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THE RESILIENCE OF ITALY'S EXTERNAL SECTOR AMIDST RISKS AND CHALLENGES

by Gloria Allione*, Stefano Federico* and Claire Giordano*

Abstract

This paper explores recent macro developments in Italy's external sector. Despite a succession of adverse shocks and a challenging international context, Italy's export performance between 2019 and 2024 was quite resilient, overall, boosted by cost competitiveness gains, geographical and sectoral diversification, good quality positioning, the recovery in international tourism, and by growth in business, financial and insurance services. The current account (CA) balance has been persistently positive, with the temporary exception of the 2022 energy crisis. Its more modest level in 2024 (relative to 2019) mainly reflects a weaker investment income balance, due to the higher reactivity of external liabilities to increased interest rates compared with external assets. In our view, the CA balance is broadly in line with fundamentals; external sector resilience is confirmed by a solid creditor net international investment position (NIIP). Looking forward, exports will be negatively impacted by US tariffs, exchange rate appreciation and growing competition from China, although Italy is projected to maintain both a CA surplus and a creditor NIIP in the short term. Over the medium term, the country's ability to navigate the significant challenges arising from geo-economic fragmentation, the green and digital transitions, and structural changes in world demand will be key to a sound performance.

JEL Classification: F14, F32, F41.

Keywords: exports, price competitiveness, quality, current account, net international investment position.

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1. Introduction¹

Italy's external sector underwent a remarkable transformation following the double recession of 2008–2013. Firms significantly improved their performance, surpassing both pre-crisis levels and key euro-area peers (Bugamelli et al., 2018). This rebound primarily reflected the progressive recovery of price competitiveness, an export reallocation towards sectors that were less exposed to competition from emerging economies, and the growing weight of medium and large exporting firms, as well as those belonging to multinational groups.

Since 2019, the global and in particular European economy has again been battered by an unprecedented sequence of negative shocks, namely the COVID-19 pandemic, widespread supply bottlenecks during the post-pandemic recovery, the 2022 energy shock following the Russian invasion of Ukraine, rapid monetary tightening, rising geopolitical tensions, ongoing regional conflicts and trade fragmentation; in addition, China has been exerting what commentators have defined as a “second China shock”, namely increasing its competition in technologically advanced sectors.

Despite these adverse shocks, Italy's external sector has proved to be quite resilient. In 2024 goods and services exports were 8 per cent higher than 2019 values, second only to Spain amongst the main euro-area economies. Italy's current account (CA) balance has also been persistently positive, with the sole exception of 2022, when the country was hit particularly hard – even relative to its main euro-area peers – by the temporary negative terms-of-trade shock induced by soaring energy prices (Giordano and Tosti, 2023). Italy's net international investment position (NIIP) is currently solidly creditor.

This paper explores the roots of Italy's recent external sector resilience, by examining the heterogeneous developments between goods and services, also in comparison with that of the other largest euro-area economies, and by attempting to disentangle cyclical and structural drivers. In particular, the study combines national accounts (NA), balance of payments (BOP) and international merchandise trade statistics (IMTS) to delve into geographical and sectoral breakdowns underlying the macroeconomic outcomes. This analysis proves particularly timely as it also assesses Italy's external sector's preparedness at a critical juncture, when emerging shocks in 2025 – including new US tariffs, exchange rate appreciation, trade uncertainty and ongoing geopolitical fragmentation – are stress-testing the country's adaptability to a rapidly changing international context.

The main findings of the paper are the following.

Italy's favourable export performance since 2019 was due to both the goods and the services components. Goods exports benefited from cost competitiveness gains, thanks to persistent wage moderation in comparison with its main trading partners, from a well-diversified structure of foreign sales by industry and destination country, and by an export mix tilted towards medium and high-quality goods, in addition to the ongoing structural strengthening of the population of Italian exporters that had started in the previous decade (Bugamelli et al, 2018). Services exports were boosted not only by the post-pandemic recovery in international tourism but also by the increase in sales of business, financial and insurance services. Import growth was also impressive, for both goods and services, driven by Italy's concurrent robust export and investment dynamics.

Italy's external trade performance largely modelled the country's CA balance, which after the temporary deficit in 2022 swung back to surplus already in 2023. The current CA surplus is more modest than its pre-pandemic level, mainly reflecting the dampening effect of higher interest rates on

¹ This paper is based on data available on 20th October 2025. The views expressed herein are those of the Authors and not of the institution represented.

the investment income balance (due to external liabilities being more sensitive to interest rates compared to external assets because of their maturity and instrument composition). Overall, in our view Italy's CA balance is broadly in line with the level consistent with fundamentals. It has contributed to a further improvement in the country's creditor NIIP, which has also benefited from positive valuation adjustments due to international equity prices and to the appreciation of gold.

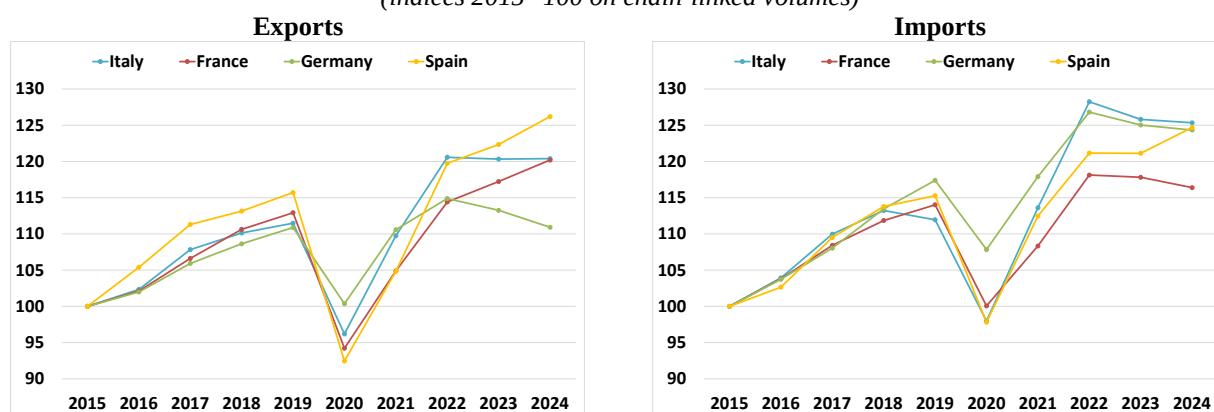
Looking forward, we expect that, while the emerging external challenges, including US tariff increases, exchange rate appreciation and growing competition from China, will weigh on Italy's exports. But even taking into account these shocks, Italy is poised to maintain a CA surplus and a creditor NIIP in the near future. Over the medium-long term the country's ability to navigate the significant challenges arising from geo-economic fragmentation, the digital and green transition and structural changes in world demand will be key to a resilient performance.

The remainder of this paper is structured as follows. Section 2 describes recent trends in Italy's goods and services exports and imports, also in an international comparison. Section 3 analyses Italy's CA and capital account of the BOP, whereas Section 4 covers Italy's NIIP. Section 5 traces the current outlook for Italy's external sector, amidst the manifold risks and challenges. Section 6 concludes.

2. External trade

According to NA in volume terms,² after having grown broadly at a par with Germany and France in the 2015-19 period, the expansion of Italy's exports of goods and services was abruptly interrupted by the COVID-19 pandemic, as for all its peers (Fig. 1, left-hand side panel). Recovery was swift in 2021-22, but Italy's exports were broadly stationary thereafter. In 2024 Italy's foreign sales were anyhow 8.0 per cent higher than in 2019, second only to Spain, against a smaller rise in France and no growth in Germany, whose export volumes in 2023-24 fell back down to pre-pandemic levels.

Figure 1 – Exports and imports of goods and services
(indices 2015=100 on chain-linked volumes)



Sources: Istat and Eurostat national accounts (NA).

Boosted by strong gross fixed capital formation and exports, over the same recent five-year period real import growth in Italy (12.0 per cent) was significantly more pronounced than in the other three main euro-area economies (Fig. 1; right-hand side panel).³ Overall, the contribution of Italy's

² When not otherwise specified, reported statistics refer to NA.

³ Prior to the pandemic, the decline in Italy's total imports already in 2019 was largely due to the goods component, and in particular of lower purchases from Germany, especially of the automotive sector (Banca d'Italia, 2020).

net external trade to real GDP growth was marginally negative (on average by -0.1 percentage points per year between 2019 and 2024).

As in its other trading partners, Italy's total export and import dynamics masked significant heterogeneity over time between goods and services, which we thus examine separately in the following sections.

2.1 Exports of goods

Italy is largely a goods exporter. Similarly to Germany, merchandise exports indeed account for four fifths of the country's total foreign sales, against shares of around two thirds for France and Spain. It is unsurprising therefore that Italy's aggregate export developments broadly mimic those in goods.

Italy's goods exports are highly diversified in terms of geographical and sectoral specialization. They are slightly more tilted towards non-euro area destinations than euro-area markets, with Germany, France and the US as the main partners (Table A1 in Annex A). Italy's top sectors of specialization are machinery, the agrifood industry, fashion, electronics and electric equipment, but export shares are significant also in most other sectors (Table A2).⁴

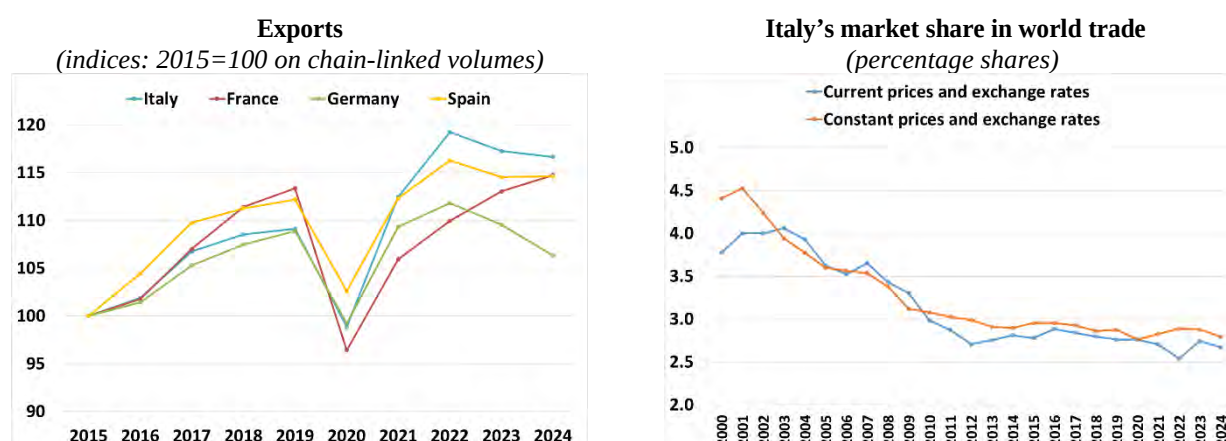
Overall goods export developments and market shares - After keeping up with Germany in the aftermath of the sovereign debt crisis, in the overall period 2019-24 Italy's goods foreign sales in volume terms recorded a more favorable trend than its main euro-area peers (Fig. 2, left-hand side panel). Indeed, in 2024 Italy's exports were 6.9 per cent higher than in 2019, against much smaller rises in France and Spain; Germany's sales abroad were over 2 per cent lower than pre-pandemic values.⁵

As a result of these developments, Italy's 2024 shares of world trade at both constant and current prices and exchange rates were comparable to those in 2019 (Fig. 2, right-hand side panel). Conversely, France and, especially, Germany's corresponding export market shares declined over the period considered (Table A3 in the Annex). The recent overall stability in Italy's market shares thus perpetuated the broadly flat trend observed after the sovereign debt crisis, in sharp contrast to the decline the country experienced in the previous fifteen years.

⁴ Table A2 and all other figures and tables in this paper referring to sectoral disaggregation using NA are based on official annual NA data by economic sector made available in Spring 2025; they are therefore not entirely consistent with the NA aggregates discussed in this paper, based on the more recent annual NA vintage published by Istat in September 2025. The main messages should not however change when the revised sectoral data become available.

⁵ Always based on NA, in value terms Italy's goods exports were around 28 per cent higher than their 2019 levels, just below Spain, against approximately 18 and 16 per cent rises in France and Germany, respectively. The increase in Spain's export deflator was particularly pronounced over this period.

Figure 2 - Exports and market shares in world trade of goods



Sources: Authors' calculations based on Istat, Eurostat and IMF data.

Notes: All series are based on national accounts (NA).

