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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

The new protectionist measures are making the outlook for global growth worse

At a time of exceptionally high geopolitical uncertainty, global economic activity is showing signs of a slowdown. Growth has weakened in the United States and is struggling to strengthen in China. On 2 April, the US administration announced a drastic increase in tariffs on almost all other countries, which have been calculated based on their trade surplus with the United States. This marks a sharp break from the policies followed so far, which could have serious consequences for the global economy and international cooperation. The expansion in world GDP, which the OECD had already revised downwards in its projections before 2 April, could be significantly impacted by the tariffs' direct and indirect effects and by the uncertainty arising from the tight trade policies.

The reaction of the financial markets is very negative

The announcement of new tariffs sparked a rapid and sharp correction on international financial markets: share prices recorded heavy losses, especially in those sectors most exposed to world trade. The considerable increase in volatility spurred investors to reallocate their portfolios towards safer assets. Unlike past episodes of intense market turbulence, the dollar has depreciated against all the major currencies. The prices of oil and natural gas have fallen sharply, anticipating a drop in demand. On 9 April, the US administration announced a three-month suspension of tariffs, during which a reduced rate of 10 per cent will be applied to all trading partners, except for China. The financial markets have partially recouped the falls recorded since 2 April, but an atmosphere of high uncertainty persists.

Euro-area GDP growth is moderate in the first quarter

According to the available data, euro-area GDP continued to rise moderately in the early months of the year, buoyed by ongoing growth in consumption, against weak investment in capital goods. GDP benefited further from the uptick in services and from the recovery in manufacturing activity, which is expected, however, to be affected by the uncertainty stirred up by US trade policies. Inflation fell, to just above 2 per cent. The ECB staff projections published in March, which did not take account of the tariffs imposed on the European Union by the US administration, pegged euro-area growth at 0.9 per cent in 2025 and slightly higher in the next two years, while inflation is projected to decline and to stabilize at around 2 per cent in early 2026.

The ECB lowers its key interest rates again

In its January and March meetings, the Governing Council of the ECB lowered its deposit facility rate further, by 50 basis points in total, bringing it to 2.5 per cent, 150 basis points below where it was at the peak reached in June 2024. Markets expect further cuts of between 75 and 100 basis points overall in 2025. The previous reductions are being passed through smoothly to the cost of lending. However, credit growth in the euro area remains subdued.

GDP grows moderately in Italy

According to our estimates, Italy's GDP posted modest growth in the early months of the year. Economic activity was driven by consumption, which in turn was helped by stable employment and by rising wages. However, investment in capital goods remained weak, in part due to low levels of capacity utilization and to still tight credit conditions. Economic activity was supported by services; manufacturing improved slightly, but looking ahead, it may suffer from the effects of the new tariffs and, more generally, from global instability. In construction, the impetus provided by the gradual completion of the National Recovery and Resilience Plan (NRRP) projects offset the decline in the residential sector, which followed the phasing out of the generous incentives for energy-efficient building renovations.

The current account surplus expands

The current account surplus increased in the fourth quarter of 2024, benefiting from the improvement in the goods balance. Foreign investors continued to buy Italian government securities. Goods exports began to grow again in the first two months of the year, likely driven in part by purchases being brought forward before the US tariffs take effect. Looking ahead, exports will be affected by the tariff increases, although the sectoral composition, quality ranking and good profitability of Italian firms present in the US market could mitigate the consequences of the drop in demand from the US, at least in the short term.

Employment returns to growth at the start of the year

After stagnating in late 2024, employment rose again in the early months of this year, along with the activity rate. The unemployment rate fell further, especially among young people. Wage growth is expected to remain strong in 2025, contributing to the still partial recovery in households' purchasing power. However, wage pressures are expected to ease in the future.

Inflation remains subdued

In the early months of 2025, higher energy prices caused inflation to rise slightly, to 2.1 per cent in March. Price increases in services, which exceed the overall inflation rate, are gradually declining. The Government's 'Bills Decree' introduced relief measures to soften the impact of energy cost increases for households and firms. Firms expect to increase their prices modestly this year.

The cost of lending continues to decline

The cut in key interest rates is being passed through to the cost of bank funding and credit, in line with historical regularities. However, loans to firms have continued to decline on a twelve-month basis, particularly for relatively smaller firms. This is a reflection of weakened demand overall (although it is rising slightly), widespread use of internal financing and still cautious credit access conditions, especially for small firms. Lending to households continues to gain strength.

Net borrowing decreases significantly

In 2024, general government net borrowing was more than halved compared with 2023, thanks to the sizeable improvement in the primary balance, which turned positive for the first time since 2019. The phasing out of the Superbonus was the primary contributing factor. By contrast, the debt-to-GDP ratio, which had previously been heavily affected by the cash impact of this incentive, increased slightly, to 135.3 per cent.

Tougher tariffs heighten the risks for the growth outlook

According to our projections published on 4 April and reported in this Bulletin, Italy's GDP will grow by 0.6 per cent this year, 0.8 per cent next year, and 0.7 per cent in 2027. The forecasting scenario includes an initial and necessarily limited assessment of the impact of the tariffs announced on 2 April by the United States but does not consider the impact of any retaliatory measures, of the effects that could arise from the international financial markets or of the temporary and partial suspension announced on 9 April. GDP growth will be hobbled by foreign demand because of the tariffs; however, it will be buoyed by the expansion in consumption, fostered by the good performance of real income. Investment will benefit from the measures set out in the NRRP but will be hindered by the uncertainty connected with trade tensions and by the continuing effects of the phasing out of residential building incentives. Consumer price inflation is projected to remain at around 1.5 per cent in both 2025 and 2026, and then to rise to 2.0 per cent in 2027.

These projections could be affected by potentially harsher repercussions stemming from the tightening of trade policies. Growth could be particularly hard hit by possible retaliatory measures, by fresh waves of uncertainty, and by protracted tensions on the financial markets, which could lead to a sharp slowdown in foreign demand and a waning of consumer and business confidence.

1 THE WORLD ECONOMY

1.1 THE GLOBAL CYCLE

Global economic activity showed signs of a slowdown in the first few months of the year, especially in the United States, where the uncertain economic outlook is weighing on both businesses and consumers. On 2 April, the US administration announced new tariffs on all imports, with particularly high increases for countries running a trade surplus vis-à-vis the United States, such as China, the European Union, Japan and the economies of South-East Asia. On 9 April, the new provisions were partially paused for three months for the US' main trading partners except China, for which tariffs were raised further. The 2 April decision marks a sharp change of course from the trade policies adopted so far and introduces significant risks to the outlook for global trade. After peaking in February, oil and gas prices declined, reflecting a weaker outlook for global demand. Global growth forecasts, which had already become less favourable before 2 April, will be affected further by trade tensions, amid considerable uncertainty about the future of international relations.

Growth slows down in the US and remains weak in China

At the end of 2024, economic activity in the United States continued to expand (2.4 per cent), at a slower pace than in the third quarter (Table 1). Consumption, which had driven growth in 2024, weakened in the early months of 2025. In China, economic activity accelerated in the last quarter of 2024, but consumption

Table 1

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

	Growth			OECD forecasts		Revisions (2)	
	2024	2024 Q3 (1)	2024 Q4 (1)	2025	2026	2025	2026
World	**3.2**	**–**	**–**	**3.1**	**3.0**	**-0.2**	**-0.3**
Japan	0.1	1.4	2.2	1.1	0.2	-0.4	-0.4
United Kingdom	1.1	0.0	0.4	1.4	1.2	-0.3	-0.1
United States	2.8	3.1	2.4	2.2	1.6	-0.2	-0.5
Brazil	3.4	4.0	3.6	2.1	1.4	-0.2	-0.5
China	5.0	4.6	5.4	4.8	4.4	0.1	0.0
India (3)	6.7	5.6	6.2	6.4	6.6	-0.5	-0.2
Russia	….	3.1	….	1.3	0.9	0.2	0.0
Euro area	0.9	1.7	0.9	1.0	1.2	-0.3	-0.3

Sources: National statistics for data on growth; OECD, *OECD Economic Outlook. Interim Report. Steering Through Uncertainty*, March 2025, for world GDP and for the forecasts.
(1) Quarterly data. For the euro area, 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,* December 2024. – (3) The actual data and the forecasts refer to the fiscal year starting in April.

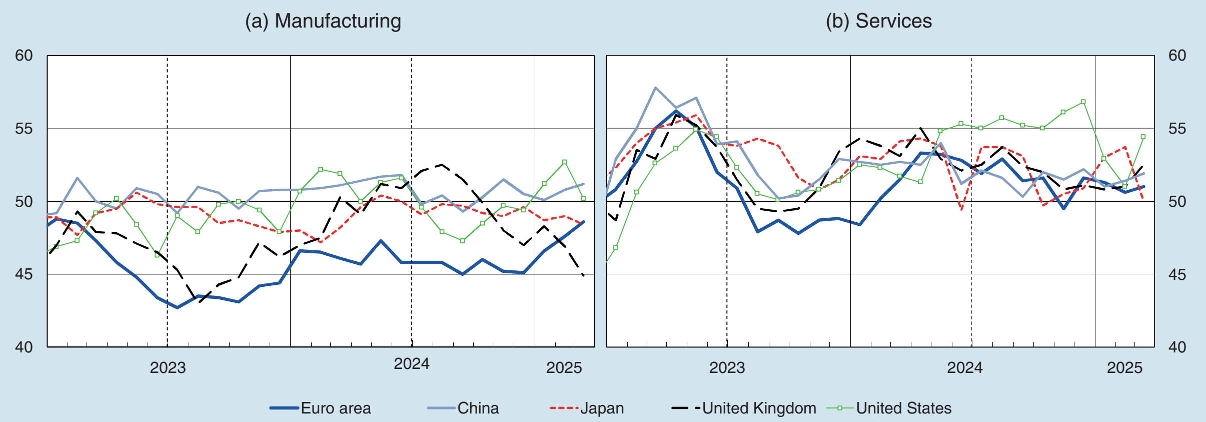
remained sluggish at the beginning of the new year. Last March, the government set the target for real GDP growth in 2025 at 'around 5 per cent' and raised the target for the budget deficit by 1 percentage point of GDP, to 4 per cent.

Global activity loses momentum in services

The cyclical signals from purchasing managers' indices (PMIs) calculated before 2 April showed a mixed picture across sectors and countries. Manufacturing PMIs were just above the expansion threshold in China and the United States on average in the first quarter, pointing to weak growth at the start of the year (Figure 1.a). Over the same period, services PMIs fell in the United States, presumably owing to the expected cuts in federal government spending and to the potentially higher costs stemming from trade tensions, although they remained above the expansion threshold, as in the other major advanced economies and in China (Figure 1.b).

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.

The outlook for world trade worsens

In the fourth quarter of last year, world trade lost momentum, despite a surge in goods trade in December. The latter accelerated further in January, driven by a considerable rise in US imports. These recent signs suggest that trade flows may have been temporarily supported by buyers bringing forward purchases in order to mitigate the impact of the tariffs imposed by the new US administration. In the winter months, the global indices of manufacturing foreign orders, albeit improving, remained below the expansion level; the services component, though still in line with an increase in orders, weakened. Trade policy uncertainty, as measured by the Trade Policy Uncertainty Index,[1] hit an all-time high in March.

On 2 April, the Trump administration announced a new tariff package marking a sharp change of pace from previous measures. The new provisions include a minimum tariff rise of 10 percentage points, with country-specific increases above this threshold that are stronger for those economies running a trade surplus vis-à-vis the United States, such as China, South-East Asia, Japan and the European Union. The 2 April measures apply to almost all goods, with the exception of those already under restrictions (including the aluminium, steel and automotive industries) and of a list

[1] For more details on the construction of the indicator, 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 products enjoying temporary relief (e.g. semiconductors and pharmaceuticals), which will be covered by specific provisions that are still being drawn up. Mexico and Canada, already subject to a previous tariff increase, are not affected by the new rises, and the products that are compliant with the terms of the US-Mexico-Canada Agreement (USMCA) will continue to be tariff-free. In order to determine the tariff rate to be applied to each country, the US administration used a criterion based on the ratio of the US' bilateral trade deficit vis-à-vis a given country to the value of its imports from the same country, without considering the actual gap between US tariffs and those imposed by their trading partners. On 9 April, the new provisions were partially paused for a three-month period, during which a reduced 10 per cent rate will apply to all US trading partners except China. Tariffs against the latter were actually raised to well over 100 per cent following its tit-for-tat retaliation. The introduction of these new tariffs, coupled with uncertainty over their actual implementation and over potential countermeasures by US trading partners, may have significant negative repercussions on trade, with effects extending into next year.

Global growth forecasts are revised downwards

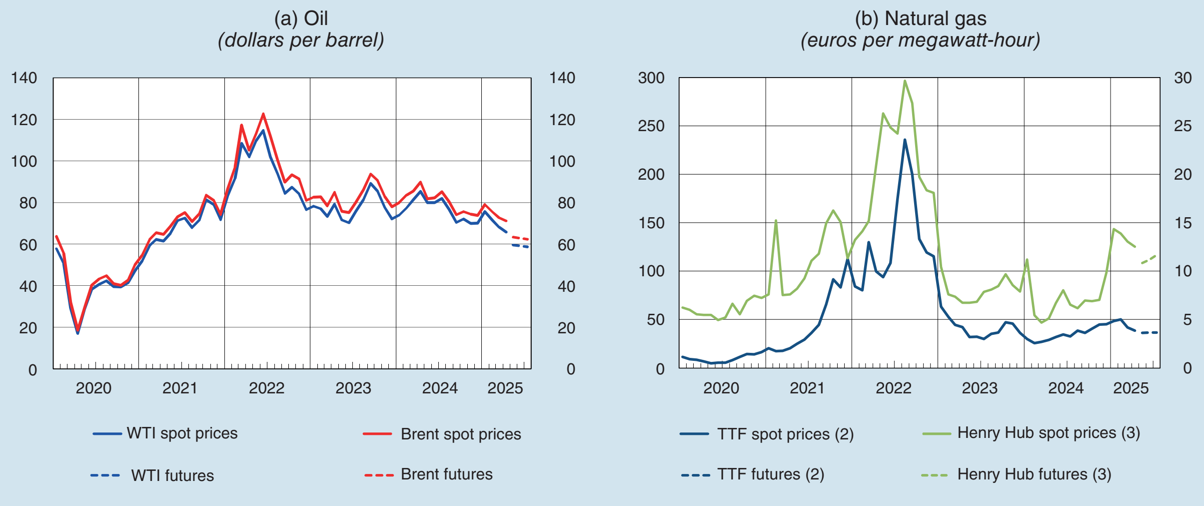
According to the projections released in March by the OECD, world GDP will expand by 3.1 per cent in 2025, at a slower rate than in the previous year. The estimates have been revised downwards since December. There are still significant differences in GDP trends across the major advanced economies, with growth expected to stand at 2.2 per cent in the United States (down from 2024), to hold close to 5 per cent in China and to remain weak in the euro area. Heightened trade tensions between the United States, Europe and China pose a significant downside risk to global economic activity and an upside risk to inflation, especially in the US.

Oil prices are significantly lower

After peaking in mid-January, the price of Brent crude oil plunged to $63 per barrel on 8 April, its lowest level since August 2021 (Figure 2.a). The fall is attributable to weak global demand for oil and greater supply from OPEC+, which disclosed its intention to increase production by around 411,000 barrels per day in May, above the initial target of 140,000. Although the new US tariffs do not apply to oil, gas or refined

Figure 2

Commodity prices (1)
(monthly data)



Source: LSEG.
(1) For spot prices, monthly averages up to March 2025. The data for April 2025 refer to the average of the daily data from 1 to 8 April 2025. For futures, the data refer to the prices on 8 April 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.

fuel, their announcement added to the significant downward pressure on oil prices, sparking fears of a decline in global demand. Both the International Energy Agency (IEA) and private analysts expect supply conditions to remain relaxed throughout 2025; based on futures contracts, the price of Brent crude oil is set to stand at $61 per barrel in December 2025.

Natural gas prices fall sharply

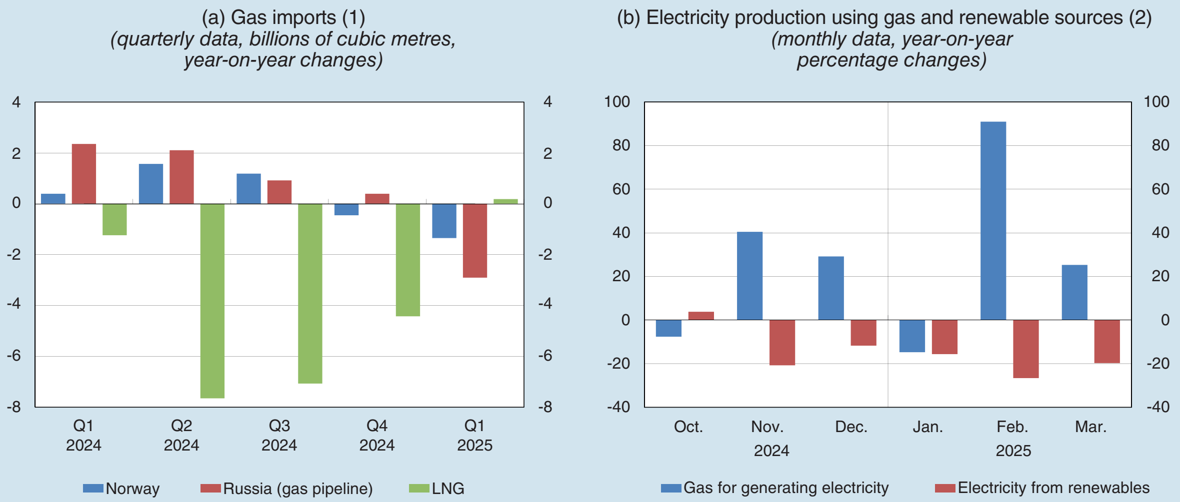
After rising for most of 2024 and into this year, the Title Transfer Facility (TTF) price of natural gas plunged to around €35 per megawatt-hour (Figure 2.b). This decline reflects concerns that global trade tensions will dampen economic activity, as well as the unwinding of some temporary shocks that had been among the drivers of previous price increases (see the box 'The recent trend in natural gas prices in Europe').

