



BANCA D'ITALIA
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Economic Bulletin

April 2026

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- 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 war in the Middle East is worsening the global economic outlook

The conflict between the United States, Israel and Iran has aggravated an international scenario that is already under strain due to the ongoing geopolitical and trade tensions. The closure of the Strait of Hormuz, a crucial channel for the global supply of natural gas, oil and other essential raw materials, has led to a sharp increase in energy prices and raised concerns about their availability in the near future. Consumer price inflation in the euro area and in the United States was affected as early as March.

The greater uncertainty was immediately reflected in the financial markets: sovereign yields and risk premiums rose, equity prices fell and the dollar appreciated against the major currencies.

Uncertainty remains high

The announcement on 8 April of a two-week ceasefire led to a temporary drop in oil and natural gas prices. Subsequently, uncertainty about the effective reopening of the Strait of Hormuz to maritime traffic and whether the ceasefire will hold drove energy prices back up to high levels. The unpredictability of the consequences of the conflict has heightened the risk of market corrections, adding to those stemming from potentially lower profitability expectations for the technology sector.

The risk of a slow and partial restoration of supply chains and the rising insurance and shipping costs make a swift return of energy prices to pre-conflict levels unlikely, and weigh on the outlook for the global economy, even more so if damage to production and refining infrastructures proves to be significant.

Global growth slackens

In the United States, economic activity at the end of 2025 was still supported by investment in artificial intelligence technologies, but was held back by the government shutdown. In China, GDP growth continued to be driven by

exports. According to the IMF, world growth, which had been less affected by the trade tensions than initially anticipated, is expected to slow to 3.1 per cent in 2026 but to go down to around 2 per cent in a particularly adverse scenario; world trade contracted in the fourth quarter of 2025 and is expected to slow further in 2026.

Economic activity slows in the euro area

The euro-area economy decelerated in the fourth quarter of 2025 and in the first few months of 2026. The conflict made the outlook worse and more uncertain. According to the March ECB staff projections, euro-area GDP is projected to grow by 0.9 per cent in 2026, and by about 1.3 per cent per year on average in each of the following two years, with a cumulative downward revision of almost half a percentage point compared with the December projections. Consumer price inflation is expected to rise to 2.6 per cent in 2026 and then to stabilize close to the 2 per cent target over the following two years. In a particularly unfavourable scenario, inflation could exceed 4 per cent in 2026-27, while economic growth is projected to decline to about half a percentage point this year, before picking up gradually in the following two years.

The ECB keeps the key interest rates unchanged

At its March meeting, the ECB Governing Council kept the key interest rates unchanged and stressed that it will monitor the situation closely, assessing the consequences of the conflict in the Middle East for the inflation outlook. Between November and February, the cost of borrowing for firms remained stable, while that of mortgage loans increased slightly. Looking ahead, the increase in market rates following the outbreak of hostilities could generate upward pressures. Lending to firms weakened slightly, reflecting still low demand and tighter credit standards; loans to households instead continued to increase moderately, driven above all by loans for house purchase.

Economic activity in Italy expands at a moderate pace

Italy's GDP increased in the fourth quarter. Housing investment continued to grow, boosted by tax incentives for renovation, while household consumption slowed, reflecting concerns about the general state of the economy. According to our estimates, GDP continued to expand in the first quarter of this year, albeit at a slow pace.

The risks to economic activity caused by the conflict in the Middle East were incorporated into Banca d'Italia's projections published in April. In the baseline scenario, GDP is projected to grow by 0.5 per cent both this year and the next, and by 0.8 per cent in 2028. Uncertainty over these projections is exceptionally high. In an adverse scenario, prepared for illustrative purposes, protracted hostilities in the Middle East could dampen growth by about half a percentage point this year and by 1 point next year compared with the baseline scenario.

The current account surplus decreases

Export volumes declined and the current account surplus narrowed in the last quarter of 2025, mainly owing to the decline in the merchandise trade surplus. In January and February, exports went up, also benefiting from the boost to services generated by the Winter Olympics. The rise in imported energy prices will lead to a deterioration in Italy's energy balance.

Employment increases, but labour market participation decreases

Headcount employment increased and the unemployment rate declined further in the winter months. Labour market participation decreased, except for older workers. Wage growth in

the non-farm private sector remained stable at low levels and higher than inflation.

