Flash Economics

N° 87
August 31st, 2026

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Investors are beginning to take account of the difficulties facing the Italian economy

Since the end of February 2026, the yield spread between Italian and German government bonds has widened markedly (from 60 to 83 basis points). Indeed, investors appear to be recognising that the difficulties facing the Italian economy remain substantial:

- weak growth, declining productivity, low spending on research and development (R&D);
- declining manufacturing output;
- a low investment rate and a falling profit share;
- population ageing and a shrinking working-age population;
- weak skills in the labour force and poor quality of the education system;
- strained public finances, despite the support provided by Next Generation EU grants.

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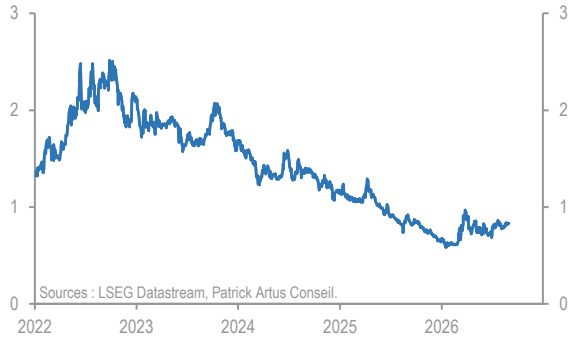
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Widening of the 10-year yield spread between Italy and Germany

Since late February 2026, **the 10-year yield spread between Italian and German government bonds** (the BTP-Bund spread) has widened markedly (**Chart 1**).

Chart 1
Italy: 10-year government bond spread over Germany
(percentage points)



Uncertainty stemming from the conflict in the Middle East is clearly a contributing factor; it nevertheless appears that investors are also reassessing the severity of the Italian economy's difficulties.

The Italian economy faces multiple structural weaknesses

1 – Weak growth, declining productivity

Growth in the Italian economy remains weak (**Chart 2**), and **labour productivity has been declining since 2022** (**Chart 3**). For 2026, growth forecasts range from 0.6% (Banca d'Italia) to 0.9% (Ufficio parlamentare di bilancio, UPB), with Istat projecting 0.7%. This reflects in particular **low R&D spending** (**Chart 4**) and the weak skills of the labour force, discussed below.

Chart 2
Italy: Real GDP (Y/Y, %)

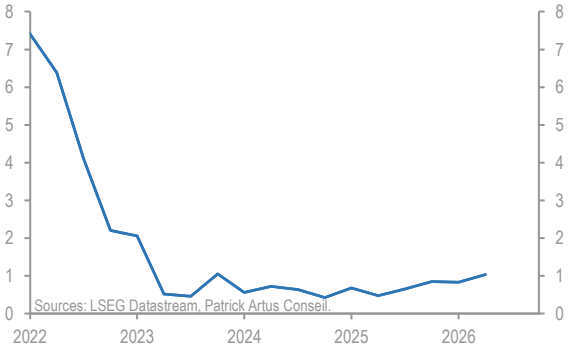


Chart 3
Italy: Labour productivity per hour worked
(2010 Q1 = 100)

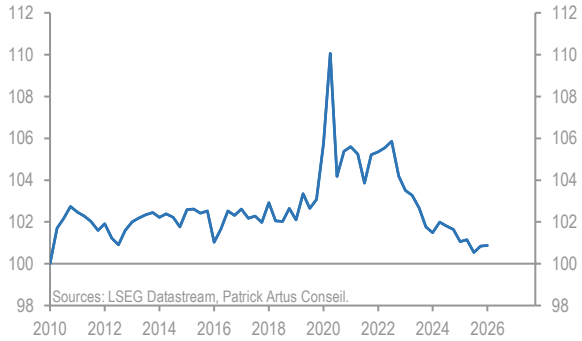
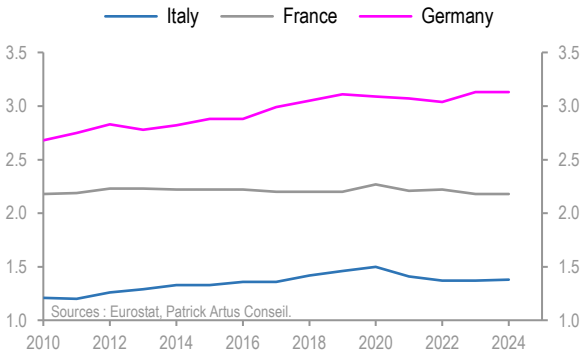


