BANCA D'ITALIA
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# Economic Bulletin

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Number 1 / 2025
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## SYMBOLS AND CONVENTIONS

Unless otherwise specified, Banca d'Italia calculations; for Banca d'Italia data, the source is omitted.

In the tables:

– the phenomenon does not exist;

.... the phenomenon exists but its value is not known;

.. the value is nil or less than half of the final digit shown;

:: not statistically significant;

() provisional.

In the figures with different right- and left-hand scales, the right-hand scale is identified in the notes.

For the abbreviations of the names of countries used in this publication please refer to the EU's Interinstitutional Style Guide (https://publications.europa.eu/code/en/en-5000600.htm).

# OVERVIEW

**Global growth continues, albeit with differences across regions**

*Economic activity remains robust in the US but is losing momentum in the other advanced economies. The real estate market crisis in China is still weighing on domestic demand. According to our estimates, world trade will expand by just over 3 per cent in 2025, in line with the expected performance of global GDP. However, heightened geopolitical tensions and the announced tightening of US trade policy could have a negative impact on the outlook for international trade. Oil prices rose just barely; natural gas prices remain volatile and subject to upward pressures due to both supply and demand factors.*

**Monetary policy in the US continues to ease, though more gradually**

*Inflation picked up slightly in the United States, in line with expectations; it inched down in the United Kingdom, while it rose more than anticipated in Japan. In its December meeting, the Federal Reserve cut its benchmark rates again by 25 basis points, to 4.25-4.50 per cent. The members of the Federal Open Market Committee indicated a more gradual normalization of monetary policy than in previous meetings, given the slower decline in inflation and the low unemployment rate. This contributed to the strong appreciation of the US dollar against the other major currencies, including the euro. The Bank of England and the Bank of Japan kept their rates unchanged in December. The Chinese authorities announced a package of measures to support domestic consumption, complementing the People's Bank of China's commitment to maintain an expansionary monetary policy stance.*

**Euro-area GDP slows, inflation hovers around 2 per cent**

*Based on the available information, economic growth in the euro area weakened in the fourth quarter of 2024, penalized by lacklustre consumption and investment and by declining exports. The trend in manufacturing remains disappointing, especially in Germany; the boost from services appears to have waned too. Inflation is still moderate, at around 2 per cent, with the core component being broadly stable, but it is still relatively high in services, partly reflecting delayed adjustments to past inflation. The Eurosystem staff projections for euro-area growth were revised downwards in December, to over 1 per cent per year on average for the three years 2025-27; inflation is set to stabilize around the European Central Bank's 2 per cent target.*

**The ECB cuts its key interest rates further**

*The Governing Council of the ECB cut its reference rates by a further 25 basis points in December. Markets expect an additional reduction of around 75 basis points over the course of 2025. Despite the gradual easing of monetary policy, credit growth in the euro area remains subdued, in an environment of high uncertainty and weak demand.*

**Growth is struggling to regain momentum in Italy**

*Economic activity in Italy remained weak in the fourth quarter of 2024, partly affected, as in the rest of the euro area, by the persistent sluggishness in manufacturing and the slowdown in services. In construction, the support provided by the works under the National Recovery and Resilience Plan was in contrast with the contraction in activity in the housing sector. Domestic demand was likely held back by the slowdown in household spending and by still unfavourable investment conditions. According to our projections, drawn up as part of the Eurosystem coordinated exercise, growth will gain momentum throughout the year, averaging around 1 per cent in the three years 2025-27.*

**The current account surplus decreases**

*Exports of Italian goods were likely held back by a sharp contraction in global demand in the autumn. The protectionist policies announced by the new US administration could have an impact* *on the foreign sales of Italian firms exporting to the US market, especially small and medium-sized enterprises. The current account balance narrowed in the third quarter, though it remained positive. Italy's positive net international investment position strengthened further. Foreign investors' purchases of Italian government securities remain high, and the yield spread between ten-year Italian and German government bonds has narrowed.*

**Employment continues to grow, though with signs of the labour market weakening**

*Although headcount employment continues to increase, the number of hours per worker is falling and recourse to wage supplementation remains high, especially in manufacturing. The gradual decline in the labour force participation rate continued in the autumn months, especially among the younger population groups, contributing to reduce the unemployment rate to an exceptionally low level. Growth in contractual wages in the private sector remains robust, helping the gradual recovery in households' purchasing power.*

**Inflation remains under 2 per cent**

*In late 2024, the drop in energy prices continued to play a role in keeping consumer price inflation well below 2 per cent. Core inflation remains moderate, but relatively higher in the services component. Firms expect modest increases in their prices in 2025. According to our forecasts, consumer price inflation will rise to 1.5 per cent in 2025-26 (from 1.1 per cent in 2024) and will reach 2.0 per cent in 2027, driven by the temporary effects of the entry into force of the new EU emission trading system covering greenhouse gases and pollutants.*

**Monetary easing is passing through to the cost of lending**

*The cuts in the key ECB interest rates are being passed through to the cost of bank funding and the cost of credit, in line with historical regularities. At a time of weak investment, firms' demand for loans remains modest. Household mortgage loans continue to recover gradually.*

**Parliament approves the Budget Law for 2025-27**

*The European Commission has given a positive assessment of the fiscal adjustment programme outlined in Italy's medium-term structural fiscal plan for the years 2025-31.*

*According to the Government's assessments, the Budget Law approved in December 2024 will raise the ratio of net borrowing to GDP by 0.4 percentage points in 2025, 0.6 points in 2026 and 1.1 points in 2027. About half of the financial resources allocated to expansionary measures will be used to turn the measures for adjusting the personal income tax (IRPEF) and lowering the tax wedge into structural ones.*

# 1 THE WORLD ECONOMY

## 1.1 THE GLOBAL CYCLE

*In late 2024, global economic activity continued to expand, albeit with differing trends across regions. Consumption continued to support growth in the United States; in the other advanced economies, the persistent weakness of manufacturing was accompanied by signs of a slowdown in services. In China, domestic demand continued to be affected by the property market crisis. International tensions and uncertainty over the economic policies to be undertaken by the incoming US administration are weighing on the outlook for the global economy. Oil prices have risen slightly since last autumn, and so have natural gas prices, after fluctuating considerably.*

**Growth continues in the US**

In the third quarter of 2024, economic activity in the United States, although slowing slightly, continued to expand, still driven by household consumption (Table 1). Following its October decline, which was attributable to temporary factors,[1] employment rose both in November and, to a far greater extent than expected, also in December. OECD figures indicate 2.8 per cent growth in US GDP in 2024 as a whole, which is by far the highest rate among advanced economies. GDP slowed in the UK and Japan, respectively affected by weaker domestic and foreign demand. In China, while accelerating in the fourth quarter, economic activity still reflected the slump in consumption and the persistent crisis in the real estate sector.

Table 1

**GDP growth and macroeconomic projections**
*(percentage changes, unless otherwise specified)*

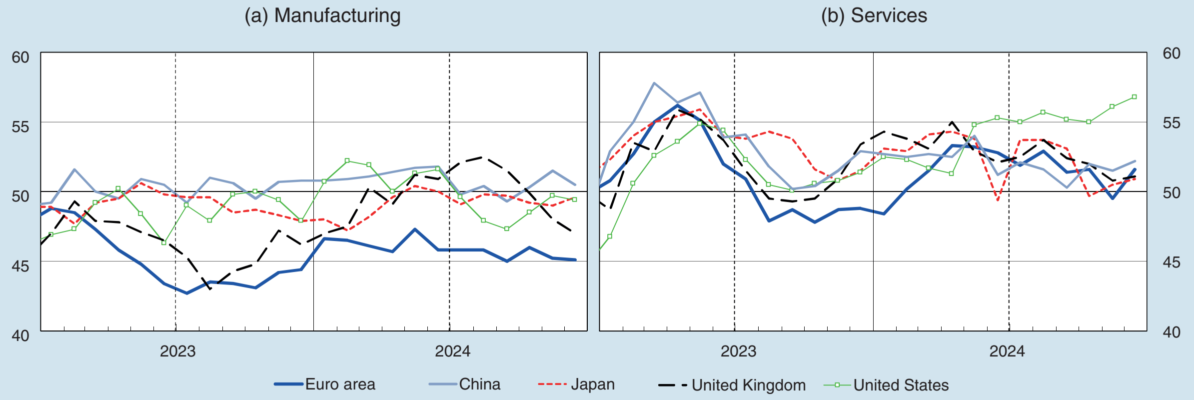
| | Growth | | | OECD forecasts | | Revisions (2) | |
|---|---|---|---|---|---|---|---|
| | 2023 | 2024 Q2 (1) | 2024 Q3 (1) | 2024 | 2025 | 2024 | 2025 |
| **World** | **3,2** | **–** | **–** | **3,2** | **3,3** | **0,1** | **0,1** |
| Japan | 1,7 | 2,2 | 0,9 | 0,3 | 1,5 | -0,2 | 0,1 |
| United Kingdom | 0,3 | 1,8 | 0,6 | 0,9 | 1,7 | -0,2 | 0,5 |
| United States | 2,9 | 3,0 | 2,8 | 2,8 | 2,4 | 0,2 | 0,8 |
| Brazil | 3,2 | 3,3 | 4,0 | 3,2 | 2,3 | 0,3 | -0,3 |
| China | 5,2 | 4,7 | 4,6 | 4,9 | 4,7 | 0,0 | 0,2 |
| India (3) | 7,8 | 6,7 | 5,4 | 6,8 | 6,9 | 0,1 | 0,1 |
| Russia | 3,7 | 4,1 | 3,1 | 3,9 | 1,1 | 0,2 | 0,0 |
| Euro area | 0,5 | 0,2 | 0,4 | 0,8 | 1,3 | 0,1 | 0,0 |

Sources: National statistics for data on growth; OECD, *OECD World Economic Outlook*, December 2024 for world GDP and for the forecasts.
(1) Quarterly data. For Japan, the United Kingdom and the United States, annualized and seasonally adjusted percentage changes on the previous quarter; for the other countries, year-on-year percentage changes. – (2) Percentage points; revisions compared with OECD, *OECD Economic Outlook, Interim Report,* September 2024. – (3) The actual data and the forecasts refer to the fiscal year starting in April.

[1] In October, the drop in employment was far more significant than expected owing to temporary factors in the form of strikes and particularly severe weather events.

Figure 1

**PMIs in the main economies** (1)
*(monthly data; diffusion indices)*




Sources: Markit and Standard & Poor's.
(1) Diffusion indices for economic activity in the manufacturing and service sectors. Each index is obtained by adding half of the percentage of responses of 'stable' to the percentage of responses of 'increasing'. Values greater than 50 are compatible with expansion in the sector.

**Global activity remains weak in manufacturing**

In the fourth quarter, the purchasing managers' indices (PMIs) for manufacturing firms continued to show signs of weakness, especially in the euro area, while they picked up slightly in China, where retail sales and exports grew more than expected (Figure 1.a). The indicators for services improved in the United States – in part benefiting from the election outcome that ended the previous phase of political uncertainty – and in China. They deteriorated, instead, in the other main advanced economies, although they remain above the expansion threshold (Figure 1.b). According to the projections released by the OECD in December, global GDP is set to grow by 3.3 per cent in 2025, in line with 2024. Weighing on these forecasts, however, are the risks stemming from heightened international tensions.

**World trade continues to grow, but the outlook worsens**

World trade slowed over the summer, though less than expected, thanks to the sustained expansion in US imports. Global PMIs for new export orders suggest a further weakening in the fourth quarter. The US administration's intention to introduce tariffs will have a negative impact on global trade developments (see the box 'The uncertainty about trade policies and the exposure of Italian firms to the US market', Chapter 2); however, world trade could accelerate in the short term if importers decided to bring forward their orders ahead of the implementation of these announced measures. Net of these factors and based on our estimates, global trade growth in goods and services will increase by 3.2 per cent this year (from 2.8 per cent in 2024), in line with GDP growth. However, these global trade developments will be heavily dependent on US trade policy and on how other countries might react.

**Oil prices rise slightly ...**

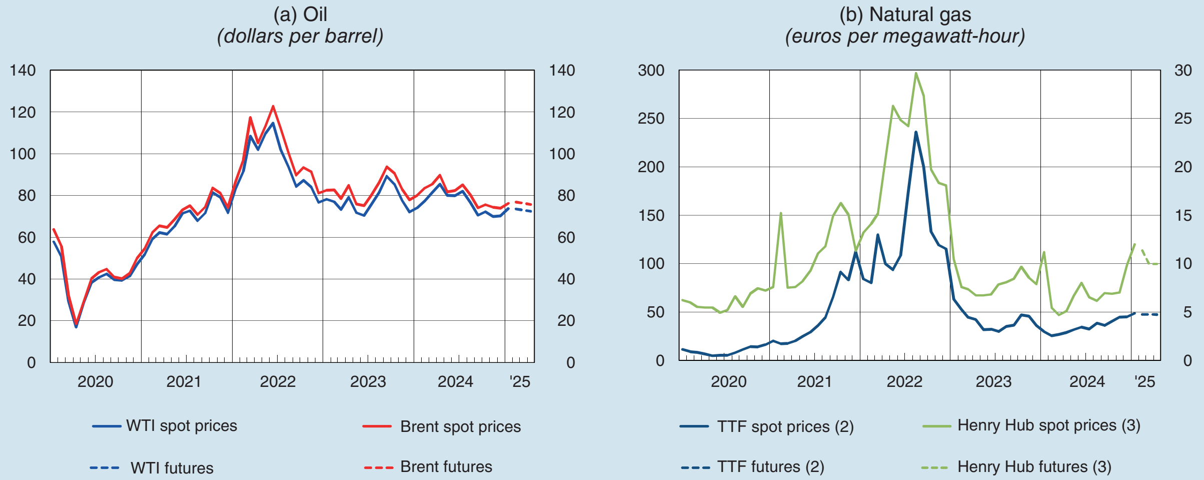
Since the start of October, the price of Brent crude oil has increased slightly by approximately 3 per cent to around $80 per barrel (Figure 2.a). Following a drop in the autumn, it rose again in the first half of January, driven by robust US macroeconomic data and the introduction of new US sanctions against the Russian oil sector. The outcome of the US elections fuelled expectations of expanding oil production, dampening the impact on prices of the decision by OPEC+ members to extend their supply cuts and postpone the next increases to the early months of 2025.

**... as do natural gas prices**

Following a spell of high volatility, the Title Transfer Facility (TTF) price of natural gas has risen to €47 per megawatt-hour since October (Figure

Figure 2

**Commodity prices** (1)
*(monthly data)*




Source: LSEG.
(1) For spot prices, monthly averages up to December 2024. The data for January 2025 refer to the average of the daily data from 1 to 10 January 2025. For futures, the data refer to the prices on 10 January 2025. – (2) Price of natural gas traded on the Dutch TTF market. – (3) Price of natural gas distributed via the Henry Hub in Louisiana (USA). Right-hand scale.

2.b). Alongside several demand-related factors, such as the start of the cold season and lower electricity production by wind plants, the increase since the end of December has mainly reflected the interruption of Russian gas supplies to Eastern Europe through Ukraine, which provided around 5 per cent of Europe's annual demand for gas.[2] The interruption was the outcome of the transit agreement between the two countries not being renewed. The moderate increase in supply risks was reflected in the prices of one-year futures contracts, which rose to €43 per megawatt-hour. Furthermore, European stockpiles dropped to 66 per cent of total capacity in the first half of January, about 15 percentage points below the levels observed in the same period last year.

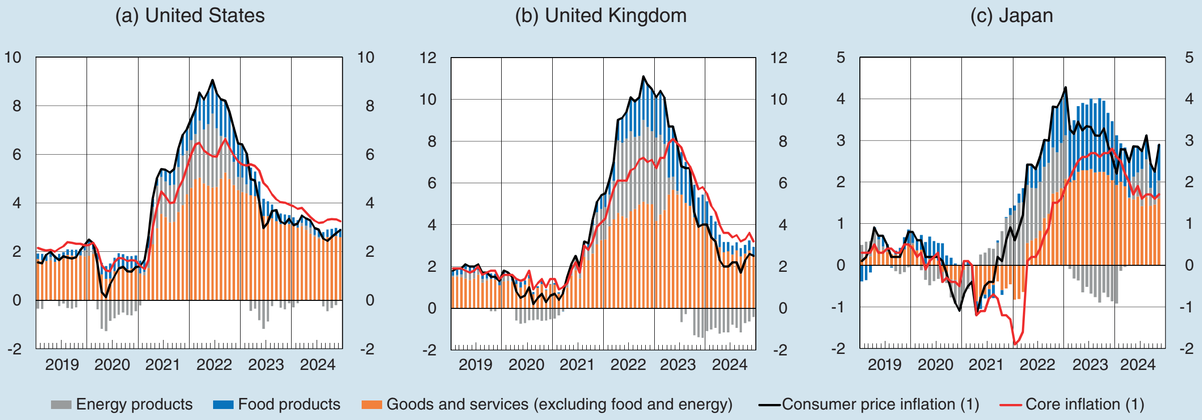
**Disinflation continues in the US**

In the United States, twelve-month consumer price inflation rose slightly in December to 2.9 per cent (from 2.7 per cent in November), which was in line with analysts' expectations. Core inflation decreased minimally, to 3.2 per cent (Figure 3.a). In the United Kingdom, inflation was slightly lower than forecast, at 2.5 per cent (Figure 3.b), whereas Japan saw a greater-than-expected increase in November, to 2.9 per cent (Figure 3.c). In its December meeting, the Federal Reserve decided to cut its benchmark rate again, by 25 basis points, to 4.25-4.5 per cent. Federal Open Market Committee members anticipate further cuts by 50 basis points by December 2025 – a smaller reduction than anticipated in September – in light of slower disinflation expectations.[3] Following the 25 basis point cut decided at its previous meeting, the Bank of England left rates unchanged at 4.75 per cent in December, confirming its cautious and gradual approach to monetary easing. Again in December, the Bank of Japan left rates unchanged at 0.25 per cent, in spite of widespread expectations of a rise. The People's Bank of China confirmed an expansionary monetary policy stance aimed at

2 Following Russia's invasion of Ukraine in February 2022, Russian gas supplies to Europe went down to 15 per cent of European consumption in 2023, from about 30 per cent before the outbreak of the war.
3 Federal Reserve and Federal Open Market Committee, 'Summary of Economic Projections', 18 December 2024.

