



BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin

October 2025

4 | 2025



BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin

Number 4 / 2025
October

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

© Banca d'Italia, 2025

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

Director

Sergio Nicoletti Altimari

Editorial committee

Michele Loberto and Alessandro Notarpietro (coordinators), Elena Collina, Antonio Maria Conti, Antonio Coran, Antonio Dalla Zuanna, Giuseppe Floccari, Simona Giglioli and Stefano Pica

Daniela Falcone, Silvia Mussolin, Marco Paciucci (editorial assistants for the Italian version), Giuseppe Casubolo and Roberto Marano (charts and figures) and Roberta Persia (IT support)

Boxes: Davide Delle Monache, Fadi Hassan, Michele Mancini and Fabiana Sabatini

The English edition is translated from the Italian by the Language Services Division of the Secretariat to the Governing Board

Address

Via Nazionale 91 – 00184 Roma – Italia

Telephone

+39 06 47921

Website

<http://www.bancaditalia.it>

All rights reserved. Reproduction for scholarly and non-commercial use permitted on condition that the source is cited

ISSN 0393-7704 (print)

ISSN 2280-7640 (online)

DOI <https://doi.org/10.32057/0.eb.2025.4>

Based on data available on 16 October 2025, unless otherwise indicated

Printed on EU-Ecolabel certified paper (registration number FI/011/001)

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

CONTENTS

OVERVIEW	5
1 THE WORLD ECONOMY	
1.1 The global cycle	7
1.2 The euro area	13
1.3 The financial markets	20
2 THE ITALIAN ECONOMY	
2.1 Cyclical developments	23
2.2 Firms	26
2.3 Households	28
2.4 Foreign trade and the balance of payments	30
2.5 The labour market	34
2.6 Price developments	35
2.7 Credit and financing conditions	38
2.8 The public finances	39

LIST OF BOXES

The US tariffs and the first effects on global trade	9
Trade tensions and euro-area firms' credit demand	18
Macroeconomic projections for the Italian economy	24
The impact of the US tariffs on the supply chains of Italian firms	31

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>).

With reference to the data provided by ICE Data Derivatives UK Limited, the supplier has requested publication of the following disclaimer: "The data referenced herein is the property of ICE Data Derivatives UK Limited, its affiliates and/or their respective third party suppliers ("ICE and its Third Party Suppliers") and is used with permission. This material contains information that is confidential and proprietary property and/or trade secrets of ICE and its Third Party Suppliers and is not to be published, reproduced, copied, disclosed, or used without the express written consent of ICE and its Third Party Suppliers. ICE and its Third Party Suppliers does not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions, regardless of the cause or for the results obtained from the use of such information. ICE and its Third Party Suppliers accepts no liability in connection with the use of this data or marks. ICE and its Third Party Suppliers disclaim any and all express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. In no event shall ICE and its Third Party Suppliers be liable for any direct, indirect, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with Banca d'Italia's or others' use of ICE and its Third Party Suppliers' data or services. ICE and its Third Party Suppliers do not sponsor, endorse, or recommend any part of this research and/or presentation".

OVERVIEW

The global economy continues to be affected by international trade tensions

The trade deals signed by the United States with the European Union and other trading partners are setting out a new framework for trade relations. The situation is still unfolding and the uncertainty over trade policies continues to weigh on the outlook for the global economy in the medium term. The higher tariffs contributed to a decline in international trade in the second quarter, in line with the expectations of the main observers. The effects on the US economy have been limited so far, with GDP returning to growth, albeit with a weakening labour market. The Chinese economy continues to be held back by slack domestic demand. According to the projections of the International Monetary Fund, global growth over 2025-26 will be lower on average than it was last year.

Euro-area GDP growth is subdued

In the spring months, euro-area GDP decelerated sharply due to the fading of the extraordinary boost in US demand that had sustained it in the first quarter, as a result of the frontloading of purchases ahead of tariffs taking effect. According to our estimates, GDP growth was subdued in the summer as well. The most recent European Central Bank staff projections point to euro-area GDP increasing by just over 1 per cent per year on average over the three years 2025-27. Consumer price inflation has stood at around 2 per cent since May; it is expected to decline slightly in 2026, and then to return to levels not far from the target in 2027.

The ECB keeps the key interest rates unchanged

At its July and September meetings, the ECB Governing Council kept its key interest rates unchanged. The cost of credit to firms declined further between May and August, owing to the pass-through of the previous easing of monetary policy. Despite this decline, loan growth remained moderate, reflecting weak demand and trade tensions. The latter in

particular led to a shift in the composition of loans from long to short maturities.

The Italian economy returns to growth in the summer months

Italy's GDP fell slightly in the second quarter, owing to the sharp decline in exports, as was the case in other euro-area countries. According to our estimates, the Italian economy returned to growth in the third quarter, albeit to a modest extent. The further increase in investment – thanks to more favourable borrowing conditions, tax incentives and NRRP measures – was accompanied by a slight rise in consumption, driven by improved household confidence and resilient labour income. Activity grew in services and construction, while it remained weak in manufacturing.

The current account surplus expands

According to our estimates, goods export volumes returned to growth in July and August, after shrinking in the spring. The current account surplus on the balance of payments grew between April and June. Demand for Italian securities by foreign investors strengthened further. Italy's net international investment position remains largely positive, although it has declined because of the depreciation of the dollar against the euro.

Employment stabilizes

Employment remained broadly unchanged in the second quarter, while hours worked per capita increased slightly. The participation rate rose again among older workers, but declined among younger ones; the unemployment rate remains low across all age groups. Growth in negotiated wages slowed, though it is still higher than inflation. Employment remained stable in the summer months and wages continued to slow.

Inflation remains subdued

Inflation remained just below 2 per cent in the third quarter, with its core component standing at similar levels, as very weak

growth in non-energy prices was offset by greater price increases in services. Food prices accelerated due to temporary effects that are expected to fade in the coming months. Producer price growth remains subdued.

**Lending to firms
returns to growth**

Policy rate cuts continued to be passed through to the cost of bank funding and lending to firms. Lending to non-financial corporations picked up, with a return to growth in services and a softer decline in industry. Bank surveys suggest that demand for corporate loans strengthened, with no tensions on the supply side. Lending to households accelerated.

**Net borrowing is
projected to fall
to 3 per cent of GDP**

According to the Public Finance Planning Document 2025 approved by the Italian government on 2 October, net borrowing is projected to fall to 3 per cent of GDP in 2025, before edging down to 2.3 per cent in 2028. Public debt is set to continue to expand, reaching 137.4 per cent of GDP in 2026, and then to go down by around one percentage point over the following two years.

**Italy's GDP is set
to benefit from growth
in domestic demand**

According to our projections, Italy's GDP will increase by 0.6 per cent in 2025 and 2026, and by 0.7 per cent in 2027. This scenario takes into account the trade deals between the United States and the European Union and the lower degree of uncertainty over trade policies. GDP growth will be driven by investment; consumers will remain cautious this year, although later on they will respond to the rise in disposable income. Foreign demand will be affected by higher tariffs and the appreciation of the euro. Consumer price inflation is projected to stand at 1.7 per cent in 2025 and to decline to 1.5 per cent in 2026, before bouncing back to 1.9 per cent in 2027.

The forecasting scenario is subject to considerable uncertainty, stemming largely from potential new developments in trade policies and the ongoing conflicts. Growth could be affected by concerns over the outlook for the public finances across the euro area and in other advanced economies. On the other hand, an expansionary fiscal stance at European level, particularly in connection with a significant increase in defence spending, could boost economic activity.

1 THE WORLD ECONOMY

1.1 THE GLOBAL CYCLE

Economic activity returned to growth in the United States, but labour market conditions worsened. The Chinese economy continues to be affected by sluggish domestic demand. The consequences of the new US trade policies are already seen in the flows of goods. According to the projections of the International Monetary Fund (IMF), global growth over 2025-26 will be slightly lower on average than it was last year. Furthermore, downside risks persist, linked to the outlook for international relations. Uncertainty about trade policies remains high, despite the agreements reached by the US administration with some leading countries and with the European Union. The Federal Reserve cut its policy rates due to the deterioration in labour market conditions and to its outlook.

The US economy returns to growth

GDP in the United States returned to growth in the second quarter of 2025 (Table 1). Imports contracted sharply following the exceptional increase at the beginning of the year, caused by the frontloading of purchases from abroad in view of the entry into force of the tariffs. The labour market weakened considerably in July and August. Despite the prolonged decline in household confidence, consumption growth remains robust. The impact of higher tariffs on the US economy could still be limited: in the third quarter, GDP rose at a moderate pace according to analysts' expectations, and more rapidly based on the estimates of some regional US Federal Reserve branches. However, the short-term economic outlook could also be affected by the government shutdown under way since early October. In China, economic activity grew at a rate similar to that of the first quarter, held back by the weakness in

Table 1

GDP growth and macroeconomic projections (percentage changes, unless otherwise specified)							
	Growth			Forecasts		Revisions (2)	
	2024	2025 Q1 (1)	2025 Q2 (1)	2025	2026	2025	2026
World	3.3	–	–	3.2	3.1	0.2	0.0
Japan	0.1	0.3	2.2	1.1	0.6	0.4	0.1
United Kingdom	1.1	2.7	1.1	1.3	1.3	0.1	-0.1
United States	2.8	-0.6	3.8	2.0	2.1	0.1	0.1
Euro area	0.9	2.3	0.5	1.2	1.1	0.2	-0.1
Brazil	3.4	2.9	2.2	2.4	1.9	0.1	-0.2
China	5.0	5.4	5.2	4.8	4.2	0.0	0.0
India (3)	6.5	7.4	7.8	6.6	6.2	0.2	-0.2
Russia	4.3	1.4	1.1	0.6	1.0	-0.3	0.0

Sources: National statistics for data on growth; OECD, *OECD World Economic Outlook*, October 2025 for world GDP and for the forecasts.

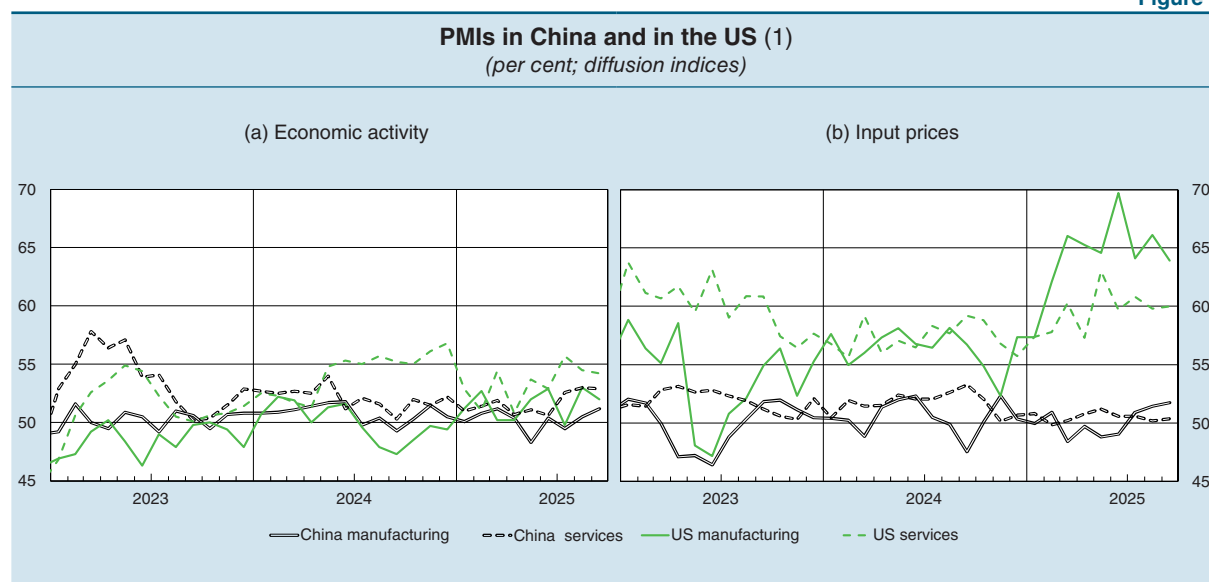
(1) Quarterly data. For the euro area, Japan, the United Kingdom and the United States, annualized and seasonally adjusted percentage changes on the previous quarter; for the other countries, year-on-year percentage changes. – (2) Percentage points; revisions compared with the IMF, *World Economic Outlook*, July 2025. – (3) The actual data and the forecasts refer to the fiscal year starting in April.

domestic demand, which persisted into the summer months as well. The decline in Chinese exports to the United States intensified in the same period, though it was offset by an increase in exports to Asia, Latin America and the European Union.

Manufacturing activity in the US is driven by stockpiling

In the third quarter, the purchasing managers index (PMI) for manufacturing firms in the US was again above the threshold consistent with expansion (Figure 1.a). It was driven by stockpiling, which in turn was prompted by fears of rising input prices in the coming months, as indicated by the corresponding PMI component (Figure 1.b). In China, the index moved back above the expansion threshold, in line with the slight improvement in the outlook for foreign demand and reflecting the suspension until 10 November of the entry into force of US tariffs that are significantly higher than those applied so far. The PMIs for services continue to point to growth in both the US and China.

Figure 1



Source: Standard & Poor's Global Ratings.

(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'. For economic activity, values greater than 50 are compatible with expansion in the sector; for input prices, they indicate an increase in perceived costs.

The international trade outlook remains weak

Global trade declined in the second quarter owing to the sharp drop in US imports, which was caused by the end of the frontloading of purchases and by the first direct effects of tariffs (see the box 'The US tariffs and the first effects on global trade'). The outlook for international trade remains weak: the global indices for foreign orders in manufacturing and services remained below the expansion threshold in the summer months.

Forecasts for global growth are broadly unchanged

According to the projections published in October by the IMF, world GDP will expand by 3.2 per cent in 2025 and by 3.1 per cent 2026 (slightly down from 3.3 in 2024), broadly in line with the projections released in July. However, downside risks to global economic activity persist, driven by ongoing uncertainty about trade policies on the one hand, and by the fiscal outlook in some advanced economies and the potential tensions in financial markets on the other hand.

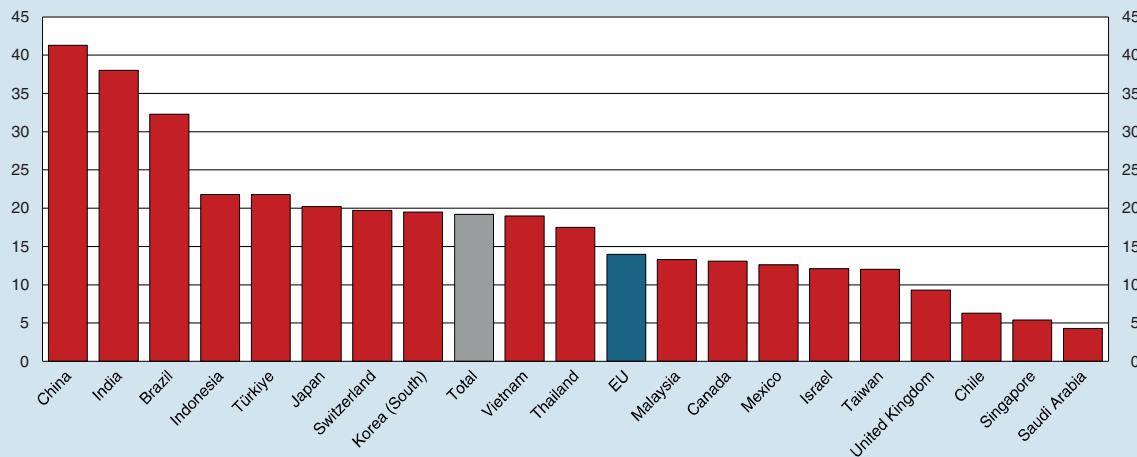
THE US TARIFFS AND THE FIRST EFFECTS ON GLOBAL TRADE

Since the beginning of 2025, the US administration has taken a marked protectionist turn. It has repeatedly increased tariffs for specific sectors (steel, aluminium, automotive, copper and pharmaceuticals) and raised them sharply, first vis-à-vis China, Mexico and Canada and then for all countries, with targeted increases in many cases ('reciprocal tariffs'). The trade deals subsequently reached with some partners and other revisions changed the originally stated rates, but overall the effective tariff rate has been close to 20 per cent since August (it was 3 per cent at the end of 2024).

The most affected trading partners include China, India and Brazil (Figure A).¹ The economies that have concluded bilateral deals with the United States – including the European Union, the United Kingdom and Japan – have benefited in some cases from sector-specific exemptions (e.g. for the automotive sector) and, in general, from more favourable conditions than countries that have not reached any agreement.