THE RECENT TREND IN NATURAL GAS PRICES IN EUROPE

Having increased gradually over the course of 2024, the price of natural gas on wholesale markets rose sharply in the first weeks of this year in Europe. It came close to €60 per megawatt-hour on 10 February, almost double the prices of the previous year.[1] Prices then fell, to €35 per megawatt-hour in the following weeks (a figure that is still about 50 per cent higher than in the same period of 2024). The increase in prices is the result of a combination of a contraction in supply and growth in demand for natural gas.

Figure

Imports of natural gas and electricity production using gas and renewable sources in the EU



Sources: Based on Bruegel data and data from the Centre for Research on Energy and Clean Air (CREA).
(1) Imports do not include all the sources for natural gas supplies. – (2) Renewable sources include wind and hydroelectric power.

European natural gas imports went down by 6 per cent last year compared with 2023. On the supply side, this was influenced by lower liquefied natural gas (LNG) supplies, which were down by 15 per cent owing to both increased demand in the Asian market (in competition with the European market) and to some malfunctions in US liquefaction plants (which reduced the LNG supply

[1] The twelve-month change is calculated as the percentage difference between the average price in February 2025 and the corresponding average for February 2024.

during the summer).[2] Expectations of a non-renewal of the agreement between Russia and Ukraine have become firmer, pushing prices up from autumn onwards. Supplies from Russia transiting through Ukraine (about 5 per cent of the total imported by the EU) have been discontinued since early 2025 (see panel (a) of the figure). In addition, deliveries of gas via pipelines from Norway decreased last winter due to maintenance work in some production plants taking longer than expected.

Climate-related factors have upped the demand for gas. Weak winds and scarce water availability, especially in the north-west of Europe, have led to significant falls in the production of electricity from renewable sources since last November (see panel (b) of the figure), offset by greater use of gas power stations. More severe cold spells than in the last two winters also drove the consumption of gas for heating.

These changes in supply and demand led to a rapid reduction in the gas storage accumulated last summer. Although inventories are in line with the average values observed in the period 2015-22, they are considerably lower than the levels for the last two winters.

Gas prices have gradually declined since the second half of February 2025, thanks to the normalization of flows from Norway, to growing LNG volumes attracted in Europe by high prices by international standards, and to climate factors becoming more favourable. Signs of peace negotiations starting between Russia and Ukraine also appear to have pushed prices down, in view of a possible resumption of gas flows through Ukraine and bigger LNG exports from Russia. Prices fell further in early April, affected by the weaker outlook for global demand because of the ongoing trade war.

Futures prices on the TTF market and analysts' forecasts point to expectations of between €35 and €40 per megawatt-hour for most of this year. The current forward curve does not display the usual seasonal pattern, i.e. higher prices in winter and lower prices in the summer. The relatively stable prices throughout 2025 stem from the need to rebuild stockpiles during the summer months, also in order to achieve the objectives formulated at European level (90 per cent of storage capacity by 1 November), starting from a lower level than in the last two years. This factor could be mitigated by the introduction of greater flexibility in the achievement of these objectives, currently being discussed at European level. The prices for next winter could also be capped by forecasts of growth in LNG production, especially in the United States.

Until this kind of increase in LNG supply occurs, gas prices could fluctuate significantly.

[2] LNG contributed 38 per cent of European supplies in 2024; the remaining 62 per cent was imported via pipelines.

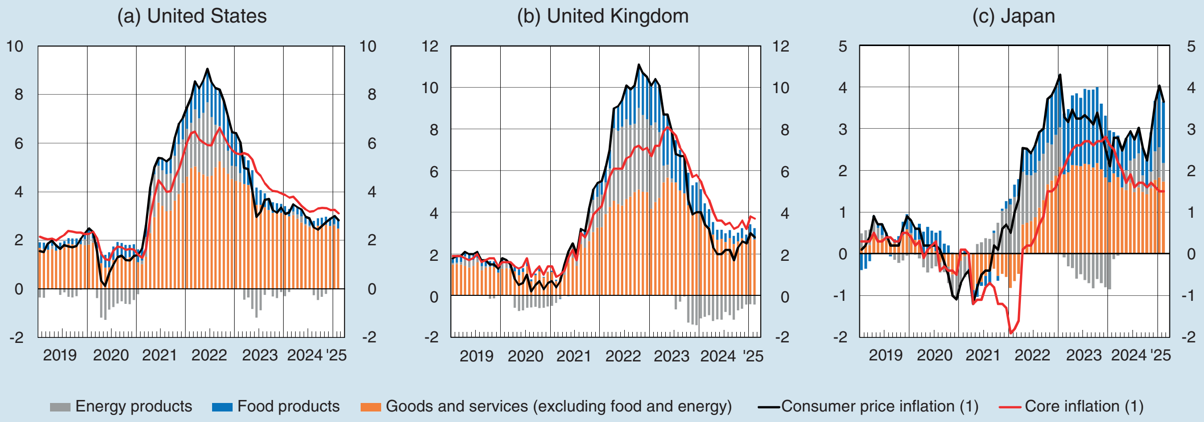
The US Federal Reserve keeps its policy rates unchanged in March

In February, twelve-month consumer price inflation fell from the previous month in the United States, the United Kingdom and Japan; core inflation declined everywhere except in Japan, where it was stable (Figure 3).

In its March meeting, the US Federal Reserve again kept its policy rates unchanged at 4.25-4.50 per cent. Amid deteriorating growth prospects and expectations of stronger price pressures due to the tariff announcements by the US administration, the projections of Federal Open Market Committee (FOMC) members still point to two policy rate cuts by December 2025. At the beginning of April, markets are discounting at least four rate cuts over the same time horizon, with a probability of around 70 per cent. The Bank of England and the Bank of Japan also kept their policy rates unchanged in

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.

March, at 4.5 per cent and 0.5 per cent respectively. The People's Bank of China reiterated its accommodative monetary policy stance and committed to stepping up its support for economic activity. In its March meeting, it left the one-year and five-year loan prime rates unchanged, at 3.1 per cent and 3.6 per cent respectively.

1.2 THE EURO AREA

The latest cyclical indicators indicate that euro-area GDP growth was still moderate in the first quarter of the year. GDP benefited from growth in services and from the recovery in manufacturing activity. The trend in consumption is still positive, while investment remains weak. The introduction of new levies by the US administration is weighing on the economic outlook for the euro area. Inflation has remained just above 2 per cent; growth in services prices has been heading towards disinflation in the last two months. In its January and March meetings, the Governing Council of the ECB lowered its deposit facility rate further, by 50 basis points overall, bringing it to 2.5 per cent. The cut of 150 basis points in key interest rates since the start of the monetary easing cycle is being passed through to the cost of credit, in line with historical regularities.

GDP growth loses momentum at the end of 2024 ...

Euro-area GDP increased by 0.2 per cent in the fourth quarter of 2024 against the previous quarter (from 0.4 per cent in the summer quarter; Table 2). Value added rose in services and construction, but fell in industry excluding construction.

GDP declined in both Germany and France (-0.2 and -0.1 per cent respectively), increased slightly in Italy (0.1 per cent) and continued to grow strongly in Spain (0.8 per cent), thanks to the solid growth in its domestic demand.[2] Leaving aside the volatility of trends in Ireland,[3] euro-area activity

[2] In the last quarter of 2024, domestic demand in Spain contributed 1.2 percentage points to GDP growth, thanks to the increase in consumption and to greater investment (especially in transport equipment, which benefited from incentives for low-emission vehicles before the expiry of the measures at the end of the year). On the supply side, economic activity was driven by the real estate sector (with an increase in value added in construction and in construction-related services).

[3] GDP increased in Ireland by 3.6 per cent quarter on quarter, thanks to a strong contribution from net external demand.

was affected by a negative contribution from net foreign demand, stemming from both a contraction in exports and an increase in imports. Household consumption rose further, albeit less so than in the previous quarter, when it was driven by some temporary factors, such as the Olympic Games. Although slowing compared with the previous three months, investment continued to rise, thanks in part to strong growth in Italy, the Netherlands and Spain.

Table 2

Euro-area GDP growth and inflation
(percentage changes)

	GDP growth 2024	GDP growth 2024 Q3 (1)	GDP growth 2024 Q4 (1)	Inflation 2025 March (2)
France	1.2	0.4	-0.1	(0.9)
Germany	-0.2	0.1	-0.2	(2.3)
Italy	0.7	0.0	0.1	(2.1)
Spain	3.2	0.8	0.8	(2.2)
Euro area	0.9	0.4	0.2	(2.2)

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

... and appears to have remained moderate in the first quarter of 2025

The latest cyclical indicators suggest that growth in euro-area GDP was still moderate in the first quarter of this year.

According to our estimates, the industrial cycle recovered partially, as indicated by the rebound in production in January after the drop at the end of 2024. The PMIs are compatible with a recovery in economic activity over the first quarter: the component for current production exceeded the threshold for expansion in March, for the first time since April 2023. Nevertheless, the forward guidance drawn from the PMIs for orders and from the confidence indices prepared by the European Commission confirmed that manufacturing activity is weak overall. Service firms' assessments of current activity and expected demand in the European Commission's surveys also became less favourable, pointing to a slowdown in growth over the year. The moderate expansion in construction activity continued in the winter months as well. The recovery of the real estate market was a contributory factor, assisted by the gradual easing of financing conditions.

Based on the information available, consumption continued to grow at a low rate in the first quarter, reflecting weak household confidence, which remains below the historical average. Investment stagnated, especially because of the weak performance of capital goods, as indicated by the surveys on the confidence of firms producing capital goods and by the low capacity utilization in industry.

At a time of particularly marked trade tensions, developments in net foreign demand remain highly uncertain. Both the PMI for foreign orders and the corresponding European Commission survey index, though improving compared with the last quarter of 2024, pointed to a fall in sales in the first three months of the year. Nevertheless, foreign trade data suggested an increase in both euro area and non-euro area exports in January. The increase in sales to countries outside the euro area, boosted by the good performance of exports to the United States, could signal the frontloading of some purchases before the entry into force of the US tariffs that had been announced in previous weeks (see Section 1.1).

Banca d'Italia's €-coin indicator for March continued to point to limited growth overall in underlying activity in the winter months (Figure 4).

The ECB revises its forecasts for euro-area growth downwards

According to the ECB staff projections released in March,[4] after growing by 0.9 per cent in 2025, euro-area GDP will rise by 1.2 per cent in 2026, and by 1.3 per cent in 2027. Compared with last December, the forecasts have been revised downwards by around 0.4 percentage points overall for the two years 2025-26.

[4] For more information, see the ECB's website: 'ECB staff macroeconomic projections for the euro area', March 2025.

The revision mainly reflects the continuing weakness in investment and in exports. The increase in the tariffs introduced by the US administration, which were not included in the projections, will have further negative effects on euro-area economic activity.

Inflation remains just above 2 per cent

Consumer price inflation fell in March, to 2.2 per cent year on year (from 2.3 per cent in February; Figure 5). Growth in energy prices turned negative (-0.7 per cent) following the significant increases in past months, due in part to the rises in oil prices and in wholesale electricity and gas prices. Conversely, food price inflation went up, mainly because of the higher prices of the corresponding commodities.

Core inflation, measured net of food and energy products, fell further, to 2.4 per cent. This decline was attributable to services inflation, down for the third consecutive month (3.4 per cent).

The producer prices of industrial products sold on the domestic market rose by 3.0 per cent year on year in February; the reduction in prices recorded in spring 2023 gradually tapered off in 2024. The increase mainly reflected the performance of energy commodity prices, which rose sharply until the end of February.

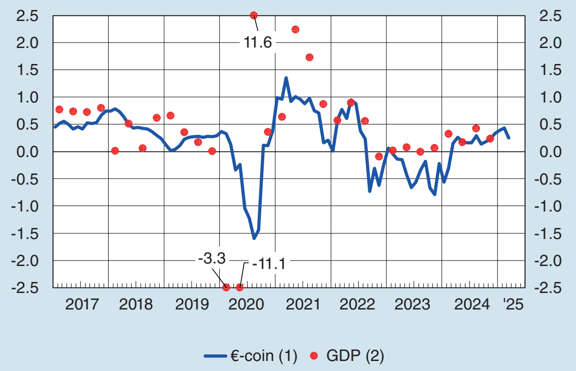
Wage growth is robust in autumn

In the fourth quarter of 2024, contractual wage growth in the euro area remained above 4 per cent, but actual hourly wages slowed. Employment grew just barely on average, by 0.1 per cent; it continued to grow in Spain, in contrast to general stability in France, Germany and Italy. The number of hours worked rose by 0.6 per cent, driven by the acceleration recorded in Spain (1.8 per cent) and by the smaller increases in Germany and in Italy (0.6 and 0.2 per cent respectively).

Figure 4

€-coin coincident cyclical indicator and euro-area GDP

(monthly and quarterly data; percentage changes)

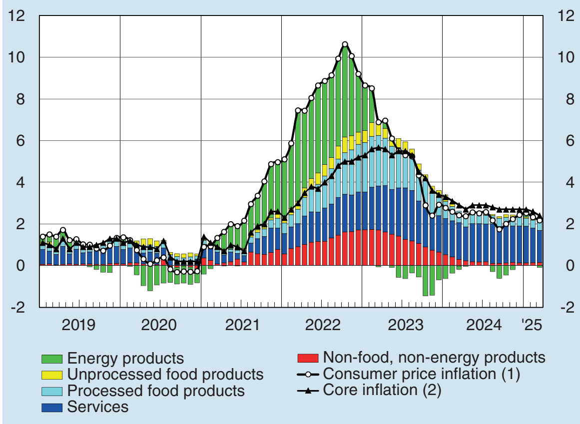


Sources: Banca d'Italia and Eurostat.
(1) Monthly estimates of changes in GDP on the previous quarter, net of the most erratic components; latest update: March 2025. The methodology used to construct the indicator and the updated data for the indicator are available on Banca d'Italia's website: 'Cyclical coincident indicator of the euro area economy (€-coin)'. – (2) Quarterly data adjusted for seasonal and calendar effects; percentage changes on previous period.

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 March 2025.
(1) 12-month percentage change in the HICP. – (2) 12-month percentage change in the HICP, excluding energy and food.

Inflation projections are revised slightly upwards in 2025

According to the March ECB staff projections, inflation will stand at 2.3 per cent in 2025, at 1.9 per cent in 2026 and at 2.0 per cent in 2027. Compared with the projections made in December, the figures have been revised upwards by 0.2 percentage points for 2025, reflecting above all the more marked increases in energy goods prices at the beginning of the year, while they remain unchanged for 2026 and are down by 0.1 percentage points for 2027.

Households and firms expect moderate price increases

Based on European Commission surveys, firms' expectations for increases in their selling prices for the next three months were stable in the first quarter on average in services (where they are higher than the historical average), while they increased in manufacturing (despite remaining lower than the average of past values).

According to the ECB Consumer Expectations Survey, households' expectations in February for consumer price growth were unchanged compared with January, 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. The percentage of households expecting annual inflation to increase has gone up in the most recent surveys.