Inflation remains moderate, but will increase in the short term

Inflation in Italy remained below the euro-area average in the first quarter of the year. The conflict in the Middle East led to a marked increase in fuel prices in the first weeks of March, but has not yet affected electricity and gas tariffs. The impact of higher energy prices on the consumer price index will become apparent in the coming months. In the baseline scenario of our projections, consumer price inflation is expected to rise to 2.6 per cent in 2026, before returning to below 2 per cent in the following two years. In the adverse scenario, inflation is projected to rise to 4.5 per cent this year, to 3.3 per cent in 2027 and to 2.2 per cent in 2028.

The rise in market rates following the start of the conflict could affect financing conditions

Lending rates for firms declined slightly between November and February, while those for mortgage loans edged up. Banks' credit standards remained stable and demand for loans increased. If the rise in market rates observed after the outbreak of the war were to persist, it could tighten financing conditions and curb demand for loans.

Net borrowing as a share of GDP falls, while the debt-to-GDP ratio rises

General government net borrowing as a share of GDP declined in 2025. The debt-to-GDP ratio increased, partly owing to the delayed effects of tax credits for building renovations and to the sizeable increase in the Treasury's liquid balance. The Government introduced some temporary measures in March and April in response to the rise in energy prices.

1 THE WORLD ECONOMY

1.1 THE GLOBAL CYCLE

The conflict in the Middle East has aggravated an international scenario already under strain due to the slowdown in trade and has led to a surge in oil and natural gas prices. Uncertainty about how long the war will last and its severity, as well as the magnitude of the damage it will cause to the energy infrastructure, is reflected in the commodity markets. The risk of a slow, partial recovery of the supply chains and the increase in maritime insurance and transport costs are weighing on the global economic outlook. Financial conditions have tightened with the outbreak of the conflict: sovereign yields have risen, equity prices have fallen and the dollar has appreciated.

The conflict in the Middle East worsens the global economic outlook

The war in the Middle East has caused an international scenario already weakened by ongoing geopolitical and trade tensions to further deteriorate.

The closure of the Strait of Hormuz, through which around 20 per cent of the world's oil and liquefied natural gas (LNG) pass, the severe damage to some of the energy infrastructure in the Persian Gulf and their reduced operations have interrupted fuel supplies, causing oil, and even more so natural gas prices, to shoot up. Market expectations point to oil and gas prices staying at above pre-conflict levels for at least one year, owing to infrastructure damage, lingering uncertainty and higher transport and insurance costs.

On 8 April, the announcement of a two-week ceasefire temporarily eased market tensions. However, the continued high uncertainty about the return to stable conditions in the region and the risk of a slow and partial restoration of supply chains for goods and commodities – not only energy, but also semi-finished metal products and essential inputs for the production of fertilizers – will continue to have a strong impact on inflation and global growth.

Oil prices shoot up after the start of the conflict ...

Following the announcement of the ceasefire on 8 April, oil prices returned to around \$95 per barrel (spot prices) from around \$110 per barrel (Figure 1.a) at the beginning of the month, in an environment that remains highly volatile. On 11 March, the announcement by the International Energy

Agency (IEA) of the largest ever coordinated release of oil stocks by its member countries (400 million barrels) eased price pressures only temporarily. At the beginning of April, six-month futures contracts were priced at close to \$88 per barrel, about \$18 higher than before the start of the conflict. The magnitude and duration of the effects on prices will depend on how long it takes to fully restore the Persian Gulf's production and export capacity.

