt stock and interest expenditure high enough to severely limit its capacity for fiscal expansion.

Debt thus creates four different degrees of constraint, but it does not automatically determine the quality of a state. France demonstrates that a country can possess high debt and great strategic capacity; Germany demonstrates the value of fiscal space; Italy demonstrates how historical debt conditions the present; the United Kingdom demonstrates that monetary autonomy and its own currency do not eliminate financial constraints.


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## Taxation — Four different models of state financing

France traditionally has one of the highest tax burdens in the OECD area and uses that revenue to finance a very broad framework of welfare, public services, and redistribution. This does not automatically mean greater inefficiency: it means that a larger share of economic resources is intermediated through the state.

Italy and Germany occupy an intermediate position, but with different structures. Germany combines taxes, social contributions, and a highly complex federal system; Italy has a high tax burden but must allocate a particularly significant portion of it to pensions and interest, reducing the margin available for other public functions.

The United Kingdom has historically maintained a lower tax burden than France and often even than the major continental economies, but growing needs for healthcare, pensions, defense, and public services have gradually narrowed the gap.

The strategic question isn't simply who taxes more. It's **what the state can buy with each percentage point of GDP levied** : infrastructure, healthcare, research, pensions, defense, education, or debt service. It's this composition, more than the aggregate tax rate alone, that determines future capacity.

**Demography — Italy is the most urgent case, but none of the four is immune**

Demographics slowly but profoundly alter all other variables. Eurostat estimated that as of **January 1, 2025, 22 percent of the EU population was at least 65 years old** , and that the European median age had reached 44.9 years.

Of the four, Italy faces the most acute problem: a very low birth rate, a high proportion of elderly people, and a projected reduction in the working-age population. The consequence isn't just increased pension spending; it's a smaller base from which to recruit industrial workers, doctors, researchers, military personnel, technicians, and taxpayers.

Germany shares a strong aging population, but in recent years net immigration has contributed to further stabilizing the population and workforce, even if the economic integration of migrants thus becomes a decisive variable for competitiveness.

France has a relatively less unfavorable demographic structure, even if the birth rate has decreased significantly from the historically higher levels that characterized the French model.

The United Kingdom has the fastest growing population, driven primarily by immigration; the ONS estimated the British population to be around **69.5 million in 2025.** This growth alleviates some workforce constraints but increases demand for housing, infrastructure, and public services.


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Demography thus demonstrates the trade-off between population size and integration capacity: a stable but very elderly population creates a fiscal problem; a more dynamic population through immigration requires investments and policies capable of transforming new residents into productivity.


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## Defense — Four very different military models

Defense comparisons must use a common source and a common definition. NATO explicitly warns that its methodology may produce figures different from national budgets because it includes certain categories according to a standardized classification; for this reason, international comparisons must be conducted using NATO data, while analysis of internal structures must rely on national documents.

By 2025, all four countries had significantly accelerated military spending as part of the new phase of European rearmament, but their structures were profoundly different. France and the United Kingdom possess their own nuclear deterrents, global deployment capabilities, nuclear submarines, advanced air forces, and a defense industry capable of designing complex systems. France combines these capabilities with a particularly high level of relative technological autonomy: it produces its own fighters, missiles, submarines, nuclear systems, and space platforms. The United Kingdom possesses an equally global capability, but is more technologically integrated with the United States.

Germany has a potentially enormous economic and industrial mass to support its defense, but its military has been relatively underfunded compared to the country's economic size for decades. The changes following the invasion of Ukraine, combined with the Special Forces and the new NATO policy, therefore open the possibility of a profound transformation of the Bundeswehr, but the transition from spending to actual capability takes time.

Italy has a highly developed military industry relative to its size, especially in aerospace, electronics, helicopters, and shipbuilding, but has historically allocated a lower share of GDP to defense than France and the United Kingdom. However, NATO estimates that it will reach 2 percent by 2025, according to its own methodology. Meanwhile, the national challenge remains how to transform the increased investment in readiness, munitions, maintenance, and operational capabilities.

None of the four models can therefore be reduced to a percentage of GDP alone: France and the United Kingdom possess nuclear deterrence and global capabilities; Germany possesses industrial and fiscal scale; Italy possesses an industrial base and a Mediterranean location that amplify its strategic value.


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## Technology — Industrial and digital power do not coincide

Germany represents Europe's greatest capacity in industrial engineering, automation, mechanics, chemicals, and numerous segments of factory technology, but Europe as a whole is weaker than the United States in digital platforms and frontier AI.

France has built a more centralized system in which the state, research, and large corporations can converge on strategic projects in nuclear, space, defense, AI, and semiconductors.

The UK has a particularly strong mix of universities, venture capital, AI, biotechnology, engineered semiconductors, and fundamental research. Its weakness is that some British technology companies tend to be acquired or funded by American capital, sometimes resulting in a controlling interest being transferred abroad.

Italy possesses numerous advanced industrial technologies but a lower density of venture capital and large digital companies. Its opportunity lies in integrating AI and software into its already strong industrial capabilities—machinery, defense, space, pharmaceuticals—rather than attempting to entirely replicate the Silicon Valley model.


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## Infrastructure — The ability to transform geography and capital into productivity

Germany has a vast infrastructure network serving Europe's industrial heartland, but years of relatively limited public investment have created a need for modernization in railways, bridges, electricity grids, and digital infrastructure.

France has a highly centralized structure and a high-speed network, energy infrastructure, and large national utilities, but continues to struggle with regional disparities and the need to simultaneously finance nuclear, transport, and the energy transition.

The UK has hugely important airports, ports, digital infrastructure and global financial links, but the infrastructure gap between London and much of the rest of the country remains a central political and economic issue.

Italy has an extremely complex infrastructure geography: part of the North is deeply integrated into the continental production networks, while the South and islands are more significantly lagging behind. The PNRR has significantly increased investments, but the real outcome will depend on the ability to reduce transport times and connect ports, railways, energy, and digital into a single system.

Here, the Italian territory represents both a problem and an opportunity: stretching out into the Mediterranean, the peninsula can be the periphery of Europe's economic heartland or a connecting platform with Africa, Suez, and the Middle East.


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## Industrial Policy — Four Different Ways to Bring the State Back into the Economy

Germany's industrial policy is primarily driven by support for its manufacturing base, transition incentives, infrastructure, European programs, and a growing focus on supply chain security. The key challenge is preserving the automotive, chemical, and machinery industries during a technological and geoeconomic transformation that directly impacts the previous model.

France has traditionally operated a more interventionist state and maintains stakes and influence over numerous national champions; the France 2030 program, nuclear, defense, and technology policies reflect a vision in which industrial sovereignty is directly supported through public capital and planning.

The United Kingdom, after decades of greater economic liberalism, has gradually brought industrial policy and economic security back to the forefront, especially after Brexit, the pandemic, and technological competition, leveraging procurement, funding for energy, defense, semiconductors, and research.

Italy has a hybrid model: large publicly owned companies like ENI, Leonardo, Fincantieri, Terna, and other strategic holdings coexist with a vast private manufacturing sector and with instruments such as Cassa Depositi e Prestiti, Golden Power, and the National Recovery and Resilience Plan (PNRR). Italy's challenge, therefore, is not the absence of the state, but coordinating these instruments into a long-term strategy stable enough to survive political cycles.


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## Nuclear Capacity — An Industrial, Energy, and Military Difference

France is the only one of the four countries where civil nuclear power is the core of the electricity system, with **373 TWh produced in 2025.** It also has a military nuclear deterrent and an entire national nuclear supply chain.

The UK maintains both civil nuclear capacity and military deterrence. The existing civil fleet is partly aging, but Sizewell B has been extended until 2055 and Hinkley Point C is expected to renew some of its capacity, while the government has chosen Rolls-Royce SMR as the preferred bidder for the new small reactor strategy.

Germany closed its last commercial reactors in 2023, abandoning this component of electricity generation while retaining an important scientific and industrial heritage linked to the previous experience.

Italy has not produced nuclear electricity since the 1987 referendum and subsequent decisions, although the debate on SMRs and new technologies has returned to the political agenda. This means that, as of this writing, the country has neither a civilian operational supply chain comparable to France and the United Kingdom nor a national nuclear deterrent, participating instead in NATO's collective deterrence.

This difference simultaneously affects energy security, industry and military capacity.


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## National Champions — How Each Country Concentrates Capital and Decision-Making

Germany has large private industrial players such as Siemens, SAP, Mercedes-Benz, BMW, Volkswagen, BASF, Bosch, and Deutsche Telekom, capable of investing tens of billions and maintaining global production and research networks.

France has perhaps the greatest concentration of strategic players directly or indirectly linked to the state: EDF, Airbus, Safran, Thales, Dassault, Orange, TotalEnergies, Sanofi, Schneider Electric, LVMH and other groups ensure that Paris has industrial interlocutors capable of operating on a global scale.

The UK has major financial, pharmaceutical, energy, defense, and consumer goods groups—HSBC, Barclays, AstraZeneca, GSK, Rolls-Royce, BAE Systems, BP, Shell, and others—but some of Britain's industrial capital is highly internationalized, and many large companies have globally distributed ownership.

Italy has a smaller number of large global groups, but some have strategic importance far beyond their relative size: ENI, Leonardo, Fincantieri, Enel, Intesa Sanpaolo, UniCredit, Ferrari, Prysmian, and other companies represent hubs in technology, energy, defense, finance, and infrastructure. Their weakness is the size gap between these champions and the vast mass of SMEs; their strength is the existence of a network of specialized medium-sized companies occupying international industrial niches.


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## Influence in the European Union — Being big does not engender the same kind of power

Germany exerts influence within the EU through its economic size, demographic weight, manufacturing importance, and position as the largest contributor in absolute terms to numerous common instruments; any major European compromise on finance, industry, energy, or enlargement must deal with Berlin.

France exercises a different form of influence, based on the combination of a large economy, a centralized state, foreign policy, nuclear deterrence, and the ability to formulate European strategic concepts. Paris has historically tended to propose political architectures and transform its national agenda into European projects.

Italy has significant institutional weight as a founding member, the eurozone's third largest economy, and a central Mediterranean state, but its influence varies greatly with its internal political stability, fiscal credibility, and coalition-building ability.

After Brexit, the United Kingdom no longer participates directly in the day-to-day making of EU decisions. It can influence Europe through security, finance, diplomacy, the G7, NATO, and bilateral relations, but it no longer has a vote in the Council or elected representatives in the European Parliament. This is a concrete example of the difference between formal autonomy and the internal capacity to write the rules of the European market.


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## NATO Influence — Military Weight Changes the Hierarchy

The United Kingdom and France possess a global military capability that places them in a different league to Germany and Italy: national nuclear deterrence, expeditionary forces, nuclear submarines, advanced air force and international presence.

With the Zeitenwende and the new spending increase, Germany potentially has the economic basis to transform itself into one of Europe's main conventional military pillars, but rebuilding its actual capability will take years.

Italy occupies a particularly important position on the southern flank: its bases, the Mediterranean, naval capabilities, aerospace, and defense industry mean that the national contribution cannot be measured solely by spending. NATO itself hosts one of its main operational commands in Naples and uses Sigonella for ISR capabilities that reflect the value of Italy's position.

The four configurations are therefore complementary: Anglo-French global deterrence, German economic mass, and Italian Mediterranean depth.

## Diplomatic Capacity — Four Different Networks of Influence

France maintains one of the world's most extensive diplomatic networks, a permanent seat on the Security Council, overseas territories and interests, and a tradition of strategic autonomy that amplifies its capacity for initiative.

The UK also has a permanent seat on the Security Council, nuclear deterrence, the Commonwealth, the Five Eyes, and a global diplomatic network underpinned by the English language and integration with the global financial system.

Germany exercises less autonomous hard power but possesses extraordinary economic and institutional influence, particularly in Central and Eastern Europe and in European industrial and trade policies.

Italy has a significant diplomatic network and particularly significant capabilities in the Mediterranean, the Balkans, and certain relations with Africa and the Middle East, but it neither has a permanent seat on the Security Council nor its own nuclear deterrent. Its diplomatic capacity therefore grows when it manages to leverage its geographic position into European initiatives, as in the case of Mediterranean energy, the Mattei Plan, maritime security, and relations with North Africa.


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## Position in Global Chains — Four Different Functions in the Same Western System

Germany is deeply integrated into global industrial chains as a supplier of capital goods, automobiles, chemicals, and manufacturing technologies; its vulnerability stems precisely from its high exposure to world trade and China.

Italy occupies a similar position, but is more specialized in intermediate supply chains, machinery, pharmaceuticals, mechanical engineering, components, food, and numerous niches. The problem is its dependence on energy, electronics, critical materials, and some Asian inputs.

France has supply chains that are more concentrated around major players in the aerospace, nuclear, defense, luxury, and pharmaceutical industries, a characteristic that allows the state to coordinate certain strategies more easily but makes certain sectors very dominant.

The UK participates in global supply chains through a combination of financial services, pharmaceuticals, aerospace, defense, science, and capital. However, its post-Brexit position has introduced greater administrative distance from continental supply chains.

The ability to control the nodes in the chain matters more than the sheer quantity of trade. Germany controls many industrial technologies; France numerous complex strategic systems; the United Kingdom capital and research; Italy possesses a large number of specialized skills but fewer large technological platforms.


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## Four configurations, not four steps of the same ladder

If we look at all the variables together, it becomes clear why assigning a "winner" would be methodologically flawed. The four countries don't simply occupy different positions on the same ranking; they possess **different forms of power** .

Germany builds its capacity primarily through industrial scale, productive capital, applied technology, and a central position in the European market. This configuration creates enormous economic strength, but also vulnerability when energy, China, global trade, and the automotive industry undergo simultaneous transformation.

France combines state power, nuclear energy, strategic industry, deterrence, diplomacy, and the ability to concentrate resources on large-scale national programs. The cost of this setup is a very burdensome tax structure and a growing debt that progressively reduces the space available to simultaneously finance welfare, defense, and transition.

The United Kingdom has perhaps the most global configuration: finance, language, universities, research, intelligence, nuclear deterrence, relations with Washington, and diplomatic capacity. However, with Brexit, it has lost the ability to influence EU rules from within and has a less deep manufacturing base than Germany or Italy.

Italy has the most distributed configuration: large-scale manufacturing, medium-sized enterprises, export capacity, selective champions in energy, defense, and infrastructure, and a highly valuable Mediterranean geography. The challenge is transforming this multiplicity of assets into a coordinated capacity, because productivity, R&D, debt, and demographics reduce the state's ability to convert them into sustained power.


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## Germany is not just industry, France is not just state, London is not just finance, Italy is not just manufacturing

The most common simplifications thus become particularly dangerous. Germany is not simply "Europe's factory": it is also a system of research, credit, technical training, and capital that makes that factory possible. France is not simply a dirigiste state: it is a system in which large private and public enterprises, science, energy, and diplomacy are often coordinated around national objectives. The United Kingdom is not just the City: aerospace, pharmaceuticals, AI, universities, and defense are essential components of the British system. Finally, Italy is not simply a country of SMEs: it has large groups, strategic infrastructure, one of Europe's main manufacturing bases, and advanced capabilities in sectors ranging from turbines and cables to pharmaceuticals, shipbuilding, and radar.

The serious confrontation begins precisely when these caricatures are abandoned.

## The fundamental difference is the relationship between resources and coordination capacity

However, there is a cross-cutting variable that helps understand why the same resources produce different results: coordination capacity.

France tends to concentrate.

Germany tends to organize through industrial and federal systems.

The UK tends to coordinate through financial markets, universities, strategic institutions and global networks.

Italy, on the other hand, tends to produce capacity distributed across territories and sectors, often through a plurality of less integrated companies and administrations.

This Italian structure can generate enormous microeconomic adaptability but makes the implementation of large-scale coordinated transformations more difficult.

This is one of the reasons why the PNRR represents such an important test: it requires not only resources, but the ability to transform thousands of projects and reforms into a coherent direction.


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## Industry and services are not opposite categories

Another lesson from the comparison concerns the traditional opposition between manufacturing and service economies.

Germany demonstrates that a large industry generates an ecosystem of engineering, software, logistics and professional services.

London demonstrates that financial and technology services can generate global power even with a small manufacturing share.

France demonstrates that aerospace and nuclear power depend on research and design services at least as much as on factories.

Italy demonstrates that contemporary manufacturing exports incorporate an increasing amount of software, design, maintenance, and after-sales services.

The real frontier is therefore not industry versus services.

It's high-value activities versus low-value activities.

## The ability to finance the future will increasingly separate the four models

R&D, defense, power grids, nuclear, AI, infrastructure, climate adaptation, and aging will require far greater amounts of capital over the next ten years than were invested in the previous decade.

Here the fiscal and financial difference will become decisive.

Germany has a relatively small amount of debt but must convince its political system to transform that space into productive investment.

France has great planning capacity but narrower fiscal margins.

The UK can draw on deep financial markets but must reconcile investment with a strained public budget.

Italy benefits from the PNRR and a phase of high public investment until 2026, but after the conclusion of the European instrument, it will need to find a permanent mechanism capable of maintaining that intensity without compromising its debt path.

Future power will therefore depend not only on what countries possess today, but on how much capital they can mobilize without destabilizing their finances.


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## Demography, technology and defense converge in the same problem

The future phase will also make the variables analyzed increasingly less separable. An aging country has fewer workers and must spend more on pensions and healthcare; this potentially reduces the scope for R&D and defense; less research reduces productivity; lower productivity reduces revenue; lower revenue makes it more difficult to finance welfare and security.

The Italian problem is particularly evident, but not exclusive.

Germany and France are also facing aging.

The UK compensates mostly through immigration, but needs to integrate and provide infrastructure for population growth.

Demography thus becomes a much more important component of power than it was in the economic policy of the previous period.

## Nuclear power shows how strategic decisions can last decades

Finally, the energy divergence offers an important historical lesson. France, Germany, the United Kingdom, and Italy have made profoundly different decisions on nuclear power and are now inheriting the consequences.

France has enormous nuclear capital and must support its renewal and costs.

Germany has renounced nuclear generation and must build its security on renewables, networks, storage and imports.

The UK seeks to maintain and rebuild capacity through large reactors and SMRs.

Italy has lost its operational generation supply chain but retains scientific and industrial expertise and is discussing a possible return through future technologies.

No choice can be quickly reversed.

This shows that industrial and energy policy are not simply annual budget decisions.

These are intergenerational decisions.


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## Brexit shows that sovereignty and influence can move in different directions.

The United Kingdom also offers a particularly important historical experiment for the central theme of the entire book. Brexit restored full formal autonomy to Westminster in areas such as trade policy and regulation, but simultaneously eliminated Britain's ability to vote internally on European Union rules.

This is not a contradiction.

It is precisely the trade-off between control and influence.

A foreign country can choose its own rules but must still comply with the European ones if it wants to sell on the European market.

An internal country participates in the production of the rule but accepts compromise with the other members.

The British case therefore demonstrates that sovereignty does not have a single dimension.

It can increase legally and decrease institutionally at the same time.

## Italy, Germany and France instead show three different ways of exercising shared sovereignty

Within the Union, the difference between the three large eurozone countries is equally interesting.

Germany converts economic weight into influence.

France translates strategic vision and state capacity into European proposals.

Italy gains greater influence when it manages to build coalitions between North and South or transform national problems into European dossiers, as happened with the pandemic, energy or the Mediterranean.

The EU therefore does not erase national differences.

It transforms them into negotiating skills.


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## The final confrontation does not produce a winner because power is multidimensional

At the end of the comparison, any attempt to transform the data into a single ranking would destroy precisely what the analysis has shown.

Germany has the largest industrial mass of the four, but it needs to transform its energy and export model.

France possesses an exceptional combination of state, nuclear, strategic industry and deterrence, but faces significant fiscal constraints.

The United Kingdom has global financial, scientific, military, and diplomatic power, but less manufacturing depth and, post-Brexit, less direct institutional influence on the Union.

Italy has a much deeper export-driven industrial system than the narrative of decline suggests, but productivity, demographics, R&D, and debt limit the transformation of that economic capacity into systemic power.

Therefore there is not just one Europe.

There are at least four power models that coexist and overlap.

Germany represents above all the **power of the production scale** .

France, the **power of the strategic state** .

The UK: the **power of global networks** .

Italy, the **power of industrial specialization and geography** .

These definitions are not rankings and do not imply overall superiority; they simply indicate which combination of resources best characterizes each system.

And it is precisely the complementarity between these configurations that explains a fundamental part of Europe's overall power: Europe possesses industry because Germany and Italy exist, deterrence and expeditionary capability because France and the United Kingdom exist, global finance because London exists, nuclear energy because France exists, large manufacturing systems because Germany exists, Mediterranean capacity because Italy occupies its geographic and industrial position, aerospace and military technology because several countries maintain different but interoperable supply chains.

Europe's weakness arises when these capabilities remain fragmented and unable to reach a common scale.


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Its potential strength arises precisely from the fact that no single country needs to possess everything if the European system is able to organize the capabilities that each already possesses.

This is the true conclusion of the comparison.

Not which of the four states is “more powerful”.

But **how much each one succeeds in transforming its own specific heritage into lasting capacity and how much Europe succeeds in combining different national heritages without destroying their specializations** .

It is on this basis, more than on any nominal ranking of GDP or military spending, that Europe's weight in the new world order will be decided.


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# PART XI V

# Italy's Budget Test – 2026


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# Italy's budget test has exceeded the 3% deficit threshold.

Italy is approaching the point where success under the European Excessive Deficit Procedure will no longer be the most difficult fiscal issue. The government's 2026 forecast pegs the deficit at **2.9% of GDP** , while the European Commission also projects 2.9% for both 2026 and 2027. However, the same Commission forecast places public debt at **138.5% of GDP in 2026 and 139.2% in 2027.** The contradiction lies in the political narrative : Rome can fall below the deficit threshold set by the Treaty while its sovereign balance sheet continues to deteriorate. The next fiscal phase will therefore not be decided by a decimal point, but by the ability of primary surpluses, nominal growth, and investment to outweigh interest costs, demographic spending, and the end of the Recovery and Resilience Fund.

## Going below 3% will not cause the debt to transform

Italy's public accounts for 2025 already show why deficit and debt diverged. The general government deficit remained at **3.1% of GDP** , but the primary balance returned to a surplus of **0.8%** , meaning the state earned more than it spent before interest. Interest expenses, however, amounted to approximately **€87 billion** in the detailed income statement for 2025, while the Maastricht debt exceeded **€3.09 trillion** . (ISTAT Bank of Italy)

The debt stock increased substantially more than the annual deficit because the liquidity requirement reached **€109.2 billion** , the Treasury's liquid assets increased by **€14.7 billion** , and another **€4.6 billion** reflects issue discounts, inflation-related revaluations, exchange rate effects, and related adjustments. This is the mechanism that matters after 2026: even a compliant budget deficit does not guarantee a declining debt-to-GDP ratio when stock-flow adjustments and debt service continue to work in the opposite direction.

## The real obstacle is becoming the cost of maintaining a debt of 3 trillion euros.

The average residual maturity of Italian public debt stood at approximately **7.9 years at the end of 2025** , which protects the Treasury from an immediate revaluation of the entire stock but spreads the impact of higher yields across several financial years. At the same time, the share of public debt held by the Bank of Italy fell from 21.6 **% at the end of 2024 to 18.5% at the end of 2025** , increasing the proportion that will have to be absorbed by other investors as the Eurosystem's holdings decline.

The European Commission projects that Italy's interest expenditure will increase by around **0.3 percentage points of GDP in 2026, due to higher** yields and the effect of

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inflation-linked securities. This creates a deferred refinancing problem rather than a sudden financing crisis: debt issued during the period of low interest rates matures gradually, while replacement securities incorporate a different cost structure. The result is that fiscal adjustment must continue even after the excessive deficit procedure has ceased to dominate the political debate.

## Rome's original path to debt repayment is already more difficult to achieve

The Government's previous medium-term fiscal-structural plan projected a debt ratio of **137.8% of GDP in 2026, 137.5% in 2027, 136.4% in 2028, 134.9% in 2029, and 133.9% in 2030.** This trajectory depended on a strengthening of the structural primary balance, which would have increased from **0.6% in 2026 to 2.7% by 2030.** Ministry of Economy and Finance

The Commission's May 2026 forecast now projects debt at **139.2% in 2027** , 1.7 percentage points above the level envisaged in the previous plan. European Commission. Even if Italy were to subsequently achieve the exact annual debt reductions envisaged in the original path, mechanically recalculating these reductions from the higher starting point of 2027, debt would stand at around **135.6% in 2030** , rather than 133.9%. The gap is not a forecast, it is an arithmetic calculation, and demonstrates how difficult it is to recover lost ground in the debt-to-GDP ratio.

## The end of the RRF creates the next investment test.

Italy's revised Recovery and Resilience Plan is worth approximately **€194.4 billion** , including approximately **€71.8 billion in grants and €122.6 billion in loans** . European Commission. In 2026, investments supported by the RRF remain one of the few strong domestic supports for an economy for which the Commission projects **real growth of just 0.5%** ; from 2027, the Commission expects the phasing out of RRF projects to reduce capital spending. European Commission.

This creates a more difficult fiscal choice than simply maintaining the current level of spending. Replacing EU-funded investments with nationally funded ones would increase budget pressure; allowing a sharp decline in productive investment would weaken the growth denominator needed to reduce a debt-to-GDP ratio approaching 140%. The quality of post-NRRP spending therefore becomes an integral part of sovereign debt management, not simply industrial policy.

## The defense comes just as demographic costs are rising.

The Italian ordinary defense budget **for 2026 is approximately €32.4 billion** , while the formal state budget allocates approximately **€30.5 billion** to Mission 5, Defense and Territorial Security. Ministry of Defense These accounting definitions are not identical to

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NATO spending, but the direction is clear: the Alliance's 2025 Hague commitment requires members to aim for **5% of GDP by 2035** , of which at least 3.5% for main defense and up to 1.5% for broader security-related spending. NATO

At the same time, the European Commission's Ageing Report projects that gross public spending on pensions in Italy will increase from **15.6% of GDP in 2022 to 16.6% in 2030** , before reaching approximately **17.3% in 2036.** The European Commission's ISTAT demographic projections for August 2026 estimate the resident population at **58.7 million in 2030** , with a natural change of approximately **-353,000** and the share of people aged 85 and over increasing to **4.4%** . Defense and the aging population are therefore starting to compete for the same structural fiscal space.

## The European procedure does not represent the definitive constraint

Italy's excessive deficit procedure was opened on **26 July 2024** , and the Council set **2026** as the deadline for correction, with net expenditure growth limited to 1.3% in 2025 and 1.6% in 2026. The Commission 's assessment of effective measures **on 3 June 2026** did not escalate the situation; the Italian procedure was suspended, indicating that corrective action had been recognized, while the legal proceedings remained open. European Commission

This institutional position is important because it eliminates a politically convenient explanation. Verified data do not show that Italy is currently subject to the most stringent form of the EU enforcement mechanism. The most stringent constraint is internal economic: once the deficit is reduced, the government must still achieve debt reduction in a context of weaker growth, higher interest payments, and increasing structural spending commitments.

## The next 24 months will determine whether the correction turns into sustainability.

Between the end of 2026 and 2028, three numbers will matter more than the political symbolism of the 3% threshold: the primary surplus, the peak debt, and the level of public investment after the RRF. If the deficit remains around **2.9%, stock-flow adjustments ease, and the primary balance strengthens, Italy can begin to convert fiscal compliance into debt reduction; if debt continues to rise above the 139.2% of GDP forecast** by the Commission for 2027, the cost of the adjustment will shift to subsequent budget cycles. European Commission

The cost of inaction would not fall on just one institution. The Treasury would have to absorb greater refinancing costs; ministries would have to compete with pensions and defense for a smaller discretionary budget; businesses would face weaker infrastructure and investment support if capital spending were compressed; and taxpayers would end up financing a higher interest burden if stronger nominal growth did not occur. By **2028** ,

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therefore, Italy will be judged less on whether it managed to avoid a European procedure and more on whether it used this exit to embark on a credible reduction of its €3 trillion sovereign balance sheet.


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# Italian public accounts below the 3.1% deficit

## Main judgment

Italy's general government deficit **of 3.1% for 2025 cannot be properly interpreted as a standalone indicator of fiscal performance** , as the public accounts themselves show a positive primary balance, a high debt service burden, total revenues exceeding €1 trillion, public expenditures exceeding €1.15 trillion, a substantially larger increase in debt than the accounting deficit, and a substantial difference between the deficit calculated according to the accruals principle, used by European fiscal rules, and the liquidity needs that actually contributed to the increase in public debt.

The latest official statistical report published by ISTAT on **September 22, 2026,** estimates nominal GDP for 2025 at **€2,265,003 billion** , €6.954 billion more than the March estimate, while public administration net borrowing has been revised to **€69.736 billion** , still equal to **3.1% of GDP** with decimal precision. The same press release confirms a **primary surplus of 0.8% of GDP** , a tax burden of **42.9%** , real GDP growth of **0.6%** , growth in gross fixed capital formation of **3.9%** , growth in final consumption **of 1.0%** , growth in exports of 1.7%, and growth in imports of 4.2%. [ISTAT, *National Economic Accounts – Years 2010-2025* , 22 September 2026] Official publication of ISTAT's national accounts

These data demonstrate that Italy's fiscal adjustment in 2025 occurred through a combination of higher revenues, a restored primary surplus, and still-large interest expenditures, rather than through the elimination of the underlying borrowing requirement. This distinction becomes crucial once the general government deficit is reconciled with the **€128.6 billion increase in Maastricht debt between end-2024 and end-2025** , because the difference cannot be understood without examining cash financing, Treasury liquidity, and other stock-flow adjustments. [Bank of Italy, *Estimates of the general government debt and borrowing requirement for the year 2025* , February 16, 2026] Official statement of the Bank of Italy on the debt and borrowing requirement


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## The 2025 financial statements: the complete operating picture

The most useful starting point is not the deficit-to-turnover ratio, but rather the consolidated income statement for the general government sector, as this identifies the flows that generated the final balance. The information presented by ISTAT to Parliament in April 2026, based on the then-current 2025 national budget, indicated total revenues of **€1,085,928 billion** and total expenditures of **€1,155,309 billion** , with net borrowing of €69,381 billion. The subsequent revision in September adjusted net borrowing to **€69,736 billion** and nominal GDP to €2,265,003 billion, leaving the published deficit-to-turnover ratio unchanged at 3.1%. The April table therefore remains useful for the detailed breakdown of the account, but should be indicated as relating to the previous budget, rather than tacitly combined with the September aggregate. [ISTAT, *Review of the 2026 Public Finance Document* , April 2026] Official ISTAT information on the 2026 Public Finance Document


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## Consolidated financial statements of Italian public administrations - detailed operating structure up to 2025

| Tax component | amount of 2025 | Function in the account | Official source |
|---|---|---|---|
| **Production for the market and on own account** | 52.505 billion euros | Government products sold or made for own use | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **Direct taxes** | 346.040 billion euros | Personal, corporate and other direct taxes recorded in the national accounts | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **Indirect taxes** | 317.491 billion euros | VAT, excise duties and other taxes on production/importation | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **Actual social contributions** | 301.423 billion euros | Mandatory social security contributions | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **Imputed social contributions** | 4.453 billion euros | Contribution flows imputed in the national accounts | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **Other current income** | 48.249 billion euros | Income from property, transfers and other current income | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **Current total revenue** | 1,070.161 billion euros | Recurring government revenue before capital revenue | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **Capital taxes** | 3.106 billion euros | One-time capital taxes | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **Other capital revenues** | 12.661 billion euros | Capital transfers and other capital receipts | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **Total revenue** | 1,085.928 billion euros | Total consolidated government revenue | [ISTAT, DFP 2026 parliamentary trials] Official source |


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| | | | |
|---|---|---|---|
| **Public Employee Remuneration** | 203.842 billion euros | Wages and social costs borne by the employer | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **Intermediate consumption** | 132.956 billion euros | Goods and services purchased for government operations | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **Social transfers in kind purchased on the market** | 52.980 billion euros | Social goods and services offered by the market and financed by the government. | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **Social benefits in cash** | 459.198 billion euros | Pensions and other monetary social transfers | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **Other current expenses** | 85.278 billion euros | Subsidies, transfers and other current items | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **Current expenses excluding interest expenses** | 934.254 billion euros | Primary current expenditure | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **access fee** | 87.146 billion euros | Interest accrued on government liabilities under ESA rules | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **Total current expenditure** | 1,021.4 billion euros | Current primary expenditure plus interest | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **Gross fixed capital formation** | 86.716 billion euros | Direct public investment | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **Investment grants** | 37.839 billion euros | Capital transfers to support investments in other sectors | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **Other capital expenditures** | 9.354 billion euros | Remaining capital operations | [ISTAT, DFP 2026 parliamentary trials] Official source |


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| | | | |
|---|---|---|---|
| **Total capital expenditures** | 133.909 billion euros | Total capital expenditure | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **Total expenditure** | 1,155.309 billion euros | Consolidated public spending | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **Primary balance** | +17.765 billion euros | Revenue minus expenses, excluding interest | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **Net debt** | -69.381 billion euros | ESA General Government Deficit, April Edition | [ISTAT, DFP 2026 parliamentary trials] Official source |
| **Net debt revised** | -69.736 billion euros | National Accounting Revised for September 2026 | [ISTAT, National Accounts, September 2026] Official revision of September |

The table reveals an important structural fact that is lost in the political debate over whether to use a final ratio of 3.0 or 3.1: **interest expenditure alone amounted to approximately 87 billion euros** , exceeding the entire overall deficit. Without this interest burden, the general government sector was in surplus according to the primary definition used by ISTAT. [ISTAT, *Review of the 2026 Public Finance Document* ] ISTAT Official Fiscal Account

The September press release confirms this structural result even after the revision of the national accounts: the **primary balance remained at +0.8% of GDP** , while interest expenditure increased by **2.0% in nominal terms** compared to 2024. [ISTAT, *National Economic Accounts – Years 2010-2025* ] Official ISTAT press release of September 2026


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## From primary surplus to budget deficit

The arithmetic of the Italian account can therefore be reconstructed directly.

Using the April income statement, the primary balance was approximately **+17.8 billion euros** , while interest expenses were approximately **87.1 billion euros** ; the difference produced a net debt of approximately **69.4 billion euros** . [ISTAT, *Examination of the 2026 Public Finance Document* ] Official source

### Fiscal Balance Bridge

| Accounting phase | Amount | Interpretation | Source |
|---|---|---|---|
| **Government revenue** | 1,085.928 billion euros | Total consolidated revenues | [ISTAT] Official table |
| **Primary expenditure** | 1,068.163 billion euros | Total expenditure excluding interest, calculated from ISTAT data. | [ISTAT input] Official table |
| **Primary balance** | +17.765 billion euros | Financial situation before debt service costs | [ISTAT] Official table |
| **access fee** | -87.146 billion euros | Debt service expenses | [ISTAT] Official table |
| **Net loan, April vintage** | -69.381 billion euros | ESA public administration deficit | [ISTAT] Official April EDP data |
| **Net loan, September vintage** | -69.736 billion euros | ESA deficit revised | [ISTAT] Official revision of September |

ISTAT's April Maastricht notification independently confirmed that 2025 interest expenditure was **3.9% of GDP** , unchanged as a share of GDP from 2024, and clarified that under the applicable accounting rules the interest measure does **not include the impact of swap operations** . [ISTAT, *Notification of net borrowing and debt of public administrations according to the Maastricht Treaty – Years 2022/2025* ] Official Maastricht notification

This means that almost four percentage points of Italian GDP were absorbed by interest on the public debt accumulated in 2025. The state was therefore able to operate in primary surplus and still record a deficit above the Treaty reference value, since the fiscal system inherited a debt stock exceeding 3 trillion euros.


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## Revenue growth, not just expense reduction, was the cause of the adjustment.

