



BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin

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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.

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OVERVIEW

The global economy continues to expand, but the high uncertainty is weighing on the outlook

The US economy continued to grow markedly in the third quarter of 2025. As in the first half of the year, investment in AI-related technology made a significant contribution, while at the same time fuelling international trade. The momentum of global trade boosted economic activity in China, at a time of weak domestic demand. The OECD expects global growth to weaken slightly in 2026. Risks are tilted to the downside, due to trade and geopolitical tensions and to the potential adjustments in the financial markets in the technology sector.

Euro-area GDP growth remains moderate

Euro-area GDP accelerated slightly in the summer months, with very uneven dynamics across the main countries. According to our estimates, GDP grew moderately in the autumn, driven especially by the further increase in activity in services. Last December, the Eurosystem staff macroeconomic projections revised euro-area GDP growth upwards, to 1.2 per cent this year and to 1.4 per cent in the two years 2027-28. Consumer price inflation, which averaged 2.1 per cent in 2025, is expected to decline slightly in both 2026 and 2027, and then to return to 2.0 per cent in 2028.

The ECB keeps the key interest rates unchanged

At its October and December meetings, the ECB Governing Council kept the key interest rates unchanged. The cost of credit remained the same between August and November. The growth in lending to non-financial firms reflected the still weak demand and remained stable; growth in lending to households instead strengthened, above all as a result of real estate purchases.

Economic activity in Italy expands at a modest pace

Italy's GDP increased slightly in the third quarter, owing to the sharp rise in exports and to the expansion in

investment, which benefited from the tax incentives and from other measures under the NRRP. Household consumption grew modestly, reflecting still unfavourable expectations for the international economic outlook. According to our estimates, economic activity continued to expand moderately in the fourth quarter, driven by the service sector, especially business services, and by a recovery in industry. The prospects for manufacturing remain uncertain, partly because of more intense competition from China in several sectors. According to our December projections, GDP will grow by 0.6 per cent in 2026, and then strengthen in the two years 2027-28.

The current account surplus remains ample

Following the contraction in the spring, export volumes returned to growth in the third quarter, in part as a result of exceptional developments in some sectors. The current account surplus remained large between July and September, thanks to the positive trend in goods balances and investment income. Export volumes, net of some very volatile components, stabilized in October and November. Net purchases of Italian government securities by foreign investors continued at a slower pace. The positive net international investment position widened.

Employment starts to increase again

Headcount employment returned to growth in the autumn months. The unemployment rate decreased further, while labour market participation declined among young workers. In the non-farm private sector, wages and salaries continued to rise moderately, slightly above inflation.

Inflation remains subdued

Inflation was lower than the euro-area average in the fourth quarter of 2025, reflecting more moderate growth in the prices of services and a steeper drop in energy prices. Inflation excluding the most volatile components fell below 2 per cent. Producer price pressures continue to ease.

According to our December projections, consumer price inflation will decline to 1.4 per cent in 2026, from 1.7 per cent last year; it will gradually pick up again in the following two years, nearing 2 per cent on average in 2028, reflecting the temporary increase in energy prices due to the introduction of the EU's Emissions Trading System 2 (ETS2) legislation.

Growth in lending strengthens

In the autumn, the cost of bank funding and the lending rates remained broadly unchanged. Lending to households and firms accelerated. Looking at the breakdown by economic sector, loans to service firms recorded stronger growth and lending to construction firms turned positive, while the contraction in loans to manufacturing

firms eased. According to the Italian banks that took part in the euro-area bank lending survey (BLS) conducted between late September and early October, both the credit standards and the general terms and conditions applied to loans to firms remained unchanged in the third quarter.

Net borrowing as a share of GDP declines

Based on the latest information, net borrowing as a share of GDP declined in 2025, while the public debt-to-GDP ratio increased. The budget law approved last December left the deficit unchanged in 2026 compared with the previous legislation, and expanded it by 0.3 percentage points of GDP per year on average for each of the two following years.

1 THE WORLD ECONOMY

1.1 THE GLOBAL CYCLE

Economic activity continued to expand significantly in the United States, still buoyed by artificial intelligence-related consumption and investment, albeit at a time when the labour market is gradually worsening. Domestic demand remains weak in China, affected by the protracted real estate crisis and, more recently, by the contraction in investment. Despite the increase in tariffs and the ongoing uncertainty about trade policies, global trade has accelerated. According to the latest OECD projections, global GDP growth is expected to be only slightly lower in 2026 than in 2025, benefiting from the support of fiscal and monetary policies in the leading economies. The main downside risks are connected to trade and geopolitical tensions and to possible adjustments in the financial markets in the technology sector.

The US economy continues to grow ...

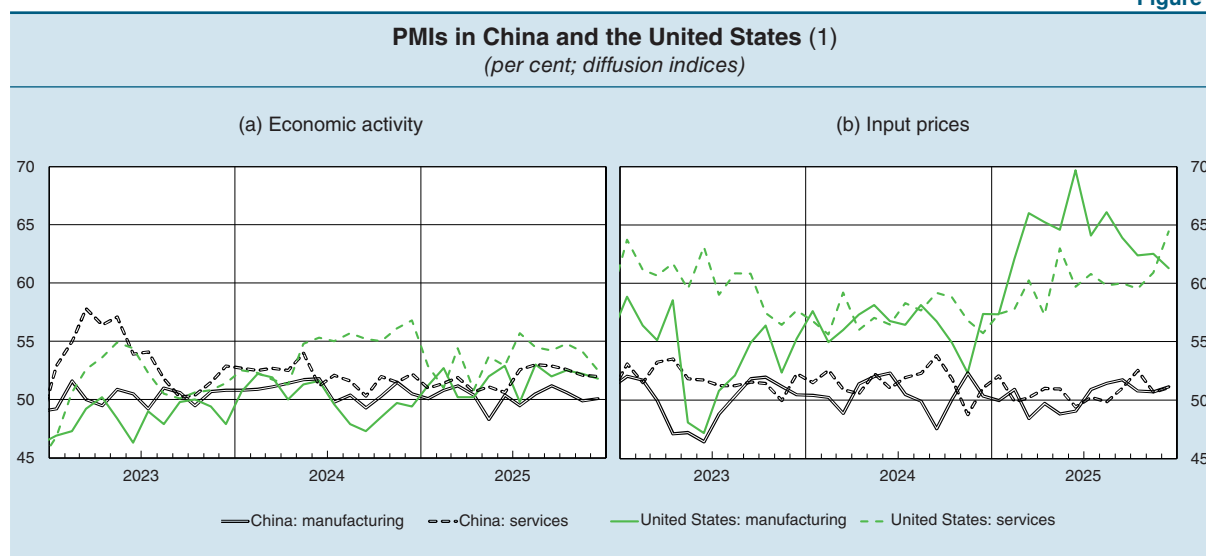
GDP in the United States continued to expand at a robust pace in the third quarter (Table 1). Growth was driven by consumption, despite the deterioration in household confidence. Investment in technology products, mostly AI-related, continued to provide the main support for capital accumulation. In contrast, the labour market was still showing signs of weakening, and the creation of new jobs declined further. According to analysts, GDP appears to have slowed in the United States in the fourth quarter, partly owing to the temporary government shutdown between early October and mid-November. The purchasing managers' indices (PMIs) point to expanding activity (Figure 1.a), and price pressures for intermediate goods are still high (Figure 1.b), both in manufacturing and in services.

Table 1

GDP growth and macroeconomic projections (percentage changes, unless otherwise specified)							
	Growth			Forecasts		Revisions (2)	
	2024	2025 Q2 (1)	2025 Q3 (1)	2025	2026	2025	2026
World	3.3	–	–	3.2	2.9	0.0	0.0
Japan	-0.2	2.1	-2.3	1.3	0.9	0.2	0.4
United Kingdom	1.1	0.9	0.4	1.4	1.2	0.0	0.2
United States	2.8	3.8	4.3	2.0	1.7	0.2	0.2
Euro area	0.9	0.6	1.1	1.3	1.2	0.1	0.2
Brazil	3.4	2.4	1.8	2.4	1.7	0.1	0.0
China	5.0	5.2	4.8	5.0	4.4	0.1	0.0
India (3)	6.5	7.8	8.2	6.7	6.2	0.0	0.0
Russia	4.3	1.1	0.6	0.7	0.5	-0.3	-0.2

Sources: National statistics for data on growth; OECD, *OECD World Economic Outlook. Resilient Growth but with Increasing Fragilities*, December 2025; (1) Quarterly data. For the euro area, Japan, the United Kingdom and the United States, annualized and seasonally adjusted percentage changes on the previous quarter; for the other countries, year-on-year percentage changes. – (2) Percentage points; revisions compared with OECD, *OECD Economic Outlook, Interim Report*, September 2025. – (3) The actual data and forecasts refer to the fiscal year starting in April.

Figure 1



Source: Standard & Poor's Global Ratings.

(1) Diffusion indices for economic activity and input prices 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'. As regards economic activity, values greater than 50 are compatible with expansion in the sector; for input prices, they indicate an increase in perceived costs.

... and China's economy is still supported by exports

In China, the high-frequency indicators of economic activity confirm the weakness in domestic demand in the third quarter, held back by the fall in investment in manufacturing and by the protracted crisis in the real estate sector.

The manufacturing PMI remained slightly below the growth threshold in the fourth quarter, unlike the services PMI. In November, Chinese exports, driven above all by sales of semiconductors and AI-related goods, recouped the fall recorded in October, bringing the trade surplus in the first eleven months to over \$1 trillion, higher than in 2024 and above the average for the last five years.

Global trade expands but uncertainty remains high

Global trade grew more than expected in the third quarter, despite the increase in US tariffs. As well as the still sizeable contribution from trade in AI-related technologies, there was also a geographical shift in trade flows: the contraction in

Chinese exports to the United States was offset by the marked expansion in exports to other Asian countries, to Africa and, to a lesser extent, to European countries. This reconfiguration reflects both the stepping up of relations with other trading partners and the use of indirect shipments to the United States via third countries.

The trade agreement reached between the United States and China at the end of October cut back some increases in the tariffs imposed by the US government, which had already been partially suspended in previous months; China also postponed the application of a more restrictive Chinese regime on export licences for rare earths until the end of 2026. However, the average tariffs applied by the United States on Chinese exports remain high (31 per cent on average, against 12 per cent in December 2024). Uncertainty over trade policies, as measured by the trade policy uncertainty index,¹ decreased compared with the peaks recorded early in 2025, but remains high. Contributory factors are the expectations for the US Supreme Court's decision on the legitimacy of many tariffs

¹ For more details on the construction of the indicator, see D. Caldara, M. Iacoviello, P. Molligo, A. Prestipino and A. Raffo, 'The economic effects of trade policy uncertainty', *Journal of Monetary Economics*, 109, 2020, pp. 38-59.

imposed last year and the risk of further measures on hitherto largely exempted sectors, including pharmaceuticals and electronics.

Global growth is expected to decelerate slightly

According to the latest OECD projections, global GDP grew by 3.2 per cent in 2025 (down slightly from 3.3 per cent in 2024) and will go up by 2.9 per cent in 2026. The main support to growth is coming from more accommodative fiscal and monetary policies in the leading economies, as well as from AI-related investments, especially in the United States. The risks are on the downside and are related to renewed trade tensions, the delayed effects of the US tariffs and the possible adjustment in the US technology sector. In addition, there are still concerns about the sustainability of the public finances in some advanced economies.

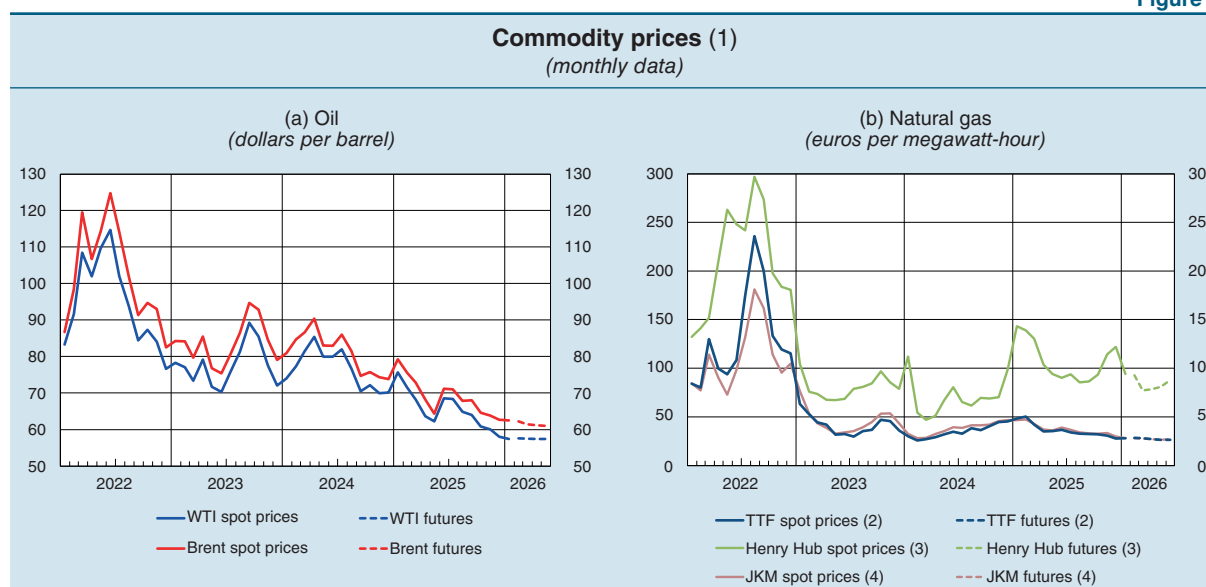
The fall in oil prices comes to a halt in January

Following a temporary rise at the end of October, owing to the imposition of new US sanctions on the Russian oil sector, crude oil prices fell between November and December (Figure 2.a), affected above all by the increase in production by the OPEC+ cartel. Prices went back up to \$65 per barrel in mid-January, as a result of the tensions in Iran. The International Energy Agency (IEA) has forecast a surplus in global oil supply throughout 2026. Looking ahead, the supply could increase because of a greater exploitation of Venezuela's oil deposits, but the outcome is still uncertain.

Natural gas prices go down

The reference prices for European natural gas (Title Transfer Facility, TTF) have fallen since mid-October (Figure 2.b); they were affected by the increase in the supply of liquefied natural gas (LNG), especially from the United States. Since European regulations on stockpiling are less stringent than in previous years, European inventory levels are lower than in 2024, by around 12 percentage points, and than the long-term seasonal average. Futures prices on the TTF market incorporate broadly stable price expectations, in line with seasonal trends: contracts maturing in December 2026 are at around €27 per megawatt-hour.

Figure 2



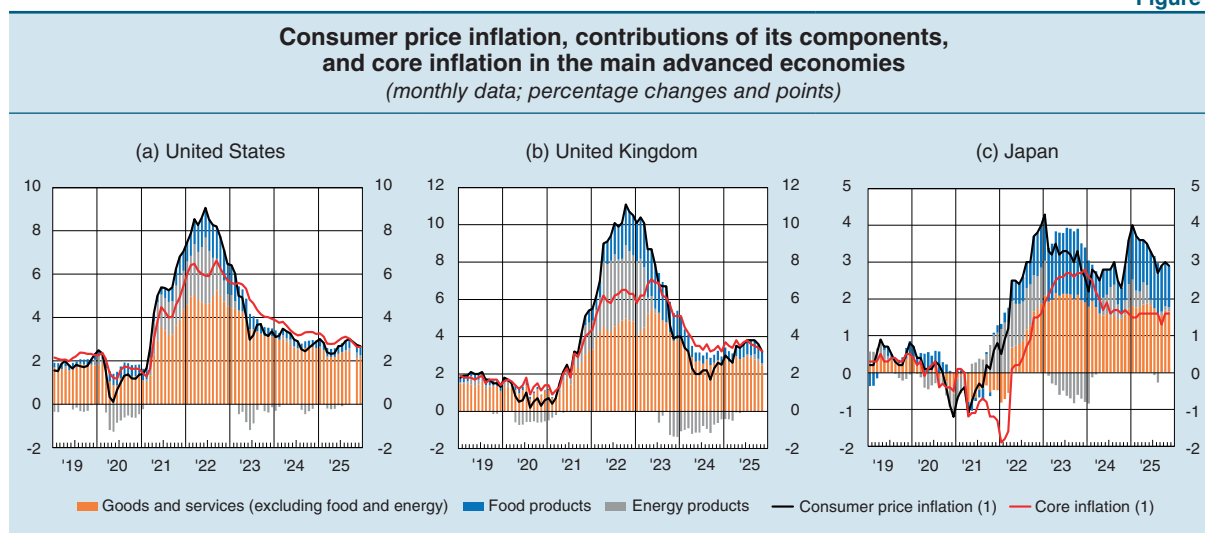
Source: LSEG.