... and natural gas prices rise even more

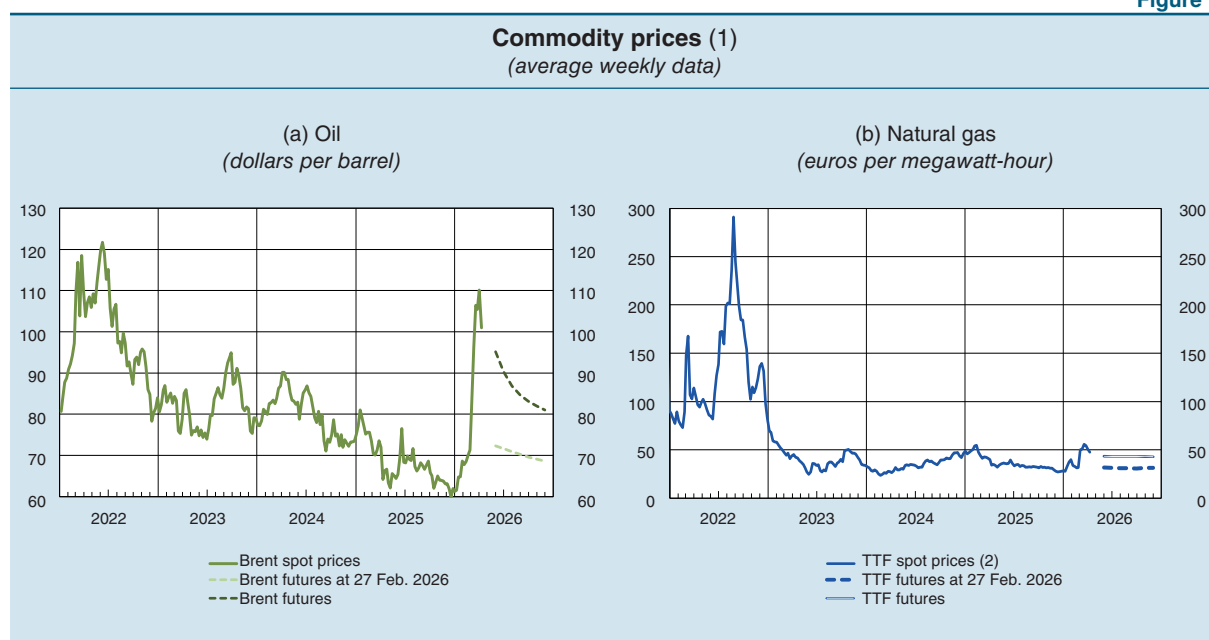
The announcement of the ceasefire brought European natural gas prices (Title Transfer Facility, TTF), which had climbed to over €60 per megawatt-hour, down to around €45 (Figure 1.b). The six-month futures jumped from around €30 to €45 per megawatt-hour between the end of February and mid-April. The

halt in production and exports in Qatar – which accounts for almost 18 per cent of global LNG supply – has significantly reduced the availability of natural gas worldwide. Despite its limited reliance on LNG

supplies from Persian Gulf countries, the impact on European prices has been amplified by lower-than-average seasonal stocks, rendering the market price more sensitive to supply disruptions and sudden shifts in demand.

If production does not recover and supply on the international market does not increase, efforts to rebuild inventories could exacerbate supply tensions between importing countries, causing market conditions to rapidly deteriorate.

Figure 1



Source: LSEG.

(1) For spot prices, weekly averages up to 10 April 2026. For futures, the prices are updated on 10 April 2026, for the curve relating to the latest available data. –
(2) Price of natural gas traded on the Dutch TTF market.

The global trade outlook remains uncertain

The conflict is causing the outlook for global trade, already weakened by recent commercial and geopolitical tensions, to worsen further. The International Monetary Fund (IMF) April estimates¹ point to a marked slowdown in world trade in 2026 (dropping from 5.1 per cent in 2025 to 2.8 per cent) because of the war in the Middle East, the unwinding of the import frontloading that occurred in the early part of last year and the gradual materialization of the effects of the US tariffs (see the box ‘The Middle East’s role in Italy’s energy supply and trade’).

Global trade in goods contracted in the fourth quarter of 2025, mainly owing to the drop in purchases by China, the United States and the euro-area countries. Despite the conflict in the Middle East, in March the purchasing managers’ indices (PMIs) for new foreign orders pointed to an expansion in manufacturing, likely due to the United States Supreme Court’s ruling on tariffs (see the box ‘US tariffs following the Supreme Court’s decision’). Uncertainty about trade policies remains high.

¹ IMF, *World Economic Outlook*, April 2026.