The fiscal adjustment between 2024 and 2025 cannot be described simply as a spending-cutting program, as official accounts show substantial revenue growth. In its March budget, ISTAT estimated that total government revenue increased by **4.5% year-on-year** , with current revenues growing by 4.1%; the largest increase was recorded in social contributions, which rose by **10.0%** , partly due to the end of employee contribution exemptions. [ISTAT, *GDP and Public Administration Debt – Years 2023-2025* , March 2, 2026] Official fiscal account for March 2026

Main revenue dynamics in the original 2025 budget

| Revenue category | amount of 2025 | annual variation 2025 | Tax meaning | Official source |
|---|---|---|---|---|
| **Direct taxes** | 346.040 billion euros | +0.7% | Broad but relatively stable direct tax base | [ISTAT] Official tax tables |
| **Indirect taxes** | 317.491 billion euros | +2.5% | VAT, excise duties and production/import taxes | [ISTAT] Official tax tables |
| **Social contributions** | approximately 305.9 billion euros, including actual and imputed contributions | Actual contribution flows have been a key component of growth. | Strong contribution from the effects on the labor market and contribution policies. | [ISTAT] Official tax tables |
| **Other current income** | 48.249 billion euros | +6.5% in the March budget | Additional contribution to current revenue | [ISTAT] Official press release for March |
| **Current total revenue** | 1,070.161 billion euros | +4.1% | Main source of improvement in the current balance | [ISTAT] Official tax tables |

The composition is important because it changes the political interpretation of fiscal consolidation. The deficit improvement was not generated exclusively by discretionary cuts in public spending; a substantial part of it came from the revenue side, particularly the expansion of mandatory social security contributions and other tax revenues.

This effect on revenue also explains why the tax burden has increased. The September national economic accounts revised the **tax burden for 2025 to 42.9% of GDP** , an

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increase of **0.7 percentage points compared to 2024.** [ISTAT, *National Economic Accounts – Years 2010-2025* ] Official press release from September

The previous version of the April DFP had set the ratio at **43.1%** , illustrating why the statistical version must always be reported alongside politically sensitive fiscal data. [ISTAT, *Examination of the 2026 Public Finance Document* ] Official April Fiscal Table

## Evolution of the tax burden over the official years

| Reference | Tax burden for 2025 | State | Official source |
|---|---|---|---|
| **April 2026 Fiscal Budget** | 43.1% of GDP | Previous provisional estimate | [ISTAT] DFP data for April |
| **Revised national accounts for September 2026** | 42.9% of GDP | Last official national account vintage | [STATUS] September Review |
| **Revision** | -0.2 percentage points | Change between statistical years, not a fiscal policy decision | Calculated based on the two official ISTAT press releases reported above. |

The revision itself demonstrates why national accounts updates cannot be automatically interpreted politically: the September exercise simultaneously left the deficit at 3.1%, increased measured GDP, boosted measured real growth, and **reduced the previously estimated tax burden from 43.1% to 42.9%** .


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## Spending remained structurally high even as the deficit decreased.

The 2025 fiscal adjustment was not driven by a collapse in public activity. The detailed income statement for April indicates total expenditure of **€1,155 billion** , of which €934.3 billion in current expenditure net of interest, €87.1 billion in interest expenses, and €133.9 billion in capital expenditure. [ISTAT, *Review of the 2026 Public Finance Document* ] Official fiscal tables

Cash social benefits alone reached **459.2 billion euros** , constituting the largest individual expenditure item in the consolidated accounts; public employee wages amounted to **203.8 billion euros** , intermediate consumption to **133.0 billion euros** and gross fixed capital formation to **86.7 billion euros** . [ISTAT, *Examination of the 2026 Public Finance Document* ] Official tax tables

### Structural spending blocks

| Spending block | amount of 2025 | Share of fiscal mechanisms | Official source |
|---|---|---|---|
| **Social benefits in cash** | 459.198 billion euros | The most important structural component of current expenditure. | [STATE] Source |
| **Public sector employee remuneration** | 203.842 billion euros | Government labor costs and related salaries | [STATE] Source |
| **Intermediate consumption** | 132.956 billion euros | Goods and services used by public administrations | [STATE] Source |
| **Purchased social transfers in kind** | 52.980 billion euros | Market services provided to households through public funding | [STATE] Source |
| **Interest** | 87.146 billion euros | Cost of managing sovereign bond assets | [STATE] Source |
| **Gross fixed investment** | 86.716 billion euros | Direct formation of public capital | [STATE] Source |
| **Investment grants** | 37.839 billion euros | Financial support for investments outside of direct production by the government. | [STATE] Source |

This spending structure is important for future fiscal adjustments because the discretionary share of the budget is lower than the €1.15 trillion total might suggest. Social transfers, public employment, interest payments, and essential public services account for a significant share of recurrent spending, while investment cuts can improve short-term cash balances at the expense of future productive capacity. The composition of the adjustment is therefore at least as important as its overall size.


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## Why the debt has increased much more than the deficit

The most important accounting distinction in the entire Italian fiscal framework is between **net borrowing in the national accounts of the European Fund for Sustainable Development (EDF) and the liquidity requirement which directly impacts financing needs** .

According to ISTAT estimates, net borrowing for 2025 stood at approximately **69.7 billion euros** , while the Bank of Italy estimated **the general government's liquidity requirement at 109.2 billion euros** . At the same time, the Maastricht debt stock increased from **2,966.9 trillion euros at the end of 2024 to approximately 3,095.5 trillion euros at the end of 2025** , an increase of approximately **128.6 billion euros** compared to the Bank of Italy's initial estimate. [Bank of Italy, *Estimates of general government debt and borrowing requirement for the year 2025* ] Official Bank of Italy release

The difference is explicitly explained by the Bank of Italy. The increase in debt reflects **€109.2 billion in public financing needs** , a **€14.7 billion increase in the Treasury's liquid assets** , bringing Treasury liquidity to **€52.4 billion** , and approximately **€4.6 billion** generated by issue and redemption discounts or premiums, the revaluation of inflation-linked securities, and exchange rate variations. [Bank of Italy, February 16, 2026] Official debt reconciliation


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## Reconciliation of the expected debt increase for 2025

| Determining factor of debt change | Amount | Accounting meaning | Official source |
|---|---|---|---|
| **Borrowing requirement for overheads** | 109.2 billion euros | Cash financing needs generated during 2025 | [Bank of Italy] Official press release |
| **Increase in Treasury liquid assets** | 14.7 billion euros | Loans contracted but maintained as liquid resources of the Treasury | [Bank of Italy] Official press release |
| **Discounts/premiums, inflation-related revaluation and exchange rate effects** | 4.6 billion euros | Valuation and issuance effects on debt regardless of deficit | [Bank of Italy] Official press release |
| **Approximate increase in gross debt** | 128.5 billion euros | Sum of the main factors identified | Calculated on the basis of the official components of the Bank of Italy |
| **Debt at the end of 2024** | 2,966.9 billion euros | Opening of the Maastricht debt title | [Bank of Italy] Official press release |
| **Debt at the end of 2025** | Initial estimate by the Bank of Italy: €3,095.5 billion | Closing Debt Stock | [Bank of Italy] Official press release |
| **Eurostat/EDP debt for April** | 3,095.888 billion euros | Maastricht harmonised reporting figure | [Eurostat] Official EDP notification for April 2026 |

Eurostat's harmonized April notification on deficit and debt data subsequently estimated Italy's debt at **€3,095,888 billion, equal to 137.1% of GDP** . [Eurostat, *Deficit and debt data provision for 2025 - first notification* , 22 April 2026] Official Eurostat notification

This reconciliation is essential because the often-repeated assumption that "a deficit of €69 billion would increase debt by €69 billion" is incorrect. The deficit is a national accounting measure based on the accrual basis, while debt is a budget item influenced by cash financing and financial transactions that are not faithfully reflected in the deficit.


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## The central government generated virtually all of the debt increase.

The Bank of Italy's sectoral breakdown shows that central government consolidated debt increased by **€132.0 billion in 2025, reaching €3.0163 billion** , while local government consolidated debt actually decreased by **€3.4 billion, reaching €79.1 billion** ; social security funds remained essentially unchanged. [Bank of Italy, February 16, 2026] Official breakdown by subsector.

Debt by public subsector

| Government subsector | position/change in 2025 | Institutional meaning | Official source |
|---|---|---|---|
| **Central Government** | **Debt of €3.0163 trillion; +€132 billion in 2025** | Main source of sovereign debt accumulation | [Bank of Italy] Official press release |
| **Local government** | **Debt of 79.1 billion euros; -3.4 billion euros** | Local governments have reduced consolidated debt | [Bank of Italy] Official press release |
| **social security institutions** | Largely stable | Negligible contribution to the annual increase in public debt | [Bank of Italy] Official press release |

This means that any serious discussion on the sustainability of Italy's debt must focus predominantly on **central government financing operations** , government bond issuance, and the national budget balance, rather than attributing the expected debt increase through 2025 primarily to municipal or regional borrowing.

Debt maturities and central bank availability have changed the financial environment.

The total debt, amounting to €3.1 trillion, is not sufficient to adequately describe it, since the refinancing risk depends on the maturity of the liabilities and who holds them.

The Bank of Italy reports that the **average residual maturity of Italian public debt remained around 7.9 years at the end of 2025** , substantially unchanged compared to the end of 2024. [Bank of Italy, 16 February 2026] Official data on maturities.

At the same time, the share of debt held by **the Bank of Italy decreased from 21.6% at the end of 2024 to 18.5% at the end of 2025.** [Bank of Italy, February 16, 2026] Official data on debt holders.

This decline is economically significant because a smaller central bank share means that a greater proportion of sovereign financing needs must ultimately be absorbed by other domestic and international investors, as Eurosystem portfolios are reduced through quantitative easing mechanisms. The average maturity of 7.9 years prevents the entire

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stock from being immediately revalued when market rates change, but it also means that higher or lower yields are gradually passed on to the effective cost of interest as existing securities mature and are refinanced.

The September GDP revision substantially changed the denominator

ISTAT's September revision of national accounts increased nominal GDP for 2025 from the **estimate of €2,258,049 trillion published in March to €2,265,003 trillion** , an upward revision of **€6,954 billion** . [ISTAT, March 2026 GDP release] Original March estimate [ISTAT, September 2026 revision] Revised September estimate

The revision was not limited to nominal GDP. Real growth for 2025 increased from **0.5% to 0.6%** , while the estimated real growth rate for 2024 increased from **0.8% to 1.1%** . [ISTAT, September 2026] Official revision


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Review of the 2025 economic framework, from March to September 2026.

| Indicator | March 2026 estimate | September 2026 review | Edit | Official sources |
|---|---|---|---|---|
| **Nominal GDP** | 2,258.049 billion euros | 2,265.003 billion euros | +6.954 billion euros | [ISTAT March] March publication [ISTAT September] September publication |
| **Real GDP growth in 2025** | 0.5% | 0.6% | +0.1 pp | [STATUS] September Review |
| **Real GDP growth in 2024** | 0.8% | 1.1% | +0.3 pp | [STATUS] September Review |
| **2025 deficit** | approximately 69.4 billion euros | 69.736 billion euros | Slight upward revision | [ISTAT April/September] September revision |
| **Deficit/GDP** | 3.1% | 3.1% | No change to a decimal place | [STATUS] September Review |
| **tax burden** | 43.1% April vintage | 42.9% | −0.2 pp | [STAT April] April tests [STAT September] September revision |

The methodological explanation provided by ISTAT is also relevant. The Institute states that the September exercise incorporated both the normal revision due to information acquired after March and **the methodological and source innovations introduced in response to reservations raised by Eurostat regarding the gross national income data used to calculate EU own resources** . [ISTAT, *National Economic Accounts – Years 2010-2025* ] Official methodological explanation

This statement neither proves nor disproves any accusation of political pressure; it merely establishes the documented statistical rationale behind the revision. A political pressure hypothesis requires a different evidentiary test, which will be addressed later in the dossier, in the chapter on institutional coherence.


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## Eurostat Validation: What was actually transmitted to Europe?

For the April 2026 excessive deficit procedure notification, Eurostat reported an Italian GDP of **€2,258,049 billion** , net borrowing of **€69,381 billion** , public expenditure of **51.2% of GDP** , public revenue of **48.1%** , and a Maastricht debt of **€3,095,888 billion, or 137.1% of GDP** . [Eurostat, *Provision of deficit and debt data for 2025 - first notification* , 22 April 2026] Official Eurostat notification on the excessive deficit procedure.

### Italy: EDP notification for April 2026

| Indicator | 2022 | 2023 | 2024 | 2025 | Official source |
|---|---|---|---|---|---|
| **GDP at market prices** | 1,998.073 billion euros | 2,142.744 billion euros | 2,202.031 billion euros | 2,258.049 billion euros | [Eurostat] Official EDP table |
| **Net debt** | -161.869 billion euros | -152.867 billion euros | -73.779 billion euros | -69.381 billion euros | [Eurostat] Official EDP table |
| **Net debt / GDP** | -8.1% | -7.1% | -3.4% | -3.1% | [Eurostat] Official EDP table |
| **Government spending / GDP** | 54.9% | 53.6% | 50.4% | 51.2% | [Eurostat] Official EDP table |
| **Government Revenue / GDP** | 46.8% | 46.5% | 47.0% | 48.1% | [Eurostat] Official EDP table |
| **Maastricht debt** | 2,764.481 billion euros | 2,869.976 billion euros | 2,967.004 billion euros | 3,095.888 billion euros | [Eurostat] Official EDP table |
| **Debt/GDP** | 138.4% | 133.9% | 134.7% | 137.1% | [Eurostat] Official EDP table |
| **Intergovernmental loans** | 44.122 billion euros | 43.037 billion euros | 41.503 billion euros | 40.206 billion euros | [Eurostat] Official EDP table |

Eurostat also explains that, pursuant to Regulation (EC) No. 479/2009, it may express a formal reservation if it has doubts about the quality of national data relating to data processing programmes (EDPs) and may correct the data reported if there is evidence that they do not meet the requirements of accounting compliance, completeness, reliability, timeliness, or consistency. [Eurostat, methodological notes on data processing programmes] Official Eurostat press release on data processing programmes and methodological notes

This mechanism becomes important for the subsequent governance analysis because it provides an observable test: if Eurostat had formally reserved or modified the tax data


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reported by Italy, this would constitute an identifiable institutional event requiring examination. The existence or absence of such interventions must be ascertained based on notifications, rather than inferred from political statements.


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## The first quarter of 2026 cannot be read as an annual deficit

According to ISTAT data, the general government deficit in the **first quarter of 2026 was equal to 7.8% of quarterly GDP** , compared to 8.4% in the first quarter of 2025, while the primary balance was equal to **-4.4% of GDP** , compared to -4.7% the previous year, and the current balance was equal to -2.9%, compared to -3.3%. [ISTAT, *Quarterly Public Administration Account – First Quarter 2026* , 1 July 2026] Official press release for the first quarter of 2026

These quarterly reports should **not** be interpreted as forecasts for the annual deficit in 2026, since government revenue and spending are highly seasonal, tax revenues and transfers are unevenly distributed throughout the year, and the first-quarter budget balance is structurally much more negative than the annual balance. Their analytical value lies rather in the year-over-year comparison with the same quarter.

### first quarter fiscal signal

| Indicator | First quarter 2025 | First quarter 2026 | Direction | Official source |
|---|---|---|---|---|
| **Net debt / GDP** | -8.4% | **-7.8%** | Improvement of 0.6 pp | [STATUS] Expected release in Q1 2026 |
| **Primary balance / GDP** | -4.7% | **-4.4%** | Improvement of 0.3 pp | [STATUS] Expected release in Q1 2026 |
| **Current balance / GDP** | -3.3% | **-2.9%** | Improvement of 0.4 pp | [STATUS] Expected release in Q1 2026 |

The first quarter data therefore provide an initial indication of an improvement in the public balance on an annual basis, but they do not yet establish the outcome for the full year 2026, on which the EDP issue ultimately depends.

Net valuation of the Italian fiscal mechanism

The underlying Italian accounting picture is considerably more complex than the simple statement that the deficit "remains above 3%." Official data simultaneously establish that Italy began 2026 with a **positive primary fiscal position** , an annual interest burden close to **€87 billion** , total government revenues above **€1.08 trillion** , expenditures above **€1.15 trillion** , Maastricht debt above **€3.09 trillion** , a **liquidity need of €109.2 billion** , Treasury liquidity of **€52.4 billion** , an average debt maturity of **7.9 years** , and a decreasing share of sovereign liabilities held by the Bank of Italy. [ISTAT Fiscal Accounts]


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ISTAT Official Fiscal Data [Bank of Italy Debt Reconciliation] Bank of Italy Official Statement

The fiscal correction is therefore real but incomplete: the government generated more revenue than primary expenditure, but accumulated additional debt because interest costs, borrowing needs, the Treasury's accumulation of liquidity, and valuation or issuance effects remained substantial. The September revision of the national accounts improved several dimensions of the reported macroeconomic picture, including GDP, growth, and the measured tax burden, while slightly increasing the headline deficit, leaving the published deficit ratio unchanged at **3.1%** . [ISTAT, September 22, 2026] Revised official national accounts

The crucial analytical consequence is that the political and institutional controversy cannot be resolved by considering **the 3.1% figure in isolation** . The underlying evidence must be broken down into at least four distinct levels: the ESA deficit, the primary budget balance, the liquidity gap, and the change in Maastricht debt. Only after reconciling these levels will subsequent chapters be able to determine what part of Italy's fiscal constraint stems from current policies, what part is the result of inherited sovereign liabilities, what part reflects accounting and statistical revisions, and what part arises from the European fiscal framework itself.


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# Statistical governance, European tax law, and the excessive deficit procedure in Italy

## Main judgment

The Italian fiscal surveillance system cannot be understood by considering the **3% deficit reference value as a stand-alone rule administered directly from Brussels** , since the operating system is a multi-layered institutional architecture in which national authorities first construct the statistical record, Eurostat verifies the quality and methodological conformity of excessive deficit data, the European Commission carries out the legal and economic assessment required by the Treaties and secondary legislation, and the Council of the European Union takes the main formal decisions to establish, maintain, amend, or terminate an excessive deficit procedure.

The post-2024 framework adds a second layer that is particularly important for Italy: **annual growth in nationally financed net expenditure has become the main operational control variable** , while debt sustainability, the 3% deficit reference value, the 60% debt reference value, safeguarding debt sustainability, and safeguarding deficit resilience determine the long-term fiscal trajectory. Regulation (EU) 2024/1263 defines net expenditure as government expenditure excluding interest expense, discretionary revenue measures, expenditure on EU programmes entirely covered by EU revenue, national co-financing of EU-funded programmes, cyclical unemployment expenditure, and one-off or temporary measures.

For Italy, the medium-term fiscal-structural plan approved by the Council projects annual net expenditure growth of **1.3% in 2025, 1.6% in 2026, 1.9% in 2027, 1.7% in 2028, 1.5% in 2029, 1.1% in 2030, and 1.2% in 2031** , corresponding to average growth of 1.5% over the seven-year adjustment period. The plan was developed with an extended adjustment horizon, as Italy has combined its fiscal path with reforms and investments deemed sufficient to justify extending the standard adjustment period.

Italy's excessive deficit procedure was formally opened on **26 July 2024** , the Council subsequently requested a correction by **2026** , and the assessment of the effectiveness of the measures taken by the Commission on **3 June 2026 led to the suspension** of the procedure rather than its escalation, meaning that the procedure remains open but no escalation was triggered at that point in the assessment.

The institutional distinction is crucial: **remaining subject to an effective action plan (EDP) does not equate to failure to take effective measures** , nor to being deemed incapable of doing so, nor to the imposition of a financial penalty. The Commission defines the evaluation of the effectiveness of the measures adopted as the stage at which an EDP can be suspended or intensified depending on compliance with the Council Recommendation.


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## Who actually produces Italian tax statistics?

It is necessary to distinguish four institutional levels as they perform different functions and have different legal responsibilities.

### Institutional production and validation chain

| Institution | Primary role in Italian tax supervision | What it actually controls | What does not determine independently | Official document |
|---|---|---|---|---|
| **STATE** | Compiles national accounts and identifies institutional units belonging to the Italian general government sector according to ESA rules. | GDP, general government non-financial accounts, deficit, national accounts classifications, sectoral scope and revisions | It does not determine whether the Board opens or closes an EDP | Eurostat requires each Member State to compile statistics on electronic information processing systems (EIS) under the 2010 General Data Protection Regulation (GDPR) and to publish an EIS inventory describing the sources and procedures used. |
| **Bank of Italy** | It calculates the Maastricht debt and produces detailed financial statistics on public finances within the European statistical framework. | Public debt stock, debt instruments, financial accounts, financing needs and related financial data | It does not independently define the national accounts deficit nor decide the legal status of the EDP. | The Bank of Italy declares that it calculates the Maastricht debt according to European statistical standards and Regulation 479/2009. |
| **Ministry of Economy and Finance** | It develops the national fiscal strategy, forecasts, and the medium-term fiscal- | Fiscal policy, fiscal measures, net spending commitments, debt management | It does not have the unilateral authority to validate ESA deficit and | Italy's medium-term fiscal-structural plan 2025-2029 sets out the spending path |


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| | | | | |
|---|---|---|---|---|
| | structural plan and manages Treasury financing. | strategy, national forecasts | debt data for European surveillance purposes. | and fiscal projections presented within the reformed EU framework. |
| **Eurostat** | It assesses the quality and methodological conformity of the statistics on electronic data processing systems transmitted by Member States on behalf of the Commission. | ESA methodology, quality checks, consistency, reservations, amendments and publication of harmonized EDP data. | It does not prepare Italy's budget and does not decide on the path of political correction. | Eurostat declares that it has exclusive responsibility for the methodology underlying the EDP statistics and that it assesses their conformity, completeness, reliability, timeliness and consistency. |
| **European Commission** | Assesses compliance with EU tax rules, develops forecasts, baselines, and evaluations of effective actions. | Legal and economic assessment, debt sustainability analysis, recommendations, and monitoring. | It does not in itself adopt the Council's final recommendation to terminate or maintain an EDP | The Commission manages the official EDP dossier and the evaluations of effective actions for Italy. |
| **Council of the European Union** | It adopts the main formal decisions and recommendations under Article 126 TFEU | Existence of an excessive deficit, deadline for correction, recommended spending path, and possible repeal. | It does not collect the underlying national statistics | The Italian procedure was opened by Council Decision on 26 July 2024 and the related corrective recommendation was adopted on 21 January 2025. |

This architecture means that **ISTAT does not decide whether Italy remains under European fiscal surveillance** , just as Eurostat does not decide Italy's tax rates, and the Council does not compile historical series of Italian GDP. Each institutional level can influence the final outcome, but through a legally distinct function.


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## The EDP statistical production cycle

Regulation 479/2009 requires Member States to report health and health data to Eurostat **twice a year** , at the end of March and at the end of September. Eurostat subsequently publishes the harmonized reporting tables in April and October, after completing the verification process.

This biennial process is why EDP data should never be presented as if it were an immutable, once-and-for-all accounting fact. Eurostat explicitly states that EDP data are revised when necessary, in accordance with national accounting principles, and that Member States may revise previously reported years when required by updated source information, methodological changes, or error corrections.

### European Statistical Cycle EDP

| Stage | Normal timing | Institution primarily responsible | Production | Official base |
|---|---|---|---|---|
| **National collection** | Continuous | ISTAT / Bank of Italy and other national reporting authorities | ESA government accounts and Maastricht debt | ESA 2010 and national EDP inventory. |
| **Spring EDP Transmission** | By the end of March | Member State | EDP notification tables | Regulation 479/2009. |
| **Spring check** | About three weeks | Eurostat | Cross-check, methodological evaluation, any reservations/modifications | Eurostat quality assurance procedure. |
| **Spring release** | April | Eurostat | Harmonized deficit/debt data | EDP notification publication framework. |
| **EDP Fall Broadcast** | By the end of September | Member State | Revised notification | Regulation 479/2009. |
| **Autumn evaluation** | About three weeks | Eurostat | Updated validation and quality assessment | Eurostat's audit and verification policy. |
| **Autumn publication** | October | Eurostat | Second harmonized EDP vintage | Eurostat EDP notification procedure. |


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Eurostat's quality controls are substantially more detailed than a simple final deficit ratio review. According to Eurostat itself, its review includes **compliance with ESA accounting rules, the completeness of the general government perimeter, the reliability and consistency of statistical data, the sustainability of compilation processes, internal controls, external audit evidence, and the reconciliation of deficit and debt changes** .

Eurostat also uses quarterly government accounts as an early warning mechanism, reviews the conversion of national budget balances into ESA deficit figures, conducts regular dialogue visits under the EDP, and may organise methodological visits when significant issues arise.


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## Reservations and amendments constitute observable evidence of a statistical controversy

The European system provides formal tools to address issues related to the quality of national data. A **reservation** is issued when Eurostat has doubts about the quality of the EDP data reported, while Eurostat can **correct** national data if evidence shows that the data submitted does not meet requirements for accounting compliance, completeness, reliability, timeliness, or consistency.

This distinction is institutionally important for evaluating allegations against Italy because it creates a documented criterion rather than being based on mere speculation.

For the **April 2026 notification** , the question is therefore not whether political actors raised objections to a piece of data, but rather whether Eurostat formally reserved, modified, or otherwise qualified the data transmitted by Italy. This distinction will be crucial in the subsequent chapter on institutional coherence, since a documented intervention by Eurostat would have substantially greater evidentiary value than political disagreement alone.


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## Formal Eurostate intervention mechanisms

| Mechanism | Trigger | Consequence | Evidentiary meaning | Official source |
|---|---|---|---|---|
| **routine validation** | Normal spring/autumn broadcast | Statistics accepted or questions answered during verification | Ordinary statistical governance | Eurostat quality guarantee. |
| **Bilateral methodological consultancy** | Specific transaction or classification issue | Eurostat provides guidance on treatment with ESA | It does not in itself demonstrate political misconduct or interference | Eurostat methodological framework. |
| **EDP dialogue visit** | Periodic or topic-specific review | Compilation systems and source data examined | Enhanced technical examination | Eurostat quality guarantee. |
| **Formal reservation** | Eurostat has doubts about the quality of the reported data. | Reservation published with EDP notification | Public tests of unsolved statistical problems | Mechanism provided for by Regulation 479/2009, described by Eurostat. |
| **Eurostat amendment** | Evidence shows failure to meet statistical quality requirements | Eurostat replaces the actual data with modified data and publishes the justification. | The strongest routine statistical intervention, apart from false reporting proceedings. | Eurostat framework for economic development programmes. |
| **Investigation into intentional false reporting** | Serious evidence of intentional misrepresentation or gross negligence | Ultimately, it can support the sanctions | Exceptional mechanism | Eurostat highlights its powers of investigation and recommendation on sanctions under Regulation 1173/2011. |


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## The legal structure begins with Article 126 and Protocol No. 12

The structure of the excessive deficit management system is ultimately based on Article **126 of the Treaty on the Functioning of the European Union and Protocol No. 12** , while the detailed statistical mechanism is implemented through Regulation 479/2009 and the accounting principles of ESA 2010. Eurostat lists these instruments as the main legal basis for government finance and excessive deficit statistics.

The well-known benchmarks are a **3% deficit and a 60% debt-to-GDP ratio** , but the post-2024 framework does not function as a mechanical system in which crossing one of these thresholds automatically determines the entire fiscal path. The revised governance structure combines the Treaty thresholds with country-specific debt sustainability analyses and spending trajectories.

## Fundamentals of the legal architecture that governs Italy

| Instrument | Function | Material rule for Italy | Official source |
|---|---|---|---|
| **Article 126 TFEU + Protocol No. 12** | Treaty-level excessive deficit management framework | Reference values for the public deficit of 3% and public debt of 60%. | Eurostat identifies Article 126 and Protocol No. 12 as the Treaty basis for EDP statistics. |
| **Regulation (EC) No. 479/2009** | Framework for statistical reporting and quality | National deficit/debt data are transmitted twice a year; Eurostat verifies their quality. | Eurostat legislative and reporting framework. |
| **Regulation (EU) 549/2013 — ESA 2010** | European System of National Accounts | Defines the public sector, transactions, accrual basis of accounting and accounting concepts. | Eurostat Methodology. |
| **Regulation (EU) 2024/1263** | Reformed prevention arm and medium-term surveillance | Net spending becomes the central operating indicator; country-specific adjustment plans | Text of the EUR-Lex Regulation. |
| **Regulation (EU) 2024/1264** | Corrective arm reform | Review the functioning of the EDP | The 2025 Council Recommendations identify Regulation |


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| | | | |
|---|---|---|---|
| | | | 2024/1264 as amending Regulation 1467/97. |
| **Directive (EU) 2024/1265** | National fiscal framework requirements | Strengthens internal fiscal governance in the medium term. | Identified in the reformed legislative package on tax governance. |
| **Italian medium-term plan approved by the Council** | Country-specific tax path | Seven-year adjustment with defined maximum annual net spending limits | Council Recommendation of 21 January 2025. |


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## What does “net spending” actually mean?

The variable relating to operating expenditure is intentionally narrower than total public expenditure. Regulation 2024/1263 defines net expenditure by excluding items that governments do not directly control in the short term or that the regulatory framework does not intend to automatically penalize.

### Composition of the EU net expenditure indicator

| Item | Treatment in net expenditure | Reason in legal architecture | Official base |
|---|---|---|---|
| **Ordinary government spending** | Included | Basic spending financed at the national level and controlled through the fiscal route | Regulation 2024/1263. |
| **access fee** | Excluding | Based on this indicator, interest expenses are not considered discretionary expenses. | Definition of Article 2 of Regulation 2024/1263. |
| **Discretionary revenue measures** | Net | It prevents spending controls from being circumvented or distorted by changes in revenue policy. | Regulation 2024/1263. |
| **Spending on EU programmes is entirely covered by EU revenue.** | Excluding | Expenditure financed externally with Union resources | Regulation 2024/1263. |
| **National co-financing of EU programmes** | Excluding | It protects co-financed investments from direct constraints on the spending path. | Regulation 2024/1263. |
| **Cyclical spending on unemployment benefits** | Excluding | Prevents automatic stabilizers from creating mechanical deviations during discontinuous phases. | Regulation 2024/1263. |
| **One-off and temporary measures** | Excluding | The process focuses on ordinary expenses rather than exceptional ones. | Regulation 2024/1263. |

Consequently, the statement that Italy must limit spending growth to a certain percentage **does not mean that total nominal government spending can only increase by that amount** , since the aggregate being monitored is the specifically defined measure of net spending.


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## Italy's seven-year fiscal journey

Italy has called for an extended adjustment horizon, supported by reforms and investments, which includes a seven-year fiscal adjustment until **2031.** The Council Recommendation foresees an average annual growth in net expenditure of 1.5 **% over the period 2025-2031** .

### Italian net spending path approved by the Council

| Year | Annual growth in allowed net spending | Cumulative change from 2023 baseline | Progress of the plan | Official source |
|---|---|---|---|---|
| **2024** | -1.9% | -1.9% | Basic pre-adaptation/transition | Council Recommendation. |
| **2025** | +1.3% | -0.7% | EDP correction year | Council Recommendation. |
| **2026** | +1.6% | +0.9% | Deadline for formal correction of the EDP document | Recommendation of the Council and Recommendation of the EDP. |
| **2027** | +1.9% | +2.8% | Extended regulation | Council Recommendation. |
| **2028** | +1.7% | +4.6% | Extended regulation | Council Recommendation. |
| **2029** | +1.5% | +6.2% | End of the formal plan period | Council Recommendation. |
| **2030** | +1.1% | +7.4% | Extended regulation | Council Recommendation. |
| **2031** | +1.2% | +8.7% | End of the seven-year adjustment period | Council Recommendation. |
| **Average 2025–2031** | 1.5% per year | — | Seven-year adjustment average | Council Recommendation. |

The difference between the **2026 deadline for correcting the European deficit** and the **2031 fiscal adjustment horizon** is therefore not contradictory. The former refers to the achievement of a lasting excessive deficit below the Treaty threshold; the latter refers to the broader debt sustainability adjustment encoded in Italy's medium-term spending trajectory.


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## The original debt path underlying the Italian plan

Italy's medium-term fiscal-structural plan for 2024 did not envision an immediate debt reduction once the deficit returned below 3%. Instead, the Ministry of Economy and Finance's plan envisioned an increase in debt from **135.8% of GDP in 2024 to 136.9% in 2025 and 137.8% in 2026** , before decreasing to 137.5% in 2027, 136.4% in 2028, and 134.9% in 2029.

### Fiscal path originally envisaged in the Italian medium-term plan

| Indicator | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | Official source |
|---|---|---|---|---|---|---|---|
| **Net debt / GDP** | -3.8% | -3.3% | -2.8% | -2.6% | -2.3% | -1.8% | MEF medium-term structural-fiscal plan. |
| **Primary balance / GDP** | +0.1% | +0.6% | +1.1% | +1.5% | +1.9% | +2.4% | MEF Plan. |
| **Interest Expenditure / GDP** | 3.9% | 3.9% | 3.9% | 4.1% | 4.2% | 4.2% | MEF Plan. |
| **gross debt / GDP** | 135.8% | 136.9% | 137.8% | 137.5% | 136.4% | 134.9% | MEF Plan. |
| **meaning of stock flow adjustment** | 1.0 pp | 2.2 pp | 2.2 pp | 0.6 pp | 0.4 pp | 0.2 pp | MEF Plan. |

These are **planning assumptions from the 2024 plan, not the latest statistical data** . They are important because they demonstrate that the originally approved trajectory already envisaged a temporary increase in debt during the overall deficit adjustment phase, primarily because debt dynamics depend on borrowing costs, nominal growth, and stock flow adjustments, rather than solely on the current year's deficit.


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## Safeguarding debt sustainability

The reformed fiscal framework contains an explicit safeguard on debt sustainability. Article 7 of Regulation 2024/1263 requires the reference trajectory to ensure an average annual reduction in the **projected debt-to-GDP ratio of at least 1 percentage point when debt exceeds 90% of GDP** and **by 0.5 percentage points when debt is between 60% and 90%** .

For Member States already subject to an excessive deficit procedure, however, the calculation of this average decline starts from the year following the year preceding the start of the reference trajectory and the year in which the excessive deficit procedure is expected to be abolished.

This provision explains why the legal framework **does not require Italy to immediately reduce its debt-to-GDP ratio by one percentage point in 2025 or 2026** simply because debt exceeds 90% of GDP. The sequence of the Economic Development Plan (EDP) and the subsequent path to debt sustainability are enshrined in the regulation itself.

## Safeguarding deficit resilience

Article 8 of Regulation 2024/1263 introduces a second safety net, providing for a continuous adjustment, where necessary, until a Member State establishes a **structural fiscal margin of 1.5% of GDP below the 3% deficit reference value** . The required annual improvement in the structural primary balance is normally **0.4 percentage points of GDP** , reduced to **0.25 percentage points if the adjustment period has been extended** .

This means that **3% is not the final medium-term objective of the preventive framework** . Going below 3% addresses the immediate problem of the excessive deficit, while the resilience safeguard is designed to create sufficient structural distance from that threshold so that normal economic fluctuations do not immediately return the country to an excessive deficit situation.


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## The Italian excessive deficit procedure: documentary chronology

The current EDP is not an informal oversight arrangement; its main stages are publicly documented by the Commission.

# Chronology of the European Development Programme (EDP) in Italy

| Date | Institutional act | Legal/procedural consequence | Official source |
|---|---|---|---|
| **June 19, 2024** | Tax assessment by the Commission prior to the procedure provided for by Article 126 | Assessment of Italy's fiscal situation based on the Treaty criteria | Commission EDP file. |
| **July 8, 2024** | Commission proposal for a Council decision on the existence of an excessive deficit | Formal proposal to open the EDP | Italian Commission EDP Register. |
| **July 26, 2024** | Council Decision pursuant to Article 126(6) | EDP officially inaugurated | Commission and Council documents. |
| **November 26, 2024** | Recommendation of the Commission for the correction Recommendation of the Council | Proposed adjustment path | Commission EDP file. |
| **January 21, 2025** | Council recommendation pursuant to Article 126(7) | Italy is required to end its excessive deficit by 2026; net expenditure limits are set at 1.3% in 2025 and 1.6% in 2026. | Council EDP Register. |
| **April 30, 2025** | First annual report on Italy's progress under the new framework. | Report on actions taken and implementation of the medium-term plan | Commission file. |
| **November 16, 2025** | Italy presents an intervention plan through the draft budget. | Updated implementation information | Commission file. |


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| | | | |
|---|---|---|---|
| **April 30, 2026** | Italy presents its annual progress report in 2026. | Official report on net expenditure path compliance and reforms | Commission assessment for 2026. |
| **June 3, 2026** | Evaluation of the effectiveness of the Commission's actions | The EDP has been suspended and has not been upgraded. | Commission's assessment. |
| **September 22, 2026** | ISTAT revises the 2025 national accounts | Update of the national statistical database; does not imply the closure or raising of the EDP alert level. | The legal process continues through decisions of the Commission/Council rather than through a publication by ISTAT. |

The procedural meaning of the **term "suspended"** is specific: the enforcement procedure (EDP) remains legally open, but enforcement is not intensified because the Commission has concluded that effective measures have been taken at the relevant assessment stage. The Commission's general guidelines on EDP explicitly describe the effectiveness of the measures adopted as the determining factor in determining whether a procedure should be suspended or intensified.