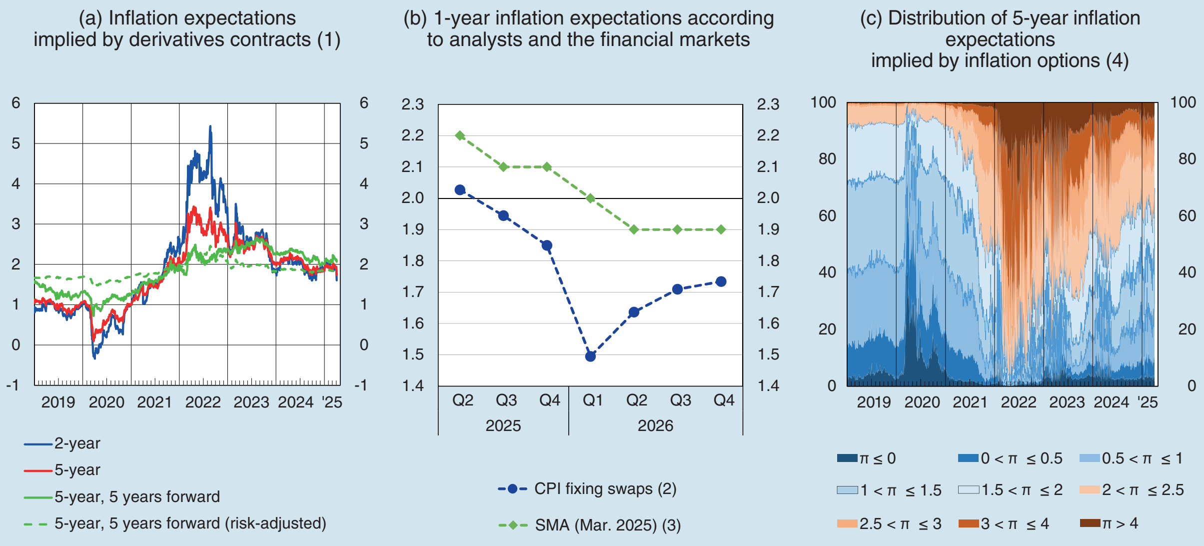
Medium-term inflation expectations decrease

The yields on inflation-linked swap (ILS) contracts over the two- and five-year horizons fell to 1.6 and 1.7 per cent in early April (Figure 6.a). Over the five-year, five years forward horizon, they stood at 2.0 per cent (net of the estimated inflation risk premium, yields have remained stable at around 1.8 per cent since the beginning of the year). On the shortest horizon, expectations based on CPI fixing swaps[5] point to inflation falling to around 1.5 per cent in the first quarter of 2026 and to a gradual increase to 1.7 per cent over the rest of the year. The experts interviewed for the ECB's Survey of Monetary Analysts (SMA) expect inflation to be between 2.1 and 2.2 per cent at the end of 2025, and then to stabilize at 1.9 per cent

Figure 6

Inflation expectations in the euro area

(daily data; per cent)



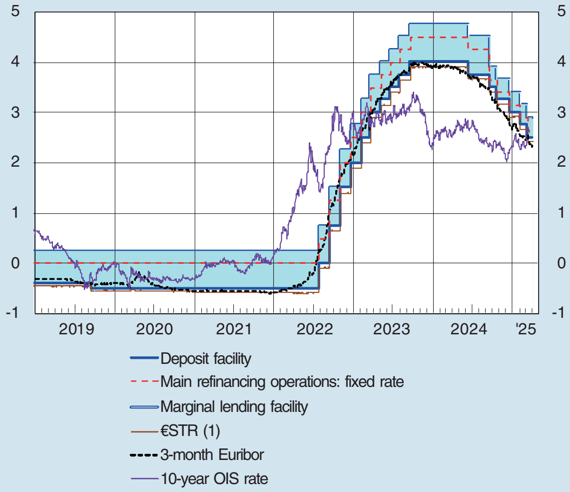
Sources: ECB and based on Bloomberg data.
(1) Expected inflation rates implied by 2-year, 5-year, and 5-year, 5 years forward ILS contracts. For details on how to calculate the series over the 5-year, 5 years forward horizon, net of the inflation risk premium, see S. Cecchetti, A. Grasso and M. Pericoli, '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. The underlying inflation rate is calculated based on the euro-area HICP, excluding tobacco. – (3) Median of the expectations of the respondents polled as part of the Survey of Monetary Analysts (SMA) conducted by the ECB from 17 to 19 February 2025. – (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.

[5] 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 in these contracts 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.

from the second quarter of 2026 onwards (Figure 6.b). Finally, the distribution of inflation expectations based on options prices indicates a 51 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 17 per cent (Figure 6.c).

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.

The ECB lowers its key interest rates again

The ECB Governing Council further reduced its deposit facility rate by 50 basis points overall in its January and March meetings, bringing it to 2.5 per cent (Figure 7). The decisions reflected the updated assessment of the inflation outlook, of the dynamics of underlying inflation and of monetary policy transmission. The overall reduction since the start of the monetary policy easing cycle is equal to 150 basis points.

Markets and analysts expect new reductions in key interest rates

The interest rate expectations implied by €STR swaps have fallen since mid-January, affected by the worsening economic outlook and by geopolitical tensions. In early April, the markets expected a new cut in the key interest rates of between 75 and 100 basis points by the end of 2025. The market participants interviewed in mid-February by the ECB for the SMA expected a slightly smaller reduction.

The cuts in key interest rates continue to pass through to the cost of credit

The fall in the interest rate on new loans to non-financial corporations and in that on new mortgage loans to households for house purchase continued between November and February, from 4.5 and 3.5 per cent to 4.1 and 3.3 per cent respectively (Figure 8). The fall observed since the start of the easing cycle is in line with that in the risk-free benchmark rates[6] and with the reduction in the cost of bank funding.

Growth in loans remains weak

Growth in lending to non-financial corporations in the euro area has picked up slightly compared with November, but remains weak overall (Figure 8); it was 4.6 per cent on a three-month basis in February and 2.1 per cent on an annual basis, well below the average for the last twenty years. Among the leading countries, growth in lending to firms was stronger in France and in Spain, while it remained slack in Germany and negative in Italy (see Section 2.7). These dynamics were affected by the varied performance of credit standards, against a background of a moderate recovery in demand for loans, supported by the fall in interest rates.[7] Lending to households, though still weak by historical standards, accelerated on a three-month and on an annual basis (2.7 and 1.5 per cent respectively), reflecting the improvement in demand for loans for house purchase.

6 The three-month Euribor rate is generally considered as the benchmark for variable-rate loans, which accounted for 82 per cent of new loans to firms and 14 per cent of loans to households for house purchase in February. The three-month Euribor had declined at the end of February by around 130 basis points since the start of monetary easing. The 10-year interest rate swap (IRS) is the benchmark rate for fixed-rate loans, and it went down by about 45 basis points in the same period.

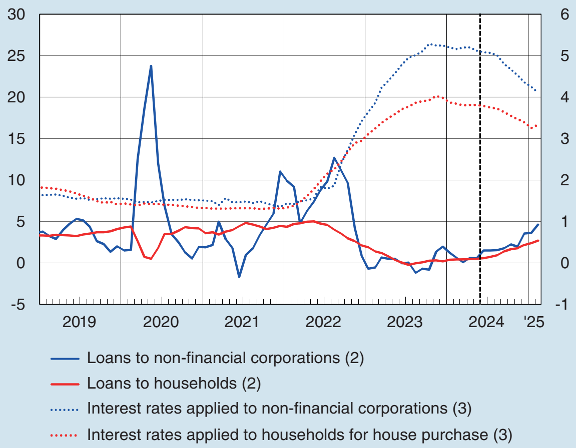
7 For more details, see the ECB, 'January 2025 euro area bank lending survey', press release, 28 January 2025.

The European Commission is working on a proposal for a plan to increase defence spending

On 4 March, the Commission announced its proposal for a new plan called ReArm Europe, designed to increase the EU's defence capabilities rapidly and significantly. The EU's military expenditure in 2024 amounted to 1.9 per cent of GDP or €326 billion (again according to the Commission).[8] The plan could allow up to €800 billion of additional military expenditure over the next four years and includes, among other things: (a) the activation of the national escape clause of the Stability and Growth Pact, to allow Member States to deviate from the net expenditure trajectory outlined in their medium-term structural budgetary plans (or from the corrective path for countries subject to an excessive deficit procedure) over the next four years in order to increase defence spending by up to 1.5 per cent of GDP; (b) loans granted by the EU to member countries up to a total of €150 billion, to be used for joint public procurement initiatives (including with partners outside the European Union); and (c) the possibility, on the initiative of a Member State, of redirecting the cohesion funds at its disposal to defence spending.[9] The European Council, the Council of the EU and the Parliament welcomed the ReArm Europe plan overall, and encouraged the Commission to continue its work.

Figure 8

Lending and interest rates in the euro area (1)
(monthly data)



Source: ECB.
(1) The vertical line corresponding to June 2024 indicates the start of the ECB's monetary policy easing. – (2) 3-month percentage changes are annualized. 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.

Some constitutional changes were approved in Germany at the end of March that, among other things, allow the government to borrow in excess of 1 per cent of GDP for defence spending. It was also decided to set up a €500 billion fund over 12 years for infrastructure investments. Every increase in expenditure will in any case be bound by the flexibility granted by the European rules in the event of activation of the national safeguard clause within the limits indicated by the Commission.[10]

1.3 THE FINANCIAL MARKETS

In the early months of 2025, financial markets were subject to mounting volatility, which then became pronounced in early April. Starting in mid-January, US government bond yields began to fall sharply, reflecting signs of weakening economic activity and a rebalancing of investors' portfolios triggered by growing

[8] At its presentation on 19 March, further details of the document setting out the EU's problems and potential strategies for defence in the short and medium term were disclosed, which includes the ReArm Europe plan. For more details, see the European Commission and the High Representative of the European Union for Foreign Affairs and Security Policy, 'Joint white paper for European defence readiness 2030', JOIN(2025) 120 final, 2025.

[9] The estimated €800 billion in resources to be spent on defence would come from the €150 billion in loans granted by the EU, and from an estimated €650 billion of additional spending, obtained by assuming that Member States gradually increase their military spending to 1.5 per cent of GDP by the end of the next four years.

[10] See European Commission, 'Accommodating increased defence expenditure within the Stability and Growth Pact', C(2025) 2000 final, 19 March 2025.

uncertainty over trade policies. This trend intensified significantly after 2 April, with the introduction of new tariffs by the US administration. Yields remained broadly unchanged in the euro area, having initially risen following the announcement of higher public spending on defence and infrastructure in Germany, and later declined as trade tensions escalated. Equity prices fell significantly in the United States, in Japan, in the euro area and in Italy, affected by heavy downward pressures amid high volatility, particularly after 2 April. On the foreign exchange market, the dollar has weakened against the euro and the yen since mid-February, after its sharp appreciation following the US presidential election. Higher-risk financial assets partly recovered their losses following the announcement on 9 April that the US administration would temporarily suspend part of its tariffs.

Government bond yields drop in the United States ...

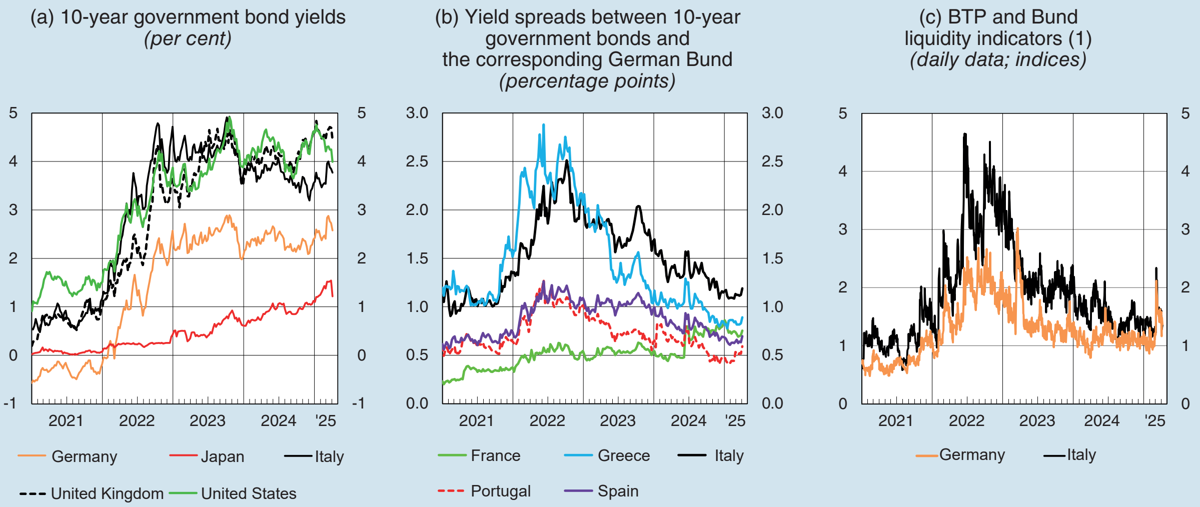
The yields on ten-year government bonds have been falling sharply in the United States since mid-January, following a marked rise at the end of 2024; in Japan they have remained essentially stationary (Figure 9.a). The drop has been particularly significant in the United States because of deteriorating investor confidence, signs of a slowdown in economic activity and growing uncertainty over US commercial policies (see Section 1.1), all of which have led investors to rebalance their portfolios by shifting towards US government securities. This trend has intensified after the announcements made on 2 April and China's response to the introduction of new tariffs by the US administration, making government bond yields highly volatile. In Japan, yields had reached their highest levels in 16 years at the end of March, boosted by expectations of a more restrictive monetary policy. This rise was partly reabsorbed after 2 April.

... and remain virtually unchanged in the euro area

Over the period between mid-January and 8 April, euro-area government bond yields remained broadly unchanged but underwent a few spells of strong adjustment. They rose significantly following the announcement of higher public spending on defence and infrastructure in Germany, then fell due to fears over international trade. The yield on Italian ten-year government bonds rose by 9 basis points to 3.86 per cent. With the exception of the French sovereign bond, the yield spreads of the main

Figure 9

Government securities market indicators
(end-of-week data)



Sources: LSEG, based on data from Bloomberg and Tradeweb.
(1) 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.

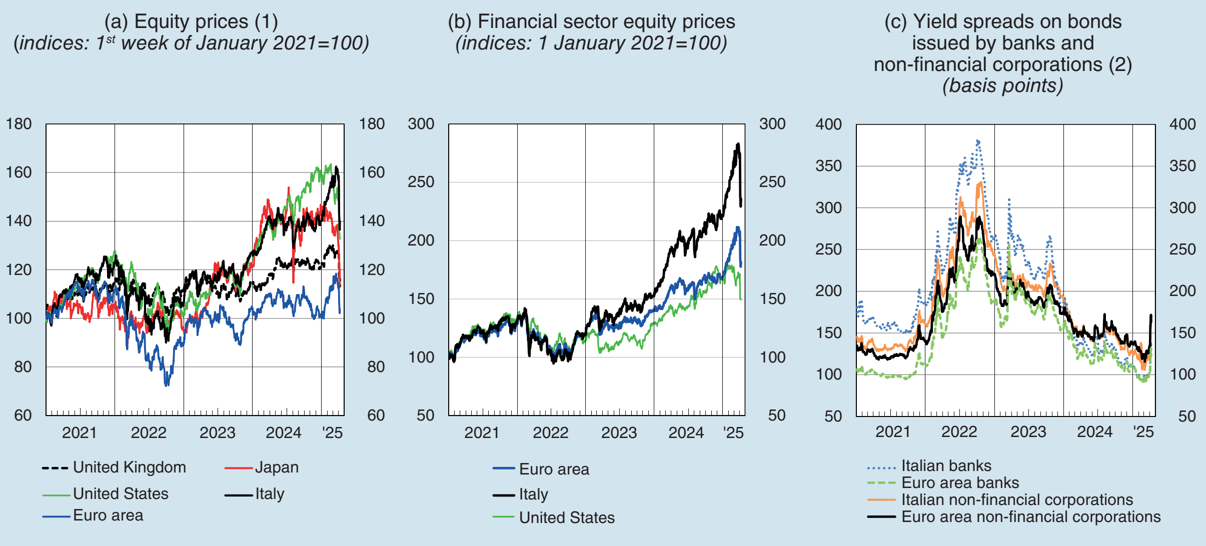
euro-area countries' government bonds vis-à-vis the German Bund widened slightly (Figure 9.b). The spread for Italy widened by 5 basis points, to 123 points, and was partly affected in recent days by the rebalancing of investors' portfolios towards safer assets. The implied volatility of derivatives on ten-year government bonds increased slightly, but remains moderate by historical standards, whereas liquidity conditions remained unchanged (Figure 9.c).

Equity prices plunge in the United States ...

Since mid-January, stock market indices have fallen sharply in Japan and in the United States, having been affected by the considerable drop in share prices in the automotive sector, in the technology sector, and for companies with greater exposure, in terms of revenue, to international trade (Figure 10.a). The emergence of signs of weakening growth and the intensification of trade tensions, which culminated with the introduction of the new tariffs, were contributing factors. The implied volatility of the S&P 500 index, as measured by the VIX index,[11] has risen considerably over the first ten days of April. In China, share prices declined, having fluctuated widely over the past quarter. Following a considerable rise in January and February prompted by positive earnings and optimism in the technology sector, share prices dropped in the early days of April because of the trade tensions. The 9 April announcement led to a partial rebound in share prices in the United States and in Japan, and also in China, though to a smaller extent.

Figure 10

Equity prices and corporate bond market
(daily data)



Sources: ICE Bank of America Merrill Lynch and LSEG.
(1) Equity indices: Datastream for the euro area and for Italy, Nikkei 225 for Japan, FTSE All-Share for the United Kingdom and Standard & Poor's 500 (S&P 500) for the United States. – (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.

... and decline in the euro area and in Italy

Share prices in the euro area declined, though less so than in the US. For most of the first three weeks of March they were buoyed by the start of peace negotiations between Ukraine and Russia and the expectations of higher public sector spending in Germany. In the early days of April, they recorded significant

[11] The Chicago Board Options Exchange Volatility Index (CBOE VIX) is a composite indicator of market expectations of volatility on the US equity market over a 30-day period based on price changes of the S&P 500 Index. It is commonly used to gauge investor uncertainty or risk aversion.

losses as trade tensions escalated, then recovered part of their losses following the announcement on 9 April. Share prices went down in the sectors most exposed to international trade and the business cycle, especially, while they rose in the aerospace and defence sector, favoured by the announcements of new European and national spending plans, and in the banking sector, where shareholders' expected returns remain high (Figure 10.b). Between mid-January and 8 April, the Italian general stock market index declined overall by 4 per cent, whereas bank equity prices rose by 1.8 per cent, which is less than in the euro area (7.5 per cent).

