Note ON THE ITALIAN ECONOMY

1926 | 2026 Istat

- In the first quarter of 2026, the international economy is characterised by strong dynamism in the Asian region, a good performance from the United States, and persistent weakness in Europe.
- The available data only partially incorporate the effects of the conflict in the Middle East, which is causing a sharp reduction in supply and a marked rise in the prices of energy raw materials. The outlook remains uncertain, closely linked to the duration of the war and its effects on energy market.
- According to the preliminary estimate for the first quarter of 2026, Italian GDP grew by 0.2% on a quarterly basis, continuing the expansion trend that began in the second half of 2025.
- In March, the seasonally adjusted industrial production index recorded its second consecutive increase on a monthly basis (+0.7%, after +0.2% in February). However, on average, production decreased slightly in the first quarter compared to the previous three months (-0.2%).
- In the labour market, the number of employed persons decreased slightly in March (-0.1%), amounting to 24 million 124 thousand units. The decline affected only women, those aged 15-24, and those aged 50 or older. By professional status, employment decreased among fixed-term employees and self-employed workers. In the first quarter of 2026, the quarter on quarter dynamic for employed persons showed a slight increase (+0.1%).
- In April, according to preliminary estimates, the harmonised index of consumer prices (HICP) in Italy increased by 2.9% year on year, accelerating from 1.6% in March, driven by recent international events, and approaching the euro area average (+3.0% in April; +2.6% in March).

Focus: *The inflation surge between 2022 and 2023 has reignited the debate over fiscal drag, the phenomenon whereby increases in nominal income push taxpayers into higher tax brackets, thereby raising the average tax rate. According to Istat estimates using the FaMiMod model, the tax reforms implemented between 2021 and 2026, including the transition from dependent child deductions to the Universal Allowance, more than offset the drag observed in the same period, resulting in an average benefit of 40 euros per taxpayer. The Universal Allowance played a crucial role in this balance, as its founding law provides for its cost-of-living indexation. The measures had a strong redistributive profile, favouring low- to middle-income earners and employees, while pensioners and higher-income earners were penalised or not fully compensated.*

TABLE 1. MAIN ECONOMIC INDICATORS FOR ITALY AND THE EURO AREA - q-o-q and m-o-m % variations.

INDICATORS	ITALY	EURO AREA	PERIOD	ITALY PREVIOUS PERIOD	EURO AREA PREVIOUS PERIOD
GDP	**0.2**	**0.1**	**Q1 2026**	**0.3**	**0.2**
Industrial Production	0.7	0.4 (Feb)	Mar. 2026	0.2	-0.8
Production in the construction sector	0.5	-0.2	Feb. 2026	-1.1	-1.3
Retail sales (volume)	0.7	-0.1	Mar. 2026	-0.2	-0.3
Producer prices in the industry – domestic market	5.9	3.4	Mar. 2026	-0.8	-0.6
Consumer prices (HICP)*	2.9	3.0	Apr. 2026	1.6	2.6
Unemployment rate	5.2	6.2	Mar. 2026	5.4	6.3
Economic Sentiment Indicator**	-2.8	-3.2	Apr. 2026	-1.3	-1.6

*Year-on-year variations **Absolute differences compared to the previous month *Source: Eurostat. European Commission. Istat*

www.istat.it

Ufficio Stampa
Tel. +39 06 4673.2243/44
ufficiostampa@istat.it

Contact Centre
Sportello media

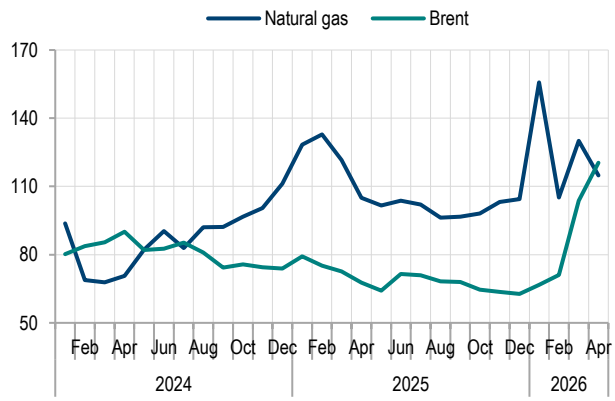
THE INTERNATIONAL FRAMEWORK

The outlook for the global economy remains uncertain amid ongoing geopolitical crises and the fragmentation of international markets. The escalation of the conflict in the Middle East, triggered by the late-February attack on Iran, has sharply reduced the supply of energy products and pushed prices higher. The prolonged blockade of the Strait of Hormuz has removed a significant share of oil production from the global market, pushing Brent prices well above the $100/barrel threshold (averaging $120.4/barrel in April according to the World Bank data). This dynamic has generated immediate systemic effects: global inflation, which seemed to be easing, has resumed rising, forcing central banks to suspend the planned spring cycle of interest rate cuts. The scale of the economic impact of the current crisis remains difficult to assess. Still, the persistent disruption of supply routes and energy infrastructure in that area suggests that the market has not yet fully absorbed the effects of a possible protracted conflict.