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## What the Commission's June 2026 assessment actually found

The Commission's June 2026 assessment was based on Eurostat data from April, which showed that Italy's deficit had fallen from **3.4% of GDP in 2024 to 3.1% in 2025** , while the Commission's spring forecast estimated a deficit **of 2.9% in 2026 and 2.9% in 2027.** The Commission also stated that the projected reduction in 2026 reflected, among other factors, lower spending related to tax incentives for building renovation, while public investment and tax revenues were expected to continue to increase.

The Commission also took note that Italy submitted its **annual progress report for 2026 on 30 April 2026** , relating to compliance with the recommended maximum rates of growth in net expenditure and the implementation of reforms and investments supporting the extended adjustment period.

This is the decisive evidence behind the decision not to escalate the procedure at that stage; it does not amount to the closure of an EDP because the Commission and the Council still need to ascertain whether the excessive deficit has actually been corrected in a lasting manner.

## What is required to close an excessive deficit procedure?

Malta's decision of **12 June 2026** provides a recent official example of the legal rationale used to end a deficit-driven economic development programme. The Council stated that Malta's procedure was abolished because the public deficit had been **successfully and sustainably reduced to below 3% of GDP** .

The key word is therefore not simply "under", but **durably** .


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## Relevant conditions for the closure of the EDP

| Requirement | Analytical meaning | Why it is important for Italy | Official support |
|---|---|---|---|
| **The actual adjusted deficit was less than 3%.** | The deficit recorded no longer exceeds the Treaty reference value. | A rounded result of 3.1% in 2025 does not meet this condition. | Council Framework for Electronic Data Processing. |
| **The correction is considered long-lasting** | The forecast must indicate that the violation will not recur immediately | 2026 and the subsequent fiscal trajectory are therefore important | Malta's closure decision explicitly calls for an effective and lasting correction. |
| **Effective interventions in line with the Council recommendation.** | Member States must follow the spending path and corrective measures | The Italian procedure for June 2026 has been suspended following an evaluation of the effective measures. | Commission's assessment. |
| **The Council's decision is required.** | Statistical publication alone does not end the procedure | ISTAT or Eurostat data can establish the factual basis, but they cannot independently close the Italian EDP | Documents from the EDP dossier of the Italian Commission Article 126 Council passages. |

The legal consequence is that **Italy cannot exit the European Dividend Distribution System (EDS) simply because a subsequent statistical review moves an underlying decimal fraction marginally below a certain threshold,** unless the Commission and the Council determine that the adjustment satisfies the applicable legal and durability tests.


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## Flexibility in defense matters: what the national safeguard clause actually provides.

The 2024 reform created a national safeguard clause under **Article 26 of Regulation 2024/1263** , which allows a Member State experiencing exceptional circumstances beyond its control that have a significant impact on public finances to temporarily depart from the budgetary path approved by the Council, provided that medium-term fiscal sustainability is not jeopardized. Given the changing European security environment, Member States were invited to activate this mechanism to increase defense spending. The official Council minutes list **18 states for which the national defense safeguard clause had been activated by 12 June 2026** : Belgium, Bulgaria, the Czech Republic, Croatia, Denmark, Estonia, Finland, Greece, Latvia, Lithuania, Poland, Portugal, Slovakia, Slovenia, Hungary, Germany, Austria, and Spain. **Italy is not included in this list.**

### Status of the National Defense Safeguard Clause as of June 12, 2026

| Problem | Location verified | Tax consequences | Official source |
|---|---|---|---|
| **Legal basis** | Article 26 of Regulation 2024/1263 | Allows for a temporary deviation from the Council's financial path in exceptional circumstances | Commission regulatory framework on safeguard clauses. |
| **Number of activated states** | 18 | Flexibility granted to states that fall within the limits defined by the Council. | NEC Council Documentation. |
| **Italy activated?** | No, according to the Council list updated on June 12, 2026. | It cannot be assumed that Italy benefits from the National Economic Convention on Defense just because it is increasing defense spending. | Council List. |
| **Can Italy submit a subsequent request?** | Commission documentation states that Member States can still request activation until 2028 if the criteria of Article 26 are met. | The possibility of future flexibility remains legally feasible. | Commission assessment of Italy, June 2026. |

This clarifies a major source of confusion: **defense spending is not automatically excluded from the Italian deficit or debt just because the EU allows fiscal flexibility for defense** . The national safeguard clause addresses deviation from the fiscal trajectory; it does not abolish the accounting of the European Sustainable Development Fund (EDF).

## Energy security flexibility is an extension of tax flexibility, not an accounting exemption.

On **17 August 2026** , the European Commission published guidelines on the possible extension of the national escape clause to **energy security measures** , following the

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proposal announced in the European Semester Spring Package of June 2026. The guidelines set out the procedure through which Member States can request this flexibility, its treatment under EU fiscal surveillance, and the monitoring of its use.

The mechanism therefore operates within the fiscal governance framework, rather than outside the national accounts. Expenditures benefiting from flexibility may be treated differently when assessing compliance with a Council expenditure path, but this does not automatically exclude the underlying expenditure from the ESA deficit or its financing from the debt stock.

## Three accounting levels not to be confused

| Mechanism | What changes? | What doesn't disappear automatically | Official base |
|---|---|---|---|
| **NEC for Defense** | Permitted deviation from the tax path for eligible defense expenses | ESA spending, overall deficit, and debt accounting | Commission/Council NEC Framework. |
| **Extension of energy security** | Potential flexibility of the tax path for eligible energy security measures | National accounting of expenditure and financing | Commission guidelines for August 2026. |
| **SAFE** | Provides EU loans for defence investments | Borrower's Repayment Obligation and Underlying Charges | SAFE Regulation 2025/1106. |


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## SAFE is a loan, not a deficit cancellation.

**Security Action for Europe (SAFE)** instrument was established by Council Regulation (EU) 2025/1106 and provides up to **€150 billion in EU financial assistance in the form of loans** for defense investments and procurement. The regulation specifies that the financial assistance takes the form of a **loan granted by the Union to the Member State concerned** . SAFE is financed through the EU's borrowing capacity, with the Union raising funds through European bonds and lending them to participating Member States. The maximum SAFE loan allocated to Italy under the February 2026 Council process is **€14.9 billion** , not €36 billion.

### SAFE architecture applicable to Italy

| Variable | Verified value/status | Sense | Official source |
|---|---|---|---|
| **Total SAFE capacity** | **Up to 150 billion euros** | EU-wide funding fund | Council Regulation 2025/1106. |
| **Type of instrument** | **Loan** | This is reimbursable financial assistance, not a grant. | Article 5 of the Regulation. |
| **EU financing mechanism** | EU bond issuance | The Union borrows money and then lends it to member states. | SAFE Council Explanation. |
| **maximum loan approved in Italy** | **14.9 billion euros** | Maximum funding authorized for Italy under the relevant Council funding wave. | Allocation of funds to the Council for the month of February 2026. |
| **36 billion euros for Italy, financed by the official SAFE allocation?** | **NO** | The Council's official figure for Italy is 14.9 billion euros. | Council Distribution Table. |
| **Primary purpose** | Industrial investments in the defense sector and joint procurement | Supports the financing of defense capabilities | SAFE Regulations and Council Explanation. |

The fiscal impact of the SAFE must therefore be broken down into at least three issues: **when the loan is disbursed, when eligible defense expenditure is accounted for under ESA rules, and how the related liability is treated in public debt statistics** . It is analytically incorrect to treat the €14.9 billion financing as if it were €14.9 billion of fiscal space that disappears from deficit and debt accounting.

## Why the 2025 deficit does not automatically determine the 2026 procedure

The Council recommendation requires Italy to end its excessive deficit by **2026** and limits net expenditure growth to 1.3 **% in 2025 and 1.6% in 2026** .

The Commission's evaluation of June 2026 subsequently concluded that effective measures had been taken and suspended the procedure.

Therefore, the analytical sequence is:

| Request | status 2025/2026 | Institutional meaning | Source |
|---|---|---|---|
| **In April 2026, was the incidence rate in Italy less than 3% for 2025?** | No — 3.1% | Closure prevented based on this statistical result | Commission assessment of June based on Eurostat data. |
| **Had Italy sufficiently complied with the corrective recommendation to avoid an escalation?** | Yes, at the June actual stock valuation | EDP suspended | Commission. |
| **Is the deadline for legal correction 2025?** | NO | Council Recommendation sets 2026 | Advise. |
| **Was the EDP closed in June 2026?** | NO | Italy remained under active procedure | Italian Commission's EDP dossier. |
| **Can a national statistical review in itself put an end to the Economic Development Programme (EDP)?** | NO | The Council's intervention is necessary. | Procedural minutes referred to in Article 126, documented by the Commission. |
| **What factors could favor a possible closure?** | Deficit stable below 3% together with compliance with the corrective framework | Durability is a material fact, not just a single observation | Precedent of closure of the Malta Council. |

This provides a much more precise institutional description than simply stating that Italy "passed" or "failed" a single 3% test in September 2026. The **2025 outcome is important** , but it is part of a procedure whose formal deadline for correction is 2026 and whose enforcement mechanism evaluates both actual fiscal outcomes and compliance with the spending trajectory indicated by the Council.

## What the 2026 statistical review can and cannot change

The September 2026 revision may substantially change the historical and statistical data used in subsequent surveillance activities, as Eurostat's EDP framework explicitly allows for revisions as new source data or methodological information becomes available.

It is not possible to retroactively erase the fact that previous Council decisions were taken on the basis of statistical data available at the time, nor can a revision of ISTAT in itself repeal a Council decision.


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The institutional sequence therefore requires four separate appointments whenever a politically sensitive tax figure is discussed:

## Mandatory vintage control for government-level analyses

| Date type | Example | Why it needs to be stated |
|---|---|---|
| **economic reference year** | 2025 | Identifies the fiscal period being measured |
| **national publication date** | September 22, 2026 | Identify the ISTAT statistical year |
| **Validation/publication date of the Eurostat data processing document** | Notification in April or October | Identifies the harmonized European statistical year |
| **Date of the Commission/Council decision** | for example June 3, 2026 evaluation of effective actions | Identify the information legally available at the time the institutional decision was made. |

Failure to distinguish between these dates can create the false impression that a subsequent statistical review demonstrates the error of a previous institutional decision, when in reality the two actions may simply have been based on data from different eras.


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## The real institutional pressure points for Italy

The legally relevant variables for the rest of 2026 are therefore identifiable and measurable, not merely rhetorical.

The first figure concerns the **deficit for the whole year 2026** , since the deadline for the correction by the Council is set for 2026.

The second point concerns **compliance with net spending** , as the Council requires that Italian net spending remain within the 1.6% growth limit for 2026.

The third is the **Eurostat EDP notification of October 2026** , as the autumn notification is the formal European statistical channel through which revised national data enter the harmonized EDP register.

The fourth element is the Commission's upcoming **assessment of the effectiveness and predictability of the actions** , since durability cannot be established on the basis of historical data alone.

The fifth point concerns the **debt sustainability trajectory** , particularly once the EDP is expected to be repealed and the debt sustainability safeguards to be fully operational over the remaining adjustment period.

The sixth point concerns a possible Italian decision to request the **national safeguard clause** , since Italy had not activated the defence clause as of the date of the Council list of 12 June 2026, despite having access to SAFE funding.


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## Documentary distinction between surveillance, flexibility and financing

The institutional framework can be summarized in a single governance matrix.

| Instrument | Institution of government | Situation in Italy as of September 23, 2026 | Tax purpose | Does the system automatically modify the ESA's master accounting data? | Official tests |
|---|---|---|---|---|---|
| **3% deficit criterion provided for in the Treaty** | EU Treaties / Council Procedure | According to the latest national data, Italy has confirmed an unemployment rate of 3.1% for 2025. | Identify a condition of excessive deficit | No; it is a criterion applied to the accounts | EU legal framework for electronic data protection. |
| **Debt benchmark value equal to 60%** | EU Treaties | Italy surpasses him materially | Debt Surveillance Anchor | NO | EU legal framework. |
| **net spending path** | Italian plan approved by the Council | 1.3% 2025; 1.6% 2026; seven-year path to 2031 | Operational tax control | No; it is a surveillance variable | Council Recommendation. |
| **EDP** | Council/Commission | Open; suspended after evaluating the effectiveness of the measures taken. | Correcting the excessive deficit | No; it responds to statistical data and forecasts | Dossier of the Italian Commission. |
| **NEC for Defense** | The Council accepts the Commission's | Not yet activated for Italy | Temporary flexibility | NO | NEC Council List. |


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| | | | | | |
|---|---|---|---|---|---|
| | request and recommendation. | starting June 12, 2026. | with respect to spending path | | |
| **Extension of energy security** | Commission guidelines / possible national request | Potential flexibility mechanism starting from August 2026. | Extend the flexibility of the tax path to eligible energy security measures. | NO | Commission guidelines. |
| **SAFE** | EU loans and national loans | Allocation of up to 14.9 billion euros for Italy. | Financing defense investments | NO | SAFE allocation by the Council and Regulation 2025/1106. |


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## Key judgments

Italy's current fiscal control system is governed by **two simultaneous but distinct mechanisms** : the corrective Expenditure and Debt Plan (EDP), whose immediate objective is the lasting correction of the excessive deficit by 2026, and the medium-term Expenditure and Debt Framework, which extends until 2031. Considering either system in isolation provides an incomplete picture of Italy's actual obligations.

Official statistical data are produced at the national level, but they are not simply accepted without review. Eurostat has explicit methodological authority, conducts semi-annual reviews, and can issue reservations, correct figures, and investigate serious inaccuracies in data collection.

The ISTAT review in September 2026 therefore represents **a phase in the statistical process, rather than the final legal decision on the Italian European Data Distribution Plan (EDP)** . The revised national data must be incorporated into the relevant European statistical and surveillance cycles before their procedural implications are fully defined.

The Council has **not** imposed on Italy the obligation to eliminate its excessive deficit by 2025; the formal deadline for the correction is **2026** , while the net expenditure path continues until 2031.

The Commission's assessment **of 3 June 2026** did not accelerate the Italian procedure; it recorded effective action and suspended the European Consumer Protection Procedure (PEC).

Defense flexibility, energy security flexibility, and SAFE financing are **three legally and economically distinct mechanisms** . None of them should be described as automatically eliminating the corresponding expenditure from the public deficit or debt.

The amount approved for Italy under the SAFE programme is **€14.9 billion** , while the broader SAFE instrument provides for an EU-wide lending ceiling of **€150 billion.**

According to the official Council list updated to 12 June 2026, Italy had not **activated the national safeguard clause for defence** , although the regulatory framework leaves open the possibility of subsequent activation under the conditions set out in Article 26.


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## What would change the rating?

**A formal reservation or amendment** by Eurostat regarding Italy's revised EDP data would substantially change the assessment of the statistical governance issue, as it would constitute documented evidence of an unresolved methodological disagreement, rather than a simple revision.

A Commission finding that Italy **has not taken effective measures** would represent a substantially different procedural situation than that of June 2026 and could trigger an escalation of the emergency procedure.

A verified deficit for 2026 that remains consistently below 3%, together with compliant spending growth and forecasts demonstrating the durability of the correction, would create the documentary basis for the possible abrogation of the procedure, subject to formal approval by the Commission and the Council.

An Italian request and the Council's activation of the national escape clause would change the calculation of relevant expenditure compliance, but **would not in itself change the accounting treatment of deficit and debt by the ESA** .

A revision of Italy's medium-term fiscal-structural plan, a substantial modification to the reform/investment package agreed to support the seven-year adjustment period, or a deterioration in debt sustainability that would invalidate the assumptions underlying the path approved by the Council would require a reassessment of the long-term fiscal trajectory.


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## Open public register

The most important official documents still to be submitted are the **Eurostat EDP notification of October 2026, which incorporates the latest revisions of national accounts** , the Commission's next fiscal forecasts based on the revised statistical base, the fiscal results for the full year 2026, any Italian requests relating to the safeguard clause for defence or energy security, and any subsequent Commission assessment of the effectiveness of the measures taken or Council decision on the termination or continuation of the EDP.

The real institutional, and not rhetorical, test remains the documentary one: can it be demonstrated, through official data, whether the statistical methodology, verification standards, spending control rules, flexibility provisions, and requirements for a lasting correction applied to Italy differ substantially from the rules established by EU law or from their documented implementation? This question cannot be resolved by the 3.1% figure alone.


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# European sovereign tax documents

## Main judgment

The European fiscal landscape in the 2025-2027 period is not governed by a single sovereign finance model, as the same overall deficit can arise from markedly different combinations of revenue capacity, spending commitments, debt stock, exposure to interest rate risk, defense programs, social spending, economic growth, and the need for institutional adjustment. Consequently, each state must be reconstructed as an independent fiscal system, rather than being considered as evidence for or against another government's policy choices.

**The common statistical basis used in this chapter is the first Eurostat EDP (Energy Data Provision) notification** of 22 April 2026 for 2025, which applies the ESA 2010 definitions to general government revenue, expenditure, deficit and debt and for which Eurostat has explicitly stated **that it has no reservations or changes to the data provided by Member States** . Eurostat — Deficit and debt data provision for 2025, first notification, 22 April 2026

Forward-looking forecasts are kept strictly separate from historical data and are based **on the European Commission spring forecast of 21 May 2026** , while the excessive deficit procedure (EDP) status and spending paths are based on Council decisions updated to **10 July 2026. European** Commission — Economic forecasts Council of the European Union — Excessive deficit procedure

France: large structural spending commitments and persistent primary imbalance.

France began 2026 with **a 2025 GDP of €2,994,733 billion** , public spending equal to **57.2% of GDP** , revenue equal to **52.1%** , a deficit of **€152,511 billion, or 5.1% of GDP** , and a Maastricht debt of **€3,460,465 billion, or 115.6% of GDP** . The significance of the French account lies not simply in the 5.1% deficit, but in the coexistence of a very large public sector, revenues exceeding half of GDP, and an expenditure/revenue ratio that is still more than five percentage points higher. Eurostat - General public account France 2025


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## France: Fiscal and macroeconomic data verified

| Indicator | 2025 effective | Forecast for 2026 | Forecast for 2027 | Official source |
|---|---|---|---|---|
| **real GDP growth** | 0.8% | 0.8% | 1.1% | European Commission - Forecast for France, 21 May 2026 |
| **Inflation** | 0.9% | 2.4% | 1.8% | European Commission - Forecasts for France |
| **Unemployment** | 7.7% | 8.3% | 8.7% | European Commission - Forecasts for France |
| **Balance of government** | -5.1% of GDP | -5.1% | -5.7% | European Commission - Forecasts for France |
| **Gross debt** | 115.6% of GDP | 118.1% | 120.2% | European Commission - Forecasts for France |
| **Public spending** | 57.2% of GDP | — | — | Eurostat — EDP 2025 notification |
| **Government revenue** | 52.1% of GDP | — | — | Eurostat — EDP 2025 notification |
| **Nominal deficit 2025** | 152.511 billion euros | — | — | Eurostat - French Tax Data |
| **nominal debt** | €3,460,465 tons | — | — | Eurostat - French Tax Data |

The Commission identifies the persistent **primary deficit** as the main driver of the rising French debt-to-GDP ratio and projects that, in the absence of policy changes, debt will exceed 120% of GDP by 2027. It also identifies increased activity in the defense and aeronautics sectors as supporting investment and exports, but believes that, according to current projections, these effects are insufficient to offset the underlying fiscal imbalance. European Commission - Economic Forecast for France

France has been under an Economic Development Programme (ESP) since **26 July 2024** ; the Council requires a correction by **2029** and sets a cap on nominal net expenditure growth at **0.8% in 2025, 1.2% per year over the period 2026-2028 and 1.1% in 2029.** Council — PSE France

The French fiscal framework, therefore, combines high taxation and revenue mobilization with even higher spending, a persistent primary imbalance, and a debt-to-GDP ratio that the Commission expects to rise rather than stabilize over the immediate forecast horizon.

## Germany: Fiscal expansion after constitutional reform

In 2025, the German public budget recorded **a GDP of €4,469,910 billion** , with expenditures amounting to **50.5% of GDP** , revenues amounting to **47.9%** , a deficit of **€119,147 billion, or 2.7% of GDP** , and a gross debt of **€2,838,239 billion, or 63.5% of GDP** . (Eurostat - German public finance data 2025)


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The most important development is of a forward-looking nature, not limited to the 2025 deficit. The Commission expects that the implementation of the **2025 constitutional reform of the German fiscal framework** , increased defense spending, increased public investment, and tax relief measures will bring the general government deficit to **3.7% in 2026 and 4.1% in 2027.** ( European Commission - Economic Forecast for Germany)

## Germany - fiscal expansion profile

| Indicator | 2025 effective | Forecast for 2026 | Forecast for 2027 | Official source |
|---|---|---|---|---|
| **GDP growth** | **0.2%** | **0.6%** | **0.9%** | European Commission - Forecasts for Germany |
| **Balance of government** | **-2.7%** | **-3.7%** | **-4.1%** | European Commission - Forecasts for Germany |
| **Public spending** | **50.5% of GDP** | — | — | Eurostat - Germany's Fiscal Account |
| **Government revenue** | **47.9% of GDP** | — | — | Eurostat - Germany's Fiscal Account |
| **Debt** | **2,838,239 tons of euros / 63.5% of GDP** | On the rise | Going up further | Eurostat European Commission - Germany |

Germany is not currently subject to a deficit-based backstop. Its immediate fiscal challenge, however, is the transition from a highly restrictive domestic debt architecture to a more expansionary fiscal regime, focused on infrastructure and defense, while underlying economic growth remains weak. Council — Current cases of backstop European Commission — Forecast for Germany

## Spain: solid nominal revenue base and continued debt reduction.

**In 2025,** Spain recorded a GDP of 1,687,152 billion euros, expenditure equal to **45.3% of GDP** , revenue equal to **42.9%** , a deficit of **40.330 billion euros, or 2.4% of GDP** , and a debt of **1,698,225 billion euros, equal to 100.7% of GDP** . Eurostat - Fiscal Account Spain 2025

The debt-to-GDP ratio increased from **109.3% in 2022 to 105.2% in 2023, 101.6% in 2024, and 100.7% in 2025** , despite the nominal debt stock remaining very high, demonstrating the importance of nominal GDP growth in the dynamics of the debt-to-GDP ratio. Eurostat - Spanish Debt Series


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## Spain: fiscal and economic path

| Indicator | 2025 | Forecast for 2026 | Forecast for 2027 | Official source |
|---|---|---|---|---|
| **GDP growth** | 2.8% | 2.4% | 1.9% | European Commission - Forecasts for Spain |
| **Inflation** | 2.7% | 3.0% | 2.5% | European Commission - Forecasts for Spain |
| **Unemployment** | 10.5% | 9.9% | 9.6% | European Commission - Forecasts for Spain |
| **Deficit** | 2.4% of GDP | 2.4% | 2.0% | European Commission - Forecasts for Spain |
| **Debt** | 100.7% of GDP | 99.6% | 98.9% | European Commission - Forecasts for Spain |
| **Income** | 42.9% of GDP | — | — | Eurostat - Fiscal Account of Spain |
| **Expense** | 45.3% of GDP | — | — | Eurostat - Fiscal Account of Spain |

The Commission identifies domestic demand, employment, immigration, and investment as the main drivers supporting Spain's fiscal denominator, while the current account balance remains positive. European Commission - Forecast for Spain

Spain is not currently in an Economic Development Programme (EDP) and remains subject to the preventive framework of the reformed Stability and Growth Pact. Council — EDP State


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## Austria: Persistent gap between public spending and growing debt

In 2025, Austria recorded **a GDP of €512.813 billion** , expenditure equal to **55.2% of GDP** , revenue equal to **51.0%** , a deficit of **€21.464 billion, or 4.2% of GDP** , and a debt of **€418.078 billion, or 81.5% of GDP.** Eurostat - Austrian Fiscal Account

### Austria - Current Fiscal Trajectory

| Indicator | 2025 | Forecast for 2026 | Forecast for 2027 | Official source |
|---|---|---|---|---|
| **GDP growth** | **0.6%** | **0.6%** | **0.9%** | European Commission - Forecast for Austria |
| **Inflation** | **3.6%** | **3.0%** | **2.5%** | European Commission - Forecast for Austria |
| **Deficit** | **4.2%** | **4.1%** | **4.1%** | European Commission - Forecast for Austria |
| **Debt** | **81.5%** | **83.4%** | **84.9%** | European Commission - Forecast for Austria |
| **Income** | **51.0% of GDP** | — | — | Eurostat - Austria Account |
| **Expense** | **55.2% of GDP** | — | — | Eurostat - Austria Account |

Austria entered an Economic Development Programme (ESP) on **8 July 2025** and must correct it by **2028** , with net expenditure growth limited to **2.6% in 2025, 2.2% in 2026, 2.2% in 2027 and 2.0% in 2028.** Council — Economic Development Programme of Austria

The fiscal challenge is therefore to simultaneously reduce the persistent gap between revenue and expenditure and halt a debt-to-GDP ratio that, according to the Commission's forecasts, will continue to rise until 2027.

Sweden: low sovereign debt but targeted fiscal expansion.

Sweden had **a GDP of SEK 6,570,039 billion** , expenditure of **49.9% of GDP** , revenue of **48.6%** , a deficit of **SEK 84,717 billion, or 1.3% of GDP** , and a public debt of **SEK 2,305,401 billion, or 35.1% of GDP** . Eurostat - Swedish Fiscal Account


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## Sweden: Fiscal expansion starting from a low level of debt.

| Indicator | 2025 | Forecast for 2026 | Forecast for 2027 | Official source |
|---|---|---|---|---|
| **GDP growth** | 1.5% | 1.8% | 2.2% | European Commission - Sweden |
| **Inflation** | 2.6% | 1.5% | 1.8% | European Commission - Sweden |
| **Unemployment** | 8.8% | 8.5% | 7.9% | European Commission - Sweden |
| **Deficit** | 1.3% | 2.8% | 2.5% | European Commission - Sweden |
| **Debt** | 35.1% | 36.6% | 37.7% | European Commission - Sweden |

The Commission attributes the projected widening of the deficit primarily to **tax cuts and increased public spending, particularly on defense** , rather than to a pre-existing deficit correction problem. European Commission - Forecast for Sweden

Sweden is not subject to a protective foreign policy (PEP). Council — Ongoing PEP cases

Poland: Defense, Investment, and Rapid Debt Accumulation

Poland had **a GDP of PLN 3,912,673 billion** , expenditure of **50.9% of GDP** , revenue of **43.6%** , a deficit of **PLN 283,969 billion, or 7.3% of GDP** , and a debt of **PLN 2,335,153 billion, or 59.7% of GDP** . Eurostat - Fiscal Account of Poland

The debt-to-GDP ratio increased from **48.8% in 2022 to 49.5% in 2023, 54.8% in 2024, and 59.7% in 2025** , while the expenditure-to-GDP ratio increased from **43.2% to 50.9%** over the same period. Eurostat - Fiscal series Poland 2022-2025

Poland: path of expansion and fiscal correction

| Indicator | 2025 | Forecast for 2026 | Forecast for 2027 | Official source |
|---|---|---|---|---|
| **Growth** | 3.6% | 3.5% | 2.8% | European Commission - Poland |
| **Inflation** | 3.3% | 3.6% | 2.9% | European Commission - Poland |
| **Deficit** | 7.3% | 6.5% | 6.3% | European Commission - Poland |
| **Debt** | 59.7% | 64.5% | 68.3% | European Commission - Poland |

The Commission identifies **deliveries of military equipment, public sector wages, social benefits and EU-supported investments as** Important components of the current fiscal and macroeconomic configuration. European Commission - Forecast for Poland


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Poland must end its Economic Development Programme (EDP) by **2028** , with net expenditure growth caps of **6.3% in 2025, 4.4% in 2026, 4.0% in 2027 and 3.5% in 2028.** Council — Poland's Economic Development Programme

Romania has the most serious revenue congestion problem among the sovereign countries examined.

Romania's fiscal structure is notable for the wide gap between spending and revenue. In 2025, spending reached **43.3% of GDP, while public revenue stood at only 35.4%** , generating a deficit of **RON 151.063 billion, equal to 7.9% of GDP** . Debt reached **RON 1,137.324 billion, or 59.3% of GDP** . (Eurostat - Fiscal Account of Romania)

## Romania: fiscal and macroeconomic path

| Indicator | 2025 | Forecast for 2026 | Forecast for 2027 | Official source |
|---|---|---|---|---|
| **GDP growth** | **0.7%** | **0.1%** | **2.3%** | European Commission - Romania |
| **Inflation** | **6.8%** | **7.0%** | Next up, further down. | European Commission - Romania |
| **Deficit** | **7.9%** | **6.2%** | **5.8%** | European Commission - Romania |
| **Debt** | **59.3%** | **61.6%** | **approximately 63.3%** | European Commission - Romania |
| **current account deficit** | **7.9% of GDP** | Decline | **about 6.4% within the horizon** | European Commission - Romania |

Romania has been under an Expenditure Expansion Plan (EDP) since **3 April 2020** ; the Council formally concluded again in June 2025 that no effective actions had been taken and revised the path in July 2025, requiring a correction by **2030** and limiting nominal net expenditure growth to **2.8% in 2025, 2.6% in 2026, 4.6% in 2027, 4.4% in 2028, 4.2% in 2029 and 4.0% in 2030.** Council — Romania EDP

Romania's fiscal problem is therefore not limited to spending control alone; official accounts reveal a relatively narrow revenue base compared to the size of government


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commitments, while inflation and fiscal consolidation are simultaneously limiting household demand.

Belgium: high expenditure, high public debt, and long implementation times

Belgium had **a GDP of €642.015 billion** , expenditure equal to **54.2% of GDP** , revenue equal to **49.0%** , a deficit of **€33.220 billion, or 5.2% of GDP** , and a public debt of **€692.461 billion, or 107.9% of GDP** . Eurostat - Fiscal Account of Belgium

## Belgium - fiscal outlook

| Indicator | 2025 | 2026 | 2027 | Official source |
|---|---|---|---|---|
| **GDP growth** | **1.0%** | **0.7%** | **0.9%** | European Commission - Belgium |
| **Inflation** | **3.0%** | **3.4%** | **2.6%** | European Commission - Belgium |
| **Deficit** | **5.2%** | **5.2%** | **5.4%** | European Commission - Belgium |
| **Debt** | **107.9%** | **110.5%** | **112.8%** | European Commission - Belgium |

The Commission identifies **higher defense spending and an increase in financial burdens** as factors contributing to the projected deterioration. European Commission - Forecast for Belgium

The initial deadline for the correction of Belgium's Economic Development Plan (EDP), set at 2027, was subsequently revised to **2029** , with net expenditure growth caps of **3.6% in 2025, 2.5% in 2026, 2.5% in 2027, 2.1% in 2028 and 2.1% in 2029.** Council — Belgian Economic Development Plan

Finland: Rapidly rising debt and pressure on defense investments

In 2025, Finland's GDP amounted to **€280.570 billion** , while expenditure reached **57.5% of GDP** , revenue **54.1%** , the deficit **€9.613 billion, or 3.4%** , and public debt **€248.433 billion, or 88.5% of GDP** . Eurostat - Fiscal Account of Finland

Debt increased from **74.0% of GDP in 2022 to 77.0% in 2023, 82.4% in 2024, and 88.5% in 2025** , an unusually rapid increase in a short period of time. Eurostat - Finnish Debt Series


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## Finland - Budget forecast for 2025-2027

| Indicator | 2025 | 2026 | 2027 | Official source |
|---|---|---|---|---|
| **Growth** | **0.2%** | **0.8%** | **1.4%** | European Commission - Finland |
| **Unemployment** | **9.7%** | **10.1%** | **9.8%** | European Commission - Finland |
| **Deficit** | **3.4%** | **4.5%** | **4.6%** | European Commission - Finland |
| **Debt** | **88.5%** | **91.2%** | **93.1%** | European Commission - Finland |

The Commission specifically identifies a significant increase in **defense investment from 2026 onwards** , including major military purchases, in the face of weak economic growth and fiscal consolidation. European Commission - Forecast for Finland

The Council inaugurated Finland's Economic Development Plan (EDP) on **20 January 2026** , imposing cumulative net expenditure growth caps of **2.5% in 2026, 4.1% in 2027 and 5.9% in 2028.** Council — Finland's Economic Development Plan

## Hungary: Fiscal situation deteriorates again after partial correction.

In 2025, the general government income statement of Hungary recorded a GDP of **HUF 87,046 billion** , an expenditure of **47.3%** , a revenue of **42.6%** , a deficit of **HUF 4,059 billion, or 4.7% of GDP** , and a debt of **HUF 64,912 billion, or 74.6% of GDP** . (Eurostat - Fiscal Account of Hungary)

Hungary - current forecast

| Indicator | 2025 | 2026 | 2027 | Official source |
|---|---|---|---|---|
| **GDP growth** | **0.5%** | **1.8%** | **2.1%** | European Commission - Hungary |
| **Inflation** | **4.4%** | **3.2%** | **3.1%** | European Commission - Hungary |
| **Deficit** | **4.7%** | **6.2%** | **5.8%** | European Commission - Hungary |
| **Debt** | **74.6%** | **75.1%** | **76.8%** | European Commission - Hungary |

The Commission attributes the projected increase in the deficit to **deficit-increasing measures introduced between late 2025 and early 2026. European** Commission - Forecast for Hungary

Hungary's Economic Development Plan (PES) needs adjustments by **2026** , with net expenditure growth limited to **4.3% in 2025 and 4.0% in 2026.** Council - PES Hungary

## Slovakia: Consolidation hampered by weak domestic demand.

In 2025, Slovakia recorded **a GDP of EUR 136.754 billion** , an expenditure ratio of **47.9%** , a revenue ratio of **43.5%** , a deficit of **EUR 6.086 billion, or 4.5%** of GDP, and a public debt of **EUR 83.957 billion, or 61.4% of GDP.** (Eurostat - Fiscal Account of Slovakia)


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The Commission forecasts growth of just **0.8% in 2026 and 1.5% in 2027** , with deficits of **4.6% and 5.4%** , as fiscal consolidation dampens domestic demand and EU resources support investment. European Commission - Forecast for Slovakia

## Slovakia — fiscal budget

| Indicator | 2025 | 2026 | 2027 | Official source |
|---|---|---|---|---|
| **Growth** | **0.8%** | **0.8%** | **1.5%** | European Commission - Slovakia |
| **Inflation** | **4.2%** | **4.3%** | **3.2%** | European Commission - Slovakia |
| **Deficit** | **4.5%** | **4.6%** | **5.4%** | European Commission - Slovakia |
| **2025 debt** | **61.4% of GDP** | Ascending trajectory | Ascending trajectory | Eurostat - Slovakia's Debt |

The Economic Development Plan (EDP) projects nominal net expenditure growth of no more than **3.8% in 2025, 0.9% in 2026 and 1.6% in 2027.** Council - Economic Development Plan of Slovakia

Bulgaria: Low inherited debt but rapidly deteriorating fiscal situation.

