BANCA D'ITALIA

EUROSISTEMA

Economic Bulletin

3 | 2025

July 2025

Economic Bulletin

Number 3 / 2025
July

Other economic publications of Banca d'Italia:

Annual Report
Account of the main developments in the Italian and world economy during the year

Financial Stability Report
Six-monthly analysis of the state of the Italian financial system

Economie Regionali
A series of reports on the regional economies

Temi di Discussione (Working Papers)
A series of empirical and theoretical papers

Questioni di Economia e Finanza (Occasional Papers)
Miscellaneous studies on issues of special relevance to Banca d'Italia

Newsletter
News on recent research work and conferences

Quaderni di Storia Economica (Economic History Working Papers)
A series of papers on Italian economic history

These publications are available online at www.bancaditalia.it
Printed copies can be requested from the Paolo Baffi Library: richieste.pubblicazioni@bancaditalia.it

For the paper-based version: registration with the Court of Rome No. 290, 14 October 1983
For the electronic version: registration with the Court of Rome No. 9/2008, 21 January 2008

Address
Via Nazionale 91 – 00184 Roma – Italia

Telephone
+39 06 47921

Website
http://www.bancaditalia.it

ISSN 0393-7704 (print)
ISSN 2280-7640 (online)
DOI https://doi.org/10.32057/0.eb.2025.3

Based on data available on 7 July 2025, unless otherwise indicated

Designed and printed by the Printing and Publishing Division of Banca d'Italia

CONTENTS

LIST OF BOXES

The statistical appendix is available at www.bancaditalia.it

SYMBOLS AND CONVENTIONS

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

In the tables:

- – the phenomenon does not exist;
- .... the phenomenon exists but its value is not known;
- .. the value is nil or less than half of the final digit shown;
- :: not statistically significant;
- () provisional.

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

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

OVERVIEW

Global growth is weighed down by high uncertainty and instability

The international environment is burdened by ongoing political instability and conflicts. Trade policies continue to be affected by great uncertainty, fuelled by a flurry of announcements, suspensions and disputes, as well as by the unpredictable outcomes of the negotiations between the United States and its main trading partners. This is taking a toll on global economic activity.

GDP contracted in the US in the first quarter of 2025, falling for the first time in three years. Imports of goods rose sharply driven by firms frontloading their foreign purchases in anticipation of higher tariffs, which were then announced on 2 April.

However, according to the available indicators, the resulting acceleration in global trade is expected to be short-lived. China is showing the first signs of weakening exports, as economic activity continues to be held back by subdued domestic demand and the real estate market crisis. The OECD revised its global GDP growth forecasts downwards again.

The US dollar depreciates

Global equity prices more than recouped the losses incurred following the 2 April announcements, partly owing to the temporary suspension of the tariffs. In the United States, the rise in risk premiums – driven by a downgraded sovereign credit rating and the worsening outlook for public finances – contributed to the increase in ten-year government bond yields until the end of May; their subsequent decline is partly attributable to expectations of a more accommodative monetary policy stance. The dollar depreciated, with investors appearing less inclined to hold some US dollar-denominated assets than in previous episodes of financial turmoil. The euro strengthened and yields decreased in the euro area, especially in countries where fiscal consolidation has supported greater demand for government securities.

Recent developments in euro-area GDP reflect trends in US imports

Economic growth in the euro area exceeded expectations in the first three months of 2025. GDP growth was driven by the frontloading of exports to the United States in anticipation of higher tariffs. Euro-area activity weakened in the spring months, as strong US demand waned and domestic demand was still held back by high uncertainty.

According to the latest Eurosystem staff macroeconomic projections – which assume that the tariffs temporarily applicable until 9 July will remain in effect beyond that date – euro-area GDP is set to grow by 1 per cent on average over 2025-26. Consumer price inflation, which was 2 per cent in June, is projected to remain consistent with the medium-term target across the three-year forecasting horizon. Instability in trade policies and in the geopolitical scenario is the main risk factor for the growth and inflation outlook.

The ECB cuts its key interest rates

The ECB Governing Council further reduced its deposit facility rate by 50 basis points overall in its April and June meetings, bringing it to 2.0 per cent. The total reduction of 200 basis points since the start of the monetary policy easing cycle in June 2024 is still passing through to the cost of credit.

Economic activity in Italy continues to grow

Italy's GDP grew by 0.3 per cent in the first quarter compared with the previous period, owing to higher consumption and investment and, to a lesser extent, to US demand. After a protracted downturn that began in 2022, the manufacturing sector started showing signs of improvement, although it remains exposed to the instability of the international environment. According to our assessments, GDP slowed in the second quarter. Moderate growth in household consumption and investment spending, dampened by low confidence and heightened uncertainty, was *accompanied by weaker foreign demand. Activity increased in both industry and services.*

According to our latest projections, GDP is set to grow by 0.6 per cent in 2025 and by around 0.8 per cent on average in the following two years. The forecasting scenario is subject to considerable uncertainty, mainly linked to how geopolitical and trade tensions evolve.

Foreign demand for Italian government bonds remains strong

The current account balance remained positive in the first quarter, in line with the average levels recorded in 2024. Export volumes increased, partly reflecting the frontloading of purchases by US importers. According to our estimates, exports of goods declined in April and May. Foreign investors continued to make substantial net purchases of Italian government bonds. Italy's net international investment position remains highly positive.

Employment continues to grow

Employment continued to grow in the first quarter of 2025 (by 0.7 per cent compared with the autumn quarter). The number of hours worked rose in services and construction, but not in manufacturing, where recourse to short-time work schemes increased slightly again. The unemployment rate is at historically low levels and the labour force participation rate rose further. Contractual wages grew faster than inflation, but they are still below their 2021 levels in real terms. Employment continued to rise in the second quarter, to a lesser extent, while wage growth weakened slightly.

Inflation remains subdued

Inflation hovered around 2 per cent in the spring, as did its core component, which reflected very weak price growth for non-energy goods and stronger increases in service prices. The inflation expectations of households and firms continued to be moderate. According to our projections, consumer price inflation will average 1.5 per cent in both 2025 and 2026, before returning to 2 per cent in 2027.

The cost of credit continues to decline

The reduction in key interest rates continued to be transmitted to the cost of bank funding and to the cost of credit. The contraction in loans to non-financial corporations eased but remained significant for small firms. Credit demand was still subdued, while supply policies continued to reflect a cautious stance due to heightened uncertainty about the economic outlook. Exporting firms reduced their reliance on longer-term loans, which are typically used to finance investment in capital goods and to expand production capacity.

European Commission positively assesses Italy's corrective path for its excessive deficit

Based on the updated estimates contained in the 2025 Public Finance Document from last April, developments in net expenditure are consistent with the target agreed at European level. In its European Semester Spring Package, published in early June, the European Commission issued a positive assessment of Italy's corrective path under the excessive deficit procedure.

1 THE WORLD ECONOMY

1.1 THE GLOBAL CYCLE

Economic activity in the United States declined in the first quarter, following three years of robust expansion. US imports rose sharply, as purchases from abroad were brought forward in expectation of tariff increases. Trade policy uncertainty remained at exceptionally high levels, fuelled by a close sequence of announcements, suspensions and new measures by the US administration; it was also influenced by the uncertain outcomes of the trade negotiations opened with the main trading partners of the US. Global growth forecasts have been revised downwards since the start of the year, reflecting the state of uncertainty as to how international relations might evolve. Oil prices fluctuated significantly following the announcement of tariffs and the outbreak of the conflict between Israel and Iran, but then settled at lower levels than at the beginning of the year.

Growth is negative in the US and remains weak in China

In the first quarter, US GDP contracted for the first time since the beginning of 2022 (Table 1). The positive contribution of investment and consumption was more than offset by the distinctly negative contribution of net exports; the latter was driven by a temporary and exceptional increase in imports caused by foreign purchases being brought forward in advance of the coming into force of new tariffs. Despite the resilience of the labour market, consumption growth lost momentum in the second quarter, as envisaged by the worsening of household confidence. GDP, however, is expected

Table 1

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

	Growth			Forecasts		Revisions (2)	
	2024	2024 Q4 (1)	2025 Q1 (1)	2025	2026	2025	2026
World	**3.3**	**–**	**–**	**2.9**	**2.9**	**-0.2**	**-0.1**
Japan	0.2	2.2	-0.2	1.1	0.4	-0.4	0.2
United Kingdom	1.1	0.4	3.0	1.3	1.0	-0.1	-0.2
United States	2.8	2.4	-0.5	1.6	1.5	-0.6	-0.1
Brazil	3.4	3.6	2.9	2.1	1.6	0.0	0.2
China	5.0	5.4	5.4	4.7	4.3	-0.1	-0.1
India (3)	6.5	6.4	7.4	6.3	6.4	-0.1	-0.2
Russia	4.3	4.5	1.4	1.0	0.7	-0.3	-0.2
Euro area	0.9	1.2	2.5	1.0	1.2	0.0	0.0

Sources: National statistics for data on growth; OECD, *OECD World Economic Outlook. Tackling Uncertainty, Reviving Growth*, June 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, Interim Report. Steering through Uncertainty*, March 2025. – (3) The actual data and the forecasts refer to the fiscal year starting in April.

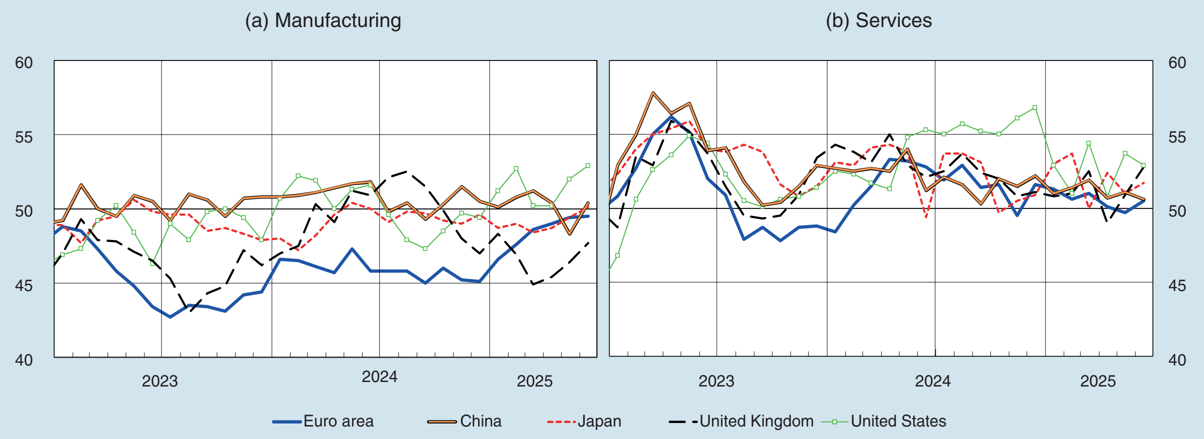
to return to growth in the second quarter according to analysts' expectations and estimates by some of the Federal Reserve's Regional Banks. Activity growth in China, while stable over the first months of the year, continued to be affected by the weakness of domestic demand and the real estate market crisis. In April and May, the boost from exports diminished, especially for exports to the United States.

The dynamics of economic activity are uncertain and uneven across areas

In the second quarter, the purchasing managers' index (PMI) for manufacturing remained above the threshold compatible with expansion in the United States (Figure 1.a), suggesting that the impact of tariffs on activity was still limited. The PMI for manufacturing remained weak in China (standing just below the expansion threshold), in line with the worsening outlook for exports. PMIs for services fluctuated widely, returning to their first-quarter levels, which were compatible with growth in both the United States and in China (Figure 1.b).

Figure 1

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



Source: 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 outcome of trade negotiations remains deeply uncertain

Trade policy uncertainty, as measured by the trade policy uncertainty index,[1] reached an all-time high in April, before declining in June to values that are still high, nonetheless. The US administration's announcement of a sweeping increase in tariffs and the subsequent close sequence of decisions to suspend them, the introduction of further new measures and the still unpredictable outcome of negotiations with the US's major partners – combined with the legal disputes begun within the United States over the legitimacy of tariffs – significantly contributed to fuelling the uncertainty. The preliminary agreements reached with the United Kingdom, China and Vietnam and the negotiations under way with other major economies, including the European Union, have so far

[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.

led to a temporary suspension of some of the increases announced in April, though the actual tariff rates remain markedly higher than at the end of 2024.[2]

Global growth forecasts are again revised downwards

The increase in US goods imports was so pronounced as to drive a temporary acceleration in world trade in the first quarter of 2025; according to the latest data available, however, imports fell in April and May, suggesting that the wave of forward buying has been partially reabsorbed. More in detail, trade between the United States and China contracted significantly, whereas US imports from other countries and in specific sectors (such as pharmaceuticals, not yet hit by tariffs, and machinery and electronics) were still sustained, though less so than in the first quarter. The outlook for world trade remains weak. Since last spring, the global indices for foreign orders have fallen dramatically to well below the level consistent with expansion, in both manufacturing and services, partly due to the upward pressure on the input price component.

According to the OECD's June projections, global trade is expected to slow down significantly this year (to 2.8 per cent, from 3.8 per cent in 2024), and world GDP is projected to expand by 2.9 per cent (from 3.3 per cent). These estimates have been revised downwards again from last March. Downside risks remain for global economic activity owing to trade tensions and high levels of uncertainty.

Oil prices are affected by geopolitical tensions

The price of oil, which had fallen earlier this year, rose again temporarily with the outbreak of the conflict between Israel and Iran (Figure 2.a), reaching a daily peak of $79 per barrel in June. As a result of the ceasefire that was agreed, part of the rise was reabsorbed, with prices standing just below their March average level in the first four days of July. Both the International Energy Agency (IEA) and private analysts expect the oil supply to remain ample in the second half of 2025, partly owing to the most recent increases in production announced by OPEC+ countries. At the same time, oil prices remain volatile because of political instability in the Middle East and global uncertainty. Based on futures contracts, the price of Brent crude oil is set to stand at around $66 per barrel.

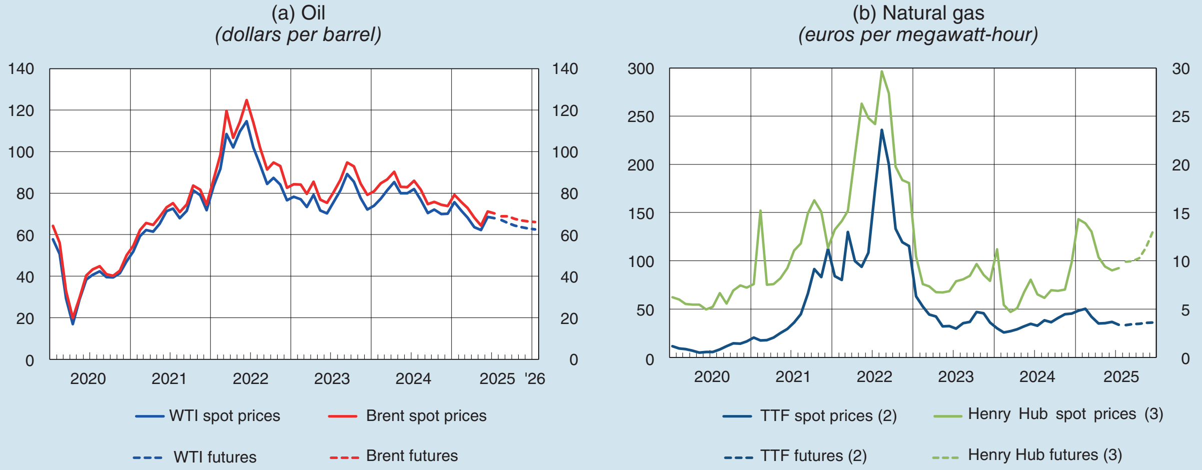
Natural gas prices fluctuate widely

The Title Transfer Facility (TTF) reference price of European natural gas went down after the first ten days of April, though with wide fluctuations, to around €34 per megawatt-hour on average in the first four days of July (Figure 2.b). The temporary increases observed in May were driven by low inventory levels and also by higher demand from China as tariff increases between the United States and China were paused. Tensions in the Middle East also affected prices in June, though to a smaller degree because of Iran's more marginal presence in the natural gas market than the oil market. Futures on the TTF market stand at around €36 per megawatt-hour, signalling broad stability.