World trade grew in the first two months of the year. According to the Central Plan Bureau, the volume of international trade of goods increased by 1.9% in February 2026 compared with January, following a 2.8% rise the previous month. On the import side, there was a substantial increase in many countries and regions. Only imports from China (-1.0%) and emerging Asia (-1.5%) showed a moderate decline after the strong growth recorded in January. On the export side, there was a significant increase in several geographic areas. In February, Latin America (+4.8%), other advanced economies (+3.3%), and the United States' exports (+3.9%) grew particularly. Conversely, a contraction in exports was recorded for Japan (-5.8%) and the United Kingdom (-3.8%).

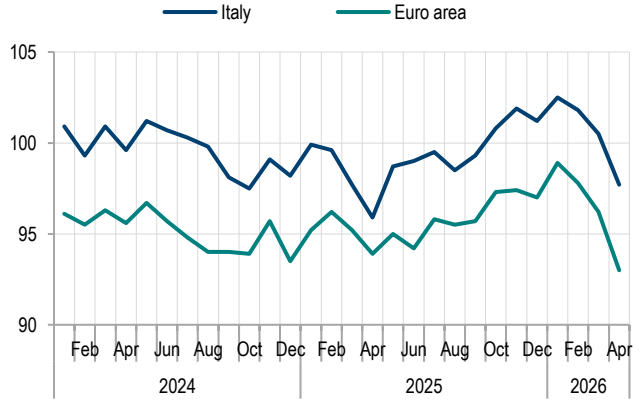
Tensions in energy commodity markets. Despite the high level of international stockpiles, uncertainty over the security of extraction infrastructure, and the need to further diversify supply channels keep gas and especially oil prices on an growth path relative to their levels at the beginning of the year (Figure 1). In particular, Brent rose by over 16% in April (World Bank data) while the natural gas index fell by about 12% in the same month.

FIGURE 1. OIL AND NATURAL GAS PRICE TRENDS.
Brent: dollars per barrel. Gas: index (2010 = 100)



Source: World Bank

FIGURE 2. ECONOMIC SENTIMENT INDICATOR (ESI).
Seasonally adjusted data



, *Source:* European Commission. DG ECFIN

The euro was in moderate recovery in March. In the first months of 2026, the euro's nominal exchange rate against the dollar (1.13, the average value in 2025) showed a strengthening trend, driven mainly by geopolitical dynamics (1.17 dollars per euro on average between January and April). At present, the euro's nominal appreciation still appears quite contained and does not seem to have strong effects on the price competitiveness of products made in the euro area on international markets.

Differentiated growth rates at the beginning of the year. The first quarter of 2026 marks an evolution of the international business cycle characterised by marked dynamism in Asian economies, good

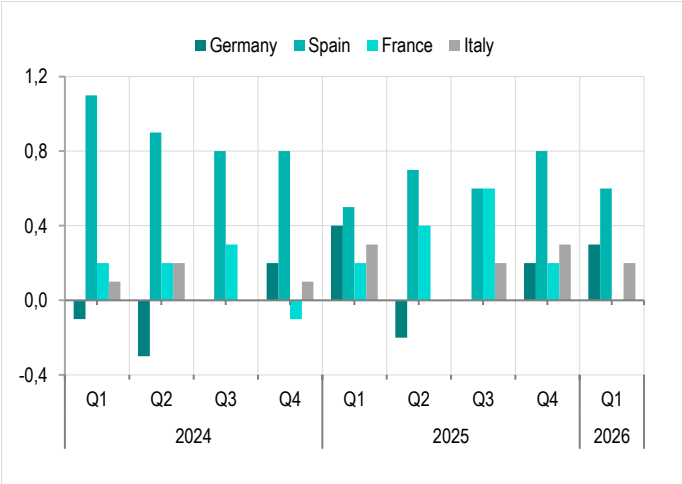
performance in the American economy, and weakness in the European ones. China confirms itself as the main engine of global growth (quarterly GDP growth +1.3% up from 1.2% in the fourth quarter of 2025), thanks to a robust increase in the industrial sector. In comparison, the United States (+0.5%, up from +0.1%) shows remarkable recovery thanks to a boost from AI-related technology sectors. Conversely, the euro area appears to be in a phase of substantial stagnation (+0.1%, down from +0.2%), following still-high energy costs and geopolitical uncertainties that continue to weigh on business and consumer confidence.

Euro-area prospects are worsening sharply: The European Commission's Economic Sentiment Indicator (ESI) signals a sharp 3.2 points decline in April (Figure 2), driven by a collapse in confidence among consumers, as well as in services and retail trade. Sentiment in construction and industry remained largely stable. At the national level, the ESI deteriorated significantly in Germany (-3.9), France (-3.0), and Italy (-2.8), while it decreased in Spain (-0.9).