In 2025, Bulgaria's GDP reached **€116.018 billion** , with expenditure accounting **for 41.7% of GDP** , revenue accounting **for 38.1%** , the deficit accounting **for €4.113 billion, or 3.5%** , and debt accounting **for €34.635 billion, or 29.9% of GDP** . Eurostat - Fiscal Account of Bulgaria

The debt-to-GDP ratio was only **23.8% in 2024** , meaning that the increase to 29.9% in 2025 was substantial, although the absolute level of debt remains relatively limited. Eurostat - Bulgarian Debt Series


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## Bulgaria - fiscal outlook

| Indicator | 2025 | 2026 | 2027 | Official source |
|---|---|---|---|---|
| **GDP growth** | **3.1%** | **2.5%** | **2.2%** | European Commission - Bulgaria |
| **Inflation** | **3.5%** | **4.2%** | **2.6%** | European Commission - Bulgaria |
| **Deficit** | **3.5%** | **4.1%** | **4.3%** | European Commission - Bulgaria |
| **Debt** | **29.9%** | **32.3%** | **35.5%** | European Commission - Bulgaria |

The Commission attributes the expected deterioration in particular to **social spending and public sector wages** . European Commission - Forecast for Bulgaria

The Council launched an Economic Development Plan (EDP) on **10 July 2026** , which requires Bulgaria to submit corrective measures by 15 October 2026 and limits cumulative net expenditure growth to 4.2% in 2026, 7.7% in 2027, **11.4% in 2028 and 15.0% in 2029.** Council — EDP Bulgaria

Malta - post-EDP tax situation

Malta recorded **a GDP of €24.577 billion in 2025** , an expenditure ratio of **37.0%** , a revenue ratio of **34.8%** , a deficit of **€545 million, or 2.2% of GDP** , and a public debt of **€11.397 billion, or 46.4% of GDP.** Eurostat - Fiscal Account of Malta

## Malta — post-correction baseline

| Indicator | 2025 | 2026 | 2027 | Official source |
|---|---|---|---|---|
| **GDP growth** | **4.0%** | **3.7%** | **3.6%** | European Commission — Malta |
| **Inflation** | **2.4%** | **2.7%** | **2.3%** | European Commission — Malta |
| **Deficit** | **2.2%** | **2.2%** | **2.1%** | European Commission — Malta |
| **Debt** | **46.4%** | approximately stable | approximately stable | European Commission — Malta |

The Council formally closed Malta's Economic Development Programme (EDP) on **12 June 2026,** after concluding that the deficit had been **successfully and sustainably reduced to below 3% of GDP** . Council - Closure of Malta's EDP, 12 June 2026

The Maltese case is institutionally significant because it demonstrates that the repeal of the EDP does not simply depend on compliance with a single figure below 3%, but also on the Council's acceptance that the correction is lasting.


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## United Kingdom: A different tax architecture outside the EU framework

The UK cannot be mechanically brought into the European Development Fund (EDF) legal framework because its internal fiscal oversight is organised through the **Office for Budget Responsibility, HM Treasury tax rules and ONS public sector financial statistics,** rather than through the EU Stability and Growth Pact.

**In the first three months of the 2026/27 financial year, to June 2026,** the ONS recorded public sector net borrowing of £57.6 billion, equivalent to 1.9 **% of GDP for that period** ; central government revenue in the same quarter amounted to **£266.8 billion** , while central government expenditure reached **£332.2 billion** . (Office for National Statistics - Public Sector Finances, UK: June 2026)

At the end of June 2026, the ONS estimated **public sector net debt, excluding public banks, at £2,989.9 billion, or 94.9% of GDP** , while the broader measure of public sector net financial liabilities stood at **£2,662.5 billion, or 84.5% of GDP** . (ONS - Public Sector Finances, June 2026)


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## United Kingdom - current public finance indicators

| Indicator | Last value checked | Reference period | Official source |
|---|---|---|---|
| **Public sector net borrowing** | **16 billion pounds** | June 2026 | ONS — Public Finances for June 2026 |
| **Loans from FY to June** | **57.6 billion pounds** | April-June 2026 | ONS — Public Finances for June 2026 |
| **Central government revenue from fiscal year to June** | **266.8 billion pounds** | April-June 2026 | ONS — Public Finances for June 2026 |
| **Central government spending from fiscal year to June** | **£332.2 billion** | April-June 2026 | ONS — Public Finances for June 2026 |
| **Interest on central government debt** | **£11.8 billion** | Only June 2026 | ONS — Public Finances for June 2026 |
| **public sector net debt** | **£2.9899 tn** | End of June 2026 | ONS — Public Finances for June 2026 |
| **Net debt/GDP** | **94.9%** | End of June 2026 | ONS — Public Finances for June 2026 |
| **Net financial liabilities** | **£2.6625 trillion / 84.5% of GDP** | End of June 2026 | ONS — Public Finances for June 2026 |

The June data also illustrate the particular sensitivity of UK public finances to inflation-linked debt: central government interest expenditure, at **£11.8 billion in June 2026,** was £5.3 billion lower than the previous year, primarily because fluctuations in the retail price index affect indexed government bonds. (ONS - Public Finances June 2026)

The UK's fiscal framework therefore requires a different budgetary and interest rate analysis than the EU's EDP framework; a subsequent assessment should not equate a breach of the UK's fiscal rules with a finding of an excessive deficit in the EU, as the legal institutions, fiscal aggregates and enforcement systems are different.


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## Sovereign Fiscal Map: Accounting Positions Verified by 2025

The following table is not a ranking and should not be interpreted as such; it provides a **single checklist of tax identities used in individual files** , using the same Eurostat April 2026 release for EU Member States and thus avoiding the mixing of different national statistical dates.

| State | Revenue % of GDP | Spending % of GDP | Balance % of GDP | Debt as a percentage of GDP | EDP status as of September 23, 2026 | Official sources |
|---|---|---|---|---|---|---|
| **France** | 52.1 | 57.2 | −5.1 | 115.6 | Open; correction by 2029 | Eurostat Council |
| **Germany** | 47.9 | 50.5 | -2.7 | 63.5 | No EDP based on active deficit | Eurostat Council |
| **Spain** | 42.9 | 45.3 | -2.4 | 100.7 | No EDP based on active deficit | Eurostat |
| **Austria** | 51.0 | 55.2 | -4.2 | 81.5 | Open; correction by 2028 | Eurostat Council |
| **Sweden** | 48.6 | 49.9 | -1.3 | 35.1 | No EDP based on active deficit | Eurostat |
| **Poland** | 43.6 | 50.9 | -7.3 | 59.7 | Open; correction by 2028 | Eurostat Council |
| **Romania** | 35.4 | 43.3 | -7.9 | 59.3 | Open; correction by 2030 | Eurostat Council |
| **Belgium** | 49.0 | 54.2 | −5.2 | 107.9 | Open; correction by 2029 | Eurostat Council |
| **Finland** | 54.1 | 57.5 | -3.4 | 88.5 | Open | Eurostat Council |
| **Hungary** | 42.6 | 47.3 | -4.7 | 74.6 | Open; correction by 2026 | Eurostat Council |
| **Slovakia** | 43.5 | 47.9 | -4.5 | 61.4 | Open | Eurostat Council |
| **Bulgaria** | 38.1 | 41.7 | -3.5 | 29.9 | Open from July 2026 | Eurostat Council |
| **Malta** | 34.8 | 37.0 | -2.2 | 46.4 | Closed June 12, 2026 | Eurostat Council |

Tax pressure mechanisms identified by official documents

The sovereign documents reveal several distinct mechanisms that must remain analytically separate.


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## pressure on revenue capacity

**The ratio of public revenue to total government revenue (35.4%)** in Romania, **38.1%** in Bulgaria, **43.6% in Poland, and 52.1%** in France does not simply represent different tax rates, but rather different overall structures of public revenue, which include taxes, social contributions, property income, and other income accounted for according to the principles of the European System of Joint Stock Companies (EJSC). Eurostat - Public Revenue 2025

Consequently, the fiscal adjustment needed to close an identical deficit cannot be assumed to have the same economic impact in all countries: the political choice between spending containment, fiscal measures, and stronger nominal growth depends on the underlying national revenue system.

## pressure on defense spending

The Commission explicitly identifies defense spending as a major driver of fiscal stimulus in **Germany, Belgium, Sweden, Finland, and Poland** . The strength of this mechanism varies across countries, as Germany is expanding investment from a relatively moderate debt-to-GDP ratio, Finland is entering a period of rapidly rising debt, Poland is simultaneously financing large defense commitments and running a sizable deficit, and Sweden is expanding its investment from a much lower debt base. European Commission - Germany Belgium Sweden Finland Poland

## pressure on interest costs

The Commission explicitly identifies rising interest payments as a fiscal burden in Belgium, while UK ONS data demonstrates a distinct mechanism created by a large stock of inflation-linked government bonds, where monthly debt service expenditure can vary significantly based on indexation to the Consumer Price Index (CPI). European Commission — Belgium ONS — UK Public Sector Finances

## Growth Denominator Pressure

The debt-to-GDP ratio depends not only on indebtedness, but also on nominal GDP. Spain's debt-to-GDP ratio has continued to decline despite a nominal debt stock exceeding €1.69 trillion, as economic growth and the denominator have partially absorbed new loans. Meanwhile, Finland's weak production performance, combined with persistent deficits, is producing an opposite trend in the debt-to-GDP ratio. Eurostat - Debt data for Spain and Finland European Commission - Spain Finland

## Key judgments

Official data for 2025 establish that the fiscal pressures weighing on European governments arise from **different combinations of spending, revenue, debt service**


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**obligations and economic growth** , rather than from a single continental fiscal condition.

France and Belgium enter the forecast period with high expenditure ratios, high debt, and persistently large deficits; Germany is moving toward fiscal expansion following a change in domestic constitutional policy; Spain operates with a declining debt-to-GDP ratio, supported by relatively strong growth; Austria remains in a correction phase with still-rising debt; Sweden is deliberately increasing spending from a much lower sovereign debt base; Poland combines strong real growth with very high defense spending and public investment; Romania combines a very high fiscal deficit with a significantly lower general revenue-to-GDP ratio; Finland faces weak growth, accelerating debt, and rising defense investment; and the United Kingdom operates under a different fiscal architecture in which inflation-linked debt creates an additional and significant channel for interest cost volatility.

These findings **do not** establish that one national fiscal policy is superior to another, since sovereign data differ in terms of initial debt, demographic liabilities, tax systems, security requirements, economic cycles, currency regimes, and institutional rules. What they do establish is the factual basis necessary for the next analytical step: examining whether European fiscal surveillance has treated substantially different national situations according to the same legal and methodological framework.


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## What would change the rating?

The **Eurostat EDP notification of 21 October 2026** represents the next important statistical event, as it will update the harmonised national accounts used in this chapter and may revise the deficit, debt, revenue and expenditure series for 2025. Eurostat — EDP publication calendar

The Commission's next economic forecast will adjust future fiscal trajectories if revised growth, energy prices, defense spending, interest costs, or national budget measures differ substantially from the assumptions used on **21 May 2026. European** Commission — Economic Forecast

Any finding by the Council that a State **has not taken effective measures** , any revision of an EDP correction path, any activation of fiscal safeguard clauses or any closure of a procedure would change the institutional status recorded here and must therefore be incorporated based on the date of the decision, rather than backdated in the 2025 statistical record.

## Open public register

The next phase of the dossier involves the collection, country by country, of **national budget laws, medium-term stability or budget plans, debt management reports, tax revenue accounts, pension expenditures, healthcare expenditures, defense appropriations, and sovereign interest cost projections** for those states where these variables are relevant to the assessment of institutional coherence.

These data should be used in the next chapter not to draw up a political ranking, but rather to answer the more complex question left open by the harmonized Eurostat and Commission data: **namely, whether the same European fiscal rules have produced institutionally consistent treatment when applied to sovereign systems with substantially different debt structures, spending obligations, security burdens, and adjustment capacities.**


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# Institutional coherence and the question of political pressure

## Main judgment

The documentation reviewed up to **23 September 2026** establishes a system in which the legal mechanism triggering deficit-based excessive deficit procedures, the statistical methodology used to measure the deficit and public debt, the formal mechanisms for assessing the effectiveness of the actions taken, and the requirement that the correction be durable are defined by common EU legislation and have been applied to governments of different political composition, fiscal structure, and debt position. **No official statistical reservation, Eurostat modification, finding of data manipulation, finding of discriminatory treatment by the Commission, or Council document establishing deliberate institutional pressure on the Italian government has been identified in this documentation** .

This conclusion **does not** establish that political pressure is impossible, nor does it exempt any decision by the Commission, the Council, Eurostat, or national statistical bodies from scrutiny, since political pressure is a matter of motivation and conduct rather than a fiscal relationship. Proof of this would require documentation attesting to selective methodological treatment, deviation from common rules, inconsistent procedural thresholds, interference with statistical production, selective denial of flexibility, unfair treatment in assessments of the effectiveness of actions, or communications demonstrating an intention to use tax governance for political purposes.

The available official documentation, however, provides several directly verifiable observations. Italy's EDP procedure was initiated on **26 July 2024,** as part of the same Council process that simultaneously initiated procedures against **Belgium, France, Hungary, Malta, Poland, and Slovakia** , while Romania's existing procedure remained open. Eurostat's first EDP notification for 2026 subsequently stated that **it had no reservations regarding the data reported by any Member State and had not made any changes to the reported data** , which is particularly significant because reservations and changes are precisely the formal tools Eurostat uses when it has doubts about the quality or methodological conformity of national EDP statistics.

The Italian procedure **was also not intensified** following the assessment of the effectiveness of the measures adopted by the Commission on 3 June 2026; the Commission recorded that the Italian effective protection procedure had **been suspended** , meaning that the procedure remained legally open, but at that time it was not found that Italy had failed to adopt effective measures. Conversely, Romania was formally found by the Council in June 2025 **to have failed to adopt effective measures** , following which its corrective action was reviewed in July 2025.

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The documentary question is therefore narrower and more demanding than the political argument: **has Italy been subjected to fiscal-statistical treatment inconsistent with the rules and precedents applied elsewhere?** Based on current official data, specific differences in correction deadlines and permitted spending growth clearly exist, but these differences are explicitly incorporated into country-specific medium-term plans, fiscal trajectories, and Council recommendations, rather than presented as identical numerical obligations for all member states.

The consistency test: what would constitute unfair treatment?

A government-level audit cannot infer unfair treatment simply because two countries received different correction deadlines or different net spending limits, since the reformed fiscal framework is explicitly country-specific; the relevant criterion is whether states in substantially equivalent procedural circumstances were subject to **different legal standards, statistical definitions, or evidentiary thresholds without documented fiscal justification** .


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## Documentary tests for institutional coherence

| Test | A consistent treatment would require | Evidence of a possible inconsistency would require | verified institutional basis |
|---|---|---|---|
| **Statistical definition** | The principles of the 2010 Free Trade Agreement apply to all Member States. | A different definition of deficit, debt, sectoral scope or transaction timing applied selectively to Italy | Eurostat declares that it has exclusive competence on the statistical methodology relating to data on data processing products (EDP) and that it verifies their comparability. |
| **Data quality assessment** | Same tests for compliance, completeness, reliability, timeliness and consistency | Italy is subject to a unique quality standard, not imposed elsewhere. | Eurostat's quality assurance system applies common criteria and allows for reservations and changes. |
| **EDP Opening** | The deficit-based EDP opens when the conditions of the Treaty and secondary law are met. | Similar violation ignored for another state without any legal explanation | The Council initiated proceedings against seven States simultaneously in July 2024, and subsequently against Austria, Finland, and Bulgaria when the relevant conditions were met. |
| **Temperature correction** | Country-specific deadline justified by fiscal trajectory and medium-term plan | Different deadline, without any identifiable economic or procedural basis. | The Council says the recommendations contain country-specific paths, aligned with medium-term fiscal and structural plans. |
| **Evaluation of the effectiveness of actions** | The same legal test was applied to the implementation of the Council Recommendation. | Italy has tightened measures despite compliance efforts, while similar failures in other countries have been ignored. | Italy was held in suspense until June 2026; Romania was formally declared in default in June 2025. |
| **Closure** | The correction must be effective and long-lasting. | A country is allowed to exit with a temporary or non-lasting | Malta's EDP programme was closed in June 2026 only after the Council concluded that its deficit |


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| | | | |
|---|---|---|---|
| | | adjustment, while Italy is required to demonstrate durability. | had been successfully and sustainably reduced to below 3%. |
| **Statistical independence** | National statistical authorities independently decide on methods, timing and content. | Evidence that political authorities have given instructions or changed statistical methodology or publication | Regulation 223/2009 requires professional independence and prohibits national statisticians from accepting government positions. |
| **Tax flexibility** | Safeguard clause requests assessed under Article 26 criteria | A similar request was granted elsewhere, but rejected in Italy for non-legal reasons. | Activation of the National Defense Executive Committee (NEC) is a formal process specific to each country; activation cannot be automatically deducted from defense spending. |

The main methodological consequence is that **different results do not in themselves constitute evidence of inconsistent treatment** . Consistency concerns the rules and the decision-making process, while the results may legitimately differ because the relevant tax conditions are different.


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## Statistical governance: the strongest institutional protection against political interference

European statistical law is unusually explicit regarding political independence. Regulation (EC) No. 223/2009 defines **professional independence** as the requirement that statistics be developed, produced, and disseminated independently, including decisions regarding techniques, definitions, methodologies, sources, timing, and content, and that these activities remain free from pressure from political or interest groups or from Union or national authorities.

The Regulation goes further, in Article 5a: the heads of national statistical institutes have sole responsibility for decisions regarding the processes, methods, standards, procedures, content and timing of statistical publication, and are required to carry out their statistical functions independently, without seeking or receiving instructions from governments or other institutions.

This is directly relevant to the issue of political pressure on ISTAT. Public criticism by a prime minister or minister has political significance, but under current law, it does not in itself **constitute** evidence that statistical results have been manipulated; the relevant institutional criterion is whether the criticism resulted in instructions, interference with methodology, alterations to deadlines, pressure for dismissal inconsistent with professional standards, or other actions capable of compromising the legal independence of the statistical authority.


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## Guarantees of statistical independence relevant for Italy

| Safeguard | Legal requirement | Evidentiary implications supporting the political pressure hypothesis | Official authority |
|---|---|---|---|
| **Professional independence** | Statistics must be produced without political or governmental pressure. | Political criticism alone is not sufficient to establish statistical interference. | Regulation 223/2009, Article 2. |
| **Methodological autonomy** | The NSI Manager has sole responsibility for statistical methods and procedures. | Evidence that a government dictated the methodology would be highly relevant | Regulation 223/2009, Article 5a. |
| **Publishing autonomy** | The NSI manager controls the timing and content of statistical publications. | Government intervention in the timing or content of publication would constitute a significant governance issue. | Regulation 223/2009, Article 5a. |
| **Impartiality** | Users must receive statistically neutral treatment | A selective presentation aimed at favoring or disadvantaging a political actor would be in conflict with the guiding principle. | Regulation 223/2009, Article 2. |
| **Objectivity** | Statistics must be systematic, reliable, impartial and transparent. | Any accusation of bias must therefore be verified in light of the methodology and source documentation. | Regulation 223/2009, Article 2. |
| **Methodological supervision of Eurostat** | Eurostat has exclusive competence on the EDP statistical methodology | Significant national deviations can be challenged through the European verification system. | Eurostat data quality framework. |

The regulatory framework therefore provides a concrete evidentiary standard: a serious accusation of institutional pressure on ISTAT should ultimately be able to identify **a decision, communication, methodological deviation, intervention in appointment, or interference in publication** that is incompatible with such protections.


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## What Eurostat actually found in April 2026

The first harmonized notification of the European Distribution Programme (EDP) for 2026 is particularly important because Eurostat has not only published Member States' data, but has also explicitly disclosed its own qualitative situation.

**On 22 April 2026,** Eurostat declared that it had **"no reservations on the data reported by Member States"** and that **it had not made any changes to the data reported by Member States** .

Under Article 15 of Regulation 479/2009, Eurostat expresses a reservation when it has doubts about the quality of the reported data and may correct the actual data if evidence shows that national reports do not meet the requirements of accounting compliance, completeness, reliability, timeliness or consistency.

### April 2026 EDP Quality Control Results

| quality control tool | Eurostat result | Meaning for Italy | Institutional meaning |
|---|---|---|---|
| **Formal reservation** | None for Member States | The data notified by Italy have not been formally qualified by Eurostat | No documented and unresolved quality objections from Eurostat in relation to this notification. |
| **Eurostat amendment** | Nobody | Eurostat has not replaced data on the Italian deficit or debt. | No statistical changes are documented in the April notification. |
| **Common Accounting Principles** | ESA 2010 | The Italian data were published within the same accounting system as other EU member states. | Common statistical framework. |
| **Next regular notification** | October 21, 2026 | The September ISTAT revisions enter a subsequent harmonization cycle. | The review is part of the EDP's regular statistical calendar. |

This does not demonstrate that any basic Italian statistical classification is above legitimate challenge, but it does establish that the **formal European statistical authority had not, at that point, identified an unresolved quality defect that required a reservation or modification** .


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## Revisions are not exclusive to Italy

A key factual question in the political debate is whether the repeated revisions of Italy's national accounts should themselves be considered anomalous.

Eurostat's April 2026 documentation records significant revisions between the October 2025 and April 2026 EDP notifications for several Member States, including revisions due to changes in the timing of provisioning, updated source data, and reclassification of transactions. Belgium's deficit history was revised in part due to a change in the timing applied to VAT refunds; Estonia's deficit data changed due to the timing applied to corporate income tax reporting; Ireland's reported surplus changed following updated source data and provisioning adjustments; and Greece's result changed following updated information from an extra-budgetary unit.

## Examples of routine audits of electronic data processing systems outside Italy

| State | Source of the review documented by Eurostat | Analytical implication | Official source |
|---|---|---|---|
| **Belgium** | Revised processing of VAT refund deadlines | Accrual conventions can substantially alter historical deficit data. | Eurostat revision note. |
| **Estonia** | Changes to the corporate income tax filing deadlines. | Tax series may vary due to changes in timing rules. | Eurostat revision note. |
| **Ireland** | Updated source data and accrual adjustments | New information may require revisions to previously published surplus data. | Eurostat revision note. |
| **Greece** | Data updated by an extra-budgetary government agency | Expanded or corrected source information changes the consolidated result | Eurostat revision note. |
| **Italy** | Revision of the national accounts for September 2026, incorporating updated information and methodological changes. | It should be assessed against the same audit and governance framework, rather than being deemed exceptional simply because the fiscal relationship is politically sensitive. | The October EDP notification will provide the next harmonized European vintage. |

The existence of an audit is therefore not in itself a diagnostic indicator of political pressure. The diagnostic question is whether **the methodological foundations of an Italian audit differ inappropriately from the auditing standards applied elsewhere** .

EDP Opening: The legal mechanism has been applied to all governments.

On **26 July 2024** , the Council adopted decisions establishing excessive deficits for **Belgium, France, Hungary, Italy, Malta, Poland and Slovakia** , while keeping Romania under the existing procedure as it had not taken effective corrective action.


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The decisions involved governments with a wide range of political affiliations. Therefore, the procedure itself cannot be characterized, based on this first round, as having been created or used exclusively against the Italian government.

### July 2024 Opening Group

| State | Deficits underlying the Council's action | Procedural decision | Deadline for next correction | Official source |
|---|---|---|---|---|
| **Belgium** | 4.4% of GDP in 2023 | EDP was inaugurated on July 26, 2024. | Initially scheduled for 2027; later revised to 2029. | Council EDP Register. |
| **France** | 5.5% | EDP was inaugurated on July 26, 2024. | 2029 | Council EDP Register. |
| **Hungary** | 6.7% | EDP was inaugurated on July 26, 2024. | 2026 | Council EDP Register. |
| **Italy** | 7.4% | EDP was inaugurated on July 26, 2024. | 2026 | Council EDP Register. |
| **Malta** | Deficit higher than Treaty reference | EDP inaugurated in July 2024 | Originally scheduled for 2027; closed June 2026. | Chronology of the Council. |
| **Poland** | 5.1% | EDP was inaugurated on July 26, 2024. | 2028 | Council EDP Register. |
| **Slovakia** | 4.9% | EDP was inaugurated on July 26, 2024. | 2027 | Council EDP Register. |
| **Romania** | EDP existing since 2020 | The procedure remained open | Revised in 2030 | Council EDP Register. |

The initial phase therefore provides no documentary evidence that Italy was chosen as the only entity to be included in the corrective arm, while states that met the same procedural conditions were systematically excluded.

## The framework includes several deadlines for corrections.

The strongest superficial argument for unfair treatment is that Italy was required to end its excessive deficit by **2026** , while France was given until 2029, Poland until 2028, and

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Romania until 2030. The official Council minutes confirm these differences, but also explicitly state that each recommendation contains a **country-specific corrective fiscal path and deadline in line with the objectives contained in the member state's medium-term fiscal-structural plan** .

Consequently, deadlines cannot be considered as sanctions of varying severity without examining the underlying expected tax trajectory.

## Correction horizons adopted in January 2025

| State | Deadline for correction by the Council | Net spending cap for 2025 | Subsequently, maximum limit/annual path | Official source |
|---|---|---|---|---|
| **Italy** | 2026 | 1.3% | 1.6% in 2026 | Council Recommendation. |
| **France** | 2029 | 0.8% | 1.2% in the period 2026-2028; 1.1% in 2029 | Council Recommendation. |
| **Poland** | 2028 | 6.3% | 4.4%, 4.0%, 3.5% by 2028 | Council Recommendation. |
| **Slovakia** | 2027 | 3.8% | 0.9% in 2026; 1.6% in 2027 | Council Recommendation. |
| **Malta** | Initial recommendation for 2027 | 6.0% | 5.8% in 2026 and 2027 | Council Recommendation. |
| **Romania** | 2030 | 5.1% below the January recommendation | The multi-year plan was subsequently revised after the ineffectiveness of the actions undertaken was noted. | January Council recommendation and subsequent review. |

The data demonstrate why a deadline cannot be interpreted independently of the permitted spending path. France obtained a much longer correction horizon, but also an exceptionally restrictive net spending growth ceiling of **0.8% in 2025** , while Italy's ceiling for 2025 was **1.3%** . Poland's much higher permitted nominal spending growth reflects a different trajectory of nominal growth, inflation, and fiscal policy, rather than the absence of an equitable spending plan.

The documented structure therefore supports the conclusion that the frame of reference is **differentiated** , but differentiation does not equate to discrimination.

## Belgium shows that deadlines can be revised

Belgium is particularly relevant for the consistency check because the deadline for correction has changed since the initial recommendation.

The Council had initially required Belgium to end its excessive deficit by **2027** , with nominal net expenditure growth limited to **2.4% in 2025, 1.9% in 2026 and 2.0% in 2027.**

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In June 2025, the Council adopted a revised recommendation extending the deadline to **2029** and revising the expenditure path to **3.6% in 2025, 2.5% in 2026, 2.5% in 2027, 2.1% in 2028 and 2.1% in 2029** .

This establishes that the deadlines for corrections are not immutable and can be modified through formal procedures if the basic plan and institutional assessment change.

## Procedural review of Belgium

| Decision-making phase | Expiration | net spending path | Institutional observation | Source |
|---|---|---|---|---|
| **Recommendation of January 2025** | **2027** | 2.4%, 1.9%, 2.0% | Initial corrective trajectory | Advise. |
| **Revised Recommendation of June 2025** | **2029** | 3.6%, 2.5%, 2.5%, 2.1%, 2.1% | Formal review of the correction path | Council EDP Register. |

Regarding the hypothesis of Italian political pressure, Belgium raises a specific data collection question: whether Italy requested or obtained an equivalent revision of its corrective horizon and, if so, how the Commission and Council responded. In the absence of such a documentary sequence, the mere existence of Belgium's revised timetable is not sufficient to demonstrate unequal treatment.


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## Effective implementation of measures: Italy and Romania followed different procedural paths.

The treatment of Italy in June 2026 and Romania in June-July 2025 represents one of the most useful tests to verify whether the corrective arm is able to distinguish between compliance and non-compliance.

With regard to Italy, the Commission's assessment **of 3 June 2026** found that the excessive deficit procedure had **been suspended** following an assessment of the effectiveness of the measures taken.

Regarding Romania, the Council formally concluded on **20 June 2025** that the country **had not taken effective measures** in response to previous recommendations and on 8 July 2025 revised the corrective path, requiring the adoption of measures by 15 October 2025 and establishing a new timeframe extending until 2030.

### Effective treatment

| State | Official rating | Procedural consequence | What it establishes | Source |
|---|---|---|---|---|
| **Italy** | Effective actions taken were recognized in the June 2026 evaluation. | EDP suspended | The procedure remained open without further developments. | Commission. |
| **Romania** | In June 2025, the Council found no effective action. | Corrective action plan revised and further action requested. | Non-compliance resulted in documented escalation | Advise. |
| **Malta** | The correction was deemed effective and long-lasting. | EDP repealed in June 2026 | Successful fix resulted in closure | Advise. |

This sequence of three cases shows three distinct branches of the system operating in official documents: **continuous surveillance without escalation, escalation following insufficient action, and termination following a lasting correction** .


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## Malta offers the clearest test of the closure standard

The Council closed Malta's Economic Development Programme (EDP) on **12 June 2026** , explicitly stating that the decision was justified as Malta's general government deficit had been **successfully and sustainably reduced to below 3% of GDP** .

The standard therefore contains two elements: the numerical deficit criterion and durability.

### Document Closure Test

| Element | Malta | Italy as of September 23, 2026 | Evidentiary consequence |
|---|---|---|---|
| **Actual deficit less than 3%** | Satisfied | The most recent national result for 2025 remained at 3.1%. | Conditions not yet identical |
| **The correction was deemed to be long-lasting** | The Council concluded yes | Not yet formally established for closure in Italy | Requires a prospective tax assessment |
| **Formal action by the Council** | EDP repealed | No decision to repeal | The procedure remains legally open |
| **Register of effective actions** | Consistent with the closure | Italy is in a stalemate | Different procedural phase |

This means that Malta provides **no** evidence that Italy was denied exit under identical conditions, as the two countries were not at the same documented procedural stage on the relevant dates.


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## Austria and Finland demonstrate a later entry into surveillance

### The Council did not limit the opening of the EDP to the July 2024 group only.

Austria started the procedure on **8 July 2025,** after recording a **deficit of 4.7% in 2024** , with a correction obligation by 2028 and net expenditure limits of 2.6% in 2025 and 2.2% in both 2026 and 2027, before reaching 2.0% in 2028.

Finland initiated the procedure on **20 January 2026** following a deficit of 4.4% in 2024 and a projected deficit of 4.3% for 2025, with the Council requiring corrective measures to be taken by 30 April 2026.

Bulgaria was then placed on an Economic Development Programme (EDP) on **10 July 2026,** as its deficit was expected to stand at 4.1% in 2026 and remain above 3% in 2027.

These subsequent decisions are significant because they demonstrate that the procedure continued to be applied even in the presence of new eligible tax situations that emerged after the opening of the Italian European Tax Shelter Programme (TEP).

The debt criterion is not applied through an automatic mechanism that triggers a 60% threshold.

Another potential source of confusion concerns the **60% debt reference value** . Several EU member states with debt significantly above 60% are not eligible for debt-based debt protection schemes, including those whose deficits have remained below the trigger threshold.

The Council explains that under the reformed framework, highly indebted countries that comply with the Council's net expenditure paths and that put their debt on a plausibly declining trajectory **are not automatically placed in an excessive deficit procedure simply because their current debt exceeds 60%** ; compliance is assessed through the expenditure path and the debt sustainability framework.

This distinction is directly relevant for Italy. Italy's high debt-to-GDP ratio significantly impacts the required medium-term adjustment, but the fact that countries like Spain can remain outside of a deficit-based economic development plan, despite a debt ratio exceeding 60%, does not in itself constitute an exception granted to these countries: the deficit arm and the debt sustainability arm operate according to different legal criteria.

Defense Flexibility: Differentiation is inherent in the requests and eligibility criteria.

The National Defense Safeguard Clause introduces another area where a superficial comparison can be misleading. Its activation is not automatic and does not apply equally to all states simply because defense spending is increasing.


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A consistency test must therefore ask the following questions:

| Request | Required documentation |
|---|---|
| **Has Italy submitted a formal request for activation?** | Documentation submitted by the Italian Government and minutes of the Commission/Council |
| **Have other states submitted requests?** | National requests and Council decisions |
| **Have the eligibility conditions set out in Article 26 been applied consistently?** | Commission recommendations and Council acts |
| **Were eligible defense costs calculated using the same methodology?** | Commission's methodological guide |
| **Have any Italian requests been rejected?** | Formal refusal and reasons |
| **Has another state, under substantially equivalent circumstances, obtained approval?** | Comparative register of decisions |

In the absence of a request rejected by Italy, the fact that other states have activated the clause cannot in itself demonstrate a discriminatory refusal.

Statistical reviews and political interpretation must remain separate.

One of the most important findings of this review is that **statistical revisions are a standard feature of the EDP system** , while the political interpretation of a revision is a separate activity.

Eurostat maintains country-specific EDP inventories describing the sources, methods and procedures used to compile government deficit and debt statistics, and each Member State is required, under Article 9 of Regulation 479/2009, to maintain such an inventory.

These inventories create an additional documentary channel for verifying the Italian case: if the treatment of a transaction, a sector boundary, a tax credit, an accrual adjustment, or a public entity differs between Italy and another country, the relevant issue can be investigated directly through the national EDP inventories and Eurostat's methodological decisions, rather than through political commentary.

Verification of the political pressure proposal

The thesis that the Meloni government was subjected to deliberate pressure can be broken down into several distinct hypotheses, each of which requires a different type of proof.

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## Evidence matrix

| Proposal | Evidence to support this | Evidence currently identified in official records | Current status of documentation |
|---|---|---|---|
| **ISTAT was politically induced to worsen Italy's fiscal performance.** | Government, EU, or third-party instructions that impact methodology, sources, timing, or publication. | No official records of this kind were found in the sources examined; European law expressly protects statistical independence. | Not established |
| **Eurostat has selectively modified the Italian data** | The formal amendment was applied selectively, without an equivalent methodological basis. | Eurostat notifications for April 2026 do not report any changes to Member States' data. | Not supported by April notification |
| **Eurostat has formally questioned Italy's EDP data.** | Reservations to Italy | The April notification does not contain any reservations regarding Member States' data. | Not supported by April notification |
| **Italy was placed under EDP while equivalent states were exempted** | States that meet the deficit-equivalent conditions but have been denied an economic development program without legal basis | In July 2024, proceedings were initiated simultaneously against seven countries; Austria, Finland, and Bulgaria were later added. | Not established by the opening decisions |
| **Italy has been given an exceptionally punitive correction deadline** | Evidence that the same tax trajectory elsewhere has generated materially more favorable treatment without documented justification | The deadlines for corrections vary widely, and the Council says they are aligned with each country's specific plans. | This requires a more in-depth analysis of the cases; it is not sufficient to establish correspondence based solely on the difference in expiration dates. |
| **Italy has suffered an escalation despite effective actions** | The Commission/Council notes that the procedure has been intensified despite compliance. | The June 2026 evaluation suspended Italy's European Development Plan (EDP). | Contradicted by current procedural documents |


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| | | | |
|---|---|---|---|
| **Italy was denied the closure of the EDP under the conditions accepted elsewhere.** | Another state came out with the same deficit/duration situation | Malta left the Council only after the latter deemed the correction effective and lasting; Italy had not yet reached the same formal stage. | Not established |
| **Defense flexibility has been selectively denied** | Italian application rejected under the same conditions as accepted applications. | No such refusal was found in the official documentation examined. | Not established |
| **The political criticisms leveled at ISTAT itself demonstrate the presence of statistical distortions.** | Political statements only | Statistical independence rules require methodological evidence, not inferences from criticism. | Insufficient evidence |

The evidentiary nature of the evidence should therefore be deliberately kept distinct. Several hypotheses **have not been established** , one is directly inconsistent with the current documentation regarding the actions actually taken, and others remain legitimate evidence-gathering issues requiring specific documentation.

