



BANCA D'ITALIA
EUROSISTEMA

Annual Report at a Glance

Rome, 29 May 2026



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2025 ANNUAL REPORT AT A GLANCE

The global economy and international relations

[1] In 2025, despite the increase in tariffs on US imports and the high uncertainty, the global economy grew as it had the previous year, partly supported by the marked expansion in demand for AI products. The performance of international trade exceeded expectations. However, there are still large current account imbalances, especially in the United States and China, which are an element of fragility for global activity, owing to both trade tensions and to the associated build-up of large foreign investment positions.

Thanks to the continuing disinflation process, the main central banks lowered their interest rates, with the exception of Japan. Global financial conditions remained relaxed.

In early 2026, the global economy was broadly resilient, but the outlook deteriorated rapidly at the end of February as conflict erupted in the Persian Gulf, causing disruptions in supplies of raw materials and sharp rises in oil and gas prices.

Last year, when the new Trump administration took office, there was an abrupt shift in international relations, in trade policies and in the priorities of international organizations. This break also affected the governance of multilateral economic cooperation, with the withdrawal of the United States from 66 international organizations, its call for stricter adherence by the International Monetary Fund and the World Bank to their core mandates, and a marked reduction in consensus within the G20 and G7. There was also a further contraction in the public resources available for development aid.

BOXES:

Global current account imbalances: recent trends, drivers and prospects

Development aid challenges: budgetary constraints and new priorities

The economy and fiscal policy in the euro area

[2] Euro-area GDP grew by 1.4 per cent in 2025, despite the geopolitical tensions and the uncertainty linked to US tariffs. Economic activity benefited from the contribution of both private and public consumption, although households' propensity

to save remained at high levels. The contribution of investment was also positive, partly supported by a less restrictive monetary policy. Consumer price inflation returned to around 2 per cent.

In the financial markets, long-term government bond yields rose, especially in Germany; the spreads vis-à-vis the German Bund narrowed in the main euro-area economies. Equity prices rose markedly, driven by higher-than-expected economic growth and investors' high risk appetite.

These trends continued in early 2026. The conflict in the Persian Gulf has led to a deterioration in consumer and business confidence since March. The sharp increase in energy raw material prices rapidly passed through to fuel prices, pushing up inflation (to 3.0 per cent in April). This was followed by a marked rise in yields across all maturities and a large correction in equity prices, which was subsequently reversed after the announcement of a ceasefire.

The deficit-to-GDP ratio declined slightly in 2025, to 2.9 per cent in the euro area; according to the European Commission's latest forecasts, it will rise to 3.3 per cent this year, mainly reflecting the anticipated increase in Germany. The debt-to-GDP ratio rose from 88.0 to 88.7 per cent; it is expected to continue to rise in 2026, by 1.5 percentage points.

BOX:

Consumption and saving in the euro area

Monetary policy in the euro area

[3] The degree of monetary policy restriction continued to ease gradually in the euro area in 2025. In the first half of the year, amid a gradual return of inflation towards the 2 per cent target and a deterioration in the growth outlook linked to exacerbated trade tensions, the Governing Council of the European Central Bank lowered its key interest rates by a total of 100 basis points, bringing the deposit facility rate to 2 per cent in June. The Council kept its key interest rates unchanged in the second half of 2025, at a time when the inflation outlook was consistent with the medium-term target and the euro-area economy was more resilient than expected.

Monetary easing favoured a progressive decline in the cost of bank credit and a gradual recovery in lending. Over the year, long-term interest rates went up, boosted by the resilience of economic activity, and the euro strengthened against the dollar, following announcements of a significant increase in government spending in Germany and of new tariffs set by the US administration.

After the outbreak of the conflict in the Persian Gulf, the ECB Governing Council stressed that it will closely monitor the evolution of the situation, assessing its consequences for the inflation outlook; it also reiterated that it will continue to take monetary policy decisions on a meeting-by-meeting basis, without committing itself to a particular interest rate path.

The ECB Governing Council concluded the review of its monetary policy strategy in the summer of 2025, confirming its symmetric medium-term inflation target of 2 per cent and stating that large and sustained deviations from the target in either direction require appropriately forceful or persistent monetary policy action.

BOX:

The weakening of the dollar against the euro in 2025: an assessment of the main causes

The Italian economy: an overview

[4] In 2025, Italy's GDP grew by 0.5 per cent in real terms (0.8 per cent in 2024), benefiting from the easing of monetary policy and the measures adopted under the National Recovery and Resilience Plan (NRRP). Growth in economic activity was driven by domestic demand, while the contribution of net foreign demand was negative, as imports grew more strongly than exports. GDP increased at a moderate pace in the first quarter of 2026, driven by services. The conflict in the Middle East has led to a clear worsening of the economic outlook and to considerable downside risks to growth.