[2] In early May, the United States signed an agreement with the United Kingdom for the partial removal of tariffs in some sectors, especially in the motor vehicle sector. The United States and China later agreed to a 90-day suspension of the measures decided in April, bringing the actual rate on Chinese goods exports to 39.5 per cent (well above the 11.5 per cent rate in force at the end of 2024). A broad agreement was then reached on 10 June which should lead to an easing of some restrictions imposed by China on the sale of minerals that are critical to the United States. In its negotiations with the European Union, the US administration threatened to raise tariffs by 50 percentage points (against the 20 points initially announced in April) but then postponed their coming into force to 9 July to facilitate talks. In early July, the US administration announced to some of its trading partners that, in the absence of a deal, tariff increases of a similar scale to those announced on 2 April would come into force as of 1 August (25 per cent, for instance, against both Japan and South Korea). At the time of going to press, no announcement along these lines has been made to the EU. Both sides, however, have shown their willingness to reach a preliminary deal by the end of July.

Figure 2

Commodity prices (1)
(monthly data)



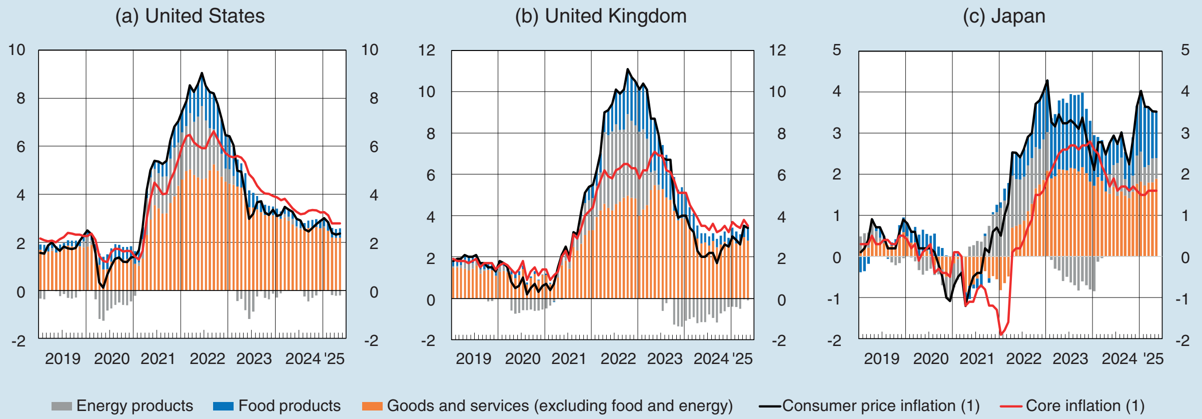
Source: LSEG.
(1) For spot prices, monthly averages up to June 2025. The data for July 2025 refer to the average of the daily data from 1 to 4 July 2025. For futures, the data refer to the prices on 4 July 2025. – (2) Price of natural gas traded on the Dutch TTF market. – (3) Price of natural gas distributed via the Henry Hub in Louisiana (USA). Right-hand scale.

The US Federal Reserve keeps its policy rates unchanged in June

In the United States, the decline in annual consumer price inflation came to a halt in May (2.4 per cent, from 2.3 per cent in April; Figure 3), although the effects of tariffs remain limited for the time being. Inflation fell to 3.4 per cent in Japan and in the United Kingdom; in the latter country it had recorded a marked increase in April, mainly owing to the rise in the prices of regulated energy products. In May, the core component fell in the United Kingdom, but remained stable in the United States and in Japan.

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.

At its June meeting, the Federal Reserve again left its policy rates unchanged at 4.25-4.50 per cent, confirming its cautious stance owing to high uncertainty regarding the impact of tariffs.[3] The Bank of England and the Bank of Japan also kept their policy rates unchanged in June, at 4.25 per cent and 0.5 per cent respectively. The latter also announced it would slow down in reducing its balance sheet, halving the pace of decline in government bond purchases in order to prevent an excessive drop in market liquidity. Again in June, the People's Bank of China left its interest rate on refinancing operations and reserve requirement ratio unchanged after cutting them in May to boost the supply of credit from commercial banks and to support the real estate market, confirming an overall accommodative monetary policy stance.

1.2 THE EURO AREA

In the first quarter of the year, euro-area GDP growth was much stronger than expected, driven by the frontloading of goods exports to the United States. In the spring months, economic activity in the area, net of the outstanding performance of Ireland, appears to have expanded slightly, benefiting from the still positive contribution of services, but hampered by lower value added in manufacturing. Consumer price inflation does not exceed 2 per cent. In its April and June meetings, the ECB Governing Council cut its deposit facility rate further, by a total of 50 basis points, bringing it to 2.0 per cent. The overall reduction of 200 basis points since the start of the monetary easing cycle is still passing through to the cost of credit.

Euro-area GDP rises above expectations in the first quarter of 2025

In the first three months of the year, euro-area GDP grew by 0.6 per cent on the previous quarter (from 0.3 per cent in the fourth quarter of 2024; Table 2). Growth exceeded early-year forecasts, mainly due to a surge in goods exports to the United States in anticipation of higher tariffs. Value added rose markedly in manufacturing, thanks in particular to pharmaceutical production, driven by the temporary rise in foreign orders. Value-added growth was more moderate in domestically geared sectors, though business activity expanded both in services, especially digital ones, and in construction. According to our estimates, excluding the effects of frontloading sales to the United States, GDP growth was essentially in line with the last quarter of 2024.

Table 2

Euro-area GDP growth and inflation
(percentage changes)

	GDP growth			Inflation
	2024	2024 Q4 (1)	2025 Q1 (1)	2025 June (2)
France	1.2	-0.1	0.1	0.8
Germany	-0.2	-0.2	0.4	2.0
Italy	0.7	0.2	0.3	1.7
Spain	3.2	0.7	0.6	2.2
Euro area	0.9	0.3	0.6	2.0

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, preliminary estimates; year-on-year percentage changes in the harmonized index of consumer prices (HICP).

Among the bloc's major countries, GDP remained broadly stable in France, while it increased both in Italy and especially in Germany, in the wake of rising exports. Spain's GDP continued to grow at a faster pace than for the other main economies, albeit decelerating compared with previous quarters. Ireland made an outstanding contribution to euro-area GDP growth (more than 0.3 percentage

[3] Amid deteriorating growth prospects and expectations of stronger price pressures in the current year and the next, the Federal Open Market Committee (FOMC) members' projections for policy rates still point to two cuts by 25 basis points each by December 2025, though the number of those who expect no cuts went up from 4 to 7 committee members (out of 19). In the early days of July, markets regarded at least two cuts by 25 basis points each by the end of the current year as being more than 70 per cent likely.

points);[4] net of the latter, there was a slowdown in both household consumption and investment spending across the area. Capital expenditure was held back by uncertainty over trade policies and partly by the fading of tax effects that had boosted transport equipment purchases in some countries in late 2024. The frontloading of sales to the United States resulted in a positive contribution to GDP from net foreign demand and a negative contribution from changes in inventories.

Growth weakens in the second quarter

Trade tensions and the unstable global environment create a highly uncertain outlook for euro-area economic activity in the second quarter. Uncertainty in turn makes households and firms more cautious, dampening domestic demand.

The latest information from cyclical indicators points to a slower expansion in euro-area GDP than in the previous quarter. The slowdown affected all the main economies except Spain, which still shows a favourable trend. Should Ireland's GDP plummet following the outstanding first-quarter growth, euro-area total GDP may decline.

The PMI current production component sitting just above the expansionary threshold and the indications from European Commission surveys are consistent with a moderately weaker manufacturing activity in the second quarter. The forward-looking assessments based on order books are less favourable and point to especially subdued momentum in the industrial sector in the second half of the year. PMIs and European Commission survey findings suggest that activity will slow down in services.

Growth in domestic demand loses steam

According to our estimates, the expansion in private consumption, albeit small, continued to support GDP in the second quarter, despite falling household confidence. The latter was affected both by less favourable assessments of the general state of the economy, back to the low levels seen in 2022, and by growing concerns about labour market developments. Net of Ireland's very volatile investment trend, capital expenditure slowed further amid worsening production expectations for firms in the capital goods sector, with low capacity utilization rates in industry also playing a part.

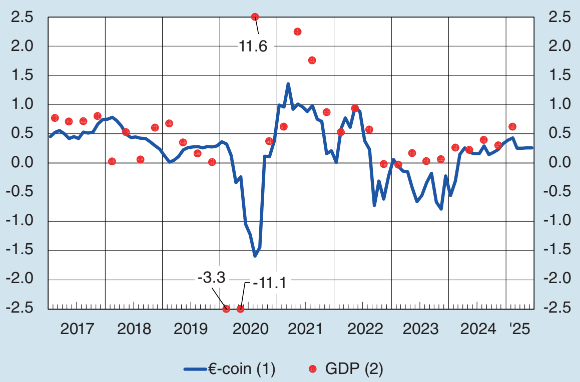
Based on available data, the contribution of exports to euro-area GDP growth appears to have remained positive in the second quarter. The US administration's decision to pause part of the tariffs and the ongoing trade negotiations may still have helped boost US imports. However, this is expected to be only a temporary effect, with opposite trends materializing in the second half of the year. The PMI for export order books improved, as did European Commission survey findings on foreign demand.

According to the €-coin indicator (Figure 4), net of these temporary factors, the underlying growth in euro-area activity remains moderate.

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: June 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.

[4] Irish GDP rose by 9.7 per cent quarter-on-quarter, with outstanding growth in net foreign demand, driven by exports from multinational pharmaceutical companies, and in investment, especially in capital goods and intellectual property.

The Eurosystem confirms its forecasts for euro-area growth in the current year

The Eurosystem staff macroeconomic projections released in June[5] point to growth of 0.9 per cent in 2025, 1.1 per cent in 2026 and 1.3 per cent in 2027. Compared with ECB projections last March, those for next year have been revised downwards by 0.1 percentage points. The scenario assumes that US tariffs will remain unchanged at early-July levels even after the end of the suspension period and that there will be no trade retaliation by the European Union.

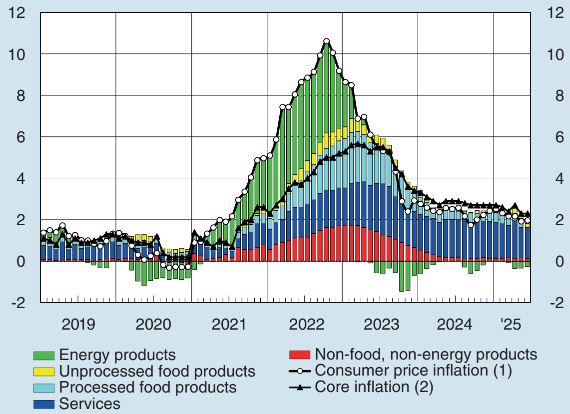
Inflation stands at 2 per cent in June

Annual consumer price inflation inched up to 2.0 per cent in June (from 1.9 per cent in May; Figure 5). Core inflation (i.e. excluding food and energy) remained stable at 2.3 per cent. Price growth edged down to 0.5 per cent for non-energy industrial goods. Services inflation went to 3.3 per cent, around 0.1 points higher than in May but well below the figure for April, when it had soared owing to the stronger demand for travel and accommodation services (especially as regards air fares) around the Easter holidays. Among the volatile components, food price inflation remained high (3.1 per cent), driven by higher commodity prices, while energy prices continued to fall compared with the previous year (-2.7 per cent), as a result of the decline in wholesale gas and crude oil prices in the spring months. However, these dynamics remain very volatile, as they are subject to geopolitical instability in the Middle East and to trade tensions (see Section 1.1).

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

Producer price inflation for industrial products sold on the domestic market in the euro area went down from 0.7 per cent in April to 0.3 per cent in May, mostly reflecting energy price growth, which became more negative on a twelve-month basis. The manufacturing PMI for input costs has fallen sharply in recent months and is currently below the expansionary threshold.

Wage growth continues, albeit with different trends

Actual hourly wage growth in the euro area remained broadly stable in the first quarter of 2025, at 3.6 per cent on an annual basis. Among the major countries, wage growth accelerated slightly in France and Spain, while it slowed in Italy; it has been decelerating since the second half of 2024 in Germany. In the spring months, earnings growth is estimated to have moderated, as increases in negotiated wages were smaller in Italy and Germany. The number of persons employed grew by 0.2 per cent in the euro area, although labour demand remains weak in Germany, where employment held stable, and in France, where it fell by 0.3 per cent.

The Eurosystem cuts its inflation projections for 2025

According to the June Eurosystem staff projections, inflation will stand at 2.0 per cent in 2025, 1.6 per cent in 2026 and 2.0 per cent in 2027. Compared with the ECB's March projections, the forecasts have been revised downwards by a total of 0.6 percentage points over the two years 2025-26, mainly based on much more favourable assumptions for changes in energy prices.

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

China's efforts to redirect goods exports to Europe amid worsening trade relations with the United States could add to competitive pressures on European producers and depress their prices, in an environment where consumer price inflation for manufactured goods is already low (see the box 'The effects of the trade tensions between the US and China on euro-area consumer prices').

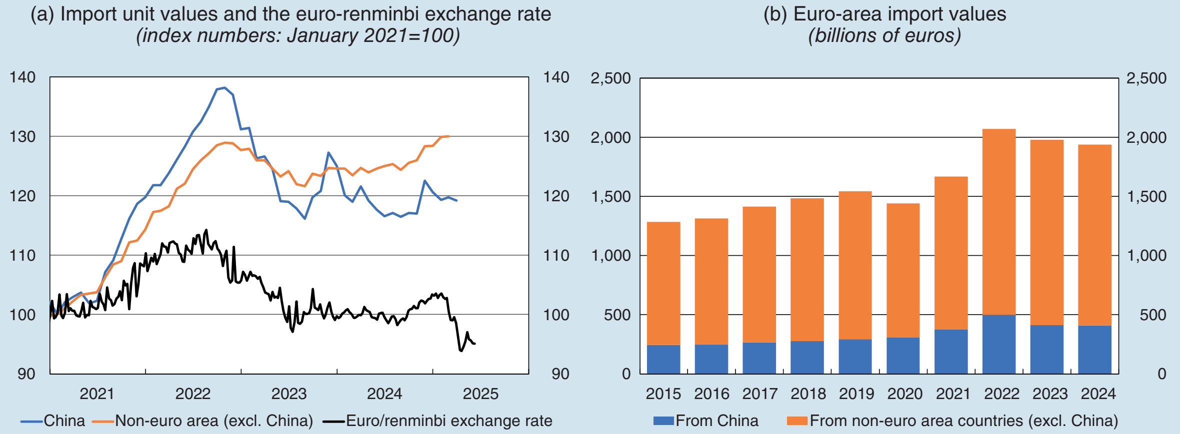
THE EFFECTS OF THE TRADE TENSIONS BETWEEN THE US AND CHINA ON EURO-AREA CONSUMER PRICES

Tariffs affect consumer prices unevenly. They push up prices in the countries that impose them, as foreign producers tend to pass the tax burden on to consumers – totally or partially – and domestic producers may face higher costs for imported intermediate goods.[1] In the countries where tariffs are imposed, exports fall and economic activity weakens, thereby generating disinflationary pressures. Downward pressures on consumer prices could also derive from lower commodity costs – because of the slowdown in world trade – and from the brake on investment caused by the increase in uncertainty.