Italy's short-term correction horizon requires closer examination, but not presumption

Italy and Hungary have been given **2026** as the deadline for corrections, while the other states have been given later deadlines.

For Italy, a short correction horizon could plausibly reflect the fact that the fiscal trajectory presented at the time already envisaged a rapid decline below 3%; in other words, a government planning an early correction may obtain a shorter formal deadline because the Council recommendation follows the member state's own medium-term path.

In its January 2025 statement, the Council explicitly noted that the corrective paths were aligned with the objectives expressed in the Member States' medium-term fiscal-structural plans.

This is a crucial institutional point: a 2026 deadline may be **more stringent in terms of time** , but it may also reflect an official national forecast that the correction is achievable by that date. To determine whether Italy was forced to accept this path, it is necessary to examine the history of negotiations between the Ministry of Economy and Finance, the Commission, and the Council, and not to infer it from the deadline itself.

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The 2.94% issue requires special evidentiary discipline

The political controversy over whether Italy actually needed around **2.94%** rather than exactly 3.00% to get a value reported below the reference threshold is fundamentally a question of **statistical precision and rounding** , not of a change in the Treaty threshold.

The Treaty reference remains 3%. Any lower operational value, obtained by rounding, must therefore be presented as a statistical consequence of the precision required for a reported ratio of less than 3%, and not as an undisclosed alternative legal threshold.

The institutional consistency test is simple: the same rounding and precision convention must be applied to the EDP data of each country. Evidence of a specific convention for Italy would be crucial; in the absence of such evidence, the issue is one of statistical representation rather than a difference in law.

The political environment can be controversial even without demonstrating institutional manipulation.

The interaction between political authorities and independent statistical institutions can inherently generate institutional tensions. Regulation 223/2009 was designed precisely because governments have a strong political interest in statistical results, particularly those relating to GDP, inflation, unemployment, deficits, and debt.

The existence of public criticism of ISTAT by members of the Italian government is therefore relevant in the political context, but the direction of causality should not be reversed: **the government's dissatisfaction with an independent statistic does not demonstrate that such a statistic was produced against the government for political reasons** .

Likewise, ISTAT's legal independence does not mean that every technical decision is substantially correct. A classification can be challenged based on methodology, source quality, ESA interpretation, consistency with comparable transactions, and Eurostat case law.

The appropriate government response to contested statistics is therefore a review of **methodology and consistency** , not a presumption of infallibility or political manipulation.

## Procedural Treatment Matrix

The official cases examined allow us to map the functioning of the EDP without reducing it to a mere tax classification.

| Procedural condition | Documented case | EU response | Implication of coherence |
|---|---|---|---|


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| | | | |
|---|---|---|---|
| **An excessive deficit has been identified** | Italy, France, Belgium, Hungary, Malta, Poland, Slovakia in July 2024 | EDP open | The same procedural tool is applied to multiple states. |
| **Existing procedure with no correction** | Romania | The procedure was maintained and subsequently intensified after the ineffectiveness of the measures adopted was found. | Law enforcement mechanism demonstrably used. |
| **New excessive deficit after 2024** | Austria | EDP inaugurated in July 2025 | Surveillance continued even after the initial participant recruitment phase. |
| **New excessive deficit after 2025** | Finland | EDP will open in January 2026 | The trigger kept pulling. |
| **persistent violation expected** | Bulgaria | EDP inaugurated in July 2026 | Future-oriented perseverance can foster openness. |
| **Effective interventions even if the deficit has not yet been corrected.** | Italy | Procedure suspended | Compliance confirmed without premature closure. |
| **Long-lasting correction** | Malta | EDP closed in June 2026. | The locking mechanism is clearly present. |
| **Changed tax plan/circumstances** | Belgium | Revised recommendation and deadline | The regulatory path can be formally modified. |

The available procedural documentation therefore contains examples of **initiation, continuation, intensification, review, suspension, and closure** in several Member


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States, which is incompatible with a description of the system as one in which only Italy is subject to active enforcement of tax rules.

Where a real asymmetry could still exist

The lack of evidence of deliberate pressure at this stage does not end the investigation. A thorough consistency analysis should now go beyond the general procedural level and examine the methodological and specific decisions of the transaction.

**Potentially relevant areas include the treatment of tax credits** in national accounts, particularly the timing and classification of transferable credits for building renovation; public-private transactions; equity injections; government guarantees; securitizations; EU-funded investments; defense procurement; concession liabilities; pension obligations; and the treatment of publicly controlled entities located close to the general government perimeter.

The correct question in any case is not "was Italy treated harshly?" but:

**Was an economically equivalent transaction classified differently in another Member State? And, if so, was this difference justified by ESA rules or Eurostat methodological guidelines?**

This is the level at which a government-level claim of unfair statistical treatment becomes provable or falsifiable.


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## A second possible asymmetry lies in the forecasting assumptions

The EDP framework uses not only actual statistical data, but also Commission forecasts and debt sustainability projections. Consequently, the consistency of assumptions regarding potential growth, interest rates, inflation, output gaps, aging costs, fiscal multipliers, and projected primary balances must also be verified.

A systematic error in these assumptions could influence the adjustment required of a country, even if the accounting data themselves were perfectly accurate.

However, to demonstrate such bias, it is necessary to reconstruct the same forecasting methodology across all states and verify it ex post against the actual results achieved; differences in forecasts alone are not in themselves evidence of political pressure, since economic structures and political assumptions differ.

A third possible asymmetry lies in access to flexibility

Flexibility in defense and energy security could become a more politically sensitive issue than the 3% threshold itself, as differing national spending needs are increasingly influenced by security policies.

## A rigorous audit must therefore record for each state:

| Flexibility variable | Proof is required |
|---|---|
| **National request date** | Government/Commission Documentation |
| **Amount of the requested expense** | National Fiscal Plan |
| **Commission's assessment** | Recommendation or analytical document |
| **Council Decision** | Formal legal act |
| **Basic defense spending** | Harmonized definition |
| **Maximum deviation** | Amount or formula approved by the board |
| **Duration** | Legal activation period |
| **Impact on Net Spend Compliance** | Commission calculation |
| **Impact on ESA deficit** | Separate treatment of national accounts |
| **Impact on Maastricht debt** | Accounting treatment of debt |

Only after making such variables available can a charge of selective flexibility be rigorously assessed.


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## Overall assessment of institutional coherence

Currently, official data support five certain conclusions.

First of all, **the statistical architecture is formally common** : EDP data are governed by the ESA methodology, the quality requirements of Regulation 479/2009 and Eurostat verification, while the professional independence of the national statistical institutes is protected by Regulation 223/2009.

Second, **the corrective procedure has demonstrably been applied to several governments** , including Italy, France, Belgium, Hungary, Poland, Slovakia, Romania, Austria, Finland and Bulgaria at different times between 2020 and 2026.

Third, **according to current official documents, Italy has not been subjected to the most stringent procedural response available** : its assessment of the effectiveness of the measures adopted in June 2026 led to the suspension of the EDP procedure rather than its escalation, while Romania received a formal finding of ineffectiveness of the measures adopted.

Fourth, **Eurostat had neither reserved nor amended the Italian data in the April 2026 EDP harmonised notification** , as no reservations or amendments had been applied to the data sent by Member States in that notification.

Fifth, **there are indeed different, sometimes substantial, spending timelines and paths** , but the Council explicitly describes these paths as country-specific and linked to national medium-term fiscal-structural plans; consequently, such differences require an economic and procedural explanation before they can be considered evidence of political discrimination.

Evaluation of the proposal for deliberate pressure

On the basis of the official documentation currently verified, the hypothesis according to which the Meloni government is subjected to **deliberate fiscal or statistical pressure aimed at disadvantage it politically remains unproven** .

The evidence demonstrates political conflicts, stringent budget constraints, and significant institutional consequences resulting from statistical thresholds, but these facts do not amount to evidence of discriminatory intent.


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A more solid conclusion would require at least one of the following:

| Evidence capable of substantially changing the judgment | Why would it be important? |
|---|---|
| **A document showing policy instructions given to ISTAT or Eurostat regarding the Italian result** | Direct evidence of interference with statistical independence |
| **An Italy-specific ESA classification, inconsistent with an economically identical transaction conducted elsewhere.** | Evidence of methodological asymmetry |
| **A previously rejected Italian request for fiscal flexibility has been approved for another substantially equivalent state.** | Evidence potentially relevant to unequal application |
| **An internal/external Commission or Council document demonstrating how political, rather than fiscal, criteria influenced Italy's treatment.** | Direct evidence regarding the motive |
| **A formal reservation or modification by Eurostat applying a specific standard for Italy** | Evidence of a concrete statistical controversy |
| **A country with substantially equivalent deficits, debt trends, spending compliance, and forecast sustainability can exit an economic development plan, while Italy is denied access.** | Strong evidence that requires institutional explanation |
| **A systematic bias in forecasts against Italy has been demonstrated in repeated surveillance cycles.** | Evidence of asymmetric analytical treatment, if the methodology cannot explain it |

None of these categories should be inferred from journalistic characterizations, government criticisms, opposition statements, or the political implications of the tax data themselves.

What would change the rating?

The **Eurostat EDP notification of October 2026** will represent the first major test following the ISTAT revision in September, as Eurostat will have the option to accept the revised Italian version without reservations, or to issue a reservation, amend the data, or publish methodological information that could alter the current assessment. The previous April notification contained neither reservations nor amendments.

Any new publication of Eurostat methodological correspondence regarding the 2025 Italian deficit, the classification of tax credits, or the revision of GDP would substantially

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improve the evidentiary framework, as it would allow the statistical controversy to be assessed directly, rather than through political commentary.

The Commission's upcoming assessment of the effectiveness of the measures adopted will also be crucial. Moving from the June **suspension** to a formal finding of insufficient implementation would require examining the exact fiscal deviation underlying this change.

Similarly, any Italian request for flexibility in defense or energy security matters and its treatment should be examined in light of the treatment given to similar requests by other Member States.

Open public register

The following documents are still capable of substantially altering the assessment of institutional pressure and should therefore be considered priority targets for data collection:

**Methodological correspondence between ISTAT and Eurostat** regarding the September 2026 national accounts revisions, including any discussions on gross national income reserves, public sector classifications, tax credits, and deficit reconciliation.

**Eurostat Italian EDP reporting tables for October 2026 and additional notes** , including any methodological reservations, amendments or clarifications.

**Commission working material to support the assessment of Italy's actual actions for 2026** , in particular with regard to calculations of observed and projected net expenditure growth.

**The minutes of the negotiations regarding the 2026 deadline for the EPS (Economic Development Plan) and the seven-year medium-term adjustment horizon** , as they become public.

**Country-specific Commission documentation on the revised deadline for correcting deadlines in Belgium** , allowing for direct verification of the reasons for the extension of this deadline and whether similar mechanisms were available for Italy.

**National safeguard clause requests and Commission/Council decisions** on defense and energy security spending, including any future Italian requests.

**Eurostat EDP inventories and methodological advice** for economically comparable transactions in France, Germany, Spain, Belgium, and other relevant countries, particularly transactions that could impact the timing of the deficit or the scope of general government.


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The current documentation, therefore, warrants close scrutiny but not a predetermined conclusion: the European tax system is demonstrably differentiated, yet the currently verified evidence demonstrates **common statistical rules, multiple active data processing (DPC) systems, formal procedural ramifications based on compliance and duration, and no documented official findings that Italian data have been manipulated or that Italy has been subject to an exceptional statistical standard** .


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# Italy 2026–2030: Sustainability, Scenarios, and Final Institutional Assessment

## Main judgment

Italy enters the 2026-2030 period with a fiscal configuration in which the central risk is no longer simply whether the annual deficit exceeds the **3% of GDP reference value** , but whether a sequence of primary surpluses, nominal economic growth, and declining stock-flow adjustments proves robust enough to offset a rising interest burden due to the progressive refinancing of legacy debt, as the temporary investment boost provided by the Recovery and Resilience Fund fades and spending pressures from pensions, healthcare, defense, and population aging become progressively more evident.

The most recent, fully comparable, short-term institutional forecasts do not yet produce a unified forecast for the period 2026-2030. The Italian government's **2026 Programming Plan (DFP) currently projects a deficit of €68 billion in 2026, equal to 2.9% of GDP, a public debt of 138.6% of GDP and real GDP growth of 0.6% , while the European Commission's 21 May 2026** forecast points to real growth of **0.5% in 2026 and 0.6% in 2027** , a deficit of **2.9% in both years** and an increase in debt from 137.1% of GDP in 2025 to **138.5% in 2026 and 139.2% in 2027** .

The difference between the debt estimates for 2026, which are otherwise very similar, is not analytically significant; what matters is that **both official estimates show an increase in debt even when the deficit falls below 3%** , demonstrating that deficit correction and debt reduction are distinct phases of Italy's fiscal adjustment. The Commission attributes the increase to a debt-increasing interest rate differential and to significant adjustments in stock flows, particularly related to tax credits for building renovations, whose impact on the deficit was seen in previous years, but whose impact on liquidity continues to weigh on public debt.

The medium-term benchmark adopted before these new developments remains the **Italian 2024 Fiscal-Structural Plan** , which envisaged a debt reduction to **136.4% in 2028, 134.9% in 2029, and 133.9% in 2030** , accompanied by progressively stronger structural primary balances. These figures should now be considered a previous benchmark rather than a current forecast, as the Commission's 2026 baseline scenario already places the 2027 debt **1.7 percentage points above** the 137.5% assumed in that plan.

The resulting fiscal challenge for the period 2026-2030 is therefore quantifiable: Italy must transform the currently projected peak in its debt-to-GDP ratio into a sustained downward trajectory, while absorbing the end of the RRF's exceptional investment cycle, maintaining public investment, financing additional defense needs, managing a debt


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stock with a remaining maturity of approximately **7.9 years** , and containing spending pressures related to population aging, which are expected to intensify during the 2030s.

Current official forecasts do not indicate a reduction in debt starting in 2026.

The Italian government's Monetary Policy Development Plan (MPDP) for 2026 and the Commission's spring 2026 forecast agree on the main direction for the immediate future, although they differ slightly in their underlying assumptions: real growth remains weak, the overall deficit falls below 3%, and the debt-to-GDP ratio continues to rise.


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## Last verified short-term benchmark

| Indicator | Actual/latest statistical data from 2025 | Official government target for 2026 | Commission forecasts for 2026 | Commission forecasts for 2027 | Official source |
|---|---|---|---|---|---|
| **real GDP growth** | Subsequently revised by ISTAT to 0.6%. | 0.6% | 0.5% | 0.6% | Key indicators from the 2026 DFP and the Commission's spring forecast. |
| **Inflation** | — | — | 3.2% | 1.8% | European Commission. |
| **Unemployment** | — | — | 5.7% | 5.7% | European Commission. |
| **Balance between public administration and central government** | -3.1% of GDP | -2.9% | -2.9% | -2.9% | OpenBDAP / Commission. |
| **nominal deficit 2026** | — | 68 billion euros | — | — | State General Accounting Office, DFP 2026 macro indicators. |
| **Gross debt** | 137.1% of GDP according to Commission/Eurostat data | 138.6% | 138.5% | 139.2% | OpenBDAP / Commission. |
| **current account balance** | 1.2% of GDP | — | 0.5% | 0.6% | European Commission. |

The important point is not the 0.1 percentage point difference between the public debt estimates and the Commission's for 2026, but rather their shared conclusion that the debt-to-GDP ratio is still rising. A government can therefore meet the immediate Economic Development Plan (EDP) target of reducing the deficit below 3% while failing to reduce the debt-to-GDP ratio in the same year, because the debt stock responds to


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interest costs, nominal GDP growth, primary balances, and stock-flow adjustments, rather than solely to the overall deficit.

The Debt Equation: Four Variables Determine Whether the Ratio Decrease

For a government-level analysis, the medium-term debt trajectory can be traced back to four economic mechanisms: the stock of inherited debt; the effective cost of interest on that stock; nominal GDP growth; the primary budget balance; and, in accounting terms, the additional stock-flow adjustments that reconcile the deficit with the change in gross debt.

The Commission's assessment for 2026 identifies precisely this combination: primary surpluses reduce the debt-to-GDP ratio, but the effect is currently offset by an **unfavourable interest-growth differential and large stock-flow adjustments** , associated in particular with tax credits for housing renovation.


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## Debt-to-GDP transmission mechanism

| Variable | Effect of debt if it increases | Italy's relevance in the period 2026-2030 | Official tests |
|---|---|---|---|
| **Nominal GDP growth** | It typically reduces the debt-to-GDP ratio by widening the denominator | This is crucial because real growth, according to current short-term forecasts, is around 0.5-0.6%. | The Commission forecasts real growth of just 0.5% in 2026 and 0.6% in 2027. |
| **Actual interest burden** | The deficit and the accumulation of debt are increasing. | Rising as debt exchange rates and inflation-linked securities react to inflation | The Commission expects interest expenditure to increase by 0.3% of GDP in 2026, driven by higher yields, particularly on inflation-linked bonds. |
| **primary surplus** | Reduces borrowing needs and debt | It must strengthen sufficiently to dominate the effects of interest rate growth and the SFA | The Ministry of Economy and Finance's previous medium-term plan envisaged a progressive increase in primary surpluses. |
| **Stock flow adjustment** | It can take on debt regardless of the current deficit | This is an important short-term factor for Italy, as the cash flow effects of the tax credit continue even after the deficit is recognized. | The Commission explicitly identifies housing tax credits as a major factor in increasing debt. |
| **Treasury liquidity and financial transactions** | It is possible to increase or decrease gross debt without an identical movement in the deficit. | Material for the annual debt reconciliation | The Bank of Italy has identified the Treasury's liquidity accumulation and valuation factors as significant components of the debt increase expected for 2025. |

This breakdown is also why the fiscal debate becomes substantially more challenging after the EDP correction: once the annual deficit falls below 3%, the decisive question becomes whether the combination of primary balance and nominal growth is strong enough to overcome financing costs and residual effects on stock flows.

After 2026, interest expenses will become a more significant constraint.

The Commission projects that interest expenditure in Italy will increase by around **0.3 percentage points of GDP in 2026** , with higher yields and inflation-linked bonds specifically identified as contributing factors.


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The pass-through of higher market yields occurs gradually rather than instantly, as Italy does not refinance its public debt, which exceeds €3 trillion, in a single year. The Bank of Italy has calculated an **average residual maturity of 7.9 years at the end of 2025** , essentially unchanged from the previous year, meaning that changes in market financing costs propagate through the effective interest burden over several financial years as existing securities mature and are replaced.

This maturity structure offers protection against sudden rate renegotiations, but it doesn't eliminate the cumulative effect. If securities issued during the low-interest period mature and are refinanced at higher coupons, interest costs progressively increase even if market rates don't rise further.


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## Refinancing of the broadcast

| Channel | Current condition verified | Medium-term implications | Source |
|---|---|---|---|
| **Average maturity of the residual debt** | 7.9 years to the end of 2025 | Interest rate shocks are transmitted gradually rather than immediately | Bank of Italy. |
| **Bank of Italy's share of public debt** | It fell to 18.5% at the end of 2025, from 21.6% | As Eurosystem portfolios decline, a greater share of funding must be absorbed outside the Bank of Italy. | Bank of Italy. |
| **access fee** | The Commission forecasts GDP growth of +0.3 percentage points in 2026. | It makes the improvement in the primary surplus less visible in the overall budget | European Commission. |
| **inflation-linked securities** | Identified as a source of higher interest expenses in 2026 | Higher inflation directly impacts part of the debt service. | European Commission. |
| **Treasury Liquidity** | 52.4 billion euros at the end of 2025, following an increase of 14.7 billion euros. | It provides a financial cushion but has contributed to the accumulation of gross debt | Bank of Italy. |

Fiscal risk is therefore not best described as an impending refinancing crisis; rather, it is a **progressive repricing problem** , where the effective cost of the debt stock may continue to rise even after market rates peak, as the sovereign portfolio adjusts with some lag.

The previous official medium-term plan envisaged a substantial strengthening of the primary balance

Italy's Medium-Term Fiscal and Structural Plan for 2024 provides the clearest official published medium-term policy architecture, extending to 2030, although its numerical basis predates subsequent 2025 outcomes and revised forecasts for 2026.

That plan envisioned the primary balance moving from a broad balance in 2024 to a progressively larger surplus, while the overall deficit declined and the debt-to-GDP ratio eventually reversed.


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## Previous point of reference for the MEF policy

| Indicator | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | Status/Release |
|---|---|---|---|---|---|---|---|
| **Balance between public administration and central government** | -3.3% | -2.8% | -2.6% | -2.3% | -1.8% | -1.7% | Medium-term fiscal-structural plan; old-generation policy. |
| **primary structural balance** | 0.0% | 0.6% | 1.1% | 1.6% | 2.2% | 2.7% | Medium-term plan of the Ministry of Economy and Finance. |
| **Gross debt** | 136.9 % | 137.8 % | 137.5 % | 136.4 % | 134.9 % | 133.9 % | Medium-term plan of the Ministry of Economy and Finance. |

These data should not be presented as forecasts for September 2026. The significance of the table is analytical: it shows **what fiscal architecture was originally deemed necessary to start a downward debt trajectory** .

The plan envisaged the structural primary balance improving from around zero in 2025 to **2.7% of potential GDP by 2030** .

The trajectory therefore depended on maintaining consistent fiscal discipline even after exceeding the EDP threshold.

The current short-term scenario is weaker than the original debt path.

The Commission's May 2026 forecast estimates public debt at **139.2% of GDP in 2027** , while Italy's 2024 plan forecast **137.5%** for the same year.

The gap amounts to approximately **1.7 percentage points of GDP** .

This difference should not be automatically interpreted as a failure of the entire medium-term strategy, since the statistical basis, nominal GDP, tax credit costs, interest rates, and the macroeconomic environment have all changed compared to the original plan. This means, however, that the original debt figures for the period 2028-2030 can no longer be used as if they were unchanged current forecasts.

## Current policy path compared to the original one

| Year | Original benchmark of the MEF debt | Latest Commission reference data, where available. | Difference | Interpretation |
|---|---|---|---|---|


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| | | | | |
|---|---|---|---|---|
| **2026** | 137.8% | 138.5% | +0.7 pp | The current debt level is above the original benchmark. |
| **2027** | 137.5% | 139.2% | +1.7 pp | The peak in short-term debt has moved higher. |
| **2028** | 136.4% | No current Commission figures for May 2026 forecasts | — | The original figure remains a policy benchmark, not a current forecast. |
| **2029** | 134.9% | No current Commission figures for May 2026 forecasts | — | Same limitation. |
| **2030** | 133.9% | No current Commission figures for May 2026 forecasts | — | Same limitation. |

This creates a clear test for the next phase of fiscal planning: the government must either recover lost ground in the debt-to-GDP ratio through stronger primary balances, stronger nominal growth, more moderate stock-flow adjustments, or lower financing costs, or publish a revised path for medium-term debt reduction.


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## A mechanical rebalancing analysis demonstrates why the 2027 shift is important.

It is possible to construct a useful deterministic sensitivity analysis without having to invent a forecast.

The previous MEF scenario envisaged a reduction in the debt-to-GDP ratio of around **1.1 percentage points between 2027 and 2028, of 1.5 points between 2028 and 2029 and of 1 point between 2029 and 2030** .

If those same successive annual improvements were achieved, but starting from the new level of 139.2% set by the Commission **for 2027 rather than the original level of 137.5%** , the mechanical path would be approximately **138.1% in 2028, 136.6% in 2029 and 135.6% in 2030** .

Debt recalculation revised: This is not an official forecast.

| Year | Original MEF Benchmark | Mechanical rebasing from 139.2% in 2027 | Difference | Method |
|---|---|---|---|---|
| **2027** | 137.5% | 139.2% | +1.7 pp | The Commission's current forecasts are used as a new starting point. |
| **2028** | 136.4% | 138.1% | +1.7 pp | Apply the original annual change of -1.1 pp |
| **2029** | 134.9% | 136.6% | +1.7 pp | Apply the original annual change of -1.5 pp |
| **2030** | 133.9% | 135.6% | +1.7 pp | Apply the original annual change of -1.0 pp |

This calculation **is not a forecast** and does not assume that the original annual improvements will actually occur. Its purpose is to demonstrate a simple fiscal property: if the debt level begins the reduction phase significantly above the original reference value, achieving the same rate of debt reduction at a later stage does not automatically restore the initial target.


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## Nominal growth is as important as fiscal adjustment.

Italy's debt-to-GDP ratio is particularly sensitive to the denominator because gross debt is already close to 140% of annual GDP.

The mechanical effect can be demonstrated without imposing a macroeconomic forecast.

If a country has debt equal to **139.2% of GDP** and the nominal debt stock remains unchanged, a nominal GDP denominator **1% lower than otherwise assumed** mechanically increases the ratio to about **140.6%** ; a denominator 2% lower brings it to about **142.0%** .

Sensitivity analysis of the pure denominator with an initial debt-to-GDP ratio of 139.2%.

| Deviation of nominal GDP from the expected level | Debt stock assumption | Mechanical debt to Edit GDP ratio | |
|---|---|---|---|
| **Baseline** | The debt remains unchanged | **139.2%** | — |
| **GDP less than 1%** | The debt remains unchanged | **≈140.6%** | **≈+1.4 pp** |
| **GDP down 2%** | The debt remains unchanged | **≈142.0%** | **≈+2.8 pp** |
| **GDP up 1%** | The debt remains unchanged | **≈137.8%** | **≈−1.4 pp** |

These are simple arithmetic sensitivity analyses, not forecasts. They illustrate why productivity, labor force participation, and investment performance have direct fiscal importance even in the absence of changes to tax or spending rules.

The RRF creates both an investment peak in 2026 and a transition risk after 2026.

The Italian Recovery and Resilience Plan, in its amended version, estimated total costs at approximately **€194.416 billion** , of which approximately **€71.780 billion in non-repayable EU financial assistance and €122.602 billion in loans** .

The scope of the programme is therefore relevant at the macroeconomic level.

The Commission's latest forecasts indicate that investments supported by the Recovery and Resilience Plan remain an important driver of economic activity in 2026, with public investment spending reaching **3.8% of GDP in** the latest baseline scenario , while the **phasing out of RRF-related projects in 2027 is expected to reduce capital expenditure** .


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The post-2026 policy question is therefore not only about Italy's ability to complete projects on time, but also whether national and other EU investment programmes will prevent a sharp decline in capital formation at the end of the exceptional RRF cycle.

## RRF transition

| Variable | Location verified | Meaning of the period 2026-2030 | Official source |
|---|---|---|---|
| **Estimated cost of the modified Italian RRP** | 194.416 billion euros | Temporary investment/reform programme of exceptionally large size | European Commission. |
| **Non-refundable support** | 71.780 billion euros | It does not create the same repayment profile as RRF loans | European Commission. |
| **Loan support** | 122.602 billion euros | It adds a long-term financing component to the program. | European Commission. |
| **Implementation horizon** | Commitments concentrated until 2026 | Delays in implementation can reduce the investment impetus that materializes. | The European Commission has repeatedly stressed the importance of timely completion of the RRF implementation. |
| **macroeconomic effect 2026** | Investment still substantially supported by RRF | It supports concrete activities even in a weak external context. | Commission spring forecast. |
| **2027 transition** | Capital expenditures related to the RRF decrease | Risk of a collapse in investment if national/EU replacement spending proves insufficient. | Commission spring forecast. |

The implications for public finances are significant because replacing RRF-funded investment with domestically financed spending would require additional fiscal space, while a sharp decline in investment could weaken potential growth and thus worsen the debt denominator over time.

Post-PNRR investment becomes a debt sustainability variable

The post-2026 problem is therefore not simply a matter of spending replacement.

Productive public investment impacts debt sustainability through at least three channels: it increases short-term spending; it can increase medium-term output

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potential; and, if financed domestically rather than through EU grants, it can increase financing needs before any growth impact is apparent.

This creates a timing problem. Reducing investment may improve short-term deficit calculations, but potentially weaken nominal GDP in the medium term; maintaining investment could create immediate financial pressure, while supporting the denominator later.

The new EU fiscal framework partially recognizes this trade-off by excluding national co-financing of EU programs from the net expenditure indicator and allowing longer adjustment paths for countries that commit to reforms and qualifying investments. Italy's seven-year adjustment path was approved precisely in this context.

Defense is emerging as a second major source of spending pressure in the medium term.

According to the Ministry of Defence's forecasts for 2026, the ordinary Italian Defence budget for **2026 amounts to approximately 32.416 billion euros** , with an increase of approximately **1.117 billion euros compared to 2025.**

Within the state budget, **Mission 5 - Defense and Territorial Security -** provides for allocations for 2026 equal to approximately **30.515 billion euros** , distributed among the Carabinieri, land forces, naval forces, air forces, joint commands, planning and procurement programs.

These budgetary concepts are not identical to the NATO definition of defense spending and should not be considered interchangeable.

At the 2025 Hague Summit, NATO Allies adopted a long-term commitment to invest **5% of GDP per year by 2035** , including at least **3.5% for core defence needs and up to 1.5% for broader defence and security investments** .


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## Defense-related fiscal architecture

| Variable | Verified data/status | Tax interpretation | Source |
|---|---|---|---|
| **Ordinary Italian Defense Budget 2026** | **32.416 billion euros** | Ministerial budget concept | Italian Ministry of Defense. |
| **Appropriations for Mission 5 of 2026** | **30.515 billion euros** | State budget mission concept | Budget tables of the Ministry of Defense. |
| **NATO Commitment to 2035** | **5% of GDP** | A long-term commitment from the entire Alliance, not Italy's budget figure for 2026. | ATO. |
| **Fundamental component of defense** | **≥3.5% of GDP by 2035** | NATO Military Requirements and Capability Objectives | ATO. |
| **Broader security component** | **up to 1.5% of GDP** | Investments in security-related infrastructure and resilience within NATO commitments. | ATO. |

The fiscal implications through 2030 are real, but they cannot yet be converted into a single additional annual Italian spending amount without an official national roadmap specifying how Italy intends to proceed toward the 2035 commitment.

Any estimate that simply multiplies 5% by Italy's current GDP would therefore be analytically misleading, since NATO's commitment is gradual, encompasses multiple categories, and extends until 2035.

Demographic pressure is already visible before 2030.

ISTAT's demographic projections for **August 2026** provide an updated demographic baseline, crucial for fiscal sustainability.

Under the median scenario, Italy's resident population decreases from **58.9 million at the beginning of 2025 to 58.7 million in 2030** , with the decline accelerating to 55.0 million in 2050 and to 45.8 million in 2080. The population aged **85 and over increases from 4.1% in 2025 to 4.4% in 2030** , while the working-age population is projected to contract.


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Net migration remains positive, but decreases from around **296,000 units in 2025 to 247,000 in 2030** according to the median scenario, while the natural balance remains strongly negative, going from around **-296,000 units in 2025 to -353,000 units in 2030** .

Demographic indicators relevant to the 2030 fiscal horizon

| Indicator | 2025 | 2030 | Fiscal mechanism | Official source |
|---|---|---|---|---|
| **Resident population** | **58.9 meters** | **58.7 meters** | Smallest denominator for labor supply and tax base | ISTAT demographic projections for 2026. |
| **Natural balance of the population** | approximately **−296k** | approximately **−353k** | Persistent excess of deaths over births | STATE. |
| **Immigration from abroad** | approximately **432 thousand** | approximately **423 thousand** | Supports workforce and population levels | STATE. |
| **Emigration abroad** | about **144k** | about **176k** | It reduces the net labor/population contribution | STATE. |
| **Net foreign migration** | about **+296k** | about **+247k** | Partially compensates for natural decline | STATE. |
| **Population aged 85 and over** | **4.1%** | **4.4%** | Raises requirements for health and long-term care | STATE. |

The fiscal significance lies not so much in the slight decline in the total population by 2030, but in its age composition: a smaller number of working-age residents compared to older cohorts makes the financing of pensions, healthcare, and long-term care progressively more dependent on participation rates, productivity, and immigration.

Pensions become more expensive before long-term reforms reduce the pressure

**The European Commission's 2024 Ageing Report** , whose projections for the Italian pension system were developed in collaboration with the Ministry of Economy and Finance and peer-reviewed by the EU Working Group on Ageing, projects that gross public expenditure on pensions will increase from **15.6% of GDP in 2022 to 16.6% in 2030** , reaching **17.1% in 2040** and peaking at around **17.3% in 2036** .


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The report attributes the initial increase primarily to the retirement of the baby boomer generation, while subsequent reductions reflect the progressively greater role of the defined contribution pension system, changes in eligibility requirements, and participation effects.

## Pressure on the pension system

| Indicator | 2022 | 2030 | Peak/Next Position | Source |
|---|---|---|---|---|
| **Gross expenditure on public pensions** | **15.6% of GDP** | **16.6%** | **Peak of 17.3% in 2036** | Commission/EPC Ageing Report factsheet for Italy. |
| **Net expenditure on public pensions** | **12.6% of GDP** | **13.5%** | **Peak of 14.0% in 2036** | Commission/EPC. |
| **Public social security contributions** | **10.9% of GDP** | **11.2%** | about 11% later | Commission/EPC. |
| **Pension system balance** | **-4.7% of GDP** | **-5.5%** | The most negative forecast is around **-6.0% in 2036.** | Commission/EPC. |

These projections are not forecasts for 2026 and are based on a previously defined long-term, unchanged policy framework, but they identify the structural direction of demographic pressure on relevant spending for the 2030 time horizon.

The fiscal challenge is therefore concentrated in the initial phase: reforms embedded in the pension system improve sustainability later, but the retirement of large segments of the population increases spending before long-term stabilization mechanisms kick in.

The working-age population represents the other side of the pension equation.

The sustainability of pension systems cannot be assessed solely on the basis of benefit expenditure, since contribution revenues depend on employment, labor market participation, wage growth, and productivity.

ISTAT projections for 2026 explicitly identify the expected contraction of the **population aged 15 to 64** as one of the most significant demographic developments for economic growth, pension sustainability, labor supply, and the ability to finance the growing demand for care.


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The Ageing Report also projects an increase in labor market participation rates among older workers, partly due to regulations on retirement ages and eligibility requirements, which partially offset unfavorable demographic dependency.

The medium-term fiscal consequence is therefore that **the effectiveness of employment policies translates into the effectiveness of debt policies** : greater labor market participation and higher productivity increase tax and contribution revenues, increasing the GDP denominator without requiring higher tax rates.

Inventory flow adjustments remain the most significant accounting risk for clean debt reduction.

The Commission identifies stock flow adjustments associated with past housing renovation tax credits as one of the main reasons why debt continues to rise until 2027, despite primary surpluses.

Italy's previous medium-term plan had already anticipated unusually large stock-flow contributions in the early years of the adjustment, reflecting cash effects from tax credits and other financial transactions.


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## Why stock flow adjustment is important

| Tax event | Effect on the current deficit | Effects on current debt | Medium-term consequences |
|---|---|---|---|
| **Expense previously accounted for according to the accrual principle** | historical deficit already hit | Cash settlement may occur at a later time. | Debt can increase even after an improvement in the overall deficit. |
| **tax credits accumulated in previous years** | Tax cost partially recognized previously | Future use of cash reduces revenue / increases financing needs | The decline in the debt-to-GDP ratio is slowing down |
| **Increase in Treasury liquidity reserves** | No equivalent increase in the deficit is required | Gross debt increases. | Creates liquidity protection but increases gross debt |
| **Privatization / sale of assets** | It is possible to reduce the financing needs without improving the structural primary balance. | It is possible to reduce equity debt | One-time debt relief, not recurring tax adjustment. |
| **Valuation/Indexation Effects** | Limited or different timing of deficit | You can directly modify the nominal debt | Important for inflation-linked bonds |

This is the main reason why an assessment based solely on the annual deficit would systematically underestimate the short-term difficulty of reducing Italy's debt-to-GDP ratio.


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## Transparent scenarios for the period 2026-2030

The scenarios described below are not probabilistic forecasts and do not assign subjective probabilities. They are deterministic fiscal paths, developed from official parameters, to identify the conditions under which the debt trajectory changes.