(1) For spot prices, monthly averages up to December 2025. The data for January 2026 refer to the average of the daily data from 1 to 9 January 2026. For futures, the data refer to the prices on 9 January 2026. – (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. – (4) LNG global reference price traded on the Japan Korea Marker (JKM).

The US Federal Reserve cuts its policy rates in December

In the fourth quarter, consumer price inflation fell in the United States, to 2.7 per cent in December (Figure 3.a);² it went down in the United Kingdom as well, while it remained broadly unchanged in Japan (Figures 3.b and 3.c). The same trend was observed in the core component.

Figure 3



Source: Based on national statistics.

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

At its December meeting, the Federal Reserve lowered its policy rates by 25 basis points, to 3.5-3.75 per cent, taking account of weakening labour market conditions and more moderate inflation expectations. The projections made by the members of the Federal Open Market Committee (FOMC) suggest a further rate cut of 25 basis points in 2026. The Bank of England cut its policy rate by 25 basis points, to 3.75 per cent in December, while the Bank of Japan raised its policy rate to around 0.75 per cent, as part of the gradual normalization of monetary policy. The People's Bank of China kept its refinancing and reserve requirement rates unchanged, maintaining a cautiously expansionary stance despite signs of a weakening outlook.

1.2 THE EURO AREA

Euro-area GDP grew at a moderate pace in the third quarter, with very heterogeneous developments across the major countries. In the fourth quarter, economic activity continued to expand, still at a moderate pace, driven above all by the positive contribution of services. Consumer price inflation stood at around 2 per cent; in the last three months of 2025 on average, the slight increase in service price inflation was offset by the slowdown in the prices of goods. At its October and December meetings, the ECB Governing Council kept the key interest rates unchanged. Between August and November, the cost of credit to firms and households did not change significantly, after the decline associated with past reductions in monetary policy rates. Growth in credit to firms remained broadly stable, reflecting the still weak demand; growth in lending to households instead strengthened, supported by the moderate increase in demand for mortgage loans.

² The temporary government shutdown between early October and mid-November prevented the publication of the October data and, according to analysts, the inflation rate for the following months could have been underestimated.

Euro-area GDP increases in the third quarter of 2025 ...

In the summer, euro-area GDP rose by 0.3 per cent compared with the previous period (from 0.1 per cent in the second quarter; Table 2). Investment partly recouped the decline recorded in the spring months (0.9 per cent, from -1.7 per cent), driven by spending on capital goods and on intangible assets.

By contrast, investment in construction stagnated: the positive contribution of the civil engineering sector was offset by the negative contribution of the residential sector. Household consumption continued to grow very moderately (0.2 per cent), despite the favourable trend in disposable income; still weak confidence and high macroeconomic uncertainty led households to save a greater share of their income. Exports returned to growth, mostly driven by the aerospace and shipping sectors in France and Italy, albeit at a slower pace than imports.

Value added grew in services (0.4 per cent), especially in the sectors most connected to the digital transition (business services and information and communication technology) and in those connected with tourism, which has made a significant contribution to growth since the end of the pandemic. Economic activity was instead unchanged in construction and in industry excluding construction, despite the partial recovery in the automotive sector, which however is still in severe difficulty.

Among the main euro-area economies, GDP rose markedly in France, thanks to the positive contribution of foreign demand, and in Spain, driven by strong domestic demand. GDP grew by 0.1 per cent in Italy (see Section 2.1), while it stagnated in Germany, held back by weak household consumption and the decline in exports.

... and is expected to continue to record moderate growth in the fourth quarter

The latest data point to a slight increase in euro-area GDP in the fourth quarter, still driven by the good performance of the service

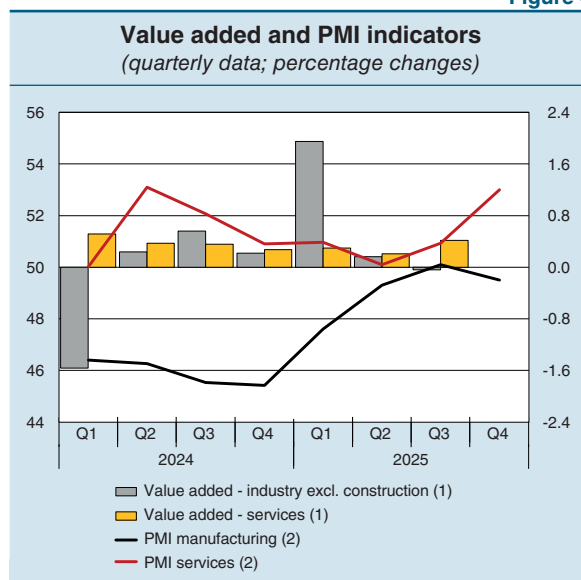
sector. The qualitative indicators of confidence published by the European Commission confirm that economic activity is strengthening, especially in the business services sector, above all in information and communication technology and in technical and professional consultancy. The sectoral PMI continued to rise on average in the quarter, to well above the expansion threshold (Figure 4).

Table 2

Euro-area GDP growth and inflation (percentage changes)				
	GDP growth			Inflation
	2024	2025 Q2 (1)	2025 Q3 (1)	2025 December (2)
France	1.2	0.3	0.5	0.8
Germany	-0.5	-0.2	0.0	(2.0)
Italy	0.7	-0.1	0.1	(1.2)
Spain	3.5	0.7	0.6	2.9
Euro area	0.9	0.1	0.3	(2.0)

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

Figure 4



Sources: Standard & Poor's Global Ratings and Eurostat.
(1) Data adjusted for seasonal and calendar effects; percentage changes on previous period. Right-hand scale. – (2) Diffusion indices for economic activity in the sector. Each index is obtained by adding half of the percentage of responses of 'stable' to the percentage of responses of 'increasing'. Values greater than 50 are compatible with expansion in the sector.

Manufacturing production is estimated to have recovered in part at the end of last year, despite the fact that the PMI remained consistent with stable economic activity and the European Commission's confidence indicator deteriorated, particularly in the durable goods sector. Overall, in the first nine months of the year, production contracted in most sectors, with few exceptions, among which was the pharmaceutical sector. Looking ahead, the rise in competitive pressure and the growing and widespread penetration of imports from China pose downside risks to manufacturing activity, which is already facing difficulties, and to price developments (see the box 'Italian firms' expectations regarding the effects of the rerouting of Chinese exports').

Households' consumption patterns remain prudent ...

The uncertainty linked to the evolution of the global environment continues to lead households to adopt prudent spending habits, pushing up their saving rate. Private consumption is estimated to have increased moderately in the last three months of 2025 as well. According to the European Commission's consumer confidence surveys, durable goods purchase decisions remain prudent, affected by unfavourable expectations regarding developments in consumers' personal financial situations. These trends are common to all the major countries, with the exception of Spain, where household spending continues to expand markedly.

... and investment slows

For the euro area as a whole, the European Commission's surveys indicate no change in investment in industry and a slowdown in services. In both sectors, firms reported that capital investment remained focused above all on replacing obsolete equipment, while there was a decline in the share of investment made to expand production capacity.

According to our estimates, the rise in imports occurred in conjunction with weak exports in the autumn months. The PMI for new foreign orders is below the threshold pointing to an expansion in activity.

The €-coin indicator rose slightly in December. Positive indications regarding the performance of economic activity in services continued to support the indicator, which also benefited from the signs of recovery in the construction sector (Figure 5).

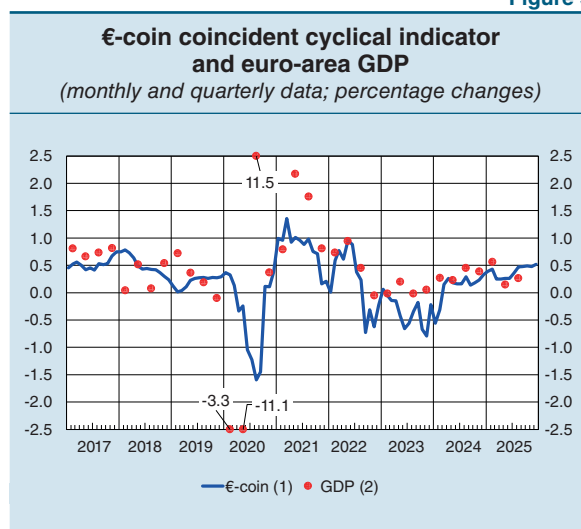
The Eurosystem revises its GDP growth forecasts for the current year upwards

According to the Eurosystem staff projections published in December,³ after growing by 1.4 per cent in 2025, GDP will grow by 1.2 per cent in 2026, with an upward revision of 0.2 points for both years compared with the September projections. The annual growth rate will rise to 1.4 per cent in 2027 and 2028. The projection mainly reflects expectations of an increase in domestic demand for consumption and a recovery in foreign demand.

Inflation remains at around 2 per cent

Consumer price inflation fell slightly in December, to 2.0

Figure 5



Sources: Banca d'Italia and Eurostat.

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

³ For more information, see the ECB's website: 'Eurosystem staff macroeconomic projections for the euro area', December 2025.

per cent year-on-year (from 2.1 per cent in November; Figure 6). Core inflation, which excludes food and energy products, also fell by 0.1 percentage points (to 2.3 per cent, from 2.4 per cent in the previous three months), reflecting the slight decline both in the service component (to 3.4 per cent, after two consecutive increases) and in the non-energy industrial goods component (to 0.4 per cent). Among the volatile components, food price inflation stood at 2.6 per cent, down compared with the summer months, while energy prices continued to fall markedly year on year (-1.9 per cent).

Producer price pressures continue to be moderate. Import prices fell sharply year-on-year across all the main components, including consumer goods, reflecting the appreciation of the euro and competitive pressures from goods imports from China. In November, the producer price inflation of industrial goods sold on the domestic market, excluding energy, stood at 1.0 per cent on an annual basis. According to the manufacturing PMI, input costs rose moderately in the autumn months.

Wages continue to slow

In the summer, growth in actual hourly wages slowed in all the major euro-area countries, with the exception of Germany where, contrary to analysts' expectations, their growth rate remained unchanged. Wage growth weakened further in the autumn months and, according to the ECB's wage tracker,⁴ will stabilize in 2026. Headcount employment in the euro area increased by 0.2 per cent in the third quarter and, according to the latest data, continued to grow at a modest pace in the fourth quarter as well.

Inflation is expected to stand at just below 2 per cent in the two years 2026-27

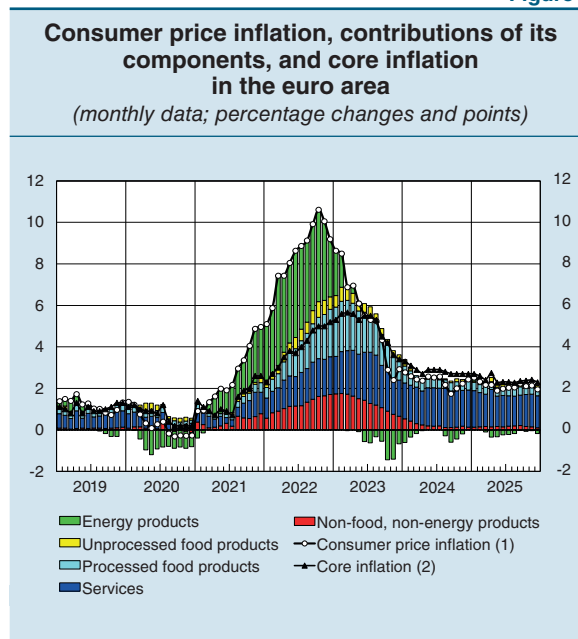
According to the December Eurosystem staff projections, consumer price inflation will decline to 1.9 per cent in 2026 (from 2.1 per cent in 2025). The deceleration is expected to continue in 2027, with inflation reaching 1.8 per cent. Inflation is then projected to rise to 2.0 per cent in 2028, owing to the increase in energy costs due to the planned implementation of the EU's new emissions trading scheme ('EU Emissions Trading System 2', ETS2).

Households and firms expect moderate price increases

On average in the fourth quarter, the European Commission's business surveys indicate expectations of moderate increases in their own list prices in both manufacturing and services.

According to the ECB's Consumer Expectations Survey, in November, the median for consumer price inflation expectations for euro-area households remained stable, at 2.8 per cent, over the twelve-month horizon, while expectations over the three-year horizon remained at 2.5 per cent, practically unchanged since spring 2023.

Figure 6



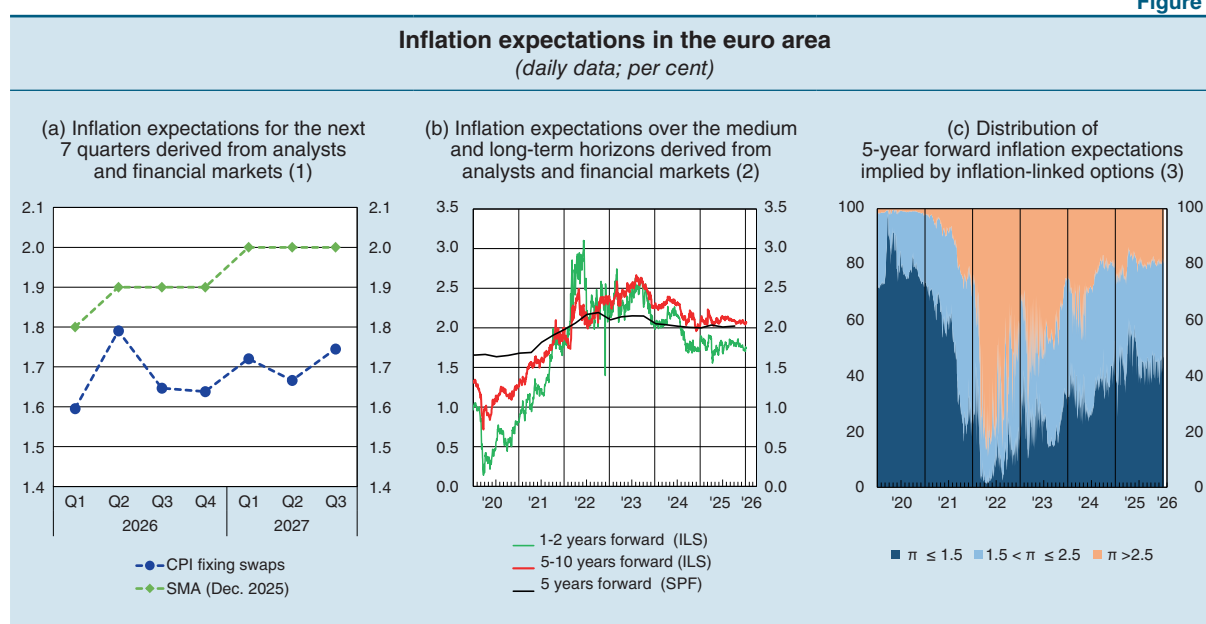
Sources: Based on ECB and Eurostat data.
(1) 12-month percentage change in the HICP. – (2) 12-month percentage change in the HICP, excluding energy and food.

⁴ For the definition of wage tracker, see the box 'The impact of recent contractual wage increases on wage growth' in Chapter 2.

