

Fiscal Adjustment in Italy: Lessons for France?

Fitch has just upgraded Italy's debt rating, only a few days after downgrading France's. This contrast marks a turning point in the perception of fiscal trajectories within the euro area. How has Italy, long seen as one of the Union's most fragile countries, managed to restore its public finances? And most importantly, what lessons can France—whose fiscal credibility is now being tested—draw from this?

Diverging Fiscal Paths in a Comparable Economic Context. Since the Covid crisis, France and Italy have experienced relatively similar economic dynamics. GDP growth, albeit modest, has been comparable in both countries (between 5% and 6% cumulative growth since early 2019). Yet, their fiscal trajectories have evolved in radically different ways. Italy has managed to reduce its public deficit more quickly and, above all, to improve its primary balance—that is, the budget balance excluding interest payments. The latter became positive in 2025, while France's remains deeply negative, at nearly -4% of GDP (see chart). This development partly explains Fitch's decision. The agency commends Italy's deficit reduction and relative political stability, which strengthen the credibility of its fiscal commitments.

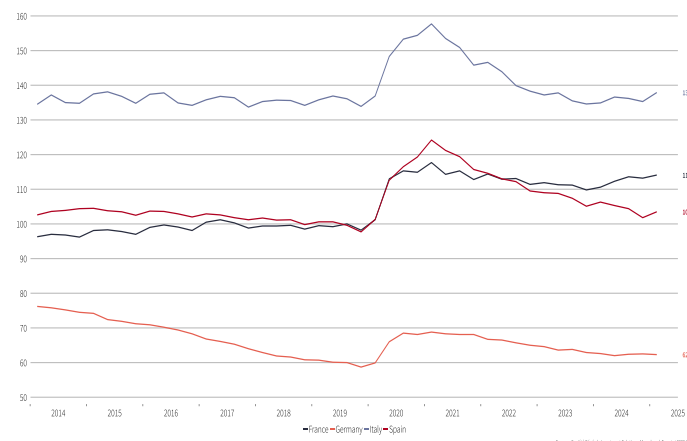
Fiscal Discipline and the European Lever. The improvement in Italy's primary balance is based on a dual dynamic: national fiscal discipline and strategic European support. **At the national level**, the Italian government has adopted a resolutely prudent stance. Current expenditures have been contained, notably in the public sector and social transfers. Support measures introduced after Covid (very generous tax credits for real estate) and the energy crisis were withdrawn more quickly than elsewhere, allowing for a significant reduction in temporary spending as early as 2023. Furthermore, the government increased taxes in a targeted manner and improved the fight against tax evasion. **But the true catalyst for Italy's recovery has come from Europe.** Italy is the main beneficiary of the Next Generation EU program, through its National Recovery and Resilience Plan (PNRR), with over €190 billion allocated. The IMF notably highlights that these resources have financed public investments without increasing the deficit, while supporting economic activity. Above all, disbursements are conditional on reform milestones, reinforcing the credibility of Italy's commitments.

A Praised Path, but Persistent Vulnerabilities. While Italy's reform efforts are undeniable, it should be noted that the European support Rome has received cannot be replicated as such in France's case. Moreover, despite the ratings convergence, Italy still holds a lower rating than France, reflecting persistent structural vulnerabilities. The level of public debt remains one of the highest in the euro area, around 140% of GDP, compared to 110% for France. This exposure makes Italy particularly sensitive to interest rate increases, with a historically heavier debt burden. Demographics are another weakness: rapid population aging and low birth rates weigh on medium-term growth prospects and the sustainability of public finances. Finally, political risk remains: although the current government has maintained a prudent fiscal line, the implementation of reforms is still subject to internal tensions.

A Lesson in Fiscal Credibility. Italy demonstrates that a credible fiscal trajectory, even in a context of high debt, can be recognized by markets and rating agencies. This recovery is based on a combination of national discipline, targeted reforms, and exceptional European support. France, for its part, will need to regain this credibility by showing it can restore its accounts without compromising growth. The narrowing of ratings between the two countries reflects two opposite dynamics. On one side, Italy has brought its deficit and debt ratios close to their pre-Covid levels, while clarifying its fiscal path. On the other, France is moving away from this, with continued deterioration of its indicators and political instability undermining its ability to undertake credible consolidation. For a long time, rating agencies granted France a form of leniency, based on its institutional stability and its capacity to mobilize tax revenues. These advantages are now less obvious. Conversely, Italy, long penalized by its political instability, now benefits from a more nuanced view, supported by tangible results. Admittedly, Italy still faces structural weaknesses—debt level, demographics, interest burden—that call for caution. But it offers France a valuable lesson: fiscal credibility does not rely solely on fundamentals, but on the ability to chart a coherent trajectory, supported by reforms, and validated by European institutions.

