Is Italy likely to disappoint?

October 27, 2025

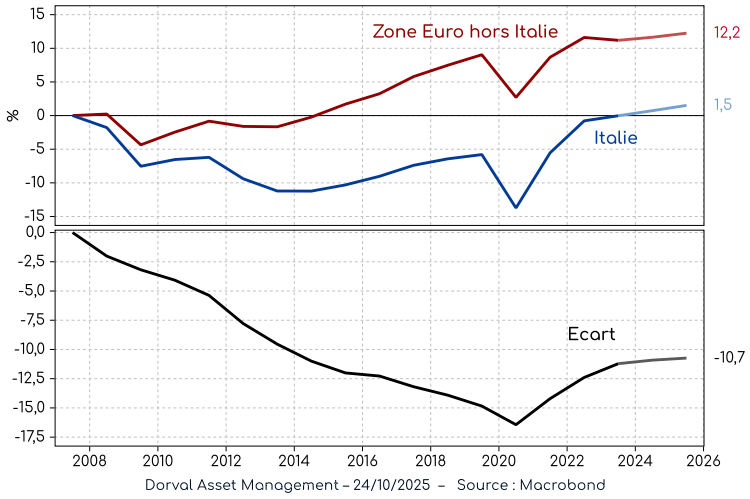
Dear clients, dear partners,

The end of the 'superbonus' for renovation work, the trade war and the lack of a promising economic policy are raising fears of disappointment for an Italian economy struggling with productivity. However, European aid and the momentum gained after the euro crisis of the 2010s should enable Italy to hold its own.

After falling by more than 11% during the double crisis of the financial crisis and the euro crisis, Italy's GDP per capita should finally exceed its 2007 level. Over the same period, GDP per capita in the rest of the eurozone will have risen by 12% (Figure 1). Italy is therefore suffering from a substantial growth gap.

The Italian economy has fallen considerably behind

Change in GDP per capita since 2007, in %



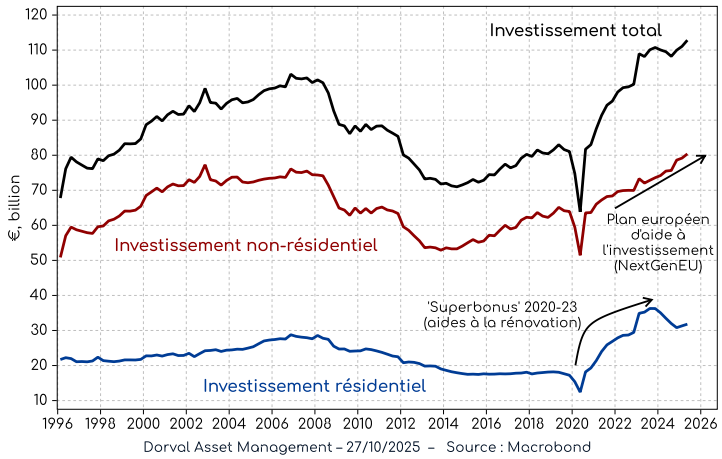
Eurozone excluding Italy / Italy / Difference

The gap between Italy and the rest of the eurozone has been narrowing since 2020, mainly thanks to an exceptional renovation subsidy programme – the "superbonus" – which has provided considerable support to the construction sector. The phasing out of this very costly measure for public finances in 2024 has led economists to fear the worst, but other dynamics are enabling the Italian economy to fare better than expected.

Italy is benefiting fully from the European investment plan "NextGenEU" decided during Covid, with £122 billion in aid disbursed in the summer of 2025, representing 63% of the £194 billion envelope allocated to the country. Non-residential investment has therefore taken over from residential investment, allowing total investment to start rising again (Chart 2). This support is expected to continue, as the European plan is set to run until 2028.

Increase in investment in Italy: European aid takes over from the "superbonus"

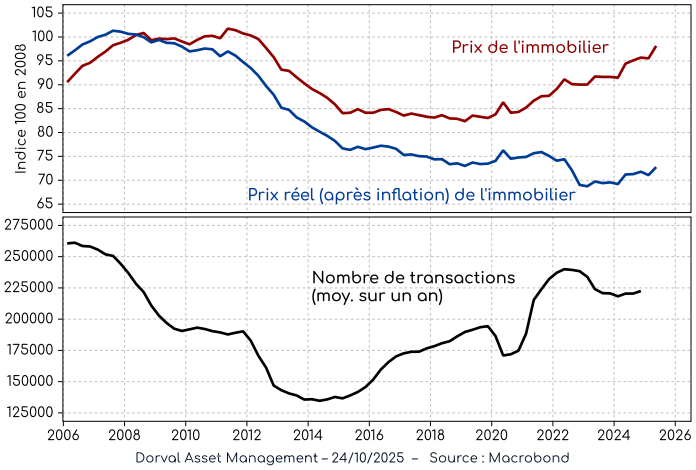
Investment volume (constant euros)