THE ITALIAN ECONOMIC SITUATION

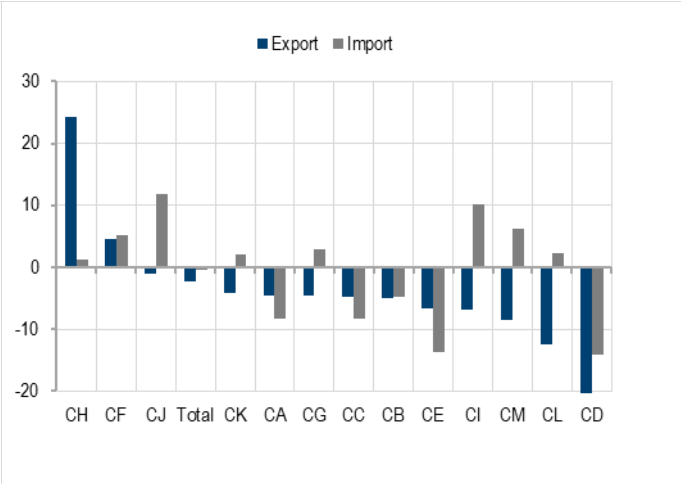
Italian GDP continued to grow in the first quarter. In the period January-March 2026, Italian GDP, expressed in chained values with reference year 2020 and adjusted for calendar and seasonal effects, showed, according to the preliminary estimate, a 0.2% quarterly increase, continuing the growth path started in the second half of 2025. The performance of the Italian economy was better than that of France (+0.0%) but worse than that of Spain and Germany (respectively +0.6% and +0.3%, Figure 3). Italy's quarterly growth reflects an increase in value added in services, offset by decreases in agriculture and industry. On the demand side, the domestic component (excluding inventories) makes a negative contribution, while net foreign demand makes a positive contribution. The acquired change for 2026 is equal to +0.5%.

FIGURE 3. GDP TREND IN MAJOR EUROPEAN COUNTRIES. Quarter-on-quarter percentage changes.



Source: Istat and Eurostat

FIGURE 4. ITALIAN EXPORTS AND IMPORTS IN 2025 BY ECONOMIC ACTIVITY: MANUFACTURING*. January-February 2026. Month-on-month percentage changes



Source: Istat

** CA = Food. beverages. and tobacco. CB = Textiles. clothing. and leather. CC = Wood and wood products; paper and printing. CD = Coke and refined petroleum products. CE = Chemicals and chemical products. CF = Pharmaceutical products. CG = Rubber and plastic products. CH = Basic metals and metal products. CI = Computers. electronic and optical devices. CJ = Electrical appliances. CK = Machinery and equipment n.e.c. CL = Transport equipment. CM = Other manufacturing activities.*

Industrial production in the first quarter declined slightly. The seasonally adjusted production index, after the January decline, recorded month-on-month increases in both February (+0.2%) and March (+0.7%). Still, these were not sufficient to produce a positive month-on-month change for the first quarter (-0.2% compared with the previous three months). On average between January and March, the

production of capital goods and energy goods increased compared with the previous three months (+0.3%), while consumer goods and intermediate goods decreased (by -1.3% and -0.5%, respectively).

The construction sector is recovering. In February, after three consecutive months of declines, the sector recorded a recovery (+0.5% month-on-month change). However, on a quarterly basis, the production index recorded a decrease (-1.1% for the period December 2025 - February 2026 compared with the previous three months). Favorable but mixed signals emerge from the data on building permits in the fourth quarter of 2025. In the residential sector, on the one hand, there was a month-on-month increase in both the number of dwellings (+4.5%) and the usable living area (+2.8%), continuing the growth started in the second quarter. Non-residential construction, on the other hand, showed a marked month-on-month decrease (-12.4%), following positive growth rates in the two previous periods.

… but services are slowing. The turnover volume index recorded a contraction in February (-0.3% month-on-month), with more marked decreases in transport and storage (-1.1%), wholesale trade, retail trade and repair of motor vehicles and motorcycles (-0.7%), and accommodation and food service activities (-0.4%). Slight increases were recorded instead for professional, scientific and technical activities and for information and communication services (+0.4% and +0.1%, respectively). The February contraction follows the decrease in the previous month and, in the December-February average, results in a stabilisation of the index compared with the previous quarter. In the fourth quarter of 2025, gross fixed investments of non-financial corporations increased slightly (+0.1% from the previous quarter) after a sharp contraction over the previous three months. Consequently, the investment rate decreased by 0.2 percentage points, settling at 24.6%, also following higher growth in value added (+1.1%). In the same period, the profit share of non-financial corporations increased again after the decline in the third quarter (43.2%, +0.2 percentage points).