To better understand the factors behind the recent broad stability in Italy's market share and more favorable export performance relative to Germany and France in particular, we report the results of a constant market share (CMS) analysis, which decomposes the change in a country's market share on world trade into three items: i) a "structural" component; ii) a "competitiveness" term and iii) a "dynamic adaptation" component. The "structural" term measures whether, due to their composition by sector and geographical destination, exports are exposed to markets that grow faster or slower than world trade.⁶ The "competitiveness" term is a weighted average of the changes in the country's market share on individual markets, identified as product-country pairs; it reflects price and non-price factors which determine gains or losses of competitive positions on each specific market. The "dynamic adaptation" term assesses whether a country is able to gain shares in markets that grow faster than the average (or lose shares on slow-growing markets).

The CMS analysis was carried out on export market shares at current prices, using Trade Data Monitor (TDM) at the HS 2-digit level for 114 exporting countries.⁷ The results, shown in Table 1, suggest that the broad stability in Italy's market share on world trade since 2019 reflects a negative contribution of the dynamic adaptation term, largely offset by a positive contribution of the structural term;⁸ the competitiveness term provided a negligible contribution. Among the other large euro-area economies, very similar trends explain the stability in Spain's market share, while the decline in Germany and France's market shares is largely due to a much more negative contribution of the competitiveness term.

⁶ This component can be further decomposed into three items, which separately capture the sectoral and the geographical specialization and their interaction. For further details, see Annex B.

⁷ This analysis is thus based on IMTS, while the export market shares reported in Figure 2 (right hand-side panel) and Table A3 in Annex A are based on NA; discrepancies can thus ensue.

⁸ This was the result of a null contribution of geographical specialization, a marginally negative contribution of sectoral specialization and a positive contribution of their interaction.

Table 1 – Constant-market-share decomposition of percentage changes in goods export market shares between 2019 and 2024

<i>(percentage-point changes)</i>				
Country	Change in market share	Structural	Competitiveness	Adaptation
	(1) + (2) + (3)	(1)	(2)	(3)
Italy	-0.08	0.14	-0.05	-0.16
Germany	-1.06	-0.09	-0.77	-0.20
France	-0.41	-0.08	-0.32	0.00
Spain	-0.02	0.10	-0.01	-0.11

Source: Authors' calculations on Trade Data Monitor (TDM).

Notes: The changes in export market shares reported in the second column may differ from those in Figure 2 (right hand-side panel) and in Table A1 (panel A) in Annex A, since the former are based on IMTS and the latter on NA.

Despite the overall stability in its export market share, Italy's goods export developments were heterogeneous during the six years considered (Figure 2, left-hand side chart). In particular, the decline during the first wave of the pandemic was followed by a swift and strong rebound in 2021-22; in 2023 and, to a lesser extent, in 2024, exports instead decreased, marking an overall decline of about 2 per cent. One (cyclical) factor that played a significant role for all exporting countries in 2023-24 was the weakness in demand for goods, in turn due to manifold global factors such as the rotation of demand towards services once the pandemic containment measures, including travel restrictions, were gradually lifted, the delayed impact of high inflation and subsequent interest rate hikes, and the rise in both economic and trade policy uncertainty as a result of heightened geopolitical tensions and increasing trade fragmentation (IMF, 2025a; Conteduca et al., 2024). In the following we delve into more country-specific (cyclical and structural) factors contributing to Italy's goods export dynamics.

Foreign demand and geographical specialization - According to our estimates, over the 2019-24 period Italy's goods exports increased at a comparable rate to that of "potential demand" from outlet markets (i.e. the weighted average of demand for Italy's exports across its destination markets, where the weights reflect the importance of each destination in Italy's trade structure; Fig. 3, left-hand side panel). Differently to pre-pandemic years, the more robust growth in exports than in foreign demand was concentrated in euro-area markets, where the rise in Italy's foreign sales was remarkable despite sluggish demand, against a strong negative growth differential in non-euro area markets, where demand was by contrast buoyant.

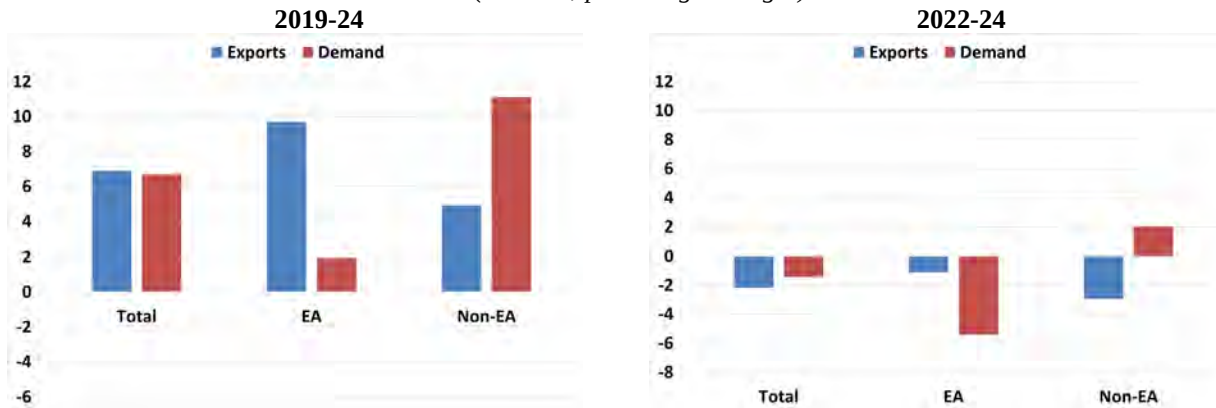
The 2023-24 decline in Italy's total goods exports was instead sharper than that in potential demand (Fig. 3, left-hand side panel). Sales to euro-area countries actually fell less than euro-area demand, whereas exports to non-euro area economies declined significantly, despite (albeit weakly) rising corresponding demand. The recent contraction in demand in euro-area markets was largely due to Germany's recession, which non-negligibly affected Italy's exporting firms' sales, as documented by Banca d'Italia business surveys (Panetta, 2025).⁹ The concurrent weakness in non-euro-area

⁹ In turn, several factors contributed to Germany's downturn (Flaccadoro, 2024; Bundesbank, 2025): its high dependence on Russia for energy supplies and the large weight of its energy-intensive sectors; its high exposure to the Chinese market, with China recording both a slowdown and a switch from foreign demand to domestic demand and consumption; its strong connections to Central and Eastern Europe (Fabiani et al., 2019), which was hard hit by the Russian invasion of Ukraine; the strong role of the automotive sector, structurally affected both by the energy transition and by changes in consumer habits.

demand, which rose at much lower rates than in previous years, was in part driven by the slowdown in China and to the switch in its economic development model from foreign to domestic demand.

Figure 3 – Italy’s goods exports and potential demand by period

(volumes; percentage changes)



Source: Istat NA and authors’ calculations on Istat NA and IMF, *World Economic Outlook*.

We can get a better sense of these developments by examining our more detailed geographical estimates of Italy’s exports in volume terms, based on BOP and IMTS and made consistent with NA.¹⁰ Taking a step back, prior to the pandemic Italy’s export growth was broad-based across destinations, yet receiving a particularly strong boost from the United States and from the other three main euro-area economies, in particular from Italy’s historically largest trading partner, Germany (Fig. A1, left-hand side panel in Annex A). In the overall 2019-24 period, growth continued to be quite widespread across markets, yet with some notable exceptions, namely the United Kingdom following Brexit,¹¹ Russia (as a result of the sanctions applied by the international community following the Russian invasion of Ukraine), Switzerland (to which we later return), and, to a much lesser extent, some Asian countries including China (Fig. 4; left-hand side panel). Zooming into the past two years when Italy’s goods exports declined, the number of destinations contributing negatively increased (Fig. 4; right-hand side panel). Both Germany, and to a lesser extent France, exerted a significant drag on Italy’s foreign sales, confirming the negative impact of the German recession also via its spillovers within the euro area. The US market recorded a substantial decline too.¹² Significant boosts came instead from Türkiye¹³ and from Poland.

¹⁰ In particular, we deflate geographical BOP data at current prices by export unit value indices and/or producer price indices of goods sold in foreign markets, in turn available only for selected partners.

¹¹ For an in-depth investigation on the impact of Brexit on Italy’s trade flows, see Federico and Giglioli (2025).

¹² The decline stemmed from volatile components (such as ships and refined petroleum products), but also from the automotive sector and from basic metals.

¹³ More than half of this positive contribution however stemmed from exports of jewellery and non-monetary gold, which may have reflected an increase in demand both of luxury goods and of “safe haven” goods in the context of high domestic inflation, also as a result of Türkiye’s import restrictions on gold bullion.

**Figure 4 – Selected geographic contributions to Italy’s goods export dynamics
by period**

(volumes; percentage points)



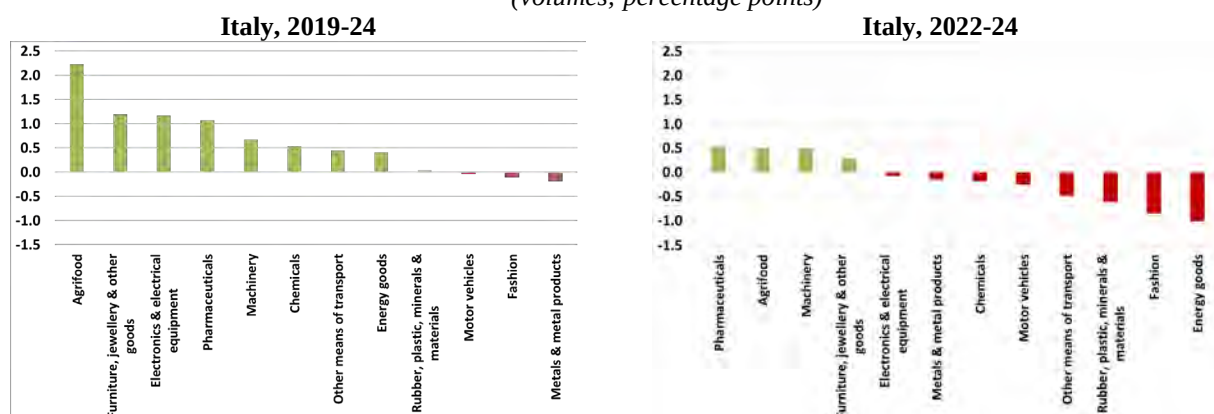
Source: Authors' calculations based on Banca d'Italia balance of payments (BOP) and Istat International Merchandise Trade Statistics (IMTS).

Notes: Countries are ordered according to their contribution to Italy's overall goods export dynamics.

Sectoral specialization - Italy's highly diversified goods exports also from a sectoral perspective have historically proven a strength for the economy, but in recent years this feature has not been able to fully shield the country from sector-specific shocks. The increase in Italy's exports prior to the pandemic was indeed broad-based across all industries bar energy goods (which mainly include refined oil; Fig. A1, right-hand side panel in Annex A); a particularly strong stimulus stemmed from fashion, agri-food and machinery. The 2019-24 period also featured, overall, growth in most sectors, however with some relevant exceptions (Fig. 5; upper left-hand side panel), due especially to the poor performance in 2023 and in 2024. In particular, energy goods and energy-intensive products exerted a significant drag in these two years, as did all means of transport and the fashion industry (Fig. 5; upper right-hand side panel).¹⁴ The former category of exports were strongly penalized by historically elevated energy prices, which also affected Germany significantly (on this, see Giglioli and Giordano, 2023). Motor vehicles were heavily impacted by weak demand in the context of a challenging green transition and by increased global competition, with China emerging as a dominant player and Italy performing even worse than its main euro-area peers (Giglioli, 2025). The fashion sector, and in particular leather and leather articles, were particularly affected worldwide by declining global demand for these goods and structural changes in consumer habits (Allione, Errico and Giordano, 2025). By contrast, the agrifood industry, pharmaceuticals, machinery and "other manufacturing goods" continued to boost Italy's export dynamics.

¹⁴ Despite declining in 2023-24, the volatile sectors of refined oil and other means of transport, and, more importantly, chemicals contributed positively, however, to export growth in the overall 2019-24 period.