Total investment / Non-residential investment / European investment aid plan (NextGenEU) / "Superbonus" 2020-23 (renovation aid) / Residential investment / €, billion

The Italian economy, which was severely affected during the euro crisis, is also being supported by a process of normalisation in the sectors most sensitive to financing conditions, including real estate. Transaction volumes have recovered significantly and prices have started to rise again, although they remain very low in real terms, i.e. after taking inflation into account (Chart 3). The fall in interest rates initiated by the ECB since 2004, and the fall in long-term rates, from nearly 5% at the end of 2023 to 3.4% today for government bonds, is sustaining this momentum. The spectacular recovery of Italian banks, after more than a decade of crisis, completes this favourable picture for the credit cycle.

After a severe crisis, the real estate sector is recovering in Italy

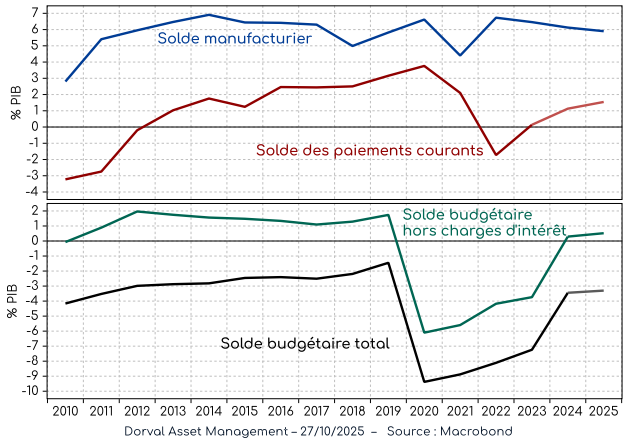


Real estate prices / Real (inflation-adjusted) real estate prices / Number of transactions (annual average) / Index 100 in 2008

Finally, like Greece, Portugal and Spain, Italy is benefiting from the adjustments that the euro crisis imposed on the country in the 2010s, including pension reform (2011), labour market reform (2014-2015) and bankruptcy law reform (2019-2022). During this phase, fiscal policy was also very restrictive, which means that Italy does not now have to tighten its policy excessively to fill the gap left by the Covid crisis.

Public debt remains high (135% of GDP), but the public deficit is under control (3% of GDP, and even a slight surplus excluding interest charges). Periods of crisis have also compressed wages (internal devaluation), resulting in restored price competitiveness. External balances are positive, with a current account surplus of 1.5% of GDP and a strong industrial balance surplus of 6% of GDP. Overall, with the notable exception of public debt, Italy's balance sheet data are therefore favourable (Chart 4), enabling rating agencies to raise their ratings – DBRS even raised its rating to 'A-' a few weeks ago. Italy therefore has no reason to embark on an adjustment policy that would be detrimental to economic growth.

Italy's 'balance sheet' is fairly favourable

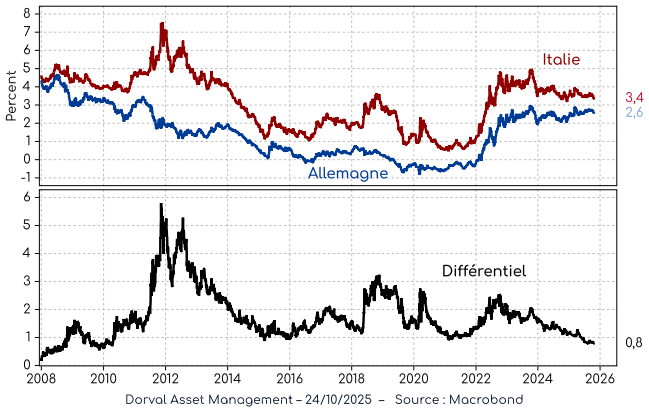


Manufacturing balance / Current account balance / Budget balance excluding interest charges / Total budget balance

With its declining population and low productivity, it is legitimate to question Italy's trajectory. This is all the more important given that the spectacular decline in the long-term interest rate differential between Italy and Germany has been one of the very positive developments in the eurozone over the past several quarters (Chart 5). A reversal of this situation, at a time when another heavyweight in the eurozone, France, is worrying investors, would not bode well. The consensus forecast currently points to growth of around +0.75% in 2026, after +0.5% in 2025. On this modest basis, we believe the risk of disappointment is fairly low. On the other hand, there could be some pleasant surprises if the Italian economy responds sufficiently to the marked improvement in domestic financial conditions.

Italian sovereign risk premium at its lowest level in 15 years

10-year government bond yields



Germany / Italy / Spread

Our exposure rates are as follows:

Fund	Net equity exposure	Breakdown by theme (as a percentage of total equities)	Other
Dorval Convictions	65%	- Core basket excluding themes: 55% - Financials: 26% - Reflation: 16% - Small caps.: 3%	Euro Stoxx 50 futures and options hedges

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