CareEdge Global assigns 'Stable' outlook to the rating of the Republic of Italy

Reaffirms Long-Term Foreign Currency Rating of 'CareEdge BBB' (Unsolicited)

Issuer rating	CareEdge BBB/Stable (Unsolicited)

CareEdge Global has assigned a 'Stable' outlook to the rating of Republic of Italy (Italy), while reaffirming the Long-Term Foreign Currency rating of 'CareEdge BBB' (Unsolicited).

Italy's credit profile is underpinned by large economic size and consistent surplus in its current account balance, aided by strong exports growth. Also, Italy benefits from being a part of European monetary union and is one of the largest recipients of funding support from European Union through National Recovery and Resilience Plan (NRRP). However, these positives are somewhat offset by Italy's weak economic growth, high government debt, and lack of reforms. Moreover, not only the rapidly ageing population but also the shrinking working age population is a key concern for future growth outlook.

Going forward, Italy's ability to reduce public indebtedness remains critical, given that the adoption of defined contribution scheme, away from defined-benefit pension scheme, has only been very gradual. Further, there are predefined quantitative and qualitative targets for structural reforms to enable continued access to NRRP funds. Meeting these targets in a timely manner also remains an important monitorable.

Outlook: Stable

The Stable outlook reflects CareEdge expectations that the country will stay on course for fiscal consolidation, reflected by an improving trend in general government fiscal deficit (3.3% of GDP in 2025, 2.8% of GDP in 2026 and 2.6% in 2027). Further, the country broadly remains on track with respect to implementation of the National Recovery and Resilience Plan (NRRP). The timely implementation of the plan should be growth supportive in the medium-term.

Upside Scenario

The outlook could be changed to positive in case of a faster than expected fiscal consolidation path or a better performance on the economic growth front. Also, sustained improvement in government spending like reducing pressures from social expenditure and increasing focus on public investment could also improve the outlook.

Downside Scenario

A downward pressure on credit profile could arise from any significant deviation from the country's fiscal consolidation path, particularly its Medium-Term Fiscal Framework (MTFF). Delayed implementation of reforms could also put downward pressure on the ratings. Italy has a history of short-lived governments, any threat to the current political stability, though not envisaged in the near term, could also negatively impact the outlook.

Key Rating Drivers

Economic Structure & Resilience

Italy's economy is characterized by its large economic size (USD 2.4 trillion in 2024) and high GDP per capita (USD 53674 in 2024), supported by a substantial manufacturing base (accounting for 16% of economy) and an established export presence (exports of goods and services stood at about 35% of GDP in 2024). However, Italy faces challenges of low economic growth (5-year annual average of just 1.2% during 2020-2024) arising from low productivity and unfavorable demographic profile.

Manufacturing continues to be slowing with weak demand in key trading partners and heightened global uncertainty. This trend of weak growth is expected to continue in the medium term too with constraints from the country's inability to implement bold reforms, like addressing labor market rigidities, improving public sector inefficiencies, and adhering to fiscal consolidation.

To revive demand, the government introduced a Superbonus scheme in 2020 providing tax credits worth 110% of the home renovations costs to enhance energy efficiency, which pushed up the investment demand post pandemic. Gradual withdrawal of the scheme is expected to partially offset by investments funded through NRRP.

Fiscal Strength

Italy has significantly high public debt, at 137% of GDP in 2024, which is estimated to remain high in medium term too. Policy measures in recent years to mitigate the rise in energy prices and provide tax credits under the super-bonus scheme, have all added to a widening fiscal deficit. However, with phasing out of reforms, fiscal deficit is expected to decline to 3.8% of GDP in 2024. Italy also presented its Medium-Term plan (MTP) under the European Union (EU) governance framework. Under the Plan, Italy commits to achieve average annual net expenditure growth of 1.5 per cent over the period 2025-31. Containing fiscal deficit is desirable, however, the high net social benefits (~11% of GDP in 2023) and added pressure on military spending could pose as key fiscal challenges.

These challenges are partially offset by low borrowing costs as compared to similarly assessed peers, and relatively longer maturity of debt at an average of 7 years. Additionally, the European Commission has approved grants and funds under the NRRP to Italy worth more than EUR194 (~10.3% of GDP) billion over 2021-2027 supporting structural and investment reforms. Under the NRRP, the funds are released on the basis of achieving the milestones. Until Dec 2024, Italy has already received EUR122 billion, though actual spending has been slow. Progress in NRRP is a key monitorable going ahead.

External Position & Linkages

Italy has Euro has its currency, with a free-floating exchange regime and enjoys a reserve currency status. Italy’s exports mix comprises high value products like luxury goods, textiles, non-electronic machinery, and pharmaceuticals, which helps in maintaining a comfortable and consistent current account balance. The annual current account surplus averaged 1.65% of GDP between 2019-2023. Italy’s exports to US has doubled to USD 70 billion in 2024 from 2019 and has a sizeable surplus in goods trade estimated to about 2% of GDP. The recently announced tariffs by the Trump administration on the EU region could impact the current account surplus negatively. Italy also has a positive international position of 7.1% in 2023.