Figure 5 – Sectoral contributions to goods export dynamics by period
(volumes; percentage points)



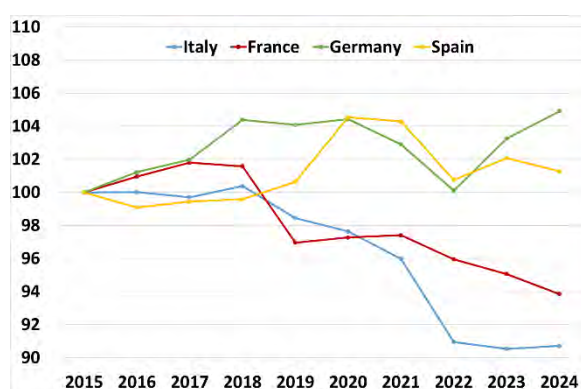
Source: Authors' calculations based on Istat NA.

Notes: Sectors are ordered according to their contribution to Italy's overall goods export dynamics.

Price competitiveness - Export performance depends also on price and non-price competitiveness. As regards the former, Italian firms indeed recorded a favourable performance, especially in comparison with its main euro-area competitors. According to the indicators deflated with the unit labour cost of the total economy published by the ECB, between 2019 and 2024 Italy's competitiveness improved by nearly 8 per cent owing to wage moderation, against a smaller gain by France and a mild deterioration in Germany and Spain (Fig. 6). On the basis of Banca d'Italia indicators deflated by production prices of manufactured goods – which thus take into account all input costs, as well as profit margins (Felettigh et al., 2016) – in the same period Italy's price competitiveness was stable, as in France, against significant losses in the other two economies.

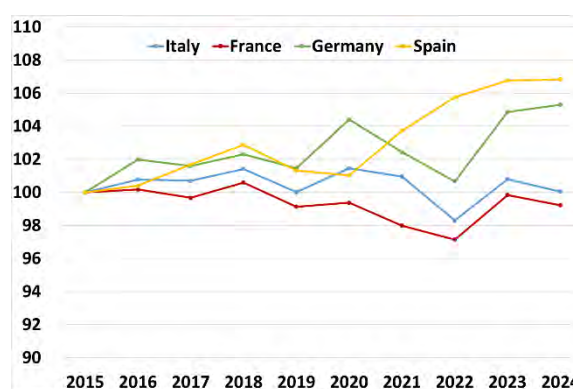
Figure 6 – Price-competitiveness developments
(indices: 2015=100; annual averages)

Indicators deflated by unit labour costs of the total economy



Source: ECB and Banca d'Italia.

Indicators deflated by producer prices of manufactured goods

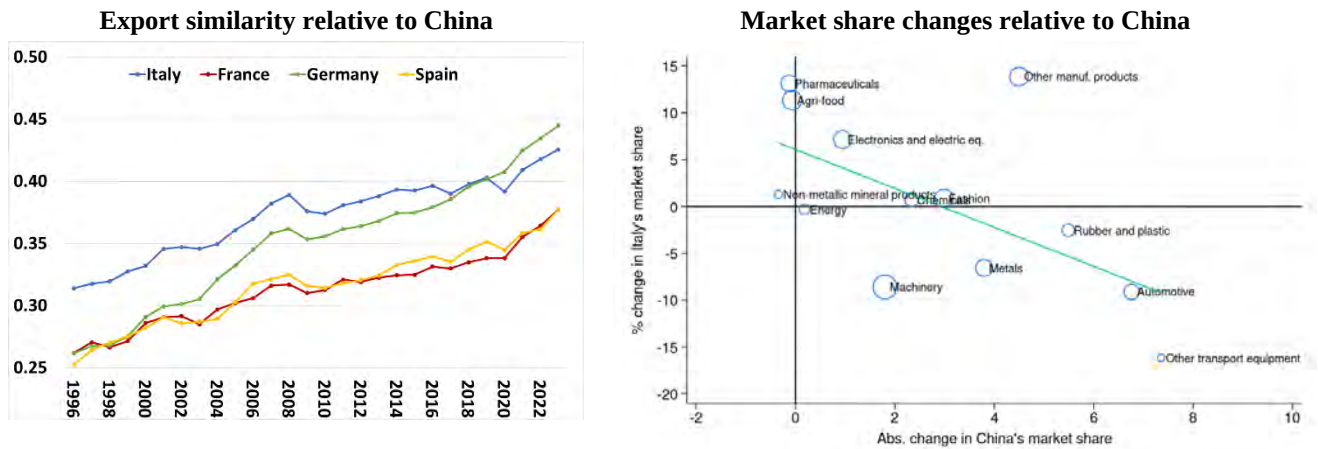


Based on a decomposition of Banca d'Italia's indicators put forward in Felettigh and Giordano (2019), Italy's producer price-based competitiveness stability reflected heterogeneous components. Despite the 2021-22 energy shock, import competitiveness improved slightly, yet was offset by a comparable deterioration in export competitiveness. In particular, the latter improved in euro-area markets (by 1.9 percentage points), whereas it deteriorated significantly in non-euro area markets (by 2.6 percentage points). This outcome also contributes to explain the afore-mentioned differently signed gaps between Italy's export dynamics and that of potential demand in the two sets of markets (again see Figure 3).

Moreover, the 2019-24 stability of overall PPI-deflated price competitiveness in Italy was the result of the strong appreciation of the nominal exchange rate being fully offset by an ongoing strong downward correction in relative producer prices, which had begun in the 2010s. This fact partly explains Italy's export competitiveness gain in euro-area markets, where the relevance of non-euro area competitors, and hence of the nominal exchange rate, is significantly lower.

Competition from China – Another structural factor that played a significant role in recent years was the increasing competition from China, which has been labeled by some commentators as a “second China shock”.¹⁵ The “first China shock” occurred after China's entry into the World Trade Organization in 2001 (Autor, Dorn and Hanson, 2013, 2016) and explained part of Italy's under-performance in world markets until early 2010s, given the country's product specialization in traditional sectors that were especially exposed to competition from China (Bugamelli et al., 2018; Fabiani et al., 2019). Indeed, an “export similarity” index à la Finger and Kreinin (1979) and Schott (2008), computed on CEPII-BACI data at the HS6 level, shows that in the early 2000s Italy displayed the largest overlap of its export bundle with that of China among main euro-area countries (Fig. 7, left-hand side panel). In recent years China has instead significantly expanded its penetration in technologically advanced sectors such as motor vehicles, chemicals, plastics and mechanics. As a result, China's export composition has become more aligned to that of all four main euro-area economies and the assonance between Germany and China's foreign sales has now become the highest amongst the four euro-area countries.

Figure 7 – Goods exports and the “second China shock”
(similarity index, percentage changes, and percentage point changes)



Source: authors' calculations on CEPII-BACI data at the HS 6-digit level (left-hand side panel). Authors' calculations on TDM data (right-hand side panel).

Note: In the left-hand side panel, the similarity index is computed as $ESI_t^{iCN} = \sum_p \min(s_{tp}^i, s_{tp}^{CN})$ where s_{tp}^i is the share of country i 's exports of product p on its total exports in year t and s_{tp}^{CN} is the corresponding share for China. The index is zero if the two countries do not share any product in common in their export bundle and one if the product distribution of their exports is identical. In the right-hand side panel, the size of the circles represents Italy's market share in 2024.

Figure 7 (right-hand side panel) confirms that there is indeed a negative relationship between the change in Italy's market share on world trade at the industry level over the period 2019-24 and the increase in competitive pressures from China in the same industry (proxied by the absolute change in China's market share in the same period). Italy lost market shares in five sectors (other transport equipment, automotive, machinery, metals, rubber and plastic); in four of them, China recorded very

¹⁵ For an assessment of China's increasing competitiveness in high-end product markets relative to the euro area as a whole, see Al-Haschimi et al. (2024).

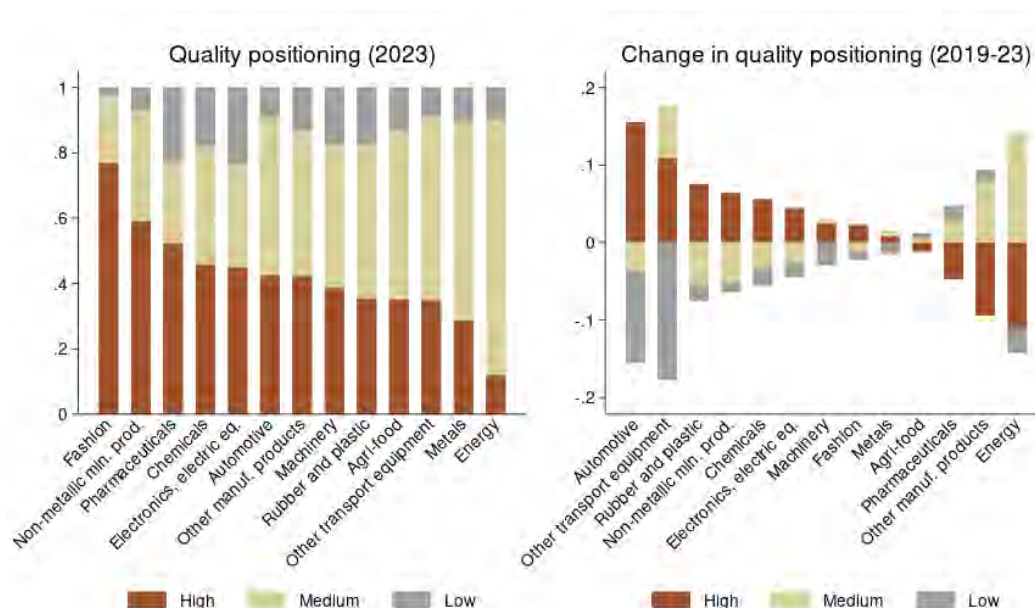
considerable gains (with shares on world trade rising by 3.5 or more percentage points). Conversely, Italy managed to gain market shares in selected sectors that are largely sheltered from Chinese competition, such as pharmaceuticals and agri-food, and to maintain market shares in sectors with an intermediate level of increased competition from China. The results for the other main euro-area countries also show a broadly similar pattern, with larger losses in sectors in which China's market shares have increased; however, the number of sectors in which for instance Germany managed to increase or maintain its market share is much smaller compared to Italy (Fig. A2 in the Annex; Bundesbank, 2025).

Non-price competitiveness - Non-price competitiveness factors - such as product quality, innovation, branding, design, and after-sales services - are especially critical for advanced economies like Italy, where cost-based competition is less sustainable due to higher labour and production costs. Following the literature, we use export unit values (the ratio between values and physical quantities of exports) to approximate non-price competitiveness (or “quality” in a broad sense). Higher unit values within the same product category often reflect superior quality, as consumers are typically willing to pay more for better products (Schott, 2004).¹⁶ We classify exports that are sold at a unit value at least 20 per cent larger than competitors' average unit value on the same market as “high-quality” exports. In the same line, we label exports that are sold at a unit value between -20 and +20 per cent than the average as “medium-quality” exports, and those that are sold at a unit value lower than 20 per cent than the average as “low-quality” exports. We run this analysis at a very disaggregated level, which corresponds to the combination of roughly 5,000 products according to the HS6 classification and more than 200 destination markets, based on CEPII-BACI data.

Figure 8 (left-hand side panel) provides a detailed breakdown of Italy's exports by quality positioning across various sectors in 2023 (latest year available). Fashion products stand out, with a large majority of exports classified as high-quality, reflecting Italy's global reputation for luxury fashion and premium clothing. Other sectors with a large share of high-quality exports include non-metallic mineral products, pharmaceuticals, chemicals, electronics and automotive. The share of high-quality exports is generally larger than that of low-quality exports. The incidence of medium-quality exports is higher in standardized products such as energy and metals. Figure 8 (right-hand side panel) reports the change in export shares by quality level across sectors over the period 2019-23. The majority of exports recorded an increase in the share of high-quality, especially for automotive, other transport equipment, rubber and plastic and non-metallic mineral products. Exceptions include energy, other manufacturing products and pharmaceuticals, to a large extent reflecting a shift from high to medium-quality exports. On average, the share of high-quality exports has increased by 2 percentage points, while that of low-quality exports has decreased by a similar amount.

¹⁶ While useful, unit values do not capture all the afore-mentioned dimensions of quality. They can also be influenced by factors unrelated to quality, such as transportation costs, tariffs, or exchange rate fluctuations, or by composition bias when products differ even within 6-digit product levels.

Figure 8 – Quality positioning of Italian exports
(percentage shares and percentage-point changes)



Source: authors' calculations on CEPII-BACI data at the HS 6-digit level.

