Italy

						Forecasts		
	2020	2021	2022	2023	2024	2025	2026	2027
GDP growth (%)	-9.0	8.8	5.0	1.1	0.5	0.5	0.7	1.2
CPI inflation (%)*	-0.2	1.9	8.7	5.9	1.1	1.8	1.7	1.7
Fiscal balance (% of GDP)	-9.4	-8.9	-8.1	-7.2	-3.4	-3.3	-2.8	-2.7
Primary fiscal balance (% of GDP)	1.7	-6.1	-5.6	-4.2	-3.7	0.5	1.1	1.3
Public debt (% of GDP)	154.4	145.8	138.3	134.6	135.3	136.8	138.3	138.5
Reference rate (*depo*) (%)*	-0.5	-0.5	0.1	3.3	3.7	2.2	2.0	2.0
Exchange rate (EUR/USD)	1.14	1.18	1.05	1.08	1.08	1.14	1.20	1.2
Current balance (% of GDP)	3.2	3.8	-1.8	0.2	1.1	1.0	1.0	---

Note: * Annual average. CaixaBank Research forecast for GDP, CPI, interest rates and exchange rates. All others from the IMF.
Source: CaixaBank Research, based on data from AMECO, the IMF and the ECB (via Refinitiv).

Outlook

Like its main euro area partners, the performance of the **Italian economy** was **very volatile** in the first half of the year, as a result of agents' decisions to bring forward purchases to avoid the impact of Trump's tariffs on final prices. The remarkable growth in Q1 was due to strong export momentum, which reversed in Q2 and dragged the whole economy into its first downturn in two years. However, we should consider the resilience shown by domestic demand in Q2 to be positive, with investment rising in construction (continued effect of the Superbonus) and in all other areas, which continue to benefit from the roll-out of the NGEU funds, albeit with considerable delays. The Q3 figures show that domestic demand is struggling to maintain its momentum, causing the economy to stagnate. Against this backdrop, inflation has been quite favourable, remaining below the 2.0% threshold since spring, and we expect it to remain stable over much of the forecast horizon.

Domestic demand is offsetting the decline in the foreign sector. The outlook for the Italian economy points to domestic demand being the main driver of growth next year. Together with Germany, Italy is one of the euro area economies that is most exposed to Trump's tariffs. Over 10% of its exports go to the US market, which explains why around 3.4% of its gross value added is generated by US demand. This trade structure could mean that a 10 pp increase in tariffs would reduce its economic growth by slightly less than 0.3 pp. Meanwhile, expectations point to a further slowdown in construction investment as the Superbonus programme (tax credits on a percentage of construction costs, which will gradually be withdrawn) is being phased out, partially offset by the impact of the Transizione 5.0 programme, a range of tax credits worth 6.3 billion euros (from the NGEU funds) over 2024 and 2025 aimed at incentivising the digital transition and energy efficiency of companies of all sizes. Moreover, household consumption is expected to be supported by fairly stable inflation and a savings rate that remains above its pre-pandemic average (12.3% in Q2 2025). Meanwhile, fiscal policy will continue to pursue the consolidation process that has already been successfully initiated.

Fairly optimistic fiscal outlook. Behind Greece, Italy has had the highest debt-to-GDP ratios in the euro area, exceeding 100% for the last 20 years. The worsening fiscal deficit after the pandemic (9.4% of GDP in 2020) and the slow recovery of its fiscal accounts – due to the implementation of programmes such as the Superbonus and other support measures to offset the impact of the energy crisis in the wake of the war in Ukraine – led the European Commission to launch an Excessive Deficit Procedure (EDP) for Italy in July 2024. This procedure obliges it to implement expenditure cuts to reduce the structural deficit by at least 0.5% of GDP per year. Efforts undertaken after the launch of the EDP succeeded in reducing the fiscal deficit to 3.4% of GDP in 2024 and Italy's commitment to fiscal discipline has been reaffirmed in the 2026 budgets and the fiscal framework up to 2028. In fact, they include a fiscal deficit target of –2.7% of GDP by 2026, to continue falling in the following years, while the primary fiscal surplus is to exceed 1.0% of GDP in 2026 and reach 2.0% in the following years. As a result, Italy could reach its debt ceiling between 2026 and 2027 (around 138%), in positive contrast to other economies such as France and Belgium (the IMF estimates that their debt ratios will continue to rise until at least 2030), which explains why Italian risk premia have fallen the most so far this year in the euro area, standing at around 75 bp, the lowest in almost 20 years.