Business confidence registered a sharp deterioration in April, after the substantial stability observed in the first three months of the year, affecting all major economic sectors except retail trade. The decline was less pronounced in manufacturing, while it was particularly intense in construction and market services, especially in the tourism sector. In manufacturing, assessments of orders deteriorated, as did expectations for production, with stocks considered stable. In April, in construction, assessments of orders and/or construction plans, and expectations for employment, all worsened. Finally, in the market services sector, the deterioration affected all components of the index. In the first quarter of 2026, the share of companies reporting export obstacles also increased.

Italian trade flows contracted. After showing remarkable resilience to the effects of the US administration's tariff policy throughout 2025, 2026 began with a contraction in Italy's trade flows: in the January-February period, the value of flows decreased year-on-year (-2.2% for exports and -4.2% for imports).

For manufacturing exports (down 2.2%), the increase in sales in the metal products sector (+24.2%) and pharmaceuticals (+4.6%) was offset by contractions across all other sectors, with the largest declines in refining products (-29.1%), transport equipment (-12.5%), other manufacturing activities (-8.5%), and chemicals (-6.7%). The reduction in manufacturing imports (down 0.5%) was largely due to lower purchases of chemical products (-13.6%) and refining products (-14.1%). In the first quarter of 2026, extra-EU trade exports increase by 1.0% year-on-year, while imports decreased by 2.1%.

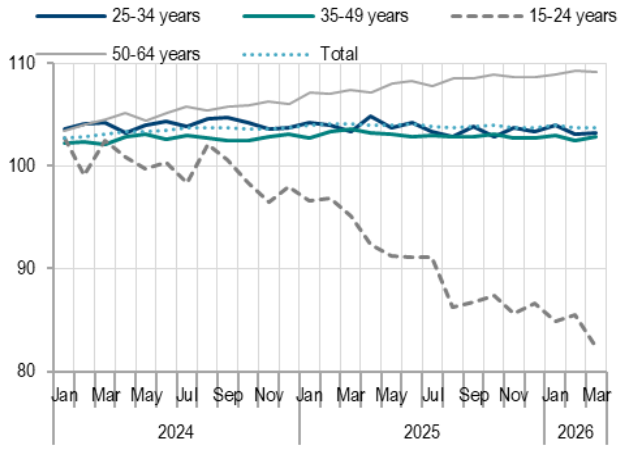
Geographically, exports to the United States remained slightly positive (+1.3% compared with the first quarter of 2025), while sales to China (+11.3%) and Switzerland (+44.1%) grew strongly. The effects of the war between the United States and Iran are evident in Middle East sales data, which fell by 52.5% year on year in March due to a halt in shipments to the Persian Gulf. On the import side, notable increases were recorded in purchases from the United States (+29.8%), while purchases from the Middle East (-15%) and Japan (-14%) declined.

Employment declined. The number of employed persons decreased by 0.1% (12,000 units) in March to 24,124,000. The decline affected only women, those aged 15-24, and those aged at least 50; by professional position, employment decreased among fixed-term employees and the self-employed. The employment rate remained stable at 62.4%. Compared with the previous month, unemployment fell, with decreases among both men and women and among individuals of all ages except those aged 15-24. In

the monthly comparison, the total unemployment rate fell to 6.2% in the Euro area (-0.1 points) and to 5.2% in Italy (-0.1 points), while youth unemployment rose to 18.1% (+0.6 points). Compared with February 2026, the inactivity rate rose to 34.1% (+0.1 points).

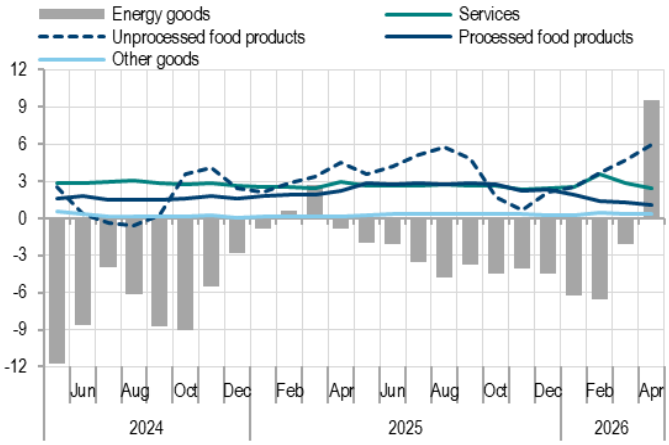
In the first quarter of 2026, employment increased by 0.1% quarter-on-quarter (28,000 employed), affecting only men, the self-employed, and those aged 50 or older. Employment growth was associated with a decline in job seekers (-7.9%, or -114,000) and an increase in the inactive population (+0.9%, or +108,000).

FIGURE 5. EMPLOYMENT RATE BY AGE GROUP
Index numbers: 2022 average base—seasonally adjusted data.



Source: Istat

FIGURA 6. CONSUMER INFLATION IN ITALY*
Consumer Price Index for the Entire Community (NIC).Year-on-year percentage changes.