Inflation, as measured by the 12-month change in the harmonized index of consumer prices (HICP), rose to 1.6 per cent on average for the year, from 1.1 per cent in 2024. The increase in energy commodity prices was transmitted first to fuel prices, then to household bills and, via transport costs, to the prices of some food products, bringing inflation close to 3 per cent in April.

BOX:

The implementation of the NRRP in its final phase

Households

[5] Households' real disposable income in Italy rose by 0.9 per cent in 2025. Consumption grew in line with income, leaving the saving rate unchanged. The latter was buoyed by high real interest rates and heightened uncertainty, as well as by changes in demographics and in labour market conditions. However, the effect of these factors was partly offset by a deterioration in saving capacity, especially among lower-income households.

Households' net wealth expanded at a robust pace. Real estate wealth increased, in line with rising house prices. Gross financial wealth grew too, mainly owing to asset revaluations. The substantial wealth accumulated by the older segments of the population is expected to give rise to significant intergenerational transfers in the coming years, impacting economic behaviour and wealth distribution. The reallocation of assets towards asset management products and Italian government bonds continued; for the latter, retail issuances for households also played a role.

The ratio of debt to disposable income declined further, to its lowest level since the global financial crisis. Mortgage loans began to rise again and consumer credit slowed.

BOXES:

Employment growth and consumption weakness after the pandemic

Demographics, inheritance, and economic and financial choices of households

Firms

[6] Value added in Italy continued to increase at a moderate pace in 2025, reflecting both strong growth in construction and in the energy sector, and a more subdued expansion in services; conversely, manufacturing contracted slightly, with the exception of a few sectors, including defence. Capital accumulation picked up again, supported by incentives for the digital and green transitions and by the gradual easing of monetary policy.

Labour productivity in the non-farm private sector and excluding financial and real estate services returned to growth after two years of decline; for the economy as a whole, however, it decreased further. The ratio of capital to hours worked increased for the first time in more than a decade.

Firms in Italy now appear to have a good basic level of digitalization, more so than in the other major European economies. The adoption of artificial intelligence has increased, but remains limited, particularly among small firms.

Total spending on research and development as a share of GDP remained stable, well below the EU average. Public support for innovation appears fragmented across national and local measures. Patents are concentrated in traditional sectors and tend to generate less economic value than the global average.

Higher value added and lower financing costs have supported firms' profitability. Liquidity has remained at historically high levels, leverage has continued to decline, and lending has returned to growth, driven by loans to financially sounder firms, including small ones. Over the past three years, the use of interest rate risk hedging instruments has also helped to keep borrowing costs down.

Equity investment by venture capital has increased, while that by private equity funds has remained almost unchanged, interrupting the positive trend of the past decade. The Italian market remains small compared with the other major European economies.

BOXES:

Defence in Italy: supply chain structure and the macroeconomic effects of higher defence spending

Public policies to support research, technological development and innovation

Artificial intelligence: adoption and effects on firms

Italian firms' use of derivatives to hedge interest rate risk

The labour market

[7] Employment slowed in Italy in 2025, in line with the weakening of economic activity, rising in construction and services while declining in industry excluding construction. Self-employment, which returned to levels close to those before the pandemic, grew more than payroll employment. Strong labour demand over the past five years was met, more than in the past, by an increase in hours worked per employee, which was driven by a shift towards permanent contracts and a decline in the share of part-time jobs. Employment increased among older age groups and fell among persons under 50.

The labour force remained broadly stable for the second consecutive year. The drop in the number of young workers helped to boost their wages compared with those of older workers. Population ageing will continue to weigh on labour supply in the coming years, although its impact could be offset by increases in participation rates if recent trends persist.

The unemployment rate declined further, reaching its lowest average annual level since 2007. As in 2024, this decline was not due to higher chances of employment for job seekers, but to lower flows from employment into unemployment. Mismatches between labour supply and demand remain significant.

BOX:

Recent developments in generational gaps in the labour market

Prices and costs

[8] Consumer price inflation in Italy rose to 1.6 per cent in 2025, driven by developments in its most volatile components. Core inflation instead declined slightly, reflecting a deceleration in the prices of both services and non-energy industrial goods. Inflation stood at 1.4 per cent in the first quarter of 2026: service prices were affected by the Winter Olympics in February, while, starting in March, fuel prices began to reflect the increase in energy commodity prices triggered by the conflict in the Middle East. These price increases pushed inflation to 2.8 per cent in April.