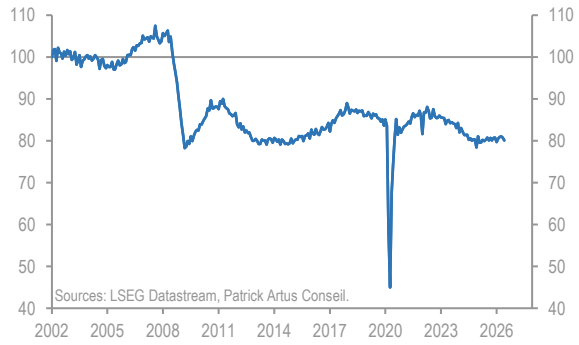
Chart 4
Gross domestic expenditure on R&D (as % of GDP)



2 – Declining manufacturing output

It is frequently argued that Italy benefits from a base of highly dynamic small and medium-sized industrial firms, particularly in the North. This dynamism is not, however, apparent in the data, since **productivity is declining** (**Chart 3**, above), **as is manufacturing output**, which has been falling since 2009 and again since 2022 (**Chart 5**).

Chart 5
Italy: Manufacturing production (January 2002 = 100)



3 – Low investment rate and falling profit share

A further sign of the lack of dynamism among Italian firms is that **their investment rate**, although it has been rising, **remains low** (**Chart 6**), which partly reflects the decline since 2023 in their profitability, as measured by their profit share (**Chart 7**).

Chart 6
Italy: non-financial corporations' investment (as % of GDP)

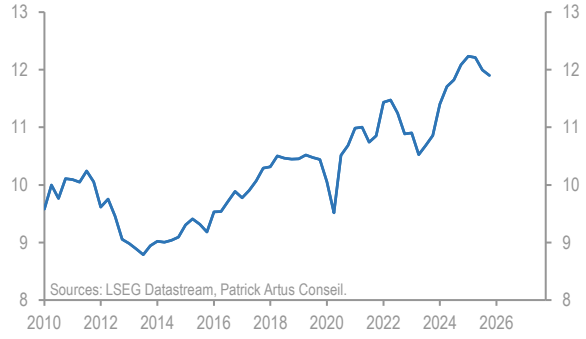


Chart 7
Italy : Profit margin* (2010 Q1 = 100)



* Ratio of the GDP deflator to unit labour costs, whole economy..

4 – Population ageing and a shrinking working-age population

Despite net migration of +296,000 in 2025 (the migration flows decree – decreto flussi – provided for the entry of 452,000 foreign workers over 2023-2025), **the working-age population is shrinking** (**Chart 8**), and this decline will accelerate as the effects of the fall in the fertility rate come through (**Chart 9**).

Chart 8
Italy: Working-age population (15 to 64, annual % change)

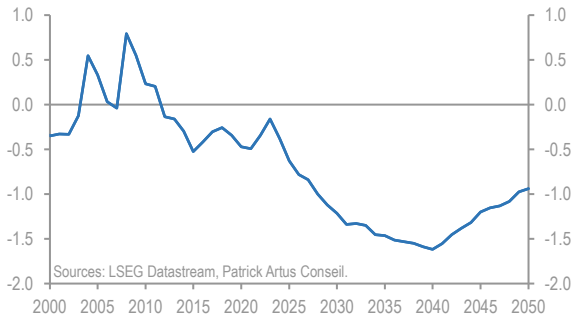
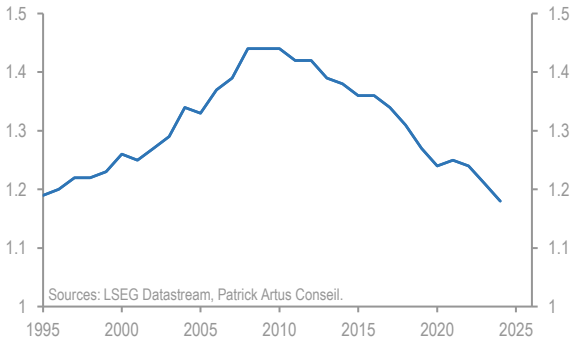