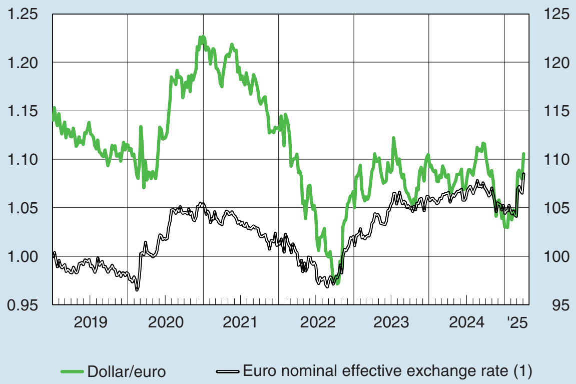
The yield spread of bonds issued by banks and non-financial corporations vis-à-vis the risk-free rate have widened considerably in the early days of April (Figure 10.c).

The US dollar depreciates sharply

After appreciating considerably between November 2024 and mid-January 2025, the dollar weakened markedly, especially against the euro and the yen (Figure 11). The depreciation of the US dollar reflects the steep drop in US government bonds yields compared with those in the euro area and Japan and the escalation of trade tensions following the decisions of the US administration. This trend was accentuated by China's first announcement of tariffs on US goods and the ensuing recourse to retaliatory measures by both countries.

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.

2 THE ITALIAN ECONOMY

2.1 CYCLICAL DEVELOPMENTS

GDP grew marginally at the end of last year, owing to the expansion in industry, while services were virtually stagnant. Based on our estimates, economic activity increased moderately in the early months of the year. On the demand side, GDP was driven by consumption, which benefited from the increase in labour income. Investment in capital goods weakened again, in an environment marked by low levels of capacity utilization and still tight credit conditions; by contrast, the stimulus provided by the gradual completion of the National Recovery and Resilience Plan (NRRP) supported investment in construction. However, the consolidation of the recovery is subject to the heightened uncertainty linked to US trade policies.

Economic activity increases marginally in the autumn months ...

In the last quarter of 2024, GDP growth was low (0.1 per cent; Figure 12 and Table 3). There was a slight rise in consumption, driven by labour income and, to a greater extent, by investment, which recouped the decline observed in the previous quarter but remained below the levels recorded in the same period of 2023. The cyclical recovery was observed across all the main components, except residential construction (see Section 2.2). A strongly positive contribution came from non-residential construction, which appears to have benefited from the gradual implementation of the NRRP projects. Overall, net of the negative contribution from inventories (-0.4 percentage points), domestic demand contributed positively to growth by about half a percentage point.

Table 3

GDP and its main components (1)
(percentage change on previous period and percentage points)

	2024	2024			
		Q1	Q2	Q3	Q4
GDP	0.7	0.3	0.1	0.0	0.1
Imports of goods and services	-0.7	-0.1	0.2	1.2	-0.4
National demand (2)	0.4	0.4	0.7	0.5	0.1
National consumption	0.6	0.7	-0.1	0.6	0.2
Household spending (3)	0.4	1.0	-0.3	0.6	0.2
General government spending	1.1	-0.2	0.5	0.3	0.2
Gross fixed investment	0.5	-0.1	-0.7	-1.6	1.6
Construction	2.0	-0.2	-1.3	-0.4	1.0
Capital goods (4)	-1.2	0.0	0.1	-3.0	2.3
Change in inventories (5)	-0.2	0.0	0.9	0.4	-0.4
Exports of goods and services	0.4	-0.1	-1.7	-0.3	-0.2
Net exports (6)	0.4	-0.1	-0.6	-0.5	0.1

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 previous period; percentage points. – (6) Difference between exports and imports; contributions to GDP growth on previous period; percentage points.

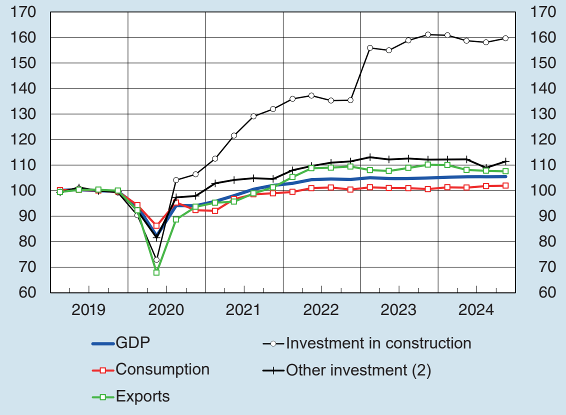
Exports, which were affected by weak international demand, declined for the fourth consecutive quarter (-0.2 per cent; see Section 2.4). However, the greater contraction in imports (-0.4 per cent) led to a marginally positive contribution of net foreign demand to GDP growth.

On the supply side, value added in industry excluding construction recouped the decline recorded in the third quarter of 2024 (0.8 per cent), despite the reduction in production (see Section 2.2). The construction sector also returned to growth (1.2 per cent), while services, which had driven value added significantly in the previous quarters, stagnated (-0.1 per cent). The expansion in tourism-related activities came to a halt (especially because of a smaller contribution from transport). Financial and insurance services recorded a decline, after four consecutive quarters of growth.

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.

... and appears to rise further at the start of the year

Based on our estimates, GDP continued to grow moderately in the first quarter of 2025. Value added returned to growth in services and recorded a further, small uptick in industry excluding construction. Developments in the latter sector over the coming months are subject to the heightened uncertainty linked to the effects of the US trade policies. Economic activity in construction displayed strong growth.

On the demand side, consumption continued to record moderate growth. By contrast, investment slowed again, with uneven developments across components. The weakening of investment in capital goods was offset by stronger investment in construction, due to the non-residential component. Despite the heightened uncertainty, foreign sales grew in the early months of the year; this may have reflected, among other things, the frontloading of purchases from the United States ahead of the entry into force of the tariffs.

Based on our most recent projections, which incorporate an early assessment of the impact of the US tariffs, GDP will grow by 0.6 per cent this year, 0.8 per cent in 2026 and 0.7 per cent in 2027 (see the box 'Macroeconomic projections for the Italian economy').

MACROECONOMIC PROJECTIONS FOR THE ITALIAN ECONOMY

This box presents the projections for the Italian economy for the three years 2025-27 published on 4 April 2025.[1]

The forecasting scenario includes an initial and necessarily limited assessment of the impact of the tariffs announced on 2 April by the United States. It does not consider the effects of possible retaliatory measures by the European Union and by other economies, of the economic repercussions stemming from the turmoil on the international markets, and of the suspension, announced on 9

[1] Banca d'Italia, 'Macroeconomic projections for the Italian economy', 4 April 2025.

April, of some of the increases in the tariffs that had been introduced the previous week. Despite the tightening of trade policies, it is assumed that foreign demand will continue to expand, albeit at low rates. In line with the information implied by market developments, the projections incorporate both a gradual decline in energy commodity prices and in short-term interest rates and an increase in long-term yields.

In this scenario, GDP is projected to grow by 0.6 per cent this year (0.5 per cent in 2024), 0.8 per cent next year, and 0.7 per cent in 2027. According to our projections, GDP growth will be driven by the expansion in consumption, thanks to the favourable developments in employment and the strengthening of households' real incomes. Investment will instead continue to display moderate growth. Spending on construction, though held back by the phasing out of the generous incentives for residential construction, is expected to benefit from the completion of the projects financed by NRRP funds. Investment in capital goods will instead likely be affected by the uncertainty about trade policies, the effects of which, however, are expected to be more than offset this year by those connected with the 'Transizione 4.0' and 'Transizione 5.0' programme incentives. Over the next two years, further stimulus should come from the gradual improvement in financing conditions triggered by the reduction in the key ECB interest rates under way since the summer of 2024. Based on our analyses, exports will be held back significantly by the effects of the newly announced tariff increases by the United States. Moreover, employment is expected to expand at a slightly slower pace than GDP and the unemployment rate is expected to remain stable at levels close to 6 per cent.

Consumer price inflation is projected to rise to 1.6 per cent this year, mainly reflecting the increase in the energy component, and to stand at 1.5 per cent next year. In 2027, the entry into force of the new EU Emission Trading System 2 (ETS2), covering greenhouse gases, is expected to lead to a further temporary increase in the prices of energy goods, which is assumed to bring inflation back to 2.0 per cent. Excluding energy and food products, the growth in consumer prices is instead projected to slow, to levels around 1.5 per cent (from 2.2 per cent in 2024).

The growth projections have been revised downwards compared with those published last December, reflecting more unfavourable assumptions on the international situation relating to the tightening of trade policies.[2] The inflation projections are practically unchanged.

The forecasting scenario remains subject to a high degree of uncertainty, linked above all to international developments. GDP growth could be hit especially hard by a further heightening of the uncertainty about trade policies, by possible retaliatory measures, and by protracted tensions on the financial markets. By contrast, there could be positive effects following a more expansionary fiscal stance at European level, also in connection with announcements of an increase in defence spending. As regards inflation, downward pressures could be driven by a potential deterioration in aggregate demand; conversely, an acceleration in prices could stem, particularly in the short term, from possible tariff increases on the part of the European Union in response to those set by the United States.

The growth projections presented here are slightly lower than the latest forecasts published by the major national and international organizations (see the table), which were all made before 2 April and were therefore based on more favourable assumptions regarding developments in trade policies at international level. Our inflation projections are instead lower than those of the other forecasters for this year and the next.

2 It is estimated that the tariff increases announced by the United States on 2 April will have a negative impact on GDP of over half a percentage point in the three years 2025-27.

Table

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

	GDP (1)			HICP (2)		
	2025	2026	2027	2025	2026	2027
Banca d'Italia (April 2025)	0.6	0.8	0.7	1.6	1.5	2.0
European Commission (November 2024)	1.0	1.2	–	1.9	1.7	–
OECD (March 2025)	0.7	0.9	–	1.7	1.9	–
IMF (January 2025 and October 2024)	0.7	0.9	–	2.1	2.0	–
Parliamentary Budget Office (February 2025)	0.8	0.9	–	2.1	2.0	–
Memorandum item:						
Banca d'Italia (December 2024)	0.8	1.1	0.9	1.5	1.5	2.0

Sources: Banca d'Italia, 'Macroeconomic projections for the Italian economy', 4 April 2025 and '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*, March 2025; IMF, *World Economic Outlook Update*, January 2025 (for growth) and *World Economic Outlook*, October 2024 (for inflation); Parliamentary Budget Office, *Report on Recent Economic Developments*, February 2025.
(1) The growth rates indicated in the projections made by Banca d'Italia and the OECD are adjusted for calendar effects. Without this adjustment, the projected GDP growth is 0.5 per cent in 2025, 0.9 per cent in 2026 and 0.7 per cent in 2027. – (2) The Parliamentary Budget Office's forecasts refer to the consumption deflator.

2.2 FIRMS

Industrial production stopped declining in the first quarter, a trend that had been under way since mid-2023. The qualitative indicators for manufacturing also pointed to a less negative picture than in the autumn months. However, the future consolidation of the recovery remains highly uncertain because of the trade tensions with the United States and the still high geopolitical instability and energy prices. The growing activity in construction was supported by the non-residential component connected with the implementation of NRRP projects; activity in services likely returned to modest growth.

Industrial production shows signs of recovering, but the outlook remains uncertain ...

In the fourth quarter of 2024, despite the fall in industrial production, value added rose in industry excluding construction, widening the misalignment between these two trends that already existed before the pandemic crisis.[1]

Industrial production picked up in the first two months of 2025, after declining in the autumn months (Figure 13.a). All of its components grew, with the exception of capital goods. The latest data on turnover are also consistent with a slight recovery in activity compared with late 2024 (Figure 13.b).

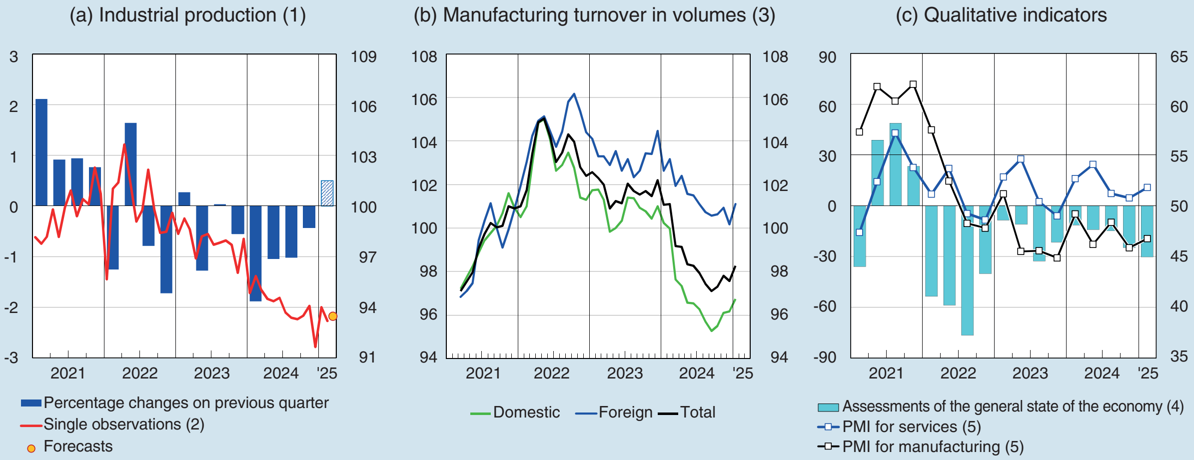
After picking up in January and February, quality indicators deteriorated again in March, pointing to a still weak and uncertain outlook. The PMI for manufacturing recorded a slight increase in the first quarter of 2025 – although it remained below the expansion threshold for the eighth consecutive quarter – reflecting less negative assessments of current production overall (Figure 13.c). Manufacturing firms' confidence improved marginally too, while remaining low.

[1] Value added measures the difference between the value of production and the costs of intermediate goods, while industrial production measures output volumes. For 2024 as a whole, although production in manufacturing fell by almost 3 per cent, value added dwindled by just over half a percentage point. This difference was significantly affected by the chemical and pharmaceutical sectors, where value added climbed by 7 and 9 per cent respectively, while production largely stagnated. The disconnect between these two measures, which is common across all major euro-area economies, appeared earlier in France and Italy than in Germany, and is linked to a manufacturing output that has increasingly shifted towards higher value-added goods.

Figure 13

Industrial production, manufacturing turnover 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 March 2025, the last bar represents the forecast for the first quarter of 2025. – (2) Monthly data. Index: 2021=100. Right-hand scale. – (3) Monthly data, volumes, 3-month moving average ending in the reference month. – (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, 8 April 2025). – (5) Average quarterly data. Diffusion indices for economic activity in the sector. Right-hand scale.

According to the manufacturing firms taking part in Banca d'Italia's Survey on Inflation and Growth Expectations, conducted between February and March, short-term operating conditions were still weak but slightly better than at the end of last year. Evaluations of sales trends improved, mainly owing to more favourable assessments of foreign demand in early 2025. However, uncertainty and concerns about the effects of US trade policies will weigh on firms' activity throughout 2025.

Our estimates, based on a broad set of quantitative and qualitative indicators,[2] indicate that industrial production may have increased by around half a percentage point overall in the first quarter of the year, after declining for five consecutive quarters. The consolidation of the manufacturing sector's recovery in the coming months is subject to exceptionally high uncertainty, mostly owing to tariff decisions and the resulting heightened geopolitical and commercial instability.

... while services bounce back in the early months of 2025

The qualitative indicators for the service sector signalled a rebound in activity in early 2025, following the marginal decline late last year. The volume turnover indices in January and the PMIs available up to March were consistent with an increase in current turnover and an uptick in new orders. The confidence indicators for market service firms showed moderately positive signs for sales too, although expectations for future orders deteriorated slightly. Business confidence in the tourism sector improved in the first three months on average, thanks to the positive assessments provided by accommodation facilities. Similar indications came from the

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

service firms interviewed between February and March by Banca d'Italia, which pointed overall to modest growth in activity, despite a slowdown in demand.

Construction continues to grow

Production in construction continued to rise in early 2025. According to Banca d'Italia's surveys, firms' assessments of demand and operating conditions in construction are still better than in the rest of the economy, but activity is slowing among firms with greater exposure to the residential sector. More than half of the firms involved in these surveys expect to directly or indirectly benefit from measures connected with the NRRP.

Investment is supported by non-residential construction in the first quarter

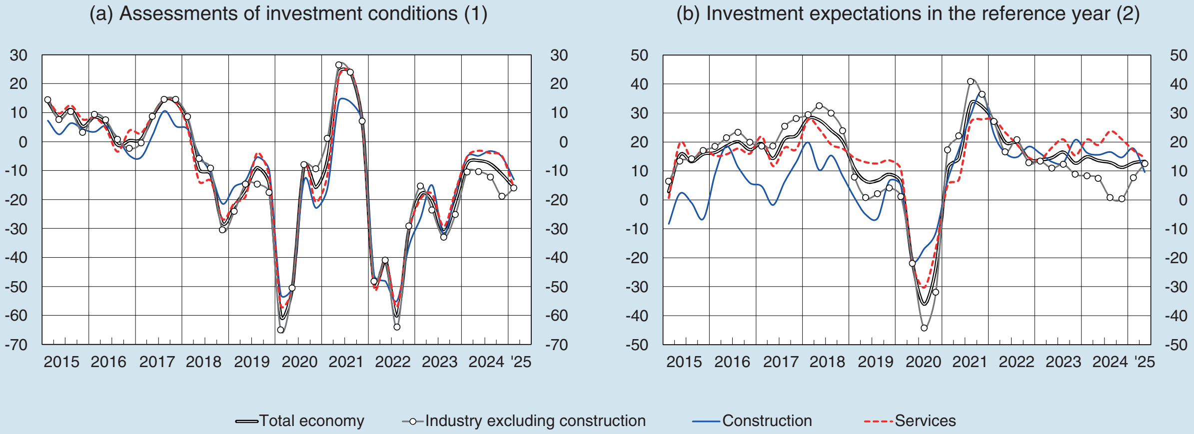
Investment returned to growth in late 2024 (1.6 per cent), bucking the trend of the previous three quarters. The recovery involved all the main components, except the housing sector. Investment in non-residential buildings picked up markedly, arguably driven by the gradual completion of NRRP projects. After contracting for four quarters, spending on machinery and equipment rose sharply, though it was still lower than at the end of the previous year. Conversely, investment in intellectual property products and transport equipment grew modestly.