Further consequences may arise from the redirection of global trade flows. Specifically, given the rise in the tariffs imposed by the United States since last April, China might redirect its exports towards European markets and adopt more aggressive pricing policies. The prices of goods that come from China have fallen sharply since 2022, partly owing to the depreciation of the renminbi (see panel (a) of the figure). If this trend became more pronounced, the effects on the euro area might not be negligible, as Chinese goods account for around one fifth of total imports from non-euro area countries (€400 billion; see panel (b) of the figure).[2]

Figure

Manufactured goods: unit values and imports in value



Sources: Based on Eurostat and LSEG data.

[1] M. Amiti, S.J. Redding and D.E. Weinstein, 'The impact of the 2018 tariffs on prices and welfare', *Journal of Economic Perspectives*, 33, 4, pp. 187-210.

[2] Most goods imported from China are electrical equipment and machinery (such as batteries, lighting systems and household appliances), and electronic and data processing products (computers, cameras, televisions and telecommunication equipment). China is the largest supplier to the euro area in these sectors, accounting for much larger market shares than the other non-euro area trading partners. Chinese exports also include a wide range of low-tech manufacturing goods, such as car spare parts, plastic products, clothing, toys and home furniture.

The effect on euro-area consumer price inflation would depend on three factors: (a) the increase in China's exports to the euro area; (b) the response of import prices for Chinese goods; and (c) the response of consumer prices to the change in the prices of imports from China. Recent estimates[3] suggest that an increase in US tariffs against China on the scale envisaged in May could turn into an increase in Chinese exports to the euro area of around €10 billion; the prices of imported Chinese goods would fall by around 2.5 per cent.[4] Euro-area non-energy industrial goods consumer prices are expected to decline by around 0.3 per cent over a two-year horizon.[5] The final effect is likely to reduce headline inflation by about 0.1 percentage points over the two-year period.

If the US tariffs were higher, in line with those announced in April,[6] the increase in Chinese imports could reach €30 billion, and the downward impact on the overall price index would be 0.2 per cent.

3 F.P. Conteduca, M. Mancini and A. Borin, 'Roaring tariffs: the global impact of the US 2025 trade war', *VoxEU CEPR*, 6 May 2025.

4 The effective tariff rate imposed on China by the United States is assumed to be 40 per cent, in line with the temporary agreement between the two countries announced on 12 May. It is also assumed that there are no changes in the tariffs that all other countries impose on one another.

5 The effect would be stronger for technology and housing-related goods, and less pronounced for low-tech goods; see F. Corsello, S. Pica and F. Venditti, 'The Great Wall of Chinese goods: the effect of tariffs induced re-rerouting on euro area consumer prices', *VoxEU CEPR*, 12 June 2025.

6 The actual level of tariffs against China, as a result of the strategy announced on 2 April by the US administration of tariffs proportionate to the US trade surplus ('mutual tariffs') and the subsequent decisions, had reached 115 per cent.

Households and firms expect moderate price increases

Average short-term selling price expectations for the second quarter, as reported by European Commission, are stable for manufacturing firms and lower in services.

According to the ECB Consumer Expectations Survey, consumer price inflation expectations for households in the euro area fell to a median value of 2.8 per cent over a twelve-month horizon and of 2.4 per cent over a three-year horizon, slightly down from April. Uncertainty about inflation expectations over the following twelve months also subsided, reversing the temporary increase recorded in the previous month.

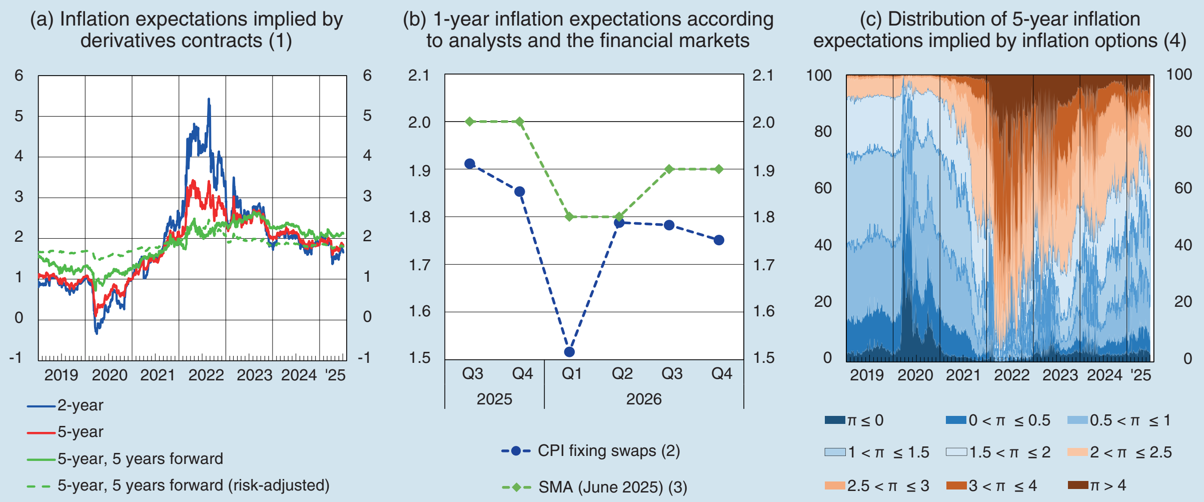
Short- and medium-term inflation expectations remain below target

Between mid-April and early July, the yields on inflation-linked swap (ILS) contracts over the two-year and five-year horizons rose to 1.7 and 1.8 per cent respectively (Figure 6.a). Over the five-year, five years forward horizon, net of the estimated inflation risk premium, yields remained stable at around 1.8 per cent. On the shortest horizons, expectations based on CPI fixing swaps[6] point to inflation falling to around 1.5 per cent in the first quarter of 2026, before edging back up to 1.8 per cent in the remainder of the year. The experts interviewed for the ECB's June Survey of Monetary Analysts (SMA) expect inflation to run at 2.0 per cent in late 2025, and then to stabilize between 1.8 and 1.9 per cent in 2026 (Figure 6.b). Finally, the distribution of inflation expectations based on options prices indicates a 41 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 18 per cent (Figure 6.c).

6 CPI fixing swaps are swap contracts linked to the publication of monthly data on annual euro-area inflation, as measured by the HICP index excluding tobacco. The interest rates implied by 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.

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 19 to 21 May 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.

The ECB lowers its key interest rates further

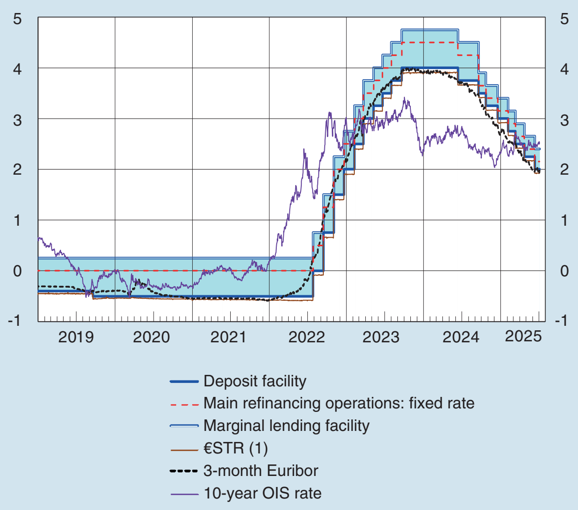
The ECB Governing Council further reduced its deposit facility rate by 50 basis points overall in its April and June meetings, bringing it to 2.0 per cent (Figure 7). The decisions reflected the updated assessment of the inflation outlook, of the dynamics of underlying inflation and of monetary policy transmission. The overall reduction since the start of the monetary policy easing cycle in June 2024 amounts to 200 basis points.

Markets and analysts expect a further key interest rate cut

The interest rate expectations implied by €STR swaps rebounded slightly from the levels observed following the US administration's announcements of tighter trade policies. At the beginning of July, markets were discounting a further 25 basis point cut in key interest rates by the end of 2025. Market participants interviewed by the ECB for the SMA expected a similar reduction.

Figure 7

Key interest rates and money market rates in the euro area
(daily data; per cent)



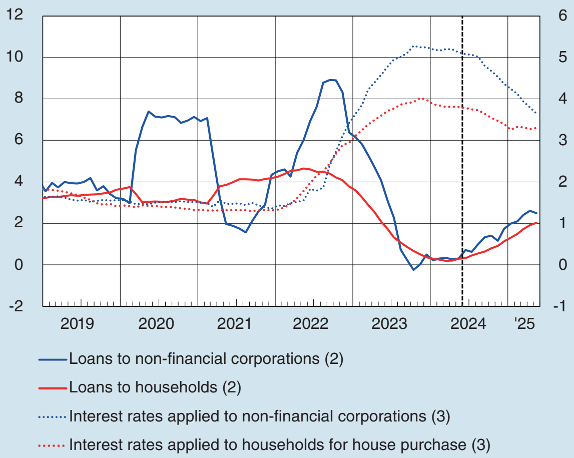
Sources: ECB and LSEG.
(1) As of 1 October 2019, the euro short-term rate (€STR) is the overnight benchmark rate for the euro-area money market. For the period prior to 1 October, the figure shows the pre-€STR rate.

The cost of credit continues to fall

The interest rate on new loans to non-financial corporations continued to fall between February and May (from 4.1 to 3.6 per cent; Figure 8). This reflects the gradual decline in the cost of bank funding and the trend in short-term risk-free rates. The cost of new home mortgage loans to households remained basically unchanged (at 3.3 per cent), following the rise in benchmark rates observed between early March and mid-April[7] (see Section 1.3 in *Economic Bulletin*, 2, 2025).

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) 12-month percentage changes. Loans include bad debts, repos and loans not reported in banks' balance sheets because they have been securitized. The percentage changes are net of reclassifications, exchange rate variations, value adjustments, and other variations not due to transactions. – (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.

Lending accelerates, driven by the short- and medium-term component

Lending to non-financial corporations in the euro area accelerated to 2.5 per cent in May on an annual basis (from 2.1 per cent in February; Figure 8). This was mainly attributable to a strong recovery in short- and medium-term lending. The growth rate of loans with an initial maturity beyond five years, typically granted for investment purposes, remains well below the historical average calculated since 2004. The weakness in the longer-term component reflects both slightly tighter credit standards, due to banks' higher risk perception, and sluggish demand for loans for fixed investment, with business planning arguably being held back by economic and geopolitical uncertainty.[8] Growth in lending to households accelerated (2.0 per cent on an annual basis, from 1.5 per cent in February), reflecting the improvement in demand for home mortgage loans on the back of the overall decline in interest rates.

The European Commission publishes its Spring Package in June

The European Commission published its 2025 Spring Package on 4 June. With regard to the eight countries with an ongoing excessive deficit procedure and the recommendations for net expenditure issued by the EU Council in January, the Commission believes that: (a) four countries (Hungary, Italy, Poland and Slovakia) are fully compliant with these recommendations; (b) two countries (France and Malta) are currently in line with the recommendations, but a deviation is expected in the future that may require corrective action; and (c) two countries (Belgium and Romania) are non-compliant, requiring immediate corrective action.[9] The Commission also reviewed progress in medium-term fiscal-structural plan implementation for an additional 18 EU Member States that are not under an excessive deficit procedure. In two-thirds of cases, the net expenditure trajectory was found to be in line with what was agreed.[10] On 8 July, the EU Council opened an excessive deficit procedure for Austria and approved the request to activate the national escape clause of the Stability and Growth Pact for the four-year period 2025-28 in order to increase defence expenditure in 15 Member States (Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia,

7 The three-month Euribor and ten-year interest rate swap (IRS) are conventionally considered as the benchmarks for loans to firms and for mortgage loans, respectively. Between February and May, the Euribor had shed around 40 basis points; over the same horizon, the IRS had risen by approximately 15 basis points.

8 For more details, see ECB, 'April 2025 euro area bank lending survey', press release, 15 April 2025.

9 For further analysis, see European Commission, '2025 European Semester – Spring Package', COM(2025) 200 final, 2025.

10 Countries with deviations from the agreed net expenditure trajectory are: Portugal and Spain (found not fully in line); and Cyprus, Ireland, Luxembourg and the Netherlands (found not in line). The assessment is pending for Germany, which has not yet submitted its medium-term fiscal-structural plan.

Finland, Greece, Hungary, Latvia, Lithuania, Poland, Portugal, Slovakia and Slovenia). Finally, it issued the country-specific recommendations contained in the Commission's Spring Package.

1.3 THE FINANCIAL MARKETS

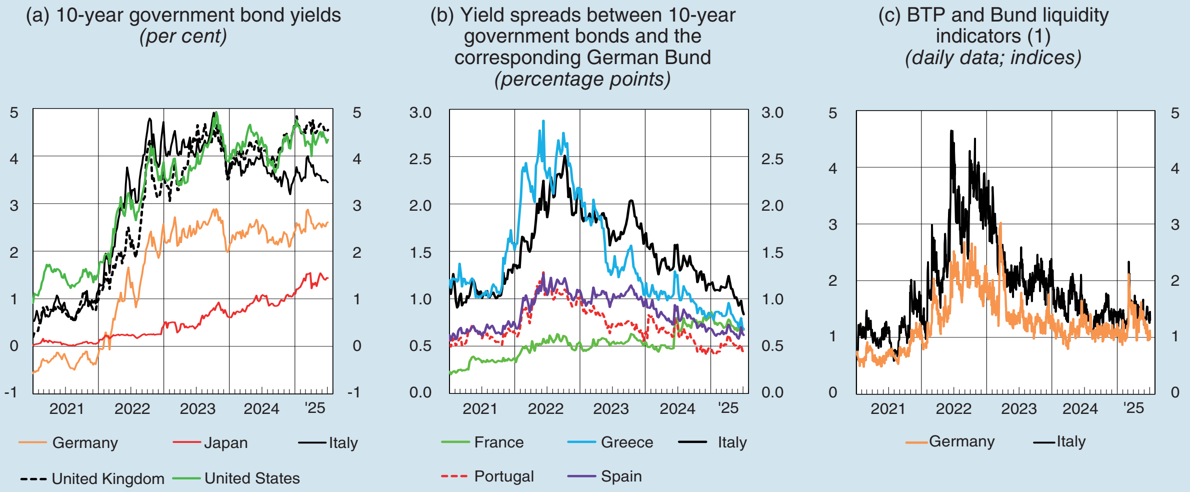
In the second quarter, the financial markets were affected by the uncertainty caused by trade tensions and showed signs of a reduction in the exposure of global investors to some dollar-denominated assets. The increase in yields on US and Japanese government securities observed up until the end of May was driven primarily by fears over the outlook for the public finances of the two countries; US yields declined in the weeks that followed, in part because of expectations of a more accommodative stance on the part of the Federal Reserve. Yields in the euro area have declined overall, especially in countries where fiscal consolidation has supported greater demand for government securities. The sizeable losses in equity prices in the leading financial centres in the wake of the announcements on 2 April were more than recouped in the following weeks, and the responses to the conflict between Israel and Iran were limited. The dollar weakened against the main currencies and, to a significant extent, against the euro; the price of gold rose considerably.

