
Republic of Italy's rating reaffirmed at 'CareEdge BBB/Stable'

Issuer rating (Long-Term Foreign Currency)

CareEdge BBB/Stable (Unsolicited)

Rating action

CareEdge Global has reaffirmed its Long-Term Foreign Currency issuer rating of **Republic of Italy** at '**CareEdge BBB/Stable**' (Unsolicited).

Rationale

Italy's credit profile is supported by its large and diversified economy, strong export competitiveness, and a structurally positive current account balance. The country benefits from its membership of the European Monetary Union, access to the European Central Bank's (ECB) liquidity facilities, and its position as one of the largest recipients of European Union (EU) support under the National Recovery and Resilience Plan (NRRP).

Progress in the implementation of the NRRP has improved, positioning Italy among the better performers in the EU, with around 64% of milestones achieved compared with the EU average of 51% by January 2026. Political and institutional stability has strengthened under the current government, supporting policy continuity. Additionally, the banking sector has shown steady improvement, with significantly stronger asset quality (NPL ratio of ~2.3% in 2025 versus 7–8% in 2019), alongside strong profitability and higher capital buffers.

These strengths are tempered by persistently low growth, weak productivity, adverse demographics, and a very high albeit reducing public debt. Despite the recent fiscal improvement, Italy's public debt is expected to remain elevated over the medium term, with the country projected to remain the most indebted sovereign in the European Union by 2029, limiting fiscal flexibility and increasing sensitivity to financing conditions.

Outlook: Stable

The stable outlook reflects our expectation that Italy's public debt will remain high despite fiscal consolidation, supported by improved fiscal outcomes, policy continuity, and continued progress in the implementation of the NRRP. While economic growth is expected to remain modest, EU funded investments and improved institutional stability should help contain downside risks and support medium-term growth prospects.

Upside scenario

We could revise the outlook to positive if Italy demonstrates faster-than-expected fiscal consolidation, sustained improvement in medium-term growth and productivity, and tangible reforms that reduce structural expenditure pressures while improving public investment efficiency.

Downside scenario

The outlook could be revised to negative in case of deviation from the Medium-Term Fiscal Framework (MTFF), delays in NRRP reform implementation, renewed political instability, or a material deterioration in growth prospects or financing conditions.

Key rating drivers

Economic structure & resilience

Italy has a large economic base, with nominal GDP of ~USD 2.54 trillion in 2025 and high GDP per capita, supported by a diversified and export-oriented corporate sector. Non-financial corporations (NFCs) have recorded improved profitability in recent years, supported by strong export performance in high value-added segments, enhanced pricing power, partial pass-through of cost increases, and efficiency gains. Elevated nominal growth and higher interest income have also supported corporate margins.

Exports of goods and services remain robust at ~35% of GDP, reflecting Italy's competitiveness in sectors such as machinery, luxury goods, pharmaceuticals, and specialised manufacturing.

However, economic growth remains structurally weak, with real GDP growth of 0.5-0.6% in 2025, constrained by low productivity growth, labour market rigidities, and an ageing population. These factors are expected to continue to weigh on medium-term growth.

Italy has outperformed most EU peers in the absorption of NextGen EU funds (NGEU). As of December 2025, the country had received ~EUR 153 billion, equivalent to over two-thirds of its total NGEU allocation of EUR 194.4 billion, following the successful completion of eight payment tranches covering several reform and investment milestones. Authorities' intention to sustain investment beyond the NRRP horizon is credit positive, although execution is a key monitorable.

Fiscal strength

Italy's public debt is very high, estimated at ~137% of GDP in 2025, and is expected to remain elevated over the medium term, continuing to constrain fiscal flexibility.

Notably, Italy recorded a second consecutive year of positive fiscal surprise in 2025. The general government budget deficit is estimated at ~3.0% of GDP, outperforming the April 2025 projection of ~3.3% of GDP. This improvement follows a similar upside surprise in 2024 and reflects stronger than expected revenue performance, restrained current expenditure and improved budget execution, reinforcing fiscal credibility and commitment to consolidation.

Italy has submitted its Medium-Term Fiscal-Structural Plan under the revised EU fiscal framework, committing to average annual net expenditure growth of ~1.5% over 2025-2031, providing a clearer medium-term fiscal anchor. However, structurally high social spending, ageing-related pension pressures, increased defence spending requirements, and rising interest costs continue to pose challenges to durable debt reduction.

These constraints are partly mitigated by relatively favourable borrowing conditions, a long average debt maturity of ~7 years, and substantial support from the EU (9% of GDP).

External position & linkages

Italy's external position has strengthened materially over recent years. The country has posted a consistent current account surplus since 2013, except for 2022, when a temporary deficit emerged due to the energy price shock following the Russia-Ukraine conflict, which sharply widened the energy import bill. The improvement in Italy's external position is underpinned by structural factors, including a competitive and diversified export base, strong performance in services (notably tourism), sustained goods trade surpluses in non-energy categories, and moderate domestic demand, which has contained import growth.

Sustained current account surpluses have translated into significant balance sheet improvement, with Italy's net international investment position (NIIP) strengthening markedly, from around +6.7% of GDP in 2022 to about +13.3% of GDP by Q3 2025. Over the same period, external debt-to-GDP declined, supported by improved external balances and favourable nominal GDP growth.