Source: Eurostat

** The year-on-year changes refer to the series reconstructed according to the new ECOICOP v2 classification*

In the fourth quarter of 2025, the purchasing power of households fell by 0.8% compared with the previous three months (compared with a 0.4% change in the implicit consumption deflator). In the same period, the disposable income of consumer households also fell by 0.4%, while consumption increased by 0.5%. The propensity to save of consumer households was 7.8%, down 0.8 percentage points from the previous quarter.

Consumer confidence declined in April, with the overall index falling from 92.6 to 90.8. Following the war events of late February 2026, there was a widespread deterioration in assessments of current and future prospects, particularly pronounced regarding the country's economic situation: the economic climate fell from 88.1 to 82.7, while the future climate dropped from 85.3 to 82.5.

In March, retail sales rose month on month in both value (+0.8%) and volume (+0.7%). Similar positive trends were observed for food goods sales (+0.9% in value and +0.5% in volume) and for non-food goods sales (+0.7% and +0.9%, respectively). In the first quarter of 2026, on a quarter-on-quarter basis, the indicator rose in value (+0.6%) and in volume (+0.2%), with positive trends for both food goods (+0.9% in value and +0.1% in volume) and non-food goods (+0.6% and +0.3%, respectively).

Employment expectations worsened in some sectors in April 2026, declining in Retail Trade and Construction, while remaining stable in Market Services. A slight improvement was also observed in the Manufacturing sector.

The hourly contractual wage index rose in March (+0.1% on the previous month and +2.4% on March 2025). The year-on-year increase was higher for public administration workers (+3.2%) than for employees in industry and private services (+2.3% each). The sectors with the highest increases were: energy and oil (+7.7%), mineral extraction (+7.4%), and waste disposal services (+5.7%).

Consumer inflation accelerates significantly in April... According to preliminary estimates, the harmonised index of consumer prices (HICP) in Italy rose by 2.9% year on year in April, a significant acceleration from 1.6% in March and approaching the euro area average (+3.0% in April; 2.6% in March). Compared with the main countries in the area, inflation is equal to Germany's (+2.9%; +2.8% in March), lower than in Spain (+3.5%; +3.4%), and higher than in France (+2.5%; +2.0%). Similarly, the annual trend of the national consumer price index for the entire community (NIC) rises from 1.7% in March to 2.8% in April, reaching the highest level since October 2023, with a monthly increase of 1.2% (+0.5% in March). The acquired inflation (NIC) in April for 2026 is +2.4%.

...due to the rise in energy prices... The acceleration in inflation essentially reflects the strong growth in energy goods prices, which in April (measured on the basis of the NIC index) amounts to 9.5% compared with the same month of the previous year (-2.1% in March) and 5.3% in monthly terms (+5.2% in March). The European comparison based on the harmonised index of consumer prices (HICP) indicates that the annual growth rate of energy consumer prices in Italy, at 9.7% in April, is moderately lower than the euro area average (+10.9%).

...and unprocessed food. Also, the annual dynamic of food prices accelerates (+2.9% in April; +2.6% in March), driven by the very robust growth of unprocessed food prices (+6.0% in April; +4.7% in March), while processed food shows more moderate and slowing growth (+1.1% in April; +1.3% in March). In monthly terms, food products grew by 1.0% in April (+0.3% in March); in particular, unprocessed foods by 2.1% (from +0.7%) and processed foods by 0.3% (no growth in March).

Inflation in services slows to +2.4% in April (+2.8% in March). The slowdown is mainly due to the price dynamics of transport services (from +2.2% in March to +0.5% in April) and recreational, cultural and personal care services (from +3.0% in March to +2.6% in April).

...and remains low and stable for other goods. Inflation for other goods, non-food and non-energy, remains low and stable, recording an increase of 0.4% both in April and March, with zero monthly price growth in both months.

The price of the shopping basket rises again, reaching 2.5% in April (+2.2% in March; +2.0% in February), driven by strong growth in food prices.

Core inflation decreases. Inflation, as measured by the core component (which excludes more volatile components such as unprocessed food and energy goods), slows further in April, reaching 1.6% (+1.9% in March, 2.4% in February). The carry-over for the core inflation component in April is 1.3%.

Prices of imported industrial products decreased in February (latest available data) by 3.4% (-3.2% in January) compared to the same period of the previous year, mainly due to the strong decline in import prices of the energy sector (-19.9% in both February and January) and, to a lesser extent, price decreases in the non-energy sectors (-0.5% in both months).

Inflation accelerates in industry and construction. In March (latest data available), industrial producer prices rose 4.2% year-on-year (-2.7% in February), driven by a sharp rise in the energy sector (+13.4% from -11.1% in February) amid a moderate acceleration in other sectors (+1.3%; +1.0% in February). In monthly terms, the increase was 4.4% (-0.4% in February), with prices rising 16.8% in the energy sector (-2.4% the previous month) and 0.4% in the average of other industrial sectors (+0.2% in February).