Notes: Quality positioning is based on the distribution of Italy's export unit values per product-country, relative to competitors' unit values for the same product-country combination. An exported product is considered to be: (a) "high quality" if its unit value is at least 20 per cent higher than the average unit value of its competitors in the same market; (b) "low quality" if its unit value is at least 20 per cent lower than the average; (c) and "medium quality" in between.

Another factor to consider, which has enhanced and is enhancing Italy's non-price competitiveness, is the ongoing trend since the sovereign debt crisis of a shift in the composition of the country's goods exporters in favour of very large companies. The pandemic and the subsequent difficulties in obtaining inputs due to global supply bottlenecks have penalized this category of firms in particular, contributing to a greater slowdown in their foreign sales, also as a result of their more intense participation in global value chains (Allione and Giordano, 2023).¹⁷ However, the pandemic shock only temporarily interrupted this reallocation process: by 2023 (latest data available) the share of foreign sales of goods shipped by firms with more than 250 employees had increased relatively to 2019, to the detriment of smaller firms.

2.2 Exports of services

Moving to services, Italy's exports are quite balanced between euro and non-euro area outlets, with Germany, France, the United States, the United Kingdom and Switzerland as the main destinations (Table A4 in Annex A). Nearly forty per cent of total services exports are foreigners' expenditure in Italy for tourism, about one fifth "other business services" (which include professional consulting and trade-related services), and around one tenth transport services (Table A5).

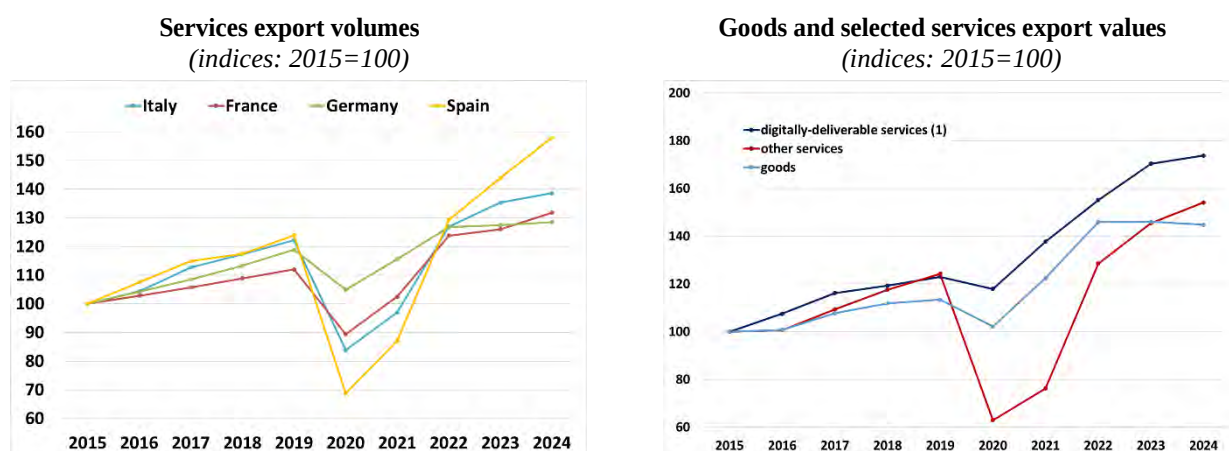
Over the past five years Italy's services export performance has been quite remarkable, confirming the positive upward trend that had begun after 2015. Growth in Italy's real services

¹⁷ According to the monthly customs data disaggregated by firm, product and country of destination used in this study, while the export adjustments of very large companies in 2020-21 – which drove overall trends – occurred predominantly along the intensive margin, only for the smallest exporting firms is there non-negligible evidence of an interruption in export activity during the first COVID-19 pandemic wave.

exports (13.5 per cent), although around half of Spain’s exceptional expansion, has been higher than that of comparably manufacture-based Germany (Fig. 9, left-hand side panel).¹⁸

In order to tease out the differing underlying trends, we use BOP data at current prices¹⁹ and corresponding BPM6/EBOPS 2010 service categories. As a first step we classify aggregate services into two broad groupings, following the IMF-OECD-UNCTAD-WTO (2023) definition: digitally-deliverable services (DDS) and other services. As of the mid-2010s Italy’s DDS exports not only have been more dynamic than other services’ sales abroad, but also than goods exports (Fig. 9, right-hand side panel), similarly to global trends; moreover, in 2020 they were the only category of overall exports to remain resilient.

Figure 9 - Services export dynamics
(annual data)



Source: Authors’ calculations based on Istat and Eurostat NA (left-hand side panel) and Banca d’Italia BOP and for goods Istat NA (right-hand side panel).

Notes: Digitally-deliverable services include insurance and pension services (SF), financial services (SG), charges for the use of intellectual property not included elsewhere (SH), telecommunications, computer and information services (SI), research and development services (SJ1), professional and management consulting services (SJ2), architectural, engineering, scientific and other technical services (SJ31), trade-related services (SJ34), other business services not included elsewhere (SJ35), audiovisual and related services (SK1), health services (SK21), education services (SK22), heritage and recreational services (SK23).

Digging into the geographical perspective, between 2019 and 2024 the value of Italy’s services exports grew in all main trading destinations, with the exception of Russia, in part due to tourism expenditure of Russian residents in Italy being curtailed after the aggression on Ukraine and subsequent sanctions (Fig. 10, left-hand side panel). The top contributing markets were France, the United States, Germany and the United Kingdom, where for the latter three countries tourism expenditure in Italy was a significant driver.

Indeed, the largest boosts to Italy’s overall services export rise stem from tourism (alone accounting for nearly one third),²⁰ followed by “other business services”, and financial and insurance

¹⁸ In value terms services export dynamics have been comparable across the main euro-area economies, standing at around 30 per cent, with the exception of Spain, whose performance was again the strongest with a rate of 46 per cent.

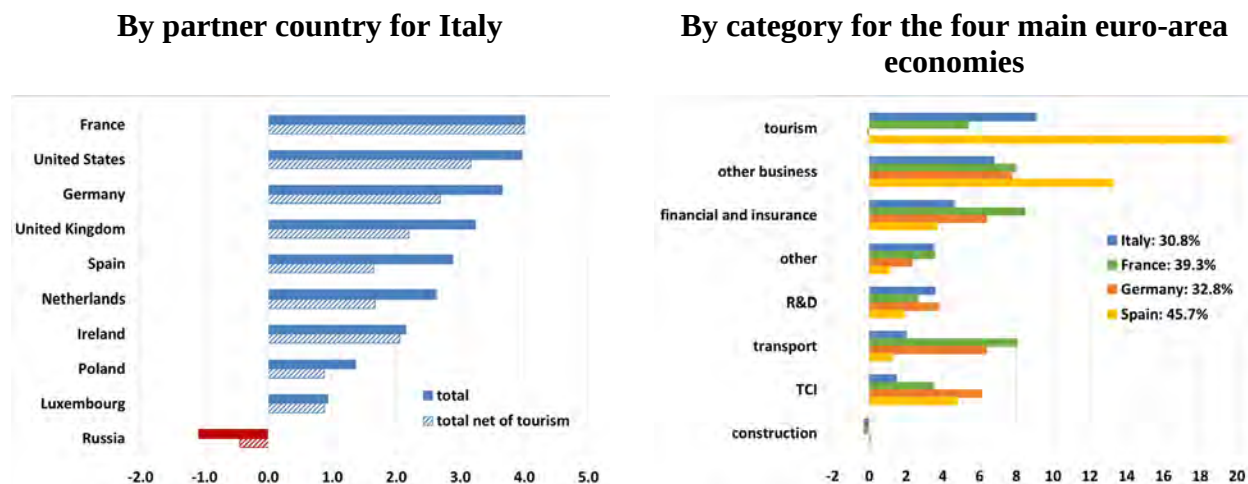
¹⁹ Total export service growth in value terms between 2019 and 2024 is significantly higher according to BOP than NA for France. Discrepancies between the two sources may arise because of several reasons (Obrzut, 2016); for Italy, for example, they are mainly due to the different allocation of financial intermediation services indirectly measured (FISIM) and to different revision policies.

²⁰ Estimates in volume terms lower this contribution to around one eighth, to the advantage of business services.

services (Fig. 10, right-hand side panel).²¹ Similar top two sources of growth are recorded by Spain, where the stimulus from tourism however was even higher than for Italy, explaining nearly half of its exceptional services export increase; another notable boost to this economy came from telecommunications, computer and information services (TCI; Martín Machuca and Garcia, 2023). For France and Germany, the largest contributions to services exports came from finance and insurance, transport services, and “other business services”.

The growth in “other business services” exports in all the main euro-area countries might reflect various developments, including ongoing digitalisation and the interconnection between manufacturing production and services. Using a new micro database on Italian firms, Ciccioli et al. (2025) document the existence of strong complementarities between trade in goods and trade in services. Many firms, especially larger ones, export both, with services often ancillary to goods (and vice versa).

Figure 10 – Contributions to services exports dynamics, 2019-24
(values; percentage points)



Source: Authors' calculations based on Banca d'Italia and Eurostat BOP.

Notes: “tourism” refers to the EBOPS travel category; “other business” include professional and management consulting services and technical, trade-related, and other business services not indicated elsewhere; “R&D” include research and development services and charges for the use of intellectual property not included elsewhere; “other” include manufacturing services on physical inputs owned by others (processing), maintenance and repair services not included elsewhere, personal, cultural and recreational services and government goods and services not included elsewhere; “TCI” refers to telecommunications, computer and information services.

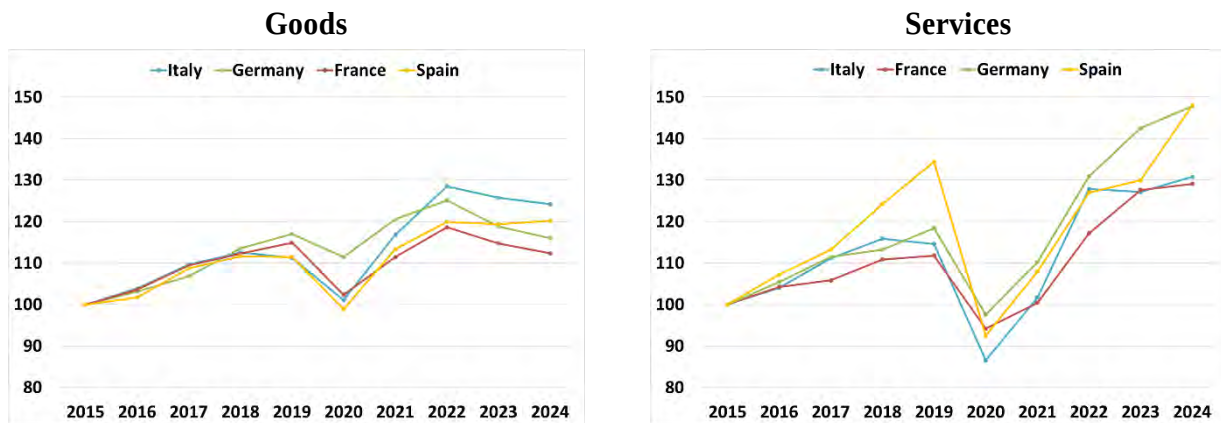
2.3 Imports

Italy's goods imports are balanced between euro and non-euro area sources markets, with a significant role played by Germany, France and China (Table A1 in Annex A). From a sectoral perspective, five industries account for about 60 per cent of total imports, namely energy goods, agrifood, electronics, metal and metal products, and motor vehicles (Table A2).

In 2024 Italy's real goods imports were nearly 12 per cent higher than in 2019, against a more contained rise in Spain and, especially, France and a mild drop in Germany (Fig. 11, left-hand side panel). Similarly to goods exports, Italy's foreign purchases peaked in 2022 and then declined over the following two years.

²¹ In particular, processing explained about half of “other services” contribution for Italy, and around one third for Germany and France, the other countries for which data are available.