US TARIFFS FOLLOWING THE SUPREME COURT'S DECISION

On 20 February, the US Supreme Court ruled that the International Emergency Economic Powers Act (IEEPA), which allows the President to take economic measures to deal with a national emergency related to threats from abroad, does not authorize the imposition of tariffs without the prior approval of Congress.¹ Consequently, all the tariffs introduced over the course of 2025 under the IEEPA no longer have a legal basis.²

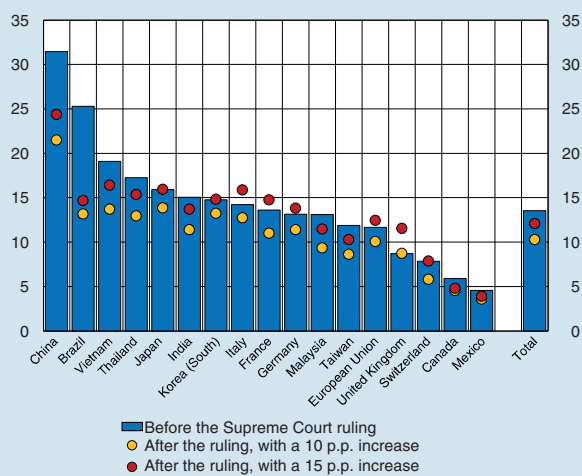
Following the ruling, the US administration immediately imposed new tariffs, invoking Section 122 of the 1974 Trade Act, which allows temporary import surcharges to be imposed to deal with large and serious balance of payments deficits; these tariffs may be applied for no more than 150 days without the approval of Congress, but require an Act of Congress in order to be extended. On the basis of this never previously used law, tariffs were increased by 10 percentage points vis-à-vis all trading partners.

The ruling appears to have reduced the average effective US tariff from around 14 to 7 per cent; the subsequent surcharges should eventually bring it back to 10 per cent. However, the average tariff rate would rise to 12 per cent if the rates were increased by a further 5 percentage points, as already announced by the US administration.

Until the Supreme Court's ruling, the tariffs subsequently declared unlawful provided significant tax revenue for the United States: according to Congressional Budget Office estimates, the IEEPA-based tariffs generated about \$150 billion (half of the total tariff revenue), equal to around 0.5 per cent of GDP.

Figure

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



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

(1) The tariff levels given in the figure take into account any exemptions and therefore differ from the higher rates reported in the executive orders of the US administration. For tariffs in force after the Supreme Court's ruling, it is assumed that any provisions contained in bilateral agreements based on repealed tariffs will in turn be invalidated, while the other provisions contained in those agreements remain in force.

¹ In particular, according to the Court, the IEEPA authorizes the President to regulate or prohibit the import of goods in the event of threats to American national security, foreign policy or the economy, originating primarily outside the United States; however, it does not allow the President to impose new taxes without an explicit mandate from Congress.

² The tariffs repealed by the Court's decision are the general tariffs announced on 2 April 2025 ('reciprocal duties'), the tariffs imposed on China to combat the trafficking of fentanyl, the tariffs imposed on Canadian and Mexican products not compliant with the United States-Mexico-Canada Agreement, as well as the tariffs imposed on Brazil, linked to political tensions between the US and Brazilian government, and on India, motivated by the desire to impose sanctions on Russia's imports of oil. Some sectoral tariffs introduced in 2025 – on cars and car parts, steel, aluminium, copper and wood – have a legal basis other than the IEEPA, i.e. Section 232 of the Trade Expansion Act of 1962, which gives the President the authority to intervene on imports from other countries on national security grounds following investigation by the US Department of Commerce. These tariffs have not been repealed by the Supreme Court's ruling. For more details on the tariffs introduced by the United States in 2025, see the box 'The US tariffs and the first effects on global trade', *Economic Bulletin*, 4, 2025.

The Supreme Court did not, however, order that importers be refunded the tariff duties already paid, referring the matter to lower courts. This has led to considerable uncertainty about the procedure and timing of refunds.³ It is also unclear whether importers will have to file individual lawsuits to obtain a refund of the tariffs paid, something that would penalize small and medium-sized enterprises the most.