However, according to our estimates, growth in investment slowed in early 2025. Banca d'Italia's business surveys suggest that investment conditions deteriorated for services and only improved slightly for industry excluding construction (Figure 14). Capacity utilization in manufacturing continued to decline, falling below the pre-pandemic average and signalling less need to invest. Instead, construction expenditure continued to rise, still driven by the non-residential segment.

The balance between the share of firms surveyed by Banca d'Italia planning to increase investment in 2025 as a whole and the share of firms expecting to reduce it was still positive and in line with what was expected at the end of last year (Figure 14).

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, 8 April 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 slightly in the autumn, reflecting the increase in purchases of accommodation and food services. The latest data show that spending grew moderately in the first quarter of 2025, supported by rising labour income and stable employment. Consumer confidence continued to improve until February, returning to its long-term average, but fell abruptly in March owing to uncertainty about the economic outlook.

Household consumption edges up in the fourth quarter of 2024 ...

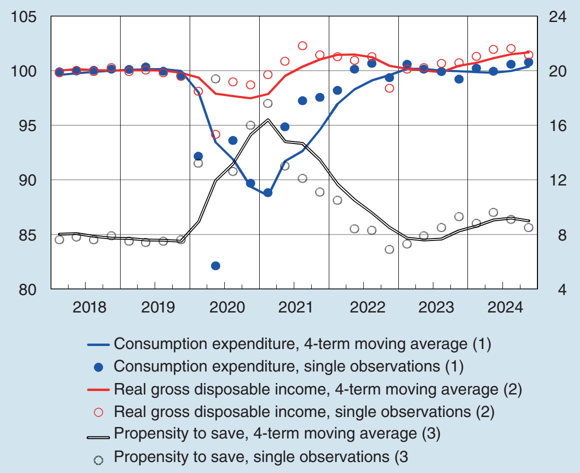
Household spending inched up in the autumn months (by 0.2 per cent in real terms), slowing compared with the previous quarter.[3] The increase in consumption was mainly driven by the rise in the service component (0.4 per cent), mostly owing to strong growth in accommodation and food services. Instead, purchases of goods stagnated overall: spending on semi-durables diminished, while that on durables rose moderately, partly driven by the acceleration in consumer credit; spending on non-durable goods remained broadly unchanged.

Consumption continued to benefit from the rise in wages and from stable employment (see Section 2.5). Real disposable income showed a slight quarter-on-quarter contraction, weighed down by the non-payroll income component. The stagnation of nominal disposable income in the fourth quarter, coupled with the positive consumption trend, led to a decline in the propensity to save, which nevertheless remained slightly higher than before the pandemic (Figure 15).

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.

Granular data on expenditure show a further decline in the volume consumption of food and beverages – reflecting previous price increases – and of clothing and footwear for 2024 as a whole. Conversely, spending on transport and on hotels and restaurants continued to mount steadily, still buoyed by the recovery in tourism and leisure activity, and the increase in the consumption of information and communication firmed up. In 2024, spending on healthcare declined to levels compatible with its long-term trends, although it partly rebounded in the second half of the year. Housing expenditure, which includes utilities, recovered in real terms from the contraction in 2023.

... and continues to grow in the first quarter of 2025

According to our estimates, growth in household consumption was still moderate in the early months of the year, although higher-frequency indicators provide conflicting information across different types of spending. New car

[3] Following the release of the quarterly accounts for the fourth quarter of 2024, which were consistent with the annual accounts, the time frame for measuring household spending was revised significantly for the last four years. Compared with the previous release, the revision of seasonal adjustment factors led to consumption now appearing lower in the two middle quarters of the year, and higher in the first and fourth quarters (especially for accommodation and food services); overall, spending is slightly lower and less volatile over the year, more in line with the data on confidence and incomes.

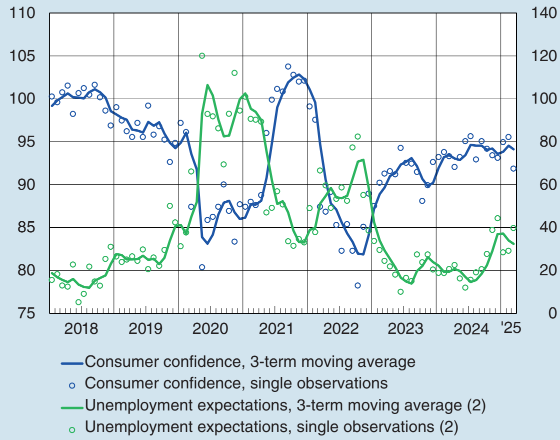
registrations rose in the first quarter of 2025 on a seasonally adjusted basis, partly recouping the sharp drops of last year. In January and February, Confcommercio's indicator remained in line with the previous quarter, reflecting stable purchases of both goods and services. By contrast, cash withdrawals and electronic payments weakened in real terms compared with the previous three months, and retail sales stagnated.

In Banca d'Italia's short-term outlook survey of Italian households ('Indagine Congiunturale sulle Famiglie', only in Italian), conducted between February and March, households claimed their financial conditions had improved since September. Specifically, the share of households – including less affluent ones – expecting an increase in expenditure over 2025 went up. According to Istat surveys, consumer confidence picked up in the first quarter of 2025, approaching long-term average levels, as consumers provided more favourable assessments of their household's financial conditions (Figure 16). Assessments of current savings opportunities remained stable overall. The quarterly average, however, is the result of a sharp uptick in confidence in January and February followed by a sudden downturn in March, likely reflecting mounting uncertainty around the economic outlook. Expectations regarding unemployment and future savings deteriorated particularly in March, and there were more widespread reports of deferrals in the purchase of durable goods.

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.

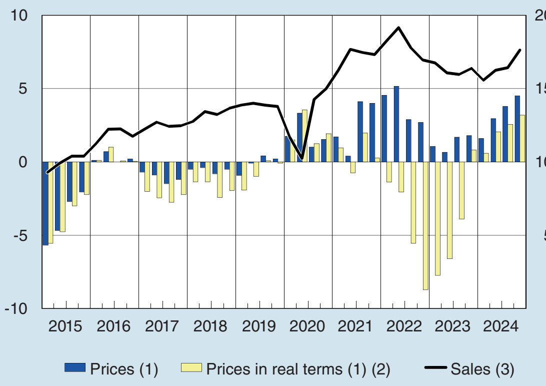
Signs of a real estate market recovery are confirmed

In the fourth quarter of 2024, house price growth accelerated year on year (from 3.9 per cent to 4.5 per cent), both for new and for existing buildings (Figure 17). The year-on-year change in prices affected all areas of the country and the largest cities. Volumes of sales went further up, returning to mid-2022 levels.

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.

According to our calculations based on the listings published on the Immobiliare.it online platform, housing demand grew robustly in early 2025. The outlook for market conditions also improved in the assessments of the real estate agents interviewed between January and February as part of the Italian Housing Market Survey. The difficulties encountered in obtaining a mortgage also eased further (see Section 2.7). The upward pressure on prices was particularly affected by stronger demand, with an increase in potential buyers and a very short time on market. Rent growth remained relatively strong in the first quarter, and agents expect this trend to continue over 2025.

2.4 FOREIGN TRADE AND THE BALANCE OF PAYMENTS

Export volumes fell slightly in the fourth quarter of 2024 as world trade slowed; imports also contracted. According to preliminary evidence, exports of goods seem to have grown in the first two months of 2025; looking ahead, however, they could be significantly curtailed by the tariffs introduced by the US administration. The current account surplus increased in the fourth quarter of 2024, driven by the improvement in the goods balance. Foreign investors continued to purchase Italian securities, especially those issued by the public sector. The positive net international investment position increased.

Exports fall slightly in the fourth quarter too ...

Against a backdrop of a slowdown in world trade (see Section 1.1), export volumes, in decline since the beginning of the year, continued to fall in the fourth quarter of 2024 (Table 4): the goods component decreased owing to a sharp drop in sales in euro-area markets, while those in external markets increased, especially in the United States, Türkiye and the United Kingdom. At the sectoral level, the decline in sales was particularly pronounced in transport equipment. The overall decline was partly offset by growth in services exports.

Over the same period, import volumes also decreased, owing especially to the decline in services purchased.

... but goods exports appear to grow in the first two months of 2025

According to our assessments based on foreign trade data, seasonally adjusted exports of goods by volume increased in January compared with the prior quarter's average. The expansion in non-EU markets appears to have continued in February, especially in Switzerland and the United States – where an anticipation effect in response to the announced tariffs may have played a role – and, to a lesser extent, in the United Kingdom. On average, for the first three months of 2025, the manufacturing firms' assessments of

Table 4

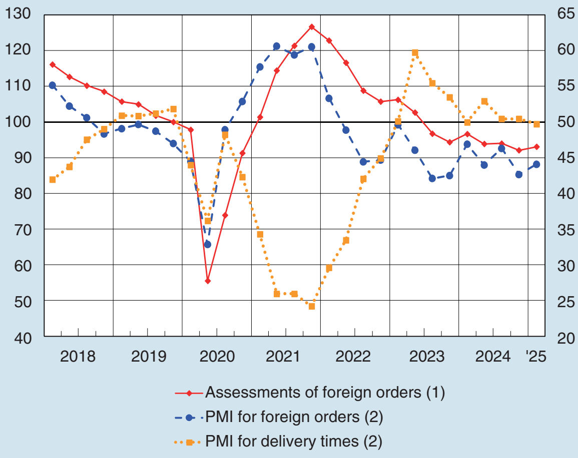
Export and import volumes (1)
(percentage changes on previous period)

	2024	2024 Q1	2024 Q2	2024 Q3	2024 Q4
Exports	**0.4**	**-0.1**	**-1.7**	**-0.3**	**-0.2**
Goods	**-0.3**	**-0.3**	**-2.0**	**-0.4**	**-0.5**
To euro-area countries	-1.7	-1.0	-1.0	..	-3.4
To non-euro area countries (2)	0.7	0.3	-2.8	-0.6	1.8
Services	**3.3**	**0.3**	**-0.4**	**-0.2**	**1.0**
Imports	**-0.7**	**-0.1**	**0.2**	**1.2**	**-0.4**
Goods	**-1.1**	**-0.5**	**0.4**	**1.1**	**0.1**
From euro-area countries	2.6	5.1	-2.1	2.4	-1.4
From non-euro area countries (2)	-4.9	-6.2	3.2	-0.2	1.9
Services	**0.7**	**1.3**	**-0.6**	**1.2**	**-2.4**

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.

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.

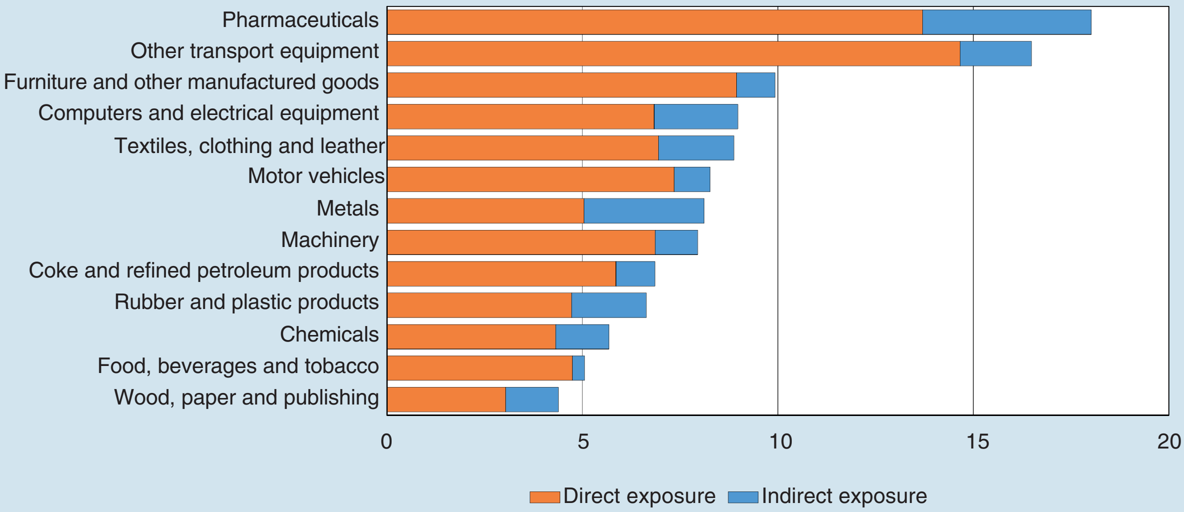
foreign orders as recorded by Istat and the corresponding PMI continued to signal weak foreign demand, with stable delivery times (Figure 18). Looking forward, the consequences of the tariff hikes could weigh heavily on exports (see the box 'The exposure of Italian exports to US tariffs').

THE EXPOSURE OF ITALIAN EXPORTS TO US TARIFFS

The United States is one of the main destination markets for Italian firms' goods exports, which amounted to €60 billion in 2024 (10.4 per cent of the total). However, given the pervasive role that global production chains play in international trade, it is necessary to consider not only direct exposure, which is linked to sales by Italian firms to their US counterparts, but also indirect exposure, which accounts for the fact that products that other countries export to the United States may use intermediate goods produced in Italy as inputs. Furthermore, it is important to determine the value added generated in Italy, net of that of imported intermediate goods. The world input-output tables make it possible to isolate the domestic value added of Italian exports destined, directly or indirectly, for the US market. Based on our analyses, about 8.1 per cent of the value added of Italy's manufacturing output, roughly 1.2 per cent of GDP, makes its way to the United States (6.4 per cent directly). The most exposed sectors are pharmaceuticals and other transport equipment (which includes shipbuilding and aerospace engineering; Figure A). Indirect exposure is generally limited, with the exception of the pharmaceutical sector.

Figure A

Direct and indirect exposure of manufacturing sectors to final demand from the US (1)
(percentage shares of sectors' value added)



Sources: Based on Istat and Asian Development Bank data.
(1) Data for 2023.

Despite the Italian manufacturing system's significant exposure to the US market, some of its structural characteristics might mitigate the direct impact of tariffs in the short term. First of all, although the United States is a direct destination market for almost one third of Italian exporting firms,[1] over half of

[1] According to data from the Italian Customs Agency for 2023, there are about 34,000 Italian firms exporting to the United States (this figure only considers legal persons). The additional statistics reported refer to the subset of limited companies included in the Cerved databases, excluding those classified as real estate or financial corporations and those with no assets or revenues. The sample includes 80 per cent of firms exporting to the US, which account for 93 per cent of the export value.

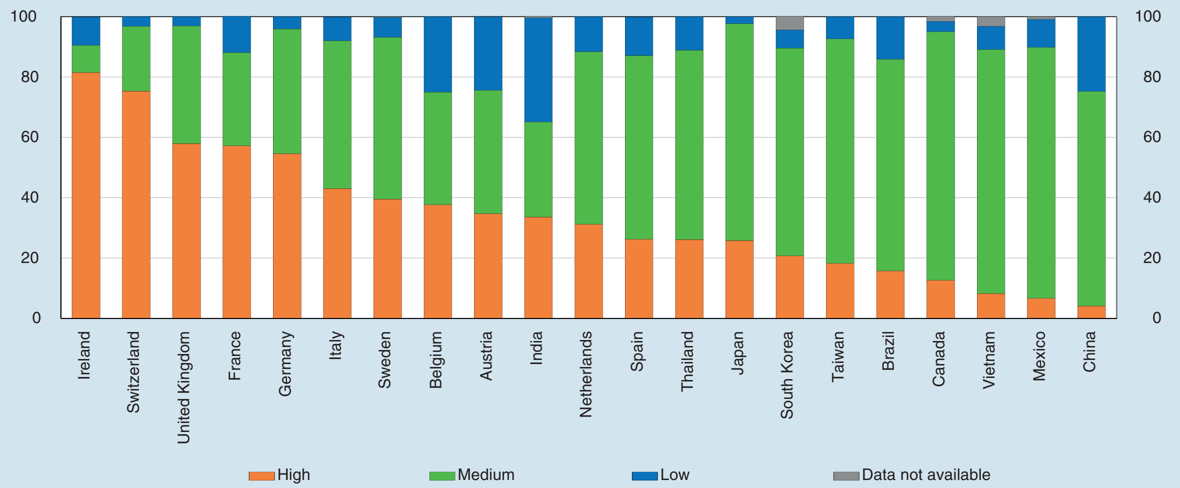
the sales to the US are made by large companies (with at least 250 employees) that have a high degree of product diversification (see the box 'The uncertainty about trade policies and the exposure of Italian firms to the US market', *Economic Bulletin*, 1, 2025).