Figure 3

**Consumer price inflation, contributions of its components, and core inflation in the main advanced economies**
*(monthly data; percentage changes and points)*




Source: Based on national statistics.
(1) 12-month percentage changes; core inflation excludes food and energy products.

supporting economic growth in a context of persistently weak domestic demand. On the fiscal front, following the package of measures announced in November to manage the financial risks faced by local governments,[4] a new package for 2025 was announced in mid-December, with a focus on supporting domestic consumption. Details of the latter package have not been released yet, however.

## 1.2 THE EURO AREA

*Euro-area GDP, which was boosted by temporary factors in the summer, appears to have slowed in the autumn months: economic activity was still weak in industry and lost momentum in services as well. On the demand side, the contribution of consumption and investment weakened. Inflation remained at around 2 per cent, despite the services component still being high, which was supported by items whose prices take longer to adjust. In December, the Governing Council of the European Central Bank cut its deposit facility rate again by 25 basis points, bringing it to 3 per cent. The previous reductions are being passed through to the cost of lending.*

**Over the summer months, euro-area GDP increases more than expected, boosted by temporary factors ...**

In the third quarter of 2024, euro-area GDP accelerated to 0.4 per cent, from 0.2 per cent in the previous quarter (Table 2). The higher growth was partly due to the strong expansion in Ireland (with a contribution of 0.1 percentage points), owing to a marked, albeit temporary, increase in investment in intellectual property. Among the leading countries, GDP essentially stagnated in Germany and Italy, while it rose at high rates in Spain; economic activity in France benefited from the greater demand connected with the Olympic Games.

4 The fiscal stimulus package, amounting to around 8 per cent of Chinese GDP over the next five years, fell short of expectations, as it lacked measures to stimulate the real estate market or household consumption directly.

In the euro area as a whole, the negative contribution of net foreign demand was more than offset by that of consumption and investment. However, excluding the contribution of Ireland,[5] the latter declined.

On the supply side, value added went up in services and construction, but declined in industry, net of the exceptional figure for Ireland.

**... and weakens again in the fourth quarter**

The available indicators suggest only a modest increase in euro-area GDP in the fourth quarter, in line with the fading-out of the temporary factors that had sustained economic activity in the summer months. The industrial cycle remained very weak (see the box 'The recent weakness of manufacturing in Germany and its impact on the rest of the euro area'), as indicated by the further fall in production in October and November compared with its level in the summer, by the manufacturing PMI being well below the expansion threshold in December, and by the deterioration in business confidence last autumn. In recent months, the boost to growth provided by activity in services has also waned; it had benefited from the good performance of the tourist season in the third quarter.

Table 2

**Euro-area GDP growth and inflation**
*(percentage changes)*

| | GDP growth | | | Inflation |
|---|---|---|---|---|
| | 2023 | 2024 Q2 (1) | 2024 Q3 (1) | 2024 December (2) |
| France | 0,9 | 0,2 | 0,4 | 1,8 |
| Germany | -0,3 | -0,3 | 0,1 | 2,8 |
| Italy | 0,7 | 0,2 | 0,0 | 1,4 |
| Spain | 2,7 | 0,8 | 0,8 | 2,8 |
| Euro area | 0,4 | 0,2 | 0,4 | (2,4) |

Sources: Based on national statistics and on Eurostat data.
(1) Quarterly data adjusted for seasonal and calendar effects; percentage changes on the previous period. – (2) Monthly data; year-on-year percentage changes in the harmonized index of consumer prices (HICP).

## THE RECENT WEAKNESS OF MANUFACTURING IN GERMANY AND ITS IMPACT ON THE REST OF THE EURO AREA

Since the onset of the energy crisis in the autumn months of 2021, euro-area manufacturing output has fallen significantly, to below pre-pandemic levels in late 2024. German industry,[1] which accounts for more than one third of euro-area manufacturing, and for almost half of the capital goods sector, saw a considerably greater decline, with negative repercussions for the other countries as well. Three main factors have contributed to Germany's relatively less favourable performance.[2]

Firstly, the rise in energy costs in Europe hit production in Germany more severely than it did in the rest of the euro area. This is largely a reflection of the technology in use in Germany's chemical industry, which makes the sector especially reliant on natural gas.[3] Because of

1 In Germany, the share of value added attributable to manufacturing remained relatively stable from the mid-1990s to the time of the pandemic, at around 22 per cent; over the same period, it went down from 20 per cent to 16.5 per cent in the euro area as a whole.

2 For further details, see M. Flaccadoro, 'The recent weakness in the German manufacturing sector', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 902, 2024.

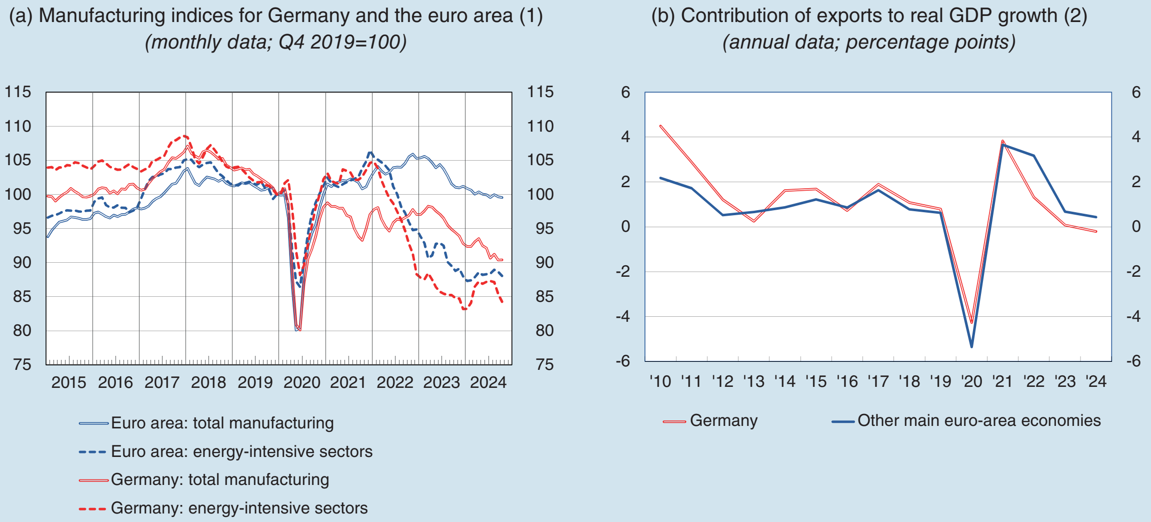
3 Energy intensity, which is measured as the ratio of natural gas consumption (in terajoules) to value added (in millions of euros), is higher in Germany than in Italy and France.

5 Irish investments increased by more than 200 per cent in the third quarter compared with the second, when they instead fell by more than 60 per cent; these exceptional changes in terms of intensity and volatility are linked to the activities of multinational firms with their European offices in Ireland and especially to their decisions on the localization of intellectual property products.

the chemical industry's strong sectoral interconnections, its weakness spread to the other energy-intensive industries,[4] leading to a sharper drop in production among German energy-intensive industries compared with the euro area as a whole (see panel (a) of the figure).

Figure

**Manufacturing production and the contribution of exports to GDP growth**




Source: Based on Eurostat data.
(1) Adjusted for seasonal and calendar effects; 3-term moving average for the period Jan. 2015-Nov. 2024. The production index for energy-intensive firms is calculated based on the following sectors (as per NACE 2-digit classification): C17, manufacture of paper and paper products; C20, manufacture of chemicals; C23, manufacture of other non-metallic mineral products; and C24, manufacture of base metals. – (2) Based on quarterly data, adjusted for seasonal and calendar effects. The 2024 figure is obtained by assuming that GDP and export values in the fourth quarter remain unchanged compared with the previous quarter. The contribution of the other main economies is based on data for France, Italy and Spain.

Secondly, weak global demand for goods, increasing trade fragmentation and greater competition from Chinese producers have penalized German manufacturing firms more heavily than those in the other main euro-area countries, on account of Germany's greater trade openness.[5] Compared with the decade before the pandemic, the contribution of German exports to GDP growth contracted, falling below that of the other major countries (see panel (b) of the figure).[6]

Finally, industry in the euro area was affected by the more recent weakness of the automotive sector, which was hit by both a generalized fall in demand, partly owing to regulatory uncertainties in the transition to the production of electric vehicles,[7] and by growing competition from

[4] Based on the measure of energy intensity, the following sectors (identified by NACE 2-digit classification codes) are classed as energy-intensive: C17, manufacture of paper and paper products; C20, chemicals; C23, other non-metallic mineral products; and C24, basic metals.

[5] In the first three quarters of 2024, goods exports accounted for 32 per cent of Germany's GDP, against 25 per cent for Italy, 22 per cent for Spain and 21 per cent for France.

[6] Between 2021 and 2023, the contribution of net exports to GDP growth also declined in Germany, turning negative on average (at about -0.1 percentage points per year), compared with a stable positive contribution in the other main countries (the average for Italy, France and Spain was 0.3 per cent).

[7] Some recent European regulations, such as tariffs on Chinese electric cars (which could trigger trade retaliations, with the effect of weakening European vehicle exports) and the possible reopening of the 2035 zero-emission target, have increased uncertainty, slowing down investment in the automotive sector, among other things.

Chinese car manufacturers. This sector accounts for 16 per cent of manufacturing in Germany, almost twice as much as in the euro area as a whole (where it is just under 9 per cent).

An econometric analysis of the interconnection between European manufacturing sectors shows that shocks emanating from German industry pass through to the rest of the euro area to a significant degree: in Italy in particular, they account for almost one third of the unsystematic output fluctuations in manufacturing over a six-month horizon.[8] This impact appears to have diminished after the pandemic, while still remaining high. Conversely, the effects of shocks originating in the industrial sectors of other European countries are more muted in Germany.

[8] The analysis uses a vector autoregressive (VAR) model based on monthly output data from nine major economies, which can measure, among other things, the spillovers to other countries from shocks to German production. For instance, German manufacturing spillovers to Italian manufacturing are estimated by the percentage of the forecast error variance for Italian production attributable to shocks originating in Germany.

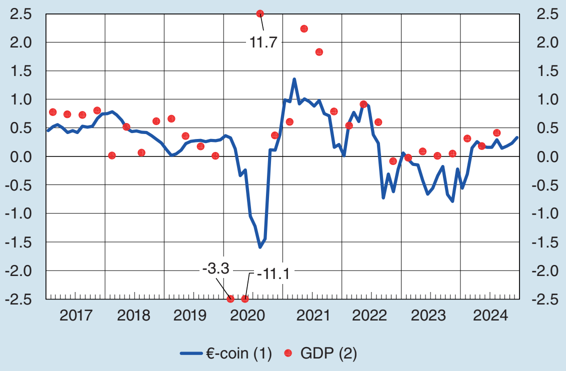
On the demand side, the information available points to a weakening in consumption. Household confidence declined, interrupting the recovery under way since autumn 2022; specifically, it was curbed by pessimism about the general economic situation and by expectations of a deterioration in the labour market. Investment continued to be affected by still restrictive financing conditions. The contribution of net foreign demand was positive, but only thanks to a sharper decline in imports than in exports (see Section 1.1), as suggested by the fall in the qualitative indicators relating to foreign orders.

Banca d'Italia's €-coin indicator also continues to point to low growth in economic activity in the autumn months (Figure 4).

Figure 4

**€-coin coincident cyclical indicator and euro-area GDP**

*(monthly and quarterly data; percentage changes)*




Sources: Banca d'Italia and Eurostat.
(1) Monthly estimates of changes in GDP on the previous quarter, net of the most erratic components. Latest data: December 2024. The methodology used to construct the indicator and the updated data are available on Banca d'Italia's website: '€-coin cyclical coincident indicator of the euro area economy'. – (2) Quarterly data adjusted for seasonal and calendar effects; percentage changes on previous period.

**The Eurosystem revises its forecasts for euro-area GDP growth downwards**

According to the Eurosystem staff projections released in December,[6] after growing by 0.7 per cent in 2024, euro-area GDP will grow by 1.1 per cent in 2025, by 1.4 per cent in 2026, and by 1.3 per cent in 2027. Compared with last September, the forecasts have been revised downwards by around half a percentage point overall for the three years 2024-26. The revision mainly reflects expectations of a more subdued recovery in household spending and in exports.

[6] For more information, see the ECB's website: 'Eurosystem staff macroeconomic projections for the euro area', December 2024.

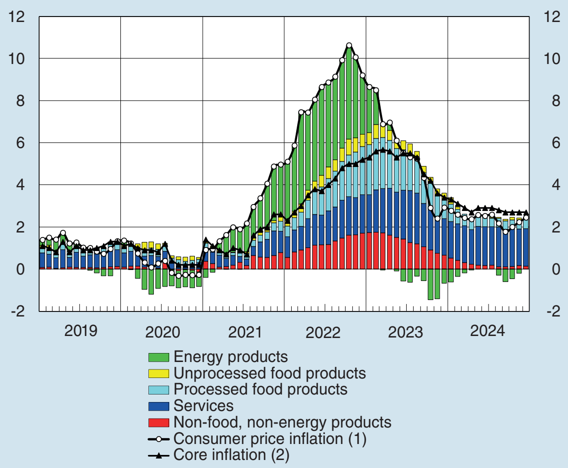
**Inflation stays at around 2 per cent**

According to preliminary estimates, consumer price inflation rose to 2.4 per cent year on year in December, from 2.2 per cent in November (Figure 5), because of the energy component performance going back to being slightly positive. Core inflation, measured net of food and energy products, remained stable at 2.7 per cent. Services inflation has remained high (4.0 per cent) since the end of 2023, buoyed by items whose prices are adjusted with a lag compared with the general index, such as housing rents, health services and insurance activities.

Figure 5

**Consumer price inflation, contributions of its components, and core inflation in the euro area**

*(monthly data; percentage changes and points)*




Sources: Based on ECB and Eurostat data; preliminary estimates for December 2024.
(1) 12-month percentage change in the HICP. – (2) 12-month percentage change in the HICP excluding energy and food products.

**Wage growth remains robust**

In the third quarter of 2024, actual wage growth in the euro area remained high, at 4.8 per cent. However, according to the latest available data, wage pressures will ease in 2025. Contractual wages (net of one-off payments) continued to accelerate in Germany (to 5.7 per cent in December), although the recent agreement in the metal and electricity sector, which affects around 4 million workers, shows indications of moderation for the next two years. Growth was instead stable and more modest in Spain (at 3.1 per cent in November) and in France (at 2.7 per cent in the third quarter). Average contractual increases remain particularly high in the Netherlands (reaching 6.6 per cent in December).

The year-on-year decline in producer prices of goods sold on the domestic market, that began in spring 2023, continued in November, thanks above all to the persistent and sharp fall in energy prices, while the prices of non-energy goods accelerated slightly.

**Inflation projections are revised slightly downwards**

According to the December Eurosystem staff projections, euro-area consumer price growth will stand at 2.1 per cent in 2025, at 1.9 per cent in 2026 and at 2.1 per cent in 2027. Compared with the September estimates, the projections have been revised downwards by 0.1 per cent for 2025, but remain unchanged for 2026. The revision mainly reflects a stronger decline in the energy component, which more than offset the expectations of a greater increase in the food component.

**Firms continue to expect moderate price increases**

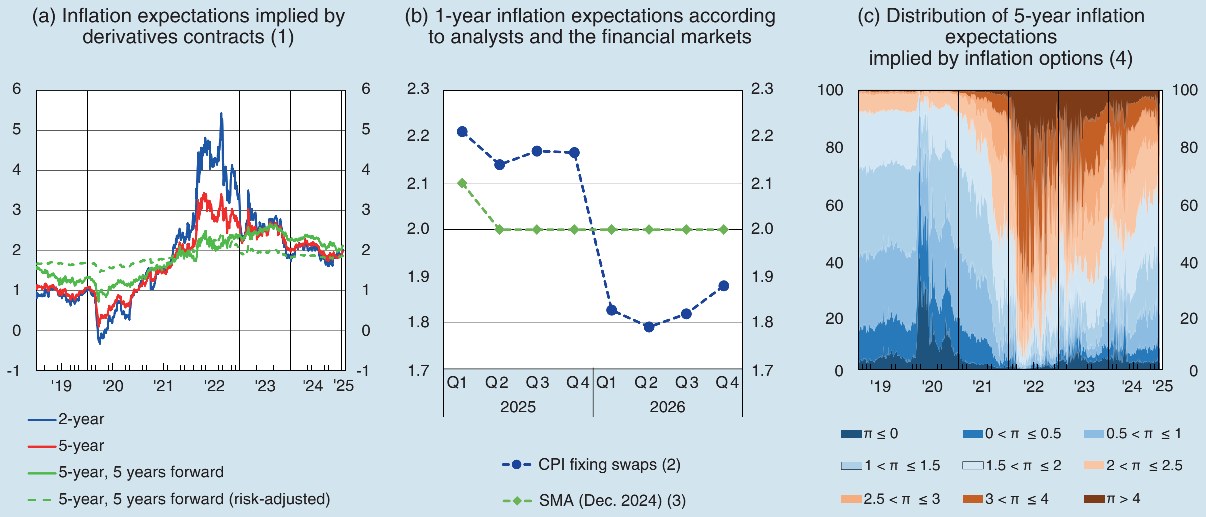
Based on the European Commission surveys, firms' expectations for increases in their prices over the next three months rose slightly in the autumn in both industry and services, remaining low in the former and higher in the latter. In November, according to the ECB Consumer Expectations Survey, households' expectations for consumer price growth stood at a median value of 2.6 per cent over the twelve-month horizon and at 2.4 per cent over the three-year horizon.