The economies hit hardest by the tariffs in 2025, such as China and Brazil, would especially benefit from the current tariff configuration, as it reduces tariffs rates by around 10 and 12 percentage points respectively (see the figure). On the other hand, the situation of the European Union remains uncertain, as it is unclear whether and when the US administration will restore the conditions set out in the agreement reached in July 2025, which is still being approved by the European institutions. At present, EU products not covered by sectoral tariffs are subject to a broad-based 10 percentage point increase – which is on average more advantageous than under the agreement.⁴ In the event of a further 5 percentage point increase in the broad-based rate, the average tariff rate vis-à-vis European countries would be 0.7 percentage points higher than that provided for in the agreement; for Italy, the increase would be of about 1.5 percentage points owing to the different product composition of exports to the United States.⁵

While the level of tariffs is lower on average than at the beginning of February, uncertainty about US trade policies remains high in the medium term, also in light of further tariff increases already announced by the US administration.⁶

³ For all goods worth more than €2,500, importers shall immediately pay Customs and Border Protection a tariff duty estimated by that agency, which shall determine the final value and the extent of any refund within one year. According to a Congressional Research Service analysis, the refund process may be particularly complex for transactions that have already been liquidated.

⁴ The European automotive sector continues to benefit from lower rates than those applied to other countries (15 per cent instead of 25 per cent), thanks to the agreement reached in July. Should this part of the agreement no longer apply, the average rate on EU exports to the United States would increase by 2 percentage points (about 1.5 points for Italy).

⁵ Compared with other European countries, Italian exports to the United States are relatively more concentrated in sectors with higher most favoured nation (MFN) rates. MFN rates are the standard tariff duties applied to imports in the absence of preferential agreements. In sectors such as food and textiles, where these rates are relatively high, the new tariff regime, which adds 15 percentage points to the MFN rates, would increase the tariff duties more than provided for in the agreement negotiated with the European Union, which instead provided for a uniform 15 per cent rate, regardless of the MFN starting level.

⁶ Under Section 301 of the Trade Act of 1974, new investigations have already been launched involving a large number of countries, including those belonging to the European Union, concerning the use of forced labour and the excess capacity generated by industrial policies and government subsidies; further investigations already announced will concern trade in digital services and pricing policies in the pharmaceutical sector. Since the start of its term, the current US administration has also launched several investigations under the aforementioned Section 232 of the Trade Expansion Act of 1962. The sectors concerned include semiconductors, medical devices and robotics. In addition to using these tools (currently the most likely to be used), the administration could also invoke Section 201 of the Trade Act of 1974, which allows for the temporary introduction of restrictions in the event of a sharp rise in imports, as well as Section 338 of the Tariff Act of 1930, which has never been used so far and allows imposing tariffs on individual countries when they are held responsible for discriminatory practices against US commerce.

Global growth weakens, faces downside risks

So far, the global economy has continued to grow despite an uncertain and volatile environment. According to IMF estimates, world GDP expanded by 3.4 per cent in 2025 and is expected to slow to 3.1 per cent in 2026, to then rise slightly to 3.2 per cent in 2027. In 2026, global growth is expected to be affected by higher energy prices, likely increasing production costs, and by the considerable uncertainty surrounding the duration and severity of the conflict in the Middle East, which should continue to curb demand. These effects should be partly offset by both the strong growth in

investment in digital technologies and artificial intelligence (AI) and in the reduction in effective tariff rates. The IMF projections assume that tensions in the energy markets will gradually ease starting in mid-2026; in the event of a protracted war and severe damage to the energy infrastructure, global growth could fall to around 2 per cent for this year and the next.

Furthermore, there continue to be risks of renewed trade tensions and financial market corrections stemming from lowered profitability forecasts for AI firms and a less rapid diffusion of AI-related technologies throughout the rest of the production system (see the box ‘The surge in global demand for computational resources: macrofinancial impacts and risks’, *Economic Bulletin*, 1, 2026).

The US economy slows more than expected In the fourth quarter of 2025, GDP growth in the United States slowed to 0.5 per cent on an annual basis (from 4.4 per cent in the third quarter; Table 1). The slowdown was due to both the federal government shutdown in October and November, which shaved about 1 percentage point off growth, and the lower contribution of foreign trade. Domestic demand instead supported economic activity. The easing of private consumption was offset by an acceleration in investment, mainly driven by spending on AI-related technologies.