Medium-term inflation expectations remain around the target

In early January, CPI fixing swaps⁵ incorporated expectations of a reduction in inflation to around 1.6 per cent at the end of 2026 and of a subsequent rise to 1.7 per cent in the third quarter of 2027. According to the analysts interviewed by the ECB between 1 and 3 December as part of the Survey of Monetary Analysts (SMA), inflation is expected to stand at 1.8 per cent in the first quarter of 2026, to then remain at 1.9 per cent in the following quarters, and to return to the 2 per cent target at the beginning of 2027 (Figure 7.a). Over the horizon between one and two years ahead, the inflation expectations implied by inflation-linked swaps (ILS) recorded small fluctuations between 1.7 and 1.8 per cent; those over longer horizons stood at 2.1 per cent, and analysts' long-term expectations remained firmly anchored to the target (Figure 7.b). The distribution of inflation expectations based on options prices indicates a 46 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 20 per cent (Figure 7.c).

Figure 7



Sources: ECB and based on Bloomberg data. The latest figure refers to 9 January 2026, 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 1 and 3 December 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 October 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 October and December meetings, the ECB Governing Council kept its key interest rates unchanged; the deposit facility rate stood at 2 per cent, owing to the cumulative reduction of 200 basis points between June 2024 and June 2025 (Figure 8). These decisions were based on broadly unchanged assessments compared with previous meetings, against a background of medium-term inflation expectations

⁵ CPI fixing swaps are swap contracts linked to the publication of monthly data on annual euro-area inflation, as measured by the HICP index excluding tobacco. The interest rates implied by these contracts indicate the annual inflation expected by the financial markets over the next 24 months. The 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.

consistent with the target and of broadly balanced risks. However, the environment remains highly uncertain, relating above all to geopolitical tensions and global trade dynamics.

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

Towards the end of the year, the key interest rate expectations implied by €STR swaps increased slightly across all maturities, confirming the prevalent market-based assessment that the rate-cutting cycle of monetary policy can be considered to be over. In early January, a change in the key rates in 2026 was deemed very unlikely by the markets. The expectations reported by analysts surveyed between 1 and 3 December by the ECB as part of the SMA were broadly in line with this scenario.

The cost of lending to firms and households shows no significant change

Following the decline associated with past monetary policy rate cuts, between August and November, the interest rate on new loans to non-financial corporations and that on new loans to households for house purchase remained practically unchanged at 3.5 and 3.3 per cent respectively (Figure 9), in line with developments in the cost of bank funding and the main benchmark rates.⁶

Growth in lending to firms remains broadly stable

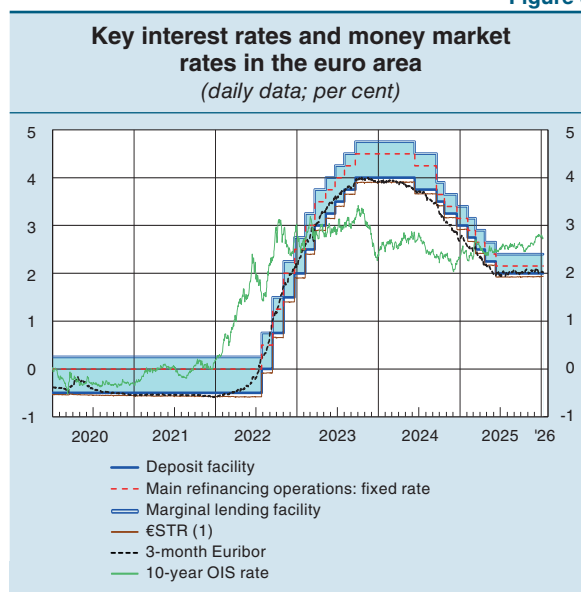
The growth rate of loans to non-financial corporations in the euro area remained similar in November to that of August (3.1 per cent on an annual basis; Figure 9). Among the leading countries, growth in lending to firms was stronger in Spain and France, slightly more moderate in Italy (see Section 2.7) and weak in Germany.

In the euro area, developments in lending to non-financial corporations were affected by an unexpected, slight tightening of credit standards, which was partly due to higher perceived risks, and by still weak, albeit slightly improving, demand.⁷

⁶ The three-month Euribor and the ten-year interest rate swaps (IRS) are the conventionally considered benchmark rates for loans to firms and for mortgage loans respectively.

⁷ For more details, see ECB, ‘October 2025 euro area bank lending survey’, press release, 28 October 2025.

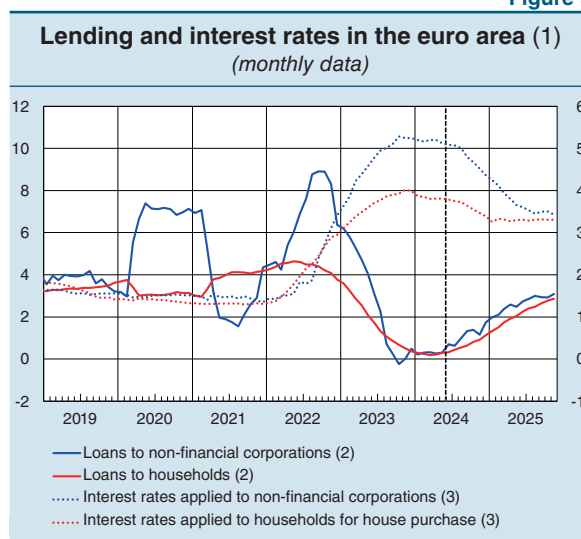
Figure 8



Sources: ECB and LSEG. The latest figure refers to 9 January 2026.

(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.

Figure 9



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.

Growth in lending to households improves

Lending to households accelerated on an annualized basis (from 2.5 per cent in August to 2.9 per cent in November). Growth in lending to households strengthened in all the main countries and was especially marked in Spain⁸.

Growth in mortgage loans continues to benefit from the moderate increase in demand for loans, while credit standards remain unchanged overall. Banks reported a slight tightening of the supply for consumer credit, the demand for which remains stable.

The Commission assesses the national draft budgetary plans for 2026

The European Commission examined the draft budgetary plans for 2026 of the euro-area Member States in order to assess their compliance with the net expenditure paths previously set out in the structural plans or with specific recommendations. The assessments were released at the end of November and are positive for twelve countries, including Italy, France and Germany.⁹ By contrast,

five countries are considered at risk of non-compliance.¹⁰

According to the latest Commission estimates, the euro-area aggregate deficit increased to 3.2 per cent of GDP in 2025, from 3.1 per cent in 2024, and will increase to 3.3 per cent in 2026. The euro-area fiscal stance¹¹ is projected to be broadly neutral for both 2025 and 2026; the expansionary stance for this year in some countries, including Germany (by 0.9 percentage points of GDP), is offset by the tightening stance in others, including France (1.2 per cent). The euro-area debt-to-GDP ratio is estimated to increase slightly, to 89.2 per cent in 2025 (from 88.5 per cent in 2024) and to 90.2 per cent in 2026; the latter figure is almost 5 percentage points higher than the one recorded before the pandemic.

1.3 THE FINANCIAL MARKETS

The yields on government securities issued by the main advanced economies rose in the fourth quarter, reflecting the increase in the term premium at global level, also linked to the prospect of more expansionary fiscal policies in some countries. The increase in yields was marked in Japan, and lower in the main euro-area countries and in the United States. Equity prices were volatile, triggered by overvaluation concerns in some segments of the technology sector in the United States.

Government bond yields rise in advanced economies, especially in Japan ...

The yields on ten-year and 30-year government bonds have recorded varying trends since the first ten days of October, although they have remained at high levels in all countries (Figure 10.a). Long-term yields grew in the United States, mainly as a result of the increase in the term premium. They rose more markedly in Japan, driven by the prospect of a more expansionary fiscal policy

and by the ample supply of government securities. Yields have instead declined since October in the United Kingdom, following the announcement of a more prudent fiscal policy stance.

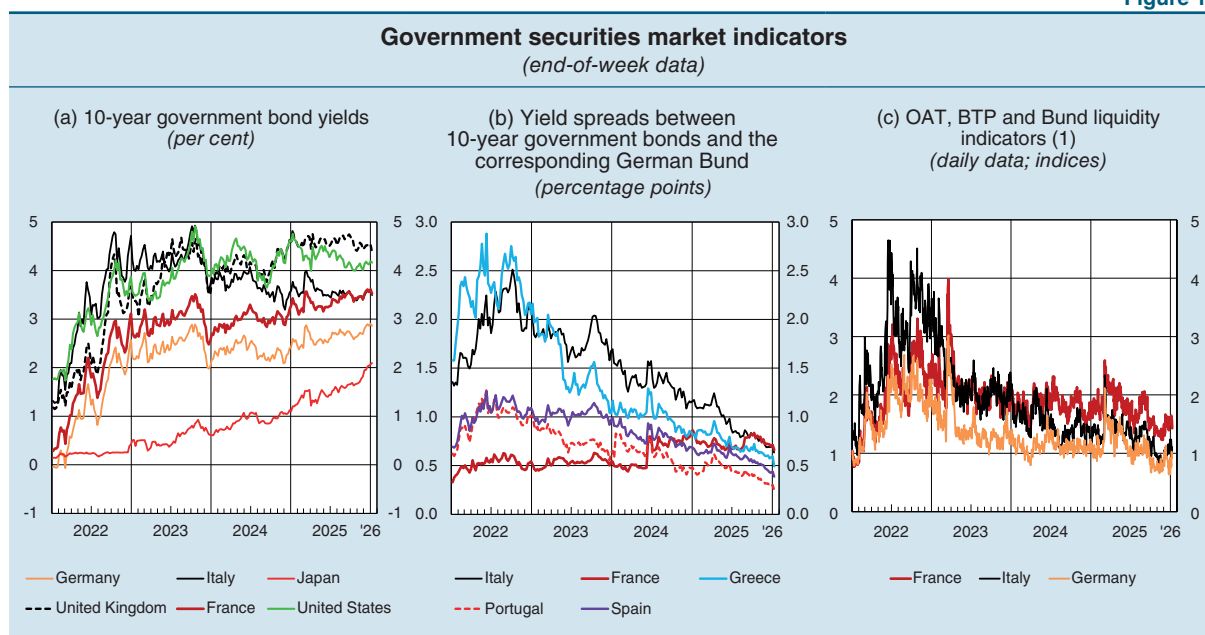
⁸ In Spain, the growth in loans to households was accompanied by a reduction in the cost of credit, which was more pronounced than the euro-area average, and by a marked increase in house prices.

⁹ Specifically, with regard to Germany, the Commission considers that the net expenditure path for 2026 contained in its draft budgetary plan is in line with the maximum growth rate recommended by the EU Council, thanks to the activation of the national escape clause requested by the country and to an expected deficit for 2025 of less than 3 per cent, net of defence spending.

¹⁰ Belgium and Spain have not yet submitted their draft budgetary plans for 2026. On 13 May, Austria sent a draft budgetary plan covering both 2025 and 2026, which the Commission assessed positively on 23 June 2025.

¹¹ The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support ('grants') from the Recovery and Resilience Facility (RRF) and other EU funds, relative to the medium-term (10-year) average potential GDP growth rate, expressed as a ratio to nominal GDP.

Figure 10



Source: LSEG, based on data from Bloomberg and Tradeweb. The latest figure refers to 9 January 2026.

(1) OATs: *obligations assimilables du Trésor*. 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.

... and go up in the euro area too

The yields on the ten-year government bonds of the main euro-area countries have risen slightly since the first ten days of October (Figure 10.a), reflecting the increase in the term premium in global government securities markets and the upward revision of short-term interest rate expectations. Given the expectations of higher issuances in 2026, the yields on German Bunds rose by 22 basis points on ten-year maturities, about twice as much as in the remaining euro-area economies. The yield spread between Italian and German government bonds narrowed to around 64 basis points (Figure 10.b), the lowest figure since January 2010. Moody's rating agency revised its credit rating for Italian securities upwards in November, for the first time since 2002, having kept it stable since 2018. The decline in yield spreads with respect to German public sector securities was accompanied by a significant decrease in the premiums on the credit default swaps (CDS) of the main euro-area sovereign issuers. Liquidity conditions improved slightly on the market for Italian, German and French public sector securities (Figure 10.c).

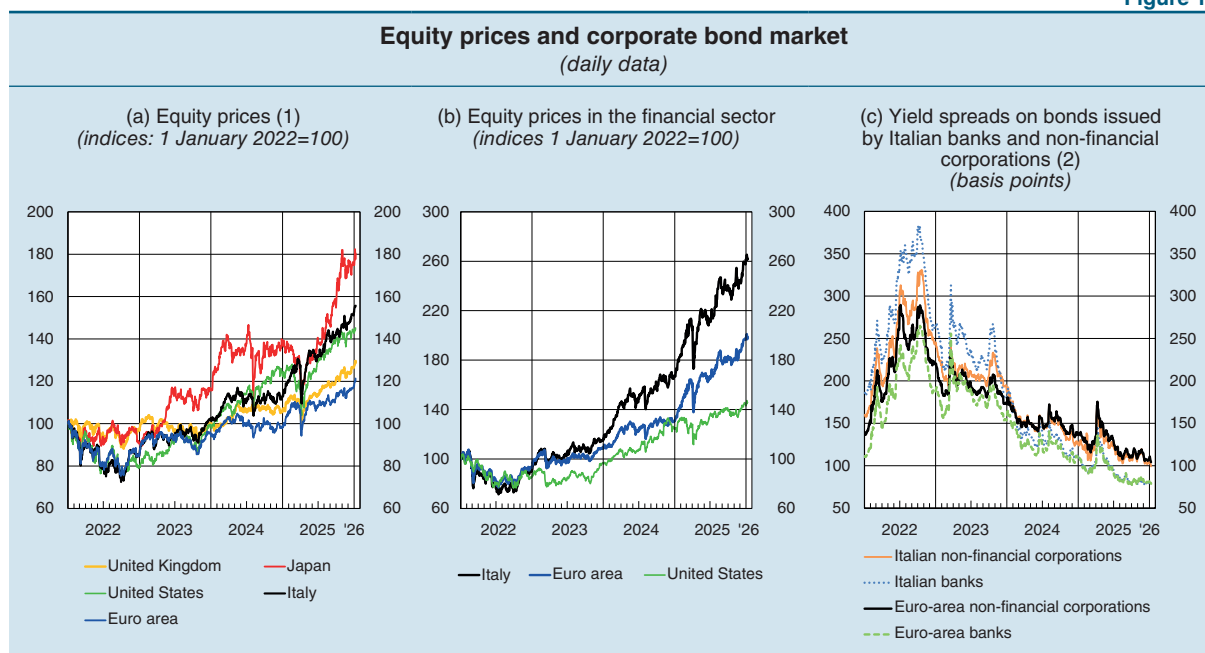
Equity prices continue to rise in the US, with volatility in the technology sector ...

Stock market indices for the main advanced economies have risen further since the first ten days of October (Figure 11.a). The Standard & Poor's 500 index (S&P 500) was also supported by the prices of large US technology firms, for which earnings expectations were revised upwards. Over the past few months, however, there have been widespread overvaluation concerns, which have made the price performance of these firms volatile (see the box 'The surge in global demand for computational resources: macrofinancial impacts and risks'). The performances of the UK and Japanese indices also continue to be favourable on the whole. Implied volatility on the equity and bond markets remains low.

... which has also had an impact on euro-area prices

As observed in the other main advanced economies, euro-area equity prices were affected by the volatility of valuations in the US technology sector. Net of these fluctuations, the euro-area and Italian equity indices have risen by 7.5 and 9.4 per cent respectively since the first ten days of October (Figure 11.a). The rise was attributable to the performance of prices in the financial sector (Figure 11.b), which grew by more than 10

Figure 11



Sources: ICE Bank of America Merrill Lynch and LSEG. The latest figure refers to 9 January 2026.