Expectations of inflation increase are rising. In April, the percentage of consumers expecting inflation to increase over the next 12 months, compared with the previous 12 months, rose to 69.4% (from 58.1% in March and 41.7% in February). Regarding enterprises, the balance between shares related to price increases and price decreases over the next three months increased in April across all sectors.

focus

FISCAL DRAG AND POLICY MEASURES*

The high inflation recorded in Italy in 2022 and 2023, together with the resurgence of inflationary pressures from late 2025—particularly following the outbreak of the conflict between the United States and Iran on 28 February—has brought the issue of fiscal drag back into the public policy debate. Fiscal drag is a form of "hidden taxation" that arises in non-indexed progressive tax systems under inflation. Increases in income due to nominal adjustments may push taxpayers into higher tax brackets. The resulting rise in the average tax rate is inappropriate, since the taxpayers' ability to pay has not increased[1].

This note provides an estimate of fiscal drag and its distribution, using the FaMiMod microsimulation model developed by ISTAT. The estimates are based on comparing the tax liabilities of individual taxpayers in 2026 under three alternative policy scenarios:[2] the system in force in 2026; the system in force in 2021; and the 2021 system hypothetically indexed to inflation[3] From this comparison, three measures are derived: potential fiscal drag, i.e. the fiscal drag that would have occurred between 2021 and 2026 in the absence of policy changes; offset fiscal drag, which captures the effect of tax policy changes alone; and actual fiscal drag, defined as the difference between potential and offset fiscal drag. The latter measure allows assessing whether the numerous tax rule changes introduced between 2021 and 2026 have, wholly or in part—and regardless of their original purpose—offset the increase in direct taxation resulting from fiscal drag.

The estimates indicate that the reforms introduced between 2021 and 2026[4] have fully offset the increase in tax liabilities caused by inflation. The ratio of compensation to potential fiscal drag is 104.5 per cent. Accounting for actual fiscal drag, taxpayers[5] benefited on average by about €40 (approximately +0.1 per cent of taxable income). Part of this result (26 percentage points of the compensation) is attributable to the transition from the tax credit for dependent children to the Single and Universal Allowance for dependent children (AUU)[6]

To assess how the average effect is distributed across taxpayer categories, the three measures of fiscal drag were estimated for selected individual characteristics (taxable income class, main source of taxable

* Written by Elisabetta Segre and Paola Tanda

[1] The automatic indexation of tax rules (brackets, tax credits and deductions) to inflation would neutralise the effect of price dynamics on tax liabilities.

[2] For the estimation, we adopt a methodology widely used in the literature (Parliamentary Budget Office, 2024; García-Miralles et al., 2025; and, partially, Curci and Tomasi, 2026), based on comparing the personal income tax (IRPEF) liability of individual taxpayers under three different scenarios. Personal income tax is calculated on taxable income net of deductions; it includes regional and municipal surtaxes and is assessed net of applicable tax credits, the in-work benefit (so-called trattamento integrativo), and any tax-related bonuses. In the first scenario, we estimate the tax that would have been due in 2026 in the absence of policy changes by applying the policy parameters in force in 2021 (Y26_N21). In the second scenario, the tax due in 2026 is estimated by applying the 2021 tax system indexed to cumulative inflation over the period (Y26_N21IND). Indexation is carried out using the Harmonised Index of Consumer Prices (HICP, base year 2015=100). In the third scenario, the 2026 tax liability is estimated by applying the tax rules in force in that year (Y26_N26). In this case, we compute the balance between the tax due and the Single and Universal Allowance for dependent children (AUU). This choice ensures a correct assessment of the effect of policy changes on tax liabilities, given that from mid-2021 the tax credit for dependent children was gradually replaced by the AUU.

[3] To estimate the tax liability in 2026 under a 2021 tax system indexed to inflation, 2026 nominal income was deflated by cumulative inflation over the 2021–2026 period, thereby obtaining a 2021-equivalent income in terms of purchasing power and ability to pay. The tax rules in force in 2021 were then applied to this income, and the resulting amounts were subsequently re-inflated to 2026 using cumulative HICP.

[4] The analysis takes into account the following changes to the tax system introduced over the 2021–2026 period: modifications to the in-work benefit; personal income tax (PIT) reforms; increases in the tax credit for employees; the introduction of a tax bonus for incomes up to €20,000 and an additional tax credit for incomes between €20,000 and €40,000; the transition from tax allowances for dependent children to Single and Universal Allowance for dependent children; the introduction of the family quotient for tax credits on incomes above €75,000 and the setting of a maximum age of 30 for tax relief for dependent children over 21; and the neutralisation of the gains arising from the 2026 tax reform for incomes above €50,000.

[5] The population used for the estimates consists of individuals with positive gross personal income tax (PIT) liability in at least one of the three scenarios.