Table 1

	GDP growth and forecasts						
	<i>(percentage changes, unless otherwise specified)</i>						
	Growth			Forecasts		Revisions (2)	
	2025	2025 Q3 (1)	2025 Q4 (1)	2026	2027	2026	2027
World	3.4	–	–	3.1	3.2	-0.2	0.0
Japan	1.2	-2.6	1.3	0.7	0.6	0.0	0.0
United Kingdom	1.4	0.3	0.2	0.8	1.3	-0.5	-0.2
United States	2.1	4.4	0.5	2.3	2.1	-0.1	0.1
Euro area	1.3	1.2	0.8	1.1	1.2	-0.2	-0.2
Brazil	2.3	1.8	1.8	1.9	2.0	0.3	-0.3
China	5.0	4.8	4.5	4.4	4.0	-0.1	0.0
India (3)	–	8.2	7.8	6.5	6.5	0.1	0.1
Russia	1.0	0.8	1.0	1.1	1.1	0.3	0.1

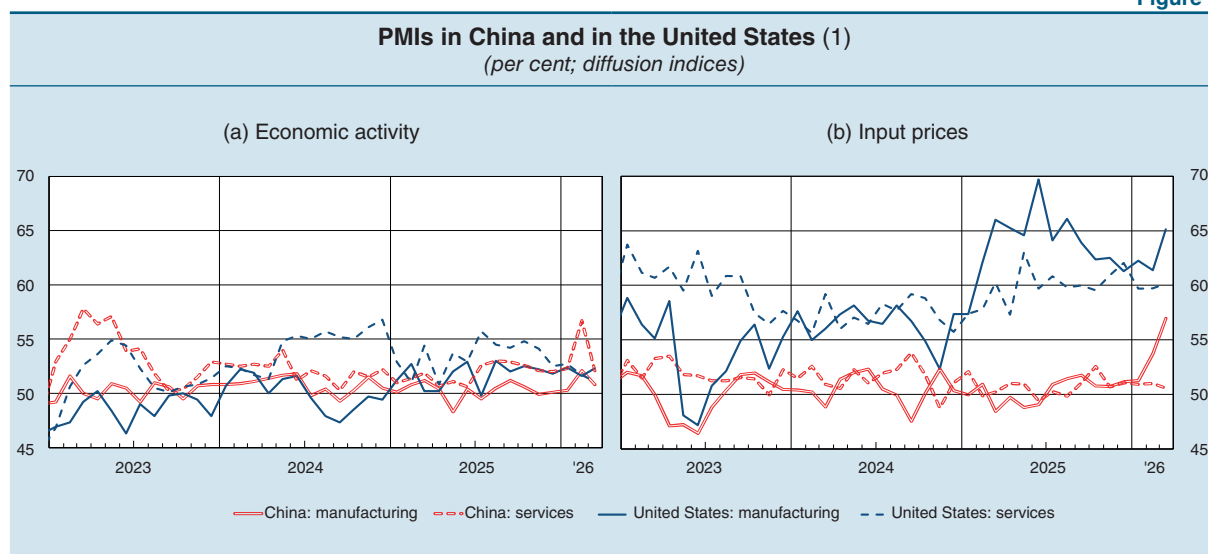
Sources: National statistics, for data on growth; IMF, *World Economic Outlook*, April 2026, for world GDP and forecasts.

(1) Quarterly data. For the euro area, Japan, the United Kingdom and the United States, annualized and seasonally adjusted percentage changes on the previous quarter; for the other countries, year-on-year percentage changes. – (2) Percentage points; revisions compared with IMF, *World Economic Outlook Update*, January 2026. – (3) The actual data and the forecasts refer to the fiscal year starting in April.

GDP growth was stronger in the first three months of 2026, although analysts’ assessments show considerable dispersion. The trade deficit in goods as a share of GDP appears to have broadened slightly, while imports continued to record robust growth.

Employment growth was modest in the first quarter, while the unemployment rate declined slightly; household confidence remains significantly below the levels recorded at the start of last year. The PMIs remain above the expansion threshold (Figure 2.a) despite the persistently high pressure on intermediate goods prices (Figure 2.b).

Figure 2



Source: Standard & Poor's Global Ratings.

(1) Diffusion indices for economic activity in the manufacturing and service sectors. Each index is obtained by adding half of the percentage of responses of 'stable' to the percentage of responses of 'increasing'. For economic activity, values greater than 50 are compatible with expansion in the sector; for input prices, they indicate an increase in perceived costs.

China's growth is still driven by exports

In the first quarter of 2026, GDP growth in China picked up pace (to 5 per cent on an annual basis, from 4.5 per cent in the fourth quarter of 2025). Against persistent weakness in domestic demand, this development appears to have been driven above all by foreign demand and by the service sector. In March, economic activity slowed, feeling the ripple effects of the war in the Middle East.