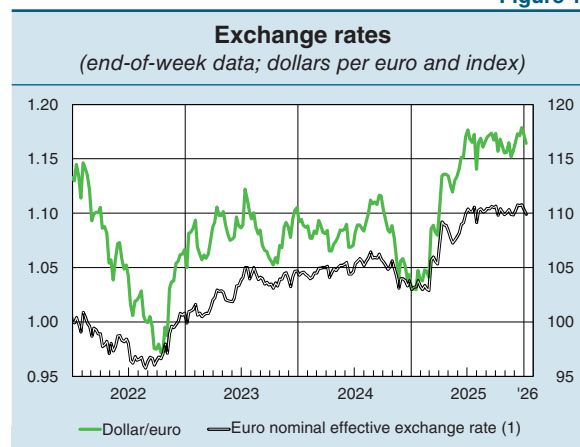
(1) Equity indices: Datastream for the euro area and for Italy, Nikkei 225 for Japan, FTSE All-Share for the United Kingdom and S&P 500 for the United States. – (2) Yield spreads on bonds, adjusted by the value of embedded options (option-adjusted spread), based on a basket of euro-denominated bonds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

percentage points in both Italy and the euro area, thanks to continued strong profitability. The yield spreads of bonds issued by banks and non-financial corporations vis-à-vis the risk-free rate moved in line with equity prices (Figure 11.c).

The euro exchange rate remains virtually unchanged

The effective exchange rate of the euro has remained essentially stable at the levels recorded early in October (Figure 12). The euro-dollar exchange rate strengthened slightly: following a temporary weakening in the second half of October, the euro returned to higher levels than the initial ones. The recent appreciation mainly reflects the expectations of further policy rate cuts by the Federal Reserve in the coming months.

Figure 12



Sources: ECB and LSEG. The latest figure refers to 9 January 2026.

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

THE SURGE IN GLOBAL DEMAND FOR COMPUTATIONAL RESOURCES: MACROFINANCIAL IMPACTS AND RISKS

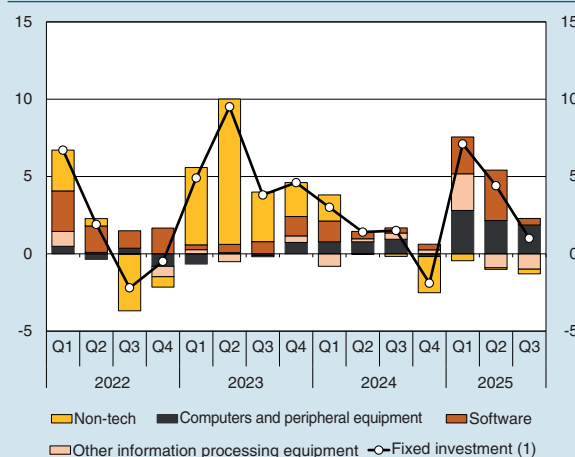
The increasing adoption of advanced technologies across many sectors of the economy and the rapid diffusion of artificial intelligence (AI) applications have led to a surge in demand for computational resources in recent years. These are provided as cloud services mostly by a number of large US companies, with the top three (Amazon, Alphabet and Microsoft) holding a combined market share of 65 per cent.

Demand for computational resources has significant macroeconomic spillovers. In the United States, the build-up of digital infrastructure capable of meeting this demand (especially data centers) has led to a surge in IT-related investment,¹ which grew by 20.4 per cent in real terms on average in the first three quarters of 2025. This expansion accounts for almost all of the increase in fixed investment (4.2 per cent in real terms on average over the same period; Figure A). Higher demand for computational resources has also significantly pushed up US imports of goods (semiconductors, servers, etc.), helping to support global trade (see Section 1.1).

With the increase in demand for computational services and the associated expectations of strong profits, tech stock valuations surged (see panel (a) of Figure B), contributing 60 per cent of the rise in US equity prices in 2025. As a result, the

Figure A

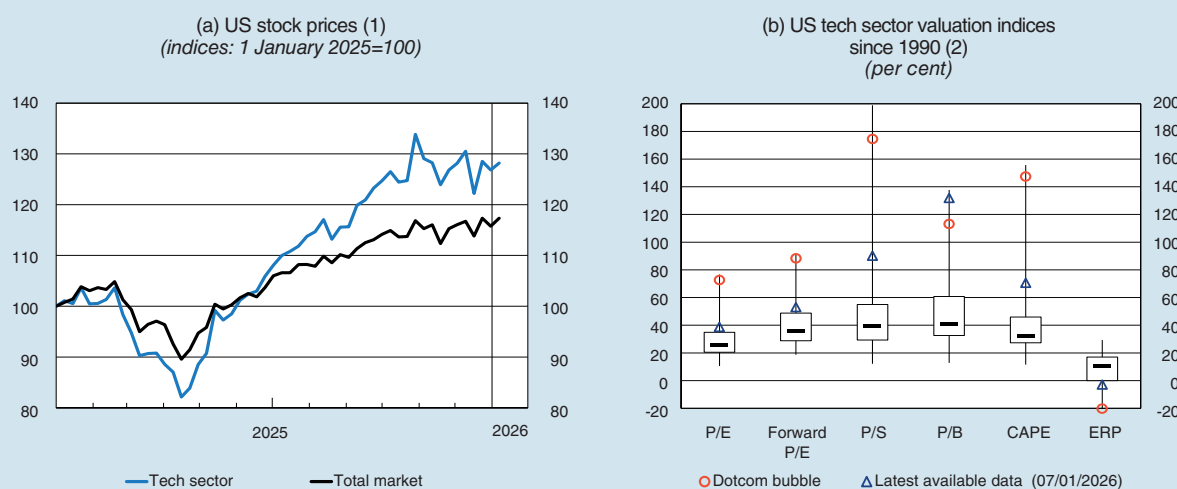
Investment growth in the United States (percentage changes and points)



Source: Based on US Bureau of Economic Analysis data.
(1) Chain-linked values; annualized and seasonally adjusted quarter-on-quarter percentage changes.

Figure B

US stock prices and valuation indices



Source: Based on LSEG data.
(1) TOMKUS index for the total market and TECNOUS index for the technology sector. – (2) Horizontal dashes represent the median, rectangles delimit the interquartile range, vertical lines cover the lows and highs. The indicators shown in the chart are: the price-to-earnings ratio (P/E), calculated as the price divided by earnings over the past 12 months at the reference date; the price-to-earnings ratio 12 months forward (forward P/E), calculated as the price divided by estimated earnings for the next 12 months, based on I/B/E/S Estimates consensus forecasts; the price-to-sales ratio (P/S), calculated as the market value of the index relative to total sales for the last 12 months; the price-to-book ratio (P/B), which is the market value of the index relative to its latest available book value; the cyclically adjusted price-to-earnings ratio (CAPE), similar to the P/E ratio, but with both prices and earnings in real terms and with earnings calculated as the average for the previous 10 years; and the equity risk premium (ERP), defined as the inverse of the CAPE, which is the return on earnings, net of the 10-year risk-free real rate (10-year inflation-linked bonds). P/S and P/B ratios are multiplied by 10 and the ERP by 2 to improve visualization. All metrics are based on the TECNOUS index.

¹ This refers to ‘private fixed investment in information processing, equipment and software’ as defined in the US Bureau of Economic Analysis statistics. It is an ad hoc measure of IT-related investment, summing three different subitems of the investment aggregate: computers and peripheral equipment; other related equipment; software.

top ten companies in the sector² now account for more than a third of the entire US stock market capitalization, a historically very high level of concentration.³

According to some commonly used indicators, tech valuations are high by historical standards (see panel (b) of Figure B). This has prompted comparisons of the recent stock market rally with the dotcom bubble. Whether the current valuation levels are sustainable is highly debated, including in light of the recent sharp volatility in the prices of some tech stocks.

Despite the uncertainty about the earnings outlook for companies developing AI models (including OpenAI and Anthropic), the expansion of the AI application market continues to be robust and various indicators could uphold the positive assessments of the sector's current and future profitability. The latter was the main driver of stock appreciation in 2025. For example, the still very high prices of the latest generation of computational resources and the use of data centers at nearly full capacity suggest that supply is struggling to keep up with demand. Moreover, the leading cloud service providers saw their revenues grow by more than 20 per cent in 2025, from an already very high level (around \$350 billion in the last four quarters; Figure C). This boosted their earnings as well as those of other players along the value chain, including hardware manufacturers (e.g. NVIDIA). Compared with the surge in the US equity market during the dotcom bubble, the recent rise in tech stock prices appears to have been more gradual and more in line with actual and expected profitability growth.

However, stock prices have experienced significant fluctuations in recent months, amid concerns over increased borrowing by several companies to finance capital expenditure,⁴ including through off-balance-sheet structures, and following weaker-than-expected results for some firms in the third quarter of 2025. Since the end of September, CDS spreads have widened for some companies that are driving the expansion in AI investment.⁵ More generally, increasingly bullish earnings expectations could expose the market to a risk of strong corrections if these expectations turned out to be unwarranted. The risk of contagion is also high, as the leading AI firms have become more interdependent due to the growing number of supply and ownership ties. Finally, both the market capitalization-to-GDP ratio and the technology sector's share in total market capitalization are currently very high. A potential correction in stock prices, or valuations returning to levels that are more consistent with their historical average, could have a significant impact on global financial conditions and economic activity.

² For an in-depth discussion of these companies' valuations, investors' expectations and the associated risks, see M. Albori, V. Nispi Landi and M. Taboga, 'Is there a tech bubble in the US stock market? Evidence from an agnostic valuation procedure', Banca d'Italia, Questioni di economia e finanza (Occasional Papers), 975, 2025.

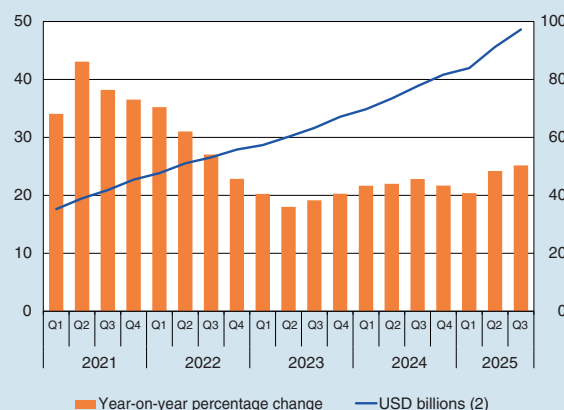
³ Between the late 1990s and 2000, at the time of the dotcom bubble, the technology sector as a whole accounted for just over 30 per cent of the total US stock market capitalization.

⁴ The average capex-to-revenue ratio rose by 140 per cent over the past year for Alphabet, Amazon, AMD, Apple, Intel, Meta, Microsoft, NVIDIA and Oracle, while debt net of cash flow grew by 115 per cent on average.

⁵ More specifically, CDS spreads widened dramatically for CoreWeave and Oracle bonds, and more moderately for bonds issued by Alphabet, Amazon, Broadcom, Meta, Microsoft and NVIDIA.

Figure C

Quarterly revenues from data centers (1)



Sources: Banca d'Italia and quarterly financial reports by Alphabet, Amazon and Microsoft.

(1) Revenues of the top three listed companies offering cloud services. These revenues are shown as a separate item in the financial statements of the respective holding companies. – (2) Right-hand scale.

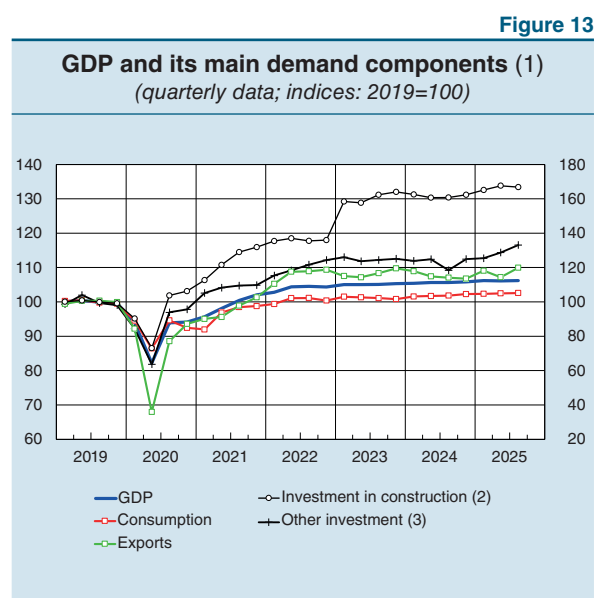
2 THE ITALIAN ECONOMY

2.1 CYCLICAL DEVELOPMENTS

GDP grew slightly in the third quarter of 2025. Investment continued to rise, partly driven by the tax incentives and the measures set out in the National Recovery and Resilience Plan (NRRP), while growth in private consumption remained limited. The economy continued to expand in the fourth quarter, supported by another rise in investment and, on the supply side, by activity in the service sector and in industry. A cautious stance over developments in the global economy is holding back household consumption, despite the steady increase in household income.

Economic activity increases slightly in the third quarter ...

After falling slightly in the spring, Italy's GDP returned to mild growth in the summer (by 0.1 per cent on the previous quarter; Figure 13 and Table 3). One contributory factor was the sharp rise in exports – part of which attributable to temporary factors such as the sale of maritime transport equipment – against a more moderate growth in imports. Net of significant destocking, the contribution from domestic demand was positive: investment in capital goods, intellectual property products and non-residential construction continued to expand, partly driven by the tax incentives and other measures connected with the NRRP (see *Economic Bulletin*, 4, 2025). Household consumption continued to grow marginally, in spite of further rises in real income. Concerns about the economic outlook are reflected in households' propensity to save, which remains higher than it was before the pandemic (see Section 2.3).



On the supply side, value added rose in services, with a substantial distribution across service sectors. The most significant contribution to growth in the first nine months of the year came from business services, which are benefiting from the demand generated by the digital and energy transition. Value added instead contracted in industry excluding construction (see Section 2.2), where it returned to its end-2024 levels, and in construction, where the decline in the residential sector was only partly offset by an increase in the execution of civil engineering projects.

... and continues to grow at a modest pace in the fourth

Based on our estimates, GDP continued to expand in the fourth quarter, driven by a further increase in the service sector and by a recovery in industry.

Consumer confidence indicators point to the continuation of a very cautious stance regarding personal financial conditions and the general macroeconomic outlook, suggesting still moderate growth in private

Table 3

GDP and its main components (1) (percentage changes on previous period and percentage points)					
	2024	2024		2025	
		Q4	Q1	Q2	Q3
GDP	0.7	0.2	0.3	-0.1	0.1
Imports of goods and services	-0.4	0.2	1.1	0.4	1.2
National demand (2)	0.6	0.3	0.0	0.6	-0.3
National consumption	0.6	0.4	0.1	0.1	0.1
Household spending (3)	0.6	0.4	0.2	0.1	0.1
General government spending	1.0	0.4	-0.3	0.2	0.2
Gross fixed investment	0.5	1.9	1.0	1.5	0.6
Construction	1.5	1.0	1.7	1.5	-0.5
Capital goods (4)	-0.8	3.0	0.2	1.5	1.9
Change in inventories (5)	..	-0.4	-0.3	0.2	-0.6
Exports of goods and services	..	-0.3	2.2	-1.7	2.6
Net exports (6)	0.1	-0.1	0.4	-0.7	0.5

Source: Istat.

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

consumption (see Section 2.3). Our assessments suggest investment grew further, albeit more modestly than in the previous period, with favourable financial conditions and the tax incentives and other provisions connected with the NRRP contributing to the increase (see Section 2.2). The data on foreign trade in goods indicate that the contribution from foreign demand was almost nil (see Section 2.4).

According to the macroeconomic projections published by Banca d'Italia in December, GDP appears to have grown by 0.6 per cent in 2025 and is set to grow at the same pace in 2026, to then pick up slightly in 2027-28 (see the box 'The macroeconomic scenario published in December').

THE MACROECONOMIC SCENARIO PUBLISHED IN DECEMBER

Banca d'Italia's projections for the Italian economy for 2025-28, published last December,¹ assume a slowdown in world trade in 2026, owing to higher tariffs, and a downward path for energy commodity prices. Borrowing costs for firms and households are projected to stabilize as early as this year, and to inch up towards the end of the forecasting horizon.² Our scenario takes into account the information on public finance made available in the Public Finance Planning Document 2025 (PFPD 2025) and the Draft Budgetary Plan for 2026. The introduction of the EU's new emissions trading system covering greenhouse gases and pollutants (ETS2) is assumed to be postponed to 2028, as proposed by the European Council.