Government bond yields fluctuate widely in the United States ...

The yields on ten-year government bonds have been very volatile since the first ten days of April (Figure 9.a), standing at a higher level by 5 basis points in the United States and by 17 basis points in Japan in the first four days of July. Yields at 30-year maturities increased by around 10 and 35 basis points respectively, driven by mounting concerns in both countries about the outlook for the public accounts. In the United States, these concerns had intensified in the second half of May, generating a marked increase in the term premium following the downward revision of the sovereign rating by Moody's rating agency and the approval of a draft budget law by the House of Representatives that fuelled expectations of a further significant increase in the deficit.[11] Yields declined in the weeks that followed, in part as a result of

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.

[11] The 'One Big Beautiful Bill Act' draft law was definitively passed by the US House of Representatives on 3 July, after the first version, originally approved by the House on 22 May, had been ratified with some amendments by the Senate.

expectations of a more accommodative stance on the part of the Federal Reserve, returning to levels comparable with those of the first ten days of April. In Japan, signs have emerged that institutional investors are less able to absorb issuance at longer maturities, at a time when there is a large net supply of securities and high uncertainty about macroeconomic policies as well as fiscal prospects.

... while they decline in the euro area

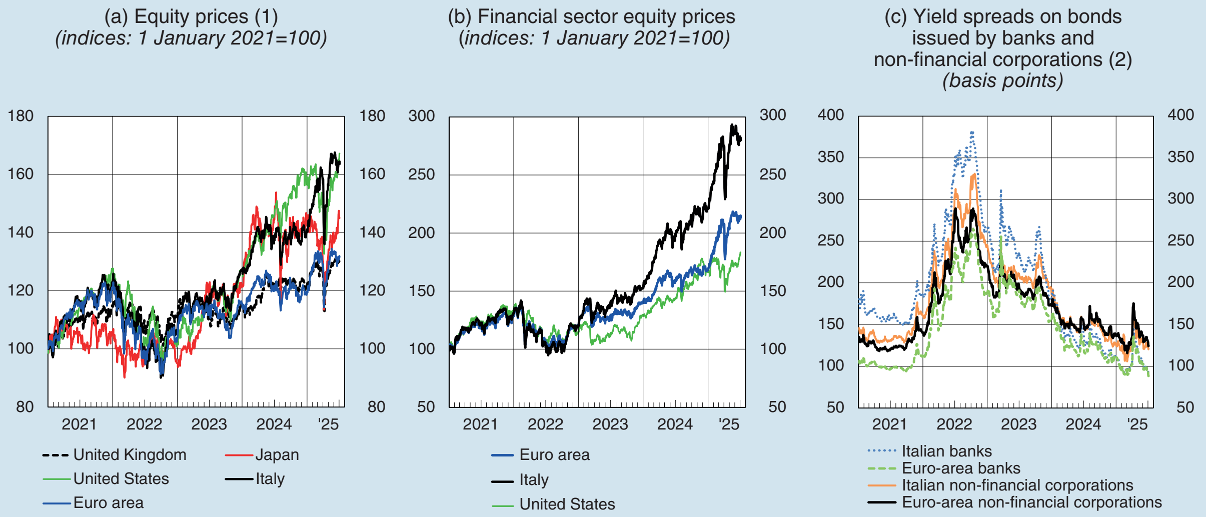
The demand for euro-area government bonds has generally not been affected by the high international uncertainty. In contrast to what typically happened in times of market turmoil, yields declined in Greece, Italy, Portugal and Spain, given that their respective government finances have gradually consolidated and an increase in spending is instead expected in Germany at the current juncture. The yield on ten-year Italian government bonds fell sharply by 41 basis points, to 3.44 per cent, partly because of more favourable assessments by some rating agencies (Figure 9.a);[12] that of the corresponding German Bund remained essentially unchanged. The yield spread between the two bonds accordingly contracted by 39 basis points to 85 basis points, reaching the lowest levels in the last 15 years; the yield spreads of the leading euro-area countries also narrowed, albeit to a lesser extent (Figure 9.b). The implied volatility of financial derivatives on ten-year Italian government bonds decreased, remaining at low levels by historical standards, and liquidity conditions remained stable (Figure 9.c).

Equity prices more than recover in the United States ...

From the first ten days of April onwards, the stock markets in the main advanced economies broadly recouped the losses suffered during the turmoil triggered by the announcement of the new US tariffs (Figure 10.a), reaching slightly higher levels than those at the beginning of the year. In the first days of July, the Standard & Poor's 500 index (S&P 500), driven by the technology and telecommunications sectors, was higher by around 26 per cent compared with the minimum reached on 8 April. Equity prices benefited from

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 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 banks and non-financial corporations vis-à-vis the risk-free rate.

[12] Specifically, Standard & Poor's raised Italy's long-term sovereign rating from BBB to BBB+, while Moody's improved its outlook from stable to positive.

the partial easing of tensions between the United States and China and from the release of favourable data on corporate profits; conversely, they were affected, albeit temporarily, by concerns linked to the sustainability of US government debt. Volatility declined overall in both equity and bond markets and, unlike in the aftermath of the first downgrading of the United States in 2011, it did not rise sharply on this occasion, and there was a limited and short-lived reaction to the heightened geopolitical tensions.

... as well as in the euro area and in Italy

In the euro area too, equity prices largely recouped the considerable decreases recorded in early April: they were about 13 per cent higher at the beginning of July than on 8 April (Figure 10.a). This reflected a stronger risk appetite among investors and better than expected first-quarter earnings releases, albeit amid significant concerns about the future impact of tariffs. The reduction in the risk of a recession caused by the trade tensions had a positive effect on financial sector prices, which rose by around 18 per cent, more than the overall index did (Figure 10.b). Between the beginning of April and the first week of July, equity prices in Italy increased overall by 17 per cent; bank equity prices rose by 23 per cent, in line with those in the euro area (24 per cent). The yield spreads of bonds issued by banks and non-financial corporations vis-à-vis the risk-free rate narrowed considerably (Figure 10.c).

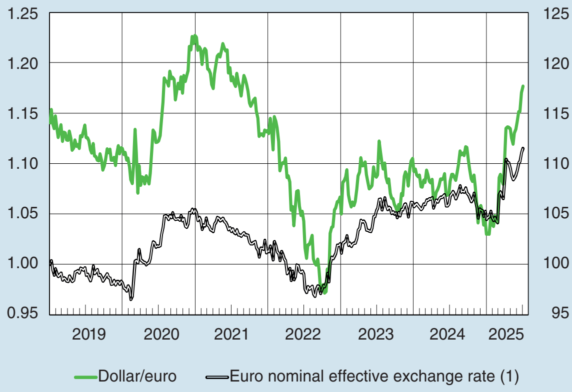
The dollar continues to depreciate, especially against the euro

Between the first week of April and the first days of July, the euro appreciated overall (Figure 11), while the US dollar weakened against both the main currencies of the advanced economies and many of those in emerging markets. In contrast to previous episodes of financial turmoil, the US dollar also depreciated – especially against the euro – during the phases of simultaneous increases in US government bond yields and their spreads vis-à-vis other sovereign bonds (see the box 'The recent appreciation of the euro/dollar exchange rate'). In the period as a whole, the price of gold rose significantly and, moreover, based on a sample of investment fund data, there were signs that the portfolios of international investors were shifting towards euro-denominated assets. This evidence seems to suggest there is a search for safe assets as an alternative to the US dollar.

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.

THE RECENT APPRECIATION IN THE EURO/DOLLAR EXCHANGE RATE

Following the announcement on 2 April that the US would step up tariffs, the US dollar depreciated against the other main currencies (Canadian dollar, euro, Japanese yen, pound sterling and Swiss franc). This is a reversal of the trend compared with the past: generally speaking, the dollar appreciated in times of high uncertainty, buoyed by investors' appetite for assets and currencies seen as being safe.

The euro/US dollar exchange rate has shown a high positive correlation with the medium-term sovereign bond yield spread in recent years (see panel (a) of Figure A).[1] In contrast, in the days

[1] The German Bund is considered for the euro area.

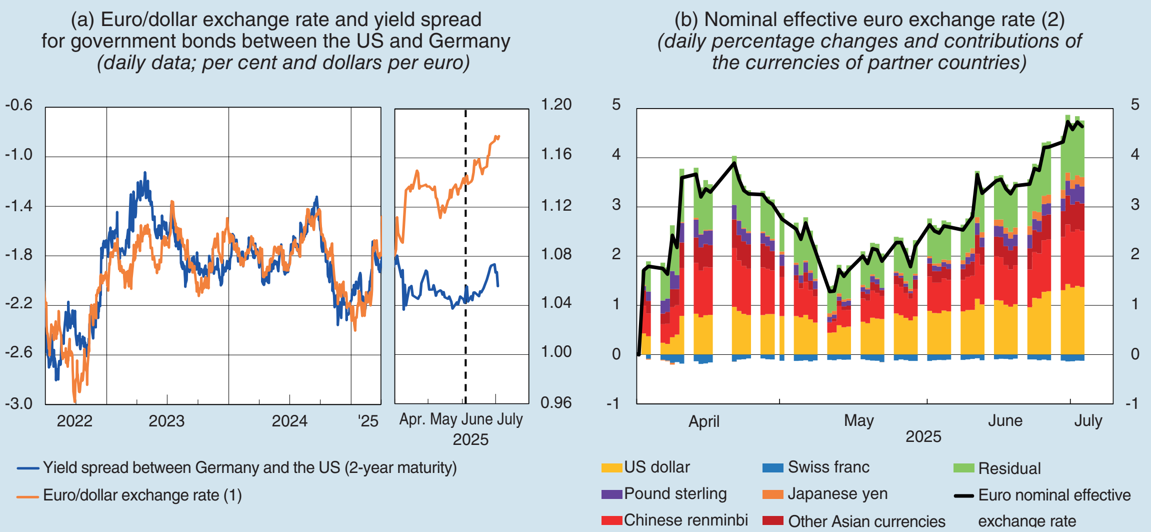
immediately following 2 April, the US dollar depreciated far more sharply than was warranted by the interest rate differential between the euro area and the United States.[2] The easing of trade tensions in May led to a slight appreciation of the dollar, but it was not enough to bring it back in line with the relative interest rate developments.[3]

More generally, the nominal effective exchange rate of the euro appreciated, confirming an overall strengthening of the euro, including against the other currencies traditionally deemed safe, such as the pound sterling or the Japanese yen (see panel (b) of Figure A).[4]

The recent performance of the euro/dollar exchange rate could point to a persistent increase in the risk perception of US bond investors because of the ongoing trade tensions and the

Figure A

Euro exchange rates and yield spread with the United States



Source: Based on LSEG data.
(1) If the euro/dollar exchange rate goes up, it points to an appreciation of the euro against the dollar. Right-hand scale. – (2) Daily percentage changes in the nominal effective exchange rate for the euro starting from 2 April 2025. The coloured areas represent the contributions of the main partner country currencies, calculated using an effective exchange rate indicator constructed as a weighted average of the bilateral exchange rates for the euro using trade weights. The black line indicates the overall change in the rate. The 'other Asian currencies' and 'residual' items include, respectively, a set of minor Asian currencies and the contribution of the remaining currencies included in the index.

[2] The appreciation of the euro after 2 April has displayed a peculiar pattern compared with that observed for other currencies: the euro/dollar exchange rate has shown a misalignment against the yield spread between euro-area and US bonds, in contrast with developments in other major currencies against the dollar.

[3] The spread between the exchange rate and yields does not seem to reflect malfunctions in the foreign exchange or derivatives markets, as suggested by the relationships implied by the covered interest rate parity. The latter expresses a no-arbitrage situation between the spot exchange rate, the forward exchange rate, and the yield spread between risk-free securities in different currencies. The determinants of the bilateral exchange rate – the forward exchange rate and the yield spread – have not shown significant deviations from historical values in recent times, nor are there any anomalies in the performance of foreign currency swaps. For a detailed explanation, see C. Borio, R. McCauley, P. McGuire and V. Sushko, 'Covered interest parity lost: understanding the cross-currency basis', *BIS Quarterly Review*, September, 2016; for exchange rate risk premiums, see F. Nucera, L. Sarno and G. Zinna, 'Currency Risk Premiums Redux', *The Review of Financial Studies*, 37, 2, 2024, pp. 356-408.

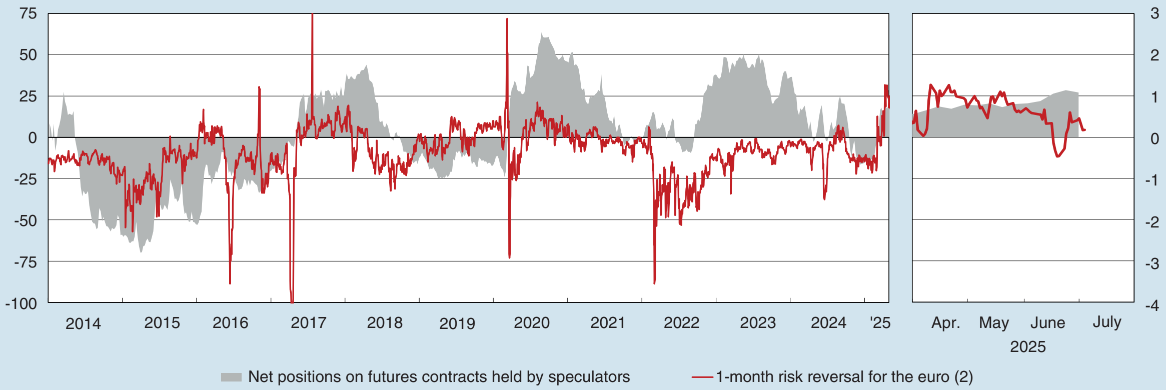
[4] The nominal effective exchange rate is an index that measures the value of the euro-area currency against a basket of third country currencies, weighted according to their importance in total trade in goods and services.

greater uncertainty about the fiscal outlook. This seems to have helped to increase currency diversification on the part of international investors, with benefits, though limited, for euro-denominated assets.

Financial market assessments of the risks relating to the euro/dollar exchange rate were significantly oriented towards a strengthening of the euro.[5] The cost of hedging against an appreciation of the euro compared with the cost of hedging against a depreciation has reached historically high levels since 2 April, not seen since the emergence of financial market tensions in March 2020 (red line, Figure B). The net positionings of investors for speculative purposes in the futures market[6] also continued to indicate expectations of a strengthening euro (grey area, Figure B).

Figure B

Investor positioning indicator and the asymmetry implied by options on the 1-month euro/dollar exchange rate (1)
(index and percentage points)



Source: Based on LSEG data.
(1) A positive (negative) value of the net futures positions held by non-commercial operators indicates that investors hold a long (short) net position in euros, i.e. they expect an appreciation (depreciation) in the single currency. A strong positive (negative) value for the 25-delta risk reversal on euro/dollar options indicates that the market attaches a greater probability to a significant appreciation (depreciation) of the euro. The risk reversal compares the implied volatility of buying and selling options placed at the tails of the expected exchange rate distribution, providing indications on the asymmetry perceived by market participants. – (2) Right-hand scale.

5 Financial operators can hedge against an appreciation or depreciation in the euro/dollar exchange rate by entering into specific derivatives contracts (options) listed on regulated markets. Developments in the prices of such contracts signal a propensity on the part of market participants to hedge against an exchange rate appreciation or depreciation.

6 The net positionings of investors for speculative purposes in the futures market indicate the difference between upward and downward bets on a currency. If the balance is positive, it means that investors expect that currency to appreciate; if it is negative, they expect it to depreciate. These data provide an indication of the prevailing short-term expectations among financial players that are not interested in covering trade risks but rather in profiting from price changes.