### Scenario A — original policy benchmark

The first scenario reproduces, without changes, the official debt path envisaged in the **2024 medium-term fiscal-structural plan.**

| Year | Debt/GDP | Fiscal balance | primary balance | structural | Source |
|---|---|---|---|---|---|
| **2026** | **137.8%** | **-2.8%** | **+0.6%** | | Medium-term plan of the Ministry of Economy and Finance. |
| **2027** | **137.5%** | **-2.6%** | **+1.1%** | | MEF. |
| **2028** | **136.4%** | **-2.3%** | **+1.6%** | | MEF. |
| **2029** | **134.9%** | **-1.8%** | **+2.2%** | | MEF. |
| **2030** | **133.9%** | **-1.7%** | **+2.7%** | | MEF. |

**Interpretation:** This is no longer the latest near-term forecast because the current debt baseline for 2026-2027 is higher, but it remains the clearest official representation of the fiscal adjustment originally considered sufficient to restore a debt reduction path.

### Scenario B — mechanically based adjustment

**The second scenario accepts the new debt-to-GDP ratio of 139.2%** projected by the Commission for 2027 and assumes, solely for sensitivity reasons, that Italy subsequently achieves exactly the same annual improvements in the debt-to-GDP ratio as planned under the old MEF path.

| Year | Debt/GDP | Calculation |
|---|---|---|
| **2027** | **139.2%** | The Commission's current short-term guidance. |
| **2028** | **138.1%** | 139.2 – originally expected drop of 1.1 pp |
| **2029** | **136.6%** | 138.1 – originally expected drop of 1.5 pp |
| **2030** | **135.6%** | 136.6 – originally expected drop of 1.0 pp |

**Interpretation:** Even if the originally planned annual rate of debt reduction were fully achieved after 2027, the ratio at the end of 2030 would still remain around **1.7 percentage points above** the old benchmark, as the starting level is higher.


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## Scenario C — sensitivity to primary balance underperformance

A deterioration in the primary balance has an almost direct effect on debt in the first year. All else being equal, a primary balance that **is one percentage point of GDP lower** than expected adds about one percentage point to the debt-to-GDP ratio in the first year, before the interest and growth feedback loops kick in; if it repeats, the effect is amplified.

| Primary balance deviation | Approximate effect of debt in the first year | Three-year cumulative calculation before feedback |
|---|---|---|
| **0.0 pp** | 0 | 0 |
| **-0.5 pp GDP** | +0.5 pp | approximately +1.5 pp if repeated annually |
| **-1.0 pp GDP** | +1.0 pp | approximately +3.0 pp if repeated annually |
| **+0.5 pp GDP** | −0.5 pp | about −1.5 pp if sustained |

This is an accounting sensitivity analysis, not a macroeconomic forecast; actual results would be different because the fiscal stance also affects growth, interest costs, and tax revenues.

## Scenario D: Lower-than-expected nominal GDP return

With an initial debt-to-GDP ratio close to 139%, even relatively small changes in the denominator produce significant movements.

| Nominal GDP compared to the reference value | Mechanical effect on a debt ratio of 139.2% |
|---|---|
| **+2%** | approximately 136.5% |
| **+1%** | approximately 137.8% |
| **Baseline** | 139.2% |
| **-1%** | approximately 140.6% |
| **-2%** | approximately 142.0% |

This explains why a medium-term strategy based solely on spending containment, without increasing productivity, labor supply, and investment performance, would be incomplete.

The decisive fiscal thresholds of 2030 are observable

The path to 2030 does not require speculative probabilities, as the conditions that distinguish a stabilizing from a non-stabilizing debt trajectory can be directly monitored.


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## Fiscal indicators

| Indicator | Stabilizing signal | Adverse signal | Why it's important |
|---|---|---|---|
| **public administration deficit** | It remains steadily below 3% of GDP | Yields above 3% outside the permitted flexibility | Determines the durability of the EDP correction |
| **Primary balance** | It is gradually moving towards the medium-term surplus path | Stagnates near zero or returns to deficit | Determines the ability to offset interest expenses |
| **Debt/GDP** | It peaks and begins a multi-year decline. | It will continue to grow even after 2027 | Key Sustainability Result |
| **Interest Expenditure/GDP** | Stabilizations | It continues to increase materially | It absorbs the primary surplus |
| **Nominal GDP** | It grows enough to compensate for the dynamics of interest | Weak real growth and low deflator | Reduces the contribution to the denominator |
| **Stock flow adjustment** | It drops sharply after the effects of the tax credit wear off. | There remains a regime of ever-increasing debt | It can neutralize primary surpluses |
| **Public investments** | It remains high even after the RRF expires | Drastic drop after 2026 | It affects potential growth |
| **Defense spending** | Integrated into the tax path with identified financing | Added without corresponding tax adjustment | Medium-term spending burden increases |
| **participation in working age** | It keeps getting better | Labor supply is shrinking faster than productivity is increasing. | Determine the revenue base |
| **Pension expenses** | It remains within the long-term reform profile | The new permanent measures significantly increase spending until 2036. | Alters the primary structural balance |


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## The question of post-2026 investments is central to sustainability.

Italy's fiscal sustainability cannot be achieved through accounting consolidation alone, as the country needs sufficient medium-term nominal GDP growth to reduce a debt stock equal to nearly 140% of GDP.

The Commission's forecasts already signal the transition: RRF investments will support economic activity in 2026, while their phasing out will reduce capital expenditure from 2027 onwards.

The correct policy question is therefore not whether investment should simply remain at the maximum level envisaged by the RRF, which would be fiscally unrealistic, but whether the composition of national and EU spending after 2026 preserves projects with sufficient impacts in terms of productivity, infrastructure, digitalisation and human capital to sustain potential growth.

Defense and population aging compete for the same structural fiscal space.

The 2026-2030 time horizon introduces a fiscal interaction that was considerably less relevant when the original Italian medium-term plan was drafted.

On the one hand, defense needs are increasing structurally within the NATO 2035 framework and through national capability development programs.

On the other hand, pension spending is projected to increase to **16.6% of GDP in 2030** and continue to grow over the next decade as the baby boom generation retires.

The two spending categories thus simultaneously create demands on fiscal resources, while Italy is also required to preserve primary surpluses and productive investments.

This makes the composition of the fiscal adjustment strategically more important than the overall deficit.

A higher tax burden cannot indefinitely replace growth.

Previous budget chapters have highlighted the significant role played by higher revenues in the recent deficit improvement. The issue of future sustainability is different.

If further consolidation is achieved predominantly through increased revenue extraction, while productivity and labor market participation remain weak, the fiscal system may improve the primary balance in the short run, but weaken the denominator and private investment channels on which debt reduction also depends.

Conversely, unfunded tax cuts may improve disposable income but worsen the primary balance.

The relevant evaluation criterion for the 2026-2030 period is therefore not whether taxes are categorically increased or decreased, but rather whether permanent revenue


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measures are consistent with the spending path and with sufficient growth to stabilize the debt.

Final institutional evaluation

The verified data support a more precise conclusion than both fiscal alarmism and claims that the 3% deficit correction would solve Italy's public finances.

Italy is approaching a **procedural turning point** rather than the end of fiscal adjustment.

The government's forecast for 2026 estimates the deficit at **2.9% of GDP** , while the Commission expects the same value for both 2026 and 2027.

If achieved and deemed sustainable, such a trajectory would address the immediate problem of excessive deficits.

This does not in itself solve the problem of debt sustainability.

The Commission's current forecasts point to a debt-to-GDP ratio of **139.2% in 2027** , higher than both the 2025 level and the trajectory envisaged in the original Italian average plan.

Debt then becomes the dominant fiscal variable after deficit correction.

The original medium-term plan demonstrates the extent of the adjustment implicit in this objective: the structural primary balance was expected to rise to **2.7% of potential GDP by 2030** , while debt was expected to decline to **133.9% of GDP** .

Current short-term data have made this goal more ambitious.

At the same time, Italy enters this adjustment period with several favorable structural features: a long average maturity of the residual debt limits immediate renegotiations, the primary balance has returned to surplus, employment conditions have been relatively resilient, and the RRF has generated a large flow of investment.

The countervailing forces are equally real: interest payments are rising, the debt-to-GDP ratio is not yet declining, the RRF's investment momentum is nearing its end, pension spending is increasing ahead of 2030, the working-age population is shrinking, and defense spending needs are rising.

The resulting fiscal assessment is therefore conditional rather than ideological: **Italian debt is sustainable in the medium term only if the post-EDP adjustment produces persistent primary surpluses, nominal GDP grows sufficiently, the temporary stock flow effects associated with past tax credits diminish as expected, interest cost increases remain manageable, and the end of the RRF does not generate a lasting collapse in productive public investment.**


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Failure in one variable isn't necessarily decisive because another can compensate; simultaneous underperformance in growth, primary balance, and financing costs would be substantially more serious, since all three directly impact the debt equation.


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## 2026-2030 Monitoring Matrix Useful for Decisions

| Domain | Verified/Official starting point in 2026 | 2030 requirement or pressure | Evaluation criteria | Source |
|---|---|---|---|---|
| **Budget deficit** | Government forecasts GDP growth of 2.9%. | It must remain under permanent control | No new excessive deficit conditions | |
| **Debt** | 138.6% government forecast / 138.5% Commission | Original plan target: 133.9%, now more difficult | Multi-year net decline after peak | |
| **Real growth** | Institutional forecasts of 0.5-0.6% | Needs a stronger contribution to medium-term productivity | Avoiding denominator stagnation | |
| **access fee** | According to the Commission forecast, GDP will increase by around 0.3 percentage points in 2026. | It must stabilize relative to GDP | Prevent interest from absorbing a larger primary surplus | |
| **debt maturity** | 7.9 years until the end of 2025 | Gradual refinancing over the horizon | Manage price renegotiation and buyback concentration | |
| **RRF** | Amended plan of 194.4 billion euros | The temporary instrument ceases to be an investment driver. | Replace high-quality investments rather than the entire gross amount | |
| **Defense** | Ordinary defense budget for 2026: 32.4 billion euros | NATO's 2035 spending commitment increases medium-term pressure | The financing process must be integrated with the tax plan. | |
| **Population** | 58.9 million in 2025 | 58.7 million expected for 2030 | Labor market participation/productivity must compensate for demographic contraction. | |
| **Pension expenditure** | 15.6% of GDP in 2022 - Population aging | 16.6% expected for 2030 | Prevent permanent policy changes that could worsen the aging trajectory | |
| **Stock flow adjustments** | Short-term effects of a sharp increase in debt | He is expected to retire | Debt changes should gradually converge towards fiscal equilibrium dynamics. | |


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## What could concretely improve the outlook for 2030?

A sustained increase in productivity and labor market participation would simultaneously improve tax revenues, pension contributions, and nominal GDP, without requiring an equivalent increase in statutory tax rates.

A more rapid disappearance of the stock-and-flow effects of property taxes would allow primary surpluses to translate more directly into debt reduction.

A sustained reduction in sovereign refinancing yields would gradually lower the effective interest rate as the debt matures, although the long duration of the bond means that the benefit would manifest itself with some delay.

The successful completion of the reforms and investments envisaged by the RRF, followed by effective use of cohesion policy and national public spending, would reduce the likelihood that the end of the RRF would turn into a permanent shock to investment.

A defense spending path financed through a reorganization of priorities, common European instruments, or measures compatible with the fiscal framework would reduce the pressure on the structural primary balance compared to an entirely additional spending path financed at the national level.

What could significantly weaken the 2030 outlook?

A real growth rate persistently around or below the current short-term forecast of 0.5-0.6%, combined with declining inflation and continued growth in interest expenditure, would exacerbate the interest rate-growth differential identified by the Commission.

A primary surplus significantly lower than the path required by the medium-term framework would prevent debt from entering the projected downward trajectory, even after stock flow adjustments have subsided.

Permanent spending commitments introduced without permanent financing would become progressively more difficult to absorb, as pension and defense spending are already rising.

Failure to replace the production component of the RRF investment cycle after 2026 would weaken both short-term demand and medium-term production potential.

A larger-than-expected decline in the working-age population or lower labor market participation would reduce the contribution base, while age-related spending continues to rise.

## Net final valuation

The most plausible institutional assessment through **2030** is that Italy's fiscal situation is entering a more challenging phase, rather than a less challenging one.


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The first phase of adjustment was characterized by bringing the exceptionally high post-pandemic deficit back towards the Treaty reference value.

The second phase requires something structurally more difficult: **reducing one of Europe's largest stocks of sovereign debt while financing an aging welfare state, increased defense needs, and sufficient public investment to stimulate potential growth.**

Official estimates indicate that deficit correction can occur before debt reduction, and current forecasts point to precisely this sequence for the period 2026-2027.

The fiscal outcome by 2030 will therefore be determined less by the symbolic figure around the 3% threshold than by Italy's ability to maintain a primary surplus large enough to offset the actual interest burden while preserving nominal growth.

The Ministry's previous benchmark, a **133.9% debt-to-GDP ratio in 2030,** remains analytically useful as a policy reference, but should no longer be considered the ultimate forecast; the current starting point, 2027, is already significantly higher than the path from which this value was derived.

A mechanical resumption of the original pace of debt reduction would instead bring the debt to around **135.6% in 2030** , demonstrating how difficult it is to recover a higher starting level even when subsequent annual adjustments remain unchanged.

Demographics add a structural constraint that fiscal accounting alone cannot eliminate: an aging population will increase pension spending by the mid-2030s, while the working-age population will shrink, making productivity, employment, and participation central components of sovereign debt sustainability, rather than simply labor market objectives.

The investment transition is equally important. Italy has benefited from an exceptional RRF program of nearly **€194.4 billion** , but this program is temporary; fiscal sustainability after 2026 therefore depends not on the permanent reproduction of the spending volume, but rather on transforming the infrastructure built, digitalization, administrative reforms, and private investment into higher potential output .

Finally, the defense context adds a spending obligation that was not included in its current scope when much of the previous medium-term fiscal architecture was conceived. NATO's commitment to 2035 and Italy's growing defense budgets will need to be explicitly reconciled with the primary fiscal adjustment path, rather than treated as an accounting issue external to fiscal sustainability.

The institutional test for the 2026-2030 period is therefore clear and measurable: **a credible Italian fiscal path requires that the deficit remains stably below the excessive deficit threshold, that the primary surplus strengthens, that debt peaks and then declines, that stock-flow adjustments normalize, that interest expenditure stabilizes relative to GDP, that public investment survives the end of the RRF cycle,**

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**and that demographic and defense commitments are transparently integrated into the medium-term budget rather than being deferred outside it.**

## Open public register

The most relevant gap concerns **Italy's next fully updated medium-term budgetary trajectory, incorporating the September 2026 national accounts review** , as the original 2024 plan and the current Commission forecasts for 2026-2027 are based on different debt and GDP benchmarks.

The **Eurostat EDP notification of October 2026** will provide the next harmonised European fiscal balance and may change the denominator and debt ratios used for forward-looking analyses.

Italy's next budget document will have to clarify whether the government still intends to pursue a debt trajectory substantially converging towards the original 2030 target, or whether the new, more ambitious target for the two-year period 2026-2027 will require a revision of the debt path.

An updated national implementation path for NATO Engagement 2035 needs to be defined before the defence burden can be converted into a set of defensible annual budgets for the period 2027–2030.

The final RRF implementation document is needed to determine the investments actually made in the post-2026 economy and to distinguish completed productive capital from delayed or canceled expenditure.

When the next official data on population aging become available, it will be necessary to update the projections for pensions, healthcare, and long-term care, incorporating the latest ISTAT demographic data, in order to replace the assumptions of the previous Report on Aging.

The decisive question at government level for 2030 is therefore no longer whether Italy can temporarily fall below a certain numerical deficit threshold, but rather whether the country is able **to transform fiscal consolidation into a lasting reduction in debt without compromising the productive capacity needed to finance the adjustment itself** .


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# TABLE 1 — COMPARATIVE MACROECONOMIC FRAMEWORK: GROWTH, SCALE AND DYNAMICS 2025-2026

This table should be placed after the section **"Real GDP — Four large economies that grow slowly, but for different reasons"** because it allows us to immediately distinguish the economic dimension from the cyclical dynamics.

| Indicator | Italy | Germany | France | United Kingdom |
|---|---|---|---|---|
| **Real GDP 2025** | **+0.5%** | **+0.2%** | **+0.8%** | **+1.3%** |
| **Nominal GDP 2025** | approximately **€2.26 trillion** | **€4.47 trillion** | **€2.99 trillion** | approximately **£3.0 trillion** |
| **Growth Q1 2026 q/q** | approximately **+0.3%** | **+0.3%** | positive but weak | **+0.6%** |
| **Growth Q2 2026 q/q** | weak | weak | weak | **+0.4%** |
| **UK Growth Q2 2026 y/y** | — | — | — | **+1.2%** |
| **Cyclical profile 2025** | modest growth supported by domestic demand and investments | first growth after two years of recession | slowdown compared to 2024 | stronger growth than the three major EU countries considered |
| **Main cyclical vulnerability** | weak productivity | export, automotive, China, investments | public finance and demand | investments and productivity |
| **Main support element** | PNRR, employment, investments | private and public consumption | domestic demand and restocking | services |

**Methodological notes:** For Germany, France and Italy, annual data from the respective national statistics are used; for the United Kingdom, the ONS has estimated real growth


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of **1.3% in 2025** , while in the second quarter of 2026 GDP grew by **0.4% compared to the previous quarter** after +0.6% in the first.

Germany is therefore the weakest case in terms of growth in 2025, with just **+0.2%** after two consecutive years of contraction, while France recorded **+0.8%** and the United Kingdom a more robust trend, although not enough to erase the long-standing weakness of British productivity.

## TABLE 2 — LABOR PRODUCTIVITY: GDP PER HOUR WORKED

This table should accompany the section on productivity, because here the chapter correctly identifies the variable that most clearly separates economic structure and performance.

| Village | GDP per hour worked, 2024 | Unit | Difference compared to Italy | Structural reading |
|---|---|---|---|---|
| **Germany** | **98.39** | USD PPP current/hour | **+24.0%** | high capital intensity, technology and industrial scale |
| **France** | **90.86** | USD PPP current/hour | **+14.5%** | high average productivity, large groups and advanced services |
| **United Kingdom** | **82.59** | USD PPP current/hour | **+4.1%** | high-value services but long stagnation post-2008 |
| **Italy** | **79.34** | USD PPP current/hour | — | strong manufacturing but low aggregate productivity |

**Source:** OECD Data Explorer, *GDP per hour worked measure* , 2024 values.

This table is particularly useful because it corrects a possible narrative simplification: the Italian gap cannot be explained by a supposedly lower individual quality of work, but above all reflects **capital available per worker, technology, firm size, organization, management and allocation of resources between more and less productive firms** .


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# TABLE 3 — HIGH-TECH MANUFACTURING: NUMBER OF FIRMS AND EMPLOYMENT

This table fits perfectly into the section on industry, where the text notes that Italy has a very high number of high-tech firms but an average scale lower than Germany and France.

| Indicator 2023 | Italy | Germany | France |
|---|---|---|---|
| **High-tech manufacturing companies** | **5.156** | **8,896** | data lower than Italy in the number of companies |
| **High-tech manufacturing workers** | **212,256** | **668.144** | **388,613** |
| **Average employees per company*** | about **41** | about **75** | significantly higher than Italy |
| **EU ranking by number of companies** | **2nd** | **1st** | inferior to Italy |
| **EU position for high-tech employment** | **3rd** | **1st** | **2nd** |

*The average value is a simple dimensional indication and does not replace an official measure of average company size.

**Source:** Eurostat, *Manufacturing of high-tech products* , 2023 data.

The data is particularly significant: **Italy has more than five thousand high-tech manufacturing companies, the second highest in the European Union, but overall employment in the sector is less than a third of that in Germany** , confirming that the problem is not a lack of technology, but rather scale.


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# TABLE 4 — RESEARCH AND DEVELOPMENT: INTENSITY AND INNOVATION MODEL

This table should go into the section “Research and Development — The Line Between Producing Well and Controlling Future Technology.”

| Indicator | Italy | Germany | France | United Kingdom |
|---|---|---|---|---|
| **Most recent comparable R&D intensity** | approximately **1.4% GDP** | **3.1% GDP** in 2024 | approximately **2.2% GDP** | ONS figure: **£72.6bn** GERD 2023 |
| **EU average 2024** | - | **2.2% GDP** | - | non-EU |
| **Business R&D spending** | relatively limited | very high | high in strategic sectors | **£50.0 billion** , 69% of UK total |
| **Higher education R&D** | relevant but dispersed | strong | very strong | **£17.1 billion** , 24% |
| **Government R&D UK** | — | — | — | **£4.3 billion** executed in 2023 |
| **Prevailing model** | SMEs + selective excellences | industry + Mittelstand + Fraunhofer/university | large groups + public research | university + capital + science base |
| **Main weakness** | insufficient aggregate intensity | cost of industrial transformation | tax pressure and concentration | marketing and foreign ownership |

In **2024, Germany achieved an R&D intensity of 3.1% of GDP** , placing it among only six EU countries above the 3% target, while the Union average was 2.2%.


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For the UK, the ONS estimates total spending on research and development of **£72.6 billion in 2023** , of which £50 billion will be supported by the business sector and £17.1 billion by higher education.


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# TABLE 5 — ENERGY: FOUR STRATEGIC ARCHITECTURES

This table must be one of the most important in the chapter, because it shows how the four countries have built radically different energy models.

| Variable | Italy | Germany | France | United Kingdom |
|---|---|---|---|---|
| **Operational nuclear** | No | Not from 2023 | Yes, dominant | Yes |
| **Nuclear production 2025** | 0 | 0 | 373.0 TWh | much lower than France |
| **Low-carbon electricity share in France** | — | — | over 95% | — |
| **Domestic gas** | minimum | minimum | minimum | North Sea |
| **Energy import dependence** | high | high | more contained in electricity | reduced by the North Sea but not eliminated |
| **Big advantage** | gas diversification and Mediterranean geography | huge renewable capacity and continental grid | nuclear and electric autonomy | offshore wind + gas + nuclear |
| **Vulnerability** | energy/import cost | flexibility and industrial cost | renewal of the nuclear park | declining fossil fuel production and aging nuclear fleet |
| **New director** | LNG, Algeria, TAP, renewables, possible SMR | grid, renewables, storage | new nuclear + renewables | Hinkley C, Sizewell B, SMR, offshore wind |

France produced **373.0 TWh of nuclear electricity in 2025** , up 11.3 TWh from the previous year, and over **95% of French electricity generation** remained low-carbon thanks to a combination of nuclear and renewables.


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# TABLE 6 — TRADE AND POSITION IN GLOBAL CHAINS

| Indicator / feature | Italy | Germany | France | United Kingdom |
|---|---|---|---|---|
| **Prevailing structure** | export manufacturing | large global manufacturing | industry-service mix | global services |
| **Goods balance 2025** | **+€50.746 billion** | still structurally positive | weaker | structural goods deficit |
| **Italy's non-energy balance** | **+€97.685 billion** | — | — | — |
| **Main strengths** | mechanics, pharma, food, defense, components | cars, machines, chemistry, pharma | aerospace, luxury, pharmaceutical, agrofood | finance, pharma, aerospace, services |
| **Vulnerability** | Asian energy and inputs | China, automotive, energy | goods deficit | post-Brexit frictions |
| **Geoeconomic asset** | intermediate specialization | production scale | strategic champions | high-value services |

In 2025, Italy's trade surplus reached **€50.746 billion** , while the non-energy surplus amounted to **€97.685 billion** , clearly demonstrating how the energy deficit continues to reduce the trade result produced by manufacturing.


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# TABLE 7 — PUBLIC DEBT: FOUR DIFFERENT DEGREES OF FISCAL SPACE

**Maastricht ESA10** definition for the UK , as correctly required by the chapter.

| Indicator | Italy | Germany | France | United Kingdom |
|---|---|---|---|---|
| **Gross Debt / GDP 2025** | **137.1%** | significantly lower than France and Italy | **115.6%** | **102.3%** Maastricht ESA10 |
| **Trend compared to 2024** | **+2.4 pp** | contained | **+2.9 pp** | **+2.4 pp approximately** |
| **Relative position** | 2nd highest debt in the EU | wide relative margin | high and growing | high but with its own currency |
| **Main constraint** | interests + low growth | political choice on the use of fiscal space | deficit and public spending | interests, gilt market, fiscal rules |
| **Monetary autonomy** | ECB | ECB | ECB | **Bank of England** |
| **Own currency** | No | No | No | **Yes** |

Eurostat records **137.1% of GDP for Italy and 115.6% for France at the end of 2025** .

For the UK, using the comparable ONS Maastricht ESA10 definition and not the better known *public sector net debt* , consolidated gross debt was **102.3% of GDP in 2025** .

This table is methodologically more robust than the narrative version because it avoids comparing the 137.1% Italian Maastricht rate to a British figure constructed with a different accounting definition.


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# TABLE 8 — DEMOGRAPHY AND THE FUTURE POWER BASE

| Indicator | Italy | Germany | France | United Kingdom |
|---|---|---|---|---|
| **Population** | approximately 59 million | approximately 84 million | approximately 68 million | **69.487 million by mid-2025** |
| **Median age 2025** | **49.1 years old** | high but slightly improved in the last decade | lower than Italy/Germany | inferior to the large continental ones |
| **Natural trend** | strongly negative | negative | less negative | close to natural equilibrium in 2025 |
| **Net migration** | positive but insufficient to fully compensate | essential stabilizing element | relevant | **+204,000** in the year to June 2025 |
| **UK Births 2024-25** | — | — | — | **653,000** |
| **UK Deaths 2024-25** | — | — | — | **651,000** |
| **Main risk** | workforce reduction | aging + integration | declining birth rate | infrastructure capacity and housing |

Eurostat reports that in 2025 Italy will have a **median age of 49.1 years, the highest in the entire EU** , compared to the European average of 44.9 years.

The ONS estimates the UK population to be **69.487 million by mid-2025** , with **204,000 net migration** , 653,000 births and 651,000 deaths in the previous year.


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# TABLE 9 — DEFENSE 2025: NATO SPENDING, STRUCTURE AND CAPABILITIES

This table is essential because the chapter itself correctly insists on the need to use a **common NATO definition** for comparison.

| NATO Indicator 2025e | Italy | Germany | France | United Kingdom |
|---|---|---|---|---|
| **Defense Spending / GDP** | **2.00%** | **2.31%** | **2.04%** | **2.21%** |
| **Nominal expenditure** | **€45.315 billion** | **€86.638 billion** | **€61.780 billion** | higher than France in USD |
| **National nuclear deterrence** | No | No | **Yes** | **Yes** |
| **Strategic nuclear submarines** | No | No | **Yes** | **Yes** |
| **Aircraft carrier** | STOVL capability via Cavour/Trieste, not equivalent to a nuclear carrier | No | **Charles de Gaulle** | **2 Queen Elizabeth class** |
| **Great strength** | industry + Mediterranean | economic scale | strategic autonomy | global projection |
| **Main weakness** | readiness / exercise | Bundeswehr reconstruction | overall cost of the model | deterrence and procurement costs |

NATO 2025 estimates place **Germany at 2.31%, the United Kingdom at 2.21%, France at 2.04% and Italy at 2.00% of GDP** .

NATO also points out that its definition includes items such as military pensions and can therefore differ significantly from national budgets; therefore, this is the correct source for an international comparison table.


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# TABLE 10 — NUCLEAR CAPABILITY: ENERGY, INDUSTRY AND DETERRENCE

| Variable | Italy | Germany | France | United Kingdom |
|---|---|---|---|---|
| **Civil nuclear generation** | **No** | **Not from 2023** | **Yes, central to the mix** | **Yes** |
| **Nuclear production 2025** | 0 | 0 | **373 TWh** | inferior to France |
| **Complete nuclear industrial supply chain** | No | no longer operational for generation | **Yes** | **Yes, but more dependent on cooperation** |
| **Reactors under construction** | No | No | new EPR cycle planned | **Hinkley Point C** |
| **SMR** | legislative discussion | no equivalent operational program | next-generation programs | **Rolls-Royce SMR selected** |
| **Nuclear deterrence** | No | No | **national** | **national** |
| **NATO nuclear sharing** | **Yes** | **Yes** | own deterrence | own deterrence |
| **Strategic impact** | higher energy dependence | no nuclear in the mix | electric and military autonomy | global projection |

For France, the most up-to-date figure is **373 TWh of nuclear production in 2025** .


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# TABLE 11 — FINANCE AND CAPITAL: FOUR INTERMEDIATION MODELS

| Size | Italy | Germany | France | United Kingdom |
|---|---|---|---|---|
| **Financial center** | Milan | Frankfurt | Paris | **London** |
| **ECB / European Central Bank** | indirectly via the Eurosystem | **ECB in Frankfurt** | Eurosystem | Bank of England |
| **Banking model** | large groups + strong bank credit | decentralized, Sparkassen + private banks | large global groups | deep capital markets |
| **Champions** | Intesa, UniCredit | Deutsche Bank, Commerzbank, Landesbanken | BNP, Crédit Agricole, SG, AXA, Amundi | HSBC, Barclays, LSEG, Lloyd's ecosystem |
| **Venture capital** | relatively small | medium | growing | **very deep** |
| **Asset management** | less developed | big savings, less global concentration | very strong | global |
| **Strategic force** | connection with industry | savings + industry | concentration of capital | global financial infrastructure |
| **Weakness** | shallow equity market | less global banks | strong relationship with public debt | exposure to financial volatility |

This table is deliberately qualitative in cells where a single numerical metric would produce distorted comparisons between profoundly different markets; the goal here is not to categorize, but to show **how capital is organized** .


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# TABLE 12 — NATIONAL CHAMPIONS AND INDUSTRIAL POWER NODES

| Sector | Italy | Germany | France | United Kingdom |
|---|---|---|---|---|
| **Energy** | Eni, Enel, Terna | Siemens Energy, RWE, E.ON | EDF, TotalEnergies, Orano | BP, Shell, National Grid |
| **Aerospace** | Leonardo, Avio | Airbus DE, MTU | Airbus, Safran, Dassault, Thales | BAE, Rolls-Royce, Airbus UK |
| **Defense** | Leonardo, Fincantieri, MBDA Italy | Rheinmetall, KNDS DE, TKMS, Hensoldt | Dassault, Thales, Naval Group, MBDA | BAE Systems, Rolls-Royce, MBDA UK |
| **Automotive** | Ferrari, Iveco, components | VW, BMW, Mercedes, Bosch | Renault, Stellantis FR, Valeo | JLR, motorsport ecosystem |
| **Pharma** | Menarini, Chiesi, Recordati + multinational manufacturing companies | Bayer, Boehringer | Sanofi | AstraZeneca, GSK |
| **Tech/software** | Reply, Engineering, niche industrial tech | SAP, Siemens | Dassault Systèmes, Atos/Thales tech | ARM ecosystem, AI/start-up cluster |
| **Cables/Networks** | Prysmian | Siemens Energy ecosystem | Nexans | — |
| **Finance** | Intesa, UniCredit | Deutsche Bank | BNP, Crédit Agricole | HSBC, Barclays |
| **Luxury** | Ferrari, Moncler, Prada | — | LVMH, Kering, Hermès | Burberry |

This table serves primarily to visualize the different **concentrations of strategic capital** : France has an exceptional density of large groups; Germany has a greater mass of private manufacturing; the United Kingdom has major champions in finance, defense, pharmaceuticals, and science; Italy has a smaller number of global groups, offset by a much larger network of specialized medium-sized companies.


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# TABLE 13 — FOUR MODELS OF INDUSTRIAL POLICY

| Size | Italy | Germany | France | United Kingdom |
|---|---|---|---|---|
| **Prevailing model** | **public-private hybrid** | industrial-federal | **dirigiste/strategic** | market-led with return on strategy |
| **Public participations** | Eni, Leonardo, Fincantieri, Enel/Terna indirectly | more limited | EDF, Thales/strategic assets, Orange, etc. | selective |
| **Public investment instrument** | CDP | KfW | Bpifrance / State | British Business Bank, UKIB |
| **Strategic asset protection** | Golden Power | FDI screening | screening + participations | National Security and Investment Act |
| **Great recent program** | PNRR / Transition / Defense | infrastructure and defense funds | **France 2030** | Industrial Strategy, defense, energy |
| **Main force** | widespread industrial network | production mass | coordination | finance and science |
| **Main limitation** | fragmentation and political continuity | slow decision-making / self-energy transformation | tax cost | lower industrial depth |


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# TABLE 14 — POSITION IN GLOBAL VALUE CHAINS

| Function | Italy | Germany | France | United Kingdom |
|---|---|---|---|---|
| **Capital goods** | **very strong** | **dominant in Europe** | medium | selective |
| **Automotive** | medium-strong | **very strong** | strong | selective |
| **Aerospace** | strong | strong | **very strong** | **very strong** |
| **Pharma** | **very strong production** | strong | strong | strong R&D |
| **Financial services** | medium | home fort | very strong | **global** |
| **Luxury** | strong | marginal | **global** | selective |
| **Defense** | strong | growing | **very strong** | **very strong** |
| **Mechanics/automation** | **very strong** | **very strong** | selective | selective |
| **Digital platforms** | weak | weak compared to the US | medium | **stronger than the continentals** |
| **Venture capital** | Bass | medium | medium-high | **high** |
| **Nuclear energy** | No | No | **very strong** | strong |
| **Strategic geography** | **Mediterranean** | Central Europe | Atlantic/Mediterranean/overseas | Atlantic/global |


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# TABLE 15 — THE FOUR POWER CONFIGURATIONS, WITHOUT RANKING

This should be the **chapter's concluding table** , not a ranking, because it accurately summarizes the text's final thesis. The chapter itself insists that the four configurations are not "four steps on the same ladder."

| Size | Germany | France | United Kingdom | Italy |
|---|---|---|---|---|
| **Synthetic formula** | **power of the production scale** | **strategic state power** | **power of global networks** | **power of specialization and geography** |
| **Main asset** | large industry | State + nuclear + defense | finance + science + intelligence | manufacturing + Mediterranean |
| **Mechanism of influence** | economic weight and the EU | strategic initiative | global networks and alliances | coalitions and specializations |
| **Industry** | maximum scale | selective and strategic | selective | very diverse |
| **R&D** | **very high** | high | high/scientifically strong | **insufficient compared to manufacturing** |
| **Energy** | complex transition | nuclear | diversified mix | dependence but diversification |
| **Finance** | strong but less global | great champions | **global** | bank-centric |
| **Defense** | great conventional potential | autonomous deterrence | deterrence and global projection | strong industry and southern flank |
| **Debt** | relatively low | high | high | **very high** |
| **Demography** | aging | relatively less critical | more dynamic way of immigration | **more critical** |


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| | | | | |
|---|---|---|---|---|
| **EU** | maximum economic weight | maximum political-strategic weight | external | great founding member |
| **BORN** | growing earth pillar | nuclear / expeditionary | nuclear / expeditionary | Mediterranean / ISR / industry |
| **Structural limit** | adaptation of the export model | taxation and debt | lower manufacturing + Brexit | productivity, capital, debt, demographics |
| **Main opportunity** | transforming fiscal space into investment | convert state capacity to European scale | exploit capital/science without losing industry | transform widespread specializations into a system |

The conclusion that emerges from this grid is consistent with the methodological core of the chapter: **none of the four states simultaneously dominates all dimensions of power** , and for this very reason, a synthetic ranking would be misleading. Germany, France, the United Kingdom, and Italy possess different structures, which become more or less effective depending on the type of shock or function considered.