In 2025, China's goods trade surplus reached a record high (\$1,200 billion), pushed mainly by greater exports to South-East Asia and the European Union, which more than offset the decline in exports to the United States.

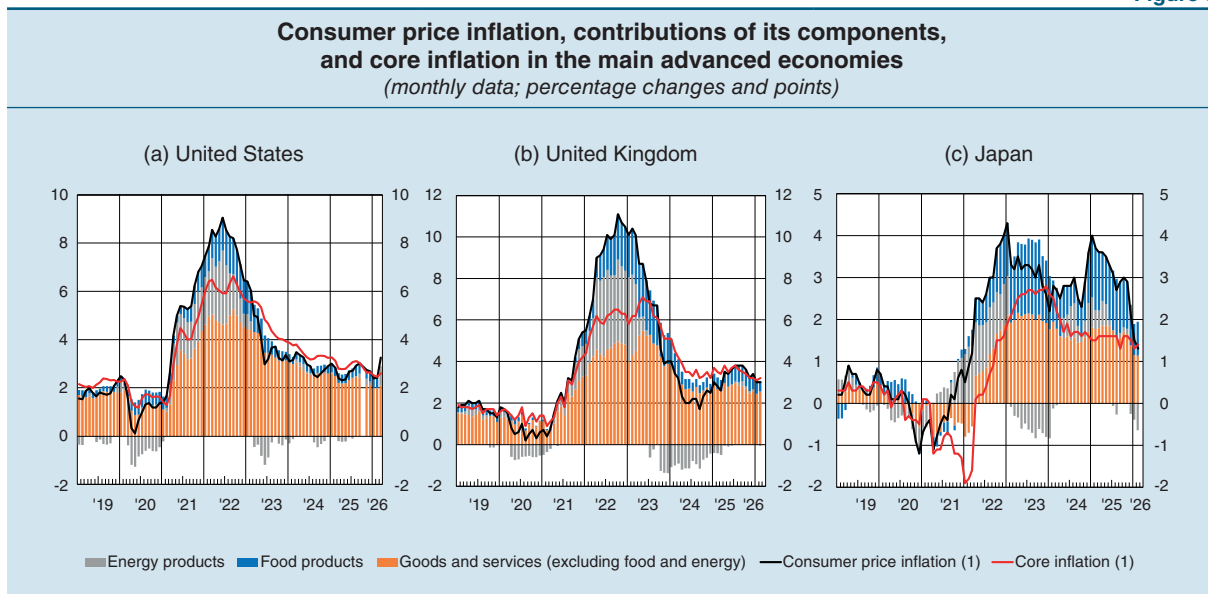
The Chinese government has set an annual growth target for 2026 of between 4.5 and 5 per cent. China's 15th Five-Year Plan (for the period 2026-30), presented at the most recent National Congress of the Chinese Communist Party, sets out among its priorities: raising domestic demand, developing industries that employ strategic technologies (especially those relating to AI) and supporting the energy transition.

Central banks keep policy rates steady

Consumer price inflation rose in the United States in March, from 2.4 to 3.3 per cent (Figure 3.a), driven by the energy component; core inflation increased more modestly. In February, inflation was again stable in the United Kingdom at 3.0 per cent (Figure 3.b), while it fell in Japan, from 1.5 per cent in January to 1.3 per cent (Figure 3.c).

Against this background, the central banks of the major economies have kept their policy rates unchanged, saying they stand ready to counter the negative consequences of the conflict in the Middle East for inflation and growth. In its March meeting, the US Federal Reserve again left its target range for the federal funds rate at 3.5 to 3.75 per cent. The projections by the Federal Open Market Committee (FOMC) participants suggest there will be a further rate cut of 25 basis points in 2026, while markets rule out any easing. The Bank of England and the Bank of Japan also kept their policy rates unchanged in March, at 3.75 per cent and 0.75 per cent respectively. The People's Bank of China maintained an overall accommodative monetary policy stance.