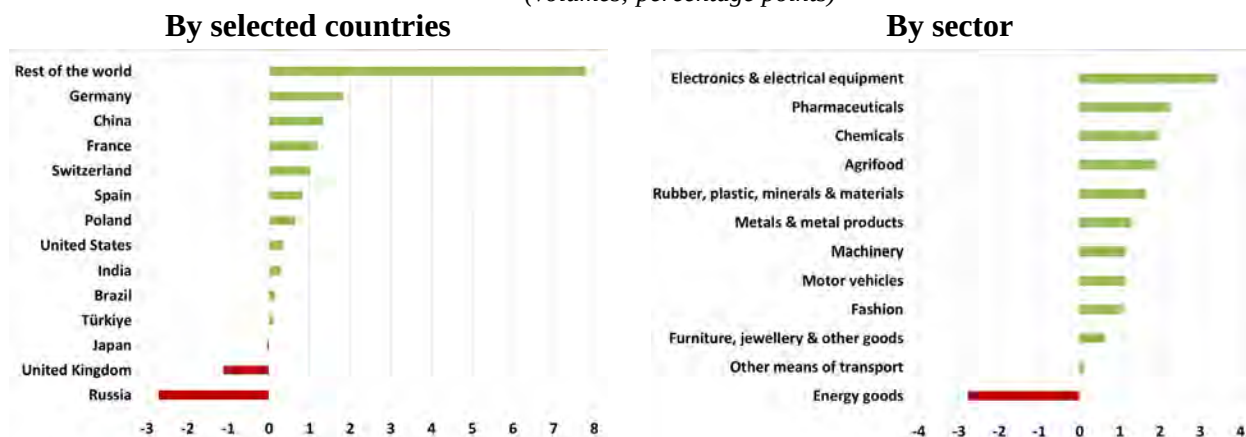
Figure 11 - Import volumes of goods and services
(indices 2015=100)



Sources: Istat and Eurostat NA.

According to our geographical estimates in volume terms on NA, BOP and IMTS, over the overall 2019-24 period imports were buoyant across most source locations (in particular across the main ones, Germany, China and France), with the few significant exceptions of Russia and the United Kingdom (Fig. 12; left-hand side panel). According to NA, import growth was also broad-based sector-wise, with the sole exception of energy products (Fig. 12; right-hand side panel).

Figure 12 - Contributions to Italy's goods import dynamics, 2019-24
(volumes; percentage points)



Source: Authors' calculations based on Istat IMTS, BOP and NA.

Notes: Countries and sectors are ordered according to their contribution to overall export growth.

Service imports are slightly tilted towards euro-area partners, as Germany and France are the top source markets, followed by the United States and the United Kingdom (Table A4 in Annex A). One fourth of Italy's purchases from abroad are accounted for by "other business services", followed by outbound Italian tourism (22 per cent) and transport services (21 per cent; Table A5).

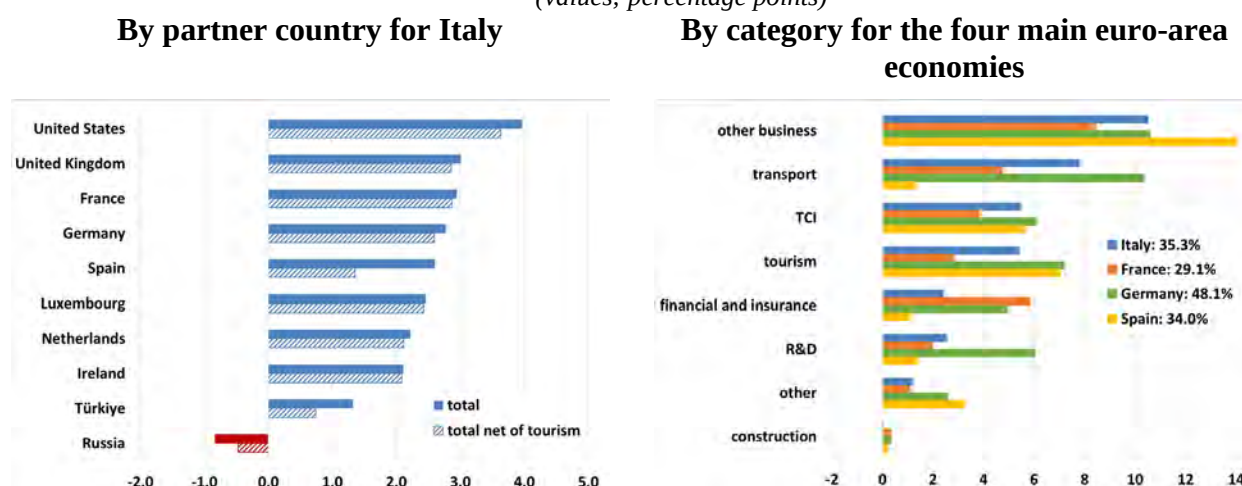
Real services imports were substantially higher in 2024 than in 2019 in all four main euro-area economies, in Italy by about 14 per cent (Fig. 10, right-hand side panel).²² Moving to more detailed (current-price) BOP data, Italy's purchases were particularly strong from the United States,

²² Spain's growth rate was more contained because in 2019 the volume of its services imports had been exceptionally high. In value terms, growth rates were even higher across the four countries, ranging between 30 per cent (France) and 50 per cent (Spain).

the United Kingdom, France, Germany and Spain (Fig. 13, left-hand side panel); only in the latter country Italian tourism expenditure played a significant role. Italy's overall import growth was boosted in particular by "other business services" (by nearly one third), followed by transport and then TCI and tourism on an equal footing (Fig. 13; right-hand side panel).²³ In particular, tourism accounted for approximately one eighth of Italy's overall dynamics, a smaller weight relative to that recorded by Germany and Spain. Apart from this item, the sources of growth in the other main euro-area economies were quite similar to those observed for Italy, although for example finance and insurance exerted a stronger contribution in France and Germany, and R&D purchases were significant for Germany.

Figure 13 – Contributions to services imports dynamics, 2019-24

(values; percentage points)



Source: Authors' calculations based on Banca d'Italia and Eurostat BOP.

Notes: "other business" includes professional and management consulting services and technical, trade-related, and other business services not indicated elsewhere; "TCI" refers to telecommunications, computer and information services; "tourism" refers to the EBOPS travel category; "R&D" includes research and development services and charges for the use of intellectual property not included elsewhere; "other" includes manufacturing services on physical inputs owned by others (processing), maintenance and repair services not included elsewhere, personal, cultural and recreational services and government goods and services not included elsewhere.

3. Current and capital account

As a result of the external adjustment started during the sovereign debt crisis, Italy's CA balance switched to surplus in 2013 and recorded a gradual increase thereafter (Fig. 14, left-hand side panel). The CA surplus reflected various factors, including strong export dynamics, subdued investment rates, the depreciation in the nominal exchange rate since 2015 and less favorable cyclical conditions in Italy.²⁴

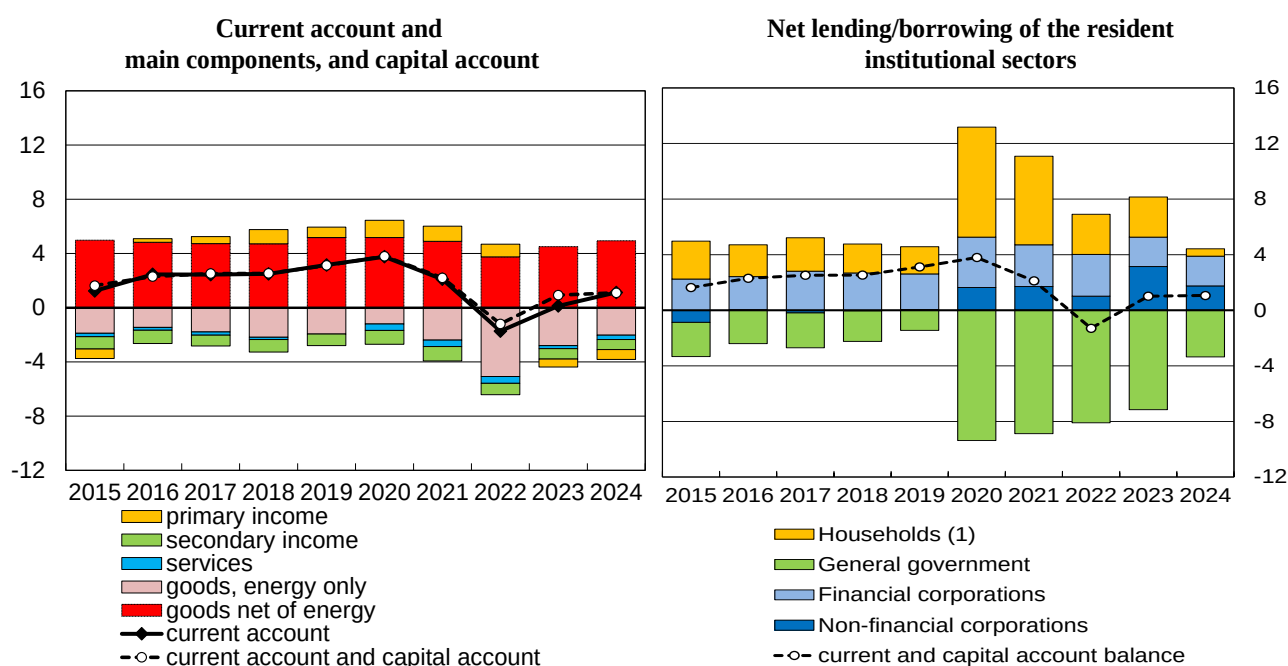
Following the COVID-19 pandemic, the CA balance slightly improved: the decrease in the tourism surplus was more than offset by the plunge in oil prices and the related decline of the energy trade deficit, and by the exceptional fall in imports related to the restrictions on economic activity. At the same time, major changes in the distribution across institutional sectors of the country's aggregate net lending were observed: government policy support to the private sector resulted in a large increase

²³ In particular, processing explained under half of "other services" contribution for Italy, less than France and more than Germany (for which data are available).

²⁴ On average the "cyclical adjustment" (which reflects the difference between the output gap in Italy and the one in our trading partners) accounted for more than 1 percentage point of the current account surplus over the years 2013-2019. For the methodology, see Fabiani, Federico and Feletigh (2016).

in its net borrowing, mirrored by larger net savings by households and non-financial companies (Fig. 14, right-hand side panel).

Figure 14 - Current account and capital account balance
(percentages of GDP)



Sources: Banca d'Italia BOP, Istat NA; for the breakdown between energy and non-energy products in panel (a), Istat IMTS.

(1) Includes non-profit institutions serving households.

After a beginning of normalization in 2021, Italy's external sector was hit in 2022 by another exceptionally large external shock, following the unprecedented peaks reached by the price of natural gas in Europe. The CA balance switched from a surplus of 2 per cent of GDP in 2021 to a deficit of 1.8 per cent in 2022. The energy trade deficit accounted for more than two thirds of the deterioration in the current account balance and reached 5.1 per cent of GDP, only slightly below the historical peak of 1981 after the second oil shock of the late 1970s (Giordano and Tosti, 2022).

The energy price shock turned out to be temporary, as already in 2023 the deterioration in Italy's terms-of-trade was entirely reversed (Giordano and Tosti, 2024). By contrast, a sizeable drag came from the primary income balance, which worsened by 1.5 percentage points of GDP between 2022 and 2023, following the rapid increase in official interest rates. This reflected a worsening of Italy's investment income balance, especially in the "other investment" component, which mainly includes the Banca d'Italia debtor balance on TARGET, in turn remunerated at the interest rate on main refinancing operations.²⁵ The rise in interest rates had instead much more limited effects on the portfolio investment income balance (Banca d'Italia, 2024): a significant portion of portfolio assets is indeed made up of investment in shares (directly or through investment funds) and medium and long-term bonds, for which the corresponding returns reflect the increase in official rates more

²⁵ For more details and for an international comparison, see Federico and Giordano (2024).

gradually.²⁶ In 2024 the investment income balance still exerted a major drag on Italy's CA balance, despite the bulk of the deterioration was concentrated in the previous year; the normalization of the energy trade balance, the increase in the non-energy goods surplus and the further improvement in the tourism balance all contributed, however, to a larger CA surplus than in 2023.

While Italy's CA has thus swung back to a solid surplus, its level in 2024 (1.1 per cent of GDP) is only approximately one third compared to that before the pandemic. Table 2 shows that the gap is largely explained by the overall worsening in the primary income balance, given the still high level of interest rates and the composition of the country's external balance sheet (with a larger share of debt among liabilities than among assets). Additional negative contributions came from the non-energy goods balance and from the services balance (especially transport and ICT) (0.6 and 0.2 percentage points, respectively), which are plausibly related to the improvement in the cyclical position of the Italian economy relative to the world average between 2019 and 2024. In cyclically adjusted terms, the current account surplus is indeed only 0.5 percentage points lower in 2024 compared to 2019, pointing to an almost complete recovery of its pre-pandemic level.