Moreover, the direct impact of the tariffs on the sales of Italian firms will depend mainly on two factors: (a) the extent to which US consumers and firms will replace Italian final and intermediate goods with domestic alternatives or products from other countries; and (b) the ability of Italian firms to contain the increase in their selling prices by reducing profit margins.

As for the first factor, the multilateral nature of the tariffs imposed by the US administration significantly limits the possibility of replacing Italian products with those of Italy's competitors, given that the vast majority of them have been hit by similar or higher tariffs. Furthermore, it is estimated that high and medium quality products account for 43 per cent and 49 per cent of total goods exports to the US, respectively (Figure B).[2] In comparison with the main EU countries, the quality composition of Italian exports ranks behind only that of France and Germany, and just barely; conversely, the exports of other OECD countries, such as Japan, South Korea and Mexico, as well as those of some emerging economies such as China and Vietnam, comprise a larger share of medium and low quality products. The high quality of Italian exports – which most likely target high-income consumers and market leading firms – makes demand less price-responsive.

Figure B

Quality of exports to the US by country of origin (1)
(percentage shares)



Source: Based on data from the Centre d'Études Prospectives et d'Informations Internationales (CEPII) sourced from the dataset 'Base pour l'analyse du commerce international' (BACI).
(1) Data for 2023.

As for the second factor, Italian firms could limit the potential drop in US demand by reducing their profit margins to absorb part of the tariff-driven price hikes. For Italian manufacturing firms that export to the

[2] The economic literature estimates quality based on the distribution of unit values per product-country. An exported product is considered to be: (a) 'high quality' if its unit value is at least 20 per cent higher than the average unit value of its competitors in the same market; (b) 'low quality' if its unit value is at least 20 per cent lower than the average; (c) and 'medium quality' in all the remaining cases.

United States, exports to this market account for 5.5 per cent of total sales on average, while their gross profit margins are 10 per cent of total sales on average.[3] Even taking into account the entire distribution of these firms' profit margins, they are relatively high: above 5 per cent for three quarters of them. Based on our simulations, the fall in exports to the US driven by price increases consistent with the tariffs[4] would result in an average contraction of total sales of about 1 percentage point.[5] The gross profit margin, measured in relation to revenues, would fall by half a percentage point at most for three quarters of these firms. The number of firms whose margins would turn negative is small and the share of exporters recording large losses would increase by 4 percentage points.[6] The deterioration would mainly affect small exporting firms.

Overall, Italian exporters have significant exposure to the US market, but their sectoral composition, quality ranking and good profitability could mitigate the most negative direct consequences of the tariff increases, at least in the short term. However, some of the firms that are more dependent on the US market and have smaller profit margins could be significantly affected. More severe consequences might emerge, should the tightening in trade policies have strong repercussions for global demand and the financial markets.

[3] The gross profit margin is defined as output value less the cost of net purchases of raw materials, services and use of third-party assets, and labour, plus the change in stocks of raw materials.

[4] The estimates reported in this box are consistent with the tariffs as announced on 2 April. If the partial and temporary reduction in tariffs decided by the US administration on 9 April were considered, the figures resulting from the exercise would be smaller.

[5] Assuming a one-year price elasticity in line with historical estimates for Italy's aggregate exports (equal to -0.75), the 20 per cent tariffs (25 per cent for motor vehicles and steel) – if entirely passed through to the final prices – would make sales to the US fall by 15 per cent (19 per cent for motor vehicles and steel). By applying this change to the individual firms' exports to the US, an estimate is obtained of the impact of the tariffs on the revenues and profit margins for each firm. The simulation only considers the direct effect of tariffs on the value of output and the purchases of raw materials; it does not take into account possible adjustments to labour costs in order to isolate the effect of the tariffs prior to any measures affecting staff numbers. The price elasticity used in the simulation is consistent with the one in G. Bulligan, F. Busetti, M. Caivano, P. Cova, D. Fantino, A. Locarno and L. Rodano, 'The Bank of Italy econometric model: an update of the main equations and model elasticities', Banca d'Italia, Temi di Discussione (Working Papers), 1130, 2017.

[6] Large losses are defined as those below the fifth percentile of the current distribution of profit margins of firms exporting to the US (around -8 per cent). Assuming a higher elasticity of exports (-1.5 instead of -0.75), the increase in the percentage of firms recording large losses would be only slightly more intense (4.3 percentage points), as the hardest hit firms already had negative margins.

The current account surplus widens

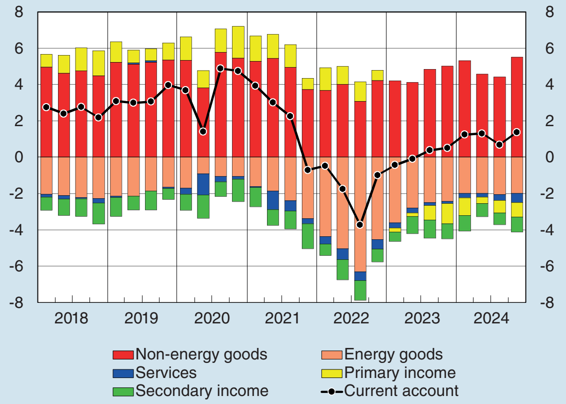
Net of seasonal factors, the current account balance recorded a €7.6 billion surplus in the fourth quarter of last year (1.4 per cent of quarterly GDP, from 0.7 per cent in the previous quarter; Figure 19 and Table 5). The improvement in the goods balance more than offset the increase in the deficit in services and income. For 2024 as a whole, the current account surplus reached 1.1 per cent of GDP, after basically being in equilibrium the year prior. The return to a positive balance occurred within the context of a gradual reabsorption of the effects of the energy shock, which led to a marked deterioration in the current account in 2022 (-1.7 per cent of GDP) and interrupted a long string of surpluses stretching back to 2013.

The financial account recorded a €20.4 billion increase in net foreign assets in the fourth quarter of 2024 (Table 5).

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.

Foreign investors continue to purchase Italian, mainly public sector, securities

The portfolio investment balance turned negative again in the same period, reflecting the slowdown in residents' investment in foreign securities and the intensification of foreign purchases of Italian securities. Around three quarters of these purchases were for public sector bonds (€30.1 billion), despite net issuance by general government having remained relatively moderate over the quarter (€8.7 billion).

The negative TARGET balance shrinks

Banca d'Italia's negative TARGET balance improved by €30.5 billion in the fourth quarter of 2024 to €415.9 billion at the end of December (Figure 20). This trend mainly reflected capital inflows linked to foreign investment in Italian securities and, to a lesser extent, the current and capital account surpluses and the receipt of the sixth instalment of the NRRP in December. The debtor balance decreased further at the beginning of 2025, to €408.5 billion at the end of March.

Italy's positive net international investment position expands further

At the close of 2024, Italy's net international investment position was positive by €334.9 billion, equal to 15.3 per cent of GDP. The €58.4 billion expansion since the end of September was largely linked to positive value adjustments, particularly on the asset side, and to a lesser extent to current and capital account surpluses.

2.5 THE LABOUR MARKET

Employment stagnated in the fourth quarter of 2024, held back chiefly by the ebb in services. Recourse to the wage supplementation scheme increased again, especially in manufacturing. The participation rate fell, especially among young people, contributing to the decline in the unemployment rate. Wage growth remained strong. Both employment and labour force participation rose in the first two months of 2025.

Employment remains stable in the fourth quarter ...

According to data from Istat's quarterly national accounts, employment stagnated in the fourth quarter of 2024 (-0.1

Table 5

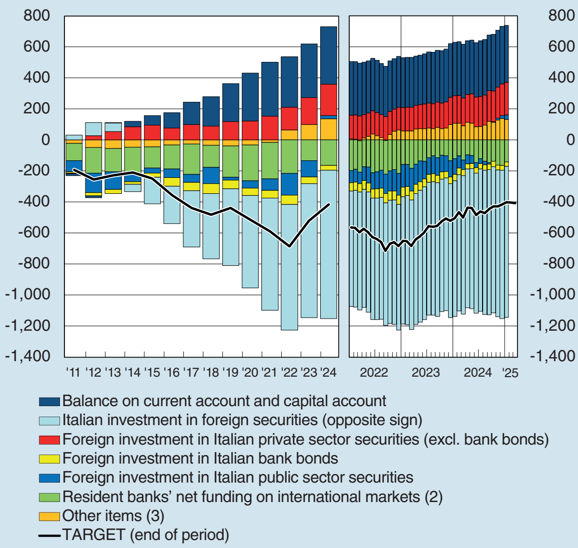
Balance of payments
(billions of euros)

	2024	2024 Q1	Q2	Q3	Q4
Current account	**24.8**	**0.3**	**6.2**	**8.3**	**9.9**
Adjusted for seasonal and calendar effects	25.2	6.7	7.1	3.7	7.6
Memorandum item: % of GDP (1)	1.1	1.2	1.3	0.7	1.4
Capital account	**-0.6**	**-0.5**	**-1.0**	**0.3**	**0.6**
Financial account	**51.0**	**2.2**	**-0.1**	**28.5**	**20.4**
Direct investment	11.4	5.4	-1.0	1.8	5.1
Portfolio investment	-73.7	-25.6	-32.6	2.8	-18.3
Derivatives	3.5	1.3	0.2	1.4	0.5
Other investment (2)	107.7	20.8	31.7	22.5	32.7
Changes in official reserves	2.1	0.2	1.5	..	0.3
Errors and omissions	**26.8**	**2.4**	**-5.3**	**19.9**	**9.8**

(1) The annual figure for 2024 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.

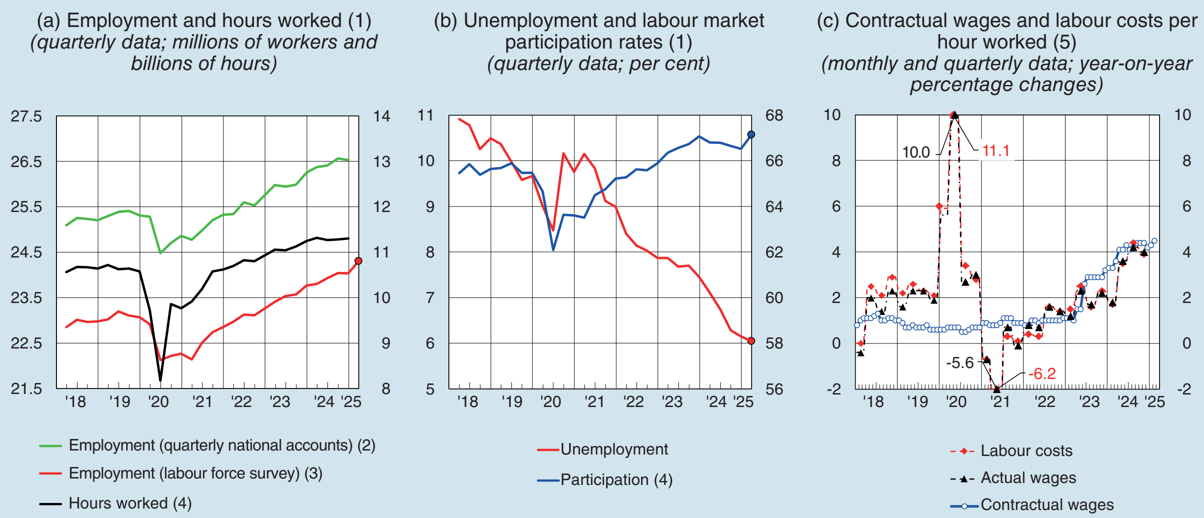
per cent; Figure 21.a). Headcount employment fell in the service sector (-0.4 per cent) and held stable in industry excluding construction. By contrast, there was an increase in both the number of employees and, after three quarters of decline, hours per worker in construction, leading to a rise in hours worked per capita in the economy as a whole.

Recourse to wage supplementation schemes rose again year on year, as already observed in previous quarters: the persistent weakness of the manufacturing sector contributed to the increase in authorized scheme hours, which were almost double those of the corresponding period of 2019.

The activity rate fell slightly (-0.1 percentage points; Figure 21.b), due to the decline in participation by the younger age groups, a trend that has been under way since the beginning of last year, compared to an increase in participation by those aged 50 and over, still affected by past pension reforms. The unemployment rate fell by 0.1 percentage points to 6.2 per cent. The decline was more significant among young people (mainly because of the drop in participation) and among those over the age of 50 (reflecting instead the marked increase in their employment rate).

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 Q1 2025 indicate the average value for the two-month period January-February. – (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.

... but rises at the start of the year

According to preliminary data from Istat's labour force survey, the number of persons in employment rose on average in the first two months of the year (0.9 per cent compared with the previous two months), in both the payroll employment component (including fixed-term employment) and among the self-employed. The activity rate rose, not only for older age groups but also among those aged 35 and under. The unemployment rate fell slightly to 6.0 per cent in the two-month period.

Contractual wages remain strong in 2024 ...

In the fourth quarter, contractual wage growth in the non-farm private sector remained strong (at 4.3 per cent year on year; Figure 21.c), owing especially to the wage increases paid out in the first half of the year in the manufacturing, retail trade and credit sectors. The growth in actual hourly wages, including non-contractual wage components, also remained high, albeit slowing somewhat (from 4.2 per cent to 4.0 per cent). The positive trend in productivity, especially in private services, contributed to the slowdown in the growth in unit labour costs (see Section 2.6).

... and also at the start of 2025

Growth in contractual wages continued to be robust in the first two months of 2025. Based on active contracts, wage growth is expected to remain strong throughout the first quarter and to moderate thereafter (see the box 'The impact of recent negotiated wage increases on wage growth'). The share of private sector workers waiting for renewals is still high (36.8 per cent on average for the first two months of the year), owing primarily to delays in negotiating a new agreement for the metalworking sector (the previous one, covering more than one fifth of all workers, expired last June).

THE IMPACT OF RECENT NEGOTIATED WAGE INCREASES ON WAGE GROWTH

Over the course of 2024, wage growth in the euro area was strong overall, albeit following very heterogeneous patterns across major countries: contractual wage growth slowed in France and Spain, while accelerating significantly in Germany.[1]

In Italy, contractual wages in the non-farm private sector rose by 4.0 per cent in 2024, sharply up on the previous year. One contributory factor was the renewal of contracts covering more than five million employees, including some in the service sector whose contracts had expired more than two years ago. Wage growth was also driven by payments under active contracts and automatic adjustment mechanisms in some manufacturing sectors.[2] Despite rising last year, in February 2025 real negotiated wages in the non-farm private sector remained roughly 8 per cent lower than in 2021. The loss of purchasing power of wages was particularly marked in services (-10.2 per cent), less so in industry (-5.1 per cent; Figure A).

Over the next few quarters, growth in wages will be driven by the increases already envisaged in signed active agreements and by those in the process of being renewed. The wage tracker (WT) for Italy, an indicator that measures wage growth based only on active collective bargaining agreements excluding those expired,[3] stood at 4.3 per cent on average in 2024. In line with previous measurements (see the box 'The impact of recent negotiated wage increases on wage growth' in *Economic Bulletin*, 4, 2024), wage pressures remained high in the early months of this year, owing in part to the most recent renewals. Specifically, those in logistics and construction, signed between December and January, set out wage rises that exceed Istat's inflation forecast.[4]

1 A number of significant contract renewals (in the chemical, construction, and in the retail, wholesale and international trade sectors) were signed in Germany in the early part of last year, leading to above-average nominal wage rises. Those contracts had expired several years ago, however, and only partly recovered the loss in purchasing power produced by high inflation since mid-2021.

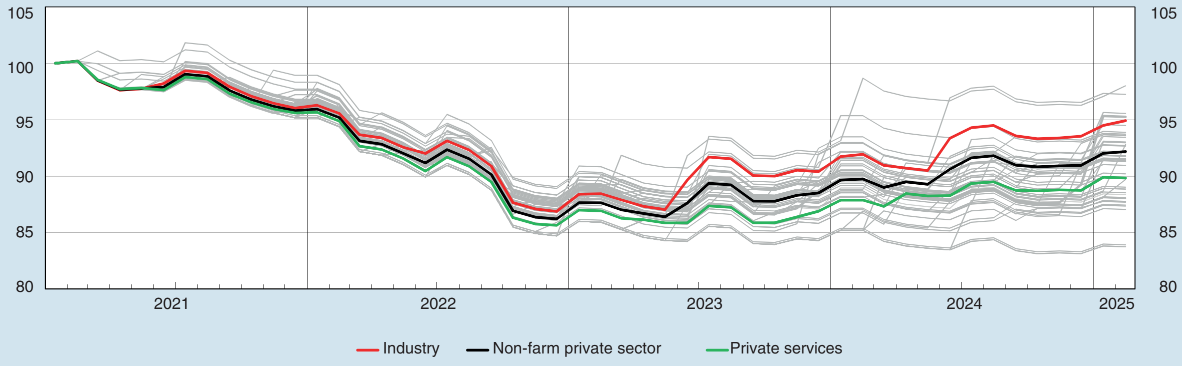
2 Under some collective bargaining agreements for the manufacturing sector, e.g. for metalworkers, the inflation differential between the actual HICP net of imported energy (HICP-NIE) in the previous year and the wage growth forecast at the time of renewal is measured annually. Under the collective bargaining agreement for the wood and furniture industry, the inflation differential is measured at the beginning of each year, based on the overall HICP.