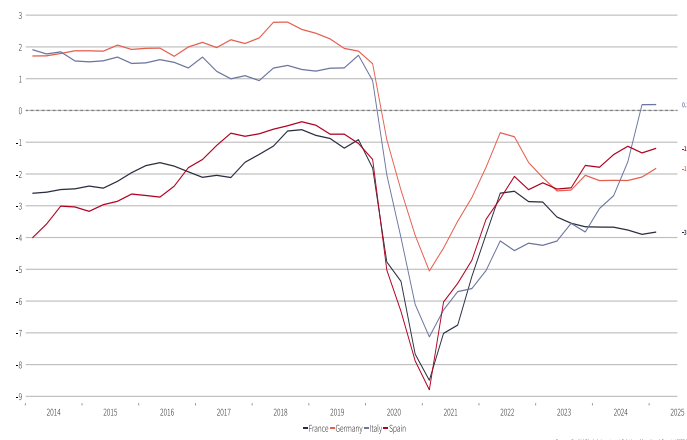
EURO AREA: GENERAL GOVERNMENT DEBT

% of GDP



EURO AREA: PRIMARY FISCAL BALANCE

% of GDP



SOCIETE GENERALE
Private Banking

Past performance is not a guarantee of future performance. All data is from Bloomberg, Macrobond as of 9/26/2025, completion date of this publication. In accordance with the regulations in force, we inform the reader that this document is qualified as a promotional document

OUR MACRO COMMENTS

Events of the week

EURO AREA

Gradual Recovery of Credit in the Eurozone

The European Central Bank published on Thursday the monetary and credit aggregate figures for August, revealing a mixed dynamic. While loans to households and businesses continue their slow recovery, the M3 monetary aggregate is slowing more sharply than expected, suggesting that the transmission of past interest rate cuts to credit dynamics remains gradual.

The M3 money supply increased by 2.9% year-on-year, below the consensus (+3.3%) and slowing compared to July (+3.4%). This slowdown reflects still contained liquidity demand, despite the key interest rate cuts implemented since spring.

On the credit side, loans to businesses slightly accelerated to +2% year-on-year (compared to +1.8% in July), while loans to households reached +2.2% (after +2.1%). These figures confirm a gradual recovery since the low point in March 2024 but remain modest: the growth of outstanding credit barely exceeds inflation, currently close to 2%, limiting their real impact on investment.

The inflationary environment, now close to the 2% target, gives the ECB room to support this recovery. If this dynamic is confirmed and inflation remains contained, the scenario of a new rate cut could be considered in the coming months.

EURO AREA

Stable Activity but Contrasted Across Countries and Sectors

The preliminary PMI indices for September indicate a continued gradual growth of economic activity in the euro area, with a composite index in expansion territory at 51.2, slightly up from August (51.0), and at its highest since May 2024. However, this development masks sectoral and geographical disparities.

The services sector is improving (51.4 vs 50.5), while manufacturing remains in contraction (49.5 vs 50.7). The stagnation of new orders, after a slight rebound in August, illustrates a persistently sluggish industrial dynamic.

In France, activity is estimated to have contracted in September at the sharpest pace since April, according to the PMI index. The composite index fell to 48.4 from 49.8 in August, with a significant decline in the manufacturing sector. Services are also deteriorating, in a context of weakened business confidence linked to political uncertainty.

In Germany, the trend is more favorable, driven by a marked rebound in services (52.5 vs 49.2). Conversely, in the United Kingdom, the composite PMI index fell to 51.0 (53.5 in August), reflecting a slowdown linked to the trade war, a moderating labor market, and persistent inflation.

KEY EVENTS OF THE WEEK



Monday

China	Manufacturing PMI index SEPTEMBER
Germany	Inflation rate SEPTEMBER
France	Inflation rate SEPTEMBER
United States	JOLTs Job Openings AUGUST

Wednesday

Japan	Tankan index Q3
Eurozone	Inflation rate SEPTEMBER
United States	ISM Manufacturing index SEPTEMBER

Friday

United States	- Employment report SEPTEMBER - ISM Services index SEPTEMBER
----------------------	-----------------------------------------------------------------

EVENTS IN THE COMING MONTHS

October 4: election of Japan new prime minister

October 15: french budget proposal

October 24: revision of France's rating by Moody's.

