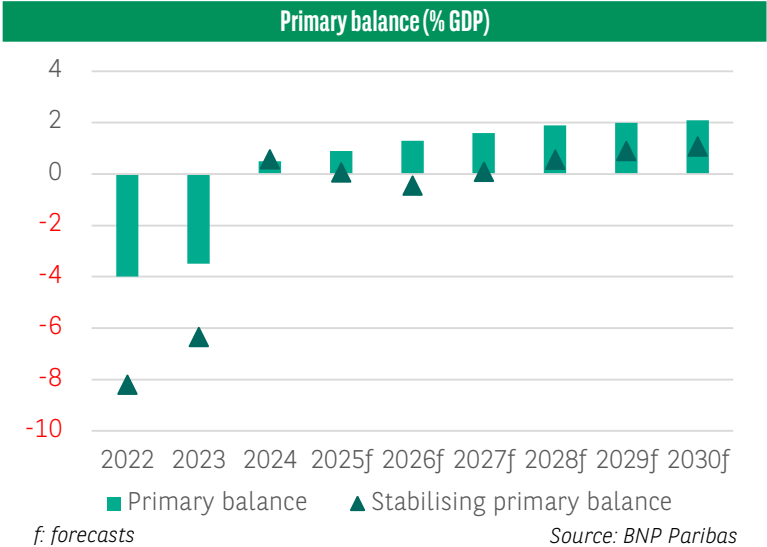
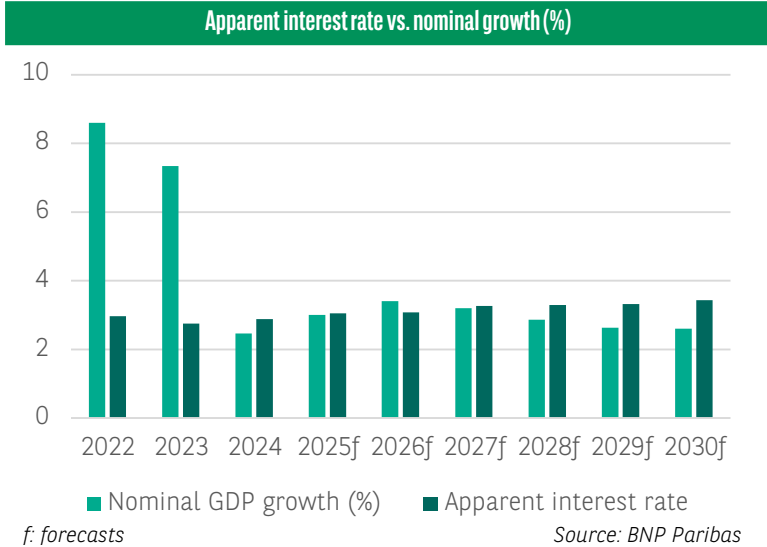


ITALY: Public debt ratio to remain high despite a relative decline (1)

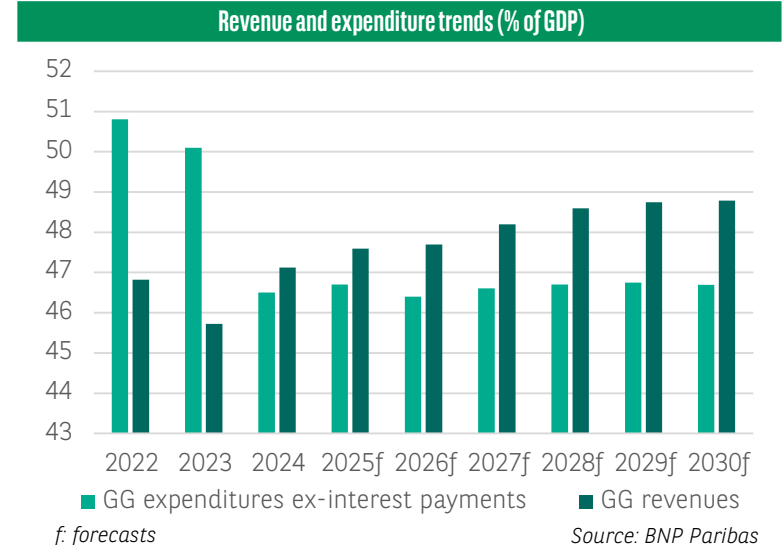


The primary surplus is expected to increase until 2030. The primary balance went from a deficit of 4% of GDP in 2022 to a surplus of 0.5% in 2024, thanks to the removal of support measures put in place after the pandemic, the citizen's income and the "superbonus". The primary surplus is expected to increase over the next few years, reaching 2.1% in 2030.



Until 2027, nominal growth (3.2% on average) is expected to remain higher than the apparent interest rate (3.1%) due to an acceleration in real growth (0.9%), which will enable a reduction in public debt during this period. Inflation is expected to gradually slow down, reaching 1.8% in 2030.

However, from 2028 onwards, debt is expected to decline at a more moderate pace, as the apparent interest rate (3.3%) is expected to rise above nominal growth (2.7%), which is expected to weaken at the end of the period to return close to its potential (0.8%).