Figure 3



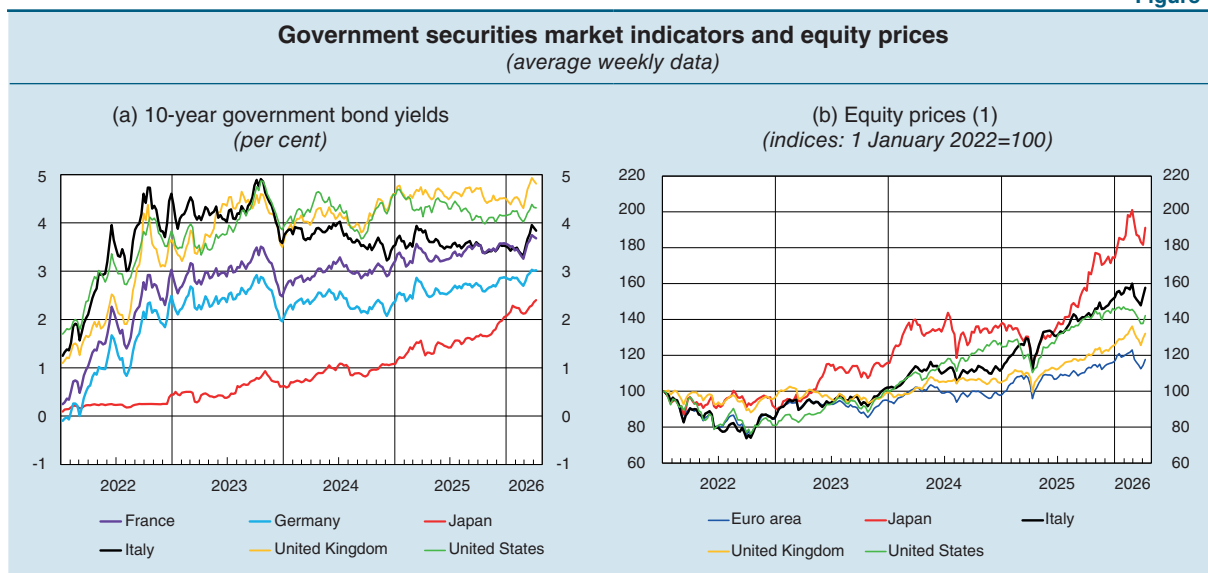
Source: Based on national statistics.
 (1) 12-month percentage changes; core inflation excludes food and energy products.

Sovereign yields rise again in the major advanced economies ...

The conflict in the Middle East has stoked fears of higher inflation (Figure 4.a), which has led to a jump in ten-year sovereign bond yields after they had fallen at the beginning of the year. In general, ten-year government bond yields are higher than those reported in mid-January in the major advanced economies.

The yield curves also flattened in the US and the UK, reflecting a more robust increase in two-year rates than in ten-year rates, in line with expectations of a tighter monetary policy stance in the short term.

Figure 4



Source: LSEG. The latest figure refers to 10 April 2026.
 (1) Datastream equity price index 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.

... while equity prices fall after the outbreak of the conflict

All the major stock markets fell immediately after the outbreak of hostilities in the Middle East (Figure 4.b). Between January and February, equity prices rose in the UK and Japan. However, they remained steady overall in the United States, where the shares of software and IT companies were adversely affected by obsolescence risks associated with the uptake of new applications of AI; by contrast, the share prices of firms producing hardware used in digital infrastructure, including data centres, continued to rise. Equity prices rose after the ceasefire was announced, with those in the UK and Japan beating early-January levels.

The dollar appreciates while the euro weakens

The outbreak of the conflict in the Middle East has bolstered the dollar, which has appreciated by around 1 per cent against the euro (Figure 5). In contrast with developments in 2025, the US dollar has resumed its role as a reserve currency. Its appreciation also reflected the US's lower exposure to the energy market shock compared to the other major advanced economies. In addition to depreciating against the dollar, the euro has also weakened in nominal effective terms since early January.

1.2 THE EURO AREA

Before the outbreak of hostilities in the Middle East, the euro-area economy continued to expand, supported by domestic demand and with an inflation rate close to 2 per cent. The data available as at the end of February confirmed these developments. The conflict has significantly worsened the inflation outlook and made the growth outlook more uncertain. At its March meeting, the ECB Governing Council kept the key interest rates unchanged. The ECB staff projections published in March revised the inflation forecasts upwards and the growth forecasts downwards compared with last December. Growth in lending to firms