October 30: ECB monetary policy meeting

October : Plenum of the Communist Party of China

Source: Macrobond, September 26, 2025. The colors in the 'Actual' column correspond to the difference from the forecast

MARKET PERFORMANCES

Interbank rates

%	24/09/2025	26/08/2025	26/06/2025	01/01/2024	26/09/2024
US SOFR	4,348	4,35	4,31	5,34	5,23
Euro area €ster	1,928	1,93	1,93	3,88	3,42
UK SONIA	3,968	3,97	4,22	5,19	4,95
Switzerland SARON	-0,038	-0,04	-0,04	1,70	1,21
Japan TONAR	0,478	0,48	0,48	-0,04	0,23

10Y Government rates

%	25/09/2025	26/08/2025	26/06/2025	01/01/2024	26/09/2024
US Treasuries	4,18	4,26	4,26	3,88	3,79
France OAT	3,53	3,49	3,24	2,55	2,97
Germany Bund	2,77	2,72	2,56	2,02	2,17
Italy BTP	3,63	3,56	3,46	3,70	3,39
Spain Bonos	3,33	3,32	3,15	2,98	2,96
Switzerland	0,23	0,33	0,38	0,66	0,42
UK Gilts	4,75	4,74	4,47	3,60	4,00
Japan JGB	1,63	1,61	1,42	0,62	0,84

Credit

%	25/09/2025	26/08/2025	26/06/2025	01/01/2024	26/09/2024
United States IG	4,85	4,91	5,03	5,06	4,73
United States HY	6,72	6,79	7,09	7,59	7,03
Europe IG	3,35	3,31	3,31	3,72	3,48
Europe HY	5,16	5,33	5,65	6,80	6,03
Emerging FX	5,68	5,78	6,02	6,77	6,04

Equity indices

25/09/2025 vs	-1w	-1m	-3m	01/01/2024	-1y
World	-0,64	2,267	8,02	37,13	16,86
United States	-1,00	2,236	8,03	40,02	16,60
Euro area	-0,31	0,271	3,70	28,10	16,23
France	-0,67	0,925	2,94	10,16	6,32
Germany	-0,47	-3,135	-1,37	35,18	20,61
United Kingdom	-0,01	-0,599	5,62	25,53	13,97
Japan	1,19	3,765	13,57	39,35	22,68
Emerging	0,39	5,160	11,57	39,97	21,77
China USD	0,48	5,673	17,96	67,09	50,37
India USD	-2,71	0,001	-4,84	14,13	-10,61
Latin America USD	-0,42	7,185	9,84	4,64	18,26

Foreign exchange rates

	25/09/2025	26/08/2025	26/06/2025	01/01/2024	26/09/2024
EUR/USD	1,17	1,17	1,17	1,11	1,12
GBP/USD	1,33	1,35	1,37	1,27	1,34
EUR/CHF	0,93	0,94	0,94	0,93	0,95
USD/JPY	149,67	147,42	144,38	141,03	144,80
USD/CNY	7,13	7,15	7,18	7,08	7,01

Commodity prices

	25/09/2025	26/08/2025	26/06/2025	01/01/2024	26/09/2024
Brent, USD/BL	69	67	67	77	71
Copper, USD/Metric ton	10 312	9 708	10 115	8 476	9 844
Gold, USD/Troy oz	3 749	3 394	3 328	2 063	2 672
Silver, USD/Troy oz	45	38	37	24	32
Palladium, USD/Troy oz	1 234	1 091	1 089	1 136	1 052
Platinum, USD/Troy oz	1 505	1 350	1 392	1 000	1 005

Source : Bloomberg on 26 September 2025, 1W = 1 week change, 3M = 3 month change, 12M = 12 month change, YTD = year to date change, Equities; total return in local currency. Government bonds = 10 year returns. Figures are rounded..



SOCIÉTÉ GÉNÉRALE
Private Banking

IMPORTANT INFORMATION – PLEASE READ

General information

This document is a marketing communication issued by Société Générale Private Banking which is the business line of the Société Générale Group operating through its headquarters within Société Générale S.A. in France and its network (departments or separate legal entities (branches or subsidiaries) hereinafter the “Entities”), located on the various below-mentioned territories, acting under the brand name “Societe Generale Private Banking” and distributors of the present document.