Figure A

Effective tariffs rates for the United States' major trading partners (1)
(per cent)



Sources: Based on data from the 'Base pour l'analyse du commerce international' (BACI) and the Market access map HS6 (MAcMap-HS6) of the Centre d'Études Prospectives et d'Informations Internationales (CEPII); World Integrated Trade Solution (WITS) of the World Bank; P. Fajgelbaum, P. Goldberg, P. Kennedy, A. Khandelwal and D. Taglioni, 'The US-China trade war and global reallocations', *American Economic Review: Insights*, 6, 2, 2024, pp. 295-312; F.P. Conteduca, M. Mancini and A. Borin, 'Roaring tariffs: The global impact of the US 2025 trade war', *VoxEU CEPR*, 6 May 2025.

(1) The tariff levels given in the figure take into account any exemptions and therefore differ from the higher rates reported in the executive orders of the US administration.

Following the agreement signed on 27 July, exports of EU goods are subject to a base tariff of 15 per cent, which is lower than the 30 percentage point increase indicated by the US administration

¹ Following the announcement of the reciprocal tariffs on 2 April, China embarked on an escalation with the United States marked by symmetric increases that exceeded 100 percentage points. On 12 May, the two countries agreed on a suspension of 90 days, bringing the average level of tariffs on imports from China to around 40 per cent, i.e. an increase of 30 percentage points compared with January 2025. This suspension was subsequently extended until 10 November. In the case of India, the decision to increase the tariffs sharply was motivated by a desire to impose a penalty on that country for its imports of Russian oil. As regards Brazil, the measures, which affected more than half of its exports to the United States, were the result of political tensions with the Brazilian government.

in July but 13 points higher than the effective rate in force at the end of 2024.² For its part, the European Union has rescinded the retaliatory measures it had already approved and has committed to eliminating tariffs on intermediate goods from the United States, as well as facilitating access to certain EU-compliant agricultural exports from the United States and buying US energy products worth around US\$ 750 billion by 2028. There remains some uncertainty surrounding the implementation of the agreement, linked to both the need for approval by the European institutions and the risk of diverging interpretations between the parties.³

Uncertainty about US trade policy also remains high owing to the US Federal Court of Appeals' decision of 29 August, which ruled that the majority of the tariffs had been imposed by the administration illegally, as they had been introduced without the required consent from Congress.⁴ The ruling has, however, left the tariffs in force. It is unlikely that the entire judicial process will lead to the removal of tariffs, especially vis-à-vis the countries that have decided to sign a deal with the United States.⁵ The trade policy uncertainty index,⁶ although declining from its peak in April, remains significantly above the average levels recorded in the period 2018-19, when the United States and China had imposed significant bilateral trade tariffs.⁷

The consequences of the new US trade policies are already being reflected in merchandise trade flows. Until March, world trade accelerated thanks to early purchases by US importers (front-loading). As the new tariffs were introduced, US import volumes fell markedly, with significant effects on global trade (see panel (a) of Figure B).

The decline in US imports from China weighed heavily on this trend, as they fell by almost 40 per cent in the second quarter compared with the first and they are subject to tariffs that are significantly higher than those applying to other countries (see panel (b) of Figure B). However, there was an increase in Chinese exports to Asia, Latin America and the European Union.

² The European automotive sector is now subject to a 15 per cent rate, compared with the previously applicable 27.5 per cent. The 15 per cent cap also applies to the pharmaceutical and semiconductor sectors – which account for about 26 per cent of European exports to the United States. Therefore, the planned 100 per cent tariffs on branded pharmaceuticals should not affect the European Union, nor should they affect the pharmaceutical companies that have already started building manufacturing facilities in the United States. On the contrary, tariffs on furniture (equal to 50 per cent) and trucks (25 per cent) could affect EU exports, with potential repercussions on the sectors involved. The tariffs on steel, aluminium and copper, which increased by 50 percentage points compared with 2024, have remained unchanged. However, negotiations are under way to introduce quotas on European exports, which are subject to lower tariff rates. Finally, certain product categories, such as aircraft and aircraft parts, as well as generic pharmaceuticals, will remain tariff-free.

³ One example is the list of products imported from the United States for which the European Union should set the tariffs to zero, which are not specifically identified in the text of the agreement.

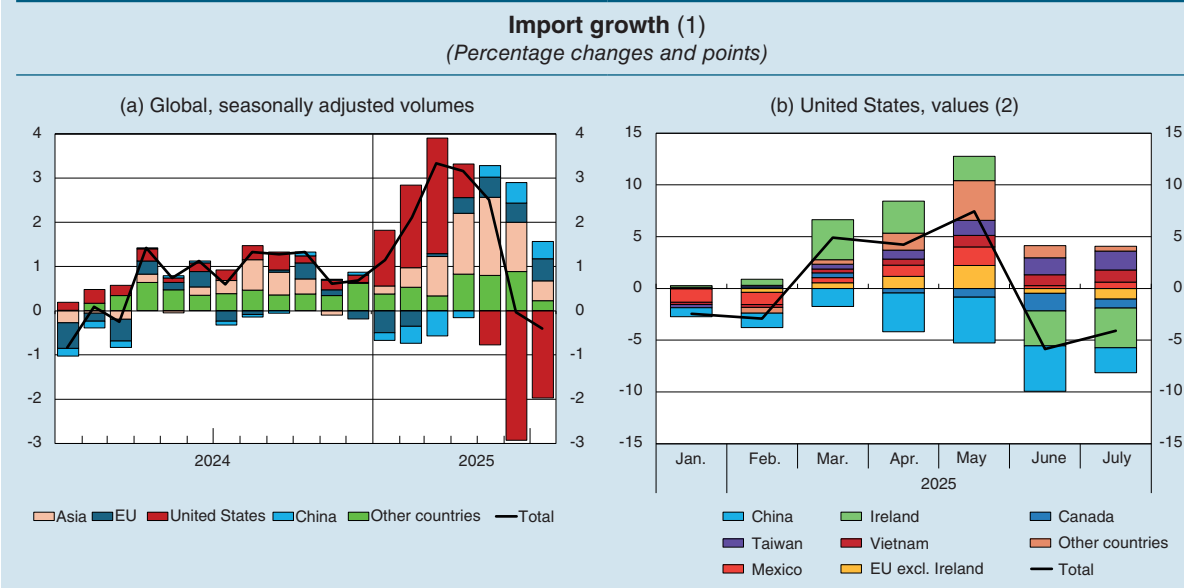
⁴ The Federal Court of Appeals ruled that the law invoked by the US administration to impose generalized tariffs (International Emergency Economic Powers Act) does not give the President such power, thereby confirming a previous ruling.

⁵ The Supreme Court will examine the case on 5 November, following the appeal filed by the US administration against the decision of the Federal Court of Appeals.

⁶ The index measures the frequency with which terms relating to trade policy and uncertainty appear in major newspapers. 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.

⁷ In addition to the measures announced directly by the US government, there is a general change in the stance of the administration that has contributed to fuelling uncertainty. One example is the particularly high tariffs (a 92 percentage point increase) announced at the beginning of October and designed to affect some Italian pasta producers as of January 2026. These measures, which have not been confirmed yet, are the result of the conclusion of an investigation initiated before the establishment of the current administration on alleged dumping practices. These practices consisted of selling goods abroad at lower prices than those applied in the internal market, often below production costs, with the aim of acquiring market shares in a competitively unfair manner.

Figure B



Sources: Calculations based on Centraal Planbureau (CPB) and US Census Bureau data.

(1) Percentage changes on previous period of the three-month moving averages ending in the last month reported, for the total. Contributions to import growth on previous period, for the other items; three-month moving averages ending in the last month reported. – (2) US imports expressed in dollars at current prices, excluding natural or cultured pearls, precious or semi-precious stones, precious metals, metals coated with precious metals, and products made from precious metals; costume jewellery; and coins.

Some Asian economies, including Vietnam and Taiwan, continued to record strong growth in their exports to the United States. For Vietnam, these developments appear to be related to the relatively lower tariffs applying to its products compared with those imposed on Chinese products, which may have encouraged the indirect transit through Vietnam of goods from China. To counter this practice, the US administration has raised tariffs on goods suspected of being re-exported. In the case of Taiwan, however, the expansion in exports is mainly due to the strong growth in sales of semiconductors, which have not yet been affected by trade restrictions.

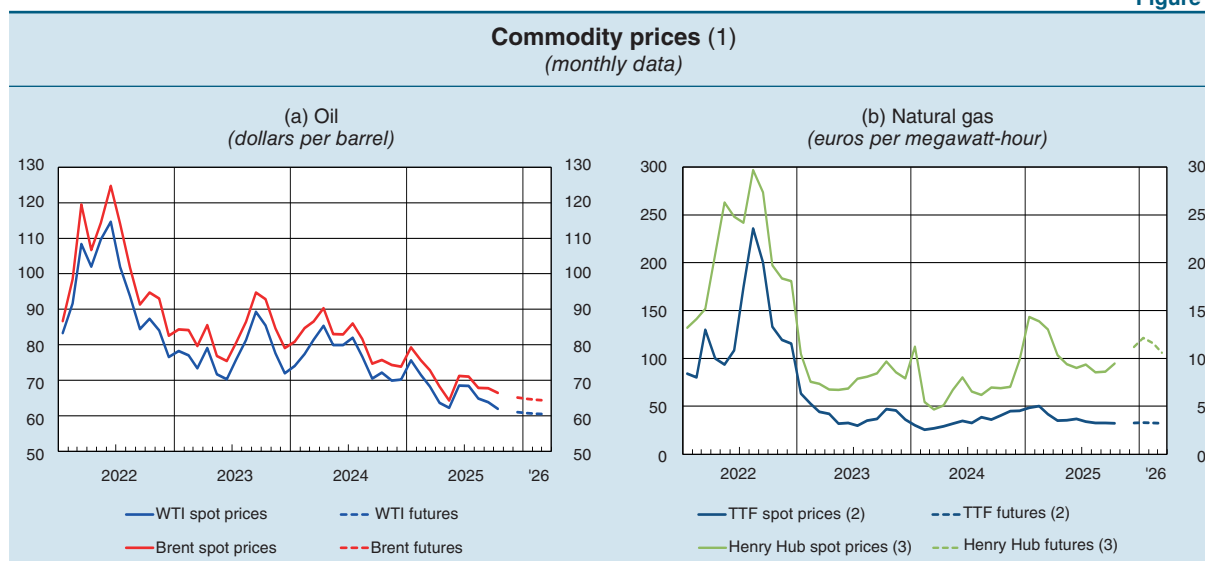
Imports from the EU have contracted only marginally in the last few months, with the exception of those from Ireland, which initially benefited from the frontloading of US purchases of pharmaceuticals but subsequently dropped sharply, likely due to the maximum capacity for inventories having been reached in the US.⁸

The tariffs set out in the US-EU agreement appear to have a relatively limited direct impact on the EU's GDP growth, attributable to the loss of price competitiveness of EU firms relative to US firms. However, the high uncertainty about trade policies could weigh more heavily, dampening investment. EU exports to the United States will also be affected by the depreciation of the dollar, which has been under way since the beginning of the year.

⁸ The dynamics of trade for Ireland should be interpreted with caution, as they are influenced by the tax optimization accounting practices adopted by the multinational companies based in the country.

Oil prices fall again ... After rising temporarily in June due to escalating tensions in the Middle East, oil prices started falling again (Figure 2.a). They dropped by nearly 7 per cent compared with the first week of July, to around \$66.5 per barrel in the first ten days of October. The drop was mainly driven by weakening global demand. On the supply side, OPEC+ announcements of further

Figure 2



Source: LSEG

(1) For spot prices, monthly averages up to September 2025. The data for October 2025 refer to the average of the daily data from 1 to 10 October 2025. For futures, the data refer to the prices on 10 October 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.

increases in production exerted renewed downward pressure on prices, which was only partially offset by the upward pressure stemming from stricter US sanctions on Iranian exports and from the Ukrainian attacks on Russian oil infrastructure. The International Energy Agency (IEA) and private analysts predict a global excess supply of oil for the rest of 2025 and throughout 2026. Brent futures prices point to expectations of broadly stable oil prices, with December 2025 contracts close to \$65 per barrel.

... as do natural gas prices

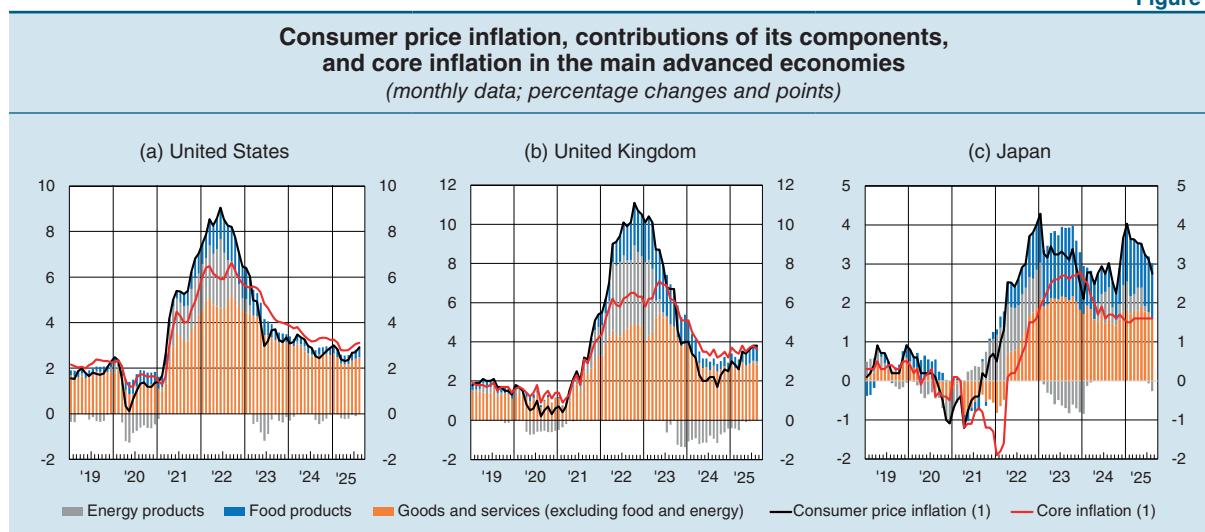
Title Transfer Facility (TTF) prices (the benchmark prices for European natural gas) have fallen since the first week of July, averaging around €32 per megawatt-hour in the first ten days of October (Figure 2.b). At a time when supply conditions are stable, the level of inventories in the EU is around 15 percentage points lower than in 2024 and slightly below the long-term seasonal average. In Europe, gas use in electricity generation declined, reflecting abundant production from renewable energy sources. Futures prices on the TTF market are stable. Contracts maturing in December 2025 are trading at €32 per megawatt-hour.

The US Federal Reserve cuts its policy rates in September

From May onwards, year-on-year consumer price inflation in the United States continued to rise (to 2.9 in August; Figure 3.a), although the impact of the higher tariffs was still limited. Inflation picked up in the United Kingdom too, while it declined again in Japan (Figures 3.b and 3.c). In the same period, the core component increased both in the United States and in the United Kingdom, while it held stable in Japan.

At its September meeting, the Federal Reserve decided to lower its policy rates by 25 basis points, to 4.00-4.25 per cent, reflecting the weakening labour market and growing risks of further deterioration in the months ahead. The projections made by the members of the Federal Open Market Committee (FOMC) suggest further rate cuts of 50 basis points overall by December. The Bank of England and the Bank of Japan kept their policy rates unchanged in September, at 4.0 per cent and 0.5 per cent respectively. The Bank of England also decided to slow the pace of its quantitative tightening programme in order to ease upward pressures on sovereign bond yields. The People's Bank of China kept its refinancing and reserve requirement rates unchanged, maintaining a cautious stance despite signs of a weakening outlook.

Figure 3



Source: Based on national statistics.

(1) 12-month percentage changes; core inflation excludes food and energy products.

1.2 THE EURO AREA

Euro-area GDP decelerated sharply in the second quarter compared with the first three months of the year, when it had benefited from the exceptional increase in US imports. Economic activity grew slightly in the summer months, driven by the still positive contribution of services in contrast to the decrease in industry. Consumer price inflation has stood at around 2 per cent since last spring. At its July and September meetings, the ECB Governing Council kept the key interest rates unchanged. The cost of credit to firms declined between May and August, reflecting the gradual fall in the cost of bank funding. Lending to firms picked up, but remains weak by historical standards.

Euro-area GDP increases marginally in the second quarter of 2025 ...

Foreign demand fell after the marked increase in the winter months due to frontloaded sales to the United States: net exports subtracted 0.2 percentage points from GDP growth. Domestic demand excluding inventories was also weak. Household consumption slowed again (from 0.3 to 0.1 per cent), reflecting the high uncertainty over the current and forward-looking assessments of individual financial situations and of the economy as a whole. Disposable income instead continued to grow at a robust pace, which was reflected in an increase in the saving rate. Net of the marked fluctuations in Ireland, investment in capital and intangible assets increased at a moderate rate; investment in construction decreased.

In the spring months, euro-area GDP rose by 0.1 per cent on the previous quarter (from 0.6 per cent in the first quarter; Table 2).