These strengths are balanced by low, though positive, net Foreign Direct Investment inflows and a high external debt at 124.4% of GDP in 2023, of which about half of the debt is of government and regional central bank. Also, most of the external debt is short-term reflected in high external funding ratio at 2.57 in 2023.

Monetary & Financial Stability

Italy is a part of European monetary union. Italy’s average HICP inflation declined to 1.6% y-o-y in 2024, lower than expected 2% core member of the European because of flat demand and low energy prices. Italy also benefits from having liquidity and inter-bank funding support via European Central Bank.

Italy’s banking sector has slightly higher non-performing loans at 2.7% of total loans in 2024, compared to the EU average of 2% in 2023, though much lower than its peak of 16.5% in 2014. However, in order to build a buffer, the regional central bank (Bank of Italy) has raised capital requirements over the minimum reserve ratios for the banks.

Institutions & Quality of Governance

Italy ranks well with respect to quality of governance and accountability. However, Italy’s inability to reduce fiscal deficits reflects low government effectiveness. For instance, Italy is currently placed under Excessive Deficit Procedure (EDP), a mechanism designed by European Union to ensure members adhere to fiscal discipline.

Frequent changes in the political leadership, 70 governments in 77 years, have also resulted in slow policy reforms. However, the current government under PM Georgia Meloni is the longest serving government in recent history (little over 2 years) and is expected to complete its tenure till 2027.

Italy – Select Indicators									
	Unit	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024 F**	**2025 F**
Economic Indicators									
Nominal GDP	USD Billion	2,100	2,020	1,906	2,181	2,105	2,302	2,377	2,460
GDP Per Capita (Constant-PPP)	USD	49,939	50,255	45,933	50,377	52,910	53,309	53,674	54,108
Real GDP Growth	%	0.8	0.4	-8.9	8.9	4.7	0.7	0.7	0.8
GFCF/GDP	%	17.8	18.0	18.0	20.4	21.7	21.2	-	-
Gross Domestic Savings/GDP	%	20.9	21.6	21.3	23.9	21.5	22.3	-	-
Exports (G&S)/GDP	%	31.4	31.6	29.4	32.1	36.5	35.1	-	-
Working-Age (15-64) Population (% Share in Total)	%	64.0	63.9	63.8	63.7	63.5	63.3	63.1	62.9
Old-Age (65+) Population (% Share in Total)	%	22.8	23.1	23.4	23.7	24.1	24.5	24.9	25.4
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-2.2	-1.5	-9.4	-8.7	-8.6	-7.4	-3.8	-3.3
Revenue/GDP	%	46.2	47.0	47.4	47.5	47.7	47.8	46.3	47.1
Expenditure/GDP	%	48.4	48.5	56.8	56.3	56.3	55.0	50.9	50.3
GG Gross Debt/GDP	%	134	133.6	154.1	145.5	138.1	134.6	136.9	138.7
GG External Debt (by Creditor)/GG Gross Debt	%	30.2	35.5	33.9	32.0	26.2	28.0	-	-
Interest/Revenue	%	7.9	7.2	7.3	7.4	8.9	7.9	-	-
External Indicators									
Current Account Balance/GDP	%	2.5	3.2	3.8	2.1	-1.8	0.0	1.1	1.4
FDI, Net Inflows/GDP	%	2.11	1.78	-0.90	1.15	3.03	1.25	-	-
Outstanding FII Liabilities/GDP	%	62.9	76.9	87.7	72.3	58.6	63.9	-	-
NIIP/GDP	%	-5.0	-2.0	1.0	7.2	4.8	7.1	-	-
Foreign Exchange Reserves	USD Billions	152.5	175.3	211.0	227.7	225.2	247.5	-	-
Import Cover	Months	3.0	3.7	5.2	4.2	3.4	3.9	-	-
External Debt/GDP	%	116.7	125.1	150.6	129.6	128.4	124.4	-	-
Monetary and Financial Indicators									
CPI Inflation	%	1.2	0.6	-0.1	1.9	8.7	5.9	1.5	1.5
Exchange Rate (Average)	LC per USD	0.85	0.89	0.88	0.85	0.95	0.93	0.92	-
Non-Performing Loans/Total Gross Loans	%	8.4	6.7	4.4	3.3	2.8	2.7	2.7	-
Private debt, loans and debt securities/GDP	%	110.4	109.4	122.2	116.9	110.3	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Solicitation Status

The rating is unsolicited

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB/Stable	April 03, 2025
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB	October 03, 2024

Criteria Applied

CareEdge Sovereign Rating Methodology

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