This material has been prepared solely for informational purposes and has no contractual value.

This material does not constitute an offer of purchase, sale, or subscription in any of the asset classes presented herein, nor a solicitation of such an offer, nor is it an offer of financial services, to participate in any investment strategy. Nothing in this document should be construed as constituting investment advice or personal recommendation to any investor or its agent. Information contained herein is not intended to provide a basis on which to make an investment decision.

Any investment may have tax consequences and Société Générale Private Banking and its Entities do not provide tax advice. The level of taxation depends on individual circumstances and tax levels and bases may change. In addition, this document is not intended to provide accounting, tax or legal advice and should not be relied upon for accounting, tax, or legal purposes. Independent advice should be sought where appropriate.

The accuracy, completeness or relevance of the information provided is not guaranteed although it has been drawn from sources believed to be reliable. The information and opinions expressed in this document were produced as at the date of writing and are subject to change without notice.

This material has not been prepared regarding specific investment objectives, financial situations, or the particular needs of any specific entity or person. Investors should make their own appraisal of the risks and should seek their own financial and legal advice regarding the appropriateness of investing in any asset classes or participating in any investment strategy.

The asset classes presented herein may be subject to restrictions regarding certain persons or in certain countries under national

regulations applicable to said persons or in said countries. It is the responsibility of any person in possession of this document to inform themselves and to comply with the legal and regulatory provisions of the relevant jurisdiction. This document is not intended for distribution to any person or in any jurisdiction where such distribution would be restricted or illegal. In particular, it may not be distributed in the United States, nor may it be distributed, directly or indirectly, in the United States or to any US Person.

General risks

Some of the asset classes mentioned may present various risks, imply a potential loss of the entire amount invested or even an unlimited potential loss, and may therefore only be reserved for a certain category of investors, and/or only be suitable for well-informed investors who are eligible for these asset classes. In addition, these asset classes must comply with the Société Générale Group’s Code of Tax Conduct.

The price and value of investments and the income derived from them may go down as well as up. Changes in inflation, interest rates and exchange rates may adversely affect the value, price and income of investments denominated in a currency other than that of the client. Any simulations and examples contained in this document are provided for illustrative purposes only. This information is subject to change because of market fluctuations, and the information and opinions contained herein may change. Société Générale Private Banking does not undertake to update or amend this document and will not assume any liability in this regard.

This document is for information purposes only and investors should make their investment decisions without relying on this document. Société Générale Private Banking and its Entities shall not be liable for any direct or indirect loss arising from any use of this document or its contents. Société Générale Private Banking and its Entities do not make any warranty, express or implied, as to the accuracy or completeness of this information or as to the profitability or performance of any asset class, country, or market.

Past performance does not predict future returns. The value of an investment is not guaranteed, and the valuation of investments may fluctuate.

Forecasts of future performance are based on assumptions which may not materialized. The scenarios presented are an estimate of future

performance based on evidence from the past on how the value of this investment varies, and/or current market conditions and are not an exact indicator. What you will get will vary depending on how the market performs and how long you keep the investment/product. Future performance is subject to taxation which depends on the personal situation of each investor and which may change in the future.

For a more complete definition and description of the risks, please refer to the prospectus of the product or other legal information document as the case may be (as applicable) before making any final investment decisions.

This document is confidential, intended exclusively for the person to whom it is addressed, and may not be communicated or made known to third parties (except for external advisers and provided that they themselves respect confidentiality), nor reproduced in whole or in part, without the prior written agreement of Société Générale Private Banking and its Entities.

Conflicts of interest

The Societe Generale Group maintains an effective administrative organization that takes all necessary measures to identify, control and manage conflicts of interest. To this end, Societe Generale Private Banking and its Entities have put in place a conflict of interest policy to prevent conflicts of interest, including information Chinese walls.

This document contains the views of SGPB teams. Société Générale trading desks may trade, or have traded, as principal on the basis of the teams’ views and reports. In addition, SGPB teams receive compensation based, in part, on the quality and accuracy of their analysis, client feedback, revenues of their entity of the Société Générale group and competitive factors.