**Inflation expectations are in line with the target**

Between early October and mid-January, inflation expectations, as implied by the yields on inflation-linked swap (ILS) contracts, rose over the two- and five-year horizons (to 2.0 per cent), but remained stationary over the five-year, five years forward horizon (at 2.1 per cent). As regards the latter horizon, the yields

**Figure 6**

**Inflation expectations in the euro area**
*(daily data; per cent)*




Sources: ECB and based on Bloomberg data.
(1) Expected inflation rates implied by 2-year, 5-year, and 5-year, 5 years forward ILS contracts. For details on the model used to calculate the series over the 5-year, 5 years forward horizon, net of the inflation risk premium, see S. Cecchetti, A. Grasso and M. Pericoli, 'An analysis of objective inflation expectations and inflation risk premia', Banca d'Italia, Temi di Discussione (Working Papers), 1380, 2022. – (2) 1-year expected inflation rates implied by CPI fixing swaps at various maturities. – (3) Median of the expectations of the respondents polled as part of the Survey of Monetary Analysts (SMA) conducted by the ECB from 25 to 28 November 2024. – (4) The distribution of expected inflation (π) is estimated based on the prices of zero-coupon inflation options in the euro area over a 5-year horizon. The underlying inflation rate is calculated based on the euro-area HICP excluding tobacco.

net of the estimated inflation risk premium stand at around 1.9 per cent, essentially in line with the price stability target (Figure 6.a). On the closest horizon too, market expectations, based on CPI fixing swaps,[7] point to inflation stabilizing at around 2 per cent in 2025 and to a reduction over 2026. According to the market participants interviewed at the end of November as part of the ECB's Survey of Monetary Analysts (SMA), inflation is expected to be close to 2 per cent from the first quarter of 2025 (Figure 6.b). Finally, the distribution of inflation expectations based on options prices indicates a 39 per cent probability of inflation being below 1.5 per cent on average over the next five years (the probability of inflation exceeding 2.5 per cent is 24 per cent; Figure 6.c).

**The ECB lowers its key interest rates again**

Following the cut in October, the ECB Governing Council lowered its deposit facility rate again by 25 basis points in its December meeting, bringing it to 3 per cent (Figure 7). The decision was based on an updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission.

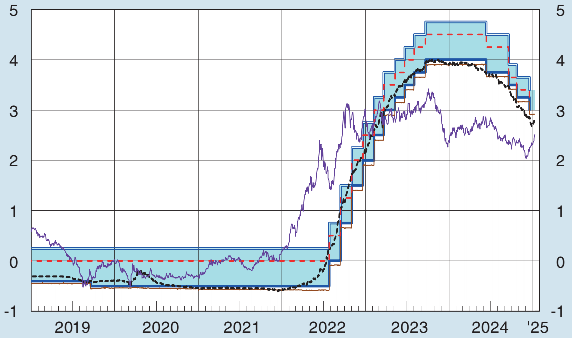
Expectations of lower key interest rates implied by €STR swaps have eased since early October: the markets anticipate an overall reduction of around 75 basis points in 2025. The market participants interviewed by the ECB for the SMA expect a more marked reduction, with a fall of around 100 basis points over the year.

[7] CPI fixing swaps are swap contracts linked to the publication of monthly data on annual euro-area inflation, as measured by the HICP index excluding tobacco. The interest rates implied by CPI fixing swaps indicate the annual inflation expected by financial markets over the next 24 months. Inflation expectations based on CPI fixing swaps are updated more frequently than those of analysts, and may be affected by sudden reactions to news about macroeconomic developments in the euro area and in the other major economies.

Figure 7

**Key interest rates and money market rates in the euro area**

*(daily data; per cent)*

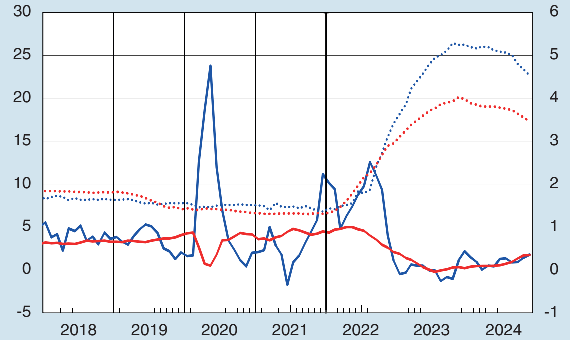



Sources: ECB and LSEG.
(1) As of 1 October 2019, the €STR is the overnight benchmark rate for the euro-area money market. For the period prior to 1 October, the figure shows the pre-€STR rate.

Figure 8

**Lending and interest rates in the euro area** (1)

*(monthly data)*




Source: ECB.
(1) The vertical line corresponding to December 2021 indicates the start of the ECB's monetary policy normalization process. – (2) Annualized 3-month percentage changes. Loans include bad debts, repos and loans not reported in banks' balance sheets because they have been securitized. The percentage changes are net of reclassifications, exchange rate variations, value adjustments, and other variations not due to transactions. Seasonally adjusted data. – (3) Per cent. Average of interest rates on new short-, medium-, and long-term loans weighted using the 24-month moving average of new loan disbursements; for non-financial corporations, includes overdrafts. Right-hand scale.

**The cut in interest rates is passing through to the cost of lending**

In the autumn months, the interest rates on new loans to non-financial corporations and on new loans to households for house purchase fell from 5.0 and 3.7 per cent to 4.5 and 3.5 per cent respectively (Figure 8). The fall is in line with that in the risk-free benchmark rates[8] and with the reduction in the cost of bank funding.

Growth in lending to non-financial corporations in the euro area remains weak overall; in November, it strengthened just barely, standing at 1.8 per cent on a three-month basis and at 1.0 per cent on an annualized basis (Figure 8). Among the leading countries, growth in lending to firms was stronger in France and remained negative, or in any case limited in Germany, Spain and Italy (see Section 2.7). These trends continue to reflect low demand for credit, although it is recovering slightly, and credit standards that are still restrictive.[9] Lending to euro-area households accelerated on a three-month and on an annualized basis (1.7 and 0.9 per cent respectively), reflecting a marked increase in demand for loans for house purchase, helped by the reduction in the cost of credit.

[8] The three-month Euribor rate is generally considered as the benchmark for variable-rate loans, which accounted for 81 per cent of new loans to firms and 15 per cent of loans to households for house purchase in November; the three-month Euribor declined by 38 basis points between August and November. The 10-year interest rate swap (IRS) is the benchmark rate for fixed-rate loans, and has gone down by 18 basis points in the same period.

[9] For more details, see ECB, 'October 2024 euro area bank lending survey', press release, 15 October 2024.

**The European Commission releases its assessments of the public finance programmes of euro-area countries**

As part of the new European economic governance, the European Commission has reviewed individual countries' medium-term fiscal-structural plans,[10] after checking their consistency with the baseline trajectories sent in June. All the plans submitted were given a positive assessment with the exception of that of the Netherlands (for which the Council is advised to adopt the baseline trajectory sent to the country at the beginning of the summer instead of that proposed in the country's plan), and that of Hungary (which is still under review).[11] The Commission also reviewed euro-area countries' national draft budgetary plans (DBPs) for 2025, assessing their alignment with the country-specific recommendations previously sent to them, as well as their consistency with the objectives indicated in their fiscal-structural plans. Following the assessment, only eight countries, including Italy, were in line with the Council's recommendations (see paragraph 2.9);[12] the others – with the exception of Austria, Belgium and Spain, which have not yet submitted their DBPs – will be subject to further supervision.[13]

The Commission has estimated that the euro-area fiscal stance for 2025 will be slightly restrictive overall, and believes this stance to be appropriate. Fiscal consolidation is not expected to take place at the expense of public investment, which is expected to continue growing in 2025 in almost all EU Member States.

**Work on implementing national recovery and resilience plans continues**

Since 10 October, some €39 billion have been disbursed in funding connected with the national recovery and resilience plans of individual Member States (of which €8.7 billion to Italy), bringing the total amount of funds distributed to €306 billion.

## 1.3 INTERNATIONAL FINANCIAL MARKETS

*Towards the end of 2024, long-term government bond yields increased in the United States, mainly driven by more favourable than expected macroeconomic data and by expectations that the Federal Reserve will make fewer rate cuts. The latter factor also influenced yields to a lesser extent in the euro area and in the United Kingdom. Share prices rose in the United States, especially after the election, while they fell in China and remained essentially stable in the euro area. Most currencies weakened against the dollar.*

**Government bond yields and share prices go up in the United States**

Yields on ten-year government bonds have gone up in all the main economies since mid-October. The increase was particularly marked in the United States, mainly driven by solid economic growth and by expectations of a more gradual reduction in policy rates (see Section 1.1; Figure 9.a). In the United Kingdom too, the rise in yields reflects the slowdown in the disinflation process, the weak growth and, in part, expectations of greater indebtedness in order to fund increases in spending on public services and infrastructure projects.

10 Five countries (Austria, Belgium, Bulgaria, Germany and Lithuania) have not yet submitted a plan because of their specific political situation.

11 According to the new European fiscal governance, baseline trajectory refers to the multi-annual path for net spending, sent by the Commission to countries whose debt or deficit exceeds the thresholds set by the Maastricht Treaty (60 and 3 per cent of GDP respectively), which should be able to put the debt-to-GDP ratio on a plausibly downward trajectory or to keep it at prudent levels, and to bring the deficit to or keep it at below 3 per cent of GDP in the medium term. For more details, see the box 'The new European fiscal governance framework', Chapter 2, Annual Report for 2023, 2024 (only in Italian).

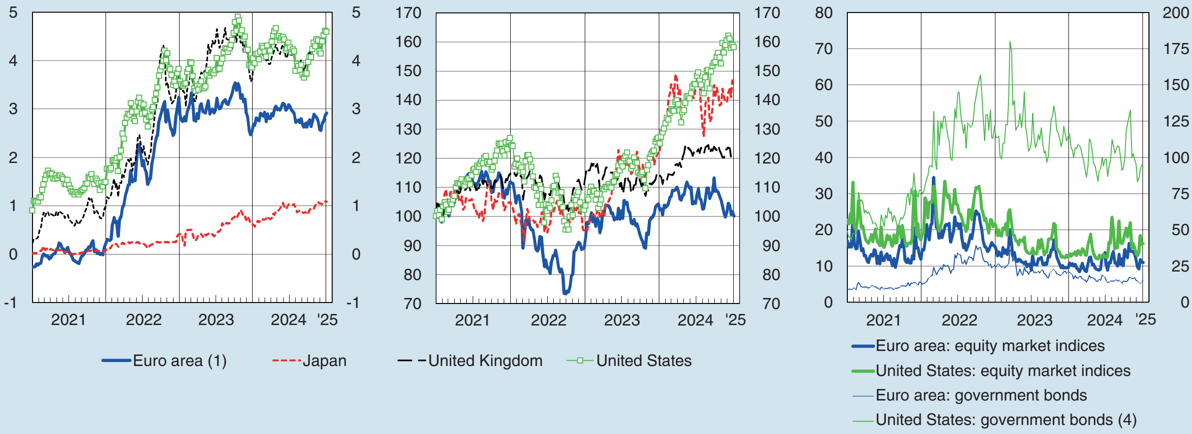
12 The others are Cyprus, Croatia, France, Greece, Latvia, Slovakia and Slovenia.

13 The assessments for the remaining countries were: not fully in line (Estonia, Finland, Germany, Luxembourg, Malta and Portugal), at risk of not being in line (Lithuania) and not in line (the Netherlands).

Figure 9

**Indicators for international financial markets**

*(end-of-week data)*



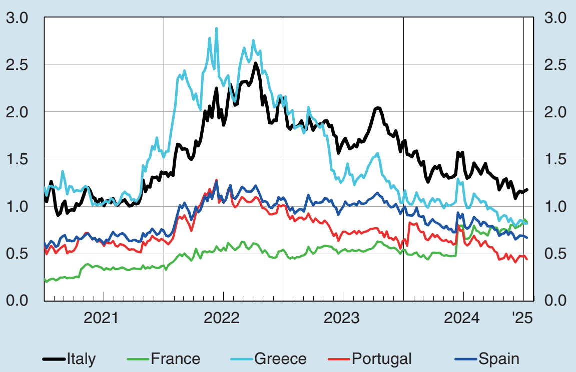

Source: LSEG.
(1) For the yields on 10-year government bonds: average yields, weighted by 2022 GDP at chain-linked prices, on the 10-year benchmark government securities of the euro-area countries (excluding Cyprus, Croatia, Estonia, Greece, Latvia, Lithuania, Luxembourg, Malta, Slovakia and Slovenia). – (2) Equity indices: Datastream for the euro area, Nikkei 225 for Japan, FTSE All-Share for the United Kingdom and Standard & Poor's 500 for the United States. – (3) Government bonds: volatility implied by the prices of options on futures on the German Bund for the euro area and on the Treasury Note for the United States (MOVE index). Equity indices: volatility implied by the prices of options on STOXX Europe 600 for the euro area and Standard & Poor's 500 for the United States. – (4) Right-hand scale.

Equity markets displayed varied dynamics (Figure 9.b), recording increases in US share prices, considerable stability in the other advanced economies and a decrease in China. The increase in the United States reflected better than expected corporate profitability and, above all, the positive response to the electoral results. Share prices rose, especially in the banking, financial and technology sectors,

Figure 10

**Yield spreads between 10-year sovereign bonds and the corresponding German Bunds**

*(end-of-week data; percentage points)*

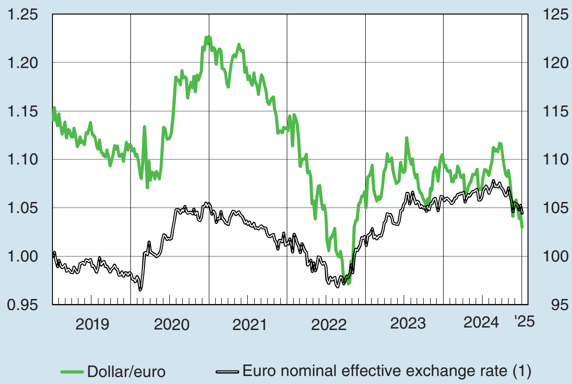



Source: Based on Bloomberg data.

Figure 11

**Exchange rates**

*(end-of-week data; dollars per euro and index)*




Sources: ECB and LSEG.
(1) Index: 1st week of January 2019=100. An increase in the index corresponds to an appreciation of the euro. Right-hand scale.

boosted by expectations of the next administration being more in favour of deregulation; the energy sector also benefited from expectations of a steady increase in oil production.

Volatility in bond and equity markets, which had increased in the run-up to the US elections, declined significantly after the voting (Figure 9.c).

**Euro-area 10-year government bond yields go up, but yield spreads narrow**

The yields on euro-area government bonds have risen in all countries since the beginning of October, especially in France and Germany. After an initial decline that reflected the weakening outlook for euro-area growth, in part relating to the uncertainty over the impact of the economic policies announced by the new US administration, yields returned to growth in the second half of December, partly as a result of expectations of fewer rate cuts by the Federal Reserve. The yield spreads of other euro-area countries' government bonds vis-à-vis German Bunds narrowed everywhere except France, where political uncertainty is ongoing (Figure 10).

During the same period, share prices in the euro area remained virtually unchanged. Following an initial decline, driven above all by the sectors most exposed to the effects of the announced tariff increases (see the box 'The uncertainty about trade policies and the exposure of Italian firms to the US market', Chapter 2), the general index has picked up again since the beginning of December, benefiting from the good performance of the financial sector, as a result of the release of better than anticipated corporate profits and expectations of consolidation.

**The US dollar appreciates against the main currencies**

The rise in yields on US treasury bonds has helped the dollar to strengthen against all the main currencies (Figure 11); the single currency is also being affected by the euro area's weak economic cycle. Expectations of a tighter US trade policy have also negatively affected the currencies of their main trading partners, such as the Chinese renminbi and the Mexican peso. Conversely, the yen has strengthened, thanks to the Bank of Japan's gradual tightening of its monetary policy.

# 2 THE ITALIAN ECONOMY

## 2.1 CYCLICAL DEVELOPMENTS

*Italy's GDP growth stagnated in the third quarter of 2024, still held back by weak manufacturing, against the slight uptick in services and construction. Household consumption rose sharply, while investment strongly declined and the contribution of net exports was negative. Based on our assessments, GDP growth remained weak in the autumn months. Our latest projections suggest that GDP will accelerate in the three years 2025-27, growing by around 1 per cent per year on average over the period.*

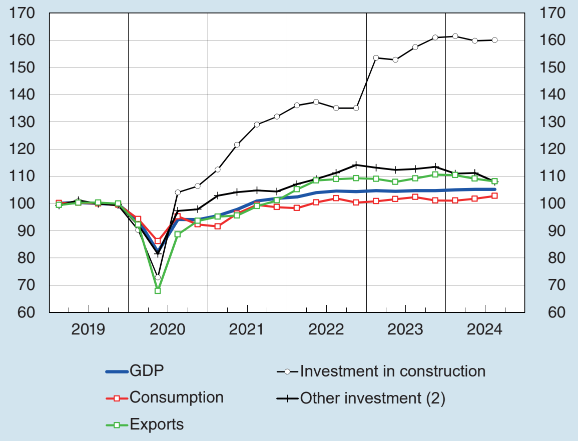
**GDP stagnates in the summer months ...**

Compared with the previous three months, economic activity remained unchanged in the third quarter. GDP growth was buoyed by domestic demand, thanks to the rise in household consumption and the contribution of the change in inventories, which more than offset the decline

Figure 12

**GDP and its main demand components** (1)

*(quarterly data; indices: 2019=100)*




Source: Based on Istat data.
(1) Chain-linked volumes; adjusted for seasonal and calendar effects. – (2) Include, as well as investment in plant, machinery and arms (which also include transport equipment), cultivated biological resources and intellectual property products.

