Italian Debt After 2011: A structural debt problem

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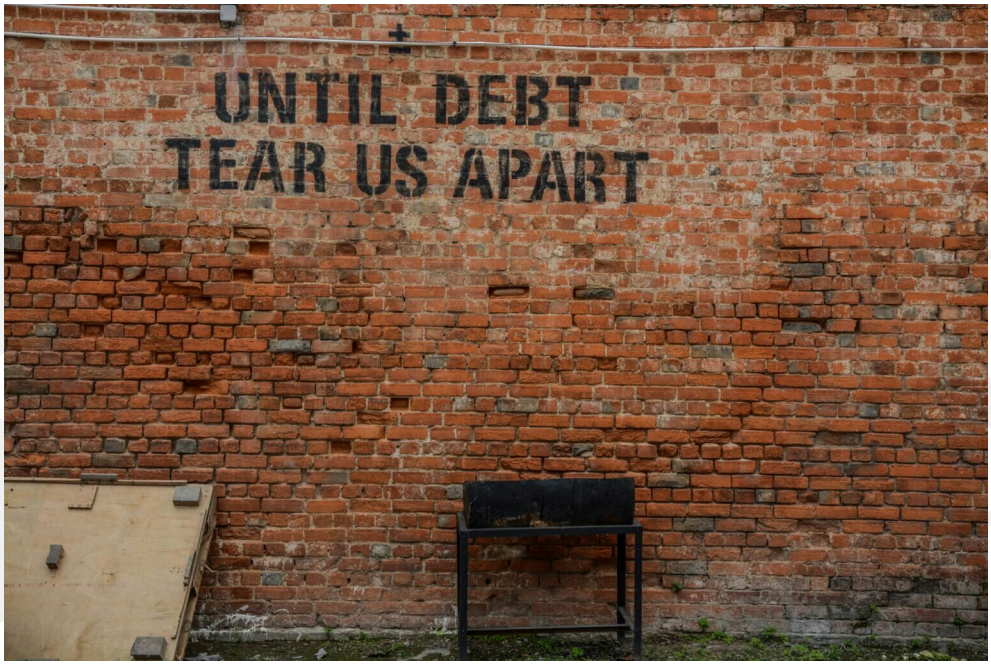

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Italy is once again attracting attention in European debt markets. Public debt is approaching 140% of GDP, borrowing costs have risen, and economic growth remains weak. At first glance, this could resemble the prelude to the 2011 sovereign debt crisis. Yet, the comparison should be made carefully. Italy is undoubtedly showing economic vulnerabilities, but the institutional environment in which it operates has fundamentally changed. A more possible scenario, therefore, is not a sudden collapse of Italy's financial system, but rather a prolonged period of weak growth and rising debt that could weigh on both the European economy and Italian citizens.

The starting point of the analysis must be the current state of the Italian economy. The European Commission forecasts GDP growth of just 0.5% in 2026 and 0.6% in 2027, while public debt is expected to rise from 138.5% of GDP in 2026 to 139.2% in 2027. Interest rates are also trending upward, increasing the cost of government borrowing.

On a slightly more positive note, Italy benefits from the relatively long residual maturity of its public debt, which stands at 7.9 years according to statistics published by the Bank of Italy. This means that higher borrowing costs will only feed through gradually, as existing bonds mature and are replaced with new debt. However, given the scale of Italy's debt and its continued expansion, rising borrowing costs add further pressure to an already concerning situation.

The underlying problem is therefore not simply the size of Italy's debt, but the difficulty of generating enough growth to stabilise it. When borrowing costs remain higher than economic growth, the government needs sufficiently strong budget surpluses to prevent the debt-to-GDP ratio from continuing to rise. With growth forecast to remain below 1%, this will remain a difficult balance to achieve.

Why 2026 is not 2011

One of the main differences from 2011 is the stronger institutional architecture of the euro area. Aid that did not exist then, notably the ECB's Transmission Protection Instrument (TPI), Outright Monetary Transactions (OMT) and the European Stability Mechanism (ESM), now exists to stop market panic from turning into a wider crisis. None is automatic, and Italy's current Excessive Deficit Procedure complicates its eligibility for the TPI, but their existence provides a layer of protection that was missing in 2011.

Another important difference from 2011 is the behaviour of Italian sovereign spreads. The spread between Italian and German government bonds remains far below the levels reached during the sovereign debt crisis. Although borrowing costs have risen, markets appear to have confidence in Italy's financial stability.

Moreover, Italy's banking system is better positioned today than it was during the 2011 crisis. Bank profitability is expected to remain relatively resilient despite the challenging macroeconomic environment, reducing the risk that sovereign stress could trigger a broader banking crisis. There is also evidence that international investors have returned to Italian debt. This suggests that the trend of declining foreign investor confidence has been reversed.

The bigger risk: stagnation

The key question is now whether Italy can generate enough economic growth to stabilise its debt burden. The country has been one of the largest beneficiaries of the EU's post-pandemic recovery programme, accumulating €194.4 billion to support resilience and investment. Yet its impact on long-term growth remains uncertain. GDP growth forecasts remain well below 1%, despite the continued flow of European recovery funds.

This creates a more persistent risk: if this large-scale investment does not translate into higher productivity and stronger growth, Italy could emerge

from the programme with much of its debt burden intact and without a significant improvement in its economic performance.

The country's social and labour-market indicators reinforce these concerns. According to ISTAT (the Italian National Institute of Statistics), the number of employed people increased by 291,000 between August 2025 and August 2026. This is a positive development; however, Italy's employment rate remains significantly below the EU average, at 67.6% compared with 76.1% (Eurostat).

Eurostat data further show that 22.6% of Italy's population was at risk of poverty or social exclusion in 2025, above the EU average of 20.9%. Italy's net wages also remain below the European average after adjusting for differences in the cost of living, with a particularly significant gap compared with France and Germany. These weaknesses affect different types of households and reflect decades of limited economic and wage growth.

This is why Italy's greatest risk may not be a repeat of 2011, but rather a future of sluggish growth and declining economic dynamism. The scale of the problem is particularly visible among younger generations: between 2011 and 2024, around 630,000 Italians aged 18–34 emigrated in search of better opportunities (CNEL). However, 83% would consider returning if higher wages and better employment opportunities were available.

This is not only a social problem but also an economic one: the continued departure of young Italians reduces the country's future labour supply and productive potential, making it harder to reverse the current low-growth trajectory.

This is why a sovereign debt crisis in the near term is less plausible than a prolonged period of weak economic growth. Italy may therefore be less likely to trigger a new euro area crisis than to face a longer-term challenge of stagnation, with consequences that could extend beyond its borders and weigh on Europe's economic performance.