

Italy



	2020	2021	2022	2023	2024	2025	Forecast	
							2026	2027
GDP growth (%)	-9.0	8.8	5.0	1.0	0.6	0.7	0.9	0.8
CPI inflation (%)	-0.2	2.0	8.8	5.9	1.1	1.6	2.8	2.4
Fiscal balance (% of GDP)	-9.4	-8.9	-8.1	-4.1	-3.4	-3.1	-2.9	-2.8
Primary fiscal balance (% of GDP)	-6.1	-5.6	-4.2	-3.7	0.3	0.5	1.0	1.2
Public debt (% of GDP)	154.4	145.8	138.4	133.9	134.7	137.1	137.9	137.6
10-year bond yield (%)	1.15	0.78	3.14	4.26	3.70	3.57	4.01	4.14
Reference rate (depo) (%)	-0.50	-0.50	0.08	3.31	3.73	2.26	2.24	2.65
Exchange rate (EUR/USD)	1.14	1.18	1.05	1.08	1.08	1.13	1.16	1.17
Current balance (% of GDP)	3.8	2.0	-1.8	0.2	1.1	1.1	0.7	1.2

Notes: *Annual average across all variables. CaixaBank Research forecast for GDP, CPI, the deposit rate and the exchange rate. Other figures: IMF, WEO, October 2026. Forecast for the 10-year bond yield, Bloomberg, as at 14 October 2026.

Source: CaixaBank Research, based on data from AMECO, the IMF, Bloomberg and the ECB.

Outlook

The **Italian economy** performed better than expected in the first half of the year, thanks to highly buoyant household spending and a surge in fixed capital investment, driven by continued strength in the construction sector (where the Superbonus is still having some impact) and strong investment in capital goods (supported by NGEU funds). However, Italy is facing a very modest growth outlook: rates of less than 1.0% in the coming years, which will be insufficient to significantly narrow the structural income and productivity gaps with its main euro area partners. Furthermore, the short-term picture has become considerably more challenging due to the surge in energy prices caused by the conflict in the Middle East. Fossil fuels account for almost 77% of Italy's energy consumption, and, in particular, gas generates around 44% of the electricity consumed by the country.

The NGEU programme has come to an end. NGEU funds have been one of the key drivers of growth in recent years. Italy was the leading beneficiary of the European programme, receiving nearly 194 billion euros. By early 2026, it had received 85% of the allocated funds and has met over 70% of the specified milestones and targets, but there continue to be delays in the implementation of certain projects, especially in certain southern regions. The programme came to an end in late August 2026, but its conclusion will not necessarily lead to a sudden halt in the investment momentum we have been observing. In fact, the IMF estimates that the projects planned under the NGEU funding framework – to be carried out from 2026 onwards – represent almost 1.0% of GDP and will be funded through alternative sources (national budgets or cohesion and development funds), which will soften the impact on growth when the programme reaches its end.

The public accounts are performing well, but challenges remain. The current government's commitment to fiscal discipline brought the fiscal deficit down to 3.1% of GDP in 2025 (it stood at over 7.0% in 2023) and the deficit is quite likely to fall below the 3.0% threshold this year, in line with the requirements of the Excessive Deficit Procedure (EDP) that was opened in 2024. Furthermore, Italy recorded a primary fiscal surplus (excluding interest payments) of 0.8% of GDP in 2025, which could grow to around 1.3% in 2026 and 2027, according to European Commission estimates – one of the best results within the euro area. These fiscal improvements explain why risk premia have remained relatively stable (they have risen by just 20 bp over the year). Despite this clear fiscal progress, debt ratios remain at very high levels and continue to follow an upward trend, as the European Commission's forecasts suggest that they will continue to rise to almost 140% of GDP by 2027. Furthermore, although all the milestones set out in its EDP have been met, this does not mean that the

procedure will be closed automatically: the Commission will launch a process to assess actual fiscal data and projections and will make a recommendation to the Council, which will ultimately decide whether to formally lift the EDP.

Italy is set to hold an election in 2027. Parliamentary elections are scheduled for September 2027, although Meloni is considering bringing them forward to April. At the time of writing, the polls suggest that the race between the various blocs remains wide open. However, the most significant factor in these elections will be the impact of the new electoral law, passed on 8 October, which aims to reduce the parliamentary fragmentation that has historically made it difficult to form a government in Italy. The law maintains proportional representation but awards a substantial seat «bonus» (70 additional seats in the Chamber of Deputies and 35 in the Senate) to the party list or coalition that secures at least 42% of votes in both chambers. This makes alliances almost as important as the individual results of each party.