Table 3

**GDP and its main components** (1)

*(percentage change on previous period and percentage points)*

| | 2023 | 2023 | 2024 | | |
|---|---|---|---|---|---|
| | | Q4 | Q1 | Q2 | Q3 |
| GDP | 0.7 | 0.0 | 0.3 | 0.2 | 0.0 |
| Imports of goods and services | -0.4 | -1.1 | -1.0 | 0.3 | 1.2 |
| National demand (2) | 0.3 | -0.9 | 0.1 | 0.7 | 0.7 |
| National consumption | 1.2 | -1.2 | 0.0 | 0.6 | 1.0 |
| Household spending (3) | 1.0 | -1.7 | 0.2 | 0.6 | 1.4 |
| General government spending | 1.9 | 0.3 | -0.6 | 0.9 | -0.2 |
| Gross fixed investment | 8.5 | 1.5 | -0.9 | -0.4 | -1.2 |
| Construction | 14.5 | 2.3 | 0.3 | -1.0 | 0.2 |
| Capital goods (4) | 2.3 | 0.7 | -2.2 | 0.2 | -2.9 |
| Change in inventories (5) | -2.5 | -0.3 | 0.3 | 0.3 | 0.2 |
| Exports of goods and services | 0.8 | 1.3 | -0.2 | -1.2 | -0.9 |
| Net exports (6) | 0.4 | 0.8 | 0.3 | -0.5 | -0.7 |

Source: Istat.
(1) Chain-linked volumes; the quarterly data are seasonally and calendar adjusted. – (2) Includes the item 'changes in inventories, including valuables'. – (3) Includes non-profit institutions serving households. – (4) Include investment in plant, machinery and arms (which also comprise transport equipment), cultivated biological resources and intellectual property products. – (5) Includes valuables; contributions to GDP growth on the previous period; percentage points. – (6) Difference between exports and imports; contributions to GDP growth on the previous period; percentage points.

in investment (Figure 12 and Table 3). Capital accumulation declined in almost all the main components; notably, in the capital goods component it contracted year on year for the fourth consecutive quarter. Investment in non-residential buildings rose, owing to works associated with the National Recovery and Resilience Plan (NRRP). Foreign trade trimmed 0.7 percentage points off GDP growth, owing to a sharp decline in exports of goods and services, and the robust increase in imports (see Section 2.4). On the supply side, value added continued to fall in industry excluding construction (-1.0 per cent), while it rose slightly in construction and in services (0.3 and 0.2 per cent respectively). In the service sector, the retail services, transport and accommodation segments continued to expand and professional activities continued to contract at a faster rate, while the real estate market saw a decline for the first time since early 2021.

**... and economic activity remains weak in the fourth quarter**

Based on our estimates, GDP growth remained weak in the fourth quarter too. Although easing somewhat, manufacturing growth continued to be soft, while value added increased again slightly in construction and services. On the demand side, the recovery in net exports, driven by a fall in imports, appears to have been accompanied by still weak investment and a diminishing of the contribution from consumption after the spike in the previous quarter (see Section 2.3). The Ita-coin indicator, which measures GDP growth net of cyclical volatility, remained close to zero on average in the autumn months, confirming the persistent weakness in economic activity. Our most recent macroeconomic projections show GDP increasing by 0.5 per cent in 2024 (by 0.7 per cent without calendar adjustments), and is expected to grow on average by 1.0 per cent in the 2025-27 period (see the box 'Macroeconomic projections for the Italian economy').

## MACROECONOMIC PROJECTIONS FOR THE ITALIAN ECONOMY

On 13 December 2024, Banca d'Italia published the Macroeconomic projections for the Italian economy for the four years 2024-27, prepared as part of the Eurosystem's coordinated exercise.[1]

Albeit against a backdrop of high uncertainty, the forecasting scenario assumes that growth in foreign demand will pick up gradually, though at levels well below the average for the decade prior to the pandemic. In line with the expectations embedded in futures contracts, energy commodity prices are assumed to fall slightly. Interest rates, derived from market prices, are expected to fall over the three years 2025-27 in the short-term segment and to increase slightly in the long-term segment.[2]

The projections indicate that GDP grew by 0.5 per cent in 2024 (by 0.7 per cent in non-calendar-adjusted terms)[3] and will pick up the pace in the three years 2025-27, expanding by around 1 per cent per year on average over that period. It is estimated that growth will remain modest

[1] For further details, see Banca d'Italia, 'Macroeconomic projections for the Italian economy (Eurosystem staff macroeconomic projections)', 13 December 2024.

[2] The projections are based on information available at 20 November (for the technical assumptions) and at 27 November (for other data). The international scenario underlying these projections, agreed within the Eurosystem, takes into account some of the fiscal policy measures announced in the United States during the recent presidential election campaign, but does not include specific assumptions on the effects of possible changes in US trade policies, other than what is indirectly reflected in the technical assumptions (for more details, see the ECB's website: 'ECB staff macroeconomic projections for the euro area', December 2024). The projections take into account the use of EU funds under the NextGenerationEU programme and the support measures set out in Italy's medium-term fiscal-structural plan 2025-29 (2025-29 MTP), but do not incorporate the national accounts data for the third quarter released by Istat on 2 December 2024.

[3] Also taking into consideration the national accounts data for Q3 2024 released by Istat on 2 December 2024.

in the first part of 2025 and will regain momentum afterwards, driven by consumption and exports, which are expected to benefit from the recovery in disposable income and international trade. Investment is instead estimated to slow, mainly owing to the effects of the reduction in residential building incentives, to be only partly offset by the NRRP measures. Compared with the projections published in October, GDP growth has been revised downwards over the time horizon 2024-26, as a result of the less favourable than expected data published in the final part of 2024, slower growth in foreign demand, and slightly higher than expected interest rates.

Consumer price inflation is projected to rise to 1.5 per cent in the two years 2025-26, up from just over 1 per cent on average in 2024. It is projected to reach 2.0 per cent in 2027 owing to the temporary increase in the energy component following the entry into force of the new EU Emission Trading System 2 covering greenhouse gases and pollutants. Core inflation is projected to fall from 2.2 per cent in 2024 to just over 1.5 per cent on average in the three years 2025-27, when it is estimated that the pressures connected with the stronger growth in wages will largely be absorbed by the reduction in profit margins. Consumer price inflation projections are essentially unchanged compared with those of October.

The uncertainty surrounding these projections is high and stems mainly from the international situation. A more protectionist stance in trade policies and the persistent tensions connected with the ongoing conflicts could dampen both foreign and domestic demand (the latter through a deterioration in household and business confidence). These factors could cause downward pressures on consumer prices, while higher inflation could stem from further increases in commodity prices.

Our growth projections do not differ significantly from those made in recent months by the major international organizations and private analysts (see the table). Our inflation projections are instead lower.

**Table**

**GDP growth and inflation: forecasts of Banca d'Italia and other organizations**
*(percentage change on previous period)*

| | GDP (1) | | | | Inflation (2) | | | |
|---|---|---|---|---|---|---|---|---|
| | 2024 | 2025 | 2026 | 2027 | 2024 | 2025 | 2026 | 2027 |
| Banca d'Italia (December) | 0.5 | 0.8 | 1.1 | 0.9 | 1.1 | 1.5 | 1.5 | 2.0 |
| European Commission (November) | 0.7 | 1.0 | 1.2 | – | 1.1 | 1.9 | 1.7 | – |
| OECD (December) | 0.5 | 0.9 | 1.2 | – | 1.2 | 2.1 | 2.0 | – |
| IMF (October) | 0.7 | 0.8 | 0.7 | – | 1.3 | 2.1 | 2.0 | – |
| Consensus Economics (January) (3) | 0.5 | 0.7 | 0.9 | – | 1.1 | 1.7 | 1.7 | – |
| *Memorandum item:* Banca d'Italia (October) | 0.6 | 1.0 | 1.2 | – | 1.1 | 1.6 | 1.6 | – |

Sources: Banca d'Italia, 'Macroeconomic projections for the Italian economy (Eurosystem staff macroeconomic projections)', 13 December 2024; European Commission, *European Economic Forecast*, Autumn 2024, November 2024; OECD, *OECD Economic Outlook*, December 2024; IMF, *World Economic Outlook*, October 2024; Consensus Economics, *Consensus Forecasts*, 16 January 2025.
(1) The growth rates indicated in Banca d'Italia's projections are adjusted for calendar effects. Without this adjustment and taking into consideration the national accounts data released by Istat on 2 December 2024, GDP growth would be 0.7 per cent in 2024 and in 2025, 1.2 per cent in 2026 and 0.9 per cent in 2027. – (2) HICP. Consensus Economics forecasts refer to the consumer price index for the entire resident population (NIC). – (3) The estimates for 2024 refer to the expectations recorded by Consensus Economics in December.

## 2.2 FIRMS

*Firms' activity remained weak in the fourth quarter, still held back by the performance of the manufacturing sector. Services continued to expand, albeit slightly, as did construction, thanks in part to non-residential works linked to the NRRP.*

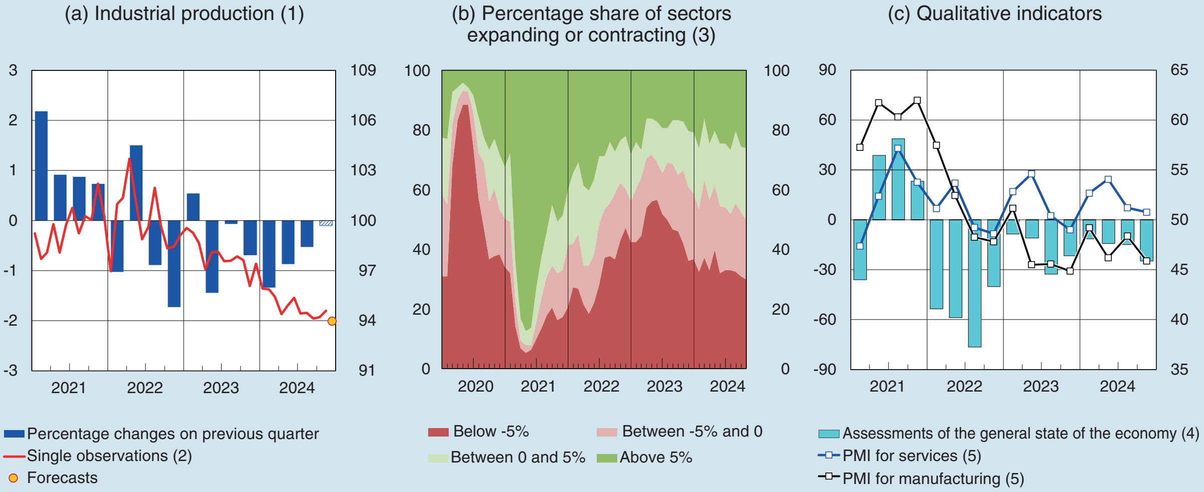
**Industrial production declines further in the fourth quarter ...**

During the two-month period of October and November, industrial production increased by 0.1 per cent on average compared with the summer (Figure 13.a). The consumer goods (especially non-durable goods), energy goods and, to a lesser extent, capital goods components rose, while that of intermediate goods fell. However, there was once again a sharp reduction in the production of transport equipment, reflecting the sector crisis in the euro area. Around half of the sectors grew in November compared with the year-earlier period (Figure 13.b).

The PMI for manufacturing deteriorated in the autumn months, remaining below the expansion threshold for the seventh straight quarter (Figure 13.c). Qualitative surveys also found similar signs of weakness. Italian firms reported a progressive deterioration in production levels and orders, both in their current assessments and in their expectations for the future; pessimism was more pronounced among firms producing intermediate and capital goods. Firms continued to point to the shortfall in demand, both domestic and foreign, as the main factor holding back production.

**Figure 13**

**Industrial production, growth by sector and qualitative indicators for industry and services**
*(quarterly data, unless otherwise specified)*




Sources: Based on data from Banca d'Italia, Istat, Markit and Terna.
(1) Data adjusted for seasonal and calendar effects. The yellow dot indicates the forecast for December 2024, the last bar represents the forecast for the third quarter. – (2) Monthly data. Index: 2021=100. Right-hand scale. – (3) Monthly data. The share of sectors expanding or contracting (as per the Ateco classification) is calculated based on the year-on-year growth rates of the 3-month moving averages of the sectoral indices for industrial production, adjusted for calendar effects. – (4) Balance, in percentage points, of the responses 'better' and 'worse' to the question on the general state of the economy (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 14 January 2025). – (5) Average quarterly data. Diffusion indices for economic activity in the sector. Right-hand scale.

Our estimates for December, based on a broad set of quantitative and qualitative indicators,[1] suggest a persistent weakness in industrial activity over the autumn as a whole, owing in part to the struggling

[1] These estimates take account of electricity and gas consumption, motorway and rail traffic, and qualitative indicators of business confidence and expectations.

manufacturing cycle in the euro area, especially in Germany (see the box 'The recent weakness of manufacturing in Germany and its impact on the rest of the euro area', in Chapter 1).

**... and expansion in services appears to be losing momentum**

The PMIs for the service sector point to modest growth in activity in the autumn months. The confidence indicators for market services firms also suggest a slowdown both in current business and in orders; on the other hand, the assessments of retail firms are positive and improving. Banca d'Italia's surveys conducted between November and December of last year confirm the weakening of demand in the service sector.[2]

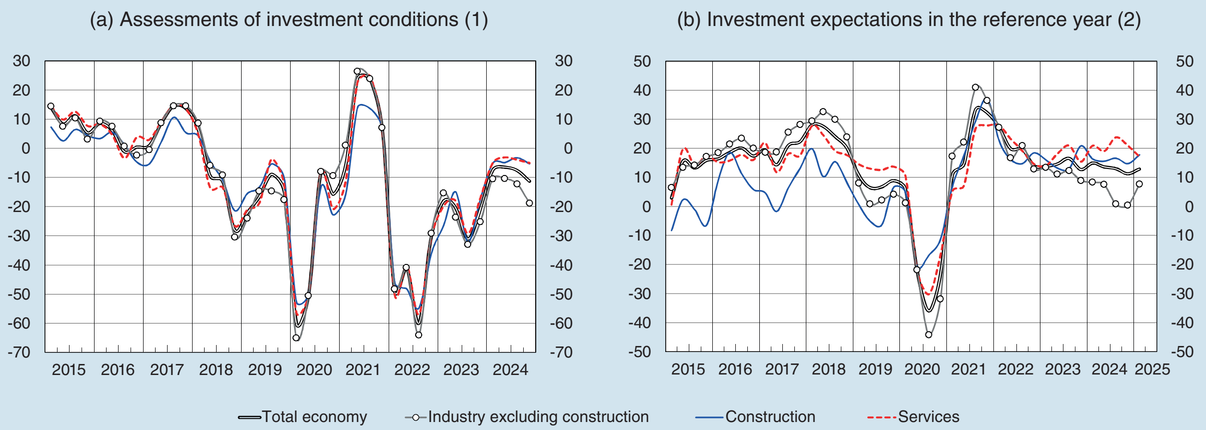
**Investment remains weak**

In the third quarter, investment fell by 1.2 per cent, continuing the trend under way since the start of 2024. The decrease involved all the main components, except construction. In this sector, the marked reduction in the housing sector was more than offset by the growth in the non-residential sector, fed by the implementation of NRRP projects. Investment in machinery and equipment, which contracted sharply, was affected by the persistent weakness of the manufacturing cycle, as well as by the uncertainties concerning the implementation of the Transition 5.0 Plan. However, the balance between the percentage of firms planning to expand nominal investment in 2025 and that of those expecting to reduce it remains positive, albeit more narrowly so in industry excluding construction (Figure 14). The most favourable assessments come from the construction sector, where just over half of firms expect to benefit from measures under the NRRP.

Figure 14

**Firms' assessments of investment conditions and expectations for investment expenditure**

*(quarterly data; percentage points)*




Source: 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 14 January 2025.
(1) Balance of opinion between positive and negative assessments compared with the previous quarter. – (2) Balance between expectations of an increase and of a decrease compared with the previous year. The first expectations for the reference year are surveyed in the fourth quarter of the preceding year.

## 2.3 HOUSEHOLDS

*Household consumption rose at a considerable rate in the summer, particularly in the service component. The latest data suggest that spending weakened in the fourth quarter of 2024, affected by the erosion in household confidence and the enduring attractiveness of savings opportunities.*

[2] For further details, see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 14 January 2025.

**Household consumption strengthens in the third quarter ...**

Household spending increased more than expected in the summer months, i.e. by 1.4 per cent in real terms. The expansion, which was also affected by the prolonged tourism season, was driven above all by the increase in service purchases (2.0 per cent) and, more moderately, of durable and non-durable goods (0.5 and 0.7 per cent respectively). Spending on semi-durable goods essentially stagnated. Consumption continued to benefit from the increase in real income (0.4 per cent), helped by the gradual rise in wages and the positive employment trends (see Section 2.5). The propensity to save was slightly above pre-pandemic levels (Figure 15).

**... but weakens again in the autumn months**

According to our estimates, the increase in household consumption eased up towards the end of 2024. Confcommercio's indicator points to a broadly stable situation in October and November compared with the summer, suggesting a stagnation in goods purchases and a moderate rise in services. Cash withdrawals and electronic payments, measured in real terms, decreased compared with the preceding three months. New car registrations also continued to fall on a seasonally adjusted basis.

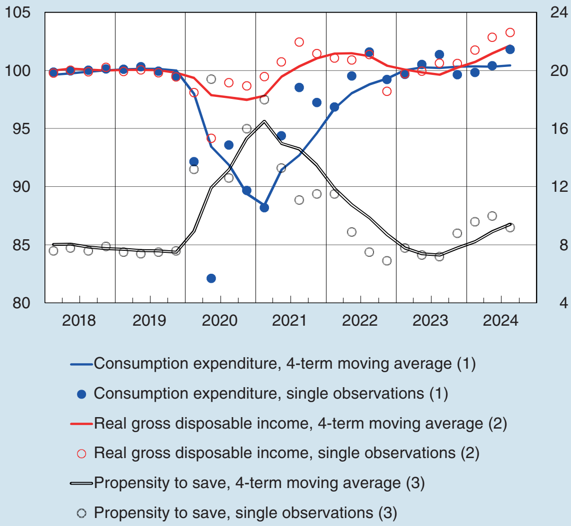
Consumer confidence deteriorated slightly in the fourth quarter, owing to less favourable opinions about the general state of the economy and by worse expectations concerning employment (Figure 16). Assessments of personal finances and opportunities for saving remained favourable on the whole. Persistently high interest rates made saving more attractive (see Section 2.7), making consumption less so.