Table 2

Euro-area GDP growth and inflation (percentage changes)

	GDP growth			Inflation
	2024	2025 Q1 (1)	2025 Q2 (1)	2025 September (2)
France	1.2	0.1	0.3	1.1
Germany	-0.5	0.3	-0.3	2.4
Italy	0.7	0.3	-0.1	1.8
Spain	3.5	0.6	0.8	3.0
Euro area	0.9	0.6	0.1	(2.2)

Sources: Based on national statistics and Eurostat data.

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

Value added growth was weak in manufacturing and services, while it declined in construction. Industrial production was supported by the rebuilding of stocks of finished products, which had fallen below the desired levels in the previous three months.

Among the main euro-area countries, GDP fell in Italy and, to a greater extent, in Germany; in both cases, the decline was mainly due to the negative contribution of net foreign demand. Economic activity instead continued to expand at a robust pace in Spain, driven by domestic demand, unlike in other countries.

... and growth is modest in the summer months as well

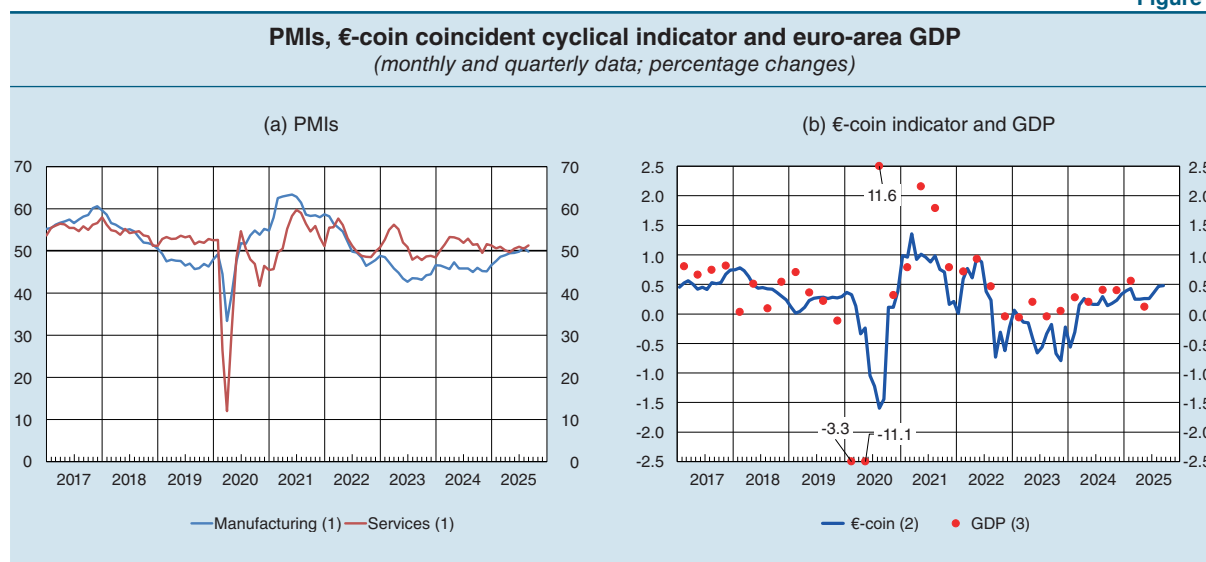
The latest cyclical indicators are consistent with a further modest increase in euro-area GDP in the third quarter. According to our estimates, activity rose again in services, where the PMI stands just above the expansion threshold (Figure 4.a). The European Commission's surveys report more favourable expectations regarding developments in demand, although there are still some factors curbing the momentum of the sector, including the cost level.

Production declined in manufacturing in the summer, reflecting the fall in August. The manufacturing PMI nevertheless rose to a value indicating that activity was stable on average in the quarter. The need to rebuild stocks in some sectors that had benefited from the frontloading of exports to the United States mitigated the fall in production. Broadly speaking, however, the outlook remains fragile: although production expectations are more favourable, as found in the European Commission's surveys, negative assessments of the level of demand continue to prevail.

Domestic demand remains weak

The uncertainty generated by global tensions and by domestic factors, such as the political instability in France, is weighing on the outlook for consumption and investment. The consumer confidence index rose in the third quarter, but assessments remain pessimistic, particularly with regard to the development of the general state of

Figure 4



Sources: Standard & Poor's Global Ratings, Banca d'Italia and Eurostat.

(1) Monthly data. Diffusion indices for economic activity in the sector. – (2) Monthly estimates of changes in GDP on the previous quarter, net of the most erratic components; latest figure: September 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)'. – (3) Quarterly data adjusted for seasonal and calendar effects; percentage changes on previous period.

the economy. Investment growth remains moderate overall; the confidence of producers of capital goods has recovered slightly in the last three quarters. In some countries, capital accumulation, mainly geared towards plant restructuring and modernization, has been encouraged by tax incentives.

In the summer months, the boost to growth from exports was negligible and the outlook is modest overall. The PMI for new export orders declined, remaining below the level compatible with expansion, as it has since the beginning of 2022. The higher flow of manufactured goods imports from China to the euro area is likely to dampen the contribution of net foreign trade to growth.

The €-coin indicator remained unchanged in September, still benefiting from the positive boost to the economy from the exceptional circumstances of the beginning of the year, especially in some sectors (Figure 4.b).

The ECB revises its forecasts for 2025 euro-area growth upwards

According to the ECB staff macroeconomic projections released in September,¹ after growing by 0.9 per cent in 2024, euro-area GDP will go up by 1.2 per cent this year, by 1.0 per cent in 2026 and by 1.3 per cent in 2027. Compared with last June, the forecasts have been revised upwards by 0.3 percentage points in 2025, mainly owing to a revision of the data for the first quarter and for the end of 2024. In contrast, the growth estimate for 2026 has been revised downwards by 0.1 percentage points, owing to the appreciation of the euro and to weaker foreign demand.

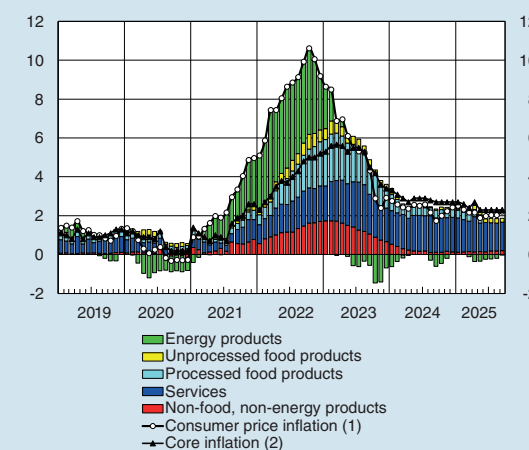
Inflation stands at just above 2 per cent in September

Consumer price inflation increased in September, to 2.2 per cent year on year (from 2.0 per cent in August; Figure 5). Core inflation, measured net of food and energy products, has remained stable since May, at 2.3 per cent. Services inflation rose slightly, to 3.2 per cent, while that for non-energy industrial goods remained subdued, at 0.8 per cent. Among the volatile components, food price inflation continued to decline (3.0 per cent), thanks to the deceleration in the prices of unprocessed food products; the fall in energy prices slackened (-0.4 per cent).

Producer price pressures are easing. Import prices, excluding energy, fell further, by 0.7 per cent in August compared with the same month in the previous year. This was due to the appreciation of the effective nominal exchange rate of the euro, ongoing since March, and according to our estimates, to the redirection of global trade flows to European markets (see the box ‘The US tariffs and the first effects on global trade’ and the box ‘The effects of the trade tensions between the US and China on euro-area consumer prices’, *Economic Bulletin*, 3, 2025). Again in

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 energy and food.

¹ For more information, see the ECB’s website: ‘[ECB staff macroeconomic projections for the euro area](#)’, September 2025.

August, producer price inflation for industrial goods sold domestically in the euro area, excluding energy, remained at 1.0 per cent on an annual basis. The PMI for input costs in manufacturing remained stable in the summer months, at levels just above the expansion threshold.

Wages and employment slow

Actual hourly wage growth in the euro area stood at 3.8 per cent in the second quarter on an annual basis, down by one tenth compared with the previous three months. Real wages are close to those recorded in the second quarter of 2021 (almost 2 per cent higher than in 2019). According to the information available, the deceleration in wages continued during the summer months too and is expected to last until the middle of next year. The number of persons employed in the euro area increased only slightly (0.1 per cent).

Inflation projections remain at around 2 per cent

According to the September ECB staff macroeconomic projections, inflation will reach 2.1 per cent in 2025, 1.7 per cent in 2026 and 1.9 per cent in 2027. Compared with the June estimates, forecasts have been revised upwards by one tenth for this year and for 2026. This revision reflects the higher energy commodity prices, both observed and expected, as well as the effects stemming from the increase in international food commodity prices, which more than offset the appreciation of the euro. In contrast, the lagged effects of this appreciation are expected to prevail in 2027, leading to a downward revision of 0.1 percentage points.

Households and firms expect moderate price increases

European Commission surveys pointed to a reduction in short-term expectations for the list prices of manufacturing firms on average in the third quarter, while those of the service sector were revised upwards.

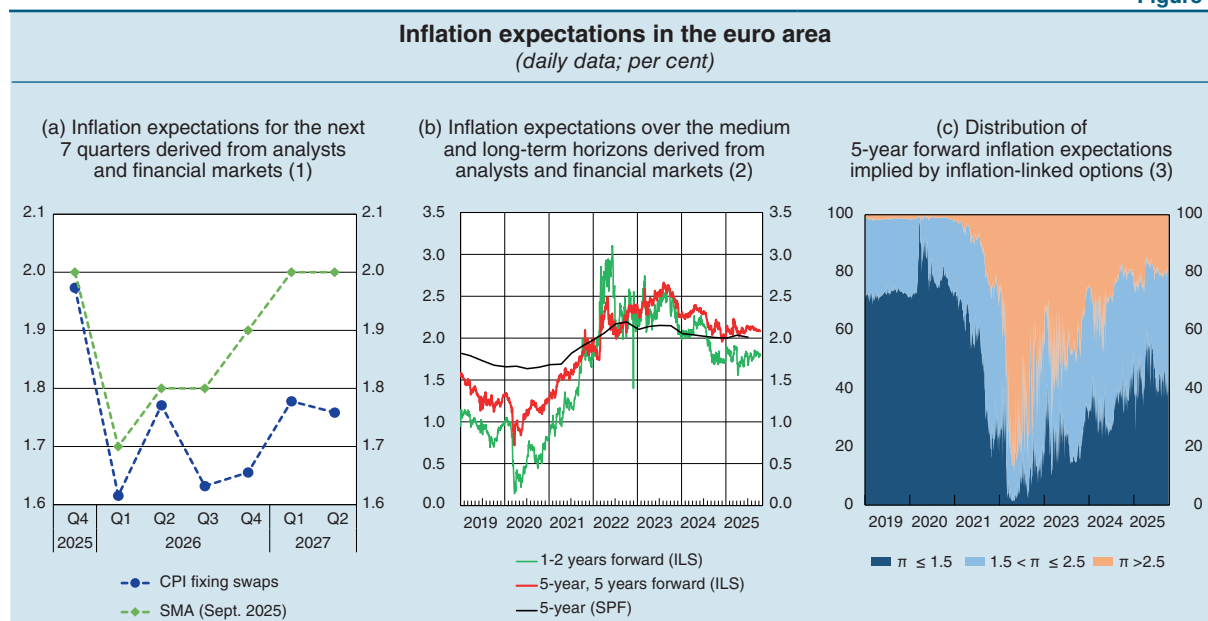
According to the ECB's Consumer Expectations Survey, the median for consumer price inflation expectations for euro-area households rose to 2.8 per cent over the twelve-month horizon in August. Three-year expectations remained stable at 2.5 per cent, largely unchanged since April 2023.

Inflation expectations remain below the target throughout 2026

At the beginning of October, inflation expectations based on CPI fixing swaps² pointed to a decline in inflation to around 1.6 per cent in 2026 and a rise to 1.8 per cent in the first half of 2027. According to the participants interviewed by the ECB between 25 and 27 August as part of the Survey of Monetary Analysts (SMA), the decline in inflation is expected to fade in the first quarter of 2026, returning to the 2 per cent target at the beginning of the following year (Figure 6.a). Over the horizon between one and two years ahead, the inflation expectations implied by inflation-linked swaps (ILS) remained stable at around 1.8 per cent; those over longer horizons rose to 2.1 per cent, while analysts' long-term expectations remained firmly anchored to the target (Figure 6.b). Finally, the distribution of inflation expectations based on options prices indicates a 48 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 19 per cent (Figure 6.c).

² 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. For more details, see M. Bernardini, L. D'Arrigo, A. Lin and A. Tiseno, 'Real interest rates and the ECB's monetary policy stance', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 857, 2024.

Figure 6



Sources: ECB and based on Bloomberg data. The latest figure refers to 10 October 2025, unless otherwise specified.

(1) Annual inflation rates expected for the next seven quarters, implied by CPI fixing swaps (the underlying inflation rate is calculated based on the euro-area HICP, excluding tobacco), and the median of the expectations of respondents interviewed for the Survey of Market Analysts (SMA) conducted by the ECB between 25 and 27 August 2025. – (2) Expected inflation rates implied by ILS contracts with maturities of between 1 and 2 years and between 5 and 10 years, as well as 5-year forward inflation expectations derived from the quarterly Survey of Professional Forecasters (SPF; the latest figure refers to July 2025). – (3) 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 keeps the key interest rates unchanged ...

At its July and September meetings, the ECB Governing Council kept its key interest rates unchanged; the deposit facility rate stands at 2 per cent (Figure 7). The decisions were based on broadly unchanged assessments compared with previous meetings, against a background of medium-term inflation expectations consistent with the target and more balanced risks, albeit in an environment of high uncertainty.

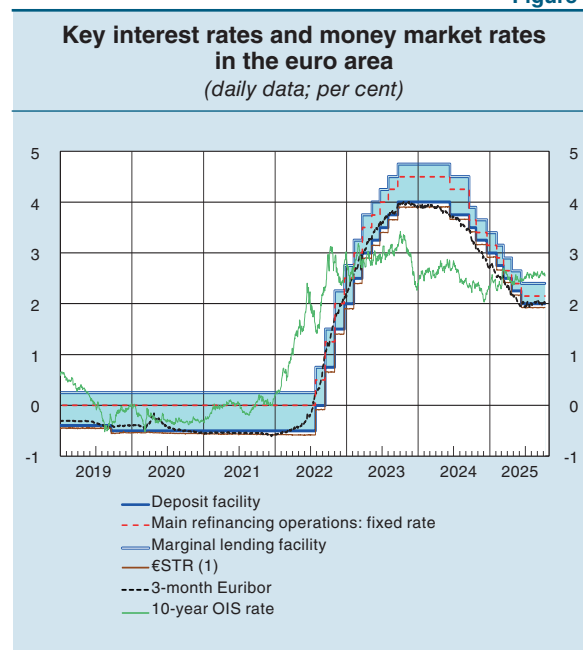
... and markets expect them to be stable in the coming months too

Expectations for interest rates implied by €STR swap contracts have been revised upwards across all maturities since the beginning of July, following market perceptions that the expansionary monetary policy cycle is coming to an end. At the beginning of October, the markets considered a reduction in interest rates by the end of 2025 to be highly unlikely. The expectations of analysts surveyed between 25 and 27 August by the ECB

At its July and September meetings, the ECB Governing Council kept its key interest rates unchanged; the deposit facility rate stands at 2 per cent (Figure 7). The decisions were based on broadly unchanged assessments compared with previous meetings, against a background of medium-term inflation expectations consistent with the target and more balanced risks, albeit in an environment of high uncertainty.

Expectations for interest rates implied by €STR swap contracts have been revised upwards across all maturities since the beginning of July, following market perceptions that the expansionary monetary policy cycle is coming to an end. At the beginning of October, the markets considered a reduction in interest rates by the end of 2025 to be highly unlikely. The expectations of analysts surveyed between 25 and 27 August by the ECB

Figure 7



Sources: ECB and LSEG. The latest figure refers to 10 October 2025.

(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.

for the SMA were broadly in line with this scenario.

The cost of credit decreases for firms and remains stable for mortgage loans to households

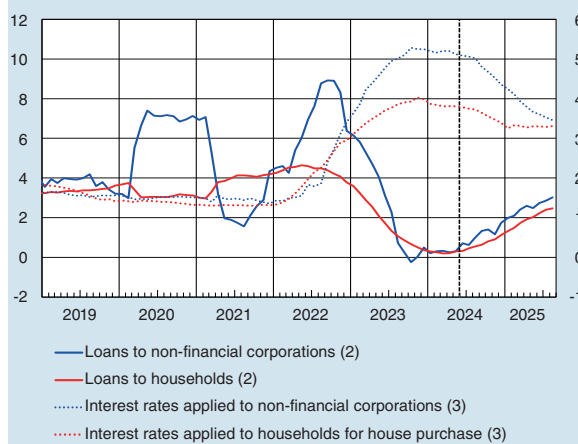
Between May and August, the interest rate on new loans to non-financial corporations continued to go down (from 3.7 to 3.5 per cent; Figure 8). This reflects the gradual decline in the cost of bank funding and the developments in short-term risk-free market rates. The cost of new mortgage loans to households for house purchase instead remained virtually stable (at 3.3 per cent), while long-term interest rates increased.³

Lending to firms goes up, but remains weak by historical standards

Lending to non-financial corporations in the euro area strengthened (from 2.5 per cent in May to 3.0 per cent in August on an annual basis; Figure 8), though remaining below its historical average. Among the leading countries, growth in lending to firms was stronger in France and Spain, lower in Italy (see Section 2.7) and very low in Germany. The performance of lending to non-financial corporations in the euro area reflects still weak demand, despite the fall in interest rates.⁴ Global trade tensions probably slowed the demand for loans, especially long-term ones (see the box ‘Trade tensions and demand for credit for euro-area firms’). Credit standards remained broadly unchanged.