Hourly labour costs in the non-farm private sector picked up pace in 2025, continuing to support the still partial recovery in both households' purchasing power and the labour share in value added compared with 2019. The collective bargaining agreements currently in force point to a gradual deceleration in negotiated wages in 2026; with few agreements due for renewal, a rebound in inflation is unlikely to trigger strong wage pressures.

BOXES:

The labour share in Italy and the euro area: recent developments

Collective bargaining in Italy in the 2000-25 period

Foreign trade, competitiveness and the balance of payments

[9] Italy's export and import volumes returned to growth in 2025, following a decline in the previous two years. Growth in goods sales was modest and lower than the rise in demand from the main outlet markets, reflecting Italy's limited specialization in AI products, the appreciation of the exchange rate and the United States' tighter trade policy. Exports of services accelerated, contributing more than half of total export growth, driven by business services and by sizeable Jubilee-related tourism receipts. The increase in imports was significant.

The current account surplus remained stable at 1.1 per cent of GDP. The improvement in the primary income balance was countered by a slight deterioration in the balances on the other items.

Portfolio investments abroad by Italian residents continued to rise, driven by purchases of bonds by banks and insurance companies, and by the recovery in investment fund subscriptions. Foreign demand for Italian government securities remained high, in an environment of narrowing interest rate spreads vis-à-vis other euro-area sovereign bonds. Banca d'Italia's negative TARGET balance narrowed further.

At the end of 2025, Italy's net international investment position was positive by €348 billion, equal to 15.4 per cent of GDP. It has improved by 39 percentage points of GDP since the end of 2013, with over half of this stemming from persistent current and capital account surpluses.

BOX:

Exports to the United States: the short-term impact of tariffs

The public finances

[10] Italy's general government net borrowing fell for the fifth year in a row in 2025, to 3.1 per cent of GDP (from 3.4 per cent the previous year). The primary surplus reached 0.8 per cent of GDP (from 0.5 per cent); according to the European Commission's latest estimates, it grew by almost half a percentage point, net of cyclical effects.

Revenue as a share of GDP increased slightly more than primary expenditure. Public investment reached 3.8 per cent of GDP – the highest level since the turn of the century.

According to the Government's estimates, net expenditure as defined for the purposes of European fiscal rules went up by 1.9 per cent last year and down by 0.1 per cent over the two years 2024-25 as a whole. Although the increase in 2025 exceeded the figure agreed, the deviation appears to remain below the European tolerance thresholds.

The debt-to-GDP ratio rose by 2.4 percentage points, to 137.1 per cent: the primary surplus was not enough to offset the unfavourable gap between the average

cost of debt and economic growth and, above all, the large stock-flow component. The latter includes in particular the cash effects of the tax credits for building renovations accrued in previous years and the increase in the Treasury's cash holdings.

In its 2026 Public Finance Document (PFD), the Italian Government presented the current legislation scenario for the public finances over the 2026-29 period. Net borrowing is projected to edge down to 2.1 per cent of GDP. Net expenditure growth is set to equal the agreed ceiling in 2026, and to exceed it in 2027. The debt-to-GDP ratio is expected to continue to rise this year and to decline starting from 2027, to 136.3 per cent in 2029.

BOXES:

The impact of discretionary measures and the economic cycle on the primary balance since 2014

Non-repayable state aid to firms in Italy: expenditure dynamics and recipients

The institutional environment and business regulation

[11] The quality of the institutional environment improved further in 2025, as efforts to implement NRRP investments and reforms were stepped up. However, there are still shortcomings by international standards and significant regional disparities in the effectiveness of Italy's general government. The quality of public action is negatively affected by the high degree of complexity and instability in the regulatory framework.

In civil justice, the length of proceedings and court backlogs have decreased; the number of compulsory liquidations for business crisis management has gone up, but are still lower than the average for the past decade. In public procurement, the number and amount of public tenders remain high; contract award times have shortened, partly as a result of regulatory and organizational measures aimed at streamlining procedures, while the design and execution phases continue to be protracted. The strengthening of general government has continued, both in terms of human resources and the digitalization of processes, supported by the NRRP.

The competition-related reforms under the NRRP have had limited effects on the degree of market regulation. The administrative burden on firms has increased over the past ten years, with a negative impact on their operating costs and size growth. Over the same period, market structure developments have been influenced by a rise in mergers and acquisitions.

In the last five years, the number of firms co-owned by local authorities has continued to decline, while that of firms controlled by central government has increased. The potential scope for the use of special powers over corporate transactions (golden power) has been expanded, although its actual use has remained limited. State aid has declined following the expiry of the extraordinary measures introduced during the pandemic and energy crises.