GDP growth is estimated to run at 0.6 per cent in 2025 and 2026, 0.8 per cent in 2027 and 0.9 per cent in 2028 (see the table). The expansion in economic activity is set to be driven mainly by domestic demand. The increase in consumption is forecast to exceed GDP growth, helped by the recovery in real income and a gradual decline in uncertainty, and investment is set to remain buoyant as a result of NRRP measures, relaxed financing conditions and an improved outlook for demand.

¹ For further details, see Banca d'Italia, 'Macroeconomic projections for the Italian economy (Eurosystem staff macroeconomic projections)', 19 December 2025.

² The projections are based on information available at 26 November (for the technical assumptions) and at 2 December 2025 (for other data), as agreed in the Eurosystem.

Table

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

	GDP (1)				Inflation (2)			
	2025	2026	2027	2028	2025	2026	2027	2028
Banca d'Italia (December)	0.6	0.6	0.8	0.9	1.7	1.4	1.6	1.9
European Commission (November)	0.4	0.8	0.8	–	1.7	1.3	2.0	–
OECD (December)	0.5	0.6	0.7	–	1.8	1.7	1.8	–
IMF (October)	0.5	0.8	0.6	0.7	1.7	2.0	2.0	2.0
PBO (October)	0.5	0.4	0.8	0.6	1.8	1.8	1.8	1.8
Memorandum item: Banca d'Italia (October)	0.6	0.6	0.7	–	1.7	1.5	1.9	–

Sources: Banca d'Italia, 'Macroeconomic projections for the Italian economy (Eurosysteem staff macroeconomic projections)', 19 December 2025; European Commission, *European Economic Forecast, Autumn 2025*, November 2025; OECD, *OECD Economic Outlook. Resilient Growth but with Increasing Fragilities*, December 2025; IMF, *World Economic Outlook*, October 2025; Parliamentary Budget Office (PBO), 'Hearing of the Chair of the Parliamentary Budget Office as part of preliminary hearings for the assessment of the Public Finance Planning Document 2025', 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, 0.8 per cent in 2027 and 0.7 per cent in 2028. – (2) HICP. The PBO's forecasts refer to the consumption deflator.

Exports are estimated to pick up, albeit to a lesser extent than foreign demand, mainly due to the loss of competitiveness resulting from the appreciation of the exchange rate.

Employment is projected to expand further, though not as strongly as in recent years and generally at a more moderate pace than GDP. Productivity will improve slightly. The unemployment rate will remain broadly unchanged over the forecasting horizon.

Inflation is projected to remain moderate, at 1.4 per cent in 2026 and 1.6 per cent in 2027, before rising to 1.9 per cent in 2028, when the introduction of the EU's ETS2 legislation will temporarily drive energy prices higher. Inflation excluding food and energy is projected to stand at 1.6 per cent throughout the forecasting horizon (down from 1.9 per cent in 2025).

Compared with the estimates published in October 2025, growth projections have been revised upwards by 0.1 percentage points for 2027, to reflect the stronger increase in consumption spurred by households' greater purchasing power. The inflation profile is lower by 0.1 percentage points for 2026, mainly owing to lower energy commodity price assumptions, and by 0.3 percentage points for 2027, due to the postponement of the introduction of the ETS2 legislation.

The forecasting scenario remains subject to considerable uncertainty, particularly as regards international developments: even tighter trade policies or potential strong corrections in global equity markets could negatively affect economic activity. By contrast, a looser fiscal stance in Italy – including in connection with recent announcements of an increase in defence spending, which is not factored into our scenario – could boost growth.

Inflation could be affected by downward pressures stemming from a more unfavourable trend in aggregate demand, from a stronger appreciation of the euro, and from a flood of cheap goods from Asian economies pouring into Europe, thereby lowering import prices. Uncertainty about the effects of the ETS2 legislation is also weighing on the outlook for 2028. Conversely, geopolitical and trade tensions may result in higher commodity prices and bottlenecks in global supply chains, driving inflation higher.

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

2.2 FIRMS

Value added rose in the service sector over the third quarter, still buoyed by the good performance of business services and by the recovery in services to households; it declined instead in industry excluding construction, and in construction. Based on our estimates, activity in services continued to rise at the close of the year and recovered in the manufacturing and construction sectors. After rising significantly over the summer, investment continued to expand, benefiting from relaxed financing conditions and from the tax incentives and other measures connected with the NRRP. The outlook remains uncertain in manufacturing, also owing to more intense competition from China.

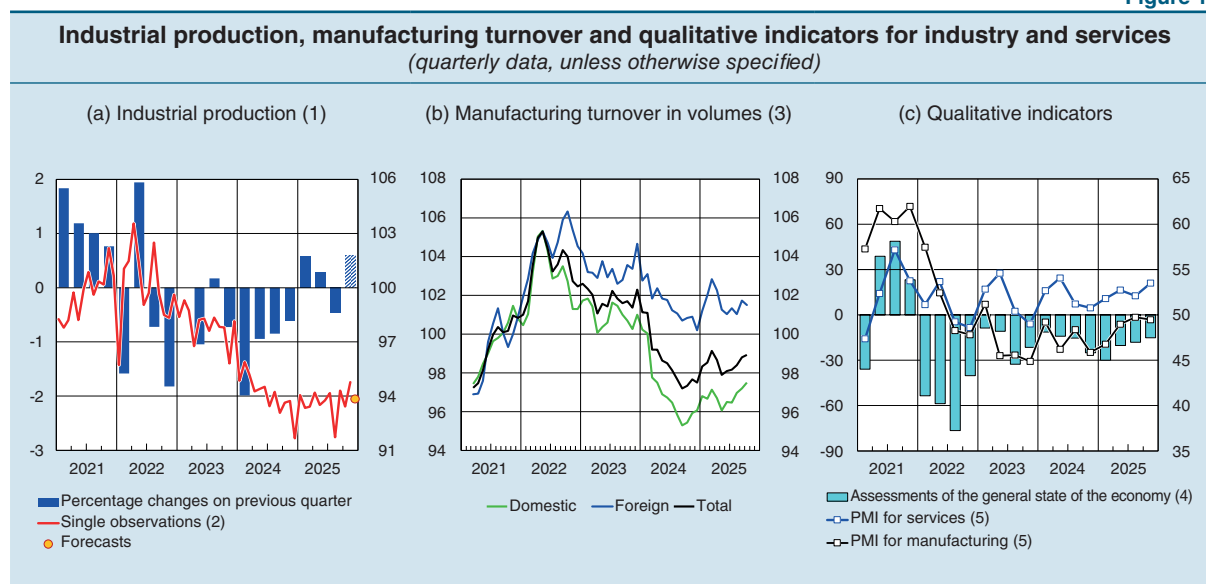
Industrial production declines over the summer ...

Industrial activity declined in the summer months (Figure 14.a). Contributory factors were the drop in energy production, which returned to lower levels than those recorded during the 2022 energy crisis, and the waning of foreign demand, which in the first part of the year had been boosted by the frontloading of sales to the United States, in view of the expected increase in tariffs (Figure 14.b). The production of capital goods instead continued to expand, fuelled by the positive trend in investment. Growth continued in the pharmaceutical sector and in the production of electronic equipment; the manufacturing of transport equipment recovered, compared with the previous quarter, but is still in sharp decline compared with the same period in 2024 and around one third below its pre-pandemic level. This sector's performance reflects a number of structural difficulties, some of which stem from the crisis in the automotive industry in Germany (see the box 'The recent weakness of manufacturing in Germany and its impact on the rest of the euro area', in *Economic Bulletin*, 1, 2025).

... and returns to growth in the last quarter of 2025

In November, production grew by 1.5 per cent on the previous month. According to our estimates, the recovery in activity continued over the autumn months as a whole, after the decline in the summer.

Figure 14



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 December 2025, the last bar represents the forecast for the fourth quarter of 2025. – (2) Monthly data. Index: 2021=100. Right-hand scale. – (3) Monthly data, volumes, 3-month moving average ending in the reference month. – (4) Balance, in percentage points, of the responses 'better' and 'worse' to the question on the general state of the economy (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 14 January 2026). – (5) Average quarterly data. Diffusion indices for economic activity in the sector. Right-hand scale.

According to the [Survey on Inflation and Growth Expectations](#) conducted by Banca d'Italia in November and December, firms' assessments of the general state of the economy have improved slightly compared with the summer, and their assessments of the demand for their products were more favourable, as were their short-term expectations regarding their own business conditions. However, the purchasing managers' index (PMI) for the manufacturing sector remained close to the threshold indicating stable activity, on average in the fourth quarter (Figure 14.c), and the confidence indicators in Istat's surveys are still substantially below their historical average.

Looking ahead, manufacturing activity could be affected in many sectors by intensifying competition from China, in a context of trade flows originating in China being rerouted to countries other than the United States (see the box 'Italian firms' expectations regarding the effects of the rerouting of Chinese exports').

ITALIAN FIRMS' EXPECTATIONS REGARDING THE EFFECTS OF THE REROUTING OF CHINESE EXPORTS

Protectionist measures adopted or announced during 2025 are reshaping global trade flows. In particular, the high tariffs imposed by the United States have prompted Chinese firms to reroute their products to other economies (see Section 1.1). Between May and June 2025, the [Survey on Inflation and Growth Expectations](#) conducted by Banca d'Italia¹ collected the assessments of Italian industrial and service firms on the effects that this potential increase in the inflow of Chinese products could have on their target markets – both within and outside the EU – over the twelve months following the survey.

Some 34 per cent of manufacturing firms and 24 per cent of service firms expected the supply of Chinese products in their target markets to increase (see panel (a) of the figure). This opinion was more common among exporting firms. Most firms thought that the main channel through which an increase in Chinese supply could affect their business was through stronger competitive pressures on product markets, leading to downward pressure on prices (see panel (b) of the figure). A smaller but still significant share of firms pointed to lower intermediate input prices as another important channel.

According to econometric estimates, which also incorporated data from the subsequent survey round conducted between August and September, the expected effects are heterogeneous:² for manufacturing firms, the negative impact on price dynamics is significant for both intermediate input prices and selling prices, while the effect on the selling prices of service firms is modest.

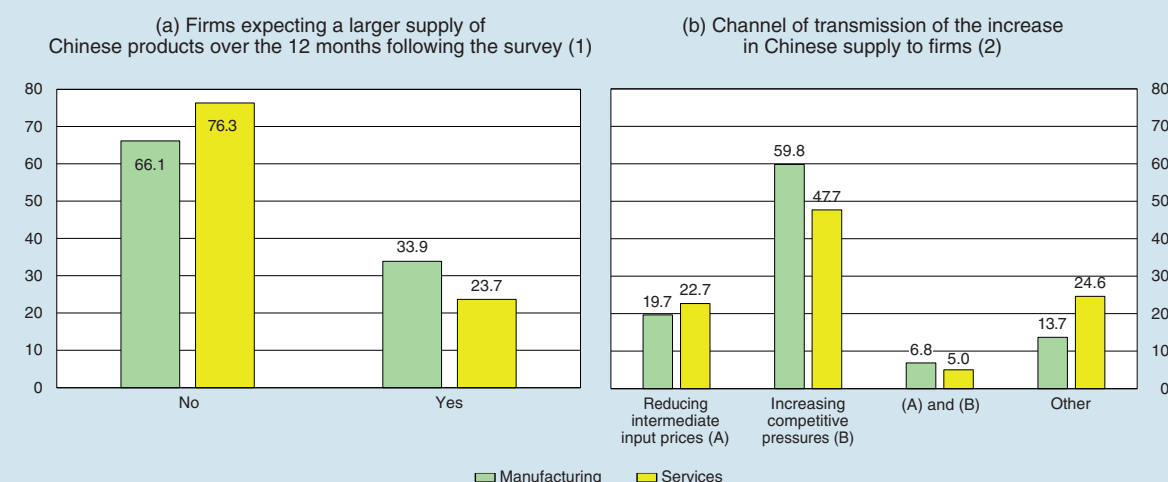
Firms exposed to the rerouting of Chinese products report greater uncertainty about business conditions in the medium term and expect to have more cautious investment plans. These expectations are more prevalent among manufacturers and exporters, in line with the anticipation of a gradual, but lasting, trade reallocation. Exposed firms are more pessimistic about the current macroeconomic conditions and about the likelihood of an improvement in the short term. Their consumer price inflation expectations do not differ substantially from those of firms not exposed to trade rerouting, although manufacturing firms' expectations are more muted in the short term.

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

² For further details, see T. Ropele 'Rerouting of Chinese products in response to U.S. trade tariffs: evidence from Italian firms' expectations', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), forthcoming.

Figure

Italian firms' expectations about the rerouting of Chinese exports following US tariffs (per cent)



Source: 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 8 July 2025.

(1) The question had three possible answers: 'No', 'Yes, to a modest extent' and 'Yes, to a significant extent'. The latter two responses have been merged into one category ('Yes') in the figure, since the 'Yes, to a significant extent' option was chosen by a very small share of firms (around 6 per cent). – (2) The firms interviewed could choose more than one answer: by reducing the prices of intermediate inputs purchased by my firm (A); by increasing competitive pressure on the products sold by my firm (and thus on selling prices) (B); other. Only the most frequent response combinations are shown in the figure.

The potential rerouting of Chinese products from the US to alternative markets is a factor that could affect firms' business conditions. Although the short-term effects appear limited,³ it could have a significant impact on firms' ability to operate within the reconfigured global trade system given that the rerouting process is gradual and potentially persistent.

³ According to recent estimates, the share of Italian exports of goods that could potentially be displaced (owing to the rerouting of Chinese exports in response to US tariffs) ranges between 0.3 and 1 per cent of total exports, depending on the assumptions made about the elasticity of Chinese exports to the United States. For more information, see S. Federico, F. Hassan and G. Romanini, 'The effects of US tariffs on Italian firms: an ex-ante micro-level perspective', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 994, 2025. These assessments refer solely to the channel of competition in foreign destination markets (which the opinions gathered through the survey indicate is particularly important for exporters) and they do not take into account the potential effects it could have on the internal sales market.

Activity in services continues to expand ...

Growth in value added in the service sector was widespread over the third quarter, and the positive trend in business advisory services and information and communication services, spurred by the ongoing digital and energy transition, was confirmed. Economic activity in these sectors continued to expand in the autumn months. Thanks to the positive trend in tourism, growth also appears to have been strong in the transport, hospitality and catering sectors, as suggested by Istat's business confidence surveys and Confcommercio's household consumption indicators. The PMI indices for activity in services signalled a rise, confirming it stands above the expansion threshold, especially as far as the new orders component is concerned. Similar conclusions can be drawn both from Istat's surveys, according to which expectations regarding orders reached their highest level since January

2024, and from Banca d'Italia's survey, which indicated a sharp rise in the positive balance between the share of firms reporting an expansion in demand and that indicating a decrease.

... while growth in construction seems to pick up again at a moderate pace

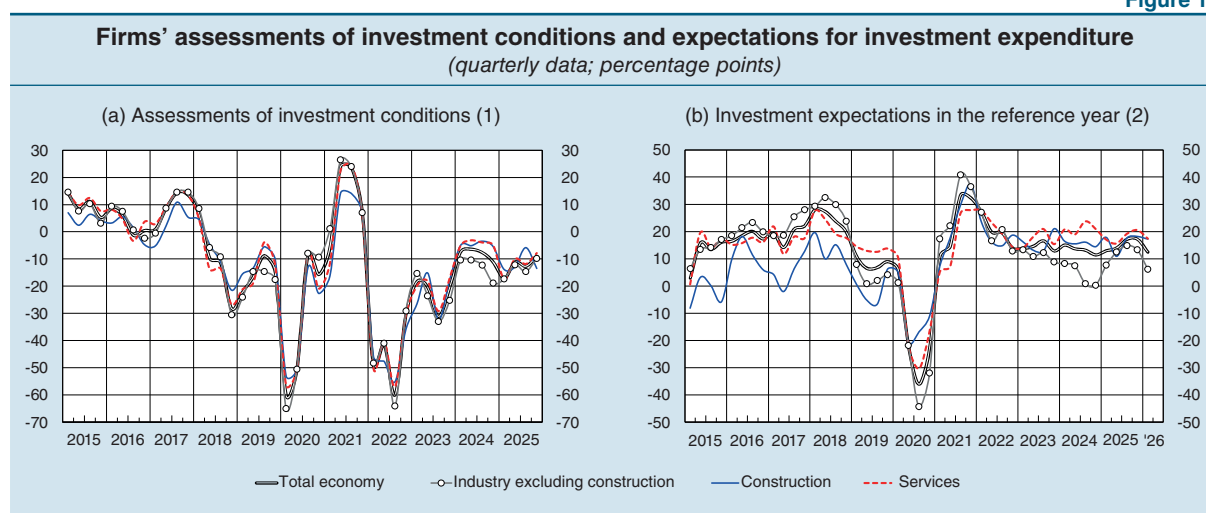
After four consecutive quarters of expansion, activity in construction declined in the summer months, when the moderate increase in the non-residential sector was insufficient to offset the sharp decline in residential construction. Qualitative indicators for the autumn months instead point to a return to growth in the sector as a whole. In Istat's surveys, the assessments regarding orders and construction plans point to a reduction in activity in the housing sector, while they are more positive for other civil engineering works. In Banca d'Italia's surveys, the share of firms which gave favourable assessments for demand was much higher than those that recorded a decline, both in the fourth quarter of 2025 and in the current quarter.