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# Important corrections and checks to the text of the chapter

During the review, I identified some points that should be updated or clarified in the body of the chapter before publication:

| Text point | Check / Correction |
|---|---|
| **Germany 2025** | Real growth **+0.2%** , no recession; first positive year after -0.9% in 2023 and -0.5% in 2024. |
| **France 2025** | Real GDP **+0.8%** according to INSEE final national accounts. |
| **UK 2025** | ONS revised annual growth to **+1.3%** ; Q2 2026 **+0.4% q/q** . |
| **OECD Productivity** | corrected values 2024: Germany **98.39** , France **90.86** , UK **82.59** , Italy **79.34 USD PPP/hour** . |
| **High-tech manufacturing** | Italy **5,156 companies** , Germany **8,896** ; employment: Germany **668,144** , France **388,613** , Italy **212,256** . |
| **Nuclear France** | **373.0 TWh in 2025** , data confirmed by RTE. |
| **Italy trade 2025** | goods surplus **€50.746 billion** ; non-energy surplus **€97.685 billion** . |
| **Italy/France debt** | end of 2025: Italy **137.1%** , France **115.6% of GDP** . |
| **Comparable UK debt** | Maastricht ESA10 **102.3% of GDP in 2025** ; this is the figure to use in the comparison, not PSND. |
| **NATO 2025** | Germany **2.31%** , UK **2.21%** , France **2.04%** , Italy **2.00%** . |
| **Demography of Italy** | median age **49.1 years in 2025** , highest in the EU. |
| **UK Population** | **69.487 million by mid-2025** , with net migration +204,000. |


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# PART XIV

# THIRTY-FIVE YEARS OF TRANSFORMATION


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# Chapter 28

## What Italy has gained and what it has lost

Having reached the end of a journey spanning more than thirty years of Italian economic and political history, it would be methodologically flawed to attempt to condense the outcome into a formula according to which Italy has "won" or "lost" from its European transformation, the single currency, privatizations, market opening, fiscal discipline, or globalization. Each of these processes has simultaneously produced benefits, costs, exploited opportunities, and missed opportunities. Above all, many of the outcomes attributed to Europe actually depend on national decisions, while many of the weaknesses considered exclusively Italian have been amplified by international transformations over which no national government would have had full control. The documentary assessment of the thirty-five years that have passed since the 1992 crisis to the economic system of 2026 must therefore start from an essential distinction: **what Italy has gained from the new institutions does not coincide with what it has managed to do with the opportunities those institutions have provided it** , just as what it has lost cannot be entirely attributed to the sale of previously national instruments without asking what the cost of preserving them was and whether they were still effective in the emerging economy.

The country entering the 1990s still had the lira, full national ownership of monetary policy, a large system of public enterprises, a central bank operating within a framework different from that subsequently imposed by the Maastricht Treaty, and a state capable, at least formally, of employing devaluation, inflation, and industrial policy in ways that the process of European integration would progressively limit. But that same country arrived in 1992 with enormous public debt, inflation historically higher than that of its main partners, currency instability, high financing costs, and a public-industrial system also burdened by inefficiencies, debt, and political interference. Monetary sovereignty existed, but it was not free; the ability to devalue allowed for the recovery of nominal competitiveness, but it reduced the international purchasing power of income and could fuel imported inflation; public control of businesses allowed the state to directly direct a significant portion of the productive apparatus, but it also transferred the cost of losses and bad investments to the public budget. This is why any comparison between the “before” and the “after” must reconstruct not only which instruments were given away, but also which problems those instruments failed to solve.

## The first gain: monetary stability and the disappearance of internal currency risk within the euro

One of the clearest benefits of joining the single currency is the disappearance of exchange rate risk in relations with other Eurozone countries, together with the

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elimination of conversion costs and the possibility of intra-European currency crises of the type experienced by Italy in 1992. The ECB already indicated in 1999 that the fundamental advantages of Monetary Union included the elimination of nominal exchange rate volatility between participating countries, greater price comparability and the possibility of developing more integrated financial markets; in particular, the elimination of the exchange rate risk premium should have reduced interest rates and facilitated investment and trade. [1]

For Italy, this transformation was particularly significant because convergence towards the euro accompanied a drastic reduction in nominal interest rates and debt service costs from the extremely high levels of the first half of the 1990s. The Commission's 1998 Convergence Report already described a significant reduction in interest costs and acknowledged that slowing inflation, currency stabilization, and falling interest rates would continue to reduce the cost of debt in subsequent years; however, the same report noted that Italian debt had reached 124.9 percent of GDP in 1994 and that its reduction required large primary surpluses, not simply lower interest payments. [2]

Italy thus achieved real financial space. The single currency did not reduce debt by itself, but it did reduce the cost to the state of refinancing it, freeing up resources that could have been allocated to more rapid reduction of the debt stock, investment, training, infrastructure, or tax reforms. The question that emerges in retrospect is not whether the benefit existed, because it is documented, but how it was used: the debt decreased in the second half of the 1990s and then much more slowly, while current primary spending increased, and the country did not fully transform the interest dividend into a structural reduction in fiscal vulnerability. The institutional gain was therefore real, but the rent generated by convergence was not transformed to the same extent into public capital or greater potential growth.


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## The second gain: access to a much more integrated European market

Participation in the single market and the euro has also profoundly increased Italy's commercial and financial integration with the rest of the continent. For a country whose industrial strength is concentrated in export-oriented manufacturing and intermediate supply chains, operating within a market free of exchange rate risk among its main partners and with progressively harmonized standards represents a considerable structural advantage. Germany remains the main market for many Italian sectors, while France, Spain, the Netherlands, Belgium, and other European partners simultaneously constitute outlet markets, sources of inputs, and hubs in production chains.

The result is that Italian industry in 2026 can no longer be described as a simple "national industry" in the twentieth-century sense. A machine tool produced in Emilia-Romagna can incorporate German electronics, European software, and components from Asia, be sold to a French customer, and financed by a bank with operations in integrated markets. The Italian economy has thus gained access and scale, but has simultaneously lost some of the autonomy needed to unilaterally modify standards, tariffs, and regulations without taking into account its integration with other members.

This trade-off between access and autonomy is one of the fundamental characteristics of European integration and cannot be judged by looking only at one side.


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## The third gain: greater financial and banking solidity

The Italian banking system of 2026 is profoundly different from the one that entered the crisis of the 1990s or from the one hit by the bad loans accumulated after 2008. Privatizations, mergers, European supervision, more stringent capital requirements, reduction of NPLs and greater integration with the Banking Union have produced a system that is today significantly better capitalized and less burdened by bad loans than in the mid-2010s. The OECD describes the health of the Italian financial sector in 2026 as robust and observes that the balance sheets of companies and households have also strengthened. [3]

This outcome does not eliminate the bank-state circuit, because intermediaries continue to operate within a highly indebted country and because sovereign risk still influences financial conditions and portfolios. But the structure is much more resilient than it was in 2011, and, above all, the existence of European supervision and mechanisms reduces the likelihood that a national banking crisis will be managed solely through domestic improvisation.

Here, too, gains involve a loss. Part of the supervision of major banks has been transferred to the ECB, and the ways in which a state can intervene in an institution are constrained by European rules on state aid, resolution, and burden sharing. National banking sovereignty is therefore diminished; the joint capacity for supervision and stabilization is greater.


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## The fourth gain: a much stronger external position

An often overlooked change concerns the country's international financial position. At the end of 2025, Italy had a **net external credit position of 348 billion euros, equal to 15.4 percent of GDP** ; the Bank of Italy estimates an improvement of 39 percentage points of GDP compared to the end of 2013, attributing more than half of it to persistent current account and capital account surpluses. [4]

This data profoundly changes the vulnerability profile compared to 2011. High public debt continues to be a problem, but a country that overall has foreign assets exceeding its net liabilities presents a different configuration from that of an economy simultaneously indebted to its own public sector and to the rest of the world.

Italy has thus rebuilt its capacity to accumulate external financial wealth while continuing to live with a high public debt. This seems contradictory only if one confuses the state and the country: the public sector can be heavily indebted while households, businesses, and financial institutions own very significant assets.


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## The fifth gain: large-scale manufacturing has not disappeared

One of the most widespread narratives about Italy's economic history over the last thirty years holds that European integration and globalization have essentially destroyed the country's manufacturing sector. The documentation described in Chapter 23 makes this thesis too strong. Italy remains one of the European Union's leading industrial systems, producing approximately 14 percent of the value of industrial output sold in the EU and generating a non-energy trade surplus that reached approximately **€97.7 billion in 2025** .

The industrial transformation, however, has been enormous: supply chains, ownership, markets, technologies, and corporate geography have all changed; some traditional sectors have come under considerable pressure, while pharmaceuticals, aerospace, defense, advanced mechanical engineering, food, and numerous niche sectors have maintained or increased their international capabilities.

Italy has therefore not lost its industry.

It lost some industries and strengthened others.

The real loss concerns above all the growth of the productivity of the aggregate system.

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## The biggest loss: thirty years of near-stagnant productivity

Between 1995 and 2024, in the market sectors analysed by ISTAT, labour productivity grew on average by just **0.3 percent per year** . [5] This is probably the most important figure in the entire book, because it explains why many other Italian results appear simultaneously positive and insufficient.

A country can boast significant exports, excellent businesses, and a high level of private wealth; if each hour worked produces only slightly more value year after year, it becomes difficult to increase real wages, finance welfare, reduce debt, and simultaneously invest in research, defense, and energy.

In 2024, labor productivity in market sectors decreased by 1.9 percent, because hours worked grew much more than value added. [5] The recent data should not be mechanically extrapolated to the future, but highlights an old problem: Italy manages to create jobs without producing equally rapid growth in productivity.

This is the most profound loss compared to the opportunity that arose in the 1990s. The euro eliminated nominal devaluation as an adjustment tool; Italy should therefore have compensated through productivity, innovation, and business growth. This process has occurred in some companies and supply chains, but not enough across the system as a whole.


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## The second major cost: the difficulty of transforming employment into widespread participation

The Italian labour market is today much more flexible and has high absolute employment levels, but the European comparison still shows a huge amount of unused capacity. In 2025, the employment rate of the population aged 20 to 64 was **67.6 percent** , the lowest in the European Union, against the EU average of 76.1 percent; for women the rate was just **58 percent** , with a gender gap of 19.1 percentage points, the widest in the Union. [6]

The problem is enormous because it links employment, demographics, and growth. A rapidly aging country cannot afford to utilize such a small share of its potentially active population, especially among women and young people. The employment deficit therefore represents an economic loss no less significant than the productivity deficit.

If Italy had the same employment rate as its more advanced partners without reducing productivity per worker, the number of people contributing to production, tax revenue, and social security would be significantly higher.


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## The third cost: delays in research and proprietary technology

Italian spending on research and development remains at around **1.4 percent of GDP** , against a significantly higher OECD average and around 3 percent in Germany. [7] This lag has been building for decades and becomes more serious as industrial value shifts from physical production towards software, data, patents, AI, biotechnology and advanced materials.

Italy has thus gained access to global technologies, but it does not always control the most profitable parts. It can produce an advanced machine incorporating foreign semiconductors and non-Italian software; it can host an extremely sophisticated pharmaceutical plant whose decision-making center belongs to a foreign multinational; it can assemble complex systems within international programs without fully owning the intellectual property.

This isn't an absolute failure, because no modern economy controls all its technologies. The problem arises when the number of segments where external control is present becomes large enough to reduce the ability to make independent decisions.


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## The fourth cost: the debt has not really been resolved

In 1998, the European Commission predicted that, after declining from a peak of 124.9 percent in 1994, Italy's debt-to-GDP ratio could fall below 100 percent by 2003 if the country maintained high primary surpluses and capitalized on falling interest rates. [2] That trajectory did not materialize.

Thirty years later, the debt remains close to 140 percent of GDP.

This is probably the main major national goal missed during the entire period, because a lower debt would have allowed Italy today to finance investments, defense, the energy transition, and the demographic response with less distributive conflict.

The cost should not be interpreted simply as "money wasted on interest." The most significant cost is the **lost margin of choice** .

Any Italian government must consider the market reaction much more carefully than a state with significantly lower debt.

Debt thus transforms a past economic decision into a present political constraint.


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## The fifth cost: the loss of the exchange rate instrument was not compensated by sufficient internal flexibility

With the euro, Italy voluntarily renounced the ability to unilaterally devalue its currency against its European partners. This eliminated a correction mechanism that had previously allowed for a rapid recovery of nominal competitiveness, but which also led to inflation, loss of purchasing power, and greater financial instability.

The question, therefore, is not whether devaluation was "good" or "bad." It was an instrument with benefits and costs.

Once eliminated, the economy would have to adjust primarily through productivity, relative wages, prices, labor mobility, innovation, and capital reallocation.

The Italian problem is that productivity has not grown enough and reallocation between firms has remained slow.

The loss of the exchange rate has therefore become more costly precisely because internal reforms have not produced the speed of adaptation that a monetary union requires.


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## The sixth cost: some decision-making capacity has become shared

From 1992 to 2026, Italy has transferred increasing shares of decision-making power in monetary, banking, budget, trade, competition, and regulatory policy. The ECB sets interest rates; the Commission negotiates trade policy; the Banking Union determines part of the supervisory framework; European rules govern state aid; the new Fiscal Compact conditions net spending growth.

This is a loss of national autonomy in the legal sense.

But it would be wrong to stop here.

Italy simultaneously exercises these powers through common institutions in which it participates. It does not decide the ECB rate individually, but participates in the Governing Council through the Governor of the Bank of Italy; it does not have an Italian trade tariff, but participates in defining the European direction, which it negotiates as a bloc with the United States and China; it cannot freely use industrial aid without rules, but benefits from the fact that other states are also subject to common limits.

The issue is therefore not “lost sovereignty” versus “intact sovereignty”.

It is transformed sovereignty.


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## The seventh gain: Europe has demonstrated that it can produce tools that Italy alone would not have had on the same scale.

The pandemic and energy crisis have exposed the flipside of integration. PEPP, SURE, and Next Generation EU have enabled the mobilization of monetary and fiscal capacity on a scale that would have been much more difficult to replicate individually without significantly increasing Italian sovereign risk.

The PNRR is the most obvious example. Italy has received access to nearly two hundred billion in grants and loans through a joint European program linked to investments and reforms. The size of the program doesn't automatically mean the resources will be used well, but it does demonstrate that the Monetary Union of 2020 is no longer the same as that of 2010.

- The shared capacity has grown.
- The bond has also grown.
- Resources come with milestones and targets.
- Once again, protection and discipline go hand in hand.


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## Geopolitical gain: Being in larger blocs increases negotiating capacity

In the new world order dominated by competition between the United States and China, an isolated Italy would have very limited ability to influence tariffs, digital standards, industrial regulation, and supply chain security. Being part of the EU increases the scale of trade and regulation; being part of NATO increases the scale of deterrence.

- This does not mean that Italian interests always coincide with those of other partners.
- This means that the country can seek to transform its national weight into shared capabilities.
- The price is accepting the compromise.

## What has Italy really lost?

The most rigorous response is therefore more complex than a political formula. Italy has lost exclusive control of monetary policy, the possibility of national devaluation, a share of fiscal discretion, a portion of public industrial ownership, and the ability to unilaterally define numerous economic rules.

It has also lost, through its own internal weaknesses, part of the time available to reduce debt, increase productivity, invest in research and prepare for aging.

- These two categories should not be confused.
- The first is the result of the chosen integration.
- The second is the incomplete result of national politics.

## And what did he gain?

It has gained monetary stability, access to a large integrated market, reduced currency risk, protection from the ECB against extreme fragmentation, a more robust banking structure, extraordinary European financing capacity, greater trade openness, and an industrial position that, despite all the difficulties, remains among the largest in Europe.

It has also gained a positive net external position and an industrial system that has proven capable of adapting to huge shocks.

- The problem, therefore, is not that Italy has become “weaker” in every dimension.
- It has become more stable and integrated but not enough more productive.
- And it is this asymmetry that defines the entire balance sheet.

## Sources and documents of Chapter 28

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# Chapter 29

## The great Italian myths put to the test by documents

Every long economic transformation produces its own mythology, especially when it experiences socially painful crises and technical decisions that are difficult to reconstruct years later. This is because a society needs to organize complex experiences through comprehensible narratives. In the Italian case, the combination of Maastricht, the euro, privatization, austerity, the ECB, globalization, and technocratic governments has, over time, produced explanations that often contain a kernel of truth but transform it into total causality. The problem with these narratives isn't that they're necessarily false in every aspect; it's that they blur the distinction between fact, interpretation, and counterfactual, attributing to a single event what actually results from the interaction of multiple factors.

The purpose of this chapter is not to replace one mythology with another, nor to establish which political interpretation should be preferred. It is to examine some of the most recurring assertions against the documents reconstructed in the previous chapters and to show where the evidence supports one side of the thesis, where it contradicts it, and where it prevents a clear conclusion.

## “The euro has destroyed the Italian economy”

The formulation is too absolute to be supported by the data.

It is documented that Italy experienced extremely weak productivity growth during the euro period and that the renunciation of devaluation made the adjustment of competitiveness much more dependent on productivity, wages, prices and innovation capacity. It is equally documented, however, that the slowdown in Italian productivity preceded or coincided with the years of preparation for the euro and that the causes identified by ISTAT and the OECD include the size of firms, low investment in R&D and intangible capital, management, demography and low labour force participation. [1]

The euro has eliminated an adjustment tool.

It did not create the low productivity by itself.

It has also produced benefits through the elimination of intra-area exchange rate risk and a strong reduction in rates compared to previous years. [2]

The documentary formulation is therefore different: **the euro has made Italy's structural weaknesses more costly because it has eliminated devaluation as a recurring compensation mechanism, but it does not constitute a sufficient explanation for Italy's productive stagnation** .

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## “Before the euro, Italy grew because it could devalue.”

This thesis also contains a real but incomplete component. Devaluations have indeed improved the nominal competitiveness of Italian producers at certain times; after the 1992 crisis, for example, the sharp devaluation of the lira contributed to external rebalancing.

But devaluation also means making imports and energy more expensive, decreasing the international purchasing power of incomes, and increasing the risk of inflation.

Furthermore, Italian growth in the 1950s, 1960s, and part of the 1980s cannot be explained simply by exchange rate flexibility: industrialization, technological convergence, demography, urbanization, capital accumulation, and European growth played key roles.

Devaluation was a tool.

It was not a growth model.

**“With the lira, the state controlled interest rates and therefore debt wasn't a problem”**

The history of the 1980s and 1990s contradicts such a representation. Italian debt reached **124.9 percent of GDP in 1994** , while the cost of debt service remained extremely high; the European Commission in 1998 attributed precisely to the reduction of interest rates and inflation a significant part of the subsequent improvement. [3]

A national central bank certainly has more freedom to intervene on its debt when it controls the currency in which it is denominated, but this does not mean that it can make financing free without consequences for inflation, exchange rates, and credibility.

The national currency changes the nature of the constraint.

It doesn't delete it.


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## “The euro has caused prices to explode by 100 percent”

The physical introduction of banknotes and coins in 2002 was accompanied by a very strong perception of price increases, especially for certain frequently purchased goods and services, and it is historically correct to recognize that some roundings and sectoral increases were highly visible to families. However, official data do not support the claim that the general price level doubled as a result of the transition from the lira to the euro.

The ECB estimates attributed a relatively limited effect to the material conversion on the overall harmonised index, while acknowledging that perceptions could diverge from the statistical average due to the concentration of price increases in frequently purchased goods.

The distinction between measured inflation and perceived inflation is therefore essential.

To say that “nothing increased” would be false.

Saying that “everything doubled because one euro became a thousand lire” is equally incompatible with price indices.

**“Maastricht imposed privatizations”**

Italian privatizations were certainly part of the broader European process of liberalization, competition, debt reduction, and transformation of the public economy. However, the Maastricht Treaty contains no general obligation requiring Italy to sell ENI, Telecom Italia, Autostrade, or other companies in the specific ways adopted.

The decisions to transform large public companies into joint-stock companies and the subsequent sales were made through Italian legislation, within a context in which the government simultaneously sought to modernize the system, raise revenue, reduce debt, and comply with the new European regulations.

The most precise formulation is therefore that **European integration constituted a powerful framework and incentive for transformation, while the concrete structure of privatisations was a national political-legislative decision** .

**“Privatizations have repaid the debt”**

Privatization revenues did contribute to debt reduction. In the 1998 convergence report, the Commission quantified Treasury revenues at 0.4 percent of GDP in 1994, 0.5 in 1995 and 1996, and 0.7 in 1997. [3]

But selling an asset generates a one-time gain, while public debt is an accumulated amount whose trend continuously depends on deficits, interest payments , and nominal growth. Privatizations could reduce its level, but they were not a substitute for sustainable fiscal policy.


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The fact that the debt remains high decades later simply demonstrates that the operation could not mathematically constitute a permanent solution.

**“The austerity of 2011 was entirely imposed by the ECB”**

The letter of August 5, 2011, clearly demonstrates that the ECB and the Bank of Italy exerted very strong pressure on the Italian authorities and detailed measures regarding public finances, pensions, labor, and administration. It is therefore incorrect to downplay the external component.

But part of the fiscal correction had already been approved by the Berlusconi government, and subsequent measures were passed into law by the Italian Parliament.

The Monti government also had to obtain the confidence of the Chambers.

The documentary record therefore describes a condition of **strong external pressure exerted within national constitutional procedures** , not a formal abolition of Parliament.

**“Berlusconi was removed from the ECB”**

The documents allow us to reconstruct a more precise sequence. The government faced intense pressure from the markets and European institutions; on November 8, 2011, the budget statement received 308 votes in favor in the Chamber of Deputies, demonstrating that the government no longer had an absolute majority; Berlusconi communicated to the Quirinale his intention to resign after the approval of the stability law and formally submitted his resignation on November 12.

The ECB did not have the constitutional power to remove the Prime Minister.

However, it contributed to the financial and institutional context in which the government's political possibilities had drastically shrunk.

The distinction between **political cause, economic pressure and constitutional procedure** is essential.

**“In November 2011, Italy was already in default”**

This is not supported by the documents. Yields were extremely high, and their persistence would have led to a very dangerous financial trajectory, but the auctions continued to operate and the government had not stopped honoring its obligations.

The problem was a possible evolution towards unsustainability.

Not a default that has already occurred.

The distinction between a crisis of confidence and actual insolvency does not diminish the severity of the phase; it merely defines it more precisely.

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**"Monti increased the debt, so austerity was useless."**

It's true that the debt-to-GDP ratio increased during the Monti era despite strong consolidation. But deficit and debt are not the same variable, and debt also depends on nominal growth, interest payments, and stock-flow adjustments.

The deeper-than-expected recession reduced the denominator of the ratio, while Italy continued to sustain high interest costs.

It is therefore documentary evidence that austerity contributed to weak demand and that fiscal multipliers were likely underestimated; however, it is not possible to demonstrate that, without consolidation and the 2012 ECB backstop, the debt-to-GDP ratio would necessarily have been lower.

The counterfactual is not observable.

**"Draghi saved Italy simply by buying BTPs"**

The “whatever it takes” and OMTs were decisive in changing expectations about the reversibility of the euro, but Italy never used an OMT program.

The technical specifications published by the ECB in September 2012 also provided for **strict and effective conditionality linked to an EFSF/ESM programme** and no ex ante quantitative limits. [4]

The power of the OMT in the Italian case was therefore above all that of potential credibility.

The market believed that the ECB had and was willing to use a backstop.

This is a key difference compared to a purchase you have already made.

**“The ECB finances Italian debt for free”**

This formulation also does not correspond to the institutional functioning of the Eurosystem. The ECB can purchase government bonds on the secondary market through monetary programs, but it does not simply credit the Italian government with the necessary budgetary resources without costs or conditions.

The Treasury continues to issue securities on the market.

The cost of interest remains real.

ECB policy can compress or expand it through rates and purchases, but it does not make the debt non-existent.

**“The bail-in means that above 100,000 euros the state automatically takes the deposits”**

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No. Covered deposits up to €100,000 are excluded from bail-in through the guarantee system, while other liabilities follow a specific hierarchy. The inclusion of unprotected deposits is not an automatic withdrawal applied simply because the balance exceeds the threshold, but can occur within a resolution procedure after losses have been absorbed by the categories above them in the hierarchy.

The distinction between deposit, bank bond and share capital remains fundamental.

**“Italy no longer produces anything”**

Industrial and trade data make this assertion untenable. Italy remains one of the EU's leading manufacturing systems and in 2025 generated a non-energy surplus of nearly one hundred billion euros.

The right criticism addresses productivity, company scale, R&D, technology, and critical dependencies.

Not the absence of industry.

The difference is important because a policy built on the idea of having to “recreate manufacturing from scratch” would be profoundly different from a policy intended to modernize an existing production base.

**“SMEs are Italy's problem”**

This is an equally excessive simplification. Many Italian SMEs are highly competitive, innovative and export-oriented. The OECD also observes that medium-large Italian firms have very competitive productivity performances compared to their foreign counterparts. [5]

The statistical problem is that too large a share of employment remains concentrated in microbusinesses that fail to grow, invest less in capital, R&D, and management, and struggle to achieve the scale needed to compete in the most capital-intensive technologies.

The problem is not “small”.

It is the failure of a sufficient portion of businesses to become larger when it makes economic sense to do so.

**“The public debt is entirely in the hands of foreigners”**

The structure of Italian debt is diversified among domestic and foreign investors, banks, insurance companies, households, funds and Eurosystem institutions. Furthermore, Italy's overall net position towards foreign countries is now positive. [6]

This does not make public debt irrelevant, because the Treasury must refinance it on the market anyway.

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However, it means that describing the country as simply “indebted to foreign countries” confuses the state debt with the financial balance of the entire economy.

**“A primary surplus means that the government is reducing its debt.”**

Not necessarily. A primary surplus simply means that, net of interest, revenue exceeds expenditure.

If interest is higher than the primary surplus, the overall deficit remains negative.

Furthermore, if nominal growth is weak or there are unfavorable stock-flow adjustments, the debt-to-GDP ratio may increase even with a primary surplus.

The Italian 2025 represents precisely such a case.

**“The common European debt is free money”**

Next Generation EU introduced debt issued by the Union and financed through grants and loans to member states, but the common debt will have to be repaid through the European budget and own resources.

Grants are therefore not direct loans to the individual state, but neither are they resources without collective cost.

Italy contributes to the common budget and will participate indirectly in the reimbursement.

The net economic value will depend above all on the productivity of the financed investments.

**“The PNRR is a gift from Europe”**

The wording ignores the loan component, conditionality, and Italy's contribution to European resources.

But it would be equally wrong to claim that it is simply "new Italian debt": the grant component is not accounted for as a national loan, and the debtor on the markets for the common financing is the Union.

The PNRR is therefore a conditional transfer and common financing.

Its convenience cannot be judged by the monetary balance alone.

It depends on the investment performance.

**“Italy is Europe's largest net contributor and therefore loses from the EU”**

This is another statement that confuses budget flows and economic benefits. The net balance between European contributions and transfers measures only part of the

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relationship; it does not measure access to the single market, tariff-free status, participation in European chains, the ECB, mutual funds, and other systemic benefits.

At the same time, citing the benefits of the single market does not automatically prove that every specific European policy is favorable to Italy.

The financial balance and the economic balance are different quantities.

**“Germany built the euro exclusively to promote its own exports.”**

The euro has certainly fostered the stability of German trade within the European market, and Germany has benefited greatly from integration. But the single currency was the result of multilateral political negotiations and was also supported by the ruling classes of Italy, France, and the other participating countries.

Italy decided to enter.

It was not simply forced by Berlin.

The most interesting historical question is therefore why some countries have made better use of the common monetary environment than others.

**“Italy no longer has sovereignty”**

The statement is too broad to be analytically meaningful. Italy continues to legislate, tax, spend, define a very large part of social policy, administer justice, choose its own government, organize its armed forces, and negotiate internationally.

It no longer unilaterally controls the currency, trade policy, and some components of supervision and regulation.

It therefore has less exclusive autonomy in certain sectors and greater common capacity in others.

The correct term is **shared and constrained sovereignty** , not absence of sovereignty.

**“Out of the euro, Italy could simply monetize its debt.”**

Technically, a state with its own currency and central bank can create money in the national currency and reduce the risk of nominal default on debt denominated in the same currency. However, this constraint can manifest itself through inflation, exchange rate fluctuations, capital flight, and an increase in the premium demanded by investors.

Eliminating one type of risk does not eliminate the economic cost.

It transforms it.


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## The document method produces a less convenient, but more useful, conclusion.

Most of the myths analyzed arise from a recurring error: transforming partial causality into total causality.

- The euro has impacted competitiveness.
- It doesn't explain all productivity.
- Austerity has deepened the recession.
- It doesn't explain every increase in debt.
- The ECB wielded enormous power in 2011.
- He did not formally remove the government.
- Privatizations have changed the economy.
- They were not simply ordered by Maastricht.
- The PNRR brings resources.
- They are not free.
- Debt creates constraints.
- It does not mean that the country is insolvent.

This method can be less satisfying than clear-cut narratives, because it does not offer a single culprit or a single solution.

But it is precisely the method necessary to govern a complex economy.


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# Chapter 30

## 2030–2035 — Constraints, Options, and Scenarios

A book that reconstructs thirty-five years of economic decisions would lose much of its meaning if it ended with a deterministic prediction of what will happen to Italy in the next decade, because the history analyzed in the previous chapters demonstrates precisely how national trajectories can be altered by unpredictable events: the 2008 American financial crisis, the euro crisis, the pandemic, the war in Ukraine, the explosion of energy prices, and the new global trade competition have repeatedly altered the constraints within which governments and businesses were required to make decisions. No model built in 2006 would have naturally incorporated Lehman Brothers; no public finance document in 2019 could have predicted the global economic shutdown in March 2020; no ordinary forecast for 2021 would have treated the Russian invasion of Ukraine and the collapse of European energy supplies as its central scenario.

The task of the final chapter cannot therefore be to establish "what will happen" in 2035.

Instead, it must identify **which conditions would make different trajectories possible and which indicators would allow us to understand, year after year, towards which configuration the country is moving** .

No odds will be assigned.

No political majorities will be anticipated.

The scenarios will not depend on the identity of the governing party, but on observable variables: productivity growth, labor participation, demographics, debt, research, energy, investment, industrial capacity, security, and reform implementation.

## The initial constraint: a shrinking and aging population

The most difficult starting point to change is demography. The new ISTAT projections based on the population as of 1 January 2025 indicate that, in the median scenario, residents would increase from **58.9 million in 2025 to approximately 58.7 million in 2030** , before decreasing more rapidly towards 55 million in 2050; ISTAT also underlines that none of the scenarios considered foresees, in the medium term, a lasting return to current levels and that the positive migration balance would not be sufficient to compensate for the natural deficit between births and deaths. [1]

For 2030–2035, however, the most important issue is not the overall number of residents, but their age composition. The share of the working-age population will decline, while the share of older people will continue to increase, simultaneously putting pressure on pensions, healthcare, the availability of workers, and tax revenue.


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This constraint cannot be eliminated within ten years through a birth rate policy, because even an immediate increase in births would produce new workers only many years later.

The period 2030–2035 will therefore depend above all on three variables: labor participation of the existing population, immigration, and productivity.

**The second constraint: public debt and average cost of financing**

The Italian Structural Budget Plan 2025–2029 already projects the adjustment beyond the end of the decade and foresees an improvement in the structural primary balance that will reach around **3.2 percent of GDP at the end of the seven-year adjustment period** , building a trajectory in which the debt should enter a downward path in the medium term. [2]

This trajectory is conditional.

It depends on growth, interest rates, compliance with net spending, reforms, and the absence of very large fiscal shocks.

The basic math can be summarized without turning it into an abstract equation: if the average interest rate paid on debt remains consistently higher than nominal economic growth, Italy must generate significant primary surpluses simply to stabilize the debt-to-GDP ratio; if nominal growth increases through higher real growth and inflation compatible with the ECB's target, the work required of the budget decreases; if the gap widens, the constraint becomes more stringent.

This means that productivity is also fiscal policy.

## The third constraint: the end of the PNRR as an extraordinary impulse

2026 represents a turning point because the Recovery and Resilience Facility was designed as a temporary program. Italy will therefore have to face the subsequent period without being able to consider the same level of extraordinary European funding as permanent.

The question is not simply how many works will be completed by the deadline.

It depends on whether the economic system will be able to maintain a high level of investment even after the extraordinary push ends.

The true success of the PNRR will be measurable in 2030 through productivity, justice times, digitalization, infrastructure, private investment, and human capital.

Not by the number of tranches received.


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## The fourth constraint: insufficient research

With R&D spending around 1.4 percent of GDP in 2024, Italy is starting from a position too low compared to economies that aspire to control a significant share of future technologies. [3]

If the country were to reach 2030 still around current levels, the risk would be that it would maintain a large manufacturing base but become increasingly dependent on foreign countries for software, AI, semiconductors, batteries, biotechnology, and other high-value components.

The key variable to observe will therefore not only be public spending on research, but also companies' overall R&D and their ability to transform research into patents, scale-ups, and production.

## The fifth constraint: energy and competitiveness

Diversification from Russian gas has reduced geopolitical risk, but has not solved the energy cost problem. Over the next decade, Italy will need to combine growth in renewables, networks, storage, efficiency, gas as a transition source, and, if political and technological decisions allow it, potential new nuclear capacity.

The variable to monitor will increasingly be less the nominal price of the bill in a single year and more the structural differential in the industrial cost of energy compared to the United States, China, France and Germany.

If that gap remains high, some energy-intensive sectors will continue to face pressure to relocate.

## The sixth constraint: new spending on security

NATO's new commitment makes defense a structurally more important component of public finances. The challenge will not only be to find resources, but to transform them into capabilities and, where possible, European and Italian industrial production.

If the increase in spending mainly produces imports of finished systems, the domestic industrial benefit will be limited.

If it fuels research, production, munitions, shipbuilding, aerospace, and electronics in Italy and Europe, part of the tax cost will be transformed into technological capital.

Defense thus becomes an industrial variable.

## Trajectory indicators

To understand the scenario Italy is moving toward between 2030 and 2035, some indicators will be particularly revealing: average labor productivity growth; employment rate for 20–64 year-olds and, above all, female employment; R&D intensity as a

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percentage of GDP; debt-to-GDP ratio; primary balance; public and private investment; share of domestically produced energy and its relative industrial cost; exports of high-tech goods; average firm size; share of young NEETs; completion and economic performance of NRRP infrastructure; defense industrial capacity; availability of venture capital; skilled migration net; and administrative and judicial delays.

These indicators do not automatically predict the future.

However, they allow us to identify the direction.

## Scenario A — Productive convergence within Europe

In this scenario, Italy used the second half of the 2020s to transform the extraordinary investments of the National Recovery and Resilience Plan (NRRP) into a permanent increase in productivity. Reforms of the justice system and public administration reduced delays and uncertainty, the infrastructure built effectively increased connectivity in Southern Italy and its ports, small and medium-sized businesses invested more in digitalization and industrial AI, and a growing number of companies overcame the size barriers that limited their research and internationalization.

The central condition would not be an annual GDP boom, but labor productivity growth consistently above the mediocre 0.3 percent average recorded from 1995 to 2024. [4] If, over a period of several years, productivity converged toward significantly higher rates, even a declining working population could sustain more robust real growth.

At the same time, the employment rate should approach the European average through greater female and youth participation. The gap in 2025 — 67.6 percent in Italy versus 76.1 in the EU — represents a huge potential pool of untapped labor. [5]

In this configuration, debt could begin to decline more clearly, not only thanks to primary surpluses but also because the denominator grows more rapidly. The state would then have more room to support defense, research, birth rates, and infrastructure without having to finance every new priority through tax increases or cuts elsewhere.

Industrial policy would also change. Italy would remain a major manufacturing hub, but the share of value controlled through technology and intellectual property would progressively increase; R&D could approach the European average, while aerospace, defense, pharmaceuticals, automation, energy, and infrastructure would become centers of attraction for international capital.

This scenario does not require “miraculous” growth.

It requires many small structural changes to proceed in the same direction for a long enough time.

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## What signs would confirm Scenario A?

Not a single quarter of GDP. At least several years would be needed in which productivity grows, female employment rises, R&D converges towards 2 percent of GDP or above, the debt-to-GDP ratio enters a downward trend not solely due to inflation, and private investment remains high even after the PNRR is concluded.

If these indicators moved simultaneously, the convergence would be physically observable.

## Scenario B — Stabilization without convergence

The second scenario is not a crisis, but rather the continuation of many of the characteristics of contemporary Italy. The economy is growing slowly, employment remains relatively robust, the banking system is stable, debt is managed without serious stress, and major exporters continue to compete successfully, but productivity and innovation are improving too slowly to achieve true convergence with the more dynamic economies.

It is a scenario perfectly compatible with a solvent and industrially important Italy.