3 Istat's index of wages drawn from its survey of collective bargaining agreements and negotiated wages (Figure B, green line) also includes expired contracts: the sample is based on the 75 most representative national collective bargaining agreements in each sector under review, including farming and the public sector, which covers more than 13 million white- and blue-collar employees (excluding managers).

4 The 2009 framework agreement on the collective bargaining system and the agreement signed by trade unions and employers' associations in 2018 ('Patto per la fabbrica') require negotiated increases to be anchored to the HICP-NIE forecasts published annually by Istat. According to the latest forecasts released in June, the HICP-NIE stood at 1.9 per cent in 2024 and will stand at 2 per cent over the three years 2025-27.

Figure A

Average real negotiated wages across sectors (1)
(index: January 2021=100)

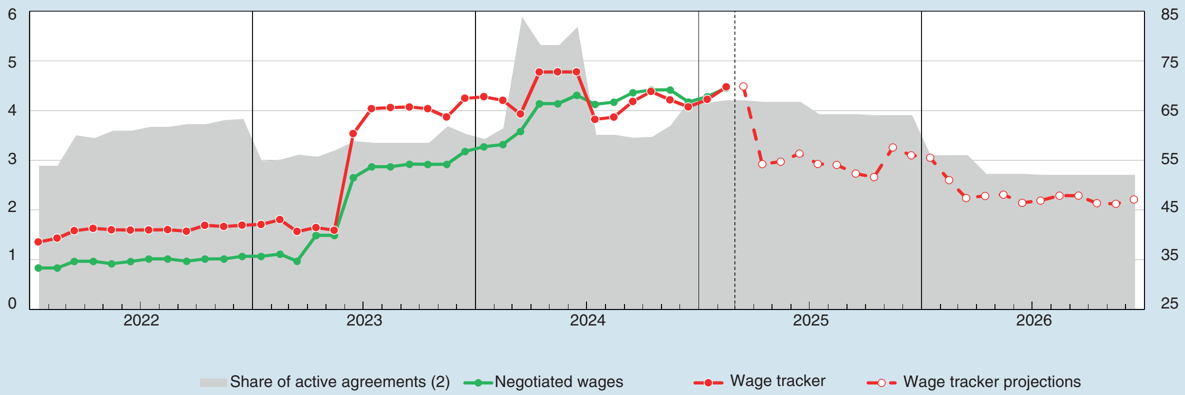


Sources: Our calculations based on Istat data and on information from Banca d'Italia's database for non-farm private sector national collective bargaining agreements, which covers almost 10 million employees, including blue- and white-collar workers and excluding managers.
(1) Each grey line represents a different agreement. Data deflated by the consumer price index.

However, wage growth is expected to slow from the second quarter onwards, mainly as a result of dwindling growth in the retail trade sector, whose contract provides for smaller tranches this year than last. The WT is expected to increase to 3.3 per cent on average for 2025, to then inch down further to 2.3 per cent in 2026 (Figure B).

Figure B

Year-on-year growth in negotiated wages under current agreements: non-farm private sector (1)
(percentage points)



Sources: Our calculations based on Istat data and on information from Banca d'Italia's database for non-farm private sector national collective bargaining agreements.
(1) The dashed vertical black line represents the latest update available for Istat's negotiated wage index series (February 2025). At each point in time the WT represents the negotiated wage growth in agreements active at that moment. – (2) Right-hand scale.

However, the information conveyed by the WT is based on the share of contracts active at any given moment and decreases as the agreements expire over time. Over the course of the year, wage growth at the aggregate level will increasingly reflect the renewal of contracts. The collective bargaining agreement for metalworkers, which expired in June 2024, is a particularly important one as it affects more than 2 million workers and negotiations between the parties for its renewal have stalled. Under the current bargaining framework for the sector, annual wage rises are anchored to the inflation forecasts released by Istat, which stand at low levels.

2.6 PRICE DEVELOPMENTS

Inflation remained low in the first quarter of 2025, though it was higher than in the previous quarter. A contributing factor was the rise in energy prices, owing to the increases in oil and natural gas prices that continued until February. Inflation in services decreased, although it is still higher than headline inflation. Households and firms continue to expect moderate price growth.

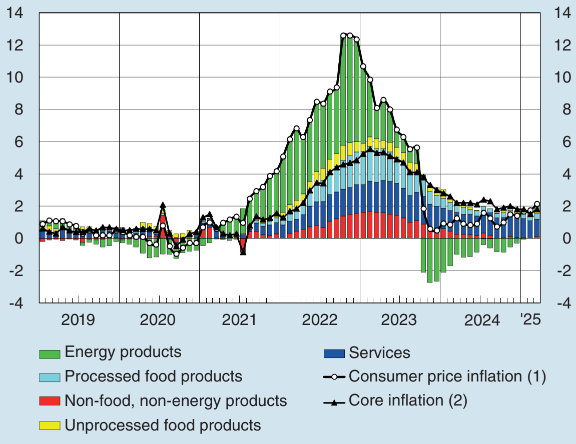
Consumer price inflation remains low

In March, harmonized consumer price inflation grew on the previous month, reaching 2.1 per cent year on year (Figure 22 and Table 6). The growth in energy prices, which had turned positive in February for the first time since the autumn of 2023, rose further as a result of higher gas and electricity prices. Food price inflation also increased, reflecting an acceleration in prices in both processed and unprocessed food products, which were driven, among other things, by the growth in the prices of commodities linked to the food industry. Core inflation (net of energy and food) went up (from 1.5 to 1.8 per cent), mainly as an effect of the increase in the prices of non-energy industrial goods, due to developments in the

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.

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	1.1	2.5	-10.1	2.2	1.0	-5.7
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	1.3
2025 – Jan.	1.7	2.3	-0.7	1.8	1.5	6.0
Feb.	1.7	2.4	0.6	1.5	1.6	8.5
Mar.	(2.1)	(2.7)	(3.3)	(1.8)	(2.0)	….

Sources: Based on Istat and Eurostat data. The figures in brackets are preliminary estimates.
(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.

clothing segment at the end of the winter sales. While the acceleration of prices in services was only marginal (2.7 per cent, from 2.6 per cent) and driven by tourism-related components, inflation in that sector was significantly lower throughout the quarter compared with the previous period.

Following an increase of about 20 per cent in the first three months of the year compared with the last quarter of 2024, the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) announced a cut of about 2 per cent in electricity prices on the regulated market for vulnerable consumers. This reduction follows from recent trends in natural gas prices (see the box 'The recent trend in natural gas prices in Europe', Chapter 1).

Price developments over the coming months could also be affected by Decree Law 19/2025 ('Utility Bills Decree'; see Section 2.8), which includes measures to reduce the energy spending of low-income households and of firms, given the gas and electricity price increases observed since the second half of last year. Based on our assessments, the decree law would lead to a reduction in gas and electricity price growth of 2 to 3 percentage points with respect to the yearly average.

Producer price inflation pressures increase

In February, inflation for producer prices of industrial goods sold on the domestic market rose further (to 8.5 per cent year on year, from 6.0 per cent in January), mainly reflecting the strong rise in energy prices (to 22.5 per cent, from 15.2 per cent). The sectors most affected by price increases were mining, and electricity and gas supply. The intermediate goods component faced more modest pressures.

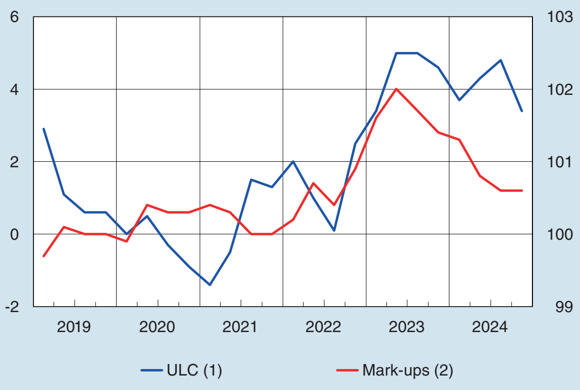
In the winter months, PMIs pointed to rising costs for intermediate goods in manufacturing and for input costs in services. The European Commission's qualitative surveys indicate an increase in expected selling prices.

In the fourth quarter of 2024, unit labour costs (ULC) in the non-farm private sector slowed (to 3.4 per cent, from 4.8 per cent), due to an increase in productivity, particularly in private services (see Section 2.5). Profit margins were stable, at markedly lower levels than those recorded a year earlier (Figure 23). They continued to decline in manufacturing but are still above pre-pandemic levels in construction and private services.

Figure 23

Unit labour costs and mark-ups

(quarterly data; percentage changes and index number)



Source: Based on Istat data.
(1) Year-on-year percentage changes; 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.

Households and firms expect moderate price growth

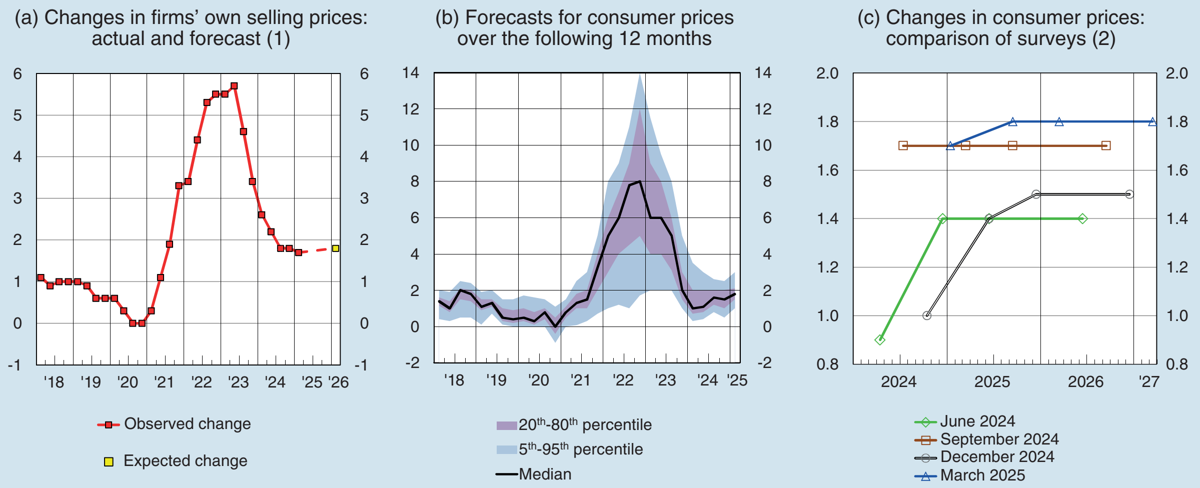
Istat's surveys show that the share of households expecting prices to rise grew in the first three months of the year. According to the ECB's Consumer Expectations Survey for February, the median value of inflation expectations twelve months ahead was 2.9 per cent, while it declined to 2.6 per cent for the expectations three years ahead (from 2.9 per cent in January).

The firms interviewed in February and March as part of the Survey on Inflation and Growth Expectations expect their selling prices to grow by just under 2 per cent on average over the next twelve months, in line with the change recorded over the last year and with the responses provided in previous surveys (Figure 24). Firms' expectations for consumer price inflation were slightly up, standing at around 1.7 per cent over the twelve-month horizon and 1.8 per cent across longer-term 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 two 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 continues to be passed through to the cost of bank funding and to lending rates on loans to households and firms, broadly in line with historical regularities. Lending to non-financial corporations contracted further, reflecting subdued credit demand and still tight credit standards, despite the moderate easing observed since June 2024. Debt securities issued by firms continued to grow.

The cost of bank funding decreases further ...

Between November 2024 and February 2025, banks' marginal cost of funding dropped by 21 basis points, to 1.5 per cent (Figure 25.a). Contributory factors were the decrease in the yield of new deposits with an agreed maturity and in interbank market rates, and the lower cost of bond funding. In February, bank funding declined further (-2.9 per cent on an annual basis). The year-on-year contraction still mainly reflects the repayment of third-series targeted longer-term refinancing operations (TLTRO III), which ended last December. Growth in residents' deposits remained strong.

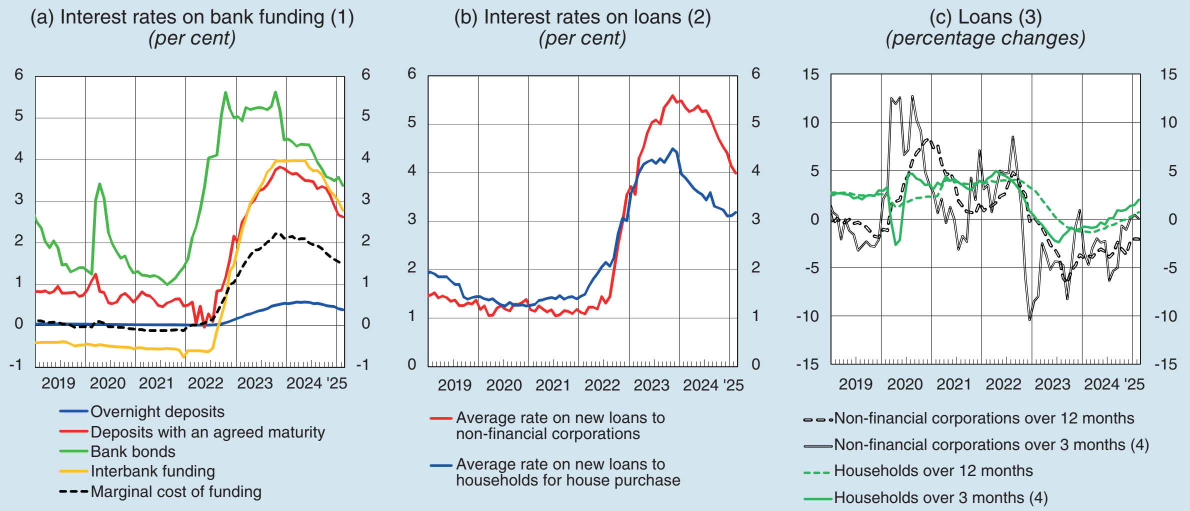
... as do interest rates on loans to firms and households

The cut in key interest rates continued to be transmitted to the cost of lending to non-financial corporations and to households for house purchase, broadly in line with what had been observed in the past. In February, the interest rates on new loans to firms fell (to 4.0 per cent, from 4.5 per cent in November 2024; Figure 25.b), reflecting the decline in the risk-free benchmark rate.[4] The cost of outstanding loans has also been edging down, owing to the large share of adjustable-rate loans. Since the start of the

[4] In February, adjustable-rate loans accounted for 88 per cent of new loans to firms. The benchmark rate for this type of loans is generally the three-month Euribor rate, which dropped by 45 basis points between November 2024 and February 2025.

Figure 25

Bank funding costs, lending rates and credit 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.

monetary policy easing cycle, interest rates have declined for all loans, regardless of their size, albeit to a lesser extent for loans of less than €250,000, which are typically granted to smaller firms. Between November and February, the average cost of new mortgage loans to households declined slightly (to 3.2 per cent).

Lending to firms remains weak ...

In February, loans to non-financial corporations continued to contract year on year, though less than in November (-2.1 per cent, from -3.6 per cent; Figure 25.c). The fall was again more significant for firms with fewer than 20 employees (-8.9 per cent, compared with -1.6 per cent for larger firms) and for manufacturing and construction firms. Between November and February, lending to households[5] picked up slightly (0.7 per cent, from -0.1 per cent), driven by the acceleration in mortgage loans; growth in consumer credit remained robust.

... as a result of slack demand and still cautious lending policies

According to the banks interviewed for the euro-area bank lending survey on the last quarter of 2024, credit dynamics for firms are mainly ascribable to weak demand, which – despite a slight improvement towards the end of last year – continues to be affected by the large recourse to internal financing. Banks' lending policies remain cautious, despite the moderate easing observed in the last quarter[6] (see the box

[5] The definition of households used here is the Eurosystem's harmonized definition, which includes consumer households, sole proprietorships and unincorporated partnerships.
[6] In late 2024, banks signalled divergent trends for credit supply and demand across firm size classes. They indicated a slight increase in demand and a modest easing of credit standards for larger firms, whereas for smaller firms they reported a further decrease in loan applications and a renewed tightening of credit standards.

‘Credit supply and demand since the start of the monetary policy easing cycle’). Business surveys confirm that loan demand remains weak overall[7] and point to broadly unchanged credit access conditions, following the restriction recorded during the recent monetary policy tightening cycle. Smaller firms report a slight deterioration.[8]

CREDIT SUPPLY AND DEMAND SINCE THE START OF THE MONETARY POLICY EASING CYCLE

According to the findings of the euro-area bank lending survey (BLS), following the start of the monetary policy rate-cutting cycle in June 2024, Italian banks relaxed their credit supply policies for firms only slightly (see panel (a) of the figure). This easing, which was concentrated in the last quarter of 2024, mainly affected large firms and followed a relatively more pronounced restriction phase that took place during the monetary tightening. Credit standards for loans to households remained virtually unchanged (see panel (b) of the figure). Banks’ risk perceptions continued to exert a slight tightening effect on all loan categories, albeit to a lesser extent than observed during the monetary policy rate-hiking cycle. For loans to firms, this effect was offset by banks’ greater risk tolerance and, in the last quarter of the year, by the increase in competitive pressure.