Monetary & financial stability

As a member of the Eurozone, Italy benefits from the credibility of the ECB's monetary framework and access to euro-system liquidity. Inflation has eased markedly, with HICP inflation averaging ~1.2% in 2025, driven primarily by lower energy prices, weak domestic demand and the lagged effects of monetary tightening.

However, upside risks to inflation exist in 2026, particularly from renewed geopolitical tensions in West Asia, which could disrupt global energy markets. Italy remains highly dependent on energy imports, meeting roughly three-quarters of its energy needs through imports, with natural gas playing a central role.

Italy's banking sector has strengthened further, supported by consolidation, improved efficiency and a prolonged period of higher interest rates. Elevated rates have significantly improved net interest margins, resulting in strong profitability. Capital buffers are adequate, with CET1 ratios at 15.7-15.8%. Asset quality has improved materially, with NPL ratios declining to 2.0-2.3%, far below the historical peak. Overall, improved profitability and balance sheet strength enhance financial stability and support the sovereign-bank nexus, although early-stage credit risks warrant monitoring amid modest growth.

Institutions & quality of governance

Italy's institutional framework has improved recent years, supported by enhanced political stability, policy continuity, and constructive engagement with the EU institutions. The current government, led by Prime Minister Giorgia Meloni, has become the longest-serving administration in recent history and is expected to complete its term until 2027. This has reduced policy uncertainty, improved fiscal planning, and supported more consistent reform implementation, marking a positive departure from Italy's historically frequent government turnover.

Institutional capacity has strengthened notably in the context of NRRP implementation, with better coordination between central and local administrations, and improved monitoring of reform milestones. Timely achievement of reform targets, particularly in public administration processes, justice system efficiency and competition, has bolstered Italy's credibility with EU institutions and facilitated consistent fund disbursements.

However, long-standing structural governance challenges persist. Italy continues to face bureaucratic complexity, slow judicial proceedings, and uneven implementation capacity at the sub-national levels, which can delay investment execution and weaken reform transmission to the real economy. Moreover, reform momentum is partly dependent on EU conditionality, raising questions over durability beyond the NRRP horizon.

Overall, recent gains in political stability and institutional effectiveness are credit-positive, but sustaining this momentum will be critical to addressing Italy's structural growth and fiscal challenges over the medium term.

Italy – Select indicators									
	Unit	2020	2021	2022	2023	2024	2025E	2026F	2027F
Economic indicators									
Nominal GDP	USD billion	1,906	2,181	2,106	2,305	2,372	2,544	2,702	2,764
GDP Per Capita (Constant-PPP)	USD	45,933	50,377	52,990	53,399	53,811	54,138	54,600	54,979
Real GDP Growth	%	-8.9	8.9	4.8	0.7	0.7	0.5	0.7	0.7
GFCF/GDP	%	18.00	20.40	21.80	22.50	22.00	-	-	-
Gross Domestic Savings/GDP	%	21.7	24.1	22.9	23.1	23.5	23.7	24.7	25.4
Exports (G&S)/GDP	%	28.7	31.2	35.1	33.3	32.5	-	-	-
Working-Age (15-64) Population (% Share in Total)	%	63.8	63.7	63.7	63.6	63.5	63.2	63.0	62.6
Old-Age (65+) Population (% Share in Total)	%	23.4	23.7	23.9	24.2	24.6	25.1	25.6	26.1
Fiscal indicators – general government									
Fiscal Balance/GDP	%	-9.4	-8.9	-8.1	-7.2	-3.4	-3.3	-2.8	-2.7
Revenue/GDP	%	47.4	47.2	46.8	46.7	47.1	47.4	47.1	46.9
Expenditure/GDP	%	56.8	56.0	54.9	54.0	50.6	50.7	49.9	49.6
GG Gross Debt/GDP	%	154	146	138	135	135	137	138	138
GG External Debt (by Creditor)/GG Gross Debt	%	34.3	32.4	26.7	28.5	32.30	-	-	-
Interest/Revenue	%	7.3	7.4	7.4	6.8	7.70	-	-	-
External indicators									
Current Account Balance/GDP	%	3.76	2.10	-1.73	0.14	1.13	0.91	0.88	1.26
FDI, Net Inflows/GDP	%	-0.89	1.14	2.98	1.83	0.91	-	-	-
Outstanding FII Liabilities/GDP	%	87.2	71.5	57.6	62.7	67.54	-	-	-
NIIP/GDP	%	1.0	7.1	4.7	7.6	15	-	-	-
Foreign Exchange Reserves	USD billion	210	227	226	248	289	429	-	-
Import Cover	Months	5.2	4.2	3.4	4.0	4.86	-	-	-
External Debt/GDP	%	150.5	128.8	126.3	121.7	115.64	-	-	-
Monetary and Financial Indicators									
CPI Inflation	%	-0.20	2.00	8.70	5.90	1.10	1.60	1.30	2.00
Exchange Rate (Average)	LC per USD	0.89	0.88	0.85	0.95	0.93	0.86	-	-
Non-Performing Loans/Total Gross Loans	%	6.75	4.36	3.35	2.80	3.00	-	-	-
Private debt, loans and debt securities/GDP	%	122.2	116.9	110.3	105.71	95.32	-	-	-

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. The latest available data for 2024

Solicitation status

The rating is unsolicited.

Rating history

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB/Stable	March 27, 2026
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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