**Signs of a real estate market recovery are confirmed**

In the third quarter of 2024, house prices accelerated year on year (from 2.9 per cent to 3.9 per cent), both for new and for existing homes. The volume of sales increased further, but is still below the 2022 peaks (Figure 17). Our calculations based on the listings published on the Immobiliare.it online platform show that

Figure 15

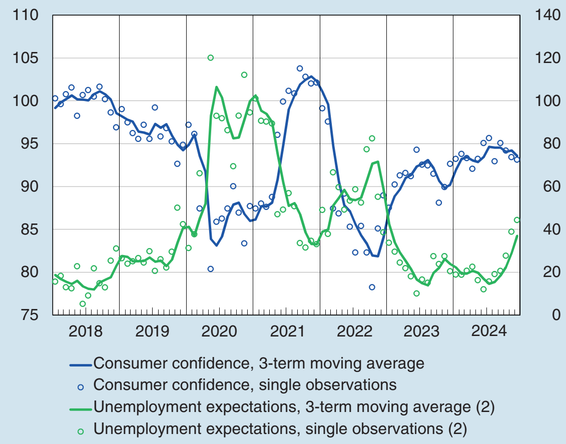
**Consumption, income and propensity to save**
*(seasonally adjusted quarterly data; index numbers and percentage points)*




Source: Based on Istat data.
(1) Chain-linked volumes; index: 2018=100. – (2) Net of the variation in the final consumption expenditure deflator for resident households; index: 2018=100. – (3) Consumer households' savings as a percentage of gross disposable income; right-hand scale.

Figure 16

**Consumer confidence** (1)
*(monthly data; indices: 2018=100 and percentage points)*

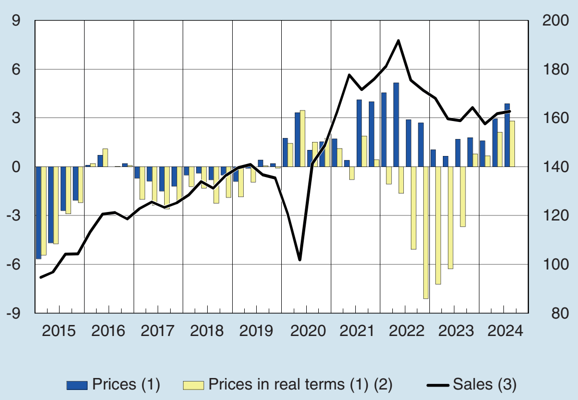



Source: Based on Istat data.
(1) Seasonally adjusted data. In the absence of the figure for April 2020, which was not recorded owing to the pandemic, the moving average for the quarters ending respectively in April, May and June 2020 is constructed on the basis of the two observations available. – (2) Balance between the replies indicating 'an increase' and those indicating 'a decrease'. A rise in the balance signals a deterioration in the expectations regarding the unemployment rate. Right-hand scale.

the demand for housing pointed to a recovery in the autumn, albeit moderate. The outlook for market conditions also improved in the assessments of the real estate agents interviewed between September and October as part of the Italian Housing Market Survey; difficulties encountered in obtaining a mortgage also eased further (see Section 2.7). The agents surveyed continued to lean towards viewing housing prices as being stable and they expect rents to rise further, although there are early signs of a slowdown.

Figure 17

**House prices and sales**
*(quarterly data; percentage changes and index number)*




Sources: Based on data from Banca d'Italia, Istat and the Italian Revenue Agency's Osservatorio del mercato immobiliare (OMI).
(1) Year-on-year percentage changes. – (2) House prices deflated by the consumer price index. – (3) Adjusted for seasonal and calendar effects. Index: 2015=100. Right-hand scale.

## 2.4 FOREIGN TRADE AND THE BALANCE OF PAYMENTS

*The contribution of net foreign demand to real GDP growth was negative in the summer months: imports returned to growth, while exports decreased for the third consecutive quarter. The available indicators point to persistent weakness in foreign demand in the autumn months. The current account balance narrowed significantly, though it remained positive. The financial account recorded a large surplus, owing in part to the further reduction in the negative TARGET balance; non-resident investors continued to purchase Italian government securities. Italy's positive net international investment position strengthened further.*

**Foreign trade contributes negatively to GDP growth in the summer**

Between July and September, export volumes fell for the third consecutive quarter, reflecting the persistent weakness in the goods component and the sharp contraction in services (Table 4). The slight uptick in the sales of goods to euro-area economies (especially France and Spain) was more than offset by a decline in exports to non-euro area markets (mainly the United States and the United Kingdom). At sectoral level, the prolonged decline in exports of motor vehicles was accompanied by marked reductions in exports of refined petroleum products and other transport equipment; foreign sales rose instead, especially in the food, pharmaceutical and machinery sectors. After one and a half years of growth, exports of services fell significantly, despite stable tourism receipts.

Table 4

**Export and import volumes** (1)
*(percentage changes on previous period)*

| | 2023 | 2023 | 2024 | | |
|---|---|---|---|---|---|
| | | Q4 | Q1 | Q2 | Q3 |
| **Exports** | **0.8** | **1.3** | **-0.2** | **-1.2** | **-0.9** |
| **Goods** | **-1.2** | **1.1** | **-0.5** | **-2.1** | **-0.2** |
| To euro-area countries | -1.2 | -0.6 | -1.2 | -0.9 | 0.4 |
| To non-euro area countries (2) | -1.3 | 2.3 | .. | -2.8 | -0.7 |
| **Services** | **10.5** | **1.9** | **1.2** | **2.4** | **-3.6** |
| **Imports** | **-0.4** | **-1.1** | **-1.0** | **0.3** | **1.2** |
| **Goods** | **-1.2** | **-1.3** | **-1.7** | **0.3** | **1.3** |
| From euro-area countries | 1.9 | -1.2 | 4.4 | -0.7 | 3.8 |
| From non-euro area countries (2) | -4.3 | -1.3 | -8.1 | 1.6 | -1.7 |
| **Services** | **3.6** | **-0.4** | **1.2** | **0.2** | **0.8** |

Sources: Based on Istat's national accounts and foreign trade data.
(1) Chain-linked volumes; raw annual data; quarterly data adjusted for seasonal and calendar effects. – (2) Includes unspecified countries and, for exports, goods procured in Italian ports by foreign carriers.

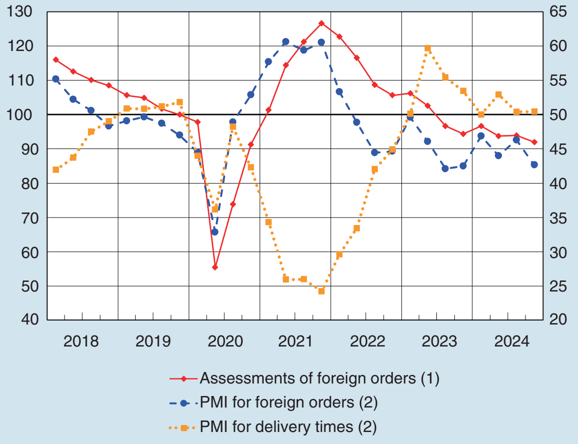
Over the same period, import volumes increased, owing to purchases of both services and goods. The increase in the latter, which was widespread across most sectors, was due entirely to larger purchases of goods from the euro area, while those from non-euro area markets declined, especially for energy products from OPEC countries.

**Exports of goods appear to remain weak in the autumn months**

According to our assessments based on partial foreign trade data, seasonally-adjusted sales of goods in volume were sluggish in October and November. Those to the United States appear to be on a downward trajectory, but could rise temporarily in the short term, should firms decide to bring forward their orders in anticipation of possible tariff increases. Looking ahead, however, these increases could have a non-negligible negative effect on Italy's sales to international markets (see the box 'The uncertainty about trade policies and the exposure of Italian firms to the US market'). Manufacturing firms' assessments of foreign orders as recorded by Istat and the corresponding PMI remained well below the expansion threshold in the fourth quarter of 2024 on average, pointing to persistently weak demand. However, delivery times were stable on average and did not show any particular bottlenecks on the supply side and in logistics (Figure 18).

Figure 18

**Manufacturing firms' assessments of foreign orders and delivery times**
*(seasonally adjusted quarterly data)*




Sources: Istat and Standard & Poor's.
(1) Quarterly average based on Istat's monthly survey of firms; percentage balance of replies of 'increasing' or 'decreasing' foreign orders, minus the average since the start of the time series (January 2000) plus 100. The value of 100 is therefore a balance between the replies of 'increasing' and 'decreasing' in line with the historical average. Q2 2020 is the average of two months; no data were gathered in April due to the pandemic emergency. – (2) Diffusion index obtained by adding half of the percentages of responses of 'stable' to the percentage of responses of 'improving'. Values above (below) 50 indicate an improvement (deterioration). Quarterly average. Right-hand scale.

## THE UNCERTAINTY ABOUT TRADE POLICIES AND THE EXPOSURE OF ITALIAN FIRMS TO THE US MARKET

In the final months of 2024, following the outcome of the presidential election in the United States, the risk of a general intensification of protectionist policies increased. Uncertainty about trade policies grew and, based on the trade policy uncertainty index,[1] it is now higher than the peak levels observed during the most acute phase of the 2018-19 trade war between the United States and China (see panel (a) of Figure A).

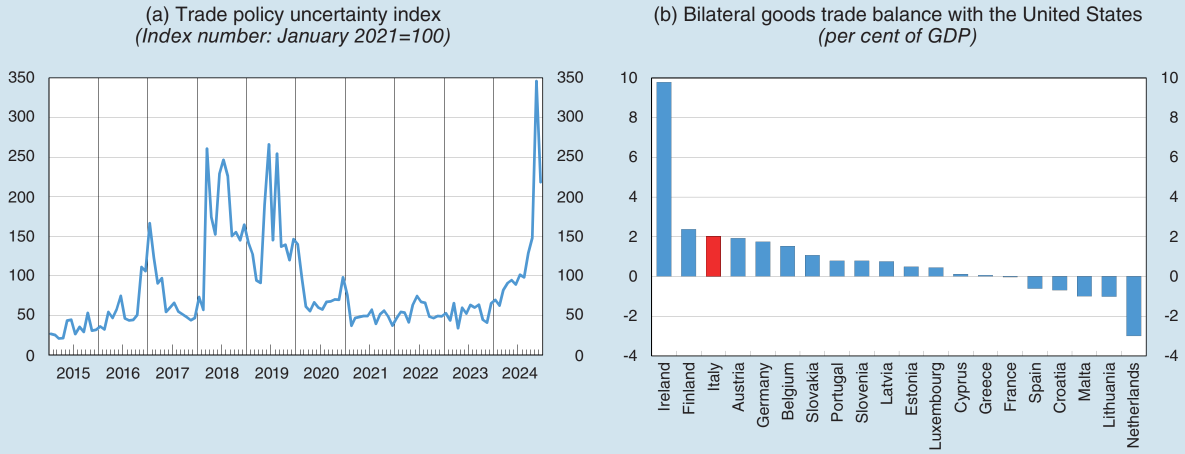
Italy is significantly exposed to the repercussions of tariff increases by the United States, which is the second destination market for Italy's exports of goods, after Germany. The share of the US market has almost doubled since the beginning of the last decade, accounting for 11 per cent of total exports in 2023 (or €63 billion). The depreciation of the euro against the dollar, the robust expansion of US demand, and Italian firms' quest for alternative markets to European ones all appear to have contributed to this increase. By contrast, the United States only ranks seventh in terms of goods imports (4 per cent of the total, worth €20 billion). Italy therefore has a sizeable surplus in the trade of goods with the United States (2 per cent of GDP; see panel (b)

[1] The trade policy uncertainty index is a text analysis metric that calculates the frequency, in the leading English-language newspapers, of articles using terms relating to both uncertainty ('risk', 'uncertainty', 'volatility', etc.) and trade policies ('tariff', 'trade agreement', etc.). The index is normalized to 100 when the share of such articles is equal to 1 per cent. See D. Caldara, M. Iacoviello, P. Molligo, A. Prestipino and A. Raffo, 'The economic effects of trade policy uncertainty', *Journal of Monetary Economics*, 109, 2020, pp. 38-59.

of Figure A), the third largest among the bilateral surpluses of the euro-area economies vis-à-vis the United States.[2]

**Figure A**

**Uncertainty over trade policies and bilateral goods trade balance with the United States**




Sources: Trade policy uncertainty index and based on Eurostat balance of payments data for 2023.

The importance of the US market varies across sectors (see panel (a) of Figure B). According to foreign trade data for 2023, shipbuilding and aerospace engineering (included under 'other transport equipment') are the sectors most exposed to the United States, with more than one fourth of their exports directed to the US market. The latter also absorbs a significant share (between 10 and 16 per cent) of total exports in other sectors, including pharmaceuticals, 'other manufactured goods' (such as jewellery, spectacles, lenses and parts thereof, and furniture), automotive (mainly high-end finished products),[3] mechanical machinery, food, and refined petroleum products. On the import side (see panel (b) of Figure B), the share of the United States is low across all sectors except energy (oil and liquefied natural gas, 10 per cent) and pharmaceuticals (12 per cent).

The United States is a destination market for almost one third of Italian exporting firms.[4] Just over half of the exports to the US are made by large firms (with 250 or more employees), with an average exposure equal to 5 per cent of their turnover and 15 per cent of their exports. The US market is relatively more important for small and medium-sized enterprises, accounting for around 7 per cent of turnover and 27 per cent of exports on average. Moreover, almost all exporters with a very high exposure[5] to the United States belong to this size class.

[2] This holds true in absolute terms as well, as Italy's trade surplus with the United States (€43 billion in 2023) was the third highest among the euro-area countries, after Germany (€73 billion) and Ireland (€50 billion); the latter figure is influenced by the strong role played by US multinational enterprises in the Irish economy.

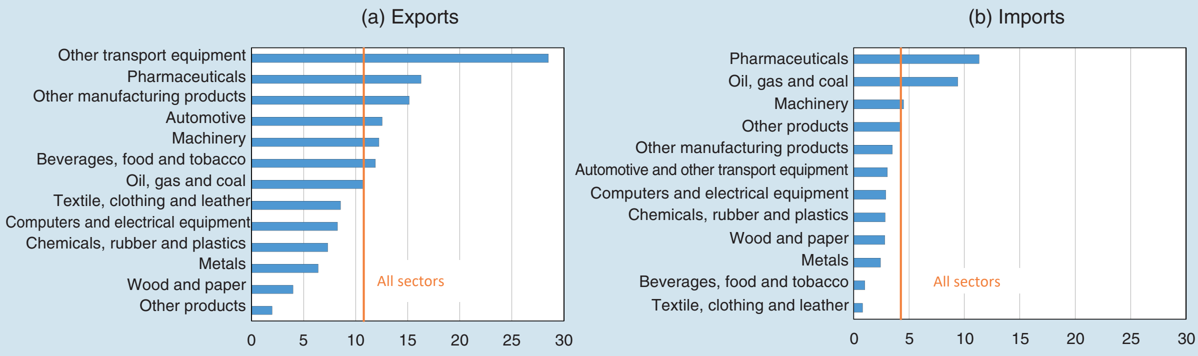
[3] Within the automotive sector, components play a significant role in exports to other countries, such as Germany, but not in those to the United States.

[4] According to data from the Italian Customs Agency for the two years 2022-23, there are 36,000 Italian firms exporting to the United States (this figure only considers legal persons). The additional statistics reported below refer to the subset of limited companies included in the Cerved databases, excluding those that Cerved classifies as real estate or financial corporations and those with no assets or revenues.

[5] Having a very high exposure is defined as having a share of exports above 56 per cent, corresponding to the 75$^{th}$ percentile of the distribution.

Figure B

**Share of the US market in Italy's imports and exports by sector**
*(percentage points)*




Source: Istat, foreign trade data for 2023. The orange vertical line indicates the aggregate percentage share of the US market in total Italian imports and exports.

In conclusion, a rise in tariffs would have significant effects on the Italian firms that export to the US market, especially small and medium-sized ones. In addition to the direct effects, trade restrictions could also hit firms that, while not exporting directly, provide intermediate inputs embedded in goods directed to the US market.[6] Moreover, high uncertainty over trade policies may in itself act as a significant drag on investment.

[6] Based on the global input-output tables compiled by the Asian Development Bank, in 2022 the value added generated in Italy's manufacturing sectors and absorbed by US final demand amounted to $29 billion; around one fourth of it consisted of goods incorporated in other countries' exports to the United States.

**The current account is still in surplus**

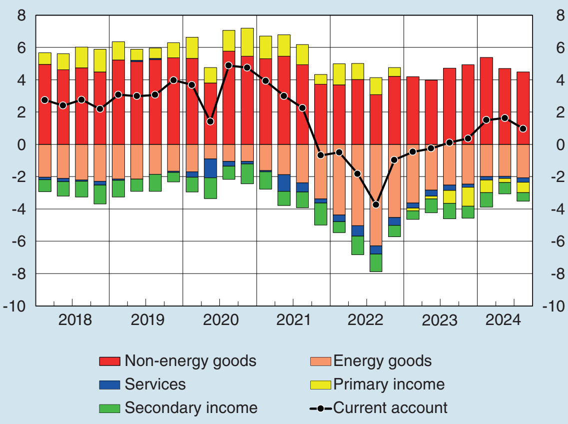
Net of seasonal factors, the current account balance was positive in the summer months (1.0 per cent of GDP; Figure 19 and Table 5) for the fifth consecutive quarter, but down from the previous quarter. This was mainly due to a worsening in the primary income balance and in the balance of both energy and non-energy goods; the services deficit deteriorated slightly as well, although the tourism balance remained broadly stable.

**Foreign investors continue to purchase Italian public sector securities**

The financial account recorded an increase in net foreign assets (€28.2 billion) in the third quarter of 2024, mainly driven by the reduction in the negative TARGET balance (recorded on the liability side under 'other investment'; Table 5); conversely, resident banks' net funding abroad was essentially balanced.