Investment in machinery and equipment increases

In the summer months, total investment grew at a more moderate pace than in the previous quarters. The contraction in investment in residential construction reflects a correction, after two quarters of marked increase. Investment in machinery and equipment was on a robust expansionary path for the second consecutive quarter, alongside the slower but stable pace of investment in intangibles. Spending on transport equipment rose significantly to reach its highest level since the end of 2023; this outcome was driven, quite plausibly, by incentives for firms and general government to renew their vehicle fleets.

The latest data indicate that non-construction investment continued to increase in the last three months of 2025, owing to favourable financing conditions and to the tax incentives and measures connected with the NRRP. Data from the Italian Leasing Association (Assilea) indicate there was a sharp increase in lease contracts signed over the third quarter for the purchase of capital goods, which was partly a reflection of the incentives provided for in the Transition 4.0 and 5.0 plans. Our surveys indicate that just under one third of industrial firms with at least 50 employees had sought these incentives in late 2025 or planned to do so. Expenditure on transport equipment also benefited from tax incentives for electromobility. Forward-looking assessments of orders and production for firms in the capital goods sector continued to improve. Banca d'Italia's sample surveys indicate that fixed investment should also continue to expand in 2026 as a whole (Figure 15).

Figure 15



Source: 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 14 January 2026.

(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 grew slightly in the third quarter. The propensity to save rose further, reaching one of the highest levels since the global financial crisis. According to our estimates, consumption continued to expand mildly in the autumn months, reflecting a weaker labour market outlook and households' cautious expectations regarding macroeconomic trends.

Household consumption increases slightly in the summer ...

Household spending rose marginally in the third quarter. The reduction in the service component and the unchanged consumption of non-durable goods were offset by the increase in purchases of durable goods, which had fallen sharply at the beginning of the year. Private consumption was affected by the uncertainty about the macroeconomic outlook, despite the continued recovery in disposable income, which rose by 1.8 per cent in real terms quarter on quarter. The propensity to save continued to increase, reaching 11.4 per cent (Figure 16) – one of the highest levels of the past 15 years, excluding the abnormal trends observed during the pandemic.

Compared with the summer of 2024, disposable income grew by 3.1 per cent at constant prices, driven by the marked rise in payroll employment income. Investment income, which includes financial income, rose again after a prolonged decline. This income usually has a more limited impact on consumption trends, as it is mainly earned by households with a lower marginal propensity to consume.

... and likely continues to rise modestly in the fourth quarter

The latest cyclical indicators suggest that consumption growth was still limited in late 2025. Confcommercio's indicator rose in October and November. New electric car registrations also increased – buoyed by government incentives and manufacturer discounts – although car purchases remain about one fifth below pre-pandemic levels overall. Conversely, Istat's consumer confidence index declined slightly on average in the fourth quarter compared with the third: the worsening outlook for individual and household finances, in connection with less favourable expectations for the labour market, outweighed the easing of the still widespread pessimism regarding the macroeconomic outlook (Figure 17).

Figure 16

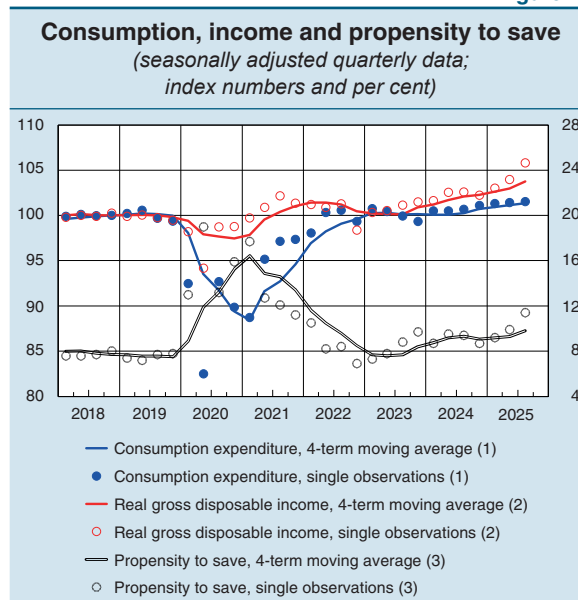
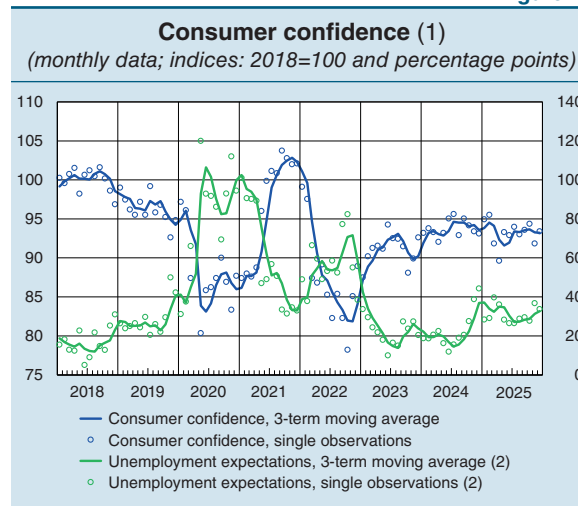


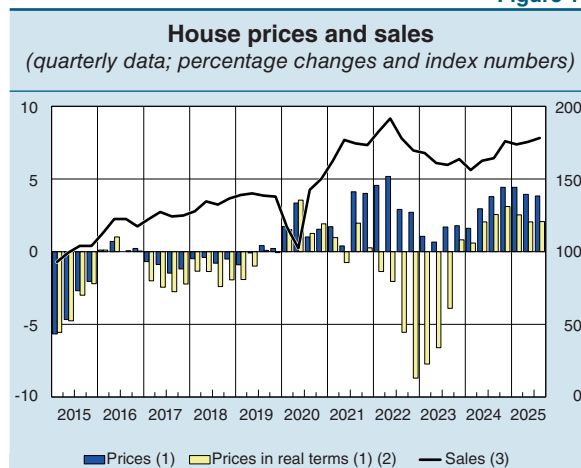
Figure 17



The real estate market continues to rise

The performance of the real estate market remained positive in the third quarter: year-on-year growth in house prices remained substantial (3.8 per cent) and sales continued to rise (Figure 18). According to the [Italian Housing Market Survey](#) of November 2025, upward pressures on rents persist, particularly in metropolitan areas, though they are gradually easing. Our data indicate that a large share of sales – mostly involving existing homes – benefited from accommodative financing conditions. The latter continue to support purchases and point to a positive outlook for the fourth quarter as well. According to our calculations, based on the listings published on the Immobiliare.it online platform, housing demand remained lively in the autumn.

Figure 18



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

(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

Export volumes returned to growth in the third quarter, partly as a result of exceptional developments in some sectors, expanding at a faster rate than imports. Sales of goods, excluding some volatile components, appear to have held stable in October and November, compared with the previous quarter. The current account surplus remained high between July and September, benefiting from the positive trend in goods balances and investment income. Net purchases of Italian government securities by foreign investors continued, albeit at a slower pace. The positive net international investment position strengthened.

Exports grow in the third quarter ...

Following a decline in the second quarter, exports of goods grew significantly in the summer months, both to euro-area markets, especially France, and to non-euro area markets, including the United States (Table 4 and panel (a) of Figure 19). However, the increase in exports to the US was affected by sales of ships. Excluding these goods and other volatile components, the trend would have been negative again, likely on account of the new tariffs: exports fell in nearly all sectors, particularly in food and pharmaceuticals, as the effects of frontloaded purchases faded (see panel (b) of Figure 19). Overall, export growth was driven mainly by base metals and refined oil products, as well as by other transport equipment. Foreign sales of services also returned to growth, due to both higher foreign traveller spending in Italy and to positive trends in other service components.

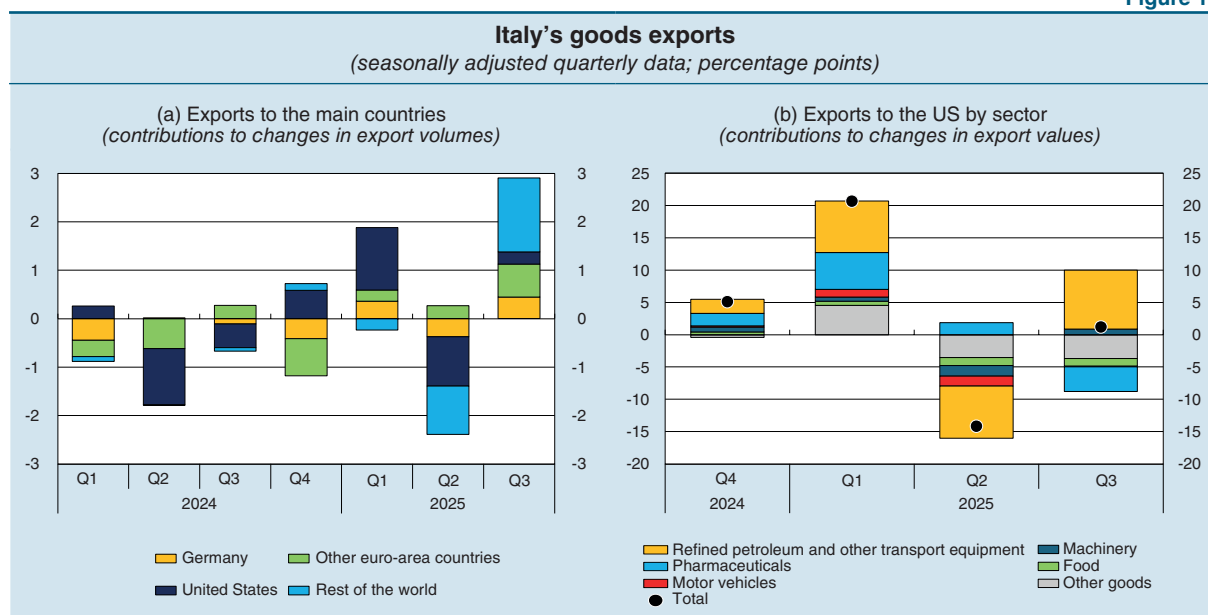
Table 4

Export and import volumes (1) (percentage changes on previous period)					
	2024	2024	2025		
		Q4	Q1	Q2	Q3
Exports	..	-0.3	2.2	-1.7	2.6
Goods	-0.5	-0.5	1.6	-2.1	2.9
To euro-area countries	-2.4	-2.7	1.4	-0.3	2.6
To non-euro area countries (2)	0.9	1.3	1.8	-3.5	3.1
Services	2.5	0.5	4.2	-0.2	1.3
Imports	-0.4	0.2	1.1	0.4	1.2
Goods	-1.2	-0.3	1.3	-0.2	1.0
From euro-area countries	2.0	-2.2	2.2	-0.2	2.8
From non-euro area countries (2)	-4.5	1.9	0.4	-0.2	-1.0
Services	2.9	1.8	0.3	2.5	1.9

Sources: Based on Istat's national accounts and foreign trade data.

(1) Chain-linked volumes; raw annual data; quarterly data adjusted for seasonal and calendar effects. – (2) Includes unspecified countries and, for exports, stores and provisions.

Figure 19



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

Import volumes grew further, especially in services, despite a rather modest increase in the expenditure of Italian travellers abroad. For goods, the uptick was driven by trade with euro-area countries, especially Germany and France. Conversely, purchases from non-euro area countries, including those from China – which had risen sharply in the first half of 2025¹ – declined.

... and remain stable in October and November, net of some volatile components

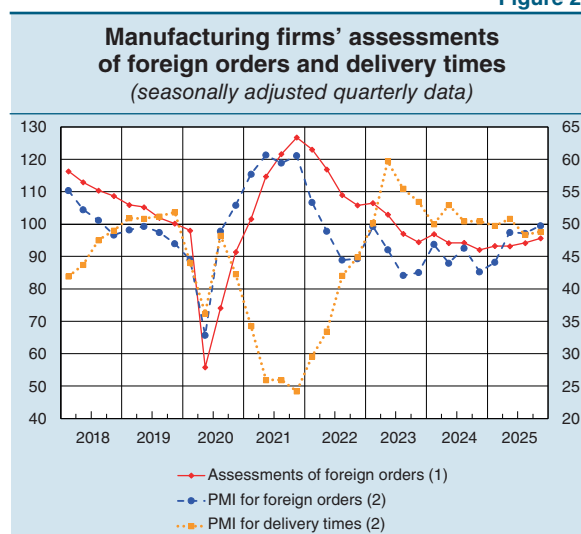
According to our estimates based on still partial foreign trade data, seasonally adjusted goods sales volumes fell in October and November, compared

with the third quarter; excluding exports of ships, they remained broadly stable. The manufacturing firms' assessments of foreign orders, as recorded by Istat, and the corresponding PMI point to a mild recovery in foreign demand (Figure 20).

The current account surplus remains high

The seasonally adjusted current account surplus amounted to €8.8 billion

Figure 20



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 of 2020 is a 2-month average: the figure for April was not recorded owing 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.

¹ In the first three quarters of 2025 as a whole, the value of imports from China increased by 7 per cent year on year in balance of payments data and by 20 per cent in foreign trade data. The difference reflects exceptionally large purchases of pharmaceutical products for temporary processing, which, according to statistical standards, are excluded from goods imports in the national accounts but included in foreign trade statistics.

in the third quarter, equal to 1.6 per cent of quarterly GDP, as in the previous quarter (Figure 21 and Table 5). The surplus reflects the good performance of the goods balance – especially owing to the reduction in the energy deficit – and of the primary income deficit, mainly driven by the shrinking investment income debits.

Foreign investors' demand for Italian government bonds remains positive

The financial account recorded an increase in net foreign assets in the summer months (€12.5 billion; Table 5). The positive balance on portfolio investment reflected significant purchases of investment fund shares, especially by households and non-financial corporations. It was also driven by purchases by banks, insurance companies and pension funds of long-term debt securities – particularly those issued by France and Spain. On the liabilities side, non-residents continued to invest in Italian government bonds, albeit at a slower pace, in an environment of negative net issues by the Treasury. Foreign demand for corporate bonds, especially those issued by non-financial corporations, remained positive.

The negative TARGET balance continues to narrow

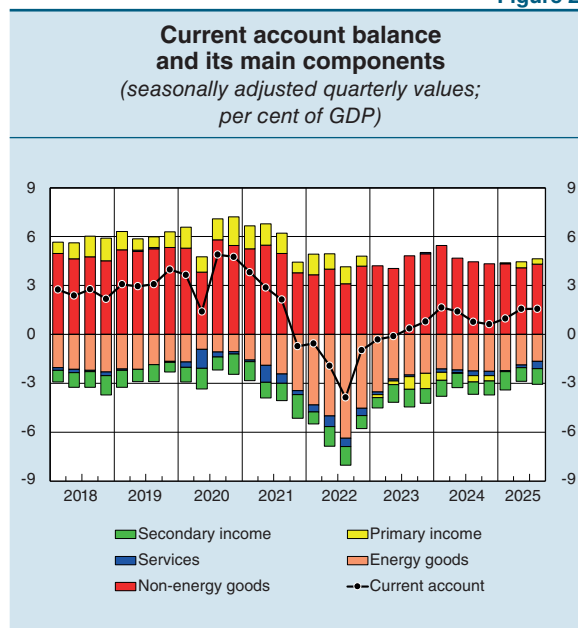
In the third quarter, Banca d'Italia's debtor position in the TARGET system fell by €11.4 billion, to €383 billion at the end of September. This was partly due to the disbursement of the seventh NRRP tranche, amounting to €18 billion. In the following months, the negative balance continued to narrow gradually, to €358 billion at the end of December.

