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To the point!

Cross-Asset- and Strategy-Research

Postcard from Naples

Italy has become a haven of political stability. No joke!

Some of you may have been waiting for my postcard from the summer vacation. Here it is! A week sailing on the Mediterranean, followed by a few days in Naples. The trip included the magnificent Teatro San Carlo (see photo), the world's oldest continuously operating opera house. Milan's La Scala pales by comparison – not least in the enthusiasm of its audience.

Italy has changed – for the better

So, Italy. I remember a time when prime ministers changed so often that learning their names scarcely seemed worthwhile. Between 1968 and 2022, Italy had no fewer than 32 heads of government. Only a handful stayed at the helm for more than two years: Craxi, Andreotti, Prodi, Berlusconi, Renzi and Conte. Technocratic prime ministers, such as Mario Draghi, previously the president of the European Central Bank, often took office; many others were brought down by party intrigue.

That has changed. Giorgia Meloni, Italy's first woman prime minister and leader of the right-wing nationalist Fratelli d'Italia party, will have been in office for four years in October. No government since Mussolini's has remained in power uninterrupted for longer. [France](#) and [Britain](#) now change prime ministers with the frequency once familiar in *il Bel Paese*. And the revolving door of Italian prime ministers is not the only thing to have slowed down, at least for now. Italian economic policy, too, has become comparatively predictable (see fig. 1). Germany could take a leaf out of Italy's book, as could Paris and London. That does not, of course, mean Italian politics is successful. After all, Italy's GDP per capita has dropped from around 120% of the EU average at the turn of the century to just over 90% now. Even so, policies are less defined by uncertainty than Germany's.

Moritz Kraemer -- Chief Economist

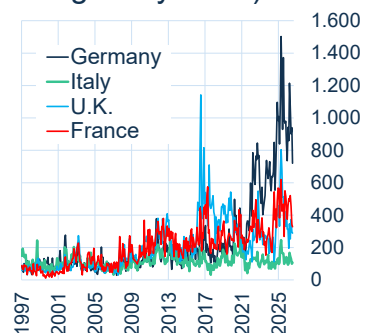
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Teatro San Carlo, Naples
Source: Author

Fig. 1: Economic Policy Uncertainty Index (through July 2026)



Source: [Economic Policy Uncertainty](#), LBBW Research

Tax evasion: a national sport?

Naturally, Naples conjures images of organized crime. The Camorra, Campania’s mafia syndicate, is well known in the rest of the world, too. [Recorded crime](#) is indeed higher than, say, in Berlin, though it has recently risen faster there. As a tourist, however, I saw none of it. Had I been running a pizzeria, I might have had a rather different experience – and attracted some unwelcome visitors trying to extract some protection money.

Many of you will also assume that tax evasion remains a national sport in Italy. But beware. Tax evasion is, by definition, difficult to measure. Still, various studies compare its different facets internationally. Fig. 2 shows how misleading such assumptions can be. Germans have, in fact, shifted more money into tax havens than Italians.

Public finances steadier than usual

And now, brace yourselves: for this year and 2027, the European Commission expects Germany’s budget deficit, as a share of GDP, to be larger than Italy’s – the perennial fiscal sinner (see fig. 4). Whether that comes to pass remains to be seen. Even if Germany’s deficit does prove higher, Italy’s success is not solely the product of its own reforming zeal.

The country benefits more than any other EU member state from the blessings of the NextGenerationEU program – jointly issued debt intended to repair the economic damage inflicted by the COVID-19 pandemic. [Roughly one-third](#) takes the form of grants from Brussels, which recipient states may book directly as revenue. That flatters Italy’s fiscal figures and makes them look better than they otherwise would. *Bella figura!*

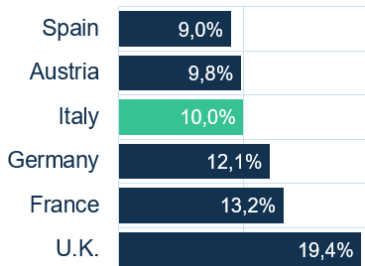
Nor must we discard every cherished stereotype. Italy remains a leader in undeclared work. The shadow economy is estimated to account for over 20% of GDP, well ahead of European peers bar Greece (see fig. 3).

The old narrative no longer holds

Lest this create the wrong impression: Italy is by no means a model of fiscal virtue. Public debt between the Brenner Pass and Sicily remains enormous, productivity weak and demographic trends even less encouraging than in Germany. Yet the familiar tale of a chronically chaotic *Bel Paese* is becoming ever less convincing. Italy has gained political stability, has its public finances – at least for the time being – better under control, and has eased some of its notorious weaknesses.

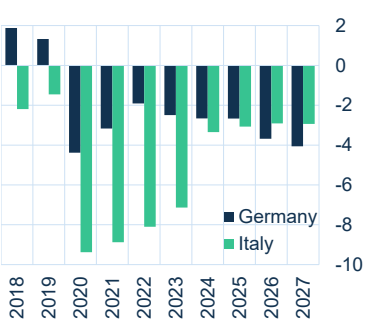
Germany, by contrast, is heading in the wrong direction. It cannot rely on its southern neighbor kindly playing the role of economic-policy problem child forever. Perhaps that is the real postcard from Naples: prejudices travel light. Alas, reality is often more nuanced – but sometimes rather more pleasing, too.

Fig. 2: Offshore Wealth by country of origin (% of GDP)



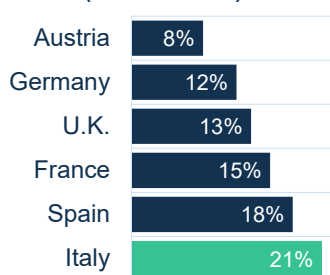
Source: [EU Tax Observatory](#), LBBW Research.
Average of four studies

Fig. 3: General government deficit (% of GDP)



Source: European Commission AMECO Database, LBBW Research

Fig. 4: Shadow economy 2026 (% of GDP)



Source: IAW (Institute for Applied Economic Research, Tübingen), LBBW Research

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