Risks

Italy's risk balance is skewed to the downside. Notable risks include:

- **Fiscal situation.** The Italian fiscal situation remains rather fragile, despite the positive progress made in recent years and the prospect of continued fiscal consolidation. The high debt ratios it maintains make it very vulnerable to interest rate hikes, in the present conditions of modest growth and low inflation.
- **Delayed disbursement of NGEU funds.** Delays in applying for and disbursing NGEU funds are limiting the ability to boost growth in a sustained manner and increasing the likelihood of applications for the remaining funds being concentrated in the summer of 2026, given that the deadline for applications is August.
- **Regional disparity.** Italy continues to suffer from strong regional disparities that widen social inequalities and limit the economic potential of the country as a whole. The south is still the region lagging furthest behind, with lower productivity, higher unemployment rates and lower purchasing power.
- **Idiosyncratic risks.** The business sector is mainly composed of family-owned companies: over 95% of SMEs have fewer than 10 employees. It also has the lowest employment-to-population ratio of the four large euro area economies, reflecting their dynamic populations. In fact, from this group, Italy is the only one whose population is expected to fall in the coming years.

Sovereign credit rating				
Rating agency	Rating*	Last changed	Outlook	Last changed
Standard & Poor's	BBB+	12/04/25	Stable	12/04/25
Moody's	Baa2	21/11/25	Stable	21/11/25
Fitch Ratings	BBB+	19/09/25	Stable	19/09/25

Note: *A shaded cell indicates "investment grade" and an unshaded cell indicates "speculative grade".

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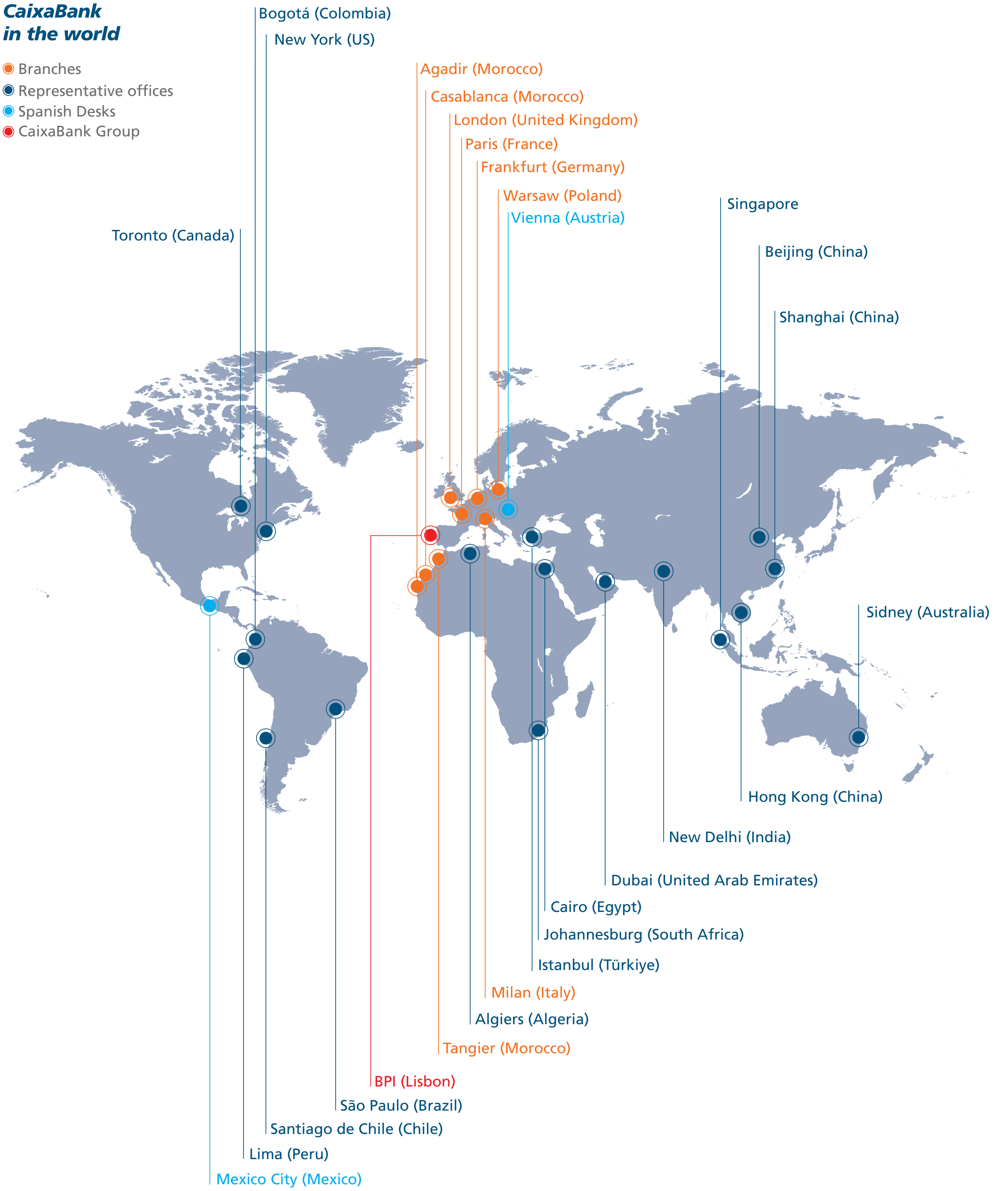

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