Italy's positive net international investment position strengthens

At the end of the third quarter, Italy's net international investment position was positive by €297.6 billion, equal to 13.3 per cent of GDP (from 10.7 per cent at the end of the previous quarter). The €59.6 billion change compared with the end of June reflects both the current and capital account surpluses and, to a greater extent, positive valuation adjustments, largely linked to the revaluation of monetary gold.

The financial account recorded an increase in net foreign assets in the summer months (€12.5 billion; Table 5). The

Figure 21



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	2025		
		Q4	Q1	Q2	Q3
Current account	23.8	3.6	-2.3	10.3	14.4
Adjusted for seasonal and calendar effects	24.4	3.4	5.4	8.8	8.8
Memorandum item: % of GDP (1)	1.1	0.6	1.0	1.6	1.6
Capital account	-0.4	1.0	0.3	0.8	-0.3
Financial account	51.8	22.3	-8.1	7.4	12.5
Direct investment	17.5	5.2	-2.3	-3.2	2.8
Portfolio investment	-78.8	-17.8	-0.9	-33.4	29.4
Derivatives	3.4	0.5	0.1	0.1	-3.1
Other investment (2)	107.7	34.1	-4.5	41.7	-16.9
Changes in official reserves	2.1	0.3	-0.5	2.2	0.4
Errors and omissions	28.4	17.7	-6.2	-3.7	-1.6

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

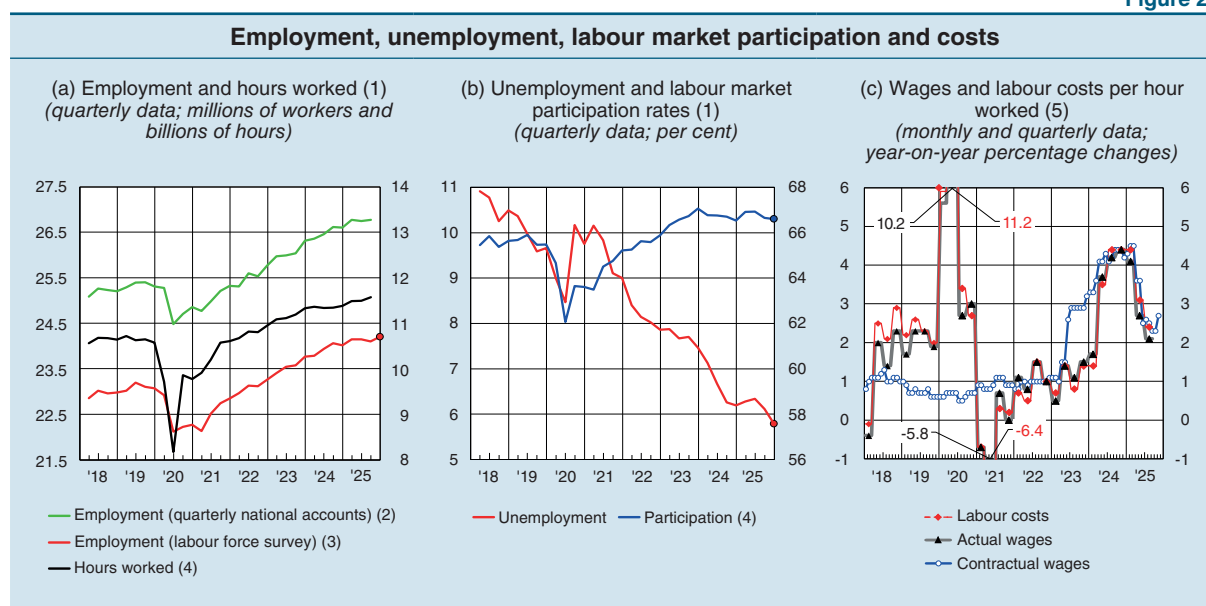
2.5 THE LABOUR MARKET

Headcount employment remained stable in the third quarter and returned to growth in the autumn months. Labour market participation increased again among older workers, while it declined among young people, contributing to the reduction in the unemployment rate. Wages and salaries continued to grow moderately in the non-farm private sector, slightly outpacing inflation.

In the third quarter, headcount employment is unchanged but the number of hours worked is up

According to Istat's quarterly national accounts, headcount employment remained virtually unchanged in the summer months (Figure 22.a): growth in construction offset the slight decline in industry excluding construction and in private services. The number of hours worked went up by 0.7 per cent, underpinned by the increase in hours worked per worker, which have risen in the last four years and returned to 2011 levels. According to data from Istat's labour force survey, much of this recent increase can be ascribed to a decline in the share of part-time workers, which – amid recruitment challenges reported by firms – dropped to 15.5 per cent,² over 3 percentage points lower than its 2019 peak. After rising in the first half of 2025, the number of authorized wage supplementation hours in the two-month period August-September stood at levels similar to those of 2024.

Figure 22



Sources: For employment, hours worked, actual wages and labour costs, Istat's quarterly national accounts; for employment and for the labour market participation and unemployment rates, Istat's labour force survey; for contractual wages, Istat's contractual wages by type of contract.
(1) Seasonally adjusted data. The points corresponding to Q4 2025 indicate the average value for the two-month period October-November. – (2) Includes all persons engaged in production activity in Italy's economic territory. – (3) Includes all resident persons that are employed, excluding workers living permanently in an institution and military personnel. – (4) Right-hand scale. – (5) Non-farm private sector. Raw monthly data for contractual wages. Seasonally adjusted quarterly data for actual wages and labour costs.

Employment and participation rates in the youngest age group decline

According to Istat's labour force survey data, the employment rate continued to grow in the 50-64 age group in the third quarter, but declined in the youngest age group. Labour market participation among workers aged 15-24

² In recent years, the share of involuntary part-time employment has also declined. In the third quarter of 2025, it only accounted for about 2.3 per cent of workers, nearly one percentage point lower than in the same period of 2019.

edged down (-0.8 percentage points),³ partly offset by the increase among people aged 50 and over (0.2 percentage points). The overall participation rate went down to 66.6 per cent, from 66.9 per cent in the previous quarter (Figure 22.b). The unemployment rate inched down by -0.2 percentage points.

Employment returns to growth in October and November

According to provisional data from Istat's labour force survey, headcount employment returned to growth in October and November (by 0.4 per cent compared with the average for the previous quarter). The participation rate continued to decline among those aged 15-24, while it rose again in the oldest age bracket. The unemployment rate fell further to 5.8 per cent, a historically very low level.

In the first eleven months of 2025 as a whole, the number of persons employed rose by 128,000, some 72,000 fewer than in the same period of 2024. The expansion, driven by private services and construction, involved permanent and self-employed workers, while temporary payroll employment contracted.

Wage growth slows in the private sector

In the summer, contractual wages in the non-farm private sector increased by 2.5 per cent year on year (from 3.2 per cent in the spring; Figure 22.c). Actual hourly wages grew by 2.1 per cent (from 2.7 per cent). Growth in contractual wages remained moderate in October and November as well and is expected to slow in 2026, despite the latest agreements signed in several segments of the private sector (see the box 'The impact of recent contractual wage increases on wage growth').

THE IMPACT OF RECENT CONTRACTUAL WAGE INCREASES ON WAGE GROWTH

In the first eleven months of 2025, contractual wages in the non-farm private sector grew by 3.2 per cent on average, 1.5 percentage points more than inflation. Numerous collective bargaining agreements were renewed, some of which had expired many months earlier (15 months on average), covering over four million workers, about one third of private sector employees.¹

Despite the recovery that began in 2023, real contractual wages were still 7.7 per cent lower in November than in January 2021, with persistent sectoral differences. In services, the decline in purchasing power was almost double that observed in industry, owing to the greater lag in renewals and the less widespread use of inflation adjustment clauses.

The most recent renewals contain wage increases of just under 3 per cent on average per year owing to moderate inflation expectations.²

¹ In addition to the metalworking industry, collective bargaining agreements were renewed for the brickmaking industry, telecommunications, private radio and television, rubber-plastics, car hire and environmental services.

² According to Istat's forecasts released last June, the HICP net of imported energy (HICP-NIE) for the 2025-28 period will be 2.0 per cent in 2025, 1.9 per cent in 2026 and 2.0 per cent in 2027 and 2028.

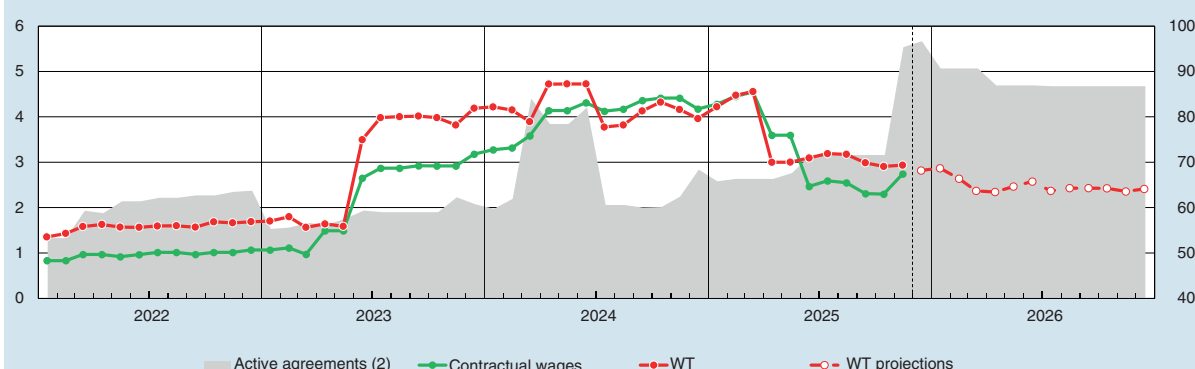
³ Over the last two years, the participation rate in the 15-24 age group has fallen by more than 4 percentage points, mainly owing to the higher share of young people in education.

Following 17 months of negotiations, the national agreement for the private metalworking and plant installation industry, the largest in the manufacturing sector, was signed in November, covering over two million workers (equal to 17 per cent of all employees).³ The agreement will remain in effect until June 2028 and continues to have an inflation adjustment clause that contains an *ex post* revision to account for the difference between expected inflation (HICP-NIE) at the time of renewal and actual inflation. This mechanism, introduced in the 2016 agreement, has enabled workers to partially recoup purchasing power that had been eroded by the recent acceleration in prices: between January 2021 and November 2025, real wages in the sector fell by 3.3 per cent, less than in the other sectors.⁴ Once fully phased in, the wage increases will result in an annual wage growth of 8.7 per cent between the end of the previous agreement in June 2024 and June 2028.⁵

There are only a few renewals expected in 2026: according to our estimates, more than 80 per cent of employees are covered by valid agreements that will remain in force throughout the year. Wage growth will therefore be driven almost entirely by the increases set out in agreements already signed. The wage tracker (WT) for Italy, an indicator that measures wage growth based only on active collective bargaining agreements (see the box ‘The impact of recent negotiated wage increases on wage growth’, in *Economic Bulletin*, 4, 2024),⁶ indicates that contractual wage growth, which has declined since the second quarter of 2025, will continue to weaken in 2026 as well, although remaining above expected inflation (see the figure).

Figure

Year-on-year wage growth under active agreements: non-farm private sector (1)
(monthly data; year-on-year percentage changes and per cent)



Source: Our calculations based on Istat data and on information from Banca d'Italia's database for non-farm private sector national collective bargaining agreements, which covers more than 70 per cent of employees in the sector.

(1) The dashed vertical black line represents the latest update available for Istat's contractual wages index series (November 2025). – (2) Right-hand scale.

³ See Istat's survey on collective bargaining agreements and contractual wages for the total economy.

⁴ The recoupment was not complete because in the two years 2021-22 the HICP-NIE grew less than the overall index of consumer prices (7.3 and 10.8 per cent respectively).

⁵ Although the agreement has been formally in effect since November 2025, it also incorporates the increase granted in June as a result of the *ex post* adjustment clause.

⁶ Istat's contractual wages index drawn from its survey of collective bargaining agreements and contractual wages (green line in the figure) also includes expired agreements: the survey sample is based on the 75 most representative agreements within each sector of activity considered, including those in the farming and public sectors.

2.6 PRICE DEVELOPMENTS

Inflation remained much lower than the euro-area average in the final quarter of 2025, reflecting slower growth in services prices and a steeper drop in energy prices. The core component eased slightly to just under 2 per cent. Producer price pressures remain very low. The inflation expectations of households and firms continue to be moderate.

Consumer price inflation remains subdued

Harmonized consumer price inflation fell significantly on average in the fourth quarter compared

with the summer months, to 1.2 per cent in December (Figure 23 and Table 6), well below that recorded for the euro area as a whole (2.0 per cent). The difference compared with the rest of the euro area was mostly due to slower growth in services prices and to a steeper drop in energy prices, which had risen more than was observed in the other major countries in 2022-23. Core inflation excluding food and energy declined to below 2 per cent in the autumn months, reflecting the marked decline in services inflation. This development reflected in particular the sharp deceleration in the prices of travel-related services compared with the previous quarter. Non-energy industrial goods prices continued to rise at a very low pace. Looking

Figure 23

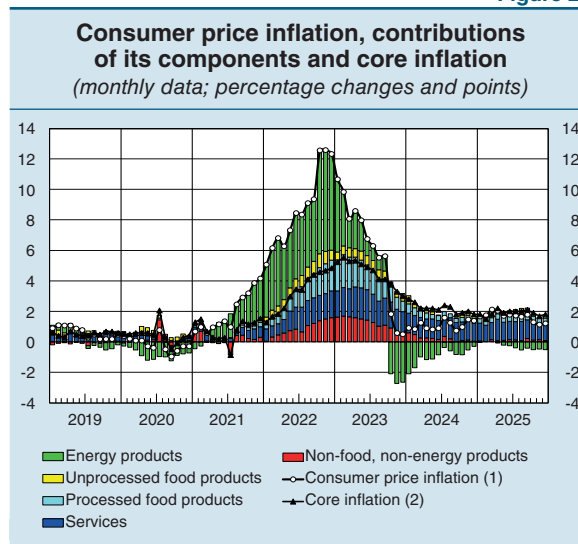


Table 6

Indicators of inflation in Italy (year-on-year percentage changes, unless otherwise specified)						
	HICP (1)				CPI (2)	PPI (3)
	General index	Food	Energy	Excl. food and energy	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
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	1.5
Oct.	1.3	2.5	-4.4	1.9	1.2	0.2
Nov.	1.1	1.9	-4.2	1.7	1.1	-0.3
Dec.	(1.2)	(2.6)	(-4.5)	(1.8)	(1.2)

Sources: Based on Istat and Eurostat data.

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

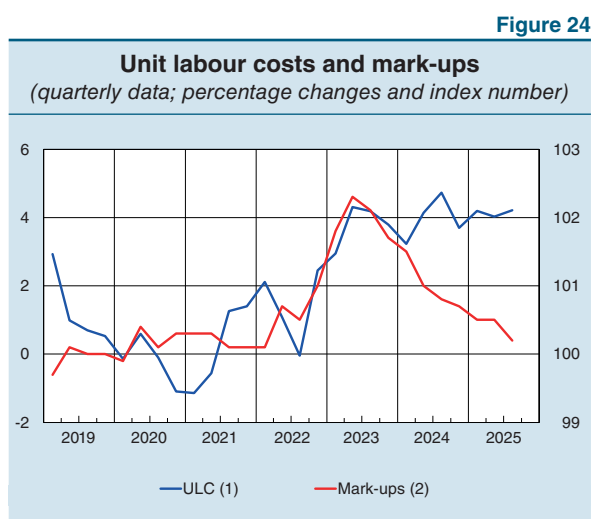
at some of the most volatile components, energy prices continued to fall significantly year on year, while food price inflation, particularly that for unprocessed food products, slowed.