Considering institutional sectors balances, the deterioration in the current and capital account balance between 2019 and 2024 largely reflects the increase in government deficit and the decrease in households' net savings (by 1.9 and 1.4 percentage points, respectively), only partly offset by the increase in non-financial corporation net savings (by 1.7 percentage points of GDP; Fig. 14, right-hand side panel).

Table 2 – Current and capital account balances, 2019-24
(percentages of GDP)

	Current and capital account	Current account	Goods net of energy	Goods, energy only	Services	Primary income	Secondary income	Cycl. adj. current account
2019	3.1	3.2	5.2	-1.9	0.0	0.8	-0.8	2.0
2024	1.1	1.1	4.5	-2.0	-0.2	-0.3	-0.9	1.6
Diff. 2024 wrt 2019	-2.1	-2.1	-0.6	-0.1	-0.2	-1.1	0.0	-0.5

Sources: Banca d'Italia BOP, Istat NA and cyclically adjusted current account estimations following the methodology in Fabiani, Federico and Felettigh (2016).

In addition to the CA, the capital account balance has recorded significant fluctuations in recent years. While capital account balances have been generally and historically negligible, this has not been the case for Italy as well as several other EU countries since 2021, when the Recovery and Resilience Facility (RRF) was enacted in the EU. RRF grants are indeed recorded on the credit side in the current or capital account (whether they are current or capital transfers, respectively) once they are spent, with liabilities due to "other investment" decreasing by the same amount in the financial account. According to BOP data, Italy has spent an amount of grants equal to 38 bln until 2024, of which 33 bln for investment purposes, registered in the capital account balance. The expenditure of RRF grants has boosted Italy's capital account balance in 2022 and especially in 2023, when it reached a peak of 0.8 per cent of GDP.²⁷ In 2024 the capital account closed nearly in balance,

²⁶ Finally, the other items that contribute most to Italy's net foreign credit position produce investment income not directly linked to interest rates (such as direct investments, which depend on the profitability of companies) or do not generate income (such as official gold reserves).

²⁷ Repayment of EU borrowing allocated to RRF grants will take place through the EU budget over a long-time horizon (until 2058) and hence will be shared out amongst Member States. Taking into account Italy's potential contribution to the repayment of RRF grants, based on the country's current share in national contributions (VAT and GNI-based own resources), we estimate that the amount of RRF grants which represent extra resources available to the domestic economy would be equal to approximately 0.2-0.3 percentage points of GDP per year until 2026 (Federico and Giordano, 2024).

reflecting the decline in investment-related expenditure financed by these grants; this was due both to the lower share of grants in RRF expenditure in the later instalments of RRF funds and to the larger share of current expenditure over capital expenditure since last year.

Overall, taking into account the temporary nature of the deterioration in the investment income balance, we assess that Italy's cyclically adjusted CA is broadly in line with the level consistent with fundamentals ("current account norm") as estimated by the European Commission (2025), namely 1.8 per cent of GDP. The norm mainly reflects structural factors related to the demographic fundamentals (the country's faster aging speed compared to the rest of the world), relative income per capita and the weight of manufacturing in total value added (Coutinho et al. 2022).²⁸

4. Net international investment position

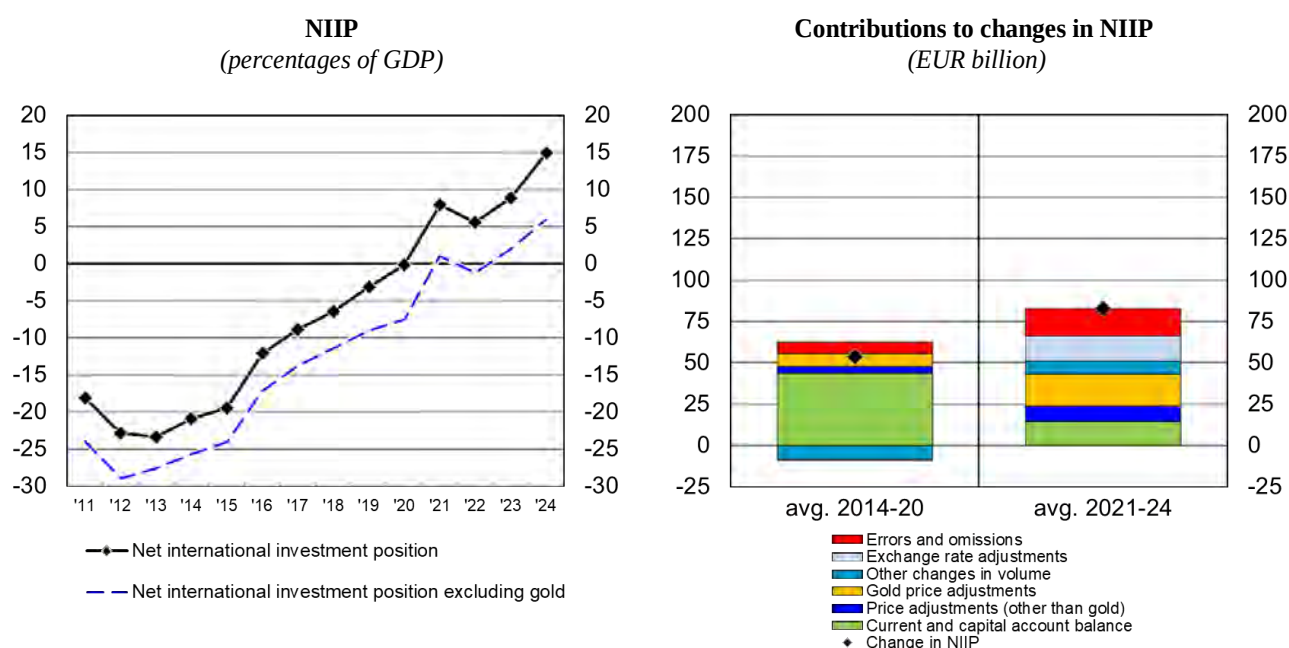
At the end of 2024 Italy's NIIP amounted to EUR 328 billion, equal to 14.9 per cent of GDP, improving by almost 40 points relative to 2013 (Fig. 15, left-hand side panel). This remarkable turnaround represents a case study of a complete unwinding in a country's external stock imbalance (Della Corte, Federico and Tosti, 2018).

Overall, the change in NIIP since the end of 2013 is attributable for just over half to the persistent surpluses in the current and capital accounts, and for almost 30 per cent to price adjustments. However, their relative contribution has significantly varied over time. Until 2020 four fifths of the change in NIIP were due to the current and capital account surpluses, which instead explain only less than one fifth of the improvement in NIIP since 2021 (Fig. 15, right-hand side panel). The contribution of valuation adjustments has become predominant in recent years, due to both the revaluation of official gold reserves and the rise in stock market prices, especially in the United States.

A breakdown of the NIIP by resident institutional sector shows that the non-bank private sector records a net creditor position equal to 61 per cent of GDP at end-2024, which mainly reflects its large holdings of foreign portfolio equity and debt instruments. This is partly offset by net liabilities of the government sector (37 per cent of GDP, related to foreign holdings of public sector bonds) and, to a lower extent, by those of Banca d'Italia (related to the TARGET debtor balance) and of the banking sector (4 and 5 per cent, respectively). The improvement in the NIIP since 2013 is largely due to the private sector and to a lower extent to banks, while net liabilities of government and the central bank widened.

²⁸ An alternative estimate of the norm is based on the IMF's external sector assessment, which amounts to 3.9 percent of GDP in 2024 (IMF, 2025b). The discrepancy between the IMF and the European Commission estimate mainly reflects a much larger positive contribution of demographic fundamentals to the norm in the former, resulting from a different modelling of the demographic block (for more details, see Depalo and Giordano, 2025), together with the treatment of the NIIP as a fundamental variable in the former but not in the latter.

Figure 15 - Net international investment position (NIIP)



Source: Banca d'Italia NIIP and Istat NA.

In addition to the NIIP, the net external debt (NED) is another frequently employed measure in the context of external sector assessments. This corresponds to the difference between a country's gross external debt liabilities and its gross external debt assets. This measure therefore excludes equity liabilities (like foreign direct investment and portfolio equity holdings) and focuses solely on debt instruments, with the aim of capturing a country's vulnerability to solvency, liquidity and rollover risks. Using the standard definition of NED, at the end of 2024 Italy's recorded a debtor position equal to 42 per cent of GDP. However, the standard definition offers a partial and biased view of a country's actual net exposure to debt-like instruments because it considers all investment funds as equity, regardless of their actual asset exposure. Bond funds and even money market funds, despite being typically invested in highly liquid assets and therefore being readily available to meet contractual obligations, are treated as equity and therefore omitted from the calculation of NED. This distortion is particularly relevant in the case of Italy, which holds large positions in foreign investment funds on the asset side (amounting to about EUR one trillion), while on the liabilities side the amounts are almost negligible. A preliminary estimate based on Assogestioni (the Italian association of asset managers) suggests that about half of Italian holdings of foreign investment funds is invested in debt instruments.²⁹ Adjusting the NED for the portion of investment funds' exposure to debt instruments would yield a much lower debtor position for Italy (21 per cent of GDP, i.e. less than half of the NED according to the official definition), suggesting that the country's potential vulnerability to an external crisis is much lower if the actual debt exposure of investment funds is properly taken into account.

Two additional considerations are in order, which further question the reliability of standard NED measures in external sector assessments. The first is that many advanced countries tend to have short positions in debt instruments and long position in equity instruments, as they own the "privilege" of being able to issue safe debt to invest in riskier and more remunerative equity

²⁹ This estimate assumes that money market and bond funds invest their entire portfolio in debt instruments, while flexible and balanced funds invest about half of their portfolio in debt instruments.

instruments; a net external debt position is indeed fairly common among advanced economies. The second is that a significant portion of NED is due to intra-Eurosystem liabilities related to the TARGET balance, which do not share all the usual features of debt liabilities *vis-à-vis* market counterparties and might not necessarily be associated with the same risks of standard debt liabilities.

5. The outlook for the external sector

Trade and current account balance - While in recent years Italy's external sector has quite successfully navigated an international context characterized by several adverse shocks, new risks have recently emerged or are likely to materialize soon. The most recent Banca d'Italia macroeconomic projections, released in October 2025, point to broadly stagnant exports in 2025 and 2026, reflecting the joint impact of US tariff increases and euro appreciation.³⁰ Exports would return to significant growth in 2027, although at a slower pace than that of potential demand for Italian goods and services due to the loss of competitiveness caused by the appreciation of the exchange rate. Imports are expected to increase over the whole three-year forecast horizon, thanks to more resilient domestic demand. The CA balance is projected to slightly decline, from 1 per cent of GDP in 2025 to 0.8 per cent over the next two years, just below 1 per cent of GDP. These projections remain subject to a high degree of uncertainty, stemming mainly from the details of the actual implementation of the trade deal between the United States and the European Union and from developments in trade policies globally.

Italian exporters have indeed significant exposure to the US market, which accounts for about 10 per cent of the country's exports of goods. Their sectoral composition, quality positioning and good profitability could mitigate the most negative direct consequences of the tariff increases, at least in the short term. However, some of the firms that are more (directly or indirectly) dependent on the US market and have smaller profit margins could be significantly affected. More severe consequences might emerge, should the tightening in trade policies have strong repercussions for global demand and the financial markets or should trade deflection of Chinese exports away from the US significantly increase competition in non-US markets (Federico, Hassan and Romanini, 2025).

