Recovery fund. Investment package

EU attempt to revive Italy’s economy falls flat

Growth sluggish despite Rome being biggest beneficiary of pandemic-era grants and loans

AMY KAZMIN — ROME
PAOLA TAMMA — BRUSSELS

From building crèches and upgrading railways to speeding up the justice system, Italy’s €194bn share of the EU’s post-pandemic recovery fund was meant to deliver a “once-in-a-generation” reboot to a lagging economy.

But as the deadline to use the loans and grants looms, Italy’s economy remains sluggish, fuelling debate over what the ambitious reforms-linked investment package has achieved.

“We find ourselves in a situation where we have higher debt and there has been very little progress on serious reform,” said economist Tito Boeri.

“I’m not saying that all the money has been wasted,” said Boeri, a former president of Italy’s national security system. “But we did not improve the growth potential. And given that we already have a high debt, that is a big problem.”

Italy is the largest recipient of the EU’s €577bn Recovery and Resilience Facility, set up in 2021, an unprecedented joint borrowing effort to revive member states’ economies after the Covid-19 pandemic shock.

Touted as “transformative” under then-prime minister Mario Draghi, Rome’s spending plan was paired with reform milestones aimed at tackling longstanding weaknesses in the nation’s economy, including an inefficient public administration, slow courts and low participation by women and young people in the labour market.

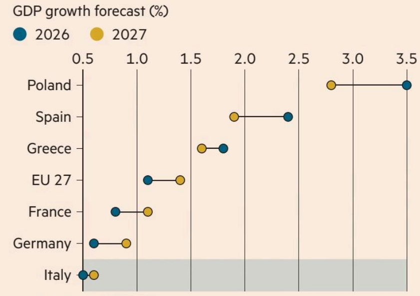
But the programme, comprising €72bn in grants and the remainder in low-interest loans, was revised six times as Rome struggled to meet benchmarks, while inflation triggered by Russia’s 2022 full-scale invasion of Ukraine drove up the cost of public works.

Stefano Firpo, a former civil servant who helped draft Italy’s original National Recovery and Resilience Plan (PNRR) for digitising government services, said about 70 per cent of the targets were altered at least once after Giorgia Meloni, a rightwing Eurosceptic, became prime minister in 2022.

“The plan which is running today is a completely different thing than the plan that was issued in 2021,” said Firpo, now director-general of Assonime, a Rome-based business association. “In many of these projects, when you ask what this money has been poured into, the answer is pretty unclear.”

Not built in a day: tourists walk through a worksite on Castel Sant’Angelo bridge in Rome in 2024 as roadworks were under way near the Vatican to improve choking traffic
Filippo Monteforte/AFP/Getty

Italy’s economic growth lags its European peers



Source: European Commission

Italy’s debt burden is back on the rise

Source: European Commission • * Includes forecasts

Marco Leonardi, a top economic policy adviser to Draghi when he was prime minister, said Brussels had been surprisingly lenient in approving repeated requests for changes. “The European Commission has been forgiving in many respects,” said Leonardi, now an economics professor at the University of Milan. “It has not been very strict in the controls. Instead, the Commission let us do whatever we wanted.”

Commission officials reject criticism that Italy’s plan has been significantly scaled back to help it hit its targets and allow money to be disbursed by the end of this year — the condition set by countries opposed to raising more EU debt for their approval of the programme.

“A rewriting of the plan is not necessarily a reduction in ambition — it’s a change in strategy,” said one EU official.

Italy has secured nine of its 10 instalments — totalling €166bn — which Tommaso Foti, Italy’s minister for European affairs, has touted as proof Rome has “overcome the structural weaknesses that have held Italy back for decades”.

But by the end of 2025, Italy had spent just 57 per cent of its funding allocation, according to Eurostat.

“The government is not transparent on how we spent the money, or how much money is left,” said Leonardi. “They don’t want to give it back all the billions they have left on the table for political reasons.”

Rome ‘is not transparent on how we spent the money, or how much money is left’

Without the EU funds many economists agree Italy would probably have tipped into recession last year.

The macroeconomic performance remains lacklustre at best: Italy’s GDP grew 0.5 per cent in 2025 — one of Europe’s lowest, and is forecast to remain the same this and next year.

The debt-to-GDP ratio rose from just under 134 per cent in 2023 to more than 137 per cent by the end of 2025, and is forecast to climb to 138.5 per cent this year — when Italy will overtake Greece as the EU’s most indebted economy.

Boeri, who is an economics professor at Milan’s Bocconi University, says the PNRR was “over-optimistic” and “completely unrealistic” from the start, given Italy’s poor record of using EU funds.

While reforms were “badly needed”, they were “poorly designed”, failing to account for inevitable resistance and tight deadlines. “Even the most efficient administration would have found it tough to implement,” he said.

Critics say the original plan was too fragmented, with small investments spread across myriad participants. Some were of questionable value: a solar-powered shelter for stray animals or football stadiums in Florence and Venice later rejected by Brussels.

After taking office, Meloni’s government spent nearly a year reviewing projects in a bid to eliminate “wasteful” spending. Further revisions followed, as targets were “simplified” to make them easier to meet.

In a sixth revision last year, Rome and Brussels agreed on a workaround to allow Italy to spend some funds beyond 2026 on investments such as student housing, solar parks, delivering high-speed internet to remote areas and supporting female entrepreneurship.

The workaround involves Italy placing at least €7bn in special facilities tied to the projects to avoid funds lapsing by year-end. As a result of these extensions, Rome may yet get more bang for its buck from the PNRR.

“If you throw money into the economy, you have an impact,” said Veronica De Romanis, author of *The Economy of Fear*, on Italian economic policymaking. “The question is: is it a long-lasting impact? Something has happened, but it was not as big as expected.”