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.

TRADE TENSIONS AND EURO-AREA FIRMS' CREDIT DEMAND

The annual growth rate of loans to firms in the euro area has increased in line with the monetary easing cycle started in June 2024 (to 3.0 per cent in August 2025, from 0.3 per cent in May 2024). Since the end of last year, the acceleration has been more pronounced for short- and medium-term loans than for long-term loans. The rather favourable trend in short-term loans has reflected not only the transmission of key interest rates cuts, but possibly also the considerable rise in trade tensions. The most exposed firms may have shifted towards shorter-term loans both to accommodate higher working capital needs linked to the frontloading of exports ahead of the tariff implementation and to build up precautionary liquidity buffers. At the same time, firms may have

³ The three-month Euribor and the ten-year interest rate swaps (IRS) are conventionally considered reference rates for loans to firms and for mortgage loans respectively. Between May and August, the Euribor went down by around 7 basis points; over the same time horizon, the IRS had risen by around 13 points.

⁴ For more details, see ECB, ‘July 2025 euro area bank lending survey’, press release, 22 July 2025.

scaled back investment plans, reducing their recourse to long-term credit.

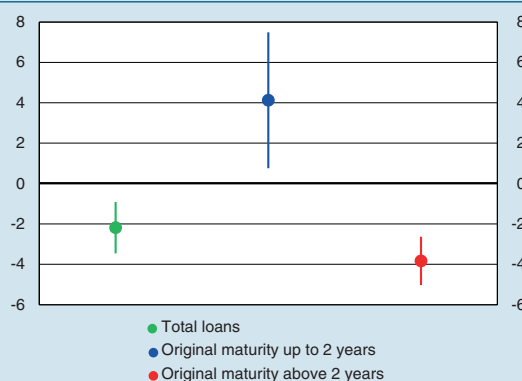
This is corroborated by an econometric analysis for the four main euro-area countries. Following the US presidential election, the demand for credit from sectors with high exposure to trade tensions with the United States has been lower than that from other sectors since November 2024 (see the figure).¹ With regard to maturity, firms in highly exposed sectors have increased their demand for loans with a maturity of up to two years and reduced their recourse to loans with a maturity above two years, in relation to other sectors. Similar results are obtained when narrowing the sample of analysis to Italy.

Going forward, the drag of trade tensions on overall credit growth could intensify. The negative effect on long-term credit demand could linger on, owing to persistently high uncertainty, while the positive impact on short-term lending is likely to fade, due to the temporary nature of its drivers.

¹ The analysis takes into account the factors influencing credit supply. It exploits a difference-in-differences design using Anacredit and Eurostat data. Exposure to trade policy uncertainty is measured based on the distribution of exports to the US as a share of value added. The data are available up to July 2025 and include the original maturity of the loan, allowing for the distinction between loans with maturities below and above two years, which is usually the longest maturity for loans for working capital financing.

Figure

Trade policy uncertainty and credit dynamics for highly exposed sectors (1)
(percentage points; impact on annual growth rate)



Sources: ECB (AnaCredit) and Eurostat (Full International and Global Accounts for Research in Input-Output Analysis, FIGARO).

(1) The figure shows the result of a difference-in-differences estimate carried out using a dataset at bank-sector-country-time level. The annual growth rate of loans granted by a given bank to a given sector in a given country in July 2025 or October 2024 is regressed on the interaction between: (a) a dummy variable equal to 1 if the sector is highly exposed to US exports, and equal to 0 otherwise; and (b) a dummy variable equal to 1 if the reference period is post-October 2024, and equal to 0 otherwise. The figure shows the coefficient estimated on this interaction. Exposure to trade policy uncertainty is measured using a dummy variable equal to 1 if the sector-country pair is in the highest quartile of the distribution of exports to the US as a share of value added, and equal to 0 otherwise. The data are available up to July 2025.

Lending to households accelerated slightly on an annualized basis (from 2.0 per cent in May to 2.5 per cent in August). Mortgage lending continues to be supported by the moderate growth in demand for loans, which benefited from the fall in interest rates, the improved outlook for the real estate market and, to a lesser extent, greater consumer confidence.

Germany adopts its medium-term fiscal-structural plan

On 16 July, the German government adopted its medium-term fiscal-structural plan for the years 2025-29. The Council of the European Union approved it on 10 October. Germany plans to increase investment in infrastructure, security and defence significantly, including by exploiting the national safeguard clause in the Stability and Growth Pact (see the box 'Defence spending in EU countries', Chapter 2, *Annual Report for 2024*, 2025). In the government's plans, net borrowing will rise from 2.7 per cent in 2024 to 3.8 per cent in 2026; it will then start to fall, reaching 1.8 per cent in 2029. The debt-to-GDP ratio is expected to rise from 62.5 per cent in 2024 to 66.5 per cent in 2027; it will then remain broadly stable at 66.5 per cent in 2029 as well. The German government plans to extend the adjustment period to seven years, given its commitment to implementing a package of reforms and investments.

Some €45 billion have been disbursed since 10 July in funding connected with the national recovery and resilience plans of individual Member States, of which €18 billion to Italy (see Section 2.8), bringing the total amount of funds distributed to €362 billion.

Defence spending in the European Union is rising

On 1 September, the European Defence Agency (EDA) published its *Defence Data 2024-2025* report.⁵ Defence spending by the 27 Member States reached €343 billion in 2024, equal to 1.9 per cent of total GDP and 19 per cent higher than in 2023. Investment accounts for 31 per cent of total expenditure. The share of R&D spending remains slightly below 4 per cent (€13 billion); this figure is significantly lower than the 16 per cent (€134 billion) spent in the United States. EU countries are expected to spend 2.1 per cent of GDP as a whole on defence in 2025. NATO has announced that, in the same year, 31 countries in the Alliance will spend at least 2 per cent of GDP on defence, compared with 18 countries in 2024.⁶

On 9 September, the European Commission announced the provisional allocation among the applicant countries of the €150 billion available under Security Action for Europe (SAFE), an instrument designed to fund defence investment, infrastructure for civilian and military use, cybersecurity, and strategic supply chains. At the end of July, Belgium, Bulgaria, Cyprus, Croatia, the Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Italy, Latvia, Lithuania, Poland, Portugal, Romania, Slovakia and Spain had expressed an interest in using this instrument. According to the provisional allocation, which is based on the requests submitted by these countries, the largest shares of resources are allocated to Poland (€43.7 billion), France, Romania and Hungary (around €16 billion for each country) and Italy (€14.9 billion). The final breakdown of funds between Member States will depend on formal requests, which must be submitted together with the investment plans by 30 November 2025.

1.3 THE FINANCIAL MARKETS

Government bond yields rose in Japan, the United Kingdom and France in the third quarter, amid heightened political uncertainty and the resulting concerns about a deterioration in public finances. Yields inched up in the remaining euro-area economies, while they declined in the United States, as investors factored in a more accommodative stance from the Federal Reserve. Stock prices continued to climb on the main exchanges, buoyed by strong realized and expected earnings growth – particularly in the technology sector – and by investors' greater risk appetite. Between early July and the first ten days of October, the exchange rate of the euro against the main currencies remained virtually unchanged.

Government bond yields rise across advanced economies, except in the US ...

Ten- and thirty-year government bond yields have risen since the first week of July across the main advanced economies, except for the United States (Figure 9.a). In both Japan and the United Kingdom, yields were driven higher by political uncertainty and growing concerns about the outlook for public finances, amid a large net supply of securities. In the United States, investors' expectations of a more accommodative stance from the Federal Reserve (see Section 1.1), which strengthened in September, more than offset concerns about the medium- and long-term fiscal outlook.

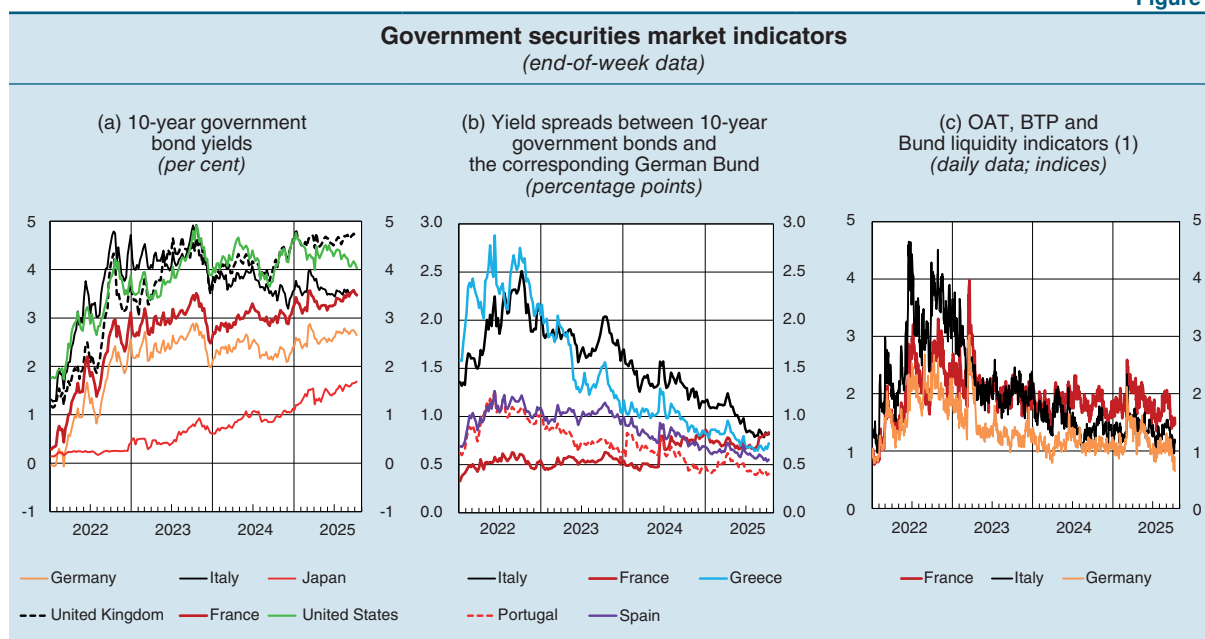
... and edge up in the euro area

Ten-year government bond yields went up slightly in the main euro-area countries (Figure 9.a). The increase was sharper in France, where the yields on government bonds (*obligations assimilables du Trésor*, OATs) were affected by

⁵ For more details, see EDA, *EDA Defence Data 2024-2025*, 2025.

⁶ See NATO, 'Defence Expenditure of NATO Countries (2014-2025)', press release, 28 August 2025. The data published do not include Iceland, the only country belonging to NATO without an army.

Figure 9



Sources: LSEG, based on data from Bloomberg and Tradeweb. The latest figure refers to 10 October 2025.

(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.

political instability and uncertainty about the outlook for fiscal policies. These issues, which had already surfaced in the second half of last year, led Fitch and Morningstar DBRS to downgrade France's sovereign credit rating in mid-September. The yield on ten-year OATs has increased by 20 basis points since the first ten days of July, and the yield spread vis-à-vis the corresponding German Bunds has reached 85 basis points, nearing its widest since the sovereign debt crisis (Figure 9.b). The effects of these developments on the yield spreads of the other euro-area government bonds have been limited and short-lived. Over the period as a whole, the spread between Italian and German ten-year government bonds has remained broadly unchanged, just above 80 basis points. The spread is still narrow, partly thanks to the robust demand for Italian securities in the latest auctions. In September, Fitch upgraded its rating for Italy's sovereign debt, based on higher-than-expected tax revenues and a stable debt-to-GDP ratio. Liquidity conditions on the French government securities market were only temporarily affected by political instability, and have improved since early July, as on the Italian and German markets (Figure 9.c).

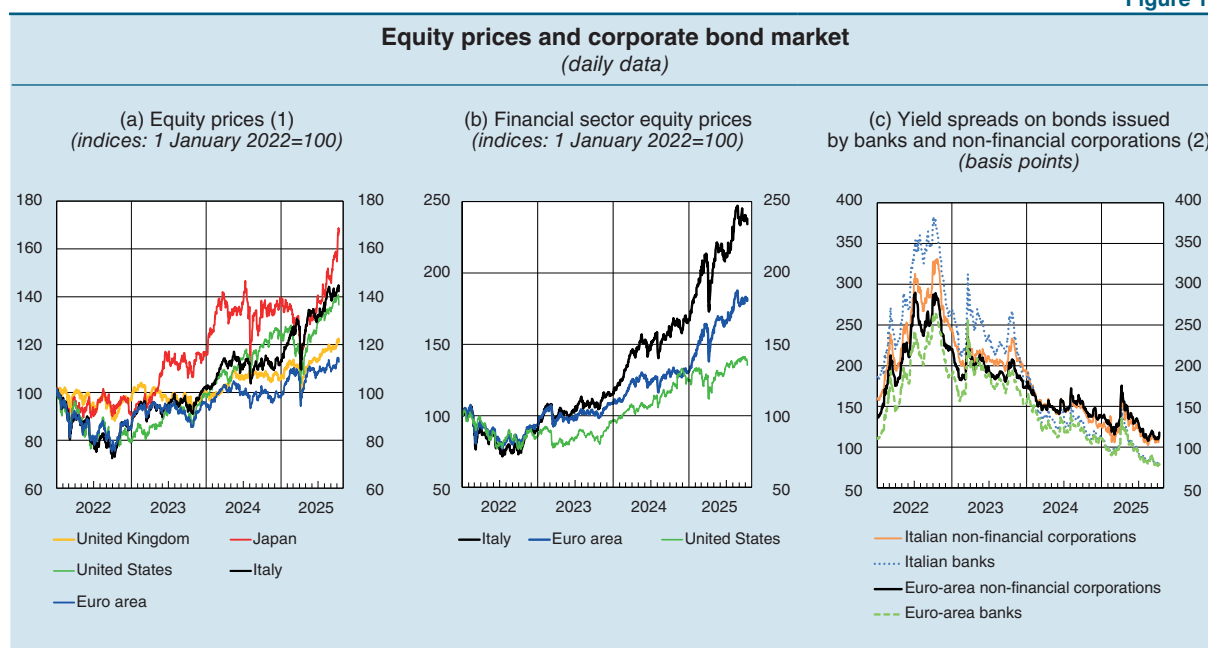
Stock prices continue to rise in the US ...

China trade tensions (Figure 10.a). The Standard & Poor's 500 (S&P500) index was 4.4 percentage points higher. During the summer months, equity prices were mainly driven by some big-tech stocks leaping on an improved earnings outlook. Volatility remains low overall in both equity and bond markets, slightly above the levels prevailing before 2 April.

... and to a lesser extent in the euro area

Equity prices grew more moderately in the euro area, where earnings announcements and expectations were weaker than in the US. The euro-area stock index has gained 3.9 per cent since the first ten days of July, with the companies that are more exposed to US tariffs significantly underperforming the rest of the market. Italian equity prices rose by 8.1 per cent (Figure 10.a). The rise in equity indices was largely

Figure 10



Sources: ICE Bank of America Merrill Lynch and LSEG. The latest figure refers to 10 October 2025.

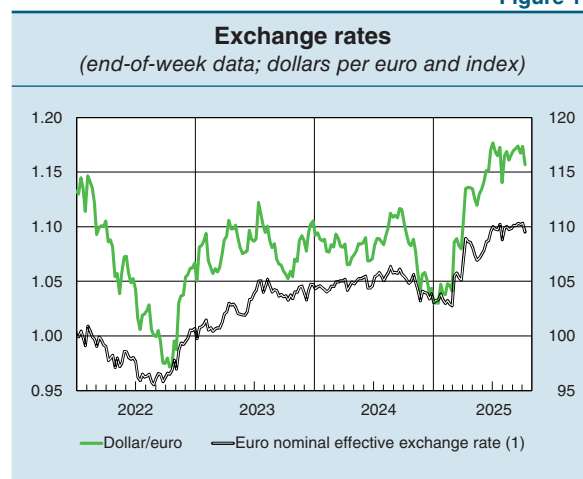
(1) Equity indices: Datastream for the euro area and for Italy, Nikkei 225 for Japan, FTSE All-Share for the United Kingdom and S&P 500 for the United States. – (2) Yield spreads on bonds, adjusted by the value of embedded options (option-adjusted spread), based on a basket of euro-denominated bonds issued by Italian banks and non-financial corporations vis-à-vis the risk-free rate.

attributable to financial sector valuations, up by 12.3 per cent in Italy and 9.2 per cent in the euro area on the back of strong earnings and potential M&A deals (Figure 10.b). Yield spreads between financial and non-financial corporate bonds on the one hand, and the risk-free rate on the other, continued to narrow both in Italy and the euro area (Figure 10.c), standing at very low levels by historical standards. The decline was more pronounced for high-yield bonds owing to international investors' greater risk appetite.