2 THE ITALIAN ECONOMY

2.1 CYCLICAL DEVELOPMENTS

Italy's GDP continued to expand moderately in the first quarter of 2025, supported by both domestic and foreign demand. As in other countries, exports grew significantly, especially to the United States, presumably in anticipation of the new tariffs coming into effect. Based on our estimates, the Italian economy continued to grow in the second quarter, albeit at a slightly slower pace. Activity increased both in industry and in services. Consumption continued to expand modestly, while investment growth eased, affected by the persistent uncertainty.

Economic activity grows in the first quarter of 2025 ...

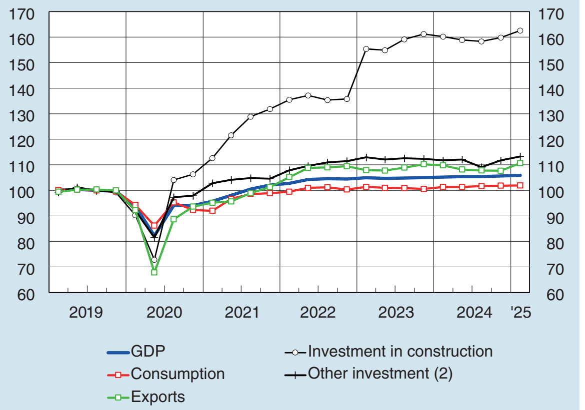
Italy's GDP continued to expand at a moderate pace in early 2025. GDP growth (0.3 per cent quarter on quarter; Figure 12 and Table 3) was supported by domestic demand and, to a lesser extent, by net foreign demand.

The increase in investment was robust and broad-based across all the main components, particularly in machinery and equipment (see Section 2.2). The rise in consumption, in line with the previous quarter, was boosted by the recovery in purchasing power; spending on services grew, while purchases of durable goods fell, probably owing to the increased uncertainty about the economic outlook (see Section 2.3). Exports returned to growth and increased above all to the United States. According to our estimates, more than one third of the increase in goods exports was due to frontloaded purchases by the United States in anticipation of tighter trade policies (see Section 2.4). The rise in imports, however, partly offset the impact on GDP.

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) Includes investment in plant, machinery and arms (which also include transport equipment), as well as cultivated biological resources and intellectual property products.

Value added in industry excluding construction grew by 1.1 per cent, mainly thanks to the recovery of production in energy-intensive sectors. Higher demand from the US did not lead to a significant uptick in production in the sectors most exposed to this country and may have been partly met through destocking. Activity grew more strongly in construction (1.4 per cent), partly driven by the implementation of projects in connection with the National Recovery and Resilience Plan (NRRP). By contrast, value added stagnated in services, held back by the decline in the trade and tourism sectors.

... but slows in the spring

According to our estimates, GDP rose again in the second quarter of 2025, though at a slower pace than in the previous period. Value added grew both in industry and in services.

Table 3

GDP and its main components (1)

(percentage change on previous period and percentage points)

	2024	2024			2025
		Q2	Q3	Q4	Q1
GDP	0.7	0.2	0.0	0.2	0.3
Imports of goods and services	-0.7	0.6	1.3	-0.2	2.6
National demand (2)	0.4	0.9	0.5	0.2	0.2
National consumption	0.6	0.0	0.3	0.2	0.1
Household spending (3)	0.4	-0.2	0.4	0.2	0.2
General government spending	1.1	0.6	0.3	0.1	-0.3
Gross fixed investment	0.5	-0.3	-1.4	1.6	1.6
Construction	2.0	-0.8	-0.4	1.0	1.7
Capital goods (4)	-1.2	0.3	-2.7	2.4	1.4
Change in inventories (5)	-0.2	0.9	0.6	-0.3	-0.3
Exports of goods and services	0.4	-1.5	-0.4	-0.1	2.8
Net exports (6)	0.4	-0.7	-0.5	0.0	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 include 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.

Consumption continued to expand moderately, as it had done in previous months, while investment growth abated after two particularly favourable quarters. Despite the positive developments in international tourism services, in an environment of significant uncertainty, data on foreign trade in goods show that net foreign demand made a barely negative contribution. According to our macroeconomic projections published last June, GDP will increase by 0.6 per cent this year, 0.8 per cent next year, and 0.7 per cent in 2027 (see the box 'The macroeconomic scenario published in June').

THE MACROECONOMIC SCENARIO PUBLISHED IN JUNE

On 13 June, Banca d'Italia published the projections for the Italian economy for 2025-27, prepared as part of the Eurosystem coordinated exercise.[1] The forecasting scenario assumes that the average tariffs on US imports,[2] which have soared since last year, will not tighten further at the end of the suspension period. World trade is expected to slow significantly amid high uncertainty. The scenario assumes that the prices of energy commodities, implied by futures contracts, will fall over the three years. It also assumes that borrowing costs for households and firms will gradually decline and then stabilize by 2027.[3]

GDP is projected to grow by 0.6 per cent in 2025, 0.8 per cent in 2026, and 0.7 per cent in 2027 (see the table). The uptick in economic activity will be mainly driven by consumption, buoyed by the rise in real disposable income. Investment is expected to be affected by the

[1] Banca d'Italia, 'Macroeconomic projections for the Italian economy (Eurosystem staff macroeconomic projections)', 13 June 2025.

[2] Based on the assumptions of the Eurosystem exercise, US tariffs on goods imports would increase by 10 percentage points for all economies except China, for which they would increase by about 20 percentage points, bringing the effective tariff rate on goods and services close to 40 per cent. Retaliatory measures by the European Union are excluded from this scenario.

[3] The projections are based on information available at 14 May (for the technical assumptions) and at 20 May (for other data). The inclusion of Istat's quarterly national accounts published on 30 May does not change our estimates.

heightened uncertainty but should benefit from the measures set out in the NRRP and the gradual improvement in financing conditions. Exports will be significantly hurt by tighter trade policies. It is estimated that the tariffs will shave a total of about 0.5 percentage points off GDP growth over the three years 2025-27.[4]

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 (June)	0.6	0.8	0.7	1.5	1.5	2.0
European Commission (May)	0.7	0.9	–	1.8	1.5	–
OECD (June)	0.6	0.7	–	2.0	1.9	–
IMF (April)	0.4	0.8	–	1.7	2.0	–
Parliamentary Budget Office (April)	0.6	0.7	0.7	2.2	2.0	1.9
Memorandum item: Banca d'Italia (April)	0.6	0.8	0.7	1.6	1.5	2.0

Source: Banca d'Italia, 'Macroeconomic projections for the Italian economy (Eurosystem staff macroeconomic projections)', 13 June 2025; European Commission, *European Economic Forecast, Spring 2025*, May 2025; OECD, *OECD Economic Outlook. Tackling Uncertainty, Reviving Growth*, June 2025; IMF, *World Economic Outlook. A Critical Juncture amid Policy Shifts*, April 2025; Parliamentary Budget Office, 'Hearing of the President of the Parliamentary Budget Office as part of the examination of the 2025 Public Finance Document', 17 April 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.

Employment is expected to rise, though at a slower pace than in recent years and generally more moderately than GDP. Labour supply is also projected to slacken, owing to a broadly stable working age population and a smaller increase in labour market participation. The unemployment rate should remain steady over the forecast horizon.

Inflation is expected to remain low at around 1.5 per cent on average this year and in 2026, before increasing to 2.0 per cent in 2027, reflecting the temporary rise in energy prices as a result of the introduction of the new EU Emissions Trading System 2. Core inflation is expected to stand at 1.8 per cent on average this year and 1.6 per cent in the next two years.

The growth projections are unchanged from those published last April. Inflation is marginally lower this year, mainly because of lower energy prices and a stronger exchange rate than had been assumed in April.

The forecasting scenario is subject to considerable uncertainty, stemming largely from geopolitical and trade tensions. Should these worsen, especially if accompanied by high instability, the impact on GDP could be particularly negative. By contrast, a more expansionary fiscal stance at European level, including in connection with announced increases in defence spending, could have a positive impact on growth. As regards inflation, a more marked and persistent deterioration in aggregate demand could exert downward pressure on prices, only partly offset by the opposite effects of potentially higher commodity prices in connection with geopolitical tensions.

Our growth projections are broadly in line with those of the leading institutional and private forecasters, while our inflation expectations are generally lower for this year and next.

[4] According to our assessments, the increase in tariffs to the levels announced on 2 April – equal to 20 per cent for the European Union – against a backdrop of still high uncertainty, would reduce GDP growth further by about 0.2 percentage points in 2025 and by as much as half a percentage point in each of the following two years.

2.2 FIRMS

In the second quarter, industrial production and activity in services grew slightly. The construction sector continued to expand, albeit more moderately, thanks to the resilience of the non-residential sector. Investment also slowed, reflecting high uncertainty and low capacity utilization in manufacturing. Against a backdrop of high geopolitical instability and persistent trade tensions, the outlook remains uncertain.

After growing strongly in the first quarter, industrial production slows ...

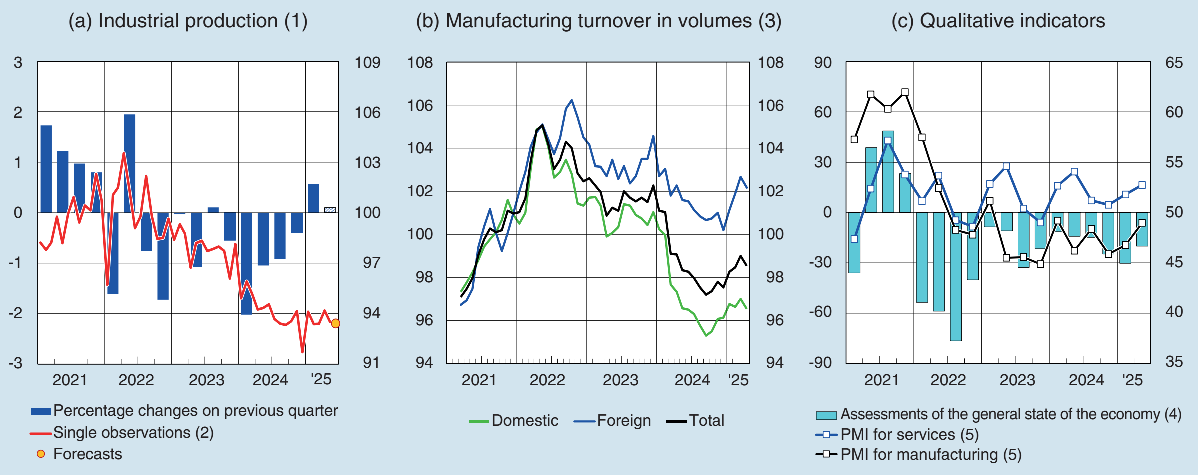
In the first quarter, industrial production rose significantly for the first time since spring 2022. The positive developments were driven by the recovery of activity in energy-intensive sectors such as metals and metal products and the manufacture of chemicals and paper, which had been hit hardest by the exceptional energy price hikes in the two years 2022-23. Our assessments suggest that this was in small part due to the expansion in the production of goods for the US market.

In the two months April-May industrial production grew at a slower rate (Figure 13.a). The volume turnover indices for April point to a slowdown in activity compared with the winter months, also for the foreign component, which is consistent with a partial reabsorption of US demand (see Section 1.1 and Figure 13.b). The manufacturing PMI, which picked up especially in the current production and new orders components, remained below the expansion threshold in the second quarter on average (Figure 13.c). According to Istat data, business confidence in the manufacturing sector improved slightly, though it remains low by historical standards.

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 June 2025, the last bar represents the forecast for the second 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, between 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 July 2025). – (5) Average quarterly data. Diffusion indices for economic activity in the sector. Right-hand scale.

The manufacturing firms that took part in the Survey on Inflation and Growth Expectations, conducted by Banca d'Italia between May and June, expressed slightly more optimistic views about their short-term operating conditions than in the first-quarter survey, despite the negative effects of the US trade policies (see the box 'International trade tensions: Italian firms' assessments according to the Survey on Inflation and Growth Expectations'). Expectations for sales remained favourable and stable, though they have weakened among firms with greater exposure to the foreign market. Taking into account our estimates for June, based on quantitative and qualitative indicators,[1] industrial activity grew slightly in the second quarter as a whole, but slowed compared with the previous three months. Looking ahead, manufacturing remains exposed to the exceptional uncertainty connected with the current phase of geopolitical and trade instability.

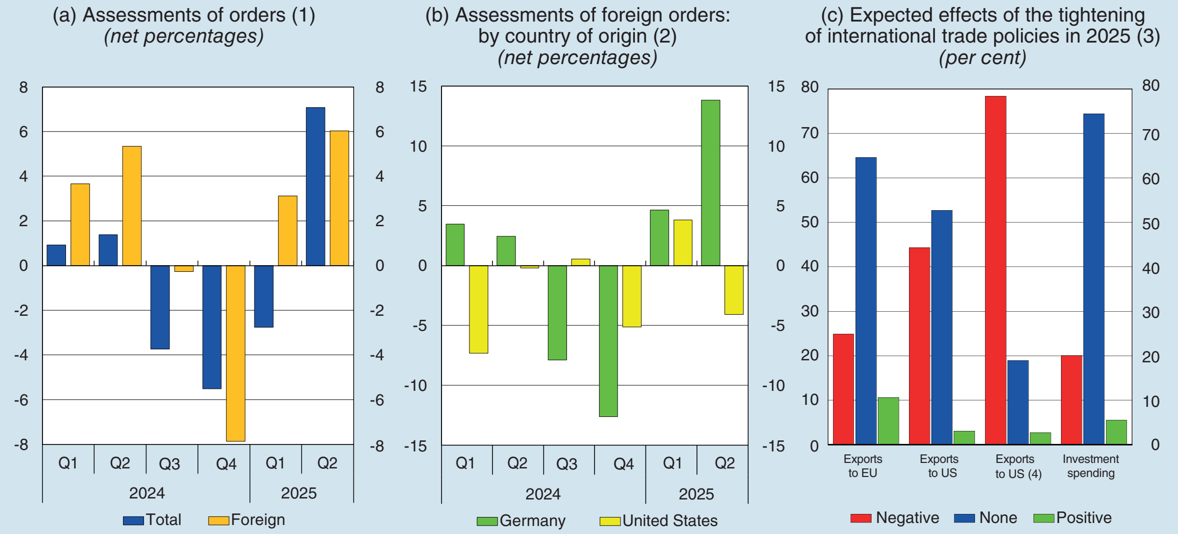
INTERNATIONAL TRADE TENSIONS: ITALIAN FIRMS' ASSESSMENTS ACCORDING TO THE SURVEY ON INFLATION AND GROWTH EXPECTATIONS

The tensions and growing uncertainty characterizing the global economic environment have affected firms' assessments and expectations, with potential effects on their investment and employment decisions, and on their business strategies. The data collected through Banca d'Italia's quarterly Survey on Inflation and Growth Expectations[1] provide a timely and rich overview of firms' assessments of the possible impact of the international trade policies.

Following the gradual worsening of firms' assessments on total and foreign orders in 2024, manufacturing and service firms reported an improvement in the first and second quarter of 2025 (see panel (a) of the figure). At the beginning of the year, the most favourable assessments were

Figure

Italian firms' assessments of orders and of the expected effects of the tightening of international trade policies



Source: 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 8 July 2025.
(1) Balance, in percentage points, between the responses indicating 'an increase' and those indicating 'a decrease' to the question on the change in total and foreign demand for the respondents' products compared with the previous three months. – (2) Balance, in percentage points, between the responses indicating 'an increase' and those indicating 'a decrease' to the question on the change in foreign demand compared with the previous three months for firms reporting Germany or the United States as their main export market. – (3) Shares of firms interviewed in the first quarter of 2025. – (4) Refers to firms that reported the United States as their main export market.