Figure 19

**Current account balance and its main components**
*(seasonally adjusted quarterly values; per cent of GDP)*




Sources: For GDP, Istat; the breakdown of energy and non-energy goods is based on Istat's foreign trade data.

The portfolio investment balance, which had been deeply negative since the end of 2023, turned slightly positive. On the liability side, non-residents' net purchases of Italian debt securities, mainly public debt securities, declined but remained high (€23.2 billion, equal to more than three times the Treasury's net issues). These purchases, which continued in October and November, still benefit from relaxed financial market conditions in Italy (see *Financial Stability Report*, 2, 2024). On the asset side, investment returned to growth, especially in medium to long-term foreign bonds by resident insurance companies, investment funds and households.

**The negative TARGET balance shrinks again**

Banca d'Italia's debtor position in the TARGET system fell by €39 billion in the third quarter of 2024, reflecting above all foreign investment in Italian securities and the disbursement of the fifth instalment of the National Recovery and Resilience Plan in August (€11 billion). The improvement in Banca d'Italia's annual accounts, under way since mid-2023, continued mainly in connection with the repayment of loans granted by the Eurosystem to credit institutions under the third series of targeted longer-term refinancing operations (TLTRO III) and with the reduction in securities held for monetary policy purposes. The negative balance shrank further in the fourth quarter (by €30 billion), to €416 billion at the end of December (Figure 20).

**Italy's positive net international investment position strengthens**

At the end of September, Italy's net international investment position was positive by €265,2 billion, equal to 12.2 per cent of GDP; the €8.6 billion increase since the end of June was linked to the current and capital account surpluses. Instead, the appreciation of the euro against the dollar in the third quarter of 2024 contributed negatively, reducing the value of assets denominated in foreign currencies; the strengthening of the US currency in the autumn (see Section 1.3) could therefore potentially improve Italy's positive investment position.

Table 5

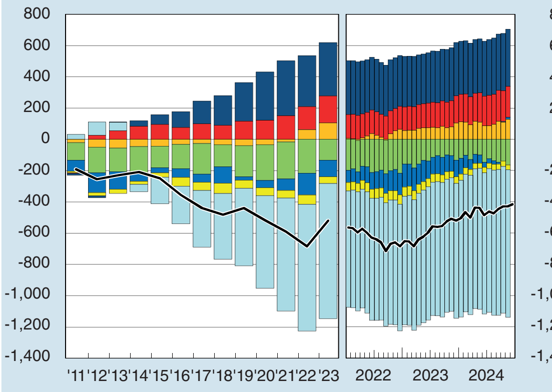
**Balance of payments**
*(billions of euros)*

| | 2023 | 2023 | 2024 | | |
|---|---|---|---|---|---|
| | | Q4 | Q1 | Q2 | Q3 |
| **Current account** | **-0.3** | **4.1** | **1.7** | **8.6** | **10.5** |
| Adjusted for seasonal and calendar effects | -1.3 | 2.0 | 8.1 | 8.9 | 5.3 |
| *Memorandum item*: % of GDP (1) | .. | 0.4 | 1.5 | 1.6 | 1.0 |
| **Capital account** | **15.2** | **6.0** | **-0.5** | **-1.3** | **0.5** |
| **Financial account** | **31.5** | **17.7** | **1.0** | **0.1** | **28.2** |
| Direct investment | -10.6 | -13.2 | 4.6 | -1.6 | 2.3 |
| Portfolio investment | -24.8 | -20.2 | -25.6 | -32.6 | 1.8 |
| Derivatives | -4.7 | 0.9 | 1.3 | 0.3 | 1.4 |
| Other investment (2) | 68.8 | 48.8 | 20.4 | 32.5 | 22.6 |
| Changes in official reserves | 2.7 | 1.4 | 0.2 | 1.5 | .. |
| **Errors and omissions** | **16.5** | **7.5** | **-0.2** | **-7.1** | **17.2** |

(1) The annual figure for 2023 refers to the non-seasonally adjusted current account balance. – (2) Includes change in the TARGET balance.

Figure 20

**TARGET balance and cumulative balance of payments flows** (1)
*(annual and monthly data; billions of euros)*




(1) Using the balance of payments accounting identity, an improvement in Banca d'Italia's negative balance vis-à-vis the ECB in the TARGET payment system may reflect investments in Italy by non-residents (greater liabilities), residents' disposals of foreign assets (fewer assets) or a current account and capital account surplus. Cumulative capital flows since July 2011. – (2) Net bank funding in the form of loans, deposits and other investments by the banking sector, including those intermediated by resident central counterparties. – (3) Direct investment, derivatives, residual items in other investment, official reserves, errors and omissions.

## 2.5 THE LABOUR MARKET

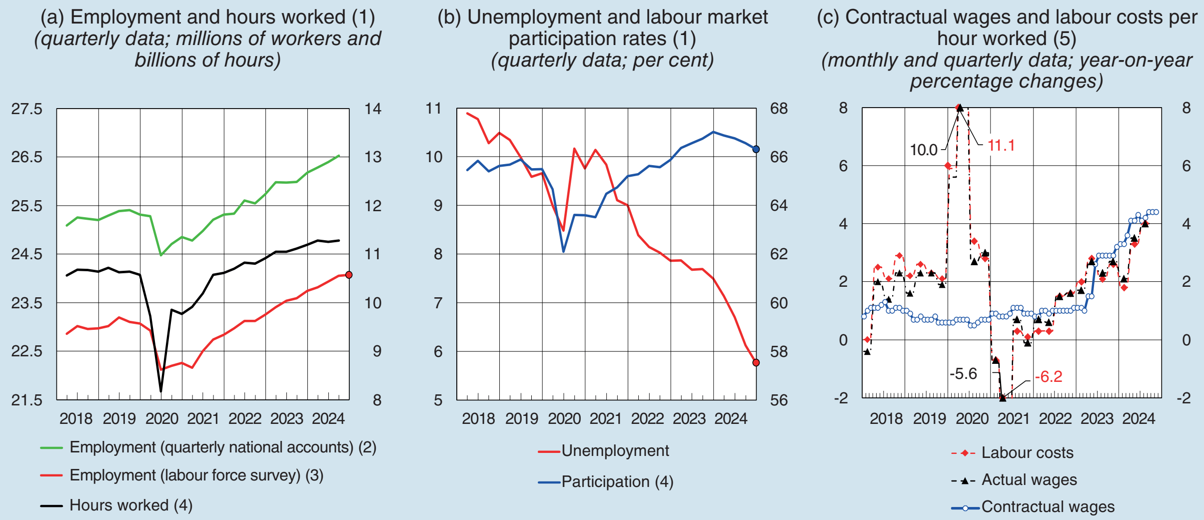
*Employment continues to grow but the labour market is showing signs of weakening: the number of hours worked per employee decreased and recourse to wage supplementation remained high. The contraction in the participation rate, which continued in the summer months as well, helped lower the unemployment rate. Hourly labour costs accelerated in the private sector, driven by higher contractual wages. Wage growth remained strong in the autumn months.*

**Employment rises in the third quarter but recourse to wage supplementation remains high**

According to data from Istat's quarterly national accounts, employment continued to grow (0.5 per cent; Figure 21.a), buoyed above all by private services, against a more modest increase in industry excluding construction and a marked decline in construction. The number of hours per worker fell (-0.3 per cent) both in manufacturing and in services, and recourse to wage supplementation schemes, which had already increased year on year in the previous quarter, remained high. The number of wage supplementation hours authorized, mainly requested by manufacturing firms, was twice as high as in the corresponding period of 2019.

**Figure 21**

**Employment, unemployment, labour market participation and costs**




Sources: For employment, hours worked, actual wages and labour costs, Istat's quarterly national accounts; for employment and for the labour market participation and unemployment rates, Istat's labour force survey; for contractual wages, Istat's contractual wages by type of contract.
(1) Seasonally adjusted data. The points corresponding to Q4 2024 indicate the average value for the two-month period October-November. – (2) Includes all persons engaged in production activity in Italy's economic territory. – (3) Includes all resident persons that are employed, excluding workers living permanently in an institution and military personnel. – (4) Right-hand scale. – (5) Non-farm private sector. Raw monthly data for contractual wages. Seasonally adjusted quarterly data for actual wages and labour costs.

The participation rate decreased in the third quarter (Figure 21.b), by 0.5 percentage points compared with the all-time high of end-2023, and mostly among the under-50s, who had particularly benefited from the post-pandemic recovery. Conversely, the activity rate of the over-50s continued on the growth path of the last two decades. The increase in female participation came to a halt. Employment growth, combined with the decline in labour force, brought the unemployment rate down further to 6.1 per cent; the reduction was greater among women and people aged 15-49.

**Employment grows and labour market participation declines in the autumn**

According to provisional data from Istat's labour force survey, headcount employment rose slightly in the autumn, driven by permanent and self-employed workers; the participation rate continued to decline, especially among younger people; the unemployment rate dropped to 5.7 per cent in November, the lowest level since the survey began. Employment is projected to continue to grow in 2025, but less than GDP (see the box 'Macroeconomic projections for the Italian economy').[3]

**Contractual wages accelerate in private services ...**

In the third quarter of 2024, contractual wages in the non-farm private sector rose by 4.2 per cent year on year, in line with the previous months (Figure 21.c). Wage growth remained strong in industry excluding construction, thanks to the adjustment of wage floors in the metalworking sector,[4] while it came to a halt in construction, where the collective bargaining agreement expired; it picked up pace in services, owing to the wage increases already agreed in the credit and tourism sectors. Growth in actual hourly wages in the non-farm private sector accelerated to 4.0 per cent (from 3.5 per cent in the previous months). The gap with contractual wage growth narrowed, pointing to a recovery in the components in excess of wage floors. This positive trend in wages contributed to higher unit labour costs (see Section 2.6).

**... and growth will remain strong in the early months of 2025 too**

Growth in contractual wages, which continued apace in the main segments of the private sector in late 2024, is expected to remain strong in the first half of this year too, based on the collective agreements in force (see the box 'The impact of recent negotiated wage increases on wage growth' in *Economic Bulletin*, 4, 2024). The share of workers waiting for renewals is still high (37 per cent in November), owing to delays in negotiations for construction and metalworking agreements, which expired in June and affect more than one fifth of all workers.

## 2.6 PRICE DEVELOPMENTS

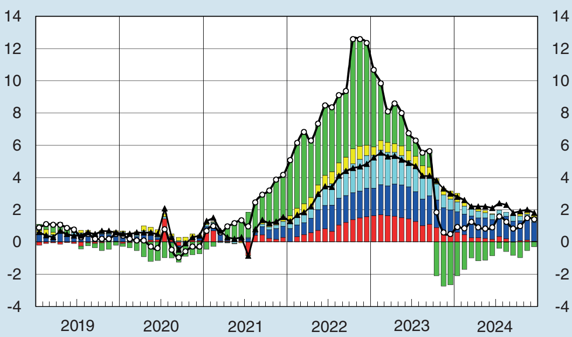
*Consumer price inflation remained below 2 per cent at the end of 2024, mainly owing to the still negative contribution of the energy component and nearly zero growth in non-energy industrial goods prices. Services price inflation was still relatively high, while the increase in food prices remained subdued. Households and firms continued to expect inflation to be moderate, at levels close to 2 per cent.*

**Consumer price inflation remains subdued**

Harmonized consumer price inflation edged down year on year, from 1.5 per cent in November to 1.4 per cent in December (Figure 22 and Table 6); food price inflation decreased, as did energy goods prices, albeit to a lesser extent. Core inflation (net of energy and food) also fell (from 2.0 to 1.8 per cent), reflecting the deceleration in the prices of both non-energy industrial goods, which were broadly unchanged, and services, whose growth remained relatively strong (2.9 per cent).

Figure 22

**Consumer price inflation, contributions of its components, and core inflation**
*(monthly data; percentage changes and points)*




Source: Based on Eurostat data.
(1) 12-month percentage change in the HICP. – (2) 12-month percentage change in the HICP excluding energy and food.

[3] Banca d'Italia, 'Macroeconomic projections for the Italian economy (Eurosystem staff macroeconomic projections)', 13 December 2024.

[4] Under the bargaining framework in force in this sector, the difference between the year-earlier HICP inflation net of imported energy goods (HICP-NEI) and the wage growth forecast at the time of renewal is measured annually. As a result, negotiated wage floors are automatically adjusted in June of the following year.

Table 6

**Indicators of inflation in Italy**
*(year-on-year percentage changes)*

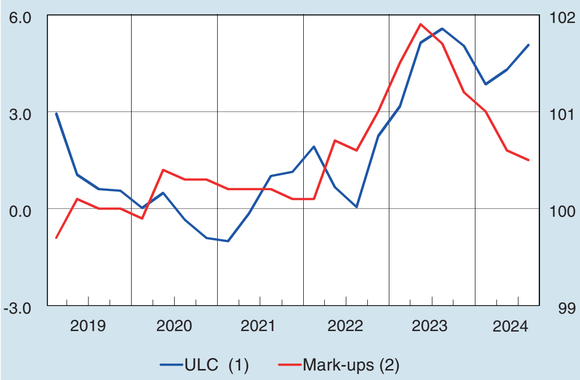
| | HICP (1) | | | | CPI (2) | PPI (3) |
|---|---|---|---|---|---|---|
| | General index | Food | Energy | Excl. energy and food | General index | General index |
| 2022 | 8.7 | 8.0 | 51.3 | 3.3 | 8.1 | 42.8 |
| 2023 | 5.9 | 9.2 | 1.1 | 4.5 | 5.7 | -8.3 |
| 2024 – Jan. | 0.9 | 5.4 | -20.7 | 2.8 | 0.8 | -14.0 |
| Feb. | 0.8 | 3.7 | -17.4 | 2.6 | 0.8 | -14.2 |
| Mar. | 1.2 | 2.7 | -10.9 | 2.2 | 1.2 | -12.7 |
| Apr. | 0.9 | 2.7 | -12.2 | 2.2 | 0.8 | -8.0 |
| May | 0.8 | 2.1 | -11.7 | 2.2 | 0.8 | -4.9 |
| June | 0.9 | 1.7 | -8.6 | 2.1 | 0.8 | -3.5 |
| July | 1.6 | 1.2 | -4.0 | 2.4 | 1.3 | -1.6 |
| Aug. | 1.2 | 1.3 | -6.2 | 2.3 | 1.1 | -1.1 |
| Sept. | 0.7 | 1.4 | -8.7 | 1.8 | 0.7 | -2.7 |
| Oct. | 1.0 | 2.5 | -9.0 | 1.9 | 0.9 | -3.8 |
| Nov. | 1.5 | 2.8 | -5.4 | 2.0 | 1.3 | -0.7 |
| Dec. | 1.4 | 2.1 | -2.7 | 1.8 | 1.3 | …. |

Sources: Based on Istat and Eurostat data.
(1) Harmonized index of consumer prices (HICP). – (2) National consumer price index for the entire resident population. This differs from the HICP principally on account of the different method for recording the prices of pharmaceutical products and promotional sales. – (3) Index of producer prices of industrial products sold on the domestic market.

For the first quarter of 2025, the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) announced an increase in electricity prices on the regulated market for vulnerable households of around 20 per cent compared with the previous quarter. The increase is attributable to the ongoing geopolitical tensions (see Section 1.1) and the seasonal rise in wholesale energy prices.

Figure 23

**Unit labour costs and mark-ups**
*(quarterly data; percentage changes and index number)*




Source: Based on Istat data.
(1) Percentage changes on year-earlier period; non-farm private sector. – (2) The mark-up is given by the ratio of the output deflator to total variable costs. Index: Q4 2019=100. Total economy; Right-hand scale.

**Producer price pressures are moderate overall**

The reduction in the producer prices of industrial goods sold on the domestic market was milder in November (-0.7 per cent year on year, against -3.8 per cent in October), reflecting developments in the energy component (-2.6 per cent from -10.6 per cent), which accounts for more than one third of producer price inflation and around one tenth of consumer price inflation. Looking at the non-energy components, growth in producer prices remained stable for consumer goods (at 1.3 per cent); it was virtually nil for capital goods and slightly negative for intermediate goods.

In the autumn, the PMIs pointed to broadly stable costs for intermediate goods in manufacturing, while there continued to be signs of an increase in services input costs, including staff costs.

Unit labour costs (ULC) in the non-farm private sector accelerated again in the third quarter of 2024, due to more significant wage growth and to a drop in productivity (see Section 2.5). Profit margins were modest in manufacturing but remained above pre-pandemic levels in construction and private services

(Figure 23); they should make it possible to absorb the expected wage increases over the coming months (see the box 'Macroeconomic projections for the Italian economy').

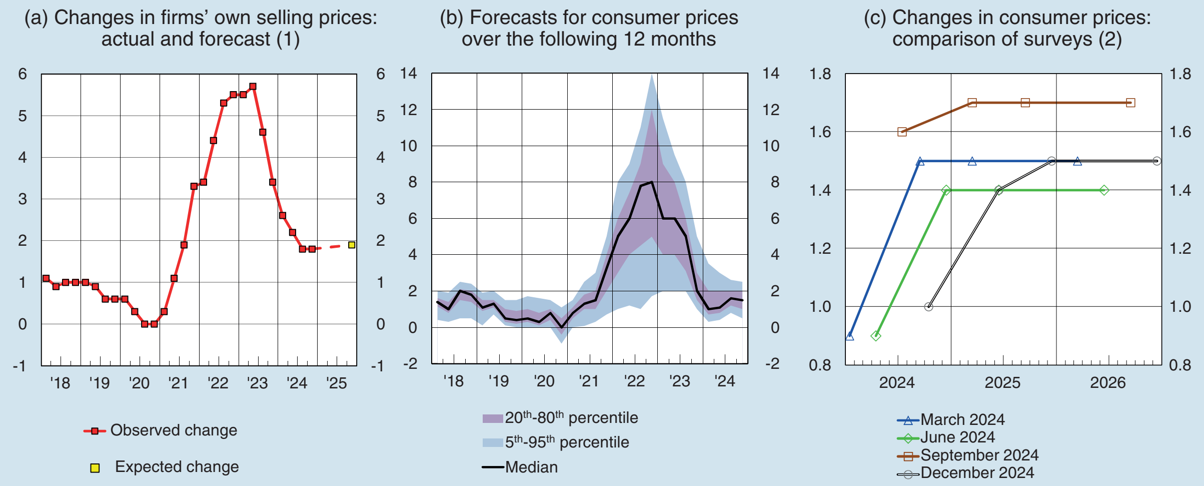
**Households and firms continue to expect moderate price growth**

Istat's surveys show that, in the autumn, the majority of households continued to expect a further decline in inflation over the following 12 months. Consumer price inflation expectations, taken from the ECB's Consumer Expectations Survey in November, stood largely unchanged at a median value of 3.0 per cent over both the twelve-month and the three-year horizons. According to the Survey on Inflation and Growth Expectations, conducted by Banca d'Italia between November and December, firms expect the growth in their selling prices to remain virtually stable over the next 12 months (just under 2 per cent on average; Figure 24) and in line with the change recorded last year. Firms' expectations for consumer price inflation are down to around 1.5 per cent across all time horizons.