The terms and conditions applied to loans to firms and to households for house purchase became more favourable mainly thanks to the reduction in the interest rates applied, which was also supported by a compression of lending margins. In both sectors, competitive pressure enabled the granting of more favourable conditions. For consumer credit, the easing was less marked and only materialized in the final part of the year.

According to the banks interviewed, firms’ demand for credit – which has been falling since the beginning of 2023 owing to the high interest rate environment and lower financing needs for investment purposes – showed small signs of recovery in the last quarter of 2024, despite continuing to be held back by recourse to internal financing (see panel (c) of the figure). The recovery in households’ demand for mortgage loans was more marked (see panel (d) of the figure): after a significant decline since the beginning of 2022, demand rose as early as the second quarter of 2024, supported above all by the decline in interest rates. According to the banks interviewed, the demand for consumer credit was also fostered by the lower rates, though its growth was modest.

The banks did not report any significant impact stemming from the decline in the excess liquidity held with the Eurosystem on credit standards and on lending volumes in the second half of 2024. According to banks’ forecasts, the expected reduction in liquidity will continue to have no impact on credit standards and lending volumes in the first half of 2025.

[7] In the ECB’s Survey on the access to finance of enterprises (SAFE) conducted between 20 November and 18 December 2024, a large share of Italian firms responded that they had not applied for any bank loans in the previous three months; firms also reported a broadly unchanged need for bank loans. According to the firms interviewed for the Business Outlook Survey of Industrial and Service Firms, conducted by Banca d’Italia between 10 September and 4 October 2024 on firms with at least 20 employees, the demand for loans rose only moderately in the second half of 2024.

[8] The firms with fewer than 50 employees interviewed by Istat for its March 2025 business confidence survey in the manufacturing sector reported a worsening in credit access conditions, though not to the extent observed in the previous quarters. The Survey on the access to finance of enterprises also confirms more favourable developments in credit access conditions for larger firms than for smaller ones, especially micro-firms (i.e. firms with fewer than 10 employees).

Figure

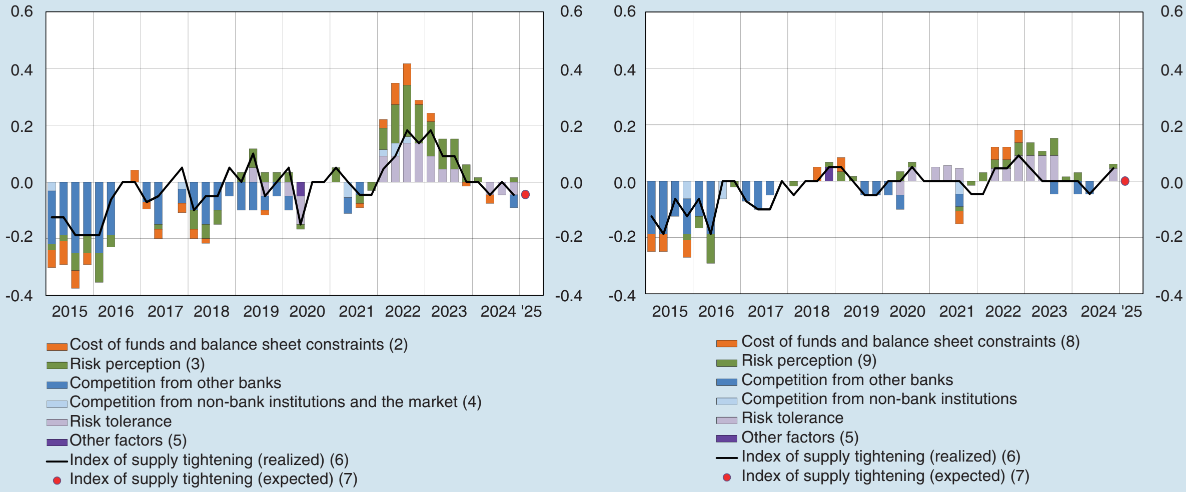
Credit standards and the trend in credit demand in Italy (1)

(quarterly data; diffusion indices)

Credit conditions

(a) Loans to firms | (b) Loans to households for house purchase

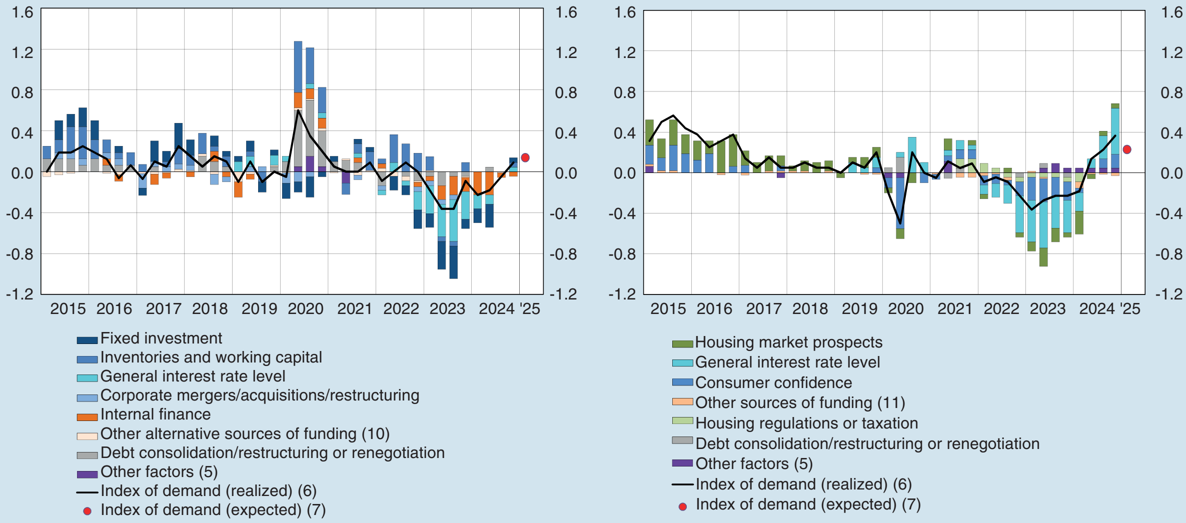
factors contributing to a tightening (+) / easing (–)



Demand for loans

(c) Loans to firms | (d) Loans to households for house purchase

factors contributing to an expansion (+) / contraction (-)



Source: BLS.
(1) For the general indices, positive values indicate supply tightening/demand expanding compared with the previous quarter; for the factors, positive values indicate a contribution to supply tightening/demand expanding compared with the previous quarter. The diffusion indices are constructed on the basis of the following weighting scheme: for supply conditions, 1=tightened considerably, 0.5=tightened somewhat, 0=basically stable, -0.5=eased somewhat, -1=eased considerably; for demand, 1=expanded considerably, 0.5=expanded somewhat, 0=basically stable, -0.5=contracted somewhat, -1=contracted considerably. The range of variation of the index is from -1 to 1. – (2) Average of the following factors: bank's capital position; bank's ability to obtain funds on the market; and bank's liquidity position. – (3) Average of the following factors: general economic situation and outlook; industry- or firm-specific situation and outlook; and risks associated with collateral. – (4) Average of the following factors: competition from non-banks and competition from other sources of finance. – (5) Average of additional factors that, in banks' view, contributed to changes in their credit standards or in loan applications. – (6) For the quarter ending at the time of the survey. – (7) Forecasts made in the previous quarter. – (8) Since April 2022, average of the following factors: bank's capital position; bank's ability to obtain funds on the market; and bank's liquidity position. – (9) Average of the following factors: general economic situation and outlook; housing market prospects; and borrowers' creditworthiness. – (10) Average of the following factors: loans granted by other banks; loans from non-banks; issuance/redemptions of debt securities; and issuance/redemptions of equity. – (11) Average of the following factors: internal finance of house purchase out of savings/down payment; loans from other banks; and other sources of external finance.

Debt securities issued by firms continue to grow

In February, the year-on-year growth in debt securities issued by firms continued, though at a slower pace than in November (3.1 per cent compared with 3.8 per cent), reflecting an increase in redemptions that more than offset the higher gross issuance. Net equity financing remained low. Italian non-financial corporate bond yields have remained broadly unchanged since mid-January (at 3.7 per cent), in line with the risk-free benchmark rate.[9]

2.8 THE PUBLIC FINANCES

In 2024, general government net borrowing more than halved compared with 2023, standing at 3.4 per cent of GDP; the primary balance turned positive, at 0.4 per cent of GDP. The improvement is largely attributable to the contraction in the ratio of primary expenditure to GDP, driven by the sharp reduction in 'Superbonus' building renovation incentives. However, the debt-to-GDP ratio returned to growth, reaching 135.3 per cent, as a result of the cash effects of building renovation tax credits accrued in previous years.

Net borrowing decreases significantly in 2024

In 2024, the ratio of net borrowing to GDP more than halved compared with 2023, coming down to 3.4 per cent (from 7.2 per cent). The decline is due to the primary balance, which improved by 4 percentage points, turning positive, at 0.4 per cent of GDP, for the first time since 2019. Interest expenditure as a percentage of GDP instead inched up (by 0.2 percentage points, to 3.9 per cent).[10]

Net borrowing decreased more than forecast last autumn in the medium-term fiscal-structural plan (2025-29 MTP) as a result of a larger-than-expected primary surplus (0.4 per cent against 0.1 per cent of GDP).

The primary balance improves, mainly as a result of the sharp contraction in government spending

The improvement in the primary balance is mainly due to the strong contraction in primary expenditure, which came down to 46.7 per cent (3.6 percentage points of GDP lower than in 2023); this is essentially attributable to the sharp decrease in 'Superbonus' tax credits (Table 7). The revenue-to-GDP ratio edged up (by 0.4 percentage points): the significant growth in the tax burden (of 1.2 percentage points, to 42.6 per cent of GDP) was largely offset by the reduction in non-tax capital revenue (-0.9 percentage points), mainly as a result of lower NRRP grants. The increase in the tax burden was driven by higher direct taxes. Social security contributions and indirect taxes, including energy taxes (which benefited from the full reintroduction of system charges), also grew at a higher rate than GDP, in contrast with the decline registered during the previous two years.

The debt-to-GDP ratio rises slightly

In 2024, the debt-to-GDP ratio rose slightly (0.7 percentage points), to around 135.3 per cent of GDP, halting the downtrend observed in the 2021-23 period (Table 8);[11] the increase was smaller than forecast last September in the 2025-29 MTP, owing to the improvement in the primary surplus. Last year, the unfavourable

[9] The benchmark rate for bond issuance is generally the five-year IRS, which stood at mid-January levels in early April.

[10] Interest expenditure in relation to GDP, which had exceeded 5 per cent during the sovereign debt crisis, had then come down to 3.3 per cent in 2019.

[11] This Economic Bulletin reports the debt and the general government borrowing requirement data that were revised in connection with the notification transmitted to the European Commission on 31 March 2025, as part of the excessive deficit procedure. There were minor revisions to the data published on 14 March, which reflect regular source updates. For more information, see 'The Public Finances: Borrowing Requirement and Debt,' Banca d'Italia, Statistics Series, forthcoming.

Table 7

General government expenditure and revenue

	Billions of euros		% change on previous year	
	2023	2024	2023	2024
EXPENDITURE				
Compensation of employees	188.1	196.6	2.6	4.5
Intermediate consumption	120.1	128.2	0.1	6.7
Social benefits in kind	54.2	51.0	6.7	-5.8
Social benefits in cash	424.5	446.0	4.3	5.1
Interest expense	77.8	85.2	-4.6	9.5
Other current expenditure	89.2	83.7	-3.9	-6.2
Current expenditure	**953.8**	**990.6**	**2.0**	**3.9**
% of GDP	44.8	45.2		
Current expenditure net of interest expense	**876.0**	**905.4**	**2.6**	**3.4**
% of GDP	41.1	41.3		
Investment (1)	67.6	77.2	28.0	14.3
Other capital expenditure	128.6	40.6	17.4	-68.4
Capital expenditure	**195.8**	**117.8**	**21.0**	**-39.9**
Total expenditure net of interest expense	**1,072.2**	**1,023.2**	**5.5**	**-4.6**
% of GDP	50.3	46.7		
TOTAL EXPENDITURE	**1,150.0**	**1,108.4**	**4.8**	**-3.6**
% of GDP	54.0	50.6		
REVENUE				
Direct taxes	321.8	343.2	10.8	6.6
Indirect taxes	291.4	309.1	4.1	6.1
Social security contributions	268.2	279.6	3.0	4.3
Production for market and for own use	49.5	49.8	7.3	0.4
Other current revenue	40.2	44.4	-1.4	10.5
Current revenue	**971.1**	**1,026.1**	**5.9**	**5.7**
% of GDP	45.6	46.8		
Capital revenue	**24.6**	**6.8**	**35.8**	**-72.4**
of which: capital taxes	1.6	1.8	-5.6	13.0
TOTAL REVENUE	**995.7**	**1,032.9**	**6.4**	**3.7**
% of GDP	46.7	47.1		
of which: tax burden	41.4	42.6		
NET BORROWING	**-154.3**	**-75.5**		
% of GDP	-7.2	-3.4		
Primary balance	**-76.5**	**9.6**		
% of GDP	-3.6	0.4		

Source: Based on Istat data (see Istat, 'Years 2022-2024. GDP and general government net borrowing. Gross domestic product, net borrowing and primary balance of the General Government', Flash Statistics, 3 March 2025).
(1) Includes proceeds of property sales which are entered with a negative sign.

contribution of the stock-flow component – mainly ascribable to the strong cash effects of 'Superbonus' tax credits accrued in previous years – was only partially mitigated by the primary surplus (Figure 26). In contrast with the previous three years, the contribution of the difference between the growth rate and the average cost of debt was slightly negative, especially because of the slowdown in nominal GDP growth (2.9 per cent against 8.5 per cent per year on average in the three years 2021-23), while the average cost of debt was only slightly higher than in the recent past (3.0 per cent compared with 2.8 per cent).

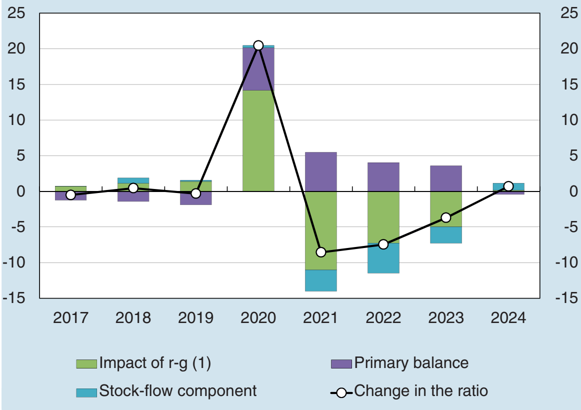
In nominal terms, the debt rose by almost €97 billion compared with 2023 (Table 8). The increase largely reflects the general government borrowing requirement (equal to €105.4 billion), which was only partly offset by the reduction in the Treasury's liquid balances.[12] The share of debt held by Banca d'Italia continued to shrink in 2024, to 21.6 per cent at the end of the year, against 24.2 per cent in 2023. The portion of debt held by non-residents increased from 27.7 to 31.1 per cent. The average residual maturity of the debt remained unchanged, at 7.9 years.

Italy presents its 6th NRRP progress report

On 27 March 2025, the Government published its sixth NRRP progress report. According to the estimates reported, the funds actually spent amounted to nearly €64 billion at 31 December 2024, about half of the resources received through the Recovery and Resilience Facility and one third of those allocated to Italy.

Figure 26

General government debt: trend and determinants of the changes
(annual data; per cent of GDP)



Sources: For the items of the general government account and for GDP, Istat; for the debt, Banca d'Italia.
(1) Impact of the difference between the average cost of the debt (r) and the GDP growth rate at current prices (g).

Table 8

Changes in general government debt and its components
(billions of euros)

	2021	2022	2023	2024
Change in the debt = (a)+(b)+(c)+(d)	**108.5**	**77.6**	**105.4**	**96.9**
(a) Total borrowing requirement	95.6	46.8	89.4	105.4
of which: support to EMU countries	-0.2	-0.8	-1.1	-1.5
(b) Change in Treasury's liquid balances	5.0	-4.0	6.5	-12.3
(c) Issue discounts and premiums (1)	7.6	34.6	9.6	3.9
(d) Euro equivalent of foreign currency liabilities	0.2	0.2	0.0	0.0
Debt	**2,686.6**	**2,764.2**	**2,869.6**	**2,966.6**
% of GDP	145.8	138.3	134.6	135.3

(1) Includes the effect of the revaluation of inflation-indexed securities.

The Council of Ministers approves the 'Utility Bills Decree'

The Council of Ministers approved Decree Law 19/2025 (the 'Utility Bills Decree'), introducing electricity spending relief measures in support of households and firms for the current year. The relief measures include: (a) a one-off €200 bonus to households with an ISEE financial situation indicator certificate of up to €25,000 to help with electricity bills, which can be combined with the existing electricity and gas 'social bonus' for financially disadvantaged households; (b) an increase in the resources made available through the energy transition fund for the industrial sector; and (c) a discount in system charges for small and medium-sized enterprises. According to the official documents, these relief measures – for a total value of €3 billion, of which €1.6 billion for households – would draw on resources already available in the budgets of Italy's energy services operator (GSE S.p.A.) and of the Fund for Energy and Environmental Services (CSEA), as well as on part of the revenues generated from auctioning the CO_2 emission allowances for 2024.

[12] In the first quarter of 2025, the state sector borrowing requirement was €48.4 billion, €2.6 billion less than in the first quarter of 2024.