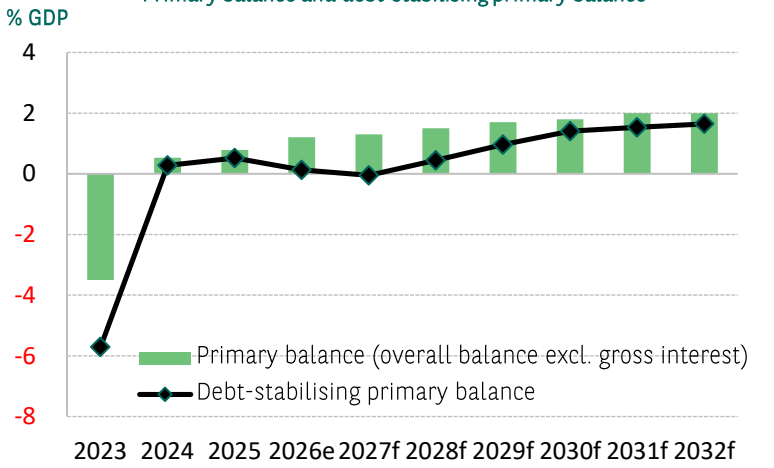
Italy: Debt stabilisation remains fragile (1/2)

A growing primary surplus

Primary balance and debt-stabilising primary balance

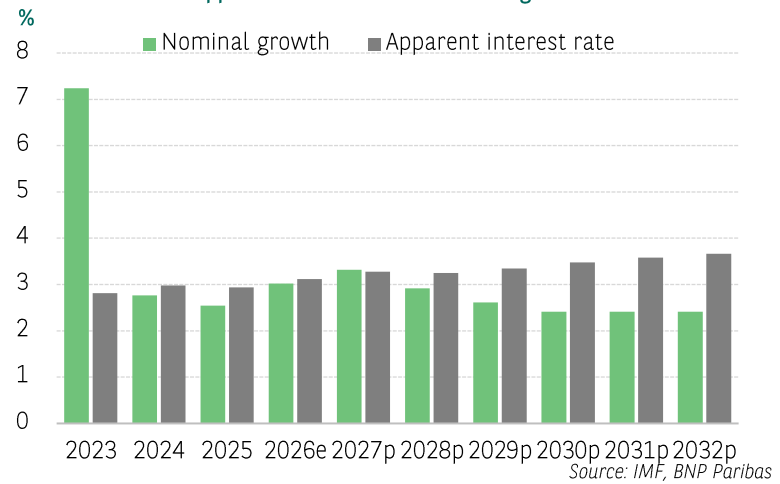


Source: IMF, BNP Paribas

Having returned to positive territory since 2024, Italy's primary balance is expected to continue improving. It has moved from a deficit of 3.5% in 2023 to a surplus of 1.2% expected this year, thanks to the phasing out of the support measures introduced after the pandemic, the basic income scheme and the '*Superbonus*' scheme. The primary surplus is projected to widen further, reaching 2% by 2032.

Towards growth insufficient to offset rising interest rates

Apparent interest rate vs. nominal growth



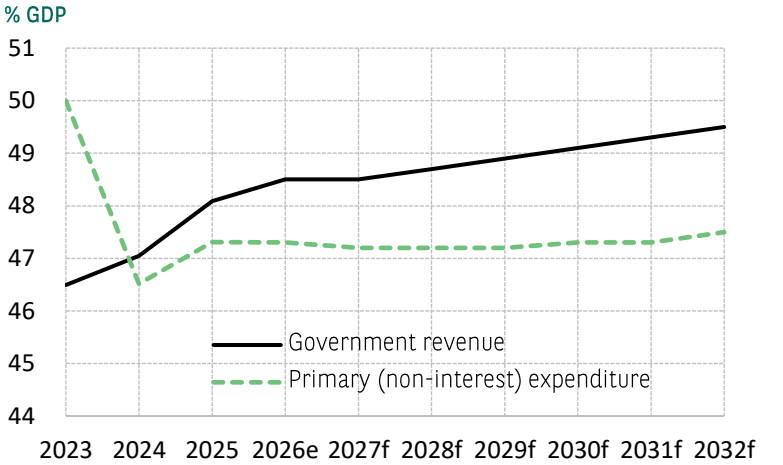
Source: IMF, BNP Paribas

Weak nominal growth and the gradual rise in the apparent interest rate on debt would continue to weigh on Italy's public finances. Following a temporary improvement in 2026 and 2027, nominal growth is projected to slow, falling from 3.3% in 2027 to 2.4% in 2032. At the same time, the effective interest rate is projected to rise gradually, reaching 3.67% in 2032 (compared with 3.12% in 2026).

This unfavourable gap from 2028 onwards would make it necessary to maintain significant primary surpluses in order to stabilise the public debt ratio.