The euro exchange rate is broadly unchanged

Between early July and the first ten days of October, the euro exchange rate held broadly stable vis-à-vis the main currencies (Figure 11). The euro-dollar exchange rate was highly volatile. The US dollar lost ground after appreciating in July. The decline was mainly due to stronger expectations of interest rate cuts by the Federal Reserve, following the release of labour market data for July and August. In the second week of October, the euro depreciated against the dollar amid rising political uncertainty in France.

Figure 11



Sources: ECB and LSEG. The latest figure refers to 10 October 2025.

(1) Index: 1st week of January 2022=100. An increase in the index corresponds to an appreciation of the euro. Right-hand scale.

2 THE ITALIAN ECONOMY

2.1 CYCLICAL DEVELOPMENTS

Italian GDP fell slightly in the second quarter, curbed by the sharp drop in exports when the frontloading of sales to the United States came to an end. Based on our assessments, the Italian economy returned to modest growth in the third quarter thanks to the activity in services and construction. Foreign demand remained weak, consumption rose again, albeit slightly, and investment continued to expand.

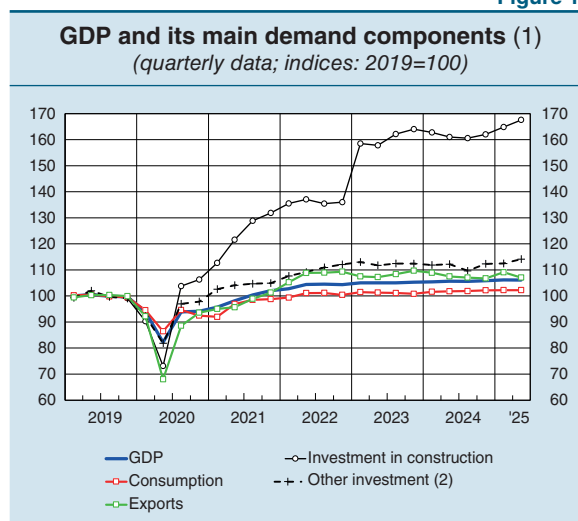
Economic activity declines slightly in the second quarter ...

Following a positive start to the year, the Italian economy weakened in the spring. There was a minor drop in GDP (-0.1 per cent compared with the first quarter; Figure 12 and Table 3), which was held back by declining exports. The negative contribution of net foreign demand outweighed the positive contribution of domestic demand.

The sharp decline in exports (-1.9 per cent on the previous quarter) was largely due to the easing of the frontloading of sales to the United States that had marked the first three months of the year. Household spending remained unchanged, reflecting individual households' uncertainties about their own financial situation and the macroeconomy (see Section 2.3). Fixed investment instead continued to expand, given the largely more favourable financial conditions for firms, and thanks to the fiscal incentives¹ and other support measures under the National Recovery and Resilience Plan (NRRP; see Section 2.2). After the sharp decline at the beginning of the year, firms resumed the rebuilding of their inventories, contributing to GDP growth by almost half a percentage point.

Value added in industry excluding construction decreased by over half a percentage point, in line with the decrease in firms' turnover, especially as regards its foreign component (see Section 2.2). Activity in construction expanded by 1.5 per cent, driven by the execution of projects linked to the NRRP. Value

Figure 12



¹ The Transition 4.0 plan, introduced by the 2020 Budget Law (Law 160/2019 as amended), grants tax credits for investment in technologically advanced tangible and intangible capital goods. The Transition 5.0 plan (introduced by Decree Law 19/2024 as amended) incentivizes the same type of investment but makes the incentives conditional on achieving energy saving objectives; it also incentivizes investment in tangible goods for the self-generation of renewable energy for self-consumption. The 2025 Budget Law (Law 207/2024) has simplified and relaxed the application procedures.

added stagnated in services for the third consecutive quarter, with unchanged levels of activity in the trade and tourism sectors and increased activity in the professional and business services sector.

Table 3

GDP and its main components (1) (percentage change on previous period and percentage points)					
	2024	2024		2025	
		Q3	Q4	Q1	Q2
GDP	0.7	0.0	0.2	0.3	-0.1
Imports of goods and services	-0.4	1.2	0.3	1.0	0.4
National demand (2)	0.6	0.5	0.4	-0.1	0.7
National consumption	0.6	0.1	0.3	0.1	0.0
Household spending (3)	0.6	0.1	0.3	0.2	0.0
General government spending	1.0	0.1	0.2	-0.4	0.1
Gross fixed investment	0.5	-1.2	1.6	1.0	1.6
Construction	1.5	-0.3	0.9	1.7	1.7
Capital goods (4)	-0.8	-2.3	2.4	0.1	1.5
Change in inventories (5)	0.0	0.7	-0.1	-0.4	0.3
Exports of goods and services	0.0	-0.4	-0.3	2.2	-1.9
Net exports (6)	0.1	-0.5	-0.2	0.4	-0.7

Source: Istat.

(1) Chain-linked volumes; the quarterly data are seasonally and calendar adjusted. – (2) Includes the item 'changes in inventories, including valuables'. – (3) Includes non-profit institutions serving households. – (4) Include investment in plant, machinery and arms (which also 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.

... but rises modestly in the summer months

According to our estimates, GDP returned to growth in the third quarter, albeit to a modest extent, on account of the recovery in services and a further rise in construction.

The indicators point to subdued household consumption in spite of the favourable trend in disposable income, and this prudent stance in spending translates into a saving rate that remains at relatively high levels (see Section 2.3). Investment continued to expand, still sustained by the factors that favoured expenditure in the spring months (see Section 2.2). The data on foreign trade in goods indicate a marginal contribution from foreign demand (see Section 2.4).

According to our most recently published macroeconomic projections, GDP is set to increase by 0.6 per cent this year and the next, and by 0.7 per cent in 2027 (see the box 'Macroeconomic projections for the Italian economy').

MACROECONOMIC PROJECTIONS FOR THE ITALIAN ECONOMY

Banca d'Italia has just published its projections for the Italian economy for 2025-27.¹ Compared with last June's projections, our forecasting scenario incorporates the trade deals struck by the United States and the European Union on 27 July, which imply that the effective tariff rates for European firms will be slightly higher than previously assumed² and that trade policy uncertainty will subside somewhat, albeit remaining well above the historical average. Overall, world trade is assumed to slow in the second half of 2025 and in 2026, before picking up in 2027. In line with futures prices, food and energy commodity prices are projected to decline

¹ For further details, see Banca d'Italia, 'Macroeconomic projections for the Italian economy', 17 October 2025.

² The effective average tariff rate on US imports of goods is around 20 per cent; it is roughly 15 per cent and 40 per cent for imports from the European Union and China, respectively.

gradually. Borrowing costs for firms and households, which are down from 2024, are assumed to remain broadly stable over the three-year forecasting period.³ Our scenario takes into account the information on public finance contained in the Public Finance Planning Document 2025 (DPFP 2025), which was approved by the Council of Ministries on 2 October.

GDP growth is estimated to run at 0.6 per cent in 2025 and in 2026 and at 0.7 per cent in 2027 (see the table). Economic activity will be mainly driven by domestic demand: consumer decisions remain cautious this year, but will gradually respond to growth in real disposable income. Investment, although still affected by uncertainty, will be encouraged by favourable borrowing conditions and by the NRRP measures. Foreign sales, held back by tighter trade policies and the appreciation of the euro, are likely to remain stagnant on average over the two years 2025-26, before returning to growth in 2027.

Table

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

	GDP (1)			Inflation (2)		
	2025	2026	2027	2025	2026	2027
Banca d'Italia (October)	0.6	0.6	0.7	1.7	1.5	1.9
European Commission (May)	0.7	0.9	–	1.8	1.5	–
OECD (September)	0.6	0.6	–	1.9	1.8	–
IMF (October)	0.5	0.8	–	1.7	2.0	–
PBO (August)	0.5	0.5	–	1.8	1.7	–
MEF – current legislation scenario (October)	0.5	0.7	0.7	1.8	1.7	1.8
MEF – policy scenario (October)	0.5	0.7	0.8	1.8	1.7	1.8
<i>Memorandum item: Banca d'Italia (June)</i>	0.6	0.8	0.7	1.5	1.5	2.0

Sources: Banca d'Italia, 'Macroeconomic projections for the Italian economy', 17 October 2025. European Commission, *European Economic Forecast. Spring 2025*, May 2025; OECD, *OECD Interim Economic Outlook*, September 2025. IMF, *World Economic Outlook*, October 2025 (the forecasts for 2027 are available in the World Economic Outlook Database). Parliamentary Budget Office (PBO), *Report on Recent Economic Developments*, August 2025. Ministry of Economy and Finance (MEF), Public Finance Planning Document, October 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 rate is 0.5 per cent in 2025, 0.7 per cent in 2026 and 0.7 per cent in 2027. – (2) HICP. The PBO's forecasts refer to the consumption deflator.

Employment is forecast to continue to grow over the whole three-year period, although at a slower pace than in recent years. The unemployment rate will remain unchanged over the forecasting horizon.

Inflation is estimated to remain moderate, at 1.7 per cent this year, 1.5 per cent in 2026 and 1.9 per cent in 2027, when the introduction of the EU's new emissions trading scheme ('EU Emissions Trading System 2') will temporarily drive energy prices higher. Core inflation is forecast to stand at 1.9 per cent in 2025 and at 1.6 per cent over the next two years. Growth projections are unchanged from June for the years 2025 and 2027, while they have been revised downwards for 2026. Inflation projections are slightly higher for the current year and lower for 2027.

³ The projections are based on information available as at 10 October.

The forecasting scenario is subject to considerable uncertainty, stemming largely from potential new developments in trade policies and the ongoing conflicts. An escalation of global tensions, particularly one associated with a surge in financial market volatility, would have a strong negative impact on GDP. Rising sovereign risk premiums across the euro area and other advanced economies would also weigh on borrowing conditions and economic activity. By contrast, a looser fiscal stance at European level, including in connection with recent announcements of an increase in defence spending, could foster growth. On the inflation front, a more pronounced and persistent deterioration in aggregate demand could push prices down, while commodity price increases due to geopolitical tensions could have opposite effects.

Our growth projections are broadly in line with those of the leading institutional and private forecasters, while our inflation forecasts are generally lower.

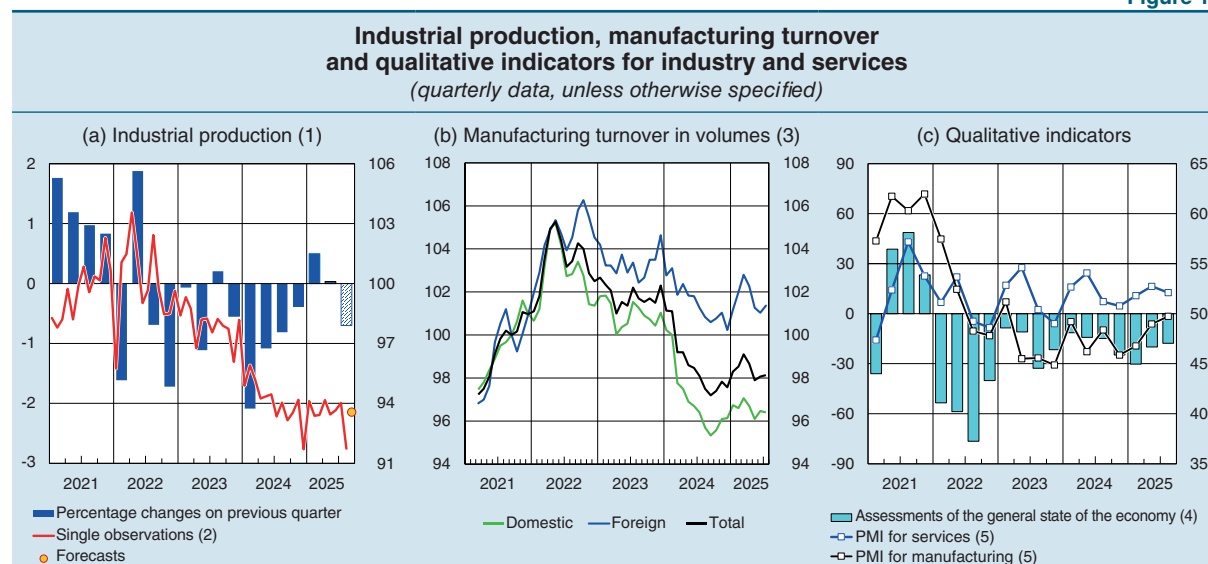
2.2 FIRMS

Based on our estimates for the third quarter, activity in services showed signs of recovery, growth in construction weakened and industrial production shrank. Investment continued to expand, benefiting from improved financing conditions, tax incentives and other measures related to the NRRP. The outlook remains uncertain owing to high geopolitical instability and the repercussions of trade tensions.

Industrial production declines in the summer ...

After rising in the winter months, industrial production increased slightly in the second quarter (Figure 13.a), partly owing to firms' need to rebuild inventories to their desired levels. The production of capital goods increased, whereas activity declined in all the other main sectors. Turnover in volume shrank, however, especially as regards its foreign component, leading to a contraction in value added (Figure 13.b).

Figure 13



Sources: Based on data from Banca d'Italia, Istat, Standard & Poor's Global Ratings and Terna.

(1) Data adjusted for seasonal and calendar effects. The yellow dot indicates the forecast for September 2025, the last bar represents the forecast for the third 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, 9 October 2025). – (5) Average quarterly data. Diffusion indices for economic activity in the sector. Right-hand scale.

Industrial production contracted in July and August, while our estimates, based on quantitative and qualitative indicators, suggest there was a recovery in September. Industrial activity is nonetheless projected to have declined moderately in the third quarter as a whole.

The most recent assessments by manufacturing firms were in line with weakness in the sector but were less negative regarding orders and production levels. The PMI for the manufacturing sector stands at levels that are consistent with stagnation and the outlook for new orders has improved (Figure 13.c). Surveys by Istat also point to orders improving, especially domestic orders, although confidence indicators remain low. Banca d'Italia's [Survey on Inflation and Growth Expectations](#), conducted between August and September, shows firms to be slightly less optimistic about their short-term operating conditions, owing to economic and geopolitical uncertainty. The short-term outlook survey by geographical area conducted by Banca d'Italia's branches indicates that firms in some areas of the Centre-North are concerned about the possibility of competitive pressures from Asian imports increasing, especially on standardized and lower-end products.

**... and activity
in services starts
to expand again**

After three consecutive quarters of stagnation, activity in services showed signs of recovery in the summer. Based on qualitative and quantitative data, business services made the largest contribution to growth. Data on the number of travellers as well as on tourism expenditure point to a modest contribution from the tourist industry, with ongoing expansion in international tourist numbers paralleled by a mild decline in domestic tourism. Service firms interviewed for Banca d'Italia's surveys reported a broadly stable demand.

**Construction continues
to grow**

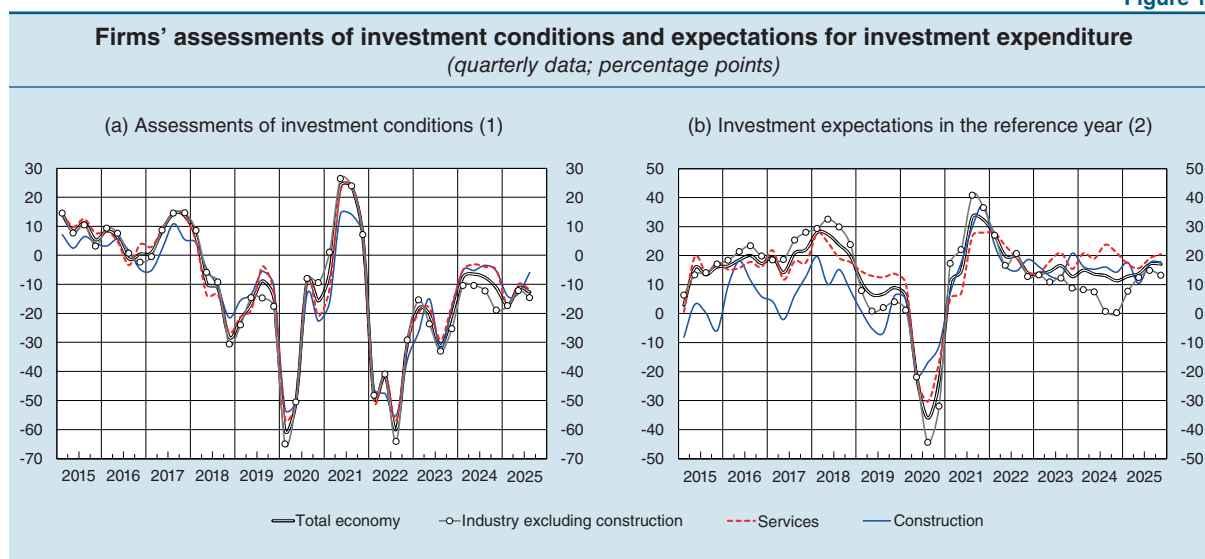
The construction sector grew further in the summer months, albeit to a lesser extent than in the second quarter. A significant contribution came from the execution of projects under the NRRP. Among construction firms, respondents to Banca d'Italia's surveys expect sales and operating conditions to improve and continue to have a more optimistic outlook than firms in the other sectors. According to Banca d'Italia's most recent housing market survey, residential real estate continues to perform favourably. According to Istat's surveys, the backlog of ongoing or planned construction reached historic highs, indicating that the sector will remain firmly resilient for the remainder of 2025.