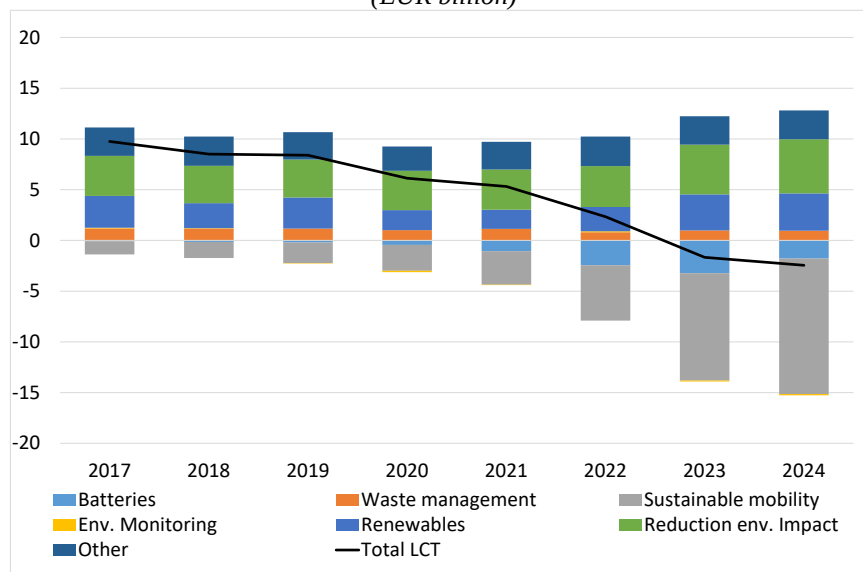
Over the longer term, growing international tensions might lead to a strong reconfiguration of international trade flows, as government and companies take actions aimed at limiting exposure to adverse geopolitical shocks. A decrease in trade between blocs of politically distant countries has already been observed, initially reflecting the first Trump administration Trade War between the United States and China and then extending to European countries, especially after the Russian invasion of Ukraine (Conteduca et al., 2025). Italian exporters might face new challenges in this scenario, as adjustments in the production and supply networks are usually lengthy and costly. Recent shifts in Italian firms' sourcing strategies point to an increase in aggregate imports of intermediate goods from two manufacturing hubs (China and Central and Eastern Europe). Behind these aggregate trends, there is survey evidence pointing to Italian firms' active reshaping of supply chains to make them more resilient. Indeed, about half of Italian manufacturing firms that sourced critical inputs from China had adopted already in 2023 or were going to adopt de-risking strategies, of which sourcing from other European countries ("near-shoring") was the most frequent (Balteanu et al., 2024). According to a recent Banca d'Italia survey conducted in Spring 2025 (Grando, Padellini and Panon, 2025), almost 60 per cent of Italian manufacturing firms increased their supplier pool over the 2023-

³⁰ At the time of writing of this note, the US-EU agreement of August 2025 sets a tariff cap at 15 per cent, and negotiations with China are still under way.

24 period to attain a more diversified supply chain, and about one fourth decided to source from geographically closer suppliers. The adoption of such strategies was more intense in 2023 than in 2024 and a significant portion of firms pursuing these strategies in 2024 had implemented them also in 2023, suggesting that diversifying and nearshoring suppliers can be a gradual process. While increasing trade fragmentation implies additional costs on companies, there might however also be some potential opportunities for Italian firms arising from a reconfiguration of trade flows along geopolitical lines (“friend-shoring”).

The green transition will also likely play a significant role in the evolution for Italy’s trade balance. The transition of the world economy toward a less carbon-intensive economy will indeed imply a fall in the demand of polluting and carbon-intensive products, and a corresponding increase in the demand for “green” products. Italy traditionally recorded a surplus in “low-carbon technology” (LCT) products, thanks to a comparative advantage in various segments (especially products related to the reduction of environmental impact, environmental monitoring, and certain niches of renewable energy products such as turbines; Della Corte, Federico and Oddo, 2024). However, Italy’s LCT trade balance has been gradually deteriorating, reaching a mild deficit of EUR 2.5 billion in 2024 (Figure 16). This development mainly reflected the growing imports of sustainable mobility products (such as electric and hybrid vehicles) and, to a lower extent, batteries. Trade in both segments has recorded a very strong expansion worldwide, which has benefited the set of countries (including China) that were able to satisfy world demand. Improving Italy’s competitive position in these fast-growing segments of LCT products would support the country’s external performance and trade balance over the next years.

Figure 16 – Italy’s trade balance in low-carbon technology (LCT) products
(EUR billion)



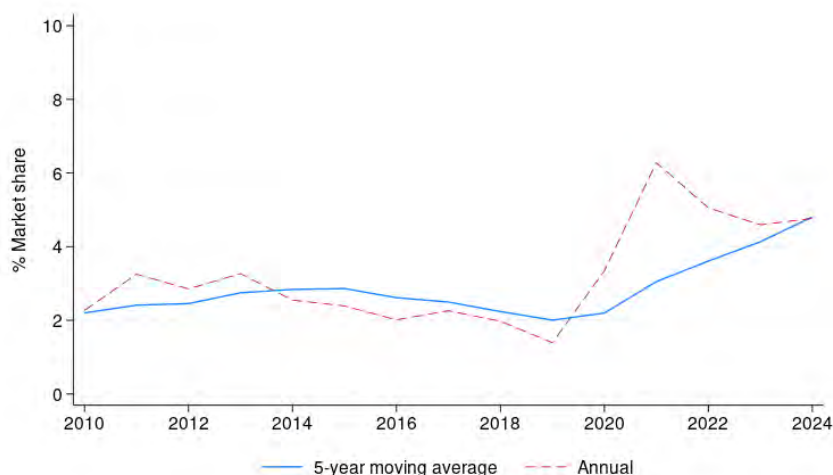
Source: authors’ calculations on TDM.

Notes: LCT products correspond to technologies that emit less greenhouse gas over their lifecycle, facilitating the transition to a low-carbon economy. See Della Corte, Federico and Oddo (2024) for the classification of LCT products.

Looking forward, the increase in European defence spending could provide a boost to Italian exports. In response to the growing security threats facing Europe and the profound shifts in the global geopolitical landscape, the European Commission has proposed a new plan aimed at boosting the European Union’s defense capabilities, named ReArm Europe. According to the Commission’s estimates, the plan could mobilize up to an additional €800 billion in defense spending over the next

five years, among other measures. While the United States is by far the largest player in the defence sector, among EU member states Italy is particularly well-positioned to benefit. As the world's sixth-largest arms exporter (holding 4.8 per cent of the global market in the 2020-24 period according to SIPRI data on international arms transfers; Figure 17), Italy's defence sector specializes in aerospace and naval systems, with two national champions ranking among the world's top 100 arms firms, (Leonardo at 13th in 2023 and Fincantieri at 51st), as well as amongst the top 12 corresponding EU companies. While military equipment currently represents a modest share of total exports (about 1 per cent in 2020-24), this segment has shown consistent growth. The actual economic stimulus for Italian exports will depend on how much of the additional defence spending is actually directed toward European industry and to what extent it will target sectors where Italy holds a competitive edge. More generally, the macroeconomic repercussions will also depend on funding mechanisms, the response of other economic policies, and the type of expenditure (with R&D spending expected to have the greatest impact on productivity and long-run growth).

Figure 17 – Italy's market share on world exports of arms
(percentage shares on values)



Source: authors' calculations on SIPRI data on international arms transfers.

The long-term prospects for Italian exports are tied to structural shifts in global demand, which reflect several long-term trends. The first is income convergence between emerging economies and advanced economies. The second mechanism involves shifts in demand patterns, particularly the rising share of services, driven by two key factors: income growth and population aging. There is also a shift in the composition of manufacturing demand, favouring products targeting wealthier and older consumers. The third mechanism stems from changes in production methods, characterized by the "servitization" of manufacturing and increasing digitalization. Servitization refers to the growing use of services as inputs across all sectors, including manufacturing, a trend accelerated by advancements in information and communication technology, higher R&D spending, and the expansion of the collaborative economy. This shift is also reflected in evolving business models, with companies increasingly offering service-oriented solutions.

According to long-term projections for 2017-60 (OECD, 2019),³¹ these trends will significantly reshape the composition of global demand. In OECD countries, service-related sectors (especially business and transport services) will see their share rise, while traditional sectors like

³¹ Since the OECD projections date back to 2019, they do not account for recent disruptions in the global economy, including those linked to the pandemic, geopolitical tensions, the green transition, and the rise of artificial intelligence.

energy, fossil fuels, and food will decline, reflecting below-average demand growth (Table 3). Non-OECD countries will follow a similar but more pronounced trajectory, with surging demand for business services and significant growth in diversified manufacturing sectors. Italy's position in this context presents both strengths and weaknesses. While the country excels in high-quality goods exports, including products targeting wealthier and older-age consumers such as luxury fashion, design furniture, premium food, and high-end automotive products, it lags behind key competitors in digital services and business-related services, despite notable dynamism in recent years.

Table 3 - Projected changes in world output shares by sector until 2060
(percentage changes in the shares in the total economy over 2017-60)

OECD		Non-OECD	
Business services	4.3	Business services	4.8
Transport services	0.4	Other Manufacturing	1.2
Motor vehicles	0.4	Other services	1.1
Textiles	0.1	Transport services	1.1
Other services	0.1	Textiles	0.6
Other Manufacturing	0.0	Motor vehicles	0.5
Construction	0.0	Electronics	0.5
Electronics	0.0	Pulp, paper & publishing	0.1
Non-metallic minerals	-0.1	Construction	-0.1
Pulp, paper & publishing	-0.1	Chemicals	-0.3
Iron & Steel	-0.3	Iron & Steel	-0.5
Chemicals	-0.5	Non-metallic minerals	-0.7
Agriculture, Fishing & Forestry	-0.6	Secondary energy & Utilities	-1.0
Fossil Fuel & Mining	-1.1	Fossil Fuel & Mining	-1.9
Food	-1.1	Agriculture, Fishing & Forestry	-2.7
Secondary energy & Utilities	-1.5	Food	-2.7

Source: authors' calculations on OECD (2019).

Net international investment position – The evolution of Italy's NIIP will depend not only on the CA balance but also on valuation adjustments, which have become increasingly relevant in recent years. The current context, characterized by significant financial market volatility, with sharp fluctuations in asset prices and currencies, further increases the likelihood of a material impact of valuation adjustments in the near future. We single out three variables that will be likely to play a key role in the contribution of valuation adjustments to Italy's NIIP.

The first is the USD/EUR exchange rate. Italy reports a long position in USD-denominated instruments (almost 20 per cent of GDP), which mainly reflects Italian investors' significant exposure to the U.S. equity market and debt securities, and a marginal share of USD-denominated instruments on the country's external liabilities. A 10 per cent depreciation of the dollar would result in negative valuation adjustments of approximately 2 percentage points of GDP, and vice versa.³²

The second key variable is related to international stock market indices. The country reports a long position in listed stocks, which can be approximately estimated between 17 and 22 per cent of GDP (depending on the methodologies used to account for indirect exposure via investment funds).

³²The dollar depreciation since early 2025 has indeed already implied negative valuation adjustments in Italy's quarterly NIIP in the first half of the year.

Given this exposure, we estimate that a 10 per cent decrease in stock prices would lead to negative valuation adjustments between 1.7 and 2.2 percentage points of GDP, and vice versa.

While recent developments to exchange rates and equity markets point to downward risks for the NIIP via the valuation adjustment channel, upside risks might reflect the third factor, i.e. the ongoing rise in the price of gold, which affects the value of the country's gold reserves. In a context of geopolitical tensions and diversification of official reserves by emerging economies, further growth in the price of gold might be possible, at least in the short term, therefore improving the country's value of official reserves and total NIIP; at the same time, abrupt downward corrections in the price of gold would imply negative valuation adjustments.

Overall, although valuation adjustments might have a non-negligible impact on the evolution of Italy's NIIP in the near future, they are unlikely to change the country's net creditor position, also taking into account the projected CA surpluses.

6. Conclusions

This paper has documented the resilience of Italy's external sector over recent years, despite several adverse shocks, thanks to favourable cost and price competitiveness developments, strong geographical and sectoral diversification and a high incidence of medium and high-quality exports. Its performance confirms the signals of structural strengthening of the population of Italian exporters that had already emerged in the previous decade (Bugamelli et al, 2018).