[6] As mentioned in footnote 2, from mid-2021 the tax credit for dependent children was gradually replaced by the AUU. While tax credits for dependent children were not indexed for inflation, the amounts and thresholds of the AUU are, by law, adjusted annually according to the cost of living. This ensures that the benefit for families with dependent children is no longer eroded by inflation. Failing to account for the transition from tax credit to the AUU would introduce a distortion into the comparison of tax due across scenarios. Without considering the AUU, the compensation would have stopped at 78% of the potential fiscal drag.

income). In addition, since the household defines the economic well-being of its members by acting as both the primary unit of consumption and the site of intra-household transfers, the average effect was also evaluated at the household level.

The analysis by taxable income class shows that, in the absence of compensatory measures, potential fiscal drag would have been higher for lower-middle-income taxpayers (a disadvantage of -3.8% and -3.9%, expressed as a percentage of taxable income, for the €0–20,000 and €20,000–40,000 classes, respectively) and more limited for higher-income taxpayers (-1.5% for those above €60,000) (Figure F1). Conversely, the compensatory effect of the measures introduced is particularly significant for lower-middle-income groups, especially those below €20,000 (+5.5%). As a result, the regulatory changes display a redistributive profile, leading to a positive net effect for lower-income taxpayers (+1.7%), broad neutrality for middle-income groups (around +0.1%), and a slight negative effect for higher-income groups (0.6%).

The combined effect of fiscal drag and tax policy changes also varies across income sources. Employees benefit the most: despite experiencing relatively high potential fiscal drag (-3.7% as a share of taxable income), they receive greater compensation through policy changes (+4.4%), resulting in a positive net effect (+0.7%) (Figure F2). Self-employed workers under the ordinary tax regime[7] also record a positive, though smaller, net effect (+0.4%). By contrast, pensioners are adversely affected, as policy changes are insufficient to offset the fiscal drag (an overall disadvantage of -1.0% of taxable income).

FIGURE F1. POTENTIAL, OFFSETTING AND ACTUAL TAX DRAIN BY TAXABLE INCOME CLASSES (*). Year 2026. (as a percentage of taxable income)

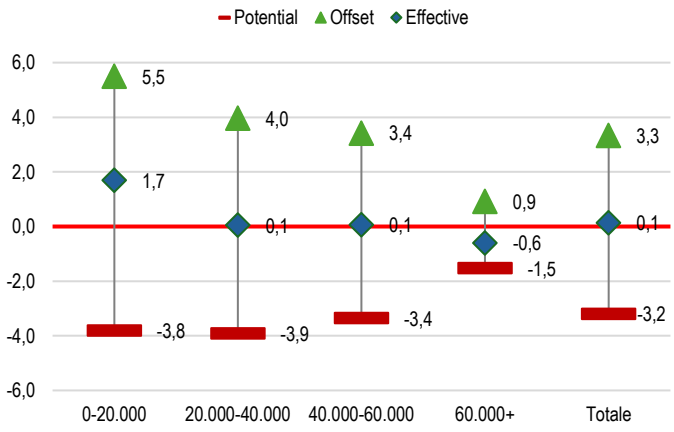
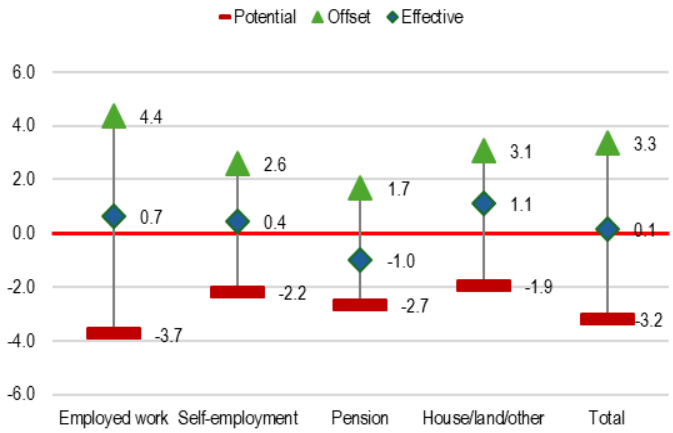


FIGURE F2. POTENTIAL, OFFSETTING AND ACTUAL TAX DRAIN BY CLASSES OF MAIN INCOME SOURCE.(*). Year 2026 (as a percentage of taxable income)



Source: Estimates based on the ISTAT family micro-simulation model, FaMiMod.

(*) These estimates are subject to revision as consolidated information on income, legislation, the labour market, and demographic variables becomes available for 2026.

The household-level analysis also confirms the redistributive profile of the policy measures. Potential fiscal drag would have imposed a larger burden on households in the bottom quintiles (-3.8% relative to disposable household income, compared with -2.4% for those in the top quintile); however, for these same households, the reforms more than offset the potential loss. Only households in the top quintile are not fully compensated by the measures and therefore record a negative balance of -0.4% of disposable income (Figure F3).