**Figure 24**

**Inflation expectations of firms in industry (excluding construction) and services**

*(quarterly data; percentage changes on year-earlier period)*




Source: Based on the findings of Banca d'Italia's quarterly 'Survey on Inflation and Growth Expectations'. Up to October 2018, the survey was conducted jointly with *Il Sole 24 Ore*.

(1) Average (excluding outliers) of firms' responses to questions on the percentage change in their own prices over the previous 12 months and the change expected over the following 12 months. – (2) The key below the graph indicates the month in which the survey was carried out. The first point on each curve is the latest definitive figure for inflation available at the time of the survey (usually referring to 2 months earlier); the figure is provided in the questionnaire to be used as the basis on which firms can formulate their expectations; the second point is the average of the respondents' forecasts for inflation 6 months following the survey date; the third point is the average 12 months forward; and the fourth point is the average 24 months forward.

## 2.7 CREDIT AND FINANCING CONDITIONS

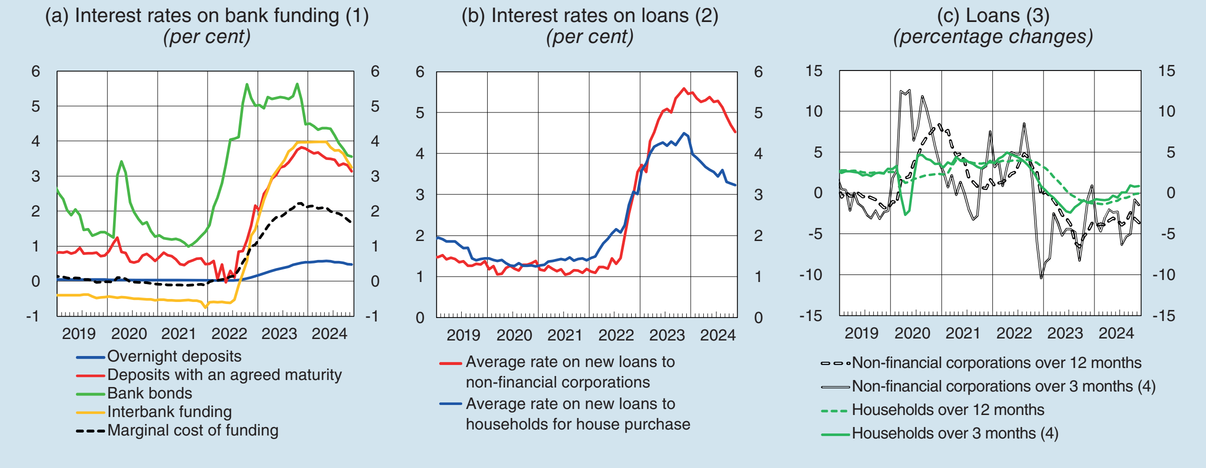
*The cut in key interest rates is being passed through to the cost of credit and bank funding in line with historical regularities. Lending to non-financial corporations contracted further in a context of persistently weak credit demand and still tight credit standards. Firms made net bond redemptions. Lending to households remained weak, despite a slight acceleration in mortgage loans for house purchase, reflecting the moderate growth in demand.*

**The cut in key interest rates is being passed through to the cost of bank funding ...**

Between August and November, the marginal cost of bank funding decreased by 26 basis points (to 1.7 per cent; Figure 25.a). Contributory factors were the fall in interbank market rates, the lower cost of bond funding and the decrease in the yield on new deposits with an agreed maturity. The interest rate on current account deposits, which was only mildly affected by the monetary tightening

Figure 25

**Bank funding costs and credit costs and developments in Italy**
*(monthly data)*




Sources: Based on data from Banca d'Italia, Bloomberg and ICE Bank of America Merrill Lynch.
(1) The marginal cost of funding is calculated as the weighted average of the costs of banks' various funding sources, using their respective outstanding amounts as weights. This is the cost that a given bank would incur to increase its balance sheet by one unit, drawing on funding sources in proportion to the composition of its liabilities at that time. – (2) Average values. Rates on loans refer to euro-denominated transactions and are collected and processed in accordance with the Eurosystem's harmonized methodology. – (3) Includes bad debts, repos and loans not reported in banks' balance sheets because they have been securitized. The percentage changes are net of reclassifications, exchange rate variations, value adjustments, and other variations not due to transactions. 3-month percentage changes are annualized. – (4) Data are seasonally adjusted following a methodology that is in accordance with the guidelines of the European Statistical System.

measures of 2022-23, was broadly unchanged at 0.5 per cent. Bank funding continued to contract (-2.2 per cent year on year): the repayment of TLTRO III funds and the decline in liabilities held by non-residents was only partially offset by the increase in other financing sources.

**… and to the interest rates on loans to firms and households**

The transmission of the cut in key interest rates to the cost of lending to non-financial corporations was in line with historical regularities: between August and November, the key interest rates dropped both for new loans (from 5.1 to 4.5 per cent; Figure 25.b), reflecting the fall in the risk-free benchmark rate,[5] and for existing loans, due to the large share of adjustable-rate loans. The average interest rate on new loans to households for house purchase decreased as well (from 3.6 to 3.2 per cent), as did the cost of consumer credit (from 8.8 to 8.5 per cent).

**Demand for business loans declines further …**

Business loans continued to contract in November, though less than in August (-1.5 per cent, from -5.3 per cent over a three-month horizon; Figure 25.c). The decline – mainly attributable to the share of repayments, which was high by historical standards – was more marked for firms with fewer than 20 employees[6] and for manufacturing firms. The Italian banks interviewed in September for the euro-area bank lending survey[7] reported a further slight decrease in demand for business loans in the third quarter of 2024, mainly due to the

[5] For adjustable-rate loans – which in November accounted for 87 per cent of new business loans – the benchmark rate is generally the three-month Euribor, which dropped by 54 basis points between August and November. For fixed-rate loans, the benchmark rate is the 10-year interest rate swap (IRS), which went down by 18 basis points over the same period.

[6] Limited partnerships and general partnerships with fewer than 20 employees; informal partnerships, de facto companies and sole proprietorships with more than 5 and fewer than 20 employees.

[7] The survey sample included 13 of the leading Italian banking groups. The results for Italy are available on Banca d'Italia's website: 'Bank Lending Survey (BLS)'.

greater use of internal funding; they also reported that credit standards were kept unchanged at tight levels. Banks expected their own credit standards to remain stable and the demand for loans to grow in the fourth quarter of 2024.

The Survey on Inflation and Growth Expectations conducted by Banca d'Italia on a sample of firms between end-November and mid-December also points to credit access conditions remaining tight, especially for small and medium-sized firms[8] and – according to Istat data – for firms in manufacturing and construction.

Loans to households[9] remained weak in November, despite the slight recovery in mortgage loans and the significant growth in consumer credit. According to the Italian banks that took part in the euro-area bank lending survey, in the third quarter of 2024 the increase in households' demand for loans for house purchase mainly reflected the lower general level of interest rates; the credit standards for this type of loans remained broadly unchanged. According to the banks, credit standards for loans to households for house purchase eased slightly and the demand for these loans increased in late 2024.

**... and firms make net bond redemptions**

In the third quarter of 2024, the persistent weakness in firms' demand for credit was accompanied by net bond redemptions (€1.8 billion) for the first time in the last twelve months; the decline in gross issuance was only partially offset by a reduction in redemptions. At the end of 2024, according to preliminary data from Bloomberg, net issuance by non-financial corporations decreased further compared with the autumn. Net equity financing remained low. Italian non-financial corporate bond yields have risen by around 6 basis points since early October (to 3.7 per cent), in line with the higher risk-free benchmark rate.[10]

## 2.8 THE FINANCIAL MARKET

*Italian ten-year government bond yields have risen since early October, while the spread against the ten-year German Bund has narrowed. Italian equity prices have edged up, in contrast to the euro area, mainly on account of the good performance of the financial sector.*

**Yields on ten-year government bonds rise**

Between early October and the first ten days of January, Italian ten-year government bond yields initially declined and then rose by 26 basis points, to 3.8 per cent (Figure 26.a), reflecting the trends observed at global level (see Section 1.3); the increase was registered almost across the entire yield curve (Figure 26.b). The spread against the German Bund narrowed by 13 basis points, to 117 basis points in early January, partly due to a more favourable assessment by market participants of the Italian fiscal conditions, which was reflected in positive outlook revisions by some rating agencies.[11] As a confirmation of the markets' favourable perception of Italy, the implied volatility of derivatives on ten-year government bonds was unchanged at the lows recorded in the last three years and liquidity conditions remained relaxed (Figure 26.c). Foreign investors continued to make net purchases of

8 Firms with 1,000 or more employees, instead, reported a slight improvement in credit access conditions.

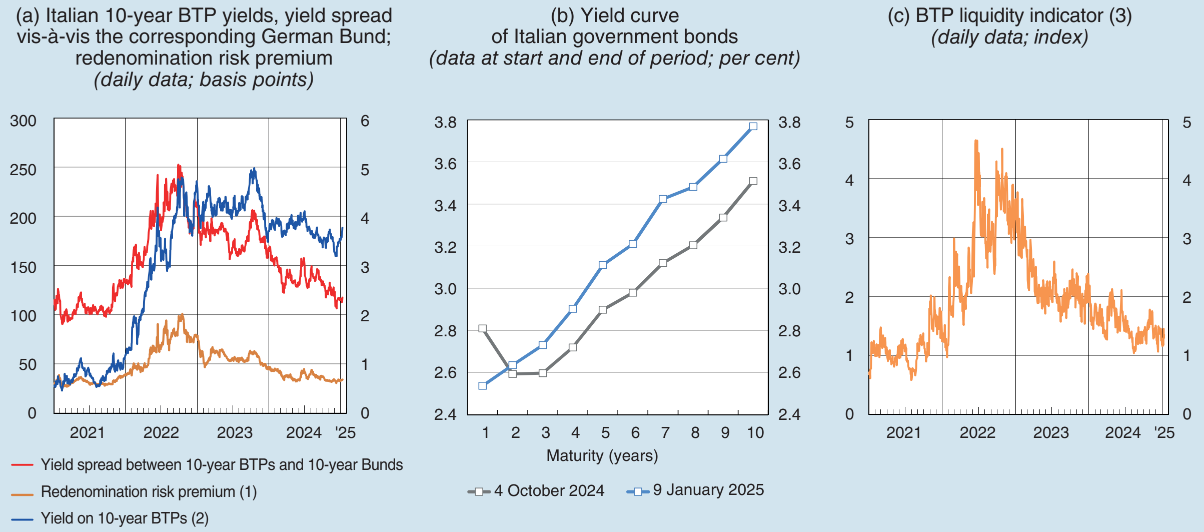
9 The definition of households used here is the Eurosystem's harmonized definition, which includes consumer households, sole proprietorships and unincorporated partnerships.

10 The benchmark rate for bond issuance is generally the five-year IRS, which has increased by around 16 basis points since early October.

11 Morningstar DBRS and Fitch, while keeping the rating unchanged, revised their outlook from 'stable' to 'positive'.

**Figure 26**

**Public sector securities market indicators**




Sources: Based on data from Bloomberg, ICE Data Derivatives UK Ltd, LSEG and Tradeweb.
(1) Spread between the premiums on Italian sovereign CDS ISDA-2014 and ISDA-2003 contracts with 5-year maturities. Compared with ISDA-2003, ISDA-2014 contracts offer greater protection against a redenomination of the underlying debt. – (2) Right-hand scale. – (3) The methodology for calculating the indicator is described in R. Poli and M. Taboga, 'A composite indicator of sovereign bond market liquidity in the euro area', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 663, 2021.

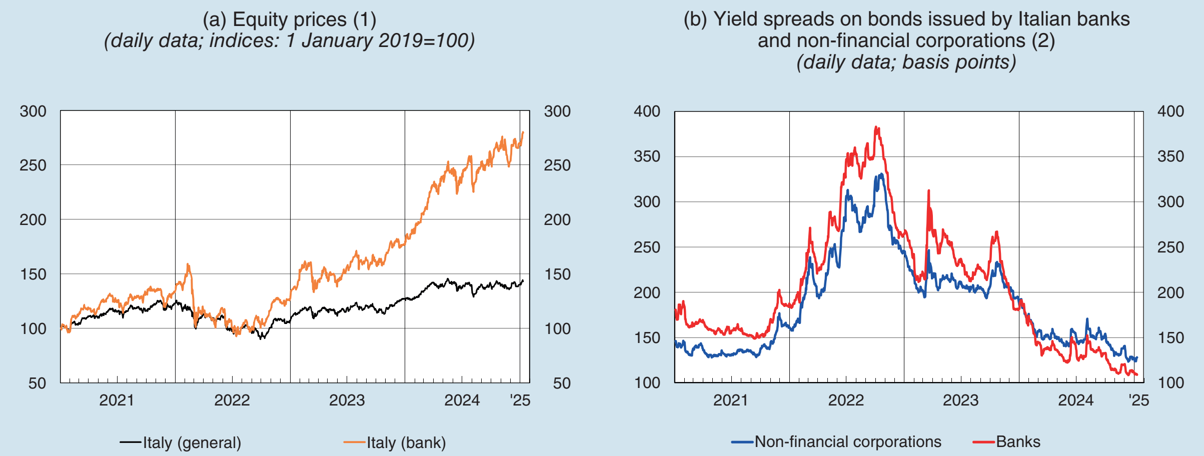
Italian government securities in the third quarter of 2024 (see Section 2.4); banks also made net purchases, though to a lesser extent.

**Equity prices go up**

Italian equity prices have increased since early October, in contrast to those in the euro area (see Section 1.3), mainly as a result of the good performance of

**Figure 27**

**Equity prices and corporate bond market**




Sources: ICE Bank of America Merrill Lynch and LSEG.
(1) Datastream general and bank indices. – (2) Yield spreads on bonds, adjusted by the value of embedded options (option-adjusted spread), based on a basket of euro-denominated bonds issued by Italian banks and non-financial corporations vis-à-vis the risk-free rate.

the financial sector. Overall, the general stock market index picked up by 4.2 per cent between early October and the first ten days of January (Figure 27.a). Bank equity prices rose by 9.9 per cent in Italy, more than the euro-area average (5.1 per cent), benefiting from the release of better than expected corporate profits and expectations of consolidation in the banking sector. Over the same period, implied volatility declined, following a temporary spike around the US election. The yield spread of bonds issued by banks and non-financial corporations vis-à-vis the risk-free rate narrowed significantly (Figure 27.b).

## 2.9 THE PUBLIC FINANCES

*Based on available data, net borrowing can be estimated to have fallen in 2024, while the debt-to-GDP ratio appears to have returned to growth, also owing to the use of building renovation tax credits from previous years. The budget law passed at the end of last December increases the deficit by 0.4 percentage points of GDP in 2025, 0.6 points in 2026 and 1.1 points in 2027, compared with the then current legislation scenario. Over the three years 2025-27, around half (i.e. €18 billion per year on average) of the additional spending will be used to fund the permanent merge of the two lowest personal income tax (IRPEF) brackets and the tax wedge cut for employees. The European Commission has given a favourable assessment of both the fiscal adjustment objectives outlined in Italy's medium-term fiscal-structural plan for the years 2025-29 (2025-29 MTP) and the Government's Draft Budgetary Plan.*

**Net borrowing is estimated to have declined significantly in 2024**

The available data suggest that net borrowing fell significantly in 2024 (from 7.2 per cent of GDP in 2023; Table 7), in line with the European Commission's and the Italian Government's assessments.

Istat's recently released estimates for the third quarter point to a decline in net borrowing for the full year 2024, with the deficit standing at 4.6 per cent of GDP in the first nine months of 2024, down by 2.8 percentage points year on year, largely as a result of the sharp reduction in non-investment capital expenditure (the budget item that includes tax credits under the 'Superbonus' building renovation incentive scheme) as a share of GDP.

State budget revenue grew by 5 per cent on the previous year, largely as a result of higher direct

Table 7

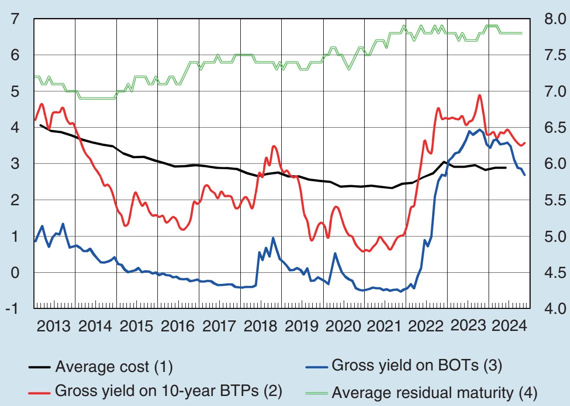
**Outturns and official targets for key public finance indicators** (1)
*(per cent of GDP)*

| | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|
| Net borrowing | 7.2 | 3.8 | 3.3 | 2.8 | 2.6 |
| Primary balance | -3.5 | 0.1 | 0.6 | 1.1 | 1.5 |
| Interest expense | 3.7 | 3.9 | 3.9 | 3.9 | 4.1 |
| Structural net borrowing | 8.2 | 4.4 | 3.8 | 3.3 | 3.0 |
| Debt (2) | 134.8 | 135.8 | 136.9 | 137.8 | 137.5 |

Source: 2025-29 MTP.
(1) Outturns for 2023 and official targets for 2024-27. Any mismatches are due to the rounding of decimals. – (2) Gross of financial support to other EMU countries.