[1] The survey is conducted on a sample of Italian firms in industry excluding construction, non-financial private services and construction (since 2013) with 50 or more workers. For further details on the survey's methodology, see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series. Methods and sources: Methodological Notes, 8 April 2025.

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

from exporting firms, especially those oriented towards the German market and, to a lesser extent, towards other euro-area countries. However, firms that typically export to the United States had also reported an increase in export orders, arguably attributable to the frontloading of sales in view of possible tariff hikes (see panel (b) of the figure).

In the second quarter, the improvement – still significantly driven by the German market – was confirmed among the firms exposed to the euro area, while the assessments of firms oriented towards the US market deteriorated considerably. Around 30 per cent of manufacturing firms reported a decline in demand attributable – either directly or indirectly (through the demand from customers of third countries participating in global value chains) – to the introduction of tariffs by the United States. The share drops to around 10 per cent in the service sector, where – unlike manufacturing – the effects are expected to be largely indirect.

Just under half of the firms interviewed in the first quarter expected the tariffs to have an adverse impact on their US sales in 2025 as a whole: this share was nearly 80 per cent among firms for which the US is the main export market (see panel (c) of the figure). Around one fifth of firms also anticipated a downward revision of their investment plans as a result of the US's tight trade policies.

Finally, according to the latest survey conducted in May and June, around 30 per cent of firms expected an increase in the supply of Chinese products in their sales markets, as an indirect effect of the recent international trade tensions, which would then lead to increased competition on European markets and to downward pressure on their selling prices (see the box 'The effects of the trade tensions between the US and China on euro-area consumer prices' in Chapter 1).

... and activity in the service sector returns to moderate growth

Activity in services showed tentative signs of recovery in the spring months, after stagnating for two quarters. The latest data on turnover and the qualitative indicators, such as the PMI indices and Istat's surveys, indicate an increase in current activity and in new orders, as well as improved confidence among service firms, especially in the transport and storage service sectors. The growth in the flows of travellers, both domestic and foreign, and in tourism expenditure, points to a modest recovery in this sector. Business services are also expected to support the economy. The service firms interviewed by Banca d'Italia for its surveys reported a significant increase in demand in the second quarter, somewhat dampened by a slight deterioration in foreign demand.

Construction continues to grow

Growth in the construction sector remained robust in the first few months of the year and is expected to moderate in the spring, still supported by the carrying out of NRRP projects. Business confidence remained good, especially in the civil engineering sector. According to Banca d'Italia's surveys, construction firms' assessments of demand and operating conditions improved further and their outlook was again more favourable than that of firms in other sectors. The share of firms that expect to benefit from NRRP measures, either directly or indirectly, remained stable and well above 50 per cent.

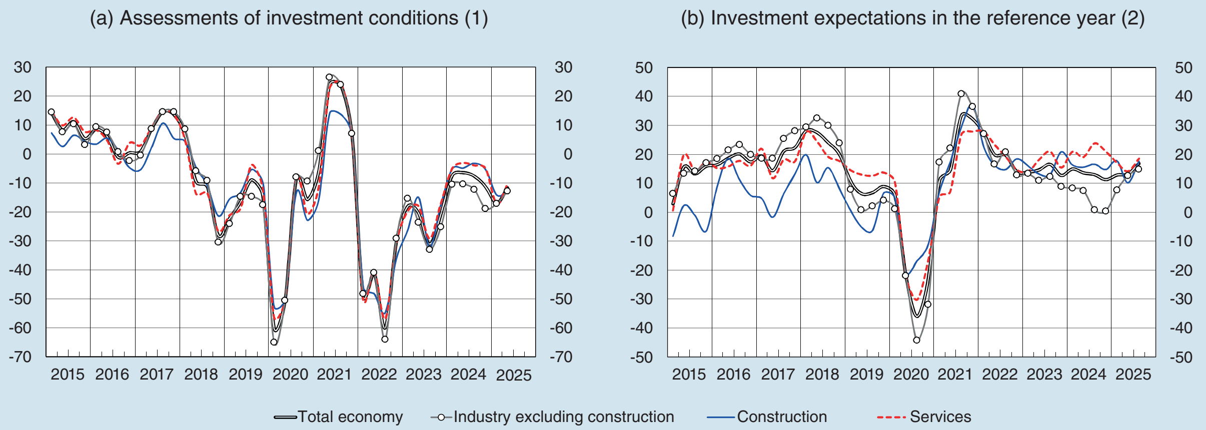
Investment picks up in the first quarter but slows in the second one

In the first quarter, investment continued to grow at the robust pace of the previous three months. All the main components recorded a positive change. Expenditure on machinery and equipment continued to rise, reaching a slightly higher level than in the first quarter of 2024. Data from the Italian Leasing Association (Assilea) on leases signed in the current quarter point to marked growth in transport equipment other than cars and to an increase in investment in renewable energy plants. The construction sector too displayed positive growth, driven in particular by investment in non-residential buildings.

The latest information indicates that investment growth waned in the second quarter, affected by high uncertainty and by a level of capacity utilization in manufacturing that remained well below its historical average. Confidence remained low among firms producing capital and investment goods as well. According to Banca d'Italia's surveys, the majority of firms still expect their nominal spending on fixed investment to grow or be unchanged for 2025 (Figure 14.b).

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 July 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 spending in Italy increased modestly in the first quarter. The latest indicators suggest that consumption rose at similar rates in the spring months as well, driven by the growth in employment and in real wages. Consumer confidence, however, was affected by global uncertainty, which kept the propensity to save at high levels.

Household consumption rises modestly again in the first months of 2025 ...

Household spending rose by 0.2 per cent in real terms in the first quarter, as it did in the previous one. Consumption growth continued to be supported by spending on services, especially transport and routine household maintenance. After stagnating in the autumn months, goods purchases decreased for the first time since end-2023: spending on durable goods shrank considerably, partly reflecting a deterioration in households' assessments of the general state of the economy, while spending on semi-durables edged up and that on non-durable goods remained stable.

Consumption benefited again from significant wage growth and stable employment (see Section 2.5). Disposable income picked up in the first quarter, also in real terms, after stagnating in the autumn months, thanks to the positive contribution of labour income (Figure 15). Amid high uncertainty about the economic outlook, the saving ratio rose again to levels above last year's average.

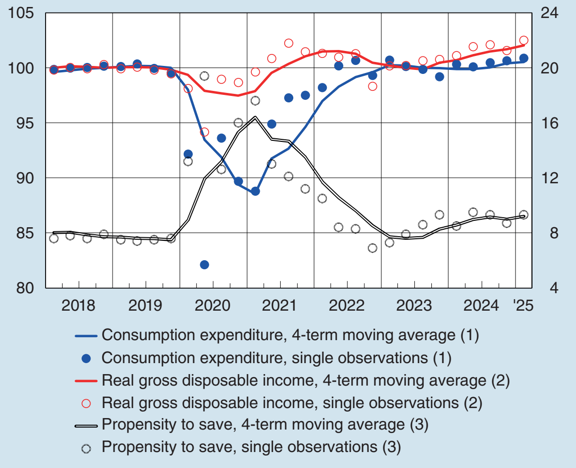
... and in the second quarter too

Based on our estimates, consumption continued to make a positive contribution to GDP growth in the spring, despite the fall in household confidence. The

Figure 15

Consumption, income and propensity to save

(seasonally adjusted quarterly data; index numbers and per cent)

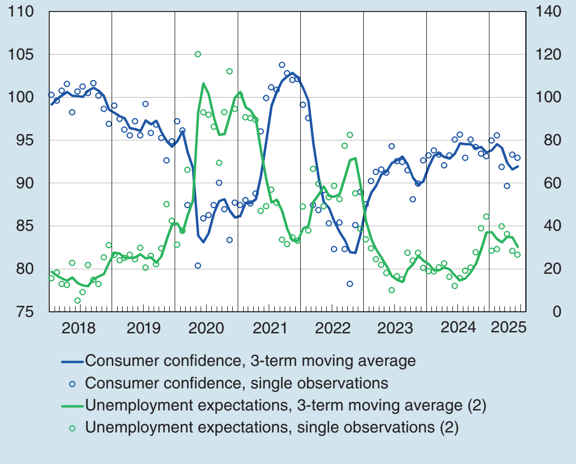


Source: Based on Istat data.
(1) Chain-linked volumes; index: 2018=100. – (2) Net of the variation in the final consumption expenditure deflator for resident households; index: 2018=100. – (3) Consumer households' savings as a percentage of gross disposable income; Right-hand scale.

Figure 16

Consumer confidence (1)

(monthly data; indices: 2018=100 and percentage points)



Source: Based on Istat data.
(1) Seasonally adjusted data. In the absence of the figure for April 2020, which was not recorded owing to the pandemic, the moving average for the three months 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.

contributing factors included the resilience of the labour market, rising wages and low inflation. However, high-frequency indicators point to modest spending growth, in line with what was observed in the previous six months. Confcommercio's household consumption indicator remained basically unchanged in April and May, while services consumption inched up and goods expenditure contracted. Retail sales, too, only slightly increased during the same period.

According to Istat's surveys, consumer confidence fell in the second quarter, affected by high global uncertainty (Figure 16). The tariff tightening announced by the United States led to a sharp deterioration in confidence in April, which then only partially recovered in May and June, owing to more favourable assessments of household balance sheets and labour market prospects. Households' assessments of whether to purchase durable goods worsened.

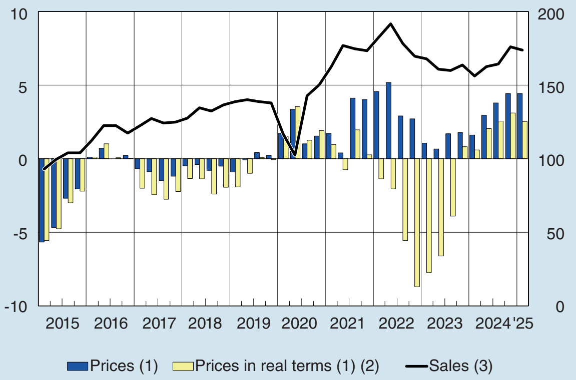
The real estate market continues to strengthen

In the first quarter, house prices continued to grow at the same pace as in the previous period (4.4 per cent; Figure 17), reflecting an acceleration in prices for existing buildings but a deceleration for new ones.

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 remained strong in the spring. The outlook for market conditions continued to improve in the assessments of the real estate agents interviewed between April and May as part of the Italian Housing Market Survey, partly thanks to lesser difficulties in obtaining a mortgage loan for house purchase (see Section 2.7). Rents continued to rise.

2.4 FOREIGN TRADE AND THE BALANCE OF PAYMENTS

In the first quarter, export volumes increased, also owing to the frontloading of purchases of goods by US importers in view of the entry into force of new, higher tariffs. According to our estimates, sales to the United States declined sharply in April and May, contributing to the fall in overall goods exports. The current account surplus narrowed slightly in the first quarter of 2025 but remained in line with the average levels for 2024. Net purchases of Italian securities by foreign investors, mainly consisting of government bonds, remained high. While it has narrowed slightly compared with the end of 2024, Italy's net international creditor position remains highly positive.

Exports turn upwards in the first quarter ...

In the first quarter, export volumes returned to growth after declining for one year (Table 4). Foreign sales of goods increased in euro-area markets, particularly Germany, and even more so in non-euro area markets, especially the United States. The latter benefited from the one-off sale of maritime navigation assets, which came as the result of a number of long-term contracts, and from the frontloading of purchases by US importers in response to the expected increase in tariffs. The higher export flows to the United States, net of volatile components such as refined petroleum products and other transport equipment (including ships), were concentrated above all in the pharmaceutical sector. According to our estimates, these higher flows accounted for more than a third of the growth in total goods exports, a significant but more limited impact than in other euro-area economies such as Germany and, especially, Ireland (see Section 1.2). Further positive contributions came from metals, motor vehicles and the food industry. Exports of services also grew, driven mainly by business services.

Table 4

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

	2024	2024 Q2	2024 Q3	2024 Q4	2025 Q1
Exports	**0.4**	**-1.5**	**-0.4**	**-0.1**	**2.8**
Goods	**-0.3**	**-1.9**	**-0.5**	**-0.4**	**2.5**
To euro-area countries	-1.7	-1.2	0.2	-2.9	1.9
To non-euro area countries (2)	0.7	-2.3	-0.9	1.5	3.0
Services	**3.3**	**0.2**	**0.1**	**1.3**	**3.8**
Imports	**-0.7**	**0.6**	**1.3**	**-0.2**	**2.6**
Goods	**-1.1**	**0.7**	**1.2**	**0.2**	**1.2**
From euro-area countries	2.6	-2.3	2.4	-1.4	0.9
From non-euro area countries (2)	-4.9	4.2	..	2.1	1.5
Services	**0.7**	**..**	**1.5**	**-1.9**	**7.9**

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, stores and provisions.

Meanwhile, import volumes rose, especially for services; the increase in purchases of goods from abroad reflected the positive performance of exports and gross fixed investment.

... but exports of goods appear to have declined in the spring months

According to our estimates based on still partial foreign trade data, seasonally adjusted goods sales volumes declined in April and May, especially owing to the reduction in flows to the United States (Figure 18). On average for the second quarter of 2025, against a background of high uncertainty, manufacturing firms' assessments of foreign orders, as recorded by Istat, suggest that foreign demand was still weak. The corresponding PMI, while improving, also remained below the expansionary threshold (Figure 19). Delivery times remained virtually unchanged.

The current account surplus narrows slightly

In the first three months of the year, the seasonally adjusted current account balance recorded a surplus of €6.7 billion, falling to 1.2 per cent of quarterly GDP, from 1.4 per cent in the previous three months (Figure 20 and Table 5). The surplus continues to be in line with the average levels of 2024, remaining broadly stable following the reabsorption of the negative impact of the 2022 energy shock.

Foreign investors continue to show an appetite for Italian government bonds

The portfolio investment balance turned slightly positive (Table 5), in connection with the strengthening of investment in foreign securities by Italian residents. This includes both purchases of medium- and long-term debt securities by banks and insurance companies and purchases of investment fund shares by households. For the first time, purchases attributable to the latter have returned near the levels recorded in 2021, before the start of the ECB interest rate hiking cycle.

Non-residents continued to invest in Italian government bonds (€27.5 billion), helping to absorb around two thirds of the Treasury's net issues. Foreign investors also showed an appetite for corporate bonds (issued mainly by non-financial corporations), with purchases totalling €8.2 billion.