Risks

The balance of risks for Italy is tilted slightly to the downside. Notable risks include:

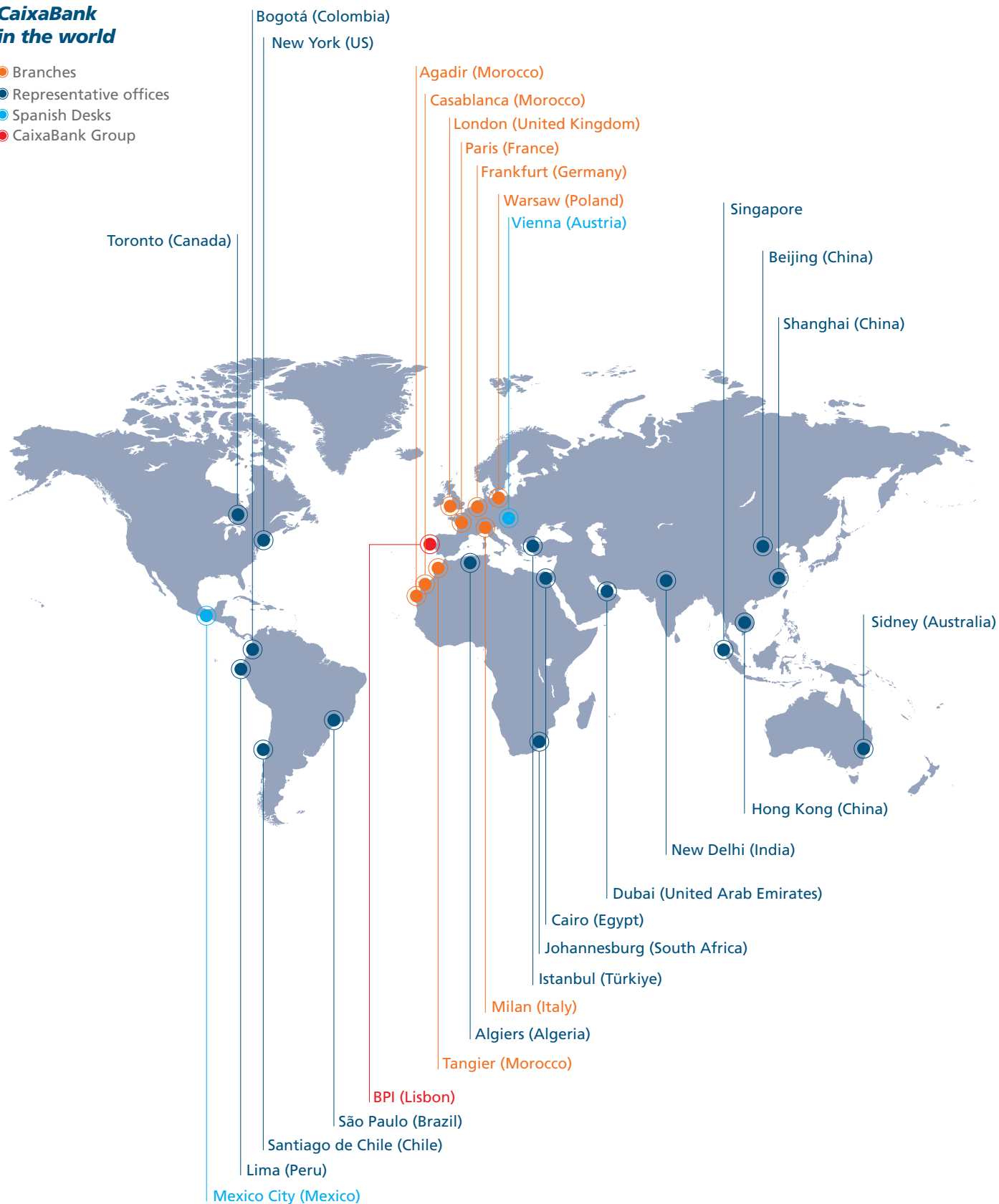
- **Fiscal situation.** The country's high level of debt remains its main source of vulnerability, particularly in a climate of low potential growth and higher borrowing costs. Pressures resulting from an ageing population (rising healthcare and pension spending) and future expenditure requirements for defence and the energy transition will hamper fiscal adjustments in the medium term, necessitating structural reforms to boost potential growth in the coming years.
- **High energy dependence.** Italy remains one of the major European economies that is most heavily dependent on imported fossil fuels, making it particularly vulnerable to persistent rises in oil and gas prices.
- **Risk of abandoning the reform drive promoted by the NGEU.** One major challenge will be to sustain the pace of reform and implementation capacity achieved under the NGEU. Without a credible post-NGEU strategy, Italy risks returning to a path of low potential growth once the primary extraordinary driver of public investment in recent years ceases to exist.
- **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. Furthermore, it has very low employment rates and a concerning population trend: of the four largest economies in the euro area, it is the only one whose population is forecast to decline in the coming years.

Sovereign credit rating				
Rating agency	Rating*	Last changed	Outlook	Last changed
STANDARD & POOR'S	BBB+	11/04/25	Positive	30/01/26
MOODY'S	Baa2	21/11/25	Stable	21/11/25
FitchRatings	BBB+	19/09/25	Stable	11/09/26

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

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