**Investment grows
in the second quarter
and expands further
in the third quarter**

In the second quarter, investment continued growing at the sustained pace of the two previous quarters. Contributing factors were the high liquidity reserves of firms and declining interest rates, as well as the availability of tax incentives and the implementation of a number of NRRP measures. There was an improvement in all the main components. Spending on machinery, equipment and intangible assets continued to expand and almost entirely recovered from the decline observed between the end of 2023 and the summer of 2024. Investment in construction was also positive in both the residential and non-residential domains.

Based on the latest data, investment again rose in the third quarter on the back of continuing tax incentives and other NRRP measures. In particular, expenditure on machinery and equipment was boosted by the Transition 5.0 Plan incentives, among other things; these incentives will be available until the end of this year and have been in significantly rising demand since last spring. According to data from the Italian Leasing Association (Assilea), there was a sharp increase in lease contracts signed over the third quarter for the purchase of capital goods. Both current and forward-looking assessments of orders and production levels by firms in the capital goods sector have become less negative. The majority of firms taking part in Banca d'Italia's surveys still expect to increase their nominal fixed investment expenditure in 2025 or to leave it unchanged (Figure 14). At the same time, the outlook for investment is weighed down by downside risks due to the uncertainty fuelled by global tensions, which may lead to deferring spending decisions.

Figure 14



Source: 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 9 October 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 over the second quarter was in line with the previous quarter. The latest indicators show that it increased slightly in the summer months, thanks to improved consumer confidence and the resilience of the labour market. However, uncertainty remains high, leading to cautious consumption decisions and a higher propensity to save.

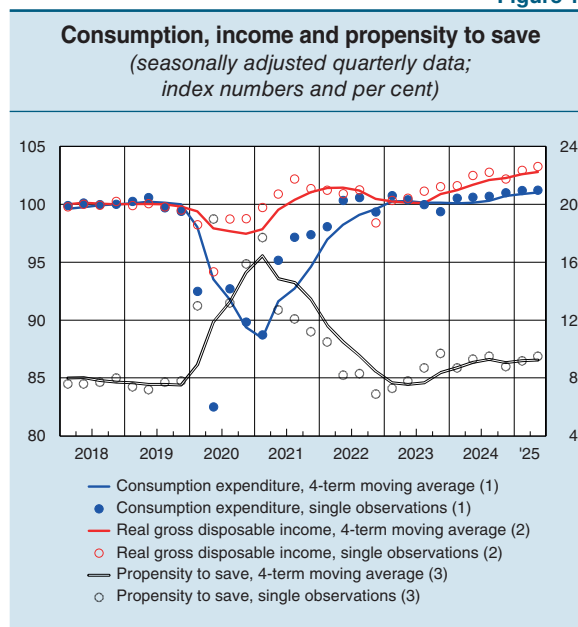
Household consumption remains stable in the spring ...

After four consecutive quarters of moderate growth, household real consumption remained stable in the second quarter, reflecting households' more negative assessments of their own and of the general economic situation. Spending on services ceased to grow, in spite of marginally positive data in the tourism sector, while spending on semi-durable goods contracted; purchases of durable goods only partially recouped the sharp drop recorded at the beginning of the year. Conversely, disposable income continued to grow both in nominal and real terms, which translated into an increase in the saving rate (to 9.5 per cent; Figure 15).

... and grows moderately in the third quarter

Based on the information available, household

Figure 15



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.

consumption resumed supporting GDP growth over the summer months, albeit modestly. In the July-August period, Confcommercio's indicator rose for both goods and services, and retail sales edged up slightly.

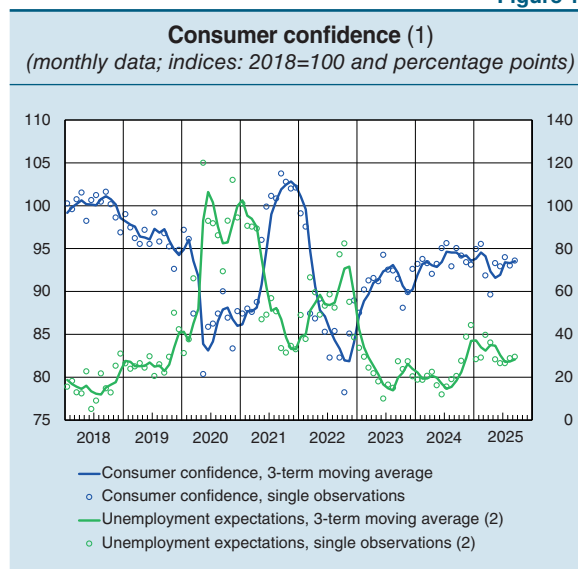
Consumer confidence improved slightly in the third quarter, according to surveys by Istat (Figure 16), reflecting more favourable assessments of the general state of the national economy and of household balances. Households' purchasing decisions are reinforced by the resilience of the labour market and expectations of moderate inflation, but the propensity to save remains higher than it was in the decade before the pandemic.

According to Banca d'Italia's Household Outlook Survey ([only in Italian](#)), conducted between the end of August and early October, most households expect their consumption in 2025 to remain stable, compared with 2024. With reference to durable goods and tourist and recreational services, the share of households expecting to reduce their consumption exceeds that of those expecting to increase it, with less well-off households putting down their lower consumption to expectations of persistently high prices and lower income, and more affluent households leaning more heavily towards precautionary reasons. Households, especially those facing greater financial difficulties, remain cautious in their purchasing decisions because of a highly uncertain international environment.

The real estate market continues to strengthen House price growth slowed to 3.9 per cent in the second quarter (from 4.4 per cent in the first quarter), with the prices of both existing and new buildings being involved in the slowdown. House sales rose slightly (Figure 17).

According to our calculations, based on the listings published on the Immobiliare.it online platform, housing demand remained lively in the summer. The outlook for the residential sector reported in the [Italian Housing Market Survey](#) between June and July continued to improve, partly owing to there being fewer difficulties in obtaining a mortgage loan for house purchase (see Section 2.7). Rents continued to rise.

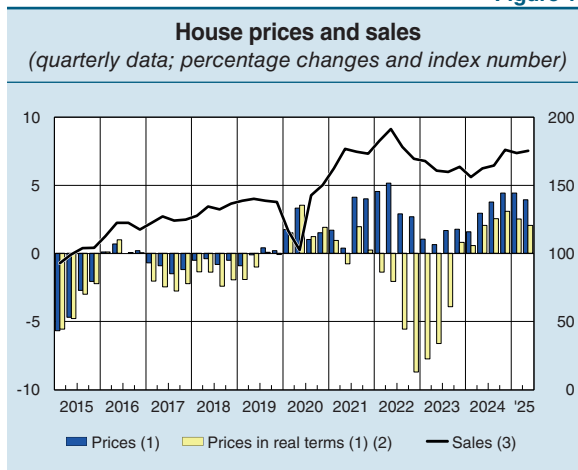
Figure 16



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.

Figure 17



Sources: Based on data from Banca d'Italia, Istat and the Italian Revenue Agency's Osservatorio del mercato immobiliare (OMI).

(1) Year-on-year percentage changes. — (2) House prices deflated by the consumer price index. — (3) Adjusted for seasonal and calendar effects. Index: 2015=100. Right-hand scale.

2.4 FOREIGN TRADE AND THE BALANCE OF PAYMENTS

In the second quarter, export volumes declined significantly – mainly as a result of lower sales of goods to the United States – but increased in July and August, according to our estimates. The current account surplus widened between April and June, mainly due to the improvement in the investment income balance. Net purchases of Italian securities by foreign investors increased further. Italy's positive net international investment position narrowed due to the depreciation of the dollar.

Exports decline in the second quarter ...

Export volumes began to decline again in the second quarter, following a sharp increase in the first three months of 2025, mainly driven by frontloading and sales of maritime transport equipment (Table 4). Sales of goods contracted primarily outside the euro area, with the sharpest drop observed in exports to the United States (Figure 18), where the temporary boost from ship sales faded and the effects of higher tariffs and uncertainty over their implementation began to weigh on trade. The decline in exports to the US market was most pronounced for motor vehicles (which are subject to higher tariffs), food and beverages, and machinery. Conversely, exports of

Export volumes began to decline again in the second quarter, following a sharp increase in the first three months of 2025,

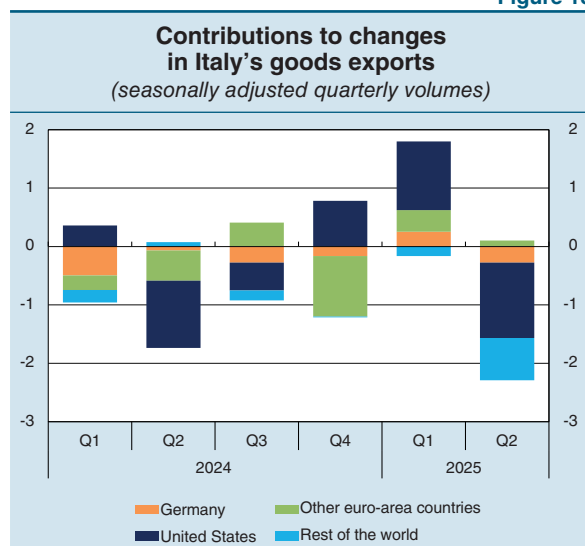
Table 4

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

	2024	2024		2025	
		Q3	Q4	Q1	Q2
Exports	0.1	-0.4	-0.3	2.2	-1.9
Goods	-0.5	-0.5	-0.4	1.6	-2.2
To euro-area countries	-2.4	0.3	-2.8	1.5	-0.4
To non-euro area countries (2)	0.9	-1.1	1.4	1.7	-3.5
Services	2.5	0.0	0.3	4.4	-0.6
Imports	-0.4	1.2	0.3	1.0	0.4
Goods	-1.2	0.9	-0.2	1.2	-0.4
From euro-area countries	2.8	2.0	-1.8	0.8	-0.6
From non-euro area countries (2)	-5.3	-0.4	1.7	1.6	-0.1
Services	2.9	2.3	2.1	0.2	3.2

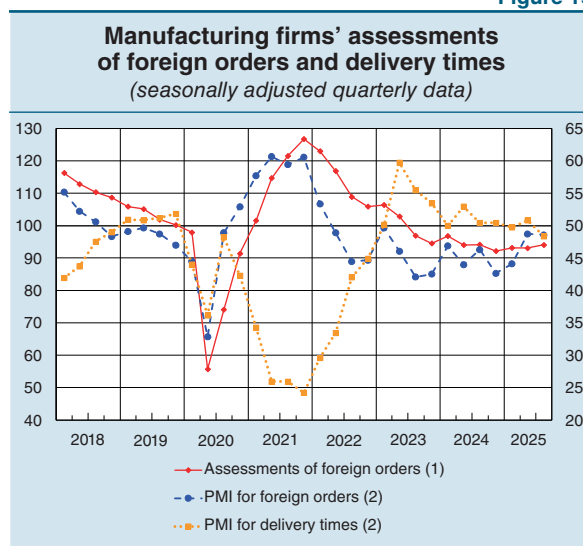
Sources: Based on Istat's national accounts and foreign trade data.
(1) Chain-linked volumes; raw annual data; quarterly data adjusted for seasonal and calendar effects. – (2) Includes unspecified countries and, for exports, stores and provisions.

Figure 18



Source: Based on balance of payments and Istat's national accounts data.

Figure 19



Sources: Istat and Standard & Poor's Global Ratings.
(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 2 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.

pharmaceuticals expanded further, driven by the frontloading of purchases aimed at benefiting from the exemption of these products from the tariff increases. Foreign sales of services fell slightly. Growth in Italy's inbound tourism expenditure was more than offset by the decline in the exports of other services.

Import volumes increased moderately in the second quarter, buoyed by services. By contrast, purchases of goods from abroad edged down, especially those of intermediate and capital goods, which were affected by the reduction in exports.

... and grow in July and August

According to our estimates based on foreign trade data, seasonally adjusted goods sales volumes grew in the two-month period July-August, mostly owing to the positive contribution of volatile components, such as refined petroleum products and vessels. Looking ahead, the manufacturing firms' assessments of foreign orders, as recorded by Istat, and the corresponding PMI point to sluggish foreign demand (Figure 19). As in the other euro-area countries, exports may also be affected by the loss of competitiveness resulting from the appreciation of the euro under way since March. However, the impact of higher US tariffs on exporters and their supply chains could be limited (see the box 'The impact of the US tariffs on the supply chains of Italian firms'). In the tourism sector, spending by foreign travellers continued to grow in July.

THE IMPACT OF THE US TARIFFS ON THE SUPPLY CHAINS OF ITALIAN FIRMS

The tariff increase recently introduced by the US administration¹ will have an impact not only on Italian firms exporting to the United States but also on their suppliers. For exporting firms, the US market accounts for 5.5 per cent of revenues on average.² For suppliers, their indirect exposure to tariffs depends both on the share of the US market in the total turnover of their customers that export abroad and on the share of the suppliers' turnover attributable to those customers. For 80 per cent of suppliers, the exposure is less than 1 per cent of turnover (Figure A).³ For these companies, assuming that the demand for intermediate inputs from exporting customers is distributed proportionally across all suppliers, even if exports to the United States were to fall to zero, the decrease in turnover would be less than 1 per cent.

Indirect exposure is more than 10 per cent for only about 5,400 suppliers (accounting for 1.3 per cent of total suppliers), almost all of which are small firms. These firms' share of the total turnover of their respective sectors is generally limited. It is highest in the other transport equipment (5.5 per cent), metal products (3.9 per cent) and furniture (3.3 per cent) sectors. In some rare cases, the most exposed firms absorb a relatively significant share of employment at local level (4 to 9 per cent of total employees).

For all suppliers, the gross profit margin as a ratio to revenue is 10 per cent on average (see panel (a) of Figure B). Among suppliers with an exposure of more than 10 per cent, the margins are higher (equal to 12 per cent on average).⁴

¹ See the box 'The US tariffs and the first effects on global trade' in Chapter 1 for further details.

² For an analysis of the direct effects of the tariffs on the sales and profit margins of Italian exporting firms, see the box 'The exposure of Italian exports to US tariffs', *Economic Bulletin*, 2, 2025).

³ Each customer's exposure is measured by the ratio of its direct exports to the United States to its total sales, and is then weighted by the corresponding share of turnover that the supplier generates with the exporting customer.

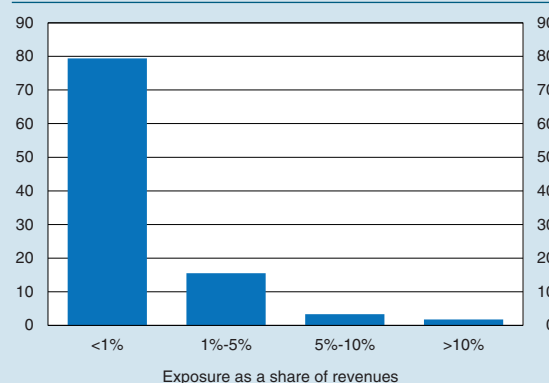
⁴ The gross profit margin is defined as the output value less the cost of net purchases of raw materials, services and use of third-party assets, and labour, plus the change in stocks of raw materials. Figure B shows the truncated distribution at the 5th and 95th percentiles.

According to our simulations, the decrease in the profits of firms that are part of the supply chain of the exporting companies due the imposition of the tariffs would be negligible on average, given the low indirect exposure, but could rise by 1.5 percentage points for suppliers with an exposure of at least 10 per cent⁵ (see panel (b) of Figure B). The number of suppliers that would see their margins going from positive to negative is very limited,⁶ although a worsening of those margins could have non-negligible implications for some local labour markets.