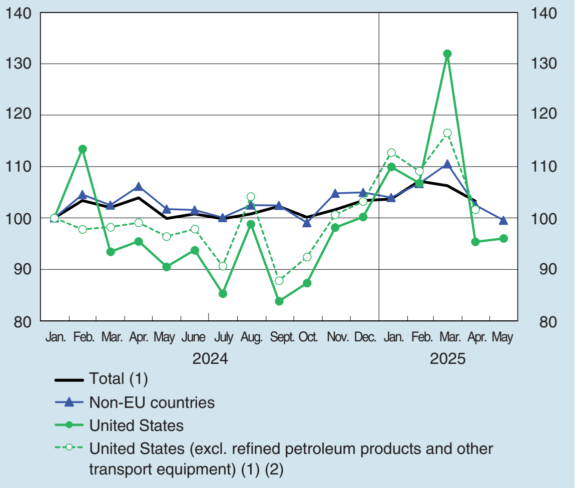
The negative TARGET balance shrinks further

In the first quarter, Banca d'Italia's debtor position in the TARGET system narrowed by €7.4 billion to €408.5 billion, mainly reflecting the increase in the net foreign funding of resident banks. In the following months, the negative balance diminished again, reaching €394.2 billion at the end of June, just over half of the highest level recorded in 2022. The significant improvement over the last two years was related to the repayment of the Eurosystem's loans to credit institutions under the third series of targeted longer-term refinancing

Figure 18

Volume of goods exports

(seasonally adjusted monthly data; index number: January 2024=100)

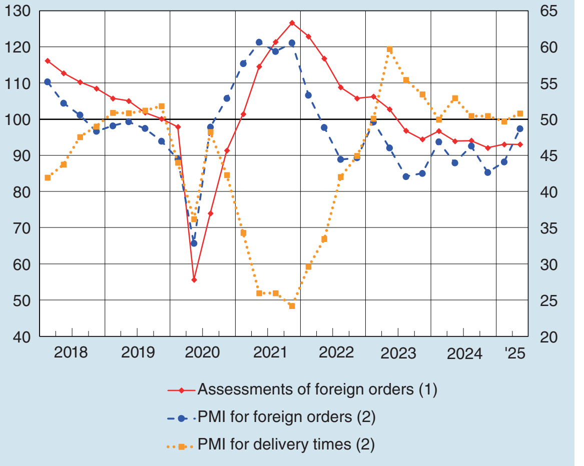


Sources: Based on Istat's foreign trade data and on producer prices on the foreign markets.
(1) Data available up to April 2025. – (2) The 'other transport equipment' sector includes transport equipment other than motor vehicles, i.e. ships and boats, railway locomotives and rolling stock, air and spacecraft, military fighting vehicles and other transport equipment not classified elsewhere.

Figure 19

Manufacturing firms' assessments of foreign orders and delivery times

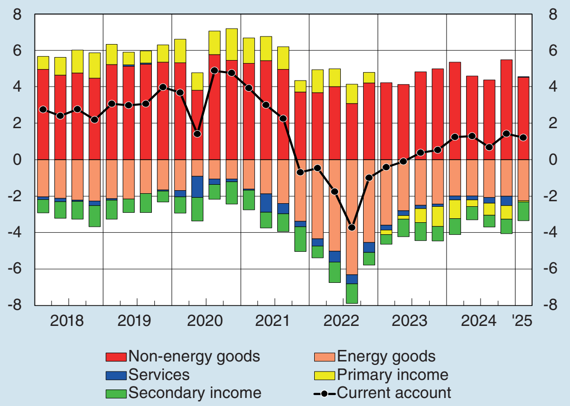
(seasonally adjusted quarterly data)



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 percentage of responses of 'stable' to the percentage of responses of 'improving'. Values above (below) 50 indicate an improvement (deterioration). Quarterly average. Right-hand scale.

Figure 20

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.

Table 5

Balance of payments
(billions of euros)

	2024	2024 Q2	2024 Q3	2024 Q4	2025 Q1
Current account	**24.8**	**6.2**	**8.3**	**9.9**	**-0.2**
Adjusted for seasonal and calendar effects	25.3	7.0	3.7	7.8	6.7
Memorandum item: % of GDP (1)	1.1	1.3	0.7	1.4	1.2
Capital account	**-0.6**	**-1.0**	**0.3**	**0.6**	**0.3**
Financial account	**51.0**	**-0.1**	**28.5**	**20.4**	**-5.6**
Direct investment	11.4	-1.0	1.8	5.1	-2.7
Portfolio investment	-73.7	-32.6	2.8	-18.3	1.6
Derivatives	3.5	0.2	1.4	0.5	0.1
Other investment (2)	107.7	31.7	22.5	32.7	-4.0
Changes in official reserves	2.1	1.5	..	0.3	-0.5
Errors and omissions	**26.8**	**-5.3**	**19.9**	**9.8**	**-5.7**

(1) The annual figure for 2024 refers to the non-seasonally adjusted current account balance. – (2) Includes change in the TARGET balance.

operations (TLTRO III) and, to a lesser extent, to the contraction of the portfolio of securities held for monetary policy purposes.

The net international investment position remains highly positive

At the end of March, Italy's net international investment position was positive by €282.1 billion (12.8 per cent of GDP), €52.9 billion lower than at the end of 2024. The fall is attributable both to the appreciation of the euro against the dollar, which reduced the value of foreign currency-denominated assets, and above all to the good performance of the equity prices of Italian banks, which was reflected in an increase in the value of liabilities, for the component held by non-residents.

2.5 THE LABOUR MARKET

In the first quarter, employment rose in services and construction but remained unchanged in manufacturing. The participation rate returned to growth, including for the youngest age groups, and the unemployment rate is still at historically low levels. Headcount employment continued to rise in the second quarter, albeit at a more modest pace. Growth in contractual wages remained robust in the non-farm private sector, though it weakened slightly in the spring months.

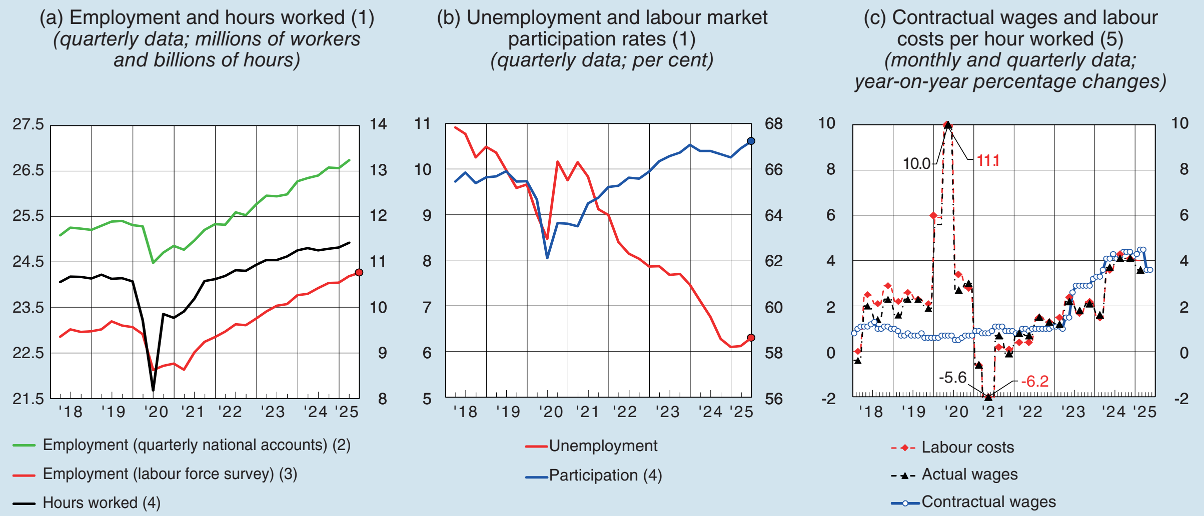
Employment grows in the first quarter ...

In the first quarter, headcount employment increased by 0.7 per cent compared with the previous quarter (according to Istat's quarterly national accounts; Figure 21.a), supported by the full-time component; it rose in private services and construction, while it remained practically unchanged in industry excluding construction and fell in agriculture. Total hours worked went up at a higher rate (1.0 per cent). Average hours worked per capita expanded in services and construction; they stagnated in manufacturing, as they had done in the second half of last year, with the number of hours of wage supplementation authorized going up further, to 2014 levels.

After declining over the course of 2024, the participation rate rose again in the first quarter of this year (Figure 21.b), reflecting continued positive developments in the older age groups and a reversal

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; and for contractual wages, Istat's survey of contractual wages by type of contract.
(1) Seasonally adjusted data. The points corresponding to Q2 2025 indicate the average value for the two-month period April-May. – (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.

in the trend among younger workers: the participation rate among those aged 15-34, which is more responsive to cyclical conditions (see the box 'Recent trends in Italy's activity rate: demographic drivers and economic background', Chapter 7, *Annual Report for 2024*, 2025; only in Italian), increased by 0.3 percentage points, recouping part of the contraction observed during the previous year.

... and expands at a slower pace in the second quarter

According to provisional data from Istat's labour force survey, the growth in the number of persons employed slowed on average in April and May (to 0.3 per cent on a quarterly basis), reflecting a slight decline in payroll employment and a sharp increase in self-employment. The participation rate rose further, by 0.2 percentage points, driven not only by the older segments of the population, but also by the younger age groups. The unemployment rate rose slightly, although it remained at historically low levels (at 6.3 per cent in the two months).

The growth in contractual wages remains strong ...

In the first three months of the year, the growth in contractual wages in the non-farm private sector remained strong (4.4 per cent year on year; Figure 21.c), driven in part by the renewal of the collective bargaining agreement for the construction sector. The growth in actual hourly wages slowed (from 4.1 to 3.6 per cent), owing to the deceleration of the non-contractual wage components, especially in industry, and to the rebalancing of employment towards lower-wage sectors. As productivity stagnated by and large, unit labour costs continued to rise (see Section 2.6).

... but becomes more moderate in the spring

Contractual wages slowed in April and May (to 3.6 per cent), despite the raises provided for under the new collective bargaining agreement for the electricity sector. On the basis of the agreements currently in force, their growth is projected to slow further in the second half of the year (see the box 'The impact of recent negotiated wage increases on wage growth', *Economic Bulletin*, 2, 2025).

However, actual wage growth will also depend on the negotiations under way: the share of private sector workers waiting for renewals is still high (32.8 per cent), owing primarily to the stalemate in the negotiations regarding the metalworking sector, which expired in June 2024, and which applies to over one fifth of private sector workers.[2]

2.6 PRICE DEVELOPMENTS

Inflation remained below 2 per cent, on average, in the second quarter of 2025. The core component also stood at similar levels, owing to very weak growth in the prices of non-energy goods and to price rises in services. Households and firms continue to expect moderate consumer price growth.

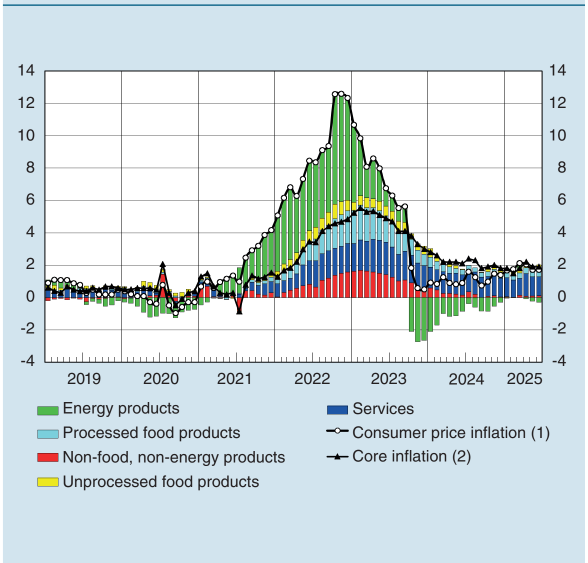
Consumer price inflation remains subdued

In June, annual HICP inflation stood at 1.7 per cent, as it did in May (Figure 22 and Table 6). These stationary rates reflect stable inflation in services, at 2.9 per cent, following a temporary increase in April (3.4 per cent) coinciding with the Easter festivities and bank holidays. Core inflation, which excludes the food and energy components, also remained unchanged in June at 1.9 per cent. Among the most volatile HICP components, energy inflation fell by 2.5 per cent, with the increase in fuel prices more than offset by the fall in gas and electricity prices. As for the latter, the extraordinary contribution provided by Decree Law 19/2025 ('Utility Bills Decree') to ease the burden on low- and middle-income households led to the drop in prices in the 'protected electricity market' ('mercato tutelato') compared with May. Meanwhile, food inflation increased, especially as far as some processed food products (including bread and cereals, dairy products and alcoholic beverages) and meat were concerned.

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.

Producer price inflation slows

Producer price inflation for industrial goods sold on the domestic market fell in May (to 2.8 per cent year on year, from 3.8 per cent in April), following the sharp slowdown in the prices of energy products (to 6.1 per cent, from 9.2 per cent). The growth in the costs of intermediate and capital goods remained moderate.

In the second quarter, the PMI indices for input prices gradually fell in manufacturing, reaching a level below the expansion threshold and pointing to a reduction in production prices, while the signs of growth in services were confirmed.

[2] In June 2025, the employer associations agreed to a raise of slightly more than 1 per cent, under the rule that the provisions of expired collective bargaining agreements remain in effect until the moment an agreement is renewed, thereby ensuring that wage floors are adjusted based on the previous year's HICP (excluding imported energy goods).

Table 6

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

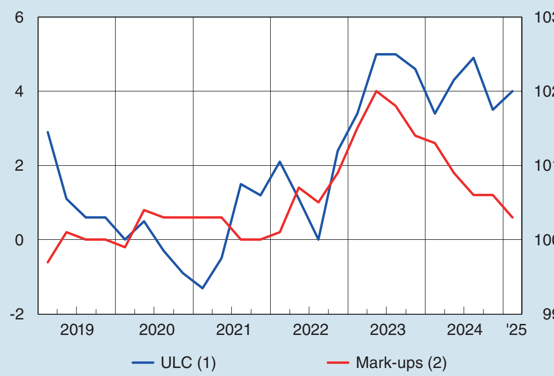
	HICP (1)				CPI (2)	PPI (3)
	General index	Food	Energy	Excl. energy and food	General index	General index
2022	8.7	8.0	51.3	3.3	8.1	42.8
2023	5.9	9.2	1.1	4.5	5.7	-8.3
2024	1.1	2.5	-10.1	2.2	1.0	-5.7
2024 – Jan.	0.9	5.4	-20.7	2.8	0.8	-14.0
Feb.	0.8	3.7	-17.4	2.6	0.8	-14.2
Mar.	1.2	2.7	-10.9	2.2	1.2	-12.7
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	2.7	1.8	1.9	5.4
Apr.	2.0	3.0	-0.7	2.2	1.9	3.8
May	1.7	3.1	-1.9	1.9	1.6	2.8
June	(1.7)	(3.5)	(-2.5)	(1.9)	(1.7)	....

Sources: Based on Eurostat and Istat 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.

Unit labour costs (ULCs) in the non-farm private sector accelerated in the first quarter, to 4.0 per cent year on year, from 3.5 per cent (Figure 23). The slowdown in industry was accompanied by a stronger increase in private services, owing to the marked decline in productivity. Profit margins remained modest in manufacturing and turned downwards again in private services, while still remaining above pre-pandemic levels on average.

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 the ratio of the output deflator to total variable costs. Index: Q4 2019=100. Total economy. Right-hand scale.