BOXES:

The quality and quantity of legislative output in Italy

The impact of the NRRP on the performance of public procurement

Regulation, tax regimes and firm size

Financial intermediaries

[12] At the end of 2025, the assets of Italian financial intermediaries were equal to three times GDP, less than the value for France and Germany. The banking system, which became slightly more concentrated as a result of the mergers concluded during the year, accounted for 56 per cent of total assets. The share of assets attributable to non-bank financial intermediaries has expanded in recent years, though it remains small by international comparison.

The digital transformation of the Italian financial sector has gained further momentum. Customers have relied more and more on digital channels; investment in innovative technologies – including AI tools – has continued, driven by the largest intermediaries. While these developments benefit the financial sector, including by cutting costs and increasing revenues, they also expose it to greater operational and cyber risks.

Lending returned to growth in 2025, after contracting in the previous two years. The share of loans to firms backed by public guarantees decreased further, though it was still above the levels observed both before the pandemic and in other main European economies. The share of non-performing loans relative to total loans narrowed.

Funding grew, reflecting the increase in deposits by both residents and non-residents, predominantly through the foreign interbank market, which has progressively replaced liabilities to the Eurosystem.

Last year, banks' capital positions remained high by historical standards. Profitability improved further, reaching its highest levels since 2008. The increase in fees and trading revenues, along with the decrease in operating costs, more than offset the decline in net interest income. While it is expected to turn downward, profitability will likely remain at high levels in 2026 as well.

In 2025, net funding by non-bank financial intermediaries was positive. The share invested in securities issued by Italian and euro-area firms expanded, while exposure to government bonds continued to decrease. In the first quarter of 2026, net subscriptions to investment funds turned negative following the outbreak of the conflict in the Persian Gulf.

BOX:

Bank loans to firms and households backed by public guarantees

The money and financial markets

[13] Conditions on the Italian financial markets in 2025 were influenced by the ECB's continued cycle of monetary easing, alongside announcements of a significant increase in public spending in Germany and expectations of scaled-up European defence expenditure. Since April, they have been affected by the tensions stemming from the introduction of new tariffs by the US administration.

After rising in March, the yields on ten-year Italian government bonds declined owing to fears of a global recession triggered by trade tensions; they stood at virtually unchanged levels at the end of the year. The spread with the German Bund narrowed significantly, reflecting stronger investor confidence in Italian public debt and an improvement in Italy's creditworthiness.

Bond issues by Italian non-financial corporations increased considerably, indicating that the recovery that began after the contraction in 2022 is still under way. Yield spreads shrank, supported by investors' high risk appetite.

Equity prices rose sharply, especially in the banking and defence sector. The impact of the new tariffs was strong but temporary.

In early 2026, the outbreak of the conflict in the Persian Gulf caused a strong increase in yields, a widening of the spread with the German Bund and a large correction in equity prices. When a truce was later announced, equity prices recovered fully and the spread narrowed to a certain extent.

BOX:

Recent trends in Italian corporate bond issuance

Special focus section – The energy transition: origins and outlook

[14] Since the end of the twentieth century, the drive towards greater use of sustainable energy has steadily intensified. Key contributing factors include efforts to combat climate change, ongoing technological innovation and, more recently, heightened geopolitical risks faced by fossil-fuel importing countries.

Ambitious international targets for reducing greenhouse gas emissions have been established, partly to mitigate the risks associated with extreme natural events. In line with these commitments, Italy has cut its emissions by almost 30 per cent compared with 1990 levels, while the share of electricity generated by renewable energy sources (RESs) tripled to 41 per cent.

This transition has been facilitated by technological advances which have significantly lowered the cost of RESs, particularly over the past two decades. According to the International Energy Agency, these technologies are now economically competitive when compared with fossil fuels and other low-emission sources, such as nuclear energy.

Nevertheless, natural gas continues to play a substantial role in electricity generation in Europe, and to an even greater extent in Italy. Dependence on foreign supply for it poses significant risks in terms of the availability and the cost of energy.

At the European level, Italy has committed to increasing the share of RESs in electricity consumption to 63 per cent by 2030. If supported by effective policy measures and adequate investment in energy networks, this expansion could lead to lower electricity prices, thereby promoting the electrification of consumption, transport and production processes. However, there is a risk that new technology-based dependencies may emerge, merely replacing the current strategic reliance on fossil fuel imports, as the production of key inputs required for the energy transition is heavily concentrated in China and in a few other countries.

BOXES:

The exposure of Italian firms to physical climate change risks

Electricity production from renewable energy sources in Italy

The transition to electric transport and the new geography of the global automotive industry: the challenges for Europe