Despite some possible difficulties at the local level, the indirect impact of the tariffs on the domestic supply chain of the firms exporting to the United States appears to be limited, thanks

Figure A

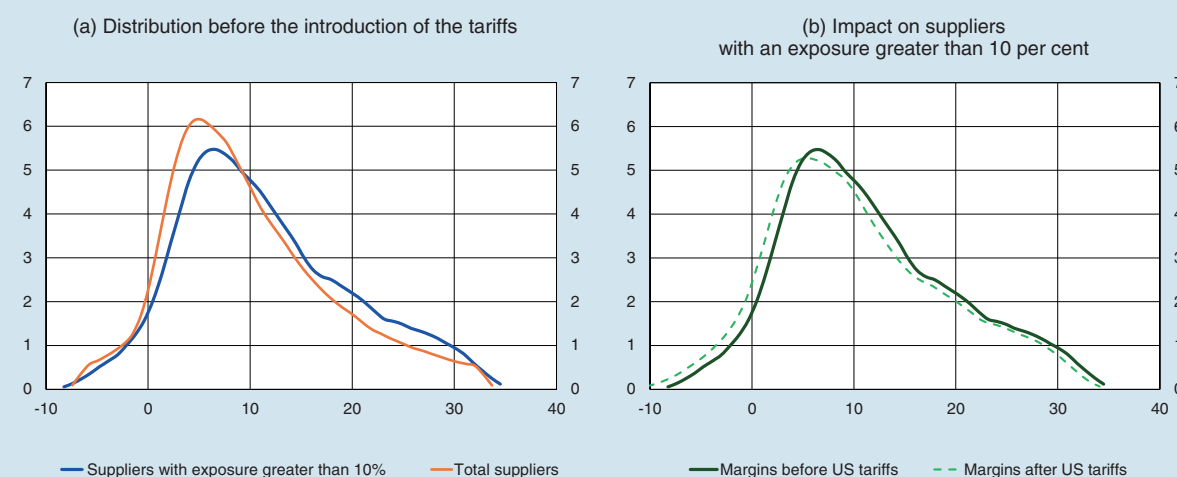
Distribution of the indirect exposure of the exporting firms' supply chains



Sources: Based on customs data and business-to-business transaction data. Data for 2023.

Figure B

Gross profit margin of the suppliers of firms exporting to the United States (1) (per cent)



Sources: Based on customs data, business-to-business transaction data, and Cerved. Data for 2023.

(1) The x-axis shows the ratio of firms' gross profit margins to their revenues.

⁵ Assuming a one-year price elasticity of -0.75, which is in line with historical estimates for Italy's aggregate exports, the 15 per cent tariffs (50 per cent for steel and aluminium) – if entirely passed through to the final prices – would mean a fall in sales to the United States of 11.25 per cent (37.5 per cent for steel and aluminium). By applying these changes to firms exporting to the US market, we estimate the corresponding reduction in revenue for each of them, with the average figure being equal to 0.5 per cent. The indirect impact of this decline on the supplier companies was then estimated by weighting it by the share of their turnover that is generated with firms exporting to the United States. The simulation only considers the impact of tariffs on the value of production and on purchases of raw materials, without including any adjustments on labour costs, in order to isolate their impact before possible action on the employment front. The price elasticity used in the simulation is consistent with the findings of G. Bulligan, F. Busetti, M. Caivano, P. Cova, D. Fantino, A. Locarno and L. Rodano, *The Bank of Italy econometric model: an update of the main equations and model elasticities*, Banca d'Italia, Temi di Discussione (Working Papers), 1130, 2017.

⁶ If a stronger elasticity of exports were considered (-1.5 instead of -0.75), the supplier firms for which margins would shift from positive to negative would account for around 0.12 per cent of the total. Between 2022 and 2023, considering the same sample, the share was 1 per cent.

to a good diversification of sales by the supplier companies, as well as to sufficiently high profit margins. However, the negative effects of the tariffs on these firms may be amplified by other factors, including the exposure to tariffs of their foreign customers, the geographical reconfiguration of global value chains, and the impact of geopolitical tensions on exchange rates and on international demand.

The current account surplus widens

The seasonally adjusted current account balance recorded a €9.2 billion surplus in the second quarter, reaching 1.6 per cent of quarterly GDP, up from 1.0 per cent in the previous quarter (Figure 20 and Table 5). The increase was driven by the improved balance on primary income, especially on investment income. The cuts in key interest rates contributed to this result, reflecting the greater share of short-term debt instruments among liabilities than among assets.

Foreign demand for Italian government bonds continues to grow

In the spring months, the financial account showed an increase in net foreign assets (€7.4 billion), mainly owing to the further narrowing of the negative TARGET balance (recorded on the liability side under 'other investment'; Table 5). Net foreign funding of resident banks declined.

The trend in the negative balance of portfolio investment reflected greater inflows into Italian securities (Table 5). Purchases of government bonds by non-residents continued to rise (€56.9 billion, an amount greater than net issues), amid strong demand for euro-denominated assets among international investors. Foreign demand also increased for corporate bonds, especially those issued by non-financial corporations.

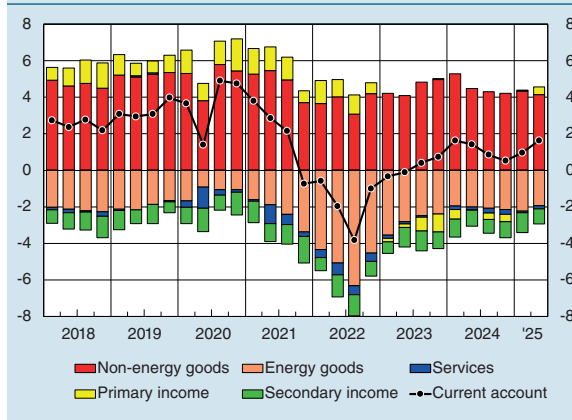
Italian investors' foreign purchases (€24.6 billion) mainly consisted of investment fund shares bought by households and long-term debt securities acquired by insurance companies.

The negative TARGET balance narrows further

In the second quarter, Banca d'Italia's debtor position in the TARGET system fell by €14.3 billion to €394.2 billion at the end of June. The decline mainly reflected foreign investment in Italian government bonds. The balance continued to narrow in July and August, reaching €385.7 billion.

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	2024	2025	2025
		Q3	Q4	Q1	Q2
Current account	23.8	9.5	3.6	-2.1	10.7
Adjusted for seasonal and calendar effects	24.3	4.7	2.9	5.4	9.2
Memorandum item: % of GDP (1)	1.1	0.9	0.5	1.0	1.6
Capital account	-0.4	0.2	1.0	0.3	0.8
Financial account	51.8	28.7	22.3	-8.1	7.4
Direct investment	17.5	5.9	5.2	-2.3	-3.2
Portfolio investment	-78.8	..	-17.8	-0.9	-33.4
Derivatives	3.4	1.2	0.5	0.1	0.1
Other investment (2)	107.7	21.5	34.1	-4.5	41.7
Changes in official reserves	2.1	..	0.3	-0.5	2.2
Errors and omissions	28.4	18.9	17.7	-6.3	-4.1

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

The positive net international investment position is affected by the depreciation of the dollar

exposure to US dollar-denominated assets (more than 20 per cent of GDP, net of dollar-denominated liabilities).

At the end of the second quarter, Italy's net international investment position was positive by €238 billion, equal to 10.7 per cent of GDP (it was 12.6 per cent in late March). The €39.2 billion reduction compared with the end of the first quarter reflects significant negative valuation adjustments by historical standards, mostly in connection with the depreciation of the dollar (around €34 billion). The impact was large because of Italy's significant

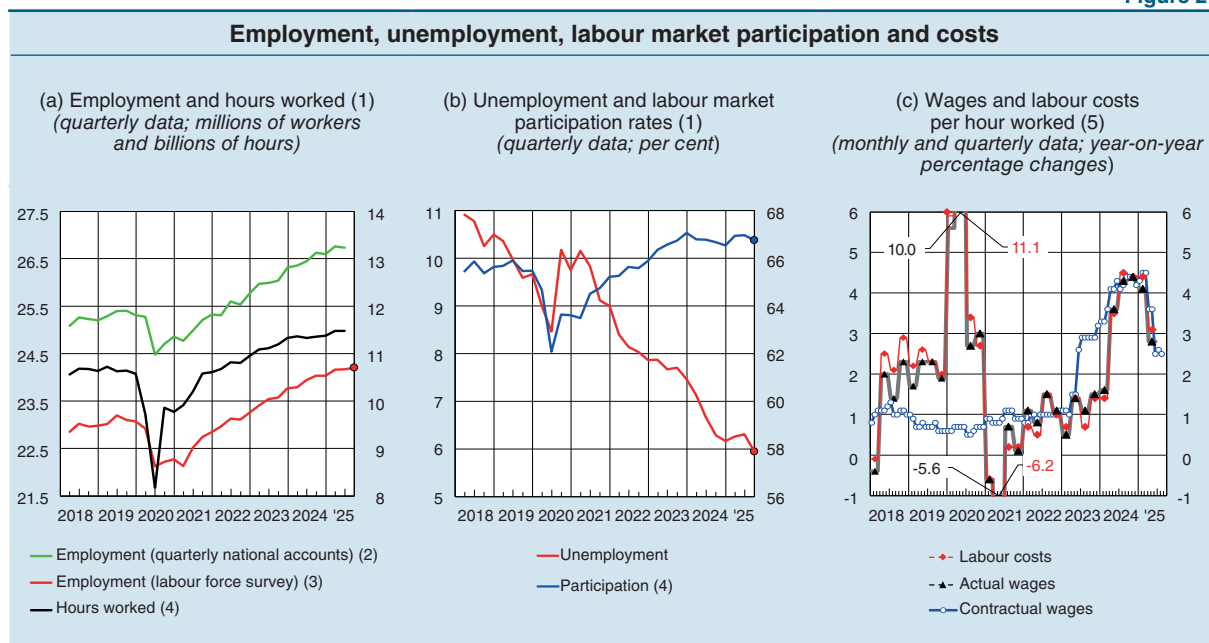
2.5 THE LABOUR MARKET

Since the spring of this year, employment has remained broadly stable. The participation rate has continued to rise among older workers, but has declined among younger ones. Wage growth in the non-farm private sector has weakened.

Employment remains broadly stable in the second quarter ...

In the second quarter, according to Istat's quarterly national accounts, headcount employment remained broadly unchanged (-0.1 per cent compared with the previous quarter; Figure 21.a). Labour demand remains weak in the manufacturing sector and has stagnated in services and construction, where employment had grown the most in the last four years. Total hours worked rose by 0.2 per cent in the non-farm private sector, driven by growth in per capita hours worked. According to Istat's labour force survey, the decline in the percentage of part-time work, which began in 2022, continued. The share of part-time workers fell to 16 per cent, one percentage point lower than a year ago.

Figure 21



Sources: For employment, hours worked, actual wages and labour costs, Istat's quarterly national accounts; for employment and for the labour market participation and unemployment rates, Istat's labour force survey; for contractual wages, Istat's data on contractual wages by type of contract.

(1) Seasonally adjusted data. The points corresponding to Q3 2025 indicate the average value for July and August. — (2) Includes all persons engaged in production activity in Italy's economic territory. — (3) Includes all resident persons that are employed, excluding workers living permanently in an institution and military personnel. — (4) Right-hand scale. — (5) Non-farm private sector. Raw monthly data for contractual wages. Seasonally adjusted quarterly data for actual wages and labour costs.

The participation rate remained stable (at 67 per cent; Figure 21.b), with a further increase among individuals aged 50-64 years (0.2 percentage points) and a decline among the younger age groups, whose participation is more sensitive to cyclical conditions (-0.2 percentage points in the 15-34 year bracket). The unemployment rate has remained broadly stable across all age classes.

... as well as in July and August Based on provisional data from Istat's labour force survey, the number of persons employed remained constant in July and August. The decline in the participation rate over the summer months was concentrated among the younger age classes and contributed to the decline in the unemployment rate. The unemployment rate for the population as a whole was 6.0 per cent, and for those in the 15-34 year age class it was 10.7 per cent, the lowest levels since April 2007.

Wage growth slackens The growth in contractual wages in the non-farm private sector slowed in the spring (to 3.2 per cent in the second quarter year on year, from 4.4 per cent in the previous quarter; Figure 21.c). In an environment of cyclical weakness, actual hourly wages continued to rise, but at a slower pace (from 4.1 to 2.8 per cent). In real terms, contractual and actual wages were still below the levels recorded in the second quarter of 2021 (by 6.9 and 8.5 per cent, respectively), while actual wages in the euro area had almost fully recovered (see Section 1.2). The weakening in wage growth, which affected both manufacturing and services, helped to contain the increase in unit labour costs (see Section 2.6).

The slowdown in contractual wages continued in July and August (to 2.6 per cent) and is expected to extend into the second half of the year based on existing agreements (see the box 'The impact of recent negotiated wage increases on wage growth' in *Economic Bulletin*, 2, 2025). However, the overall trend will also depend on ongoing negotiations, particularly in the metalworking sector, whose collective bargaining agreement expired in June of last year and applies to almost 80 per cent of workers in the non-farm private sector awaiting renewal.

2.6 PRICE DEVELOPMENTS

Inflation remained below 2 per cent in the third quarter. The core component also stood at similar levels; the very weak growth in the prices of non-energy industrial goods was offset by stronger growth in services. Producer price pressures are easing. Households and firms continue to expect a slight acceleration in consumer prices and their selling prices, respectively.

Consumer price inflation remains subdued Harmonized consumer price inflation rose in September compared with August, standing at 1.8 per cent year on year (from 1.6 per cent in August; Figure 22 and Table 6). Core inflation, which excludes the food and energy components, increased slightly to 2.1 per cent, with the stability of services price inflation being offset by persistent weakness in that of non-energy industrial goods (3.0 and 0.7 per cent respectively). Among the more volatile components of the index, energy prices fell less steeply (to -3.8 per cent). Food price inflation, by contrast, declined, driven by the deceleration in the prices of unprocessed food products. As in the euro area as a whole, in the spring and summer months food prices in Italy were especially impacted by higher prices for meat, fruit, and vegetables, driven by temporary factors whose effects are expected to fade in the coming months.

Inflation in the services sector has remained broadly stable since the beginning of the year. Price developments continue to reflect heterogeneous changes across the various components: insurance

premiums and rents, which adjust to general price increases with a lag, show continued high growth, while housing services prices are experiencing more modest growth.

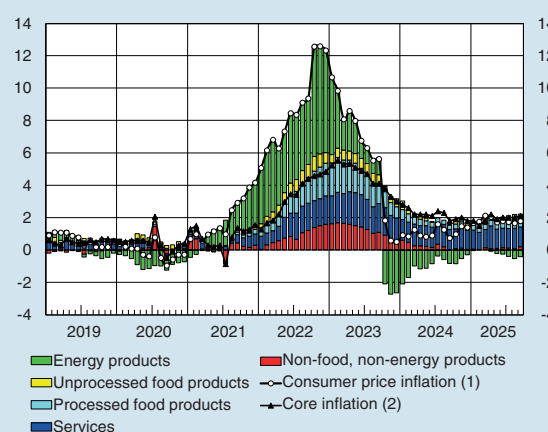
Producer prices slow

Producer price inflation for industrial goods sold on the domestic market declined in August (to 0.5 per cent year on year, from 2.4 per cent in July), owing to the sharp slowdown in energy prices. Excluding energy, producer price inflation rose, albeit remaining low (0.9 per cent, from 0.6 per cent in July).

In the third quarter, the PMIs for input prices rose marginally in manufacturing, reaching just above the expansion threshold; by contrast, those in the service sector have declined slightly, but continue to point to higher costs.

Figure 22

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



Source: Based on Eurostat data.

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

Table 6

Indicators of inflation in Italy (year-on-year percentage changes, unless otherwise specified)

	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 – 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	2.7
June	1.8	3.3	-2.1	2.0	1.7	3.9
July	1.7	3.8	-3.5	2.0	1.7	2.4
Aug.	1.6	3.8	-4.8	2.0	1.6	0.5
Sept.	1.8	3.6	-3.8	2.1	1.6	–

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

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

The unit labour cost in the non-farm private sector decelerated in the second quarter (4.1 per cent year on year, from 4.3 per cent; Figure 23), thanks to the slowdown in wage growth and despite the marked decline in productivity (-0.9 per cent year on year, from a stable position in the winter months); The deceleration was concentrated in private sector services. On average, profit margins remained on par with the first quarter and still above pre-pandemic levels. They continued to be modest in manufacturing, while they fell slightly in private sector services.

Expectations of households and firms remain consistent with a slight acceleration in prices

The firms interviewed in the **Survey on Inflation and Growth Expectations** expect selling prices to rise by 2 per cent on average over the next twelve

months, slightly more than in the previous quarter, reflecting greater pressures in the construction sector (Figure 24). Firms' expectations for consumer price inflation over a 12-month horizon fell to 1.8 per cent.

According to the ECB's August Consumer Expectations Survey, there was instead a slight increase in households' median expectations for inflation over the next 12 months. In September, Istat's surveys recorded a drop in the percentage of households expecting inflation to rise over the next twelve months.