The country could continue to generate large non-energy surpluses, maintain a positive net external position, and finance its debt, but any budget bill would remain dominated by the need to distribute a relatively small amount of fiscal space between pensions, healthcare, defense, tax cuts, and investment.

Aging would make it progressively more difficult to increase the labor supply.

Immigration would offset part of the population decline, but without automatically producing the same amount of human capital needed in technological sectors.

R&D would increase, but remain below the European average.

Successful companies would continue to be highly competitive, while a large part of the system would remain small and unproductive.

The state would be able to stabilize the debt but not reduce it rapidly.

This is a setup that could last a long time.

The main vulnerability would be the lack of margin to absorb a new large shock.

## What signs would indicate Scenario B?

Productivity still close to 0–0.5 percent per year, employment rate improving but still well below the EU average, R&D below 2 percent of GDP, debt essentially stable at high levels and real growth modest on average.

The difference compared to the deterioration scenario would be financial stability.

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Italy would not converge.

But it would not enter a systemic crisis.

## Scenario C — Erosion of the productive base

The third scenario arises when multiple vulnerabilities reinforce each other. The end of the NRRP push is not being replaced by sufficient private investment; energy costs remain high; more internationalized companies are shifting a growing share of new investments to the United States or Asia; the automotive industry is losing significant parts of its supply chain without new technology industries replacing their value; R&D remains low, and the system continues to depend on foreign countries for critical technologies and components.

In such a scenario, the problem would not be the sudden closure of Italian industry, but a much slower and more dangerous process: the loss of new functions.

A plant may remain open while the new product is developed elsewhere.

A company can continue to produce while R&D moves away.

A company can remain Italian while the capital for its expansion is invested mainly abroad.

This is how an industrial base can erode without a single dramatic event.

Demographics would amplify the problem: fewer young people, skills drain, and low participation would reduce available human capital; weaker nominal growth would make it more difficult to stabilize the debt; increased social security and defense spending would further compress investment.

Fiscal risk would therefore return not because debt would suddenly increase, but because the economy's future capacity to support it would decrease.

## What indicators would signal Scenario C?

Persistent decline in productive investment net of public incentives, a decline in Italy's share of high-value European exports, stagnant R&D, closure or relocation of decision-making centers, declining productivity, rising debt despite primary surpluses, and a structural increase in financing costs compared to its partners.

None of these indicators taken individually would be sufficient.

Their contemporaneity would be the relevant signal.

## Scenario D — Industrial Mediterranean Power

Finally, there is a different configuration, which does not necessarily represent an alternative to Scenario A but rather a specific geopolitical declination of it: Italy manages

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to convert its geographical position into a European energy, logistics, and industrial platform.

In this trajectory, Mediterranean ports are effectively connected to continental networks; ELMED and other interconnections are transforming the South into an energy infrastructure between Europe and North Africa; the Mattei Plan is attracting sufficient European and multilateral capital to build real industrial partnerships; energy diversification is reducing the vulnerability premium, and new sectors in defense, space, naval, electricity grids, and renewables are generating exportable capacity.

Geography would then cease to be primarily a peripheral cost and become an infrastructure rent.

This scenario also requires observable indicators: growth in port traffic accompanied by greater domestically captured logistics value, increased energy flows from South to North, Italian industrial investments in Africa and vice versa, greater electrical and digital interconnection capacity, and the development of production hubs in Southern Italy.

It is not enough to inaugurate infrastructure.

They need to change the economic geography.

### Scenarios may overlap

These scenarios are not exclusive. Italy could experience convergence in some sectors and stagnation in others; the North could evolve differently from the South; the pharmaceutical industry could expand while the automotive industry declines; debt could improve while demographics deteriorate.

For this reason, the national future must not be described as a single trajectory.

The real question will be which configuration prevails in the overall balance.

## Demography: The problem no government can solve alone by 2035

ISTAT projections make one element particularly clear: the decrease in the working age population represents one of the most robust and difficult to reverse trends of the next decade. [1]

This means that even a highly effective birth rate policy would have an impact especially beyond 2040.

In the period 2030–2035, the operational options are therefore increased participation, immigration, higher effective working age compatible with health and skills, automation and productivity.

They are complementary tools, not alternatives.

Automation can offset some of the labor shortage.

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Immigration can increase supply.

Increased female participation can utilize existing human capital.

Continuing education can keep older people productive longer.

No single measure will be sufficient.

## Debt: sustainability will increasingly depend less on a single annual maneuver

The new European fiscal framework makes the budget a multi-annual strategy. The Italian Structural Plan already foresees a consolidation path that extends into the next decade. [2]

This means that future governments will inherit a path where they can modify the composition of spending but not ignore the mathematics of debt.

The decisive element will be the quality of the consolidation.

Reducing public investment to meet a budget target can improve the deficit and worsen potential growth.

Reducing unproductive spending or expanding the employment base can improve both.

Composition will matter more than rhetoric.

## R&D: the 2 percent threshold as an indicator, not a fetish

A particularly useful indicator could be the research trajectory. Moving from 1.4 percent to 2 percent of GDP by the first half of the 2030s would not automatically guarantee innovation, but it would signal a substantial shift in national technological intensity.

Remaining close to 1.4 percent while the United States, Germany, and Asia invest much more would instead indicate a growing risk of technological dependence.

The quality of spending would naturally remain decisive.

But the quantity is low enough that even volume is an issue.

## The labor market may be the greatest reserve of domestic growth

The employment rate of 67.6 percent in 2025 shows that Italy has a large amount of unused potential workforce, particularly female. [5]

This makes participation one of the few levers capable of producing significant results by 2035 despite demographics.

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Childcare services, second-income taxation, transportation, active policies, training, and work organization can therefore have a much greater macroeconomic impact than their classification as “social” policies suggests.

Increasing female employment is also a debt policy.

## Businesses must grow without losing their ability to specialize

The size challenge is equally important. The OECD continues to identify the large share of micro and small enterprises as one of the reasons for Italy's weak productivity and underlines that medium-large Italian companies are instead highly competitive. [6]

The goal should therefore not be to standardize the system towards gigantic corporations.

It should allow companies that own the market and technology to grow without being held back by insufficient capital, governance, family succession, or tax incentives that make it convenient to remain artificially small.

## Energy: Future security will be a wallet, not a source

The lesson from Russia is that energy security based on a single, seemingly convenient supplier can turn into political vulnerability.

The 2035 structure should therefore be a portfolio: renewables, storage, networks, diversified gas, Mediterranean interconnections and, if political and industrial choices make it concrete, new nuclear technologies.

The criterion will not be absolute self-sufficiency.

It will be the substitutability.

A system is safe when the loss of a source does not paralyze its functioning.

## Technology: the risk is not importing, but not being able to replace

The same principle applies to China and the United States.

Italy will continue to import Chinese components and American technology.

There is nothing abnormal in this for an open economy.

Risk arises if a critical component cannot be replaced within a reasonable time.

The 2030–2035 strategy will therefore have to map dependency through replacement times, not just commercial values.

This is the most rigorous meaning of de-risking.


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## Europe: Italy's future will also depend on what the Union becomes

National scenarios cannot be separated from European developments. An EU capable of maintaining common investments after Next Generation EU, completing the capital union, supporting defense, energy, and common technology, and building a true market of scale for innovative companies would offer Italy a radically different environment from a Union focused exclusively on national fiscal discipline.

The same Italian policy could produce different results in the two contexts.

Europe therefore remains a variable in the scenario, not a constant.

## The ECB will continue to limit the risk of fragmentation, but it cannot replace growth

The lesson of 2012 remains valid. The central bank can counter disorderly and self-perpetuating dynamics in sovereign markets, but it cannot boost productivity, address demographics, or direct public investment.

The OMT was built precisely to counteract destructive and self-perpetuating balances, not to eliminate the fiscal constraint of the States. [7]

Italy's future cannot therefore depend on the hope that the ECB will permanently maintain low yields regardless of fundamentals.

Monetary policy can buy time.

The story of this book shows that the problem is how that time is used.

## The final metric: the capacity-to-dependency ratio

In 2035, Italy will be judged by a question that is much more useful than simply its GDP level.

How many of the country's essential functions are controllable or replaceable?

Energy.

Technology.

Capital.

Defense.

Data.

Supply chain.

Food production.

Drugs.

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Infrastructure.

No European country will be completely autonomous in each category.

Power will consist in having enough alternatives that you cannot be coercively blocked by a single addiction.

## The future does not depend on the abolition of constraints, but on the ability to transform them

The entire journey from 1992 to 2026 ultimately leads to a conclusion that also applies to the next decade.

Italian politics has repeatedly sought a solution that would eliminate this constraint: devaluation to restore competitiveness, the euro to lower interest rates, privatizations to reduce debt, austerity to restore confidence, the ECB to stabilize the spread, the PNRR to boost investment.

None of these tools permanently eliminated the next problem.

Because a complex economy never reaches a state where there are no constraints.

It can only transform them.

A stable currency eliminates exchange but increases the importance of productivity.

A credible central bank reduces sovereign risk but does not eliminate debt.

The PNRR increases investments but makes administrative capacity crucial.

Energy diversification eliminates one dependency and creates others.

Increasing defense improves security but requires fiscal resources.

Immigration growth offsets demographics but requires integration.

This is the nature of economic policy.

## The fundamental choice for 2030–2035

Italy will not face a binary choice between sovereignty and Europe, between the state and the market, between the West and autonomy, or between industry and services.

You will have to decide how to combine these elements.

The question will be whether to use Europe to achieve scale without losing national capacity, whether to use the American alliance without becoming technologically passive, whether to trade with China without building coercive dependencies, whether to use the state without recreating inefficiencies, whether to use the market without

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abandoning strategic infrastructure, and whether to support welfare without curtailing the investments needed to finance it in the future.

The outcome will not depend on a single reform.

It will depend on the consistency of many decisions made over years.

## The real favorable scenario is not an Italian miracle

There would be no need for a new “economic miracle” in the post-war sense, because those demographic, technological, and international conditions will not return.

What's needed is something far less spectacular and probably more difficult: moderate but persistent productivity growth, an increase in labor force participation, research that gradually converges toward the European average, public investment that doesn't collapse after the NRRP, debt management credible enough to keep the risk premium low, and an industrial strategy capable of protecting critical nodes without shutting down the economy.

An improvement of a few tenths of a point repeated for fifteen years can radically transform a country.

Italian economic history since 1992 also demonstrates the opposite: a few tenths of productivity lost each year can accumulate into a huge gap.

## The real risk is not a single collapse

Likewise, the most plausible negative scenario does not necessarily require a repeat of the 2011 crisis.

Italy could slowly weaken while remaining formally stable.

A factory that doesn't receive new investment.

A researcher who leaves.

A company that doesn't grow.

A port that remains disconnected.

A patent developed elsewhere.

A debt that does not decrease.

A shrinking working population.

No single event produces decline.

Their accumulation, yes.


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## And Italian power can grow without becoming a superpower

The same logic applies positively. Italy doesn't have to become like the United States, China, or Germany to increase its influence.

It can become more powerful by exploiting what it already possesses: specialized manufacturing, the Mediterranean, the defense, pharmaceutical, mechanical, agri-food industries, private savings, energy infrastructure, and membership in the European market.

The power of an average country does not consist in controlling everything.

It consists of being difficult to replace in some areas and difficult to blackmail in others.

## 2035 will therefore be the result of a simple question

In 1992, Italy had to decide how to enter the new European order.

In 1999 he had to learn to live without his own currency.

In 2011, it faced the financial limit of its sovereignty.

In 2020, he discovered that Europe could build common debt.

In 2022, he discovered that energy, industry, and security were once again inseparable.

In 2026 it has more common protections but also more international dependencies.

2035 will not tell whether Italy has recovered its lost sovereignty.

He will say something much more concrete:

**if he has learned to transform interdependence into capacity rather than vulnerability.**

And this, after thirty-five years of transformation, is the fundamental question that remains open.


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# EPILOGUE

## Power after absolute sovereignty

At the beginning of this book, the question might have seemed relatively simple: what happened to Italian economic sovereignty in the thirty-five years between the end of the Cold War and the Italy of 2026, and how much of the country's transformations should be interpreted as a loss of autonomy, how much as a gain in stability, how much as a consequence of externally imposed constraints, and how much, instead, as the result of decisions made by Italian institutions within conditions they themselves had helped to create? After thirty chapters, the answer cannot be such a simple formula, because the documentary evidence has shown that sovereignty has not disappeared, has not remained intact, and above all, no longer coincides with the theoretical capacity of the state to make decisions alone. The nature of power itself has changed: from a predominantly juridical faculty to choose instruments to the material capacity to achieve results within systems of interdependence from which none of the major European economies can truly separate without incurring enormous costs.

In 1988, Italy still belonged to an order in which many of the main levers of economic policy were formally national. It had its own currency, a central bank within a European monetary regime but not yet replaced by a supranational authority, a vast system of public enterprises, an industrial policy that retained the tools for direct intervention, a banking system in which public control still had enormous weight, and a capacity to modify the exchange rate that, during previous crises, had repeatedly allowed a rapid recovery of nominal competitiveness. But it would be historically misleading to interpret this configuration as a state of full sovereignty followed by a merely mutilated one, because Italy in the late 1980s was already constrained by debt, international financial markets, the EMS, energy dependence, NATO, the European Community, and the need to finance a public apparatus whose spending had progressively exceeded its ordinary revenue capacity.

The debt wasn't a "European" constraint. It was an Italian constraint.

Inflation was not imposed by Brussels.

The lira's vulnerability did not come from a future treaty.

The fragility of public finances and the difficulty of controlling growing spending preceded Maastricht.

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This neither absolves nor condemns the previous system; it simply prevents us from constructing a past in which the formal freedom of the state was equivalent to full economic freedom.

By 1992, this distinction became impossible to ignore. Maastricht certainly represented a move toward integration that would have gradually transferred a decisive portion of monetary sovereignty to the European level, but the EMS crisis in the same year demonstrated that the availability of a national currency did not guarantee immunity from market pressures. The lira was able to devalue, and this subsequently contributed to the competitiveness of exports; but the devaluation occurred within a serious financial crisis, following interest rate hikes and the loss of reserves, and it also had consequences for the cost of imports and income distribution. The 1992 event thus constitutes one of the first major lessons of the entire period: **owning an instrument does not mean being able to use it without cost, and losing an instrument does not necessarily mean losing all capacity for economic policy** .

Italy's rush to adopt the euro between 1996 and 1998 must be interpreted precisely within this search for a different form of stability. In its 1998 convergence report, the European Monetary Institute recorded an average long-term interest rate for Italy of **6.7 percent for the period February 1997–January 1998** , below the reference threshold of 7.8 percent; the European Council concluded that same year that Italy met the necessary conditions for adopting the single currency. This finding seems almost trivial today, but it took on enormous significance after the years in which the premium required to finance Italy's debt had been much higher: joining the euro meant not only adopting a new currency, but also seeking to replace the intermittent discipline of currency crises with a permanent discipline built through common institutions, lower inflation, convergence, and monetary credibility.

Italy actually got a significant part of what it was looking for.

Exchange rate risk disappeared among members of the monetary union.

Rates dropped.

The cost of debt decreased.

The European market became even more integrated.

Banks and businesses operated within a much more stable monetary environment.

But subsequent history has shown the difference between **achieving stability and using stability** . The interest dividend was not transformed to the extent possible into permanent debt relief; investment in research remained insufficient; productivity did not accelerate; a part of the productive structure managed to adapt magnificently to global competition, while a much larger part of the economy failed to make the same leap.

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This is where the long period from 2002 to 2007 takes on its retrospective significance. For some years, Italy arguably experienced the phase in which the benefits of monetary integration were most visible and the structural costs least immediately perceptible: relatively low interest rates, abundant credit, expanding global trade, European enlargement, and growing integration with China. But precisely in those years, productivity continued to grow too slowly, and debt was not reduced enough to create the fiscal space that would have been necessary during the subsequent crisis. ISTAT, looking retrospectively at the period 1995–2024, records an average annual growth in labor productivity in market sectors of just **0.3 percent** . Thirty years of seemingly small differences produce a huge divergence when accumulated.

The 2008 crisis thus changed the landscape before Italy had even fully adapted to the previous one. A crisis originating in the American financial system spread to Europe through banks, trade, investments, and confidence, and in Italy it hit the real economy the hardest. When a few years later the problem shifted to sovereign debt, the country discovered the facet of the single currency that had remained less visible during the convergence years. The state was issuing debt in a currency it did not individually control, and the central bank capable of intervening in the market was accountable not to Rome but to the entire area.

This is where the traditional concept of sovereignty definitively enters into crisis.

Italy had not lost Parliament.

He had not lost the right to approve the budget.

It had not stopped electing its own governments.

But the financial cost of national choices could be changed in a matter of hours by international investors and a monetary system in which no single national institution possessed the capacity to guarantee the market for government bonds.

2011 was therefore a crisis of sovereignty not because anyone had formally abolished Italian sovereignty, but because the difference between **the legal power to choose and the material capacity to bear the cost of that choice became evident** .

It's a difference that extends well beyond Italy.

A state may have the right to increase its deficit indefinitely.

It does not automatically have the power to force someone to finance it on the terms it prefers.

You may have the right to walk away from a monetary agreement.

It cannot eliminate with a vote the consequences on contracts, savings and trade.

It can decide on a nationalization.

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It cannot instantly create the technology, capital, and management needed to run the business.

It can close a trade border.

It cannot immediately produce all the inputs it previously imported.

Absolute sovereignty, understood as the state's ability to autonomously produce the desired effects through political decisions, is therefore largely a theoretical category rather than a condition actually possessed by modern economies.

2012 made this principle even clearer through the evolution of the ECB. The "whatever it takes" policy did not restore a national central bank to Italy or cancel its debt, but it radically altered the risk that a self-sustaining crisis could drag a country into ever worsening financial conditions simply because the market feared the euro's disintegration. Supranational monetary policy thus became, paradoxically, one of the main tools through which member states regained some of the capacity they had individually lost: no national treasury could alone guarantee the integrity of the common currency, whereas the ECB could do so precisely because it operated on an area-wide scale.

This is perhaps one of the central paradoxes of the thirty years: **the sharing of sovereignty can decrease the formal autonomy of a state and at the same time increase its effective capacity in certain circumstances** .

The same principle reappeared during the pandemic.

In 2011, the European constraint was manifested above all in the discipline.

In 2020 it also manifested itself in the ability to protect.

NextGenerationEU, initially built for **€750 billion at 2018 prices** , enabled common European borrowing on a scale no previous EU program had achieved; in current prices, the Commission estimates the initiative's value at approximately €806.9 billion. Through this architecture, Italy received investment scope vastly superior to what it could have mobilized with the same ease by relying solely on its own debt in a time of great uncertainty.

But this new shared capability also came with a constraint.

- Milestone.
- Target.
- Reforms.
- Checks.
- Deadlines.

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The same Europe that transferred resources demanded that they be used within an agreed structure.

Protection and conditionality were no longer opposites; they became two sides of the same system.

It is here that the history of Italian European integration appears very different from the simplest narratives. Europe has not been merely an external agent that has progressively removed tools from the Italian state, nor can it be portrayed as a neutral machine that simply protected Italy from its own weaknesses. It has become the locus where a growing portion of Italian decisions are made, negotiated, and constrained. Italy is giving up exclusive capabilities to gain shared capabilities, but the value of the exchange depends on its ability to influence joint decisions and exploit the tools it receives.

A large, politically unstable, fiscally vulnerable, and unproductive country will have less power within a common system than a state capable of presenting projects, building coalitions, financing commitments, and maintaining strategic continuity.

Shared sovereignty does not therefore make national capacity irrelevant.

It makes it even more important.

The war in Ukraine extended the same logic to energy and security. Before 2022, Europe's dependence on Russian gas could be considered a mutually beneficial commercial relationship; after the invasion, the same infrastructure appeared as a potential instrument of coercion. In just a few years, Italy had to replace a huge amount of supplies through Algeria, Azerbaijan, LNG, new infrastructure, and reduced demand. This choice did not restore "energy independence," as the country continued to import much of its energy needs, but it transformed a concentrated dependence into a more diversified portfolio.

This is a crucial difference for understanding contemporary power.

The opposite of dependence is not necessarily self-sufficiency.

It could be substitutability.

A country is less vulnerable when it can change suppliers.

When it can use multiple ports.

When it has multiple routes.

When it can acquire energy in different forms.

When a single actor does not control an essential function.

Modern security therefore also stems from redundancy, a concept that for decades had been viewed with suspicion by some in economic theory because what appears

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redundant under normal conditions appears inefficient. A second energy route costs money. A stockpile of ammunition ties up capital. Underutilized industrial capacity may appear uneconomical. But when the first route is interrupted, the stockpile is used up, or the supply chain collapses, what once seemed inefficient becomes resilience.

The Russian invasion brought this logic back into the European economy.

NATO itself has entered a phase of capacity reconstruction, demonstrating that security cannot be achieved through political declarations alone. In 2025, Italy reached, according to the Alliance's methodology, the level of 2 percent of GDP dedicated to defense, while the entire NATO framework has shifted toward much higher long-term objectives. The value of these numbers, as we have seen, must be distinguished from that of the national defense budget: a percentage is not a capability, and a capability does not exist until the means, munitions, maintenance, personnel, and logistics are effectively available.

The same distinction applies to industry.

An announced program is not a factory.

A factory is not automatically a national technology.

A technology is not fully sovereign if it depends on software, chips, materials, or maintenance that can be interrupted from outside.

This is why Part XII shifted focus from manufacturing to the material structure of power. Italy still produces a huge amount, but the strategic value of its output depends on who controls capital, technology, the supply chain, and intellectual property. China can simultaneously be a supplier, market, and competitor; the United States can be an ally, a source of capital, a market, an energy supplier, and a dominant technology hub. Neither relationship can be assessed through trade balance alone.

In this world, economic sovereignty does not mean producing everything.

It means knowing **what you can't afford to replace** .

This is probably the most important conceptual transformation that has emerged from the thirty-five years observed.

In the 1990s, sovereignty was still discussed primarily in terms of currency, legislative boundaries, state ownership, and the ability to devalue.

By 2026, it must also be discussed across semiconductors, cloud, gas pipelines, undersea cables, batteries, munitions, satellite systems, venture capital, pharmaceuticals, software, and data.

Power has shifted into infrastructures and networks that do not respect traditional divisions between economy and security.

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And it is precisely for this reason that the Mediterranean has returned to the center of Italian strategy.

Not because the geography has changed, but because the things that pass through that geography have changed.

- Gas from Algeria.
- Potential electricity from Tunisia.
- Goods from Suez.
- Data via undersea cables.
- LNG through terminals.
- Military and commercial vessels.
- Migrations.
- Routes to the Indo-Pacific.

The Italian peninsula can be the southern periphery of Europe's industrial heartland or the northern hinge of the broader Mediterranean; the geographical map is the same, but infrastructural and political capacity determines which of the two functions prevails.

It is on this point that the comparison with Germany, France, and the United Kingdom finally returns. None of these countries possesses absolute sovereignty in the traditional sense. Germany depends on global trade, imported raw materials, and the European architecture. France enjoys greater energy and military autonomy but depends on the European market, capital, and global supply chains. The United Kingdom regained some regulatory and commercial autonomy with Brexit, but remains dependent on the European market, the United States, international chains, and global finance. Italy possesses fewer autonomous instruments than France or the United Kingdom in some sectors, but participates in a common market and currency that provide it with scale.

There is therefore no border beyond which full sovereignty begins again.

There are different configurations of interdependence.

This is precisely why the title of this epilogue speaks of **power after absolute sovereignty** and not of power after sovereignty.

- Sovereignty continues to exist.
- Constitutions exist.
- Parliaments exist.
- Governments decide.
- States tax, spend, sign treaties, organize militaries, and set political priorities.
- But the real power of a decision depends on the system's ability to support it.
- A Parliament can approve an investment.
- We need companies capable of making it happen.

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- A government can decide to build a power plant.
- It takes technology, permissions, capital, and a network.
- The state can increase military spending.
- Factories, personnel and ammunition are needed.
- It may decide to reduce its dependence on China.
- Alternative suppliers are needed.
- He may want to raise wages.
- Sufficient productivity is needed for the increase to be sustainable.
- It can promise better pensions.
- We need workers, contributions and growth.
- You can choose greater autonomy.
- It must be able to finance the cost of autonomy.

This is the most important transformation that the Italian path makes visible.


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## Twenty-first-century sovereignty isn't the right to decide everything alone. It's the ability to prevent dependencies from making one's own decisions impossible.

Such a formulation also radically changes how Italy's European history should be judged. If sovereignty is measured solely by the number of competences transferred, the balance sheet since 1992 almost inevitably appears as a history of loss: money, trade, banking supervision, and parts of fiscal and regulatory policy have become shared. If, however, power is measured by the ability to produce results, the conclusion becomes much more complex: the ECB has a stabilizing capacity that the national Bank of Italy could not have exercised across the entire area; the European Union negotiates with the United States and China through the framework of a continental market; NextGenerationEU has mobilized common financing capacity; NATO offers a deterrent structure that Italy could not replicate individually.

But the opposite remains equally true.

A European institution cannot indefinitely replace the absence of national capacity.

Brussels cannot create Italian productivity.

The ECB cannot produce engineers.

NATO cannot replace an Italian defense industry if it disappears.

NextGenerationEU cannot guarantee that an administration will complete a project.

The single market cannot force a small business to grow.

Shared sovereignty therefore only works when there are states capable enough to use what they share.

And this is where the Italian budget remains open.

The country enters 2026 with a still-very high public debt: Eurostat recorded **137.1 percent of GDP at the end of 2025.** It is not a country without resources, as it has a significant private financial position, a large productive base, industrial champions, and a significant non-energy trade surplus. But public debt continues to reduce room for choice and forces each government to weigh new priorities against a stock of obligations inherited from decisions made over decades.

This is perhaps the most concrete image of the relationship between history and sovereignty.

- One political generation can commit resources that a subsequent generation will have to continue to finance.
- A government can benefit from an infrastructure built thirty years earlier.

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- Another may pay the cost of a postponed pension reform.
- One can sell a business.
- The next one either loses dividends or benefits from debt reduction.
- Sovereignty exists not only in space, but also in time.
- Today's decisions shape the choices of those who will govern tomorrow.
- This is why debt is also a question of intergenerational sovereignty.
- The same goes for demographics, infrastructure, and research.
- Not investing in a university does not immediately produce a crisis.
- It produces less human capital ten years later.
- Not building a power grid does not necessarily cause a collapse today.
- It may prevent us from integrating new production tomorrow.
- Not supporting research enough may not be visible in a budget law.
- It becomes visible when the industry has to purchase technology from those who have invested.
- Corporations often lose power long before they realize it.
- And they can build it long before the result appears in the data.

This is why the 2030–2035 horizon of the previous chapter cannot be treated as a political forecasting exercise. We don't know which government will be in power in 2032, which coalitions will lead France or Germany, which administration will govern the United States, what the state of war will be in Eastern Europe, or which energy technology will prove economically dominant. We can, however, know which variables will make Italy more or less capable, whatever the government.

- Productivity.
- Participation in work.
- Research.
- Debt.
- Demography.
- Energy.
- Capital.
- Infrastructure.
- Technology.
- Military capability.
- Company size.

These quantities do not determine politics, but they define the field on which politics can move.

This is, ultimately, what the thirty-five years studied have shown.

- In 1992, politics could devalue but not prevent the cost of devaluation.

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- In 1998 it could have joined the euro but not forced productivity to converge.
- In 2002, you could benefit from lower rates but not automatically convert them into investments.
- In 2011, it could approve a budget but not impose on investors the return on which to finance it.
- In 2012, the ECB could stabilize the euro but not grow the Italian economy.
- In 2020, Europe could borrow together but not guarantee that every national project was productive.
- In 2022, Italy could replace Russian gas but not abolish its energy dependence.
- In 2026, it can increase military spending but not instantly buy industrial capacity that takes years to build.

At every step, political power encounters a material reality.

It is this encounter, not the formal existence of a border or a currency, that defines effective sovereignty.

Italy's long transformation can thus be reinterpreted through the structural chronology that guides the entire book. The period **1988–1991** marked the end of the old order: the Cold War, the EMS, the EMU under construction, high debt, and an industrial system still heavily tied to the state. **1992** was the moment of collision: Maastricht, the currency crisis, devaluation, and the political-institutional crisis demonstrated that the previous equilibrium was no longer sustainable under the same conditions. **1993–1995** saw the rebuilding of credibility through concerted action, reforms, transitional governments, and welfare reform. **1996–1998** saw the definitive choice of the European currency, accompanied by fiscal convergence and a fall in interest rates to the average 6.7 percent recorded during the reference period of the final assessment.

The years **1999–2001** transformed the euro into accounting currency and national monetary policy into Eurosystem policy. The **years 2002–2007** transformed stability and credit into a major economic opportunity that Italy only partially exploited, while China increasingly entered global chains and the EU expanded. The years **2008–2010** demonstrated that globalization could transmit an American financial crisis directly to Europe's industrial heartland. The years **2011–2012** exposed the limits of the euro's original architecture and simultaneously brought about austerity, new fiscal governance, and the transformation of the ECB.

The years **2013–2017** saw the rebuilding of stability through unconventional monetary policy, the Banking Union, reforms, and a slow recovery. The **years 2018–2019** made the social cost accumulated during the crisis politically visible and brought sovereignism into the institutions. **2020** temporarily suspended the previous orthodoxy and returned the state to the center of the economy. **2021** created the common European debt and entrusted Italy with the PNRR. **2022** brought war, energy, and inflation back into

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economic policy. **2023–2024** transformed economic security, energy, and industrial policy into central European issues. **2025–2026** ushered in a phase in which defense, trade, technology, and supply chains are once again treated as instruments of power.

This chronology shows something that the simple sequence of governments hides: **Italian politics has repeatedly changed the ground under the feet of the same actors** .

A government in the 1990s had to demonstrate that it could join the euro.

One of 2011 had to demonstrate that it could remain financially credible within the euro.

One of 2020 should have used Europe to spend much more.

A 2026 government must simultaneously consolidate the budget, complete extraordinary investments, increase defense, reduce technological dependencies, and address unfavorable demographics.

Political categories change less rapidly than material constraints.

This is one of the reasons why many opposition promises are modified once they enter government, regardless of the political party that formulates them. Not necessarily because each force betrays its original promises, but because real power exposes interdependencies that the opposition might dismiss as minor details.

Italy in 2026 thus finds itself in a situation that may seem paradoxical: it possesses less exclusive sovereignty than in 1988 in some traditional areas of economic policy, but it has much greater collective tools than it did then. It does not control the ECB, but participates in a central bank capable of operating on a continental scale. It does not set tariffs independently, but belongs to a market capable of negotiating with Washington and Beijing with a weight that Rome would not have individually. It does not possess an independent nuclear deterrent, but belongs to NATO. It does not fully finance the NRRP through its own budget, but accepts European conditions to use common resources.

She is less autonomous.

In some areas it is more capable.

These two propositions can be simultaneously true.

And perhaps this is the point to which the whole book had to arrive.

The real question is no longer how much sovereignty has been "ceded," as if sovereignty were a fixed quantity that a state either possesses or loses through a treaty. The useful question is **how much capacity Italy has obtained in exchange for the transferred autonomy, and how effectively it uses that capacity** .


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If a shared competence produces a greater capacity than that previously exercisable nationally, the formal transfer does not necessarily equate to a loss of power.

However, if a competence is transferred without the State being able to influence the common level and without building compensatory capacities internally, the loss can become real.

The judgment therefore depends on ability.

Not from the label.

The same principle applies to economic interdependence. Importing does not necessarily mean being weak. A country can import energy from five suppliers and be more secure than one that is formally more self-sufficient but dependent on a single foreign technology. A company can be owned by American capital and maintain research and production in Italy. An Italian multinational can produce in the United States and strengthen its national technology hub. An industry can depend on Asian semiconductors and remain competitive as long as it has alternatives and supplies.

Dependence becomes a loss of power when it is **concentrated, irreplaceable and politically exploitable by those who control it** .

This is the fundamental metric of the new order.

And this is the reason why the concept of “absolute sovereignty” has less and less explanatory power.

None of the four major European economies compared in the previous chapter have it.

Even the United States is not independent of all supply chains.

Even China cannot produce without external inputs and markets.

The contemporary economic world is not divided between sovereign states and dependent states.

It is composed of networks in which some nodes have greater capacity to interrupt, replace, or direct flows.

Power is increasingly the control of nodes.

- Semiconductors.
- Energy.
- Capital.
- Software.
- Routes.
- Ports.
- Cables.

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- Data.
- Drugs.
- Armaments.
- Standard.

A large national industry matters because it occupies some of those nodes.

A financial market matters because it decides what gets financed.

An international currency matters because it allows for sanctions.

A fleet matters because it protects routes.

An electricity grid matters because it connects production and consumption.

Contemporary power is infrastructural.

Italy owns some important nodes and controls others much less.

It is strong in machinery, shipbuilding, parts of the aerospace and defense industries, agri-food, luxury goods, manufacturing pharmaceuticals, cables, and numerous industrial niches.

It is most fragile in global software, venture capital, semiconductors, some commodities, digital platforms, and energy.

The task of the national strategy cannot therefore be to regain an unlikely self-sufficiency.

It must be decided which capabilities are worth rebuilding, which dependencies can be diversified, and which interdependencies produce sufficient benefit to be preserved.

This is the power after absolute sovereignty.

Not freedom from all constraints.

**The ability to choose which constraints to accept, which dependencies to diversify from, and which capabilities to not afford to lose.**

If Italy's journey from 1992 to 2026 has one final lesson, it is probably this: Italy's problem has never been simply having too many external constraints, nor simply being incapable of governing itself internally. It was the relationship between the two. When national capacity was strong, integration could amplify it. When national capacity was weak, the European constraint became much more visible and politically painful.

Shared sovereignty therefore rewards the capable state.

And this is why, in the end, the European question always ends up being an Italian question.

- The quality of administration.

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- Productivity.
- The school.
- The research.
- The ability to complete an infrastructure.
- The speed of justice.
- The size of the companies.
- Women's participation in the workplace.
- Debt sustainability.
- The ability to attract and retain human capital.
- No treaty can solve these problems for Italy.
- No national currency would eliminate them.
- No central bank would correct them through its balance sheet.
- No government can postpone them indefinitely without increasing the cost.

Ultimately, these are the places where sovereignty remains fully national, because they determine how much value Italy extracts from any international system it chooses to place itself in.

The story that began in 1992 is therefore not the story of a country that has ceased to be sovereign.

It is the story of a country that has gradually discovered that **sovereignty and power are not the same thing** .

- The first is a legal principle.
- The second is a skill.
- One can formally own the former and have little of the latter.
- You can share a part of the first and, under certain circumstances, increase the second.
- The Italian thirty-year period contains examples of both possibilities.
- It is this distinction that finally allows us to answer the initial question without turning it into propaganda.
- Italy has ceded autonomy.
- It has gained stability.
- He lost some tools.
- He achieved others on a larger scale.
- It has accumulated European constraints.
- It has retained many national ties that it often attributes to Europe.
- It protected a large manufacturing base.
- It didn't solve productivity.
- It transformed the banking system.
- He didn't pay off the debt.

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- He diversified his energy.
- It didn't eliminate the addiction.
- It has received an extraordinary investment program.
- He still has to prove that he can turn this into permanent growth.
- None of these propositions cancels out the others.

And it is precisely this simultaneity that makes Italian history more complex than the narratives constructed to defend or accuse a single political project.

The future, then, will not depend on a return to an absolute sovereignty that probably never existed in the forms imagined by political nostalgia.

It will depend on the ability to build **effective sovereignty** .

- A sovereignty capable of choosing because it has alternatives.
- Able to negotiate because he has resources.
- Able to refuse because he can bear the cost of refusal.
- Able to cooperate without becoming replaceable.
- Able to share power without losing capacity.
- Capable of transforming geography, industry, human capital and European belonging into tools of influence.

This is the difference between proclaimed independence and real autonomy.

And it is probably the most important conclusion that thirty-five years of Italian transformation allow us to deliver to the coming decade.


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