AUTORITÀ GARANTE DELLA CONCORRENZA E DEL MERCATO
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BANCA D'ITALIA
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REPORT

The State of Competition in Italy

Autorità garante della concorrenza e del mercato
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Executive summary

Competition is a key condition for well-functioning markets and, more broadly, for economic growth. Open and contestable markets promote a more efficient allocation of resources by encouraging firms to keep costs down, improve the quality of the goods and services they provide, and invest in innovation. Competitive pressure also promotes the diffusion of the most efficient technologies and production practices and facilitates the entry of new firms, with positive effects on productivity, prices and, ultimately, consumer welfare.

The evolution of competitive dynamics therefore plays a central role within a country's productive system, insofar as competition constitutes a means of pursuing fundamental public interests, such as improving citizens' well-being, technological progress, employment and economic growth.

The analysis of these dynamics falls within the institutional remit of the Italian Competition Authority. It is conducted with the scientific collaboration of Banca d'Italia and helps increase the evidence available to the Authority in carrying out its institutional functions and promoting the effective functioning of markets. The aim of this Report is to provide a comprehensive description of the state of competition in the Italian economy, looking at the changes that took place between 2010 and 2023.

The Report aims to contribute to the economic debate on the evolution of competition in advanced economies, building on numerous empirical studies that have found a weakening of competitive dynamics, particularly in the United States.

As competition is a complex phenomenon that cannot be observed directly, the Report draws on a range of indicators that capture it from different perspectives and provide complementary information. This approach is consistent with the most recent academic and policy literature and provides a comprehensive picture of the multiple dimensions of competitive dynamics in Italy, drawing on empirical evidence at different levels of sectoral disaggregation.

The Report consists of three chapters. The first chapter analyses price margins relative to costs (mark-ups). This is one of the main indicators of market power, insofar as it reflects firms' ability to set prices above marginal costs, unlike what is observed, in principle, in a perfectly competitive market, where prices and marginal costs tend to coincide.

The second chapter examines indicators relating to market structure, which measure the degree of concentration of turnover amongst the firms operating within each sector, providing insights into the competitive landscape.

Finally, the third chapter focuses on the indicators of business dynamism that, by reflecting the ease with which firms enter and exit the market and the stability of leadership positions, provide insights into the economic system's capacity to foster competitive renewal.

Taken together, these indicators enable us to capture various dimensions of competition and to interpret its evolution.

Mark-ups

The aggregate mark-up in the Italian economy's non-financial, non-agricultural private sector rose moderately between 2010 and 2023, from 1.20 to 1.23. The increase in the aggregate mark-up does not reflect a reallocation of the economy towards structurally more profitable sectors, but rather stems mainly from a rise in margins within individual sectors. This trend has mostly affected sectors that had relatively low levels of profitability at the start of the last decade, suggesting that the rise in margins was partly associated with restructuring processes. In sectors with higher technological content or subject to more intensive regulation, where margin levels are higher, mark-ups instead recorded a slight decline.

The rise in mark-ups was particularly evident in manufacturing (although remaining at modest levels), the energy sector and wholesale trade – three sectors undergoing profound processes of firm selection and production re-organization that have favoured the expansion of larger firms. In the construction sector, which has below-average margins, mark-ups have risen significantly since 2020, supported by the strong expansion in demand linked to public incentives and the recovery in investment. In contrast, margins have declined in professional services, while remaining high relative to other sectors, partly reflecting the effects of the liberalization measures introduced at the beginning of the last decade.

Market structure

The concentration of turnover among firms within the same sector increased during the sovereign debt crisis, up to 2014, reflecting the selection processes that had characterized that cyclical phase and led less efficient firms to exit the market. In the following years, as economic conditions improved, this concentration gradually declined, returning in 2023 to levels close to those recorded in 2010. A shift in the production structure towards sectors that are more fragmented on average, together with the growing importance of services in the Italian economy, also helped to limit aggregate concentration.

At the sectoral level, in industry – where changes in concentration were generally modest – the sectors dominated by a few large operators, such as oil and energy, coexist with others with a more fragmented market structure. In services, there is a clear distinction between regulated sectors with high barriers to entry – such as air and maritime transport, telecommunications and postal services, which are highly concentrated – and sectors such as retail trade and food services, which are much less concentrated. From a dynamic perspective, maritime and air transport have also undergone further consolidation despite already high levels of concentration.

Business dynamism

Business demography has played an important role in shaping market developments. For much of the past decade, the net firm entry rate – measured as the difference between firms entering and leaving the market – remained negative, limiting both firm turnover and competitive pressure on market leaders. Net firm entry rates only returned to positive territory from 2021 onwards, against a backdrop of a strong post-pandemic recovery in economic activity, improved economic and financial conditions for firms, and the support measures introduced during the pandemic and the energy crisis, which helped to preserve the productive base during periods of crisis.

Within individual sectors, there is a high degree of persistence of the leading firms in top positions, indicating relatively limited contestability of market shares. However, this phenomenon has eased over the last five years, in line with stronger business dynamism and the restructuring processes that have taken place in various sectors. Exceptions to this aggregate trend include the oil sector and motor vehicle manufacturing in industry, as well as maritime and air transport in services – sectors in which the leading firms have further consolidated their positions.

Overall assessment

Overall, the Report points to generally stable competitive conditions in the Italian economy, broadly in line with developments in the other major European economies and in contrast with the United States, where competitive conditions have weakened. However, some areas of concern remain, including the high concentration in specific sectors and the limited contestability of the most significant market positions. These features partly reflect the structure of the Italian productive system, which has a large number of micro-enterprises that, despite their prevalence, often exert limited competitive pressure on larger firms. These characteristics have also been reinforced over the past decade by unfavourable demographic trends, which have reduced business turnover and the mobility of market shares.

A recovery in net firm entry, the continuation of industrial restructuring processes and further liberalization measures could strengthen competitive conditions in the Italian economy. Encouraging the entry of new firms, the growth of the most productive ones and greater market contestability could help limit the accumulation of market power and strengthen incentives for innovation and efficiency. In this context, greater competitive pressure could foster a more effective reallocation of resources and could support firms' productivity and the growth potential of the economy.