Figure 23

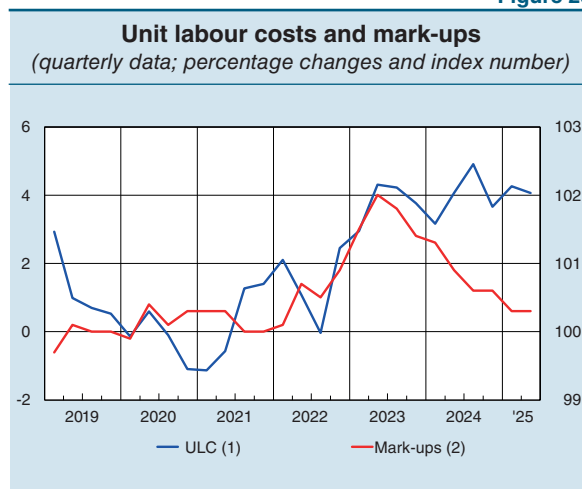
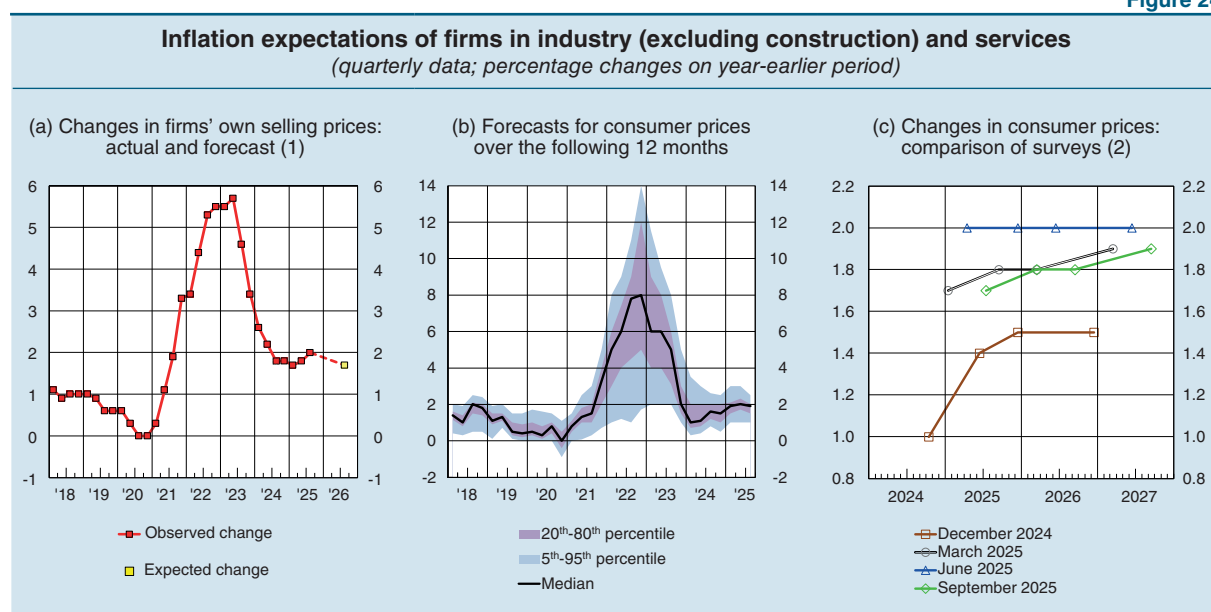


Figure 24



Source: Based on the findings of the 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 9 October 2025.

(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 the summer. Interest rates on new loans to firms decreased further, in line with the reduction in short-term risk-free rates. The lower cost of credit contributed to higher demand for loans by non-financial corporations, with no supply-side tensions. The change in lending to firms turned positive for the first time since January 2023. Corporate bond issues continued to grow robustly, with their average yields broadly unchanged since May.

The cost of bank funding continues to decline

Between May and August 2025, the marginal cost of bank funding fell by 9 basis points, to 1.1 per cent (Figure 25.a), mainly reflecting lower overnight deposit and interbank market rates.

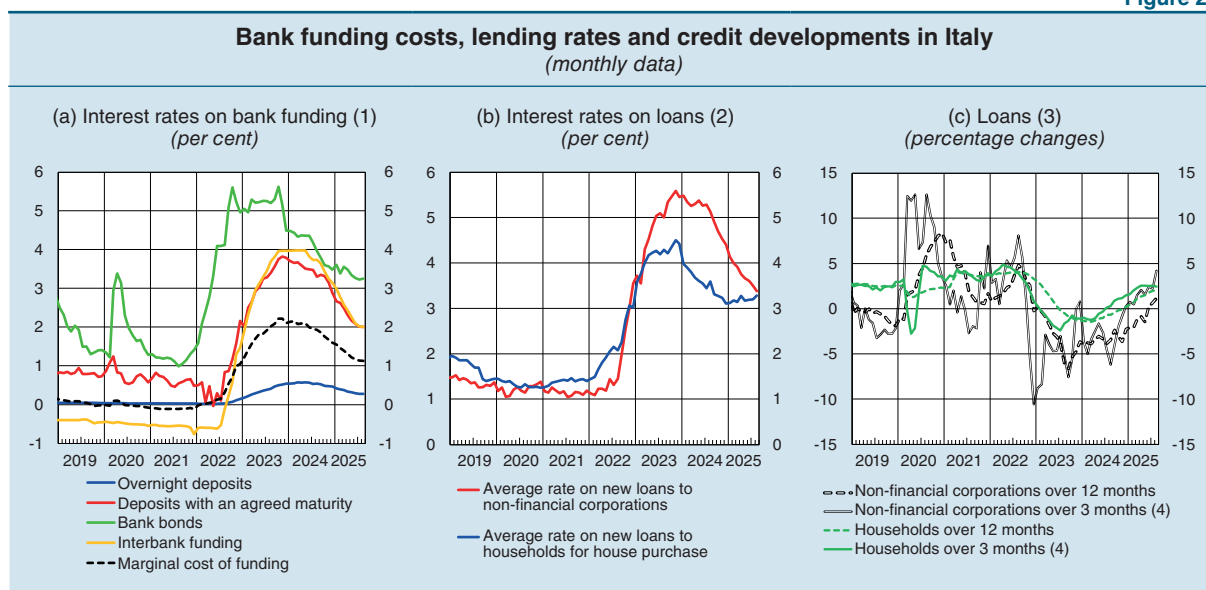
The twelve-month change in bank funding turned positive.² Growth in deposits by residents slowed, dampened by the contraction in the component held by non-financial corporations, while the household component remained stable.

Interest rates on loans to firms decrease further

The cut in key interest rates continued to be transmitted to the cost of lending to non-financial corporations. Interest rates on new loans to firms went down to 3.4 per cent in August, from 3.7 per cent in May (Figure 25.b); the decrease was slightly greater than that registered by the three-month Euribor. The average cost

of outstanding loans continued to fall too, reflecting the large share of adjustable-rate loans. The interest rate on new loans to households for house purchase, which typically have a long repricing period, increased slightly (to 3.3 per cent), in line with the change in the ten-year interest rate swaps (IRS).

Figure 25



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.

² The growth in funding was supported by the acceleration in deposits by non-residents, mainly attributable to a number of intra-group transactions carried out by one financial intermediary.

Lending to firms turned positive again

In the summer months, loans to non-financial corporations returned to growth for the first time since January 2023 (1.2 per cent year on year in August, from -1.4 per cent in May; Figure 25.c), especially those with a maturity of up to five years.

Lending to large firms picked up again (1.7 per cent, from -0.9 per cent), while that to small firms continued to contract, though at a slower pace (-7.0 per cent, from -8.7 per cent). Looking at the breakdown by economic sector, lending to service firms returned to positive territory (1.4 per cent, from -1.6 per cent), while lending to manufacturing and construction firms turned less negative (-0.5 and -0.9 per cent, from -2.7 and -2.6 per cent respectively).

Loans to households³ accelerated between May and August (2.0 per cent, from 1.5 per cent), reflecting the increase in loans for house purchase (2.9 per cent, from 2.5 per cent). Consumer credit continued to grow at a robust pace, albeit broadly unchanged from May (4.8 per cent).

Firms' demand for credit goes up

According to the banks interviewed between late June and early July for the euro-area bank lending survey (BLS), firms' higher demand for loans in the second quarter of 2025 mainly benefited from lower interest rates and reflected greater financing needs for fixed investment, inventories and working capital. At the same time, stronger competitive pressures led banks to ease credit standards on loans to firms slightly. Based on the latest data from Istat's business confidence surveys and the September [Survey on Inflation and Growth Expectations](#), conditions for access to bank credit deteriorated slightly in the third quarter.

Credit standards on loans to households remained unchanged for loans for house purchase, while they tightened for consumer credit.

Non-financial corporate bond issuance continues to grow

Growth in corporate bond issuance remained robust in August (at 7.5 per cent year on year). Between May and the first ten days of October, 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 Public Finance Planning Document 2025 approved by the Italian Government on 2 October, net borrowing is expected to fall to 3 per cent of GDP in 2025 and then decline gradually to 2.3 per cent in 2028. Public debt is set to continue to increase, up to 137.4 per cent of GDP in 2026, and then decrease in the next two years.

The Government estimates net borrowing to reach 3 per cent in 2025

On 2 October, the Italian Government approved the Public Finance Planning Document 2025 (DPFP 2025).⁴ Based on current legislation, net borrowing for this year is estimated to decline to 3 per cent of GDP, reaching this threshold one year earlier than anticipated in April (Table 7). This is likely due to the revision of the figures for 2024 (which adjusted the primary surplus registered last year upward by 0.1 percentage points of GDP, to 0.5 per cent) and to marginally better than expected developments

³ The definition of households used here is the Eurosystem's harmonized definition, which includes consumer households, sole proprietorships and unincorporated partnerships.

⁴ For further details, see 'Preliminary review of the Public Finance Planning Document (DPFP) 2025', testimony by A. Brandolini, Director General for Economics, Statistics and Research at Banca d'Italia, before the 5th Committee of the Senate of the Republic (Economic Planning and Budget) and the 5th Committee of the Chamber of Deputies (Budget, Treasury and Planning), sitting jointly, Senate of the Republic, Rome 8 October 2025 ([only in Italian](#)).

Table 7

Public finance targets and estimates for 2025
(per cent of GDP and percentage changes)

	General government				Memorandum items:	
	Net borrowing	Structural net borrowing	Primary surplus	Change in debt (1)	Real GDP growth rate	Nominal GDP growth rate
Targets						
September 2024 (2)	3.3	3.8	0.6	1.1	1.2	3.3
October 2025 (3)	3.0	3.4	0.9	1.3	0.5	2.8
Estimates based on current legislation						
September 2024 (2)	2.9	...	1.0	...	0.9	3.0
April 2025 (4)	3.3	3.8	0.7	1.3	0.6	2.9
October 2025 (3)	3.0	...	0.9	1.3	0.5	2.8

Sources: MTP 2025-29, DFP 2025, and DPFP 2025.

(1) Year-on-year change in the debt-to-GDP ratio. – (2) MTP 2025-29. – (3) DPFP 2025. – (4) DFP 2025.

in revenue and expenditure for 2025. Also in 2025, the net expenditure indicator⁵ appears to have increased by 1.3 per cent, in line with the objectives laid out in the medium-term fiscal-structural plan for 2025-29 (MTP 2025-29) and with the estimates provided in the Public Finance Document 2025 (DFP 2025). The debt-to-GDP ratio is expected to grow by 1.3 percentage points compared with 2024.

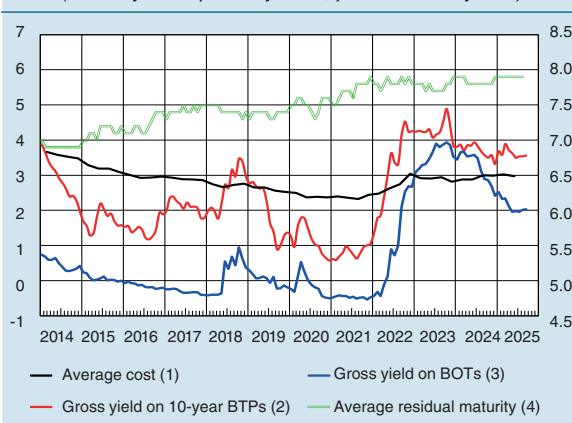
Tax revenue is up

In the first eight months of 2025, the general government borrowing requirement amounted to €76.8 billion, slightly higher year on year.⁶ Tax revenue recorded in the state budget increased by about 2 per cent year on year in the first nine months of 2025.

In August, general government debt stood at €3,082.2 billion, €115 billion more than at the end of 2024. The average residual maturity of the debt was unchanged from last year (7.9 years). The share of the public debt held by Banca d'Italia shrank to 19.2 per cent, continuing the downward trend under way since end-2022. The average cost of the debt remained stable at 2.9 per cent at the end of June (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.

⁵ Net expenditure is the reference aggregate for monitoring public accounts based on the new European economic governance. It consists of general government outlays net of the following items: a) interest expenditure; b) discretionary revenue measures; (c) expenditure on Union programmes fully matched by revenue from Union funds; d) national expenditure on co-financing of programmes funded by the Union; e) cyclical elements of unemployment benefit expenditure (which include disbursements connected with short-time work schemes); (f) one-off measures; and (g) other temporary measures.

⁶ In the first nine months of 2025, the state sector borrowing requirement – for which more recent data are available – amounted to about €110 billion, broadly in line year on year.

Under the current legislation scenario, the deficit is projected to decline gradually until 2028

In the DPFP 2025, the figures for the public accounts under the current legislation scenario through 2027 were updated and the forecasts were extended to include 2028. Compared with the DFP 2025, net borrowing is projected to improve by around 0.2 percentage points of GDP on average in each of the two years 2026-27, largely because of more positive developments in the current year's accounts. In comparison with the path agreed with the

European Commission and the Council in January, net expenditure growth is expected to be slightly higher in 2026 and more moderate in the following two years.

Under the policy scenario, the decline in deficit is set to slow down in 2027 and 2028

In comparison with the current legislation scenario, therefore, the Government plans to slow net expenditure slightly in 2026 (by 0.1 per cent) and to accelerate it in the following two years (by 0.6 and 0.1 per cent respectively). In line with this objective, the next budgetary package is expected to leave the deficit broadly unchanged at the current-legislation level in 2026 and to expand it slightly thereafter (by 0.3 percentage points of GDP in 2027 and 2028). Under the

policy scenario, which incorporates the effects of the budgetary package, net borrowing is expected to decline gradually over the three-year period, from 2.8 per cent in 2026 to 2.3 per cent in 2028 (Table 8). The debt-to-GDP ratio is projected to rise until 2026 (to 137.4 per cent) and then decline, standing at 136.4 per cent in 2028. According to the DPFP 2025, this scenario disregards, or only partly takes into account, the additional cost of building up Italy's defence capabilities, as per international agreements. In the document, it is considered realistic to expect defence spending to increase by up to 0.5 percentage points of GDP in 2028. Italy is among the 19 countries that have expressed interest in the SAFE instrument (see Section 1.2).

Table 8

Outturns and official targets for key public finance indicators (1)

	(per cent of GDP)				
	2024	2025	2026	2027	2028
Net borrowing	3.4	3.0	2.8	2.6	2.3
Primary surplus	0.5	0.9	1.2	1.5	1.9
Interest expense	3.9	3.9	3.9	4.1	4.3
Structural net borrowing	4.1	3.4	2.9	2.8	2.6
Debt (2)	134.9	136.2	137.4	137.3	136.4

Sources: Public Finance Planning Document 2025 (DPFP 2025).

(1) Outturns for 2024 and official targets for 2025-28. Any mismatches are due to the rounding of decimals. – (2) Gross of financial support to other EMU countries.

On 14 October, the Government approved the Draft Budgetary Plan 2026 laying out the key elements of the next budget. The expansionary measures include: (a) a reduction of the personal income tax (IRPEF) rate from 35 to 33 per cent for the second income bracket, with limitations to benefits for higher incomes; (b) fiscal measures to facilitate cost-of-living wage adjustments and strengthen the wage-productivity link; (c) measures to support households and firms, including incentives for investment in tangible goods; and (d) additional resources for the national health fund. The associated costs will be covered primarily by reallocating NRRP expenditure, mobilizing resources from the financial and insurance sectors, and reviewing spending across ministries.

Italy revises its projected NRRP expenditure under the current legislation scenario and receives the seventh instalment

is expected for November.

The DFPF 2025 provides a revision of expenditure funded through the Recovery and Resilience Facility (RRF), which is at the core of the NRRP, under the current legislation scenario. Compared with April, the estimates were revised downward by about 0.5 percentage points of GDP for the current year and by around 1.2 percentage points for 2026. Post-2026 expenditure is now projected to amount to 1.6 percentage points of GDP, instead of the approximately 0.5 points estimated in the DFP 2025. A revision of the NRRP

In August, Italy received the seventh RRF instalment, amounting to €18.3 billion (€13.7 billion in loans and €4.6 billion in grants) and bringing the total disbursements received so far to €140.4 billion. The remaining instalments amount to €54 billion (€33.3 billion in loans and €20.8 billion in grants).