Rising revenue, prudent spending

Revenue and primary (non-interest) expenditure



Source: IMF, BNP Paribas

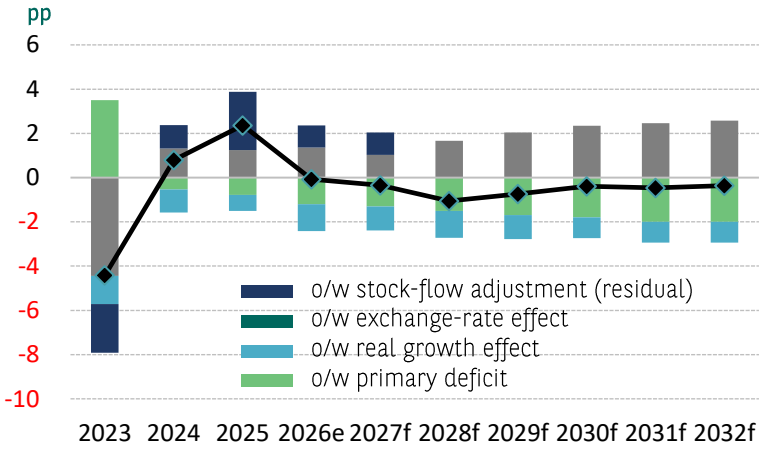
The growth in public revenue, which is outpacing expenditure (excluding interest payments), will enable Italy to gradually consolidate its primary surplus and contain the rise in public debt.

Public revenue will remain higher than expenditure excluding interest payments as part of fiscal consolidation efforts and compliance with European rules, despite pressures, notably from pension and defence spending.

Italy: Debt stabilisation remains fragile (2/2)

Primary surpluses offset the impact of high interest rates

Contributions to the change in debt, baseline scenario



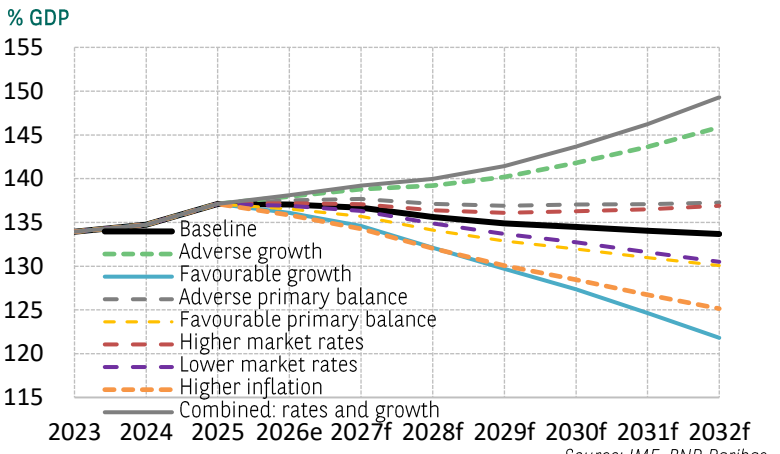
Source: IMF, BNP Paribas

Following a rise in the debt-to-GDP ratio in 2024 and 2025, driven in particular by significant stock-flow adjustments linked to the *'superbonus'* scheme, **Italy's public debt is expected to stabilise gradually.**

The debt-to-GDP ratio is projected to reach 137% of GDP in 2026, before falling to 133.7% by the end of our forecast horizon (in 2032), driven by nominal growth and primary surpluses offsetting the interest burden, which will, however, increase from 2029 onwards.

Debt stabilisation depends on macroeconomic assumptions

Public debt: scenarios



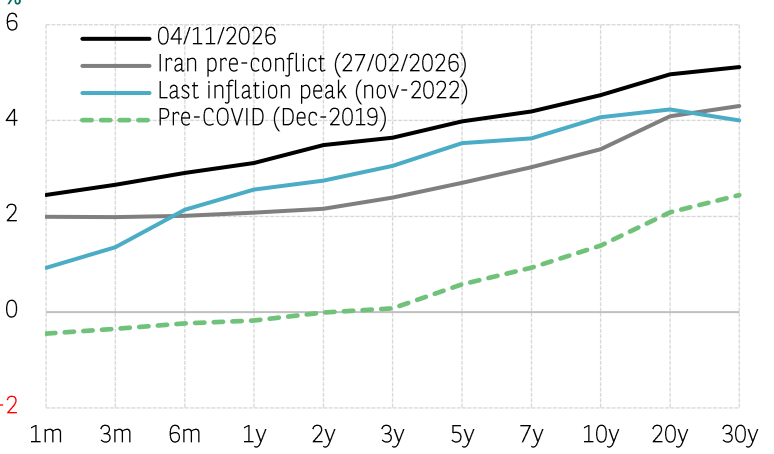
Source: IMF, BNP Paribas

Note: the 'growth' and 'primary balance' scenarios incorporate, respectively, a negative shock to growth and to the deficit of 0.5 percentage points of GDP per year compared with the baseline scenario; the 'interest rate' scenario incorporates a 1 percentage point rise in the apparent interest rate.

Despite its gradual stabilisation over our forecast horizon, **Italy's public debt is expected to remain one of the highest in the Eurozone.** The trajectory of our baseline scenario remains particularly sensitive to the assumptions made: a slowdown in growth, a larger-than-expected rise in interest rates or a deterioration in the primary balance could lead to a further increase in Italy's debt. Conversely, more favourable conditions would allow for a more marked reduction in the debt-to-GDP ratio.

Sustained rise in borrowing costs

Italy yield curve



Source: IMF, BNP Paribas

Since the start of the year, interest rates have risen and the yield curve has steepened. The current slope is close to that observed in the pre-Covid period, albeit at a significantly higher level.

The gradual refinancing of debt at higher rates is expected to continue to increase the interest burden, limiting fiscal manoeuvre.