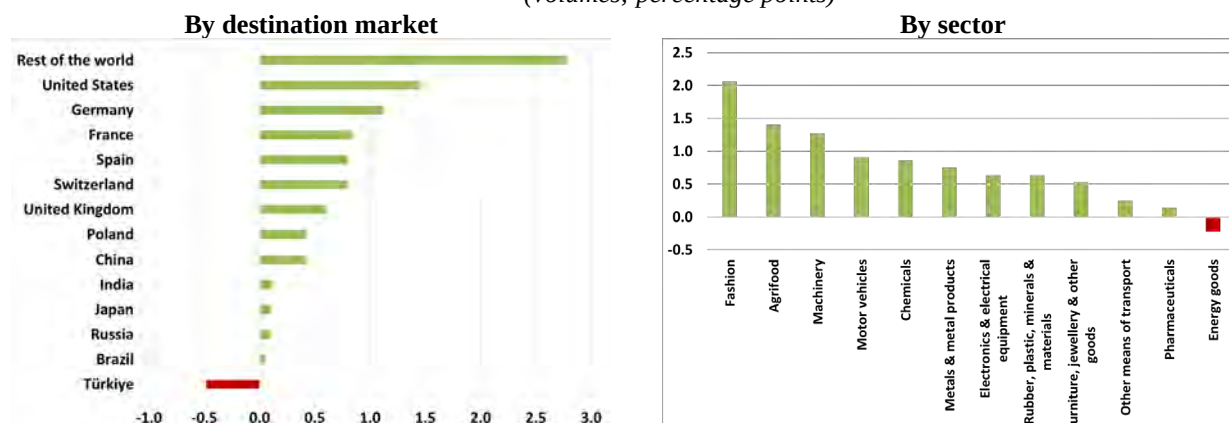
In particular, Italy's sound export performance was due to both the goods and the services components. It contributed significantly to the CA balance, which after the temporary deficit in 2022 swung back to surplus already in 2023. The surplus is currently more modest than its pre-pandemic level, mainly reflecting the dampening effect of higher interest rates on the investment income balance, but overall, in our view Italy's CA balance is broadly in line with the level consistent with fundamentals. It has resulted in a further improvement in the country's net creditor international investment position, which has also benefited from positive valuation adjustments due to international equity prices and to the appreciation of gold.

Looking forward, new risks are emerging as a series of external shocks take shape, in addition to the ongoing structural challenge of the twin transition. Among the most significant risks are the increase in US tariffs, the exchange rate appreciation, intensifying competition from China (potentially fueled by a depreciation of the yuan and a strategic pivot towards non-U.S. markets), the green and digital transition, and escalating geopolitical tensions, which might accelerate trade and financial fragmentation along political lines. Financial volatility adds another layer of risk: sharp exchange rate swings and asset price fluctuations could amplify valuation effects, influencing Italy's NIIP.

Despite these mounting headwinds, our analysis suggests that Italy's external sector is poised to maintain its structural strength, as confirmed by Banca d'Italia's most recent macroeconomic projections until 2027: the CA should stay in surplus, while the NIIP is projected to remain in creditor territory. Over the medium-long term, the country's ability to navigate the significant challenges arising from geo-economic fragmentation, the twin transition and structural changes in world demand will be key to a resilient performance.

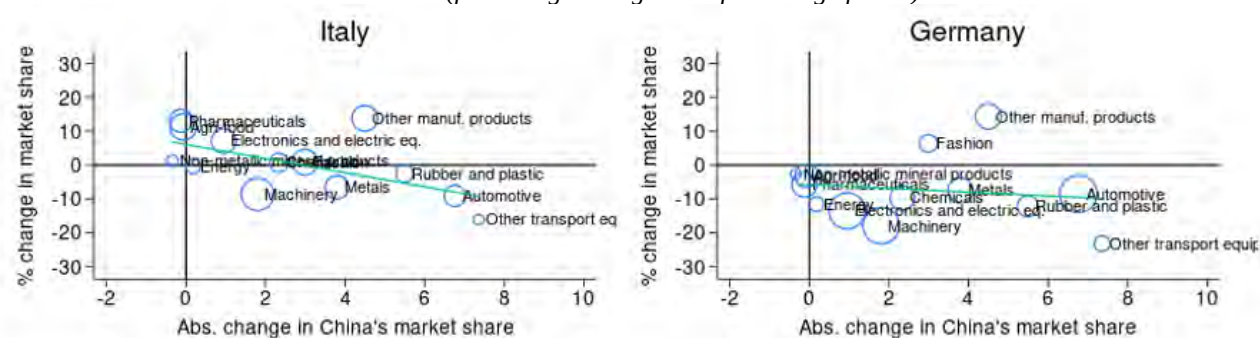
Annex A – Further figures and tables

Figure A1 – Contributions to Italy's goods export dynamics in 2015-19
(volumes; percentage points)



Source: Authors' calculations based on Istat national accounts.

Figure A2 – Italy and Germany's market share changes relative to China
(percentage changes and percentage points)



Source: Authors' calculations on TDM.

Notes: The size of the circles represents the reporter country's market share in 2024.

Table A1 – The geographical composition of Italy’s trade in goods, 2024*(percentage shares on values)*

Exports		Imports	
Germany	12.5	Germany	16.1
France	10.5	France	8.4
United States	10.4	China	7.6
Spain	5.1	Netherlands	6.8
Switzerland	3.8	Spain	6.1
United Kingdom	3.6	Belgium	3.9
Poland	3.2	United States	3.4
Türkiye	3.0	Switzerland	3.0
Austria	2.9	Poland	3.0
Netherlands	2.6	Austria	2.3
China	2.5	Türkiye	2.2
Belgium	2.1	Czech Republic	1.7
Romania	1.5	United Kingdom	1.6
Rest of the world	37.9	Rest of the world	35.7
Total	100.0	Total	100.0
<i>memo:</i>		<i>memo:</i>	
Euro area	42.5	Euro area	50.2
Non-euro area	57.5	Non-euro area	49.8
European Union	51.8	European Union	60.0
Non-European Union	48.2	Non-European Union	40.0

Source: Authors’ calculations based on BOP.

Table A2 – The sectoral composition of Italy’s trade in goods, 2024*(percentage shares on values)*

	Exports	Imports
Agrifood	11.8	13.0
Energy goods	4.6	13.8
Fashion	11.0	7.1
Chemicals	7.0	8.8
Pharmaceuticals	3.0	4.2
Rubber, plastic, minerals & materials	7.7	6.9
Metals & metal products	10.4	11.1
Electronics & electrical equipment	8.7	11.5
Machinery	17.7	7.8
Motor vehicles	7.3	10.2
Other means of transport	3.4	1.8
Furniture, jewellery & other goods	7.3	3.8
Total	100.0	100.0

Source: Authors’ calculations based on Istat NA by economic sector of activity.

Table A3 – The four main euro-area economies’ goods export market shares
(percentage shares)

Year	Shares at current prices and exchange rates				Shares at costant 2020 prices and exchange rates			
	Italy	France	Germany	Spain	Italy	France	Germany	Spain
2000	3.8	4.9	8.1	1.9	4.4	4.9	8.2	2.2
2001	4.0	5.1	8.7	2.0	4.5	5.0	8.7	2.3
2002	4.0	5.1	9.0	2.1	4.2	4.9	8.6	2.2
2003	4.1	5.1	9.3	2.2	3.9	4.6	8.2	2.2
2004	3.9	4.9	9.3	2.1	3.8	4.4	8.1	2.1
2005	3.6	4.5	8.7	1.9	3.6	4.2	8.0	1.9
2006	3.5	4.3	8.7	1.8	3.6	4.1	8.2	1.8
2007	3.7	4.2	9.0	2.0	3.5	3.8	8.3	1.9
2008	3.4	4.1	8.5	1.8	3.4	3.7	8.1	1.8
2009	3.3	4.1	8.4	1.9	3.1	3.7	7.6	1.8
2010	3.0	3.6	7.8	1.8	3.1	3.6	7.8	1.8
2011	2.9	3.5	7.6	1.7	3.0	3.5	7.8	1.8
2012	2.7	3.3	7.2	1.6	3.0	3.5	7.8	1.8
2013	2.8	3.4	7.3	1.8	2.9	3.4	7.5	1.8
2014	2.8	3.4	7.4	1.8	2.9	3.4	7.6	1.8
2015	2.8	3.4	7.4	1.8	3.0	3.5	7.7	1.9
2016	2.9	3.5	7.6	1.9	3.0	3.5	7.7	1.9
2017	2.8	3.4	7.4	1.9	2.9	3.4	7.5	1.9
2018	2.8	3.4	7.3	1.8	2.9	3.4	7.4	1.9
2019	2.8	3.4	7.2	1.8	2.9	3.5	7.5	1.9
2020	2.8	3.2	7.2	1.8	2.8	3.2	7.2	1.8
2021	2.7	3.0	6.8	1.8	2.8	3.1	7.2	1.8
2022	2.5	2.9	6.1	1.7	2.9	3.1	7.0	1.8
2023	2.7	3.1	6.6	1.8	2.9	3.2	7.0	1.8
2024	2.7	3.0	6.3	1.8	2.8	3.2	6.6	1.7

Source: Banca d’Italia’s calculations on Istat, Eurostat and IMF WEO.

Table A4 – The geographical composition of Italy’s trade in services, 2024
(percentage shares on values)

Exports		Imports	
Germany	11.8	Germany	8.6
France	10.1	France	8.4
United States	9.9	United States	8.2
United Kingdom	8.4	United Kingdom	8.1
Switzerland	6.5	Ireland	7.2
Spain	4.6	Luxembourg	6.9
Netherlands	4.5	Spain	5.2
Luxembourg	4.3	Switzerland	4.6
Ireland	4.1	Netherlands	4.7
Belgium	2.3	Greece	2.2
Austria	2.3	Türkiye	2.1
Poland	2.2	Poland	1.9
Canada	1.5	Austria	1.6
Rest of the world	27.4	Rest of the world	30.3
Total	100.0	Total	100.0
<i>memo:</i>		<i>memo:</i>	
Euro area	48.7	Euro area	51.8
Non-euro area	51.3	Non-euro area	48.2
European Union	55.9	European Union	59.5
Non-European Union	44.1	Non-European Union	40.5

Source: Authors’ calculations based on BOP.

Table A5 – The composition of Italy’s trade in services by category, 2024
(percentage shares on values)

	Exports	Imports
Tourism services	37.9	22.3
Transport services	10.7	21.4
Construction services	0.2	0.1
Financial and insurance services	8.4	9.7
R&D services	7.5	6.2
TCI services	6.0	10.1
Other business services	20.8	25.0
Other services n.e.c	8.6	5.2
Total	100.0	100.0
<i>memo:</i>		
Digitally-deliverable services	42.7	50.2

Source: Authors’ calculations based on Banca d’Italia BOP.

Notes: “tourism” refers to the EBOPS travel category; “R&D” includes research and development services and charges for the use of intellectual property not included elsewhere; “TCI” refers to telecommunications, computer and information services; “other business services” includes professional and management consulting services and technical, trade-related, and other business services not indicated elsewhere; “other services n.e.c” includes manufacturing services on physical inputs owned by others (processing), maintenance and repair services not included elsewhere, personal, cultural and recreational services and government goods and services not included elsewhere.

Annex B – The constant market-share decomposition

The methodology behind the CMS analysis, drawn from Memedovic and Iapadre (2009), is briefly presented below. The change in a country's market share (s) between year t and year $t-1$ can be decomposed in the sum of structural effects (SE), competitive effects (CE) and adaptation effects (AE). Structural factors can be further decomposed in the sum of product specialization (PSE), geographic specialization (GSE) and a structure interaction effect (SIE):

$$s^t - s^{t-1} = SE + CE + AE = PSE + GSE + SIE + CE + AE$$

The terms on the right side are defined in the following way:

$$\begin{aligned} PSE &= \sum_i (p_i^t - p_i^{t-1}) s_i^{t-1} \\ GSE &= \sum_j (g_j^t - g_j^{t-1}) s_j^{t-1} \\ SIE &= \sum_i \sum_j (w_{ij}^t - w_{ij}^{t-1}) s_{ij}^{t-1} - PSE - GSE \\ CE &= \sum_i \sum_j (s_{ij}^t - s_{ij}^{t-1}) w_{ij}^{t-1} \\ AE &= \sum_{ij} (s_{ij}^t - s_{ij}^{t-1}) (w_{ij}^t - w_{ij}^{t-1}) \end{aligned}$$

where i refers to products and j refers to importing countries, s_{ij}^t corresponds to the market share in a given market (defined as a country-product combination), w_{ij}^t is the weight of each individual market's imports on world trade, p_i^t is the weight of product i 's world imports on world trade, and g_j^t is the weight of country j 's world imports on world trade.

The product specialization term captures the change in the market share due to changes in the product structure of world trade; it is positive if a country is specialized in products whose weight on world trade increases. The geographic specialization term captures the change in the market share due to changes in the geographic structure of world trade; it is positive if a country is specialized in exporting towards countries whose weight on world trade increases. The structure interaction term reflects the combination of changes in the product structure and changes in the geographic structure of world trade. The competitiveness term is a weighted average of changes in the country's market share in individual markets, with weights reflecting the importance of each individual market relative to world trade. The adaptation term reflects the correlation between changes in the country's market share in individual markets and changes in the individual markets' share on world trade.

The CMS analysis described in Section 2.1 has been applied to the TDM dataset, with products defined according to the 2-digit HS level and export values in US dollars at current prices.

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