As a general matter, entities within the Société Générale group may make a market or act as a principal trader in securities referred to in this report and can provide banking services to the companies mentioned in that document, and to their subsidiary. Entities within the Société Générale group may from time-to-time deal in, profit from trading on, hold on a principal basis, or act as advisers or brokers or bankers in relation to securities, or derivatives thereof, or asset class(es) mentioned in this document.

IMPORTANT INFORMATION – PLEASE READ

Entities within the Société Générale group may be represented on the supervisory board or on the executive board of such persons, firms or entities.

Employees of the Société Générale group, or persons/entities connected to them, may from time to time have positions in or hold any of the investment products/ asset class(es) mentioned in this document.

Société Générale may acquire or liquidate from time-to-time positions in the securities and/or underlying assets (including derivatives thereof) referred to herein, if any, or in any other asset, and therefore any return to prospective investor(s) may directly or indirectly be affected.

Entities within the Société Générale group are under no obligation to disclose or consider this document when advising or dealing with or on behalf of customers.

In addition, Société Générale may issue other reports that are inconsistent with and reach different conclusions from the information presented in this report and is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report.

Société Générale group maintains and operates effective organisational and administrative arrangements taking all reasonable steps to identify, monitor and manage conflicts of interest. Société Générale Private Banking has put in place a management of conflicts of interest policy designed to prevent conflicts of interest giving rise to a material risk of damage to the interests of its clients. For further information, please refer to the management of conflicts of interest's policy, which was provided.

Specific information per jurisdiction

FRANCE : Unless expressly stated otherwise, this document is published and distributed by Société Générale, a credit institution providing investment services authorised by and under the prudential supervision of the European Central Bank ("ECB") (located at ECB Tower, Sonnemannstraße 20, 60314 Frankfurt am Main, Germany) within the Single Supervisory Mechanism and supervised by the Autorité de Contrôle Prudentiel et de Résolution (located at 4, Place de Budapest, CS 92459, 75436 Paris Cedex 09) and the Autorité des Marchés Financiers ("AMF") (located at 17 Pl. de la Bourse, 75002 Paris).

Société Générale is also registered with the ORIAS as an insurance intermediary under the number 07 022 493 orias.fr.

Société Générale is a French public limited company with a capital of EUR 1.000.395.971,25 as of September 23, 2024, whose registered office is located at 29 boulevard Haussmann, 75009 Paris, and whose unique identification number is 552 120 222 R.C.S. Paris. Further details are available on request or at www.privatebanking.societegenerale.com.

LUXEMBOURG : This document is distributed in Luxembourg by Societe Generale Luxembourg, a credit institution which is authorized and regulated by the Commission de Surveillance du Secteur Financier ("CSSF") under the prudential supervision of the European Central Bank- ECB, and whose head office is located at 11, avenue Emile Reuter – L 2420 Luxembourg. Further details are available on request or can be found at <https://www.societegenerale.lu/>. No investment decision whatsoever may result from solely reading this document. Societe Generale Luxembourg accepts no responsibility for the accuracy or otherwise of information contained in this document. Societe Generale Luxembourg accepts no liability or otherwise in respect of actions taken by recipients on the basis of this document only and Societe Generale Luxembourg does not hold itself out as providing any advice, particularly in relation to investment services. The opinions, views and forecasts expressed in this document (including any attachments thereto) reflect the personal views of the author(s) and do not reflect the views of any other person or Societe Generale Luxembourg unless otherwise mentioned. Societe Generale Luxembourg has neither verified nor independently analyzed the information contained in this document. The Commission de Surveillance du Secteur Financier has neither verified nor independently analysed the information contained in this document

MONACO : The present document is distributed in Monaco by Societe Generale Private Banking (Monaco) S.A.M., located 11 avenue de Grande Bretagne, 98000 Monaco, Principality of Monaco, governed by the 'Autorité de Contrôle Prudentiel et de Résolution' and the 'Commission de Contrôle des Activités Financières'. The financial products marketed in Monaco can be reserved for qualified investors

in accordance with the Law No. 1339 of 07/09/2007 and Sovereign Ordinance No 1.285 of 10/09/2007. Further details are available upon request or on www.privatebanking.societegenerale.com.

© Copyright Societe Generale Group 2025. All rights reserved. Any unauthorised use, duplication, redistribution or disclosure in whole or in part is prohibited without the prior consent of Societe Generale. The key symbols, Societe Generale, Societe Generale Private Banking are registered trademarks of Societe Generale. All rights reserved.