Producer price pressures weaken once again

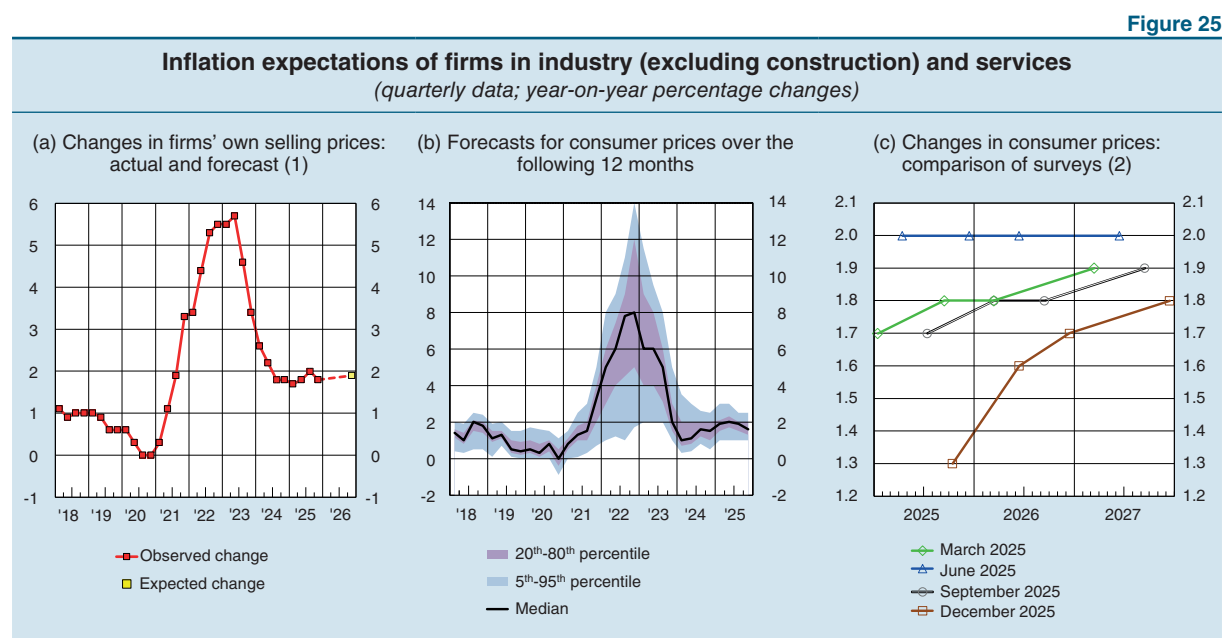
In the final quarter of 2025, producer price inflation for industrial goods sold on the domestic market fell sharply, standing at -0.3 per cent year on year in November. This mainly reflected plummeting energy prices and a slowdown in consumer goods prices. Excluding energy, producer price inflation continues to rise at a moderate pace, with an increase of less than 1 per cent year on year.

In the last three months of 2025, the PMIs for input prices rose in manufacturing – driven by the increase in the cost of non-energy commodities – and to a lesser extent, in services. Both PMIs are above the expansion threshold.

The unit labour cost (ULC) in the non-farm private sector accelerated slightly during the summer months to 4.2 per cent year on year, from 4.0 per cent (Figure 24); the slowdown in wage growth was more than offset by the deterioration in productivity growth (-1.7 per cent, from -0.9 per cent in the spring months; see Section 2.5). Profit margins declined quarter on quarter, standing at levels similar to those prior to the pandemic in both industry excluding construction and in private services.



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



Sources: Based on the findings of the 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 14 January 2026.

(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.

The inflation expectations of households and firms remain moderate

The firms interviewed between November and December for the [Survey on Inflation and Growth Expectations](#) expect their selling prices to increase by less than 2 per cent in 2026 (Figure 25.a). The expectations for consumer price inflation over the next twelve months stood at 1.7 per cent (Figure 25.b), down slightly from the previous survey round (Figure 25.c).

Istat's surveys for the fourth quarter showed, on average, that the share of households expecting inflation to rise over the next twelve months fell slightly.

2.7 CREDIT AND FINANCING CONDITIONS

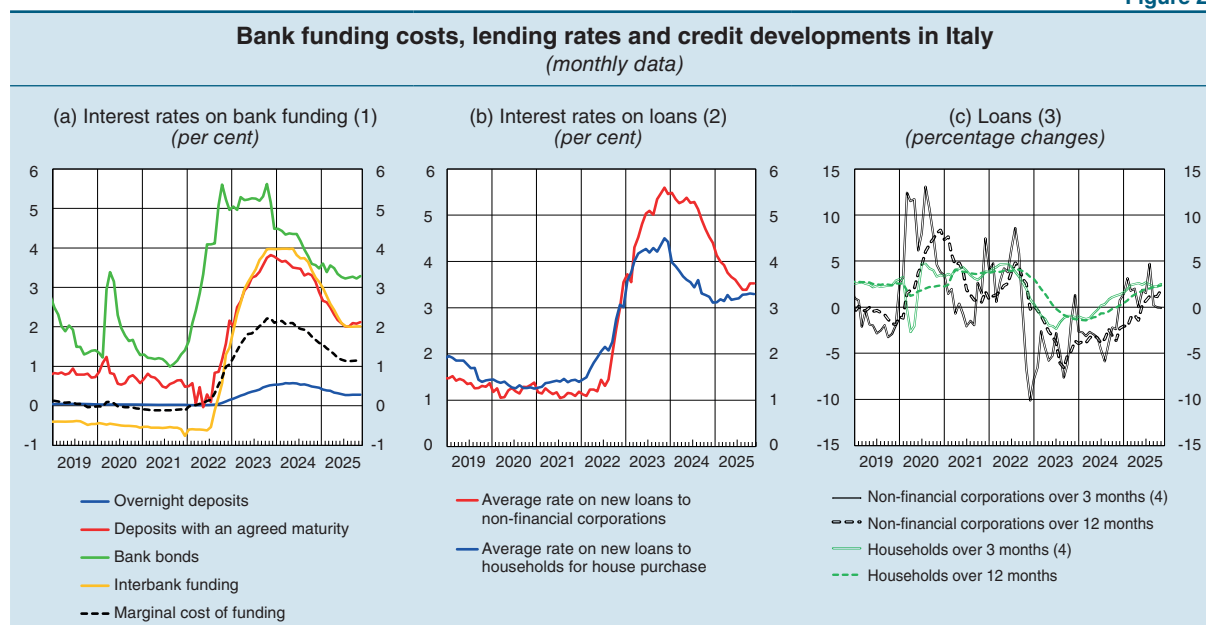
The cost of bank funding and the interest rates on loans to firms and households held broadly steady last autumn. Growth in lending strengthened. Credit supply policies remained unchanged; demand for loans by both firms and households for house purchase edged up. Corporate bond issues continued to enjoy robust, albeit slightly lower, growth; the average yield inched up.

The cost of bank funding remains unchanged

The marginal cost of bank funding remained unchanged at 1.1 per cent between August and November (Figure 26.a), reflecting broad stability across all components.

The twelve-month change in bank funding increased (from 4.1 to 4.7 per cent), mainly benefiting from an acceleration in net liabilities vis-à-vis non-residents and a smaller decline in liabilities vis-à-vis the Eurosystem. Growth in deposits by residents did not record any significant changes; the deceleration in the components held by households and financial corporations was partly offset by an acceleration in those held by non-financial corporations and general government.

Figure 26



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.

Lending rates remain virtually unchanged

The cost of new loans to firms rose slightly between August and November (from 3.5 to 3.6 per cent; Figure 26.b), returning to July levels;⁴ the increase was greater for new loans up to €1 million and smaller for larger loans. The spread between the two rates remained narrow by historical standards. The average cost of new loans to households for house purchase, which typically have a long interest repricing period, remained unchanged at 3.3 per cent, in line with a broadly stable ten-year interest rate swap (IRS).

Since May 2024, just before the start of the monetary policy easing cycle, the average interest rates on loans to firms and to households for house purchase have declined by about 180 and by nearly 70 basis points respectively.

Lending to firms and households gathers pace

In November 2025, growth in lending to non-financial corporations increased compared with August (1.8 per cent year on year, from 1.2 per cent; Figure 26.c): growth slowed for loans up to one year, it remained broadly stable for one- to five-year loans and turned less negative for those with maturities beyond five years.

Lending to large firms accelerated (2.4 per cent, from 1.7 per cent), while the decrease in lending to small firms moderated (-6.5 per cent, from -7.0 per cent). Looking at the breakdown by economic sector, growth in lending to service firms strengthened, lending to construction firms turned positive for the first time since January 2023 and the contraction in lending to manufacturing firms eased.

Loans to households⁵ accelerated between August and November 2025 (2.3 per cent, from 2.0 per cent), reflecting stronger growth in loans for house purchase (3.3 per cent, from 2.9 per cent) and robust, steady growth in consumer credit (4.4 per cent).

Credit supply policies for firms remain unchanged

According to the Italian banks that took part in the latest euro-area bank lending survey (BLS)⁶ conducted between late September and early October 2025, both the credit standards for loans to firms and the general terms and conditions applied to these loans remained unchanged in the third quarter. Based on the banks' assessments, geopolitical uncertainty and trade tensions had no significant impact on their lending standards for firms. Firms' demand for credit increased slightly further, driven by reduced reliance on internal financing and by greater financing needs for both fixed investment and debt refinancing. Based on the results for the fourth quarter of the business surveys conducted by Istat and Banca d'Italia, conditions for access to bank credit showed no significant change overall.⁷

Credit standards on loans to households remained unchanged for loans for house purchase in the third quarter of 2025, while they tightened for consumer credit. Households' demand edged up for loans for house purchase and declined for consumer credit.

Non-financial corporate bond issuance continues to grow

Growth in corporate bond issuance remained robust in November (at 5.3 per cent year on year, from 7.7 per cent in August), though it abated somewhat. Between October 2025 and early January 2026, yields on bonds issued by Italian non-financial corporations inched up (from 3.5 to 3.6 per cent); since May 2024, the average yield has fallen by around 80 basis points. Net equity financing remained low.

⁴ The average interest rate on new loans to firms in August was possibly affected by the small volume of new loans originated in that month (€27 billion, against an average of €42 billion in the last year).

⁵ The definition of households used here is the Eurosystem's harmonized definition, which includes consumer households, sole proprietorships and unincorporated partnerships.

⁶ For further information on the survey and its results for Italy, see Banca d'Italia's website: ['Bank Lending Survey \(BLS\)'](#).

⁷ Istat's business confidence survey for the manufacturing sector points to a slight deterioration in credit access conditions, though less pronounced than that observed last quarter for all firm size classes.

2.8 THE PUBLIC FINANCES

Based on the information available, net borrowing as a share of GDP declined in 2025, while the public debt-to-GDP ratio increased. The budget law approved by the Italian Parliament at the end of December gives effect to the targets laid out in the Government's Public Finance Planning Document of the previous October. It essentially confirms the balances set in the draft budget for 2026-28, leaving the deficit for 2026 unchanged compared with the previous legislation and expanding it by 0.3 percentage points of GDP per year on average for the following two years. The budget law allocates resources to support personal income, firms, the national health system, and capital expenditure. These measures will be funded mainly through higher taxes on financial and insurance companies, the reallocation of NRRP funds and expense cuts and deferrals.

Net borrowing as a share of GDP declines in 2025

The data currently available suggest that net borrowing fell last year in comparison with the 2024 figure (3.4 per cent of GDP), in line with the expectations of the Italian Government and of the European Commission.

Istat's recently released estimates for the first three quarters of last year are also in line with this assessment. In the first nine months of 2025, the deficit was about 0.2 percentage points of GDP lower year on year, due to higher revenue (especially social security contributions).

The debt-to-GDP ratio increases

In the first eleven months of 2025, the general government borrowing requirement amounted to €127 billion, about €8 billion more year on year.⁸ In the same months, tax revenue recorded in the state budget increased by about 2 per cent compared with the previous year.

At the end of November, general government debt amounted to €3,124.9 billion, €158 billion more than at the end of 2024, reflecting not only the higher borrowing requirement but also, and above all, an increase in cash and cash equivalents of nearly €27 billion. Over the twelve months, as expected, the debt-to-GDP ratio is estimated to have risen. In November, the average residual maturity of the debt was 7.8 years, broadly in line with the year-earlier figure. The share of public debt held by Banca d'Italia shrank to 18.6 per cent, continuing the downward trend under way since late 2022. At the end of September, the average cost of the debt stood at 2.9 per cent, marginally lower than in 2024 (Figure 27).

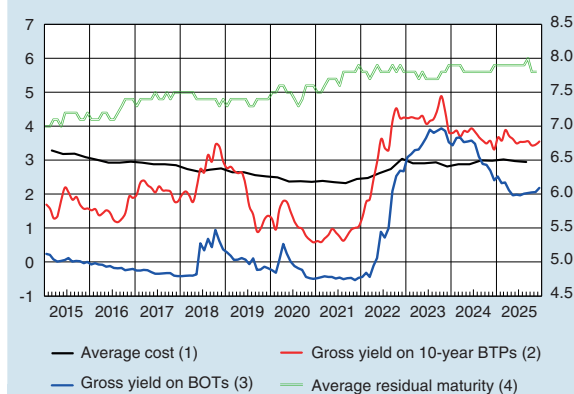
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Parliament approves the budget law for 2026-28

Last autumn, the Italian Government presented its draft budget law for the

Figure 27

**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.

⁸ In December, the state sector – for which more up-to-date data are available – recorded a cash surplus of €11.7 billion, almost €4 billion higher than in 2024.

Table 7

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

Source: Public Finance Planning Document 2025 (PFPD 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.

three-year period 2026-28,⁹ which implements the targets set out in its Public Finance Planning Document 2025 (PFPD 2025; Table 7). In comparison with the previous legislation, the deficit was left unchanged for 2026 and expanded by 0.3 percentage points of GDP on average for each of the two years 2027-28.

The draft budget allocated nearly €6 billion per year on average to support personal disposable income, €2.6 billion to the national health system and €3.7 billion to capital expenditure, including investments by Anas and Rete ferroviaria italiana SpA.

The costs for these interventions were covered primarily by raising taxes on financial and insurance companies (over €4 billion on average for each of the two years 2026 and 2027 and €1.8 billion in 2028) and reallocating NRRP expenditure (about €5 billion in 2026 and €0.5 billion on average for each of the two years 2027 and 2028). The draft budget also provided for expense cuts and deferrals financed via the Development and Cohesion Fund and central government departments (around €3 billion per year on average).

Last 30 December, the Italian Parliament approved the budget law, essentially confirming the balances set out in the draft law and making some amendments. The main changes relate to firms: higher expenditure on incentives for investment and higher revenue, mainly due to an increase in the number of firms required to pay employees' severance pay contributions (TFR) to the Italian National Institute for Social Security (INPS), as well as to the introduction of an advance payment of the contributions to the national health system for motor and watercraft insurance premiums.

**The DBP for 2026
is in line with
the Council's
recommendations**

In the European Semester Autumn Package published in November, the Commission commented on Italy's Draft Budgetary Plan (DBP) for 2026 and found its provisions for the current year in keeping with the maximum net expenditure growth path set out in the recommendation issued to the Italian Government by the Council of the European Union on 21 January 2025.

The Commission also approved the Italian Government's request to revise its NRRP plan. Total funds for the plan remain unchanged, but some additional measures were introduced and others were revised or repealed. For some interventions, new implementing instruments were put in place to defer part of the spending to the years following the plans' target completion year. Finally, the Commission paid the eighth NRRP instalment (the third to last instalment), equal to €12.8 billion (of which €9.7 billion in loans and €3.1 billion in grants). So far, Italy has received total disbursements amounting to €153.2 billion (of which €54.1 billion in grants).

⁹ For further details, see 'Preliminary hearing on the 2026-2028 Budget Law', testimony by F. Balassone, Deputy 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, Rome, 6 November 2025 ([only in Italian](#)).