Given the role of the transition from the tax credit for dependent children to the AUU in offsetting fiscal drag, the household-level analysis was also carried out by the number of dependent children (Figure F4). Childless households are slightly adversely affected (-0.2% of disposable income) because the compensatory measures do not fully offset the potential fiscal drag. Households with children, by contrast,

[7] Self-employed workers who have joined the flat-rate scheme starting from 2023, due to the increase in the access threshold from €65,000 to €85,000, are included.

see potential fiscal drag more than fully offset, with the relative gain increasing with the number of children (from +0.8% for households with one child to +2.1% for households with three or more children).

FIGURE F3. POTENTIAL, OFFSET, AND ACTUAL FISCAL DRAG BY QUINTILES OF EQUIVALENT HOUSEHOLD DISPOSABLE INCOME (*).
Year 2026 (as a percentage of household disposable income)

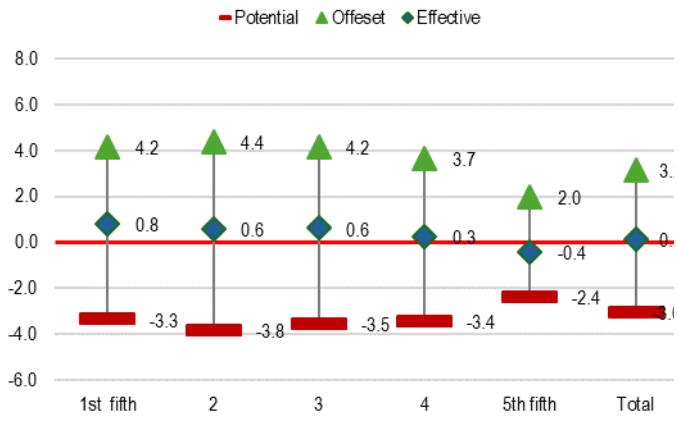
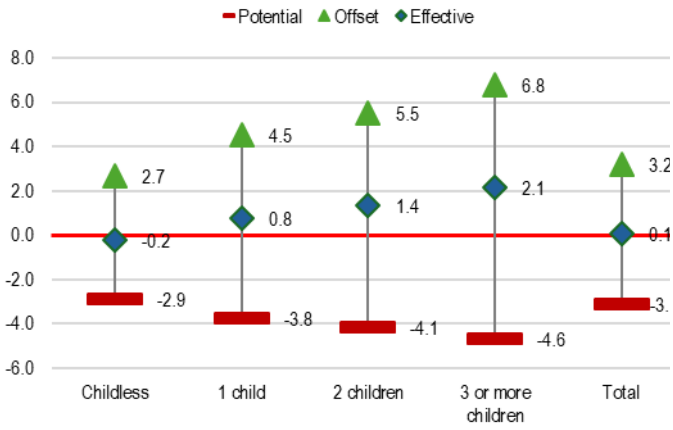


FIGURE F4. POTENTIAL, OFFSET, AND ACTUAL FISCAL DRAG BY NUMBER OF DEPENDENT CHILDREN UP TO 21 YEARS OLD. (*)
Year 2026 (as a percentage of household disposable income)



Source: Estimates based on the ISTAT family micro-simulation model, FaMiMod.

(*) The estimates are subject to revision as consolidated information on income, legislation, the labour market, and demographic variables becomes available for 2026.

Bibliography

Curci N. e Tomasi A. (2026) "Fiscal drag, discretionary policy measures and the purchasing power of Italian households in 2022-2025" in *Questioni di economia e finanza (Occasional Papers)* n. 998, Banca d'Italia.

Garcìa-Miralles et al (2025) "Fiscal drag in theory and in practice: a European perspective", *Working Paper Series* n. 3136, European Central Bank.

Leonardi M. e Rizzo L. (2026), "Il fiscal drag e le diseguaglianze invisibili", cap. 3 in *Il prezzo nascosto. Lavoro, salari e fisco nell'Italia dell'inflazione*, pp. 87-109, Edizioni Egea.

Nannicini T. (2025) "Politiche tributarie, inflazione e redditi da lavoro" cap. 6 in *X Rapporto sulle libere professioni in Italia*, pp. 58-66.

Ufficio Parlamentare di Bilancio (2024), "Gli effetti distributivi", par. 4.2.2 in *Rapporto sulla politica di bilancio 2024*, pp. 232-239.

For technical and methodological clarifications

Roberta De Santis
tel.+39 06 4673 7294
rdesantis@istat.it

Claudio Vicarelli
tel.+39 06 4673 7313
cvicarelli@istat.it

OFFICIAL STATISTICS LISTENS TO ITS USERS

In 2026 Istat celebrates 100 years since its foundation. To mark this occasion, Istat is launching a public consultation to collect contributions, observations, and proposals on the responsiveness of official statistics to knowledge needs and user requirements.

The focus is not on communicating and disseminating data, but on statistical production.

The initiative aims to enhance the quality, relevance and usability of statistical production, whilst promoting transparency and participation.

The consultation is open to institutional stakeholders, the scientific community, researchers, journalists, enterprises, associations, interested citizens.

JOIN NOW