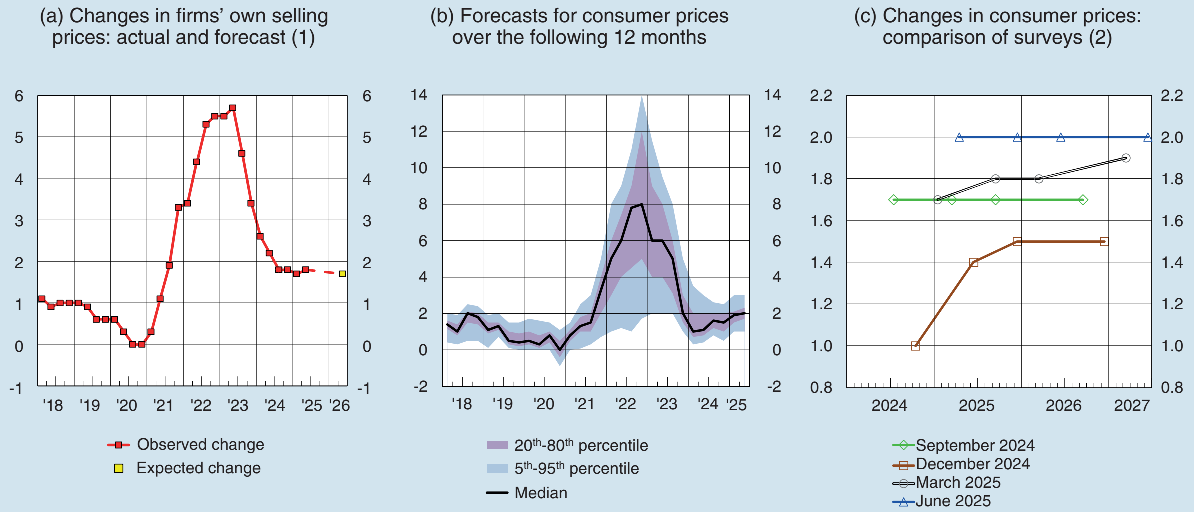
Households and firms expect moderate price growth

In Istat's household surveys, expectations of low inflation over the next twelve months prevail. According to the ECB's Consumer Expectations Survey in May, the median value of expected inflation stood at 3.0 per cent over the 12-month horizon, returning to the average values recorded over the last year, after rising temporarily to 4.2 per cent in April; over the three-year horizon, expected inflation declined slightly to 2.9 per cent.

The firms interviewed in the Survey on Inflation and Growth Expectations conducted between May and June, on average, expect an increase in sales prices just below 2 per cent over the next twelve months, with a slight drop from the previous quarter affecting all sectors (Figure 24). Firms' expectations for consumer price inflation rose slightly, to 2 per cent over the next 12 months.

Figure 24

Inflation expectations of firms in industry (excluding construction) and services
(quarterly data; percentage changes on year-earlier period)



Source: Based on the findings of Banca d'Italia's quarterly 'Survey on Inflation and Growth Expectations'. Up to October 2018, the survey was conducted jointly with *Il Sole 24 Ore*.
(1) Average (excluding outliers) of firms' responses to questions on the percentage change in their own prices over the previous 12 months and the change expected over the following 12 months. – (2) The key below the graph indicates the month in which the survey was carried out. The first point on each curve is the latest definitive figure for inflation available at the time of the survey (usually referring to 2 months earlier); the figure is provided in the questionnaire 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 cost of bank funding continued to decline, in line with recent reductions in key interest rates. Interest rates on loans to firms decreased further. The contraction in loans to non-financial corporations eased, although it is still significant for small firms. Amid high uncertainty, credit demand remained subdued and supply policies continued to reflect a cautious stance.

The cost of bank funding continues to decrease ...

Between February and May 2025, the marginal cost of bank funding dropped by 24 basis points, to 1.2 per cent (Figure 25.a), mainly reflecting the decrease in deposit yields and in interest rates on the interbank market. The contraction in bank funding came to a halt. Growth in deposits by residents remained strong, buoyed by the sight deposits component; this trend was supported by the narrowing yield spread between this type of deposits and those with an agreed maturity, likely accompanied by precautionary measures in an environment of high uncertainty.

... as do interest rates on loans to firms

The decline in key interest rates continued to be transmitted to the cost of loans to non-financial corporations. The interest rates on new loans to firms fell in

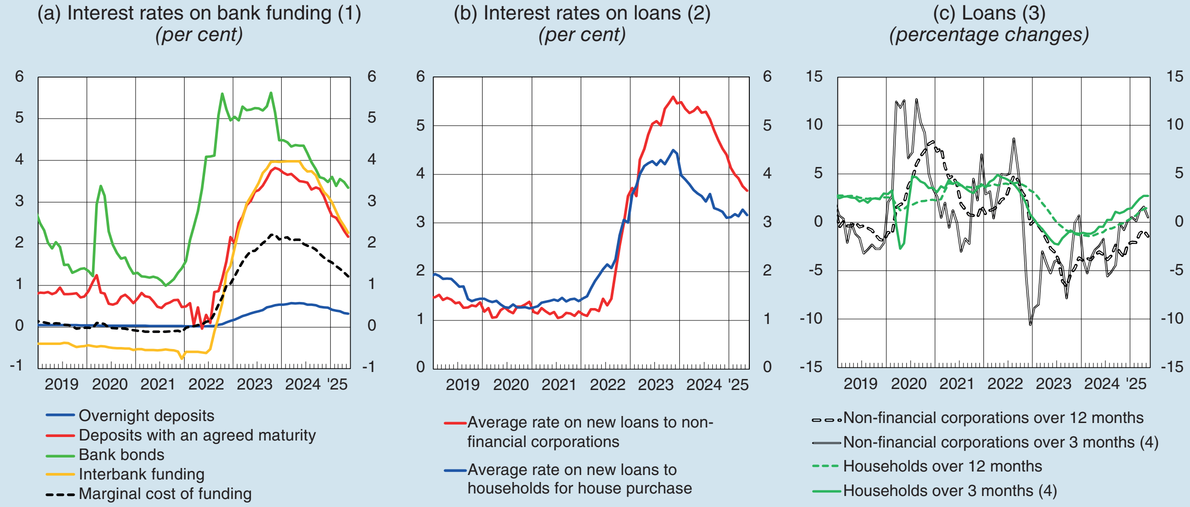
May (to 3.7 per cent, from 4.0 per cent in February; Figure 25.b), in line with the decrease in the short-term risk-free benchmark rate.[3] The average cost of outstanding loans continued to fall too, reflecting the large share of adjustable-rate loans. The average cost of new mortgages to households remained broadly unchanged between February and May (at 3.2 per cent), affected by the higher long-term benchmark rate, which rose markedly in early March following the announcements of increased public spending on defence and infrastructure in Germany.[4]

The contraction in lending to firms eases ...

In May, loans to non-financial corporations continued to contract year on year, though significantly less than in February (-1.4 per cent, from -2.1 per cent; Figure 25.c). The fall was again more significant for small firms (-8.7 per cent, compared with -0.9 per cent for large firms) and for manufacturing and construction firms. This contraction reflects the reduction in loans with longer maturities, which more than offset the increase in short- and medium-term loans. Specifically, exporting firms, which are more exposed to the unpredictability of trade policies, increased their demand for short-term credit,[5] while reducing that for longer-term loans, presumably postponing investment decisions until the uncertainty

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.

[3] Adjustable-rate loans accounted for 90 per cent of all new loans to firms in May. The benchmark rate for this type of loan is generally the three-month Euribor rate, which dropped by around 40 basis points between February and May.

[4] In May, fixed-rate mortgage loans accounted for 93 per cent of all new loans to households for house purchase. The benchmark rate for this type of mortgage loan is generally the ten-year interest rate swap (IRS), which rose by around 40 basis points between 4 and 11 March 2025. Around mid-April, the ten-year IRS fell again by about 20 basis points, though it was still higher than in February.

[5] Firms increased their use of short-term credit instruments, in line with a rise in working capital needs driven by expectations of protectionist measures. This trend was mostly concentrated in the manufacturing sector.

subsides. Lending to households[6] accelerated between February and May (from 0.7 per cent to 1.5 per cent), reflecting the improvement in mortgage lending. Consumer credit continued to grow steadily.

... in an environment of weak demand and cautious lending policies

According to the banks interviewed in March for the euro-area bank lending survey (BLS), demand for loans at the beginning of the year remained unchanged at modest levels after having increased slightly in late 2024: greater recourse to internal financing more than offset the expansionary effect of the fall in interest rates. Lending policies remained cautious in the first quarter, reflecting banks' heightened risk perception amid a worsening economic outlook. Business surveys confirm that credit access conditions have not changed significantly.[7]

Corporate bond issuance continues to grow

Growth in corporate bonds remained robust in May (3.5 per year on year). Between February and May, yields on bonds issued by Italian non-financial corporations remained essentially unchanged (at 3.5 per cent). Net equity financing remained low.

2.8 THE PUBLIC FINANCES

Based on the updated estimates contained in the 2025 Public Finance Document (2025 DFP) *from last April, developments in net expenditure will be consistent with what was agreed at European level. In its European Semester Spring Package published in early June, the European Commission issued a positive assessment of the progress status of Italy's corrective path under the excessive deficit procedure.*

According to the 2025 DFP, the decline in net expenditure in 2024-25 is expected to be slightly greater than that agreed at European level

According to the 2025 DFP from 12 April, net borrowing is expected to stand at 3.3 per cent of GDP in 2025, to then fall below 3 per cent in 2026. Net expenditure is expected to decrease by a total of 0.9 per cent in the two years 2024-25, which is largely in line with the Commission's projections[8] and in any case higher than what was agreed with the EU Council in January (-0.7 per cent). The net expenditure path set out in the 2025 DFP is overall consistent with the objective of placing the debt-to-GDP ratio on a firmly downward trajectory over the medium term, despite the macroeconomic outlook being worse than as was expected in autumn 2024.[9]

The Commission positively assesses Italy's corrective path for its excessive deficit

In the European Semester Spring Package published on 4 June, the Commission positively assessed the status of Italy's corrective path under the excessive deficit procedure and found that the progress made is in line with the agreed objectives (see Section 1.2). The specific recommendations for Italy include those to:

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

[7] The Italian firms interviewed between 10 February and 21 March 2025 as part of the ECB's survey on the access to finance of enterprises (SAFE) reported a slight improvement in credit access in the first quarter of 2025, with the exception of micro-enterprises (firms with fewer than ten employees), which indicated no change in conditions. In the current quarter, the firms interviewed by Istat for its business confidence survey in the manufacturing sector and by Banca d'Italia for its Survey on Inflation and Growth Expectations reported broadly unchanged conditions for access to bank credit.

[8] Net expenditure consists of general government outlays net of the following items: a) interest expenditure; b) discretionary measures on the revenue side; c) expenditure on EU programmes fully financed by EU funds; d) national expenditure relating to the co-financing of EU-funded programmes; e) the cyclical component of unemployment benefit expenditure (including the disbursements connected with short-time work schemes); f) the one-off measures; and g) other temporary measures.

[9] For more details, see Chapter 10, *Annual Report for 2024*, 2025 (only in Italian) and 'Preliminary hearing on the public finance document for 2025', testimony by A. Brandolini, Deputy Director General for Economics, Statistics and Research at Banca d'Italia, before the 5th Committee of the Chamber of Deputies (Budget, Treasury and Planning) and the 5th Committee of the Senate of the Republic (Economic Planning and Budget), sitting jointly, Chamber of Deputies, Rome 17 April 2025 (only in Italian).

(a) adhere to the maximum net expenditure growth rate allowed under the EU Council's January recommendations; (b) accelerate the implementation of the NRRP (see the box 'The state of progress of the National Recovery and Resilience Plan (NRRP)', Chapter 4, *Annual Report for 2024*, 2025; and (c) increase defence spending (see the box 'Defence spending in EU countries', Chapter 2, *Annual Report for 2024*, 2025).[10] As for this last point, at the NATO summit held in The Hague on 25 June, the Alliance member governments declared their commitment to invest 5 per cent of their respective GDPs in defence by 2035.[11]

Rating agencies upgrade Italy

On 11 April, for the first time in seven years, credit ratings agency Standard & Poor's upgraded Italy's long-term sovereign credit rating. On 23 May, Moody's affirmed its rating for Italy but raised its outlook from 'stable' to 'positive'.

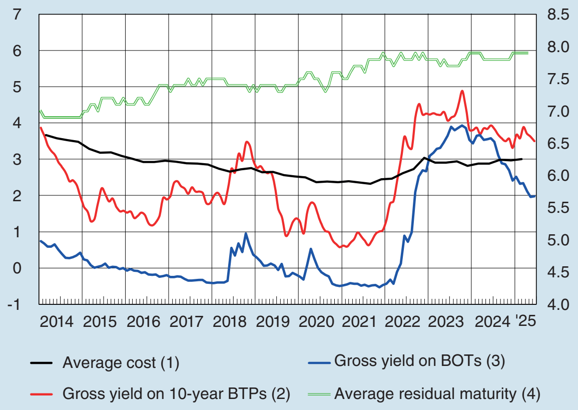
According to the 2025 DFP, the debt-to-GDP ratio continues to rise this year

In the first four months of 2025, the general government borrowing requirement amounted to €63.6 billion, up from the same period of 2024 (€60.1 billion).[12] In the first six months of the year, tax revenue recorded in the state budget increased by 3.4 per cent (€8.5 billion) compared with the same period of the previous year.

At the end of April, general government debt stood at €3,063 billion, some €96.9 billion more than at the end of last year. The residual maturity of the debt remained unchanged compared with end-2024 (7.9 years). The share of the public debt held by Banca d'Italia amounted to 20.2 per cent, down 1.5 percentage points from the end of 2024. In the first quarter of this year the average cost of the debt was 3 per cent, in line with last year (Figure 26).

Figure 26

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



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

[10] Following on the EU Council's conclusions of 6 March 2025, the Commission invited the Member States to make use of the flexibility afforded by the activation of the national escape clause under the Stability and Growth Pact for 2025-28 to increase their defence expenditure; see European Commission, 'Accommodating increased defence expenditure within the Stability and Growth Pact', C(2025) 2000 final. Italy did not ask to activate the escape clause. On 8 July, the EU Council accepted the request to activate this clause for 15 countries: Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, Greece, Hungary, Latvia, Lithuania, Poland, Portugal, Slovakia and Slovenia.

[11] The 5 per cent target is split into two parts: the first of 3.5 per cent is based on the agreed definition of NATO defence expenditure (an uplift from the previous target of 2 per cent); the second component, at 1.5 per cent, comprises expenditure in support of some initiatives, including: (a) the protection of critical infrastructures and networks; (b) the timeliness of response and resilience by the civil population; and (c) innovation and development of the capability of the defence industry. NATO Secretary General, Mark Rutte, stated during the press conference held at the conclusion of the Summit that all the Alliance members have already met or will meet the previous 2 per cent defence spending target by the end of 2025. For more information, see the NATO website: 'Closing press conference by NATO Secretary General Mark Rutte at the 2025 NATO Summit in The Hague', 25 June 2025.

[12] In May and June 2025, the state sector borrowing requirement stood at around €29 billion, about €3 billion higher than in the corresponding period of 2024.

According to the latest European Commission estimates, in 2025 the debt will amount to 136.7 per cent of GDP, broadly in line with the Government's projections in the 2025 DFP (136.6 per cent). The Commission estimates, for 2026, that the debt-to-GDP ratio will rise to 138.2 per cent, 0.6 percentage points higher than indicated in the 2025 DFP.[13]

In June, the EU Council approves Italy's request to amend the NRRP

In June, the EU Council approved a request by Italy to amend the NRRP (the fifth since it was launched). The amendments do not affect the plan's overall budgetary provisions and consist of investments in the transport sector and of changes mainly to measures in support of the green transition (including the defunding of investments in electric charging infrastructures, with the reallocation of resources to a new car-scrapping scheme for households meeting certain income thresholds and micro-enterprises having their registered offices in urban areas). On 1 July, the European Commission issued a positive assessment for payment of Italy's seventh instalment, which was requested last December; the Government also forwarded its request for payment of the eighth instalment during this period.

[13] Both the 2025 DFP and the Commission estimates were released prior to the NATO Summit held on 25 July in The Hague and therefore do not take into account the new commitments made by Italy during this time.