Figure 28

**Gross yields on BOTs and 10-year BTPs, average cost and average residual maturity of debt**
*(monthly and quarterly data; per cent and years)*




Source: Istat, for interest expense.
(1) Ratio of interest expense in the four quarters ending in the reference quarter to the stock of debt at the end of the corresponding year-earlier quarter. – (2) The yield at issue is the average, weighted by the issue amounts allotted, of the compound allotment rates at the auctions settled during the month. – (3) Average monthly yield to maturity of the benchmark traded on the online government securities market. – (4) Right-hand scale.

tax revenue. General government borrowing requirement exceeded €119 billion in the first eleven months of 2024, up by almost €28 billion year on year.[12] The misalignment between the borrowing requirement and net borrowing is significantly affected by the use of a number of building renovation tax credits, which occurs after their recording (on an accrual basis) in the general government profit and loss account.

**The debt-to-GDP ratio is likely to have returned to growth**

General government debt amounted to €3,005.2 billion in November, almost €137 billion more than at the end of 2023. Also based on preliminary data for December, the debt-to-GDP ratio can be estimated to have returned to growth in 2024, as expected by both the Italian Government and the European Commission, after falling sharply over the previous three years. The average cost of debt was 3 per cent at the end of September 2024, slightly up from 2023 (2.8 per cent; Figure 28).

**Parliament approves the budget for 2025-27**

Last December, the Italian Parliament passed the budget law.[13] According to the official assessments, the budgetary provisions entail a higher deficit compared with the then current legislation scenario, with increases of 0.4, 0.6 and 1.1 percentage points of GDP in the current year and in the following two years respectively (Table 8).[14] According to the European Commission's estimates, after a strong fiscal adjustment in 2024, the Government's proposed fiscal stance will be essentially neutral in 2025 and slightly tight in 2026.

Just under half of the funds for expansionary measures, amounting overall to roughly €37 billion per year on average over the three-year period, will be used to implement the changes to the personal income tax system and the new measures to cut the tax wedge on a permanent basis.[15] The expansionary measures introduced previously and confirmed in the budget for the three years 2025-27 also include tax relief for firms and professionals hiring on permanent contracts (€1.3 billion in lower revenue per year on average over the period 2026-28). Additional resources are earmarked for the renewal of collective bargaining agreements for central government employees, for the increase in the standard funding of the national health system (€1.6 billion this year and €6.4 billion on average in the following two years), for a new social security contribution relief for firms located in southern regions[16] (€1.6 billion per year on average over the three-year period), and for a number of measures to support households with children and to combat poverty (more than €1 billion on average in each of the three years).

Expansionary measures are primarily funded by: the non-renewal of the social security contribution relief for employment in the South ('Decontribuzione Sud', €4.7 billion); a review of central and local government spending (€3.9 billion); changes to the ceilings and time limits for specific deductions

[12] In December, the State sector recorded a surplus of €8 billion.

[13] Also in December, Decree Law 155/2024, incorporating the text of Decree Law 167/2024, was converted into law, with provisions including €1 billion transfers to Rete Ferroviaria Italiana SpA, the Italian railway infrastructure manager, and an expansion in the number of recipients of the €100 one-off Christmas bonus to be paid to low-income employees with children in December 2024, at the request of the recipient. The impact of this measure on net borrowing in 2024 is estimated to be nil.

[14] 'Preliminary hearing on the budgetary provisions for the three years 2025-27', testimony by A. Brandolini, Deputy Director General for Economics, Statistics and Research at Banca d'Italia, before the 5th Committee of the Chamber of Deputies (Budget, Treasury and Planning) and the 5th Committee of the Senate of the Republic (Economic Planning and Budget), sitting jointly, Chamber of Deputies, Rome, 5 November 2024 (only in Italian).

[15] In terms of IRPEF, the lowest rate (23 per cent) is extended to taxpayers with total income up to €28,000 – thus removing the former second-lowest income bracket – and the ceiling for the 'no-tax area' is set at €8,500 for both employee and pension incomes. As regards the reduction of the tax wedge, the 2024 cut in social security contributions is replaced by a new bonus proportional to payroll income (with a decreasing rate) for taxpayers with total income up to €20,000 and by a new IRPEF tax credit for taxpayers with total income of €20,000 to €40,000.

[16] This measure mainly targets firms with a workforce of fewer than 250 people and which employ workers on permanent contracts in the Abruzzo, Molise, Campania, Basilicata, Sicily, Puglia, Calabria and Sardinia regions.

Table 8

**Impact of the 2025 budget law on the general government profit and loss account** (1)

*(millions of euros)*

| | 2025 | 2026 | 2027 |
|---|---|---|---|
| **USE OF FUNDS (C=A-B)** | **31,533** | **36,483** | **42,154** |
| **Higher expenditure (A)** | **14,901** | **18,067** | **24,276** |
| **Current expenditure** | **11,205** | **16,947** | **19,702** |
| Tax wedge cut (bonus for employees with income up to €20,000) | 4,414 | 4,414 | 4,414 |
| Renewals of collective bargaining agreements for public sector employees | 1,243 | 2,772 | 4,556 |
| Increase in the national health system standard funding | 971 | 4,334 | 4,649 |
| Other measures for general government staff (2) | 697 | 844 | 799 |
| Changes in retirement eligibility requirements (‘Quota 103’, ‘APE sociale’, ‘Opzione donna’) | 597 | 901 | 604 |
| Measures for households with children (3) | 596 | 742 | 892 |
| Public finance targets buffer | 0 | 1,150 | 0 |
| Refunding of the prepaid government benefits card scheme (‘Dedicata a te’) | 551 | 51 | 51 |
| Other | 2,138 | 1,739 | 3,738 |
| **Capital expenditure** | **3,695** | **1,121** | **4,574** |
| Corporate tax credit for the purchase of capital goods (‘ZES Mezzogiorno’) | 2,250 | 0 | 0 |
| Refunding of the new Sabatini capital goods scheme and other capex grants to firms | 660 | 150 | 480 |
| Increased allocation to the Development and Cohesion Fund | 0 | 28 | 1,648 |
| Central government investment fund | 0 | 0 | 1,030 |
| Other | 785 | 943 | 1,416 |
| **Lower revenue (B)** | **-16,632** | **-18,416** | **-17,878** |
| New personal income tax (IRPEF) credit for employees with income of €20,000 to €40,000 | -8,440 | -8,569 | -8,558 |
| Reduction of the IRPEF rate for the second-lowest bracket and extension of the ‘no-tax area’ (4) | -4,803 | -5,334 | -4,980 |
| New social security contribution relief for Italy’s South (‘Nuova Decontribuzione Sud’) | -1,780 | -1,493 | -1,515 |
| Incentives paid to employers for hiring (‘super-deduction’) | 0 | -1,330 | -1,328 |
| Tax measures relating to employee benefits | -857 | -922 | -877 |
| Broadening of the pool of recipients of contribution relief for working mothers | -238 | -212 | -224 |
| Reduction in the corporate income tax (IRES) rate for capital goods investment | -350 | -117 | 0 |
| Other (net effect) | -166 | -440 | -396 |
| **SOURCE OF FUNDS (D=E-F)** | **23,123** | **21,954** | **17,008** |
| **Higher revenue (E)** | **8,909** | **7,250** | **6,854** |
| Changes in tax deductions for loan losses and write-downs (DTAs) | 3,051 | 1,526 | -462 |
| Estimated higher revenue arising from the expected macroeconomic impact of the budget provisions | 1,619 | 1,115 | 2,212 |
| Changes in the stamp duty payment regime for insurance products | 970 | 397 | 385 |
| Land and shareholding revaluation – substitute tax (net effect) | 789 | 880 | 972 |
| Indirect effects of the budget provisions | 747 | 1,056 | 1,863 |
| Changes in tax credit for dependent household members | 496 | 631 | 587 |
| Measures to combat tax evasion | 124 | 642 | 534 |
| Lotteries, raffles and betting | 321 | 321 | 89 |
| Other | 792 | 682 | 676 |
| **Lower expenditure (F)** | **-14,214** | **-14,704** | **-10,154** |
| **Current expenditure** | **-11,516** | **-10,008** | **-9,915** |
| Non-renewal of the ‘Decontribuzione Sud’ social security contribution relief | -5,902 | -3,994 | -4,054 |
| Defunding, refunding and payment rescheduling (Section II – net effect) (5) | -3,116 | -2,497 | -2,298 |
| Central government spending cuts | -697 | -690 | -639 |
| Local government spending cuts (net effect) | -464 | -1,408 | -1,785 |
| General government hiring freeze | -270 | -532 | -572 |
| Spending review on a number of welfare schemes (6) | -561 | -355 | -3 |
| Other | -505 | -532 | -564 |
| **Capital expenditure** | **-2,698** | **-4,696** | **-239** |
| Central government spending cuts | -1,259 | -1,873 | -1,699 |
| Defunding, refunding and payment rescheduling (Section II – net effect) (7) | -1,001 | -633 | 1,903 |
| Changes in tax credit incentives under the Transizione 4.0 digital transition plan | 0 | -1,800 | 0 |
| Local government spending cuts | -270 | -355 | -438 |
| Other | -169 | -35 | -5 |
| **Net change in revenue (G=A+E)** | **-7,723** | **-11,166** | **-11,023** |
| **Net change in expenditure (H=B+F)** | **687** | **3,363** | **14,123** |
| current expenditure | -310 | 6,939 | 9,787 |
| capital expenditure | 997 | -3,576 | 4,336 |
| **Change in net borrowing (I=H-G)** | **8,409** | **14,529** | **25,146** |
| as a percentage of GDP (8) | 0.4 | 0.6 | 1.1 |

(1) Based on the official assessments contained in the parliamentary documents for the 2025 budget law. – (2) Includes funds earmarked for hiring (compensation and employment benefits). – (3) Includes the €1,000 baby bonus, the deduction of the children’s allowance (assegno unico e universale, AUU) from total income for the purpose of eligibility to the nursery bonus based on the ISEE financial situation indicator certificate, and the increased allocations to the nursery bonus for households with an ISEE value below €40,000 and to the parental leave scheme. – (4) Net of the effects of the changes in tax credit for taxpayers with total income above €75,000. – (5) Includes the net effect of defunding, refunding and payment rescheduling as per Section II of the budget law for current expenditure. – (6) Inclusion allowance (‘Assegno di inclusione’), vocational training and job support scheme (‘Supporto per la formazione e il lavoro’) and work experience for high-school students (‘Alternanza scuola lavoro’). – (7) Includes the net effect of defunding, refunding and payment rescheduling as per Section II of the budget law for capital expenditure. – (8) Based on the nominal GDP projections reported in Italy’s 2025-29 MTP.

for credit institutions and insurance companies (€2.3 billion per year on average in the two years 2025-26, largely offset by lower revenue over the following four years). Additional funding also includes the higher revenue connected with the cyclical upturn that is expected to arise from the planned fiscal expansion (€1.6 billion per year).

**The European Commission gives a favourable assessment of Italy's public finance objectives**

Last November, the European Commission issued a favourable opinion on the public finance objectives and on the set of investments and reforms outlined in the Government's 2025-29 MTP that was published in September 2024 (see the box 'Italy's first medium-term fiscal-structural plan' and *Economic Bulletin*, 4, 2024). At the same time, the Commission gave its assessment of the 2025 Draft Budgetary Plan (2025 DBP), judging it as being in line with the specific recommendations made by the Council of the European Union to the Italian Government on 21 October.[17] These included reining in net expenditure growth in 2025 so as to put the debt-to-GDP ratio on a plausibly downward trajectory over the medium term, as well as bringing the deficit below 3 per cent of GDP.

## ITALY'S FIRST MEDIUM-TERM FISCAL-STRUCTURAL PLAN

In compliance with the new EU governance framework introduced last April (see the box 'The new European fiscal governance framework', only in Italian, Chapter 2, *Annual Report for 2023*, 2024), on 9 October 2024 the Italian Parliament approved the medium-term fiscal-structural plan for the years 2025-29 (2025-29 MTP) and on 15 October the Government submitted it to the European Commission. The 2025-29 MTP provides the updated public finance estimates and lays out a consolidation path that, according to the macroeconomic and fiscal assumptions contained in the document, will put Italy's government debt-to-GDP ratio on a plausibly downward trajectory over the medium term. In addition, the Plan is expected to bring net borrowing consistently below 3 per cent of GDP from 2026 onwards. At the same time, the Government requested an extension of the adjustment period from four to seven years.[1]

Under the Plan, Italy commits to achieve average annual net expenditure growth[2] of 1.5 per cent over the period 2025-31, in line with the Commission's guidance in last June's communication.[3] According to the 2025-29 MTP, the structural primary balance should improve by around half a percentage point per year on average, to just above 3 per cent in 2031. After rising to 137.8 per cent of GDP in 2026 (from 135.8 per cent in 2024), government debt is projected to decline to 132.5 per cent in 2031.

In order to secure the extension of the adjustment period, the Government made a commitment to continue its reform efforts under the NRRP over the entire horizon of the 2025-29 MTP (i.e. beyond 2026) and to keep nationally funded investment expenditure at the average levels achieved over the period covered by the NRRP. More specifically, the Government presented 24 proposals on civil

1 For an in-depth discussion of the 2025-29 MTP, see 'Preliminary hearing on the medium-term fiscal-structural plan for 2025-29', testimony by S. Nicoletti Altimari, Director General for Economics, Statistics and Research at Banca d'Italia, before the 5th Committee of the Chamber of Deputies (Budget, Treasury and Planning) and the 5th Committee of the Senate of the Republic (Economic Planning and Budget), sitting jointly, Chamber of Deputies, Rome, 7 October 2024 (only in Italian).

2 Net expenditure consists of general government expenditure net of interest expenditure, discretionary measures on the revenue side, expenditure on EU programmes fully matched by EU funds revenue, national expenditure relating to the co-financing of EU-funded programmes, the cyclical component of unemployment benefit expenditure (including the disbursements connected with short-time work schemes) and one-offs and other temporary measures.

3 In accordance with the new EU rules, on 21 June 2024, the European Commission indicated a net expenditure reference trajectory for Italy based on its own debt sustainability analysis. Though the 2025-29 MTP does not follow the trajectory suggested by the Commission on a year-by-year basis, average net expenditure growth over the period is in line with the Commission's guidance.

17 See Section 1.2 for the European Commission's opinions and recommendations regarding the other euro-area countries.

justice, taxation, the business environment, general government, childcare, spending reviews and the rationalization of State-owned enterprises.[4]

On 26 November 2024, as part of the European Semester Autumn Package, the Commission recommended that the Council endorse Italy's 2025-29 MTP. The Commission believes that, in addition to securing a gradual reduction of debt and a budget balance below the Maastricht Treaty threshold over the medium term, the Plan: (a) will adjust the structural primary balance by at least 0.5 per cent of GDP throughout the excessive deficit procedure, in line with the minimum benchmark clause;[5] (b) is consistent with the deficit resilience safeguard clause;[6] (c) is consistent with the debt sustainability safeguard clause;[7] (d) prevents the fiscal adjustment from being concentrated in the final years of the adjustment period, in accordance with the no-backloading safeguard clause.

Table

**Outturns and official targets for the main public finance indicators**
*(per cent)*

| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
|---|---|---|---|---|---|---|---|---|---|
| Net expenditure growth rate | – | -1.9 | 1.3 | 1.6 | 1.9 | 1.7 | 1.5 | 1.1 | 1.2 |
| Structural primary balance (1) | -4.5 | -0.5 | 0.0 | 0.6 | 1.1 | 1.6 | 2.2 | 2.7 | 3.2 |
| Net borrowing (1) | 7.2 | 3.8 | 3.3 | 2.8 | 2.6 | 2.3 | 1.8 | 1.7 | 1.5 |
| Debt (1) | 134.8 | 135.8 | 136.9 | 137.8 | 137.5 | 136.4 | 134.9 | 133.9 | 132.5 |

Source: 2025-29 MTP.
(1) As a percentage of GDP.

4 'Medium-term Fiscal-Structural Plan. Italy, 2025-29', 2024.
5 The minimum benchmark clause provides for a minimum adjustment of structural net borrowing of 0.5 per cent of GDP throughout the excessive deficit procedure. However, for the years 2025-27, the European Commission will exceptionally take into account the structural balance net of interest expenditure, rather than the overall structural balance, for the purposes of compliance with the clause. In the Government's Plan, the former is set to improve by over half a percentage point per year over the planning horizon.
6 This clause requires the annual adjustment of the structural primary balance to be made in the event of a deficit of more than 1.5 per cent of GDP to be no less than 0.25 percentage points per year. This rule will be effective as of 2027, when the Government expects Italy to exit the excessive deficit procedure.
7 This clause requires the general government debt-to-GDP ratio to fall by at least 1 percentage point per year after the end of the excessive deficit procedure. The 2025-29 MTP projects an average annual reduction of 1.2 percentage points of GDP over the period 2027-31.

**The Government sells an additional stake in Banca Monte dei Paschi di Siena**

Last November, the Ministry of Economy and Finance sold 15 per cent of Banca Monte dei Paschi di Siena's share capital to Italian and foreign institutional investors, in a transaction worth €1.1 billion, bringing its stake in the bank to 11.7 per cent. This transaction follows two other share sales in November 2023 and March 2024 (see *Economic Bulletin*, 1, 2024 and *Economic Bulletin*, 2, 2024).

**Italy receives the sixth NRRP instalment**

In December, Italy received the sixth instalment under the Recovery and Resilience Facility (€8.7 billion, of which €1.8 billion in grants), bringing the total funding received so far to €122 billion. According to the 2025 DBP, NRRP-funded expenditure will rise from 1 per cent of GDP in 2024 to around 2 per cent in 2025.