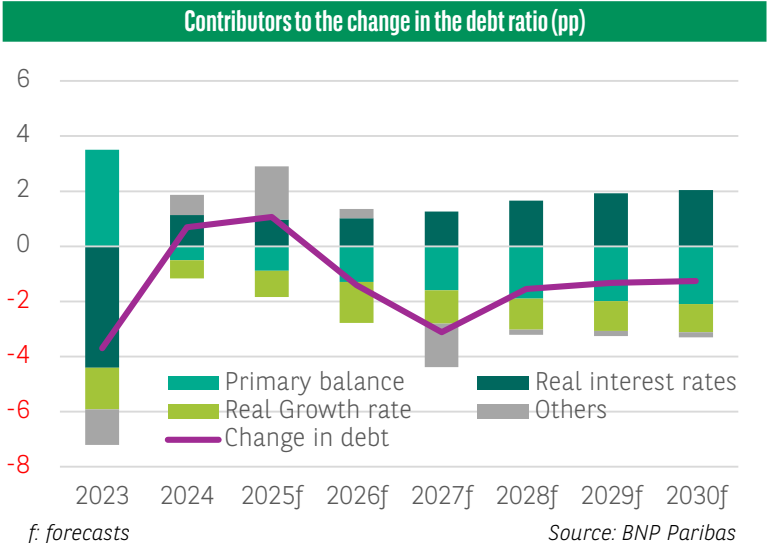


Public expenditure (excluding interest expenditure) is expected to increase gradually towards the end of the decade, mainly due to higher defence expenditure.

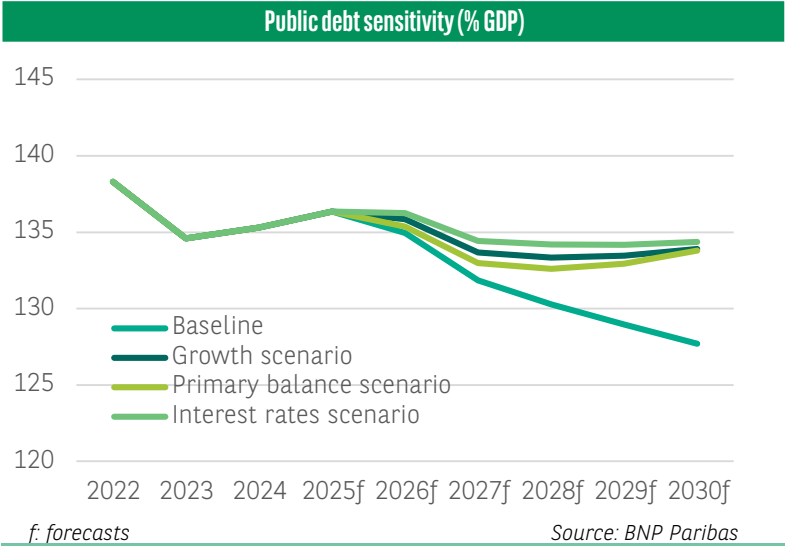
Public revenue will remain higher than expenditure, even in 2026, when a reduction in income tax for the middle classes is expected to take effect. This will enable an increase in the primary surplus.



ITALY: Public debt ratio to remain high despite a relative decline (2)



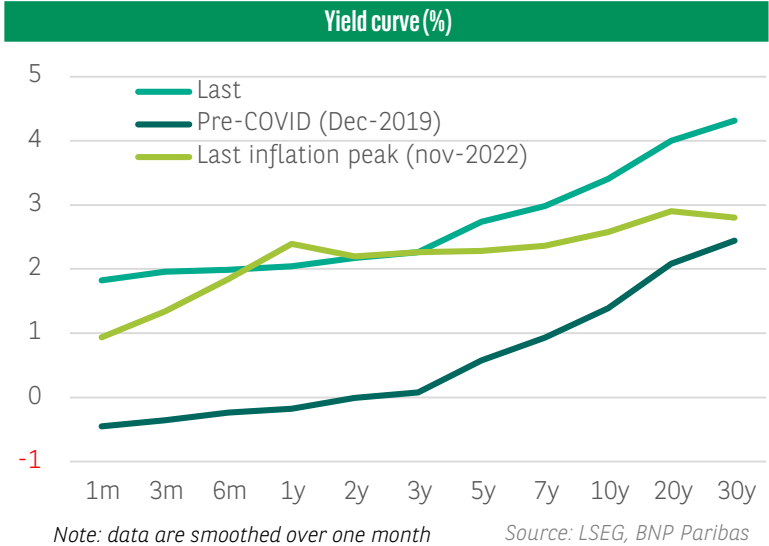
In 2025, public debt is expected to increase (136.4% of GDP) due to European rules on accounting for the superbonus. According to our forecasts, debt should then decrease (131.8% by 2027), thanks to continued strong growth above the real interest rate and an increasingly large primary surplus. From 2028 onwards, debt reduction is expected to be more limited. Although primary surpluses are expected to increase, the real interest rate is expected to rise as inflation falls, putting slightly more pressure on public debt dynamics.



Please note: the "growth" and "primary balance" scenarios incorporate a negative shock to growth and to the deficit of 0.5 pp of GDP per year compared to the central scenario, respectively; the "interest rate" scenario incorporates a 1 pp increase in the apparent interest rate.

Although it is expected to decline between now and 2030, Italy's public debt is likely to remain among the highest in Europe.

The reduction in Italy's public debt ratio appears to be fairly sensitive to changes in growth, the primary balance and interest rates. Such shocks would prevent a reduction in public debt from 2028 onwards (and limit it before then). Ultimately, it would remain fairly high (close to 135% of GDP) if growth were to disappoint, if the government decided not to increase the primary surplus, or if interest rates were to rise (with a relatively similar impact on the public debt ratio).



Steepening of the yield curve. While the inflationary peak in November 2022 caused the yield curve to flatten, it has now returned to a slope close to that observed in the pre-COVID period but significantly shifted upwards.

Long-term interest rates have risen, but more moderately than in other countries. At around 3.4% for 10-year bonds and 4.3% for 30-year bonds, they are close to the levels seen in France. However, as Italy's debt was already high before the COVID pandemic, interest rates were already significant on long maturities: therefore, the increase is less dramatic than in several European countries (France and Germany, in particular), where 10-year rates were negative.