Chart 9
Italy: Fertility rate (births per woman)



Together with the weak growth analysed above, this helps to explain **the high level of public pension expenditure** in Italy (15.5% of GDP in 2023, compared with an EU average of 11.4%, the highest level in the Union).

5 – Weak skills in the labour force and poor quality of the education system

Table 1 presents **scores from the OECD's PIAAC survey**, which covers the skills of adults aged 16 to 65. **Table 2** presents **scores from the OECD's PISA survey**, which covers the attainment of 15-year-old students in reading, mathematics and science.

Table 1: Results of the OECD PIAAC survey (by decreasing score from the 2023 survey, overall score*)

Country	2016	2023
Finland	285	289
Sweden	279	281
Netherlands	282	276
Germany	271	267
England (UK)	267	266
France	258	253
Spain	249	246
Italy	249	240

*In 2016, average score in numeracy and literacy
Source: OECD

Table 2: Results of OECD PISA surveys (overall score, by decreasing score in the 2022 survey)

Country	2012	2015	2018	2022
Finland	529	523	516	495
United Kingdom	502	500	503	494
Sweden	482	496	503	487
Germany	515	508	500	482
Netherlands	519	508	502	480
France	500	496	494	478
Spain	490	491	482	477
Italy	490	485	477	477

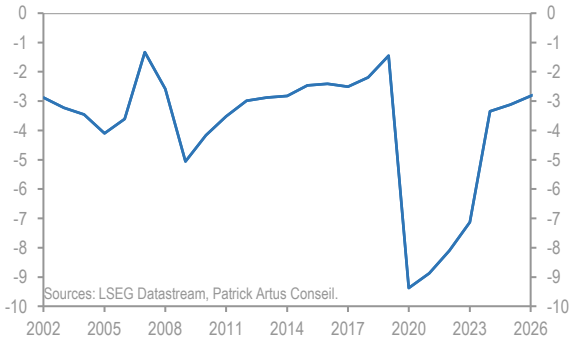
Source: OECD

Skill levels in Italy stand out as particularly low, among both adults and young people.

6 – Strained public finances

It is true that the general government deficit has narrowed markedly in recent years (Chart 10), but two factors must be taken into account:

Chart 10
Italy: General government deficit (as % of GDP)



- **the European funding received under the Next Generation EU programme** (€194.4 billion in total, including €71.8 billion in grants, with €166 billion already disbursed as at June 2026): the grants finance expenditure that Italy would otherwise have had to fund itself or forgo, while the loans add to general government debt without weighing on the deficit;
- **the sharp scaling back of the Superbonus** (the housing renovation tax relief), which added up to 4 percentage points of GDP to the general government deficit in 2023, after 1 point in 2021 and 3 points in 2022, for a cumulative cost of around €170 billion; the phasing out of the scheme accounts for a significant part of the subsequent narrowing of the deficit.

Italy's public finances nevertheless remain under strain, as illustrated by the 65% cut to the tax credit for investment consistent with energy transition objectives (Transizione 5.0).

Summary: Italy really is in difficulty

The recent repricing of Italian sovereign risk by investors is consistent with:

- weak growth, declining productivity and low R&D spending;
- declining manufacturing output;
- a low investment rate and a falling corporate profit share;
- the shrinking working-age population;
- the weak skills of the labour force and the poor quality of the education system;
- persistently strained public finances.

The optimism that investors had shown about Italy's situation since the end of 2023 appears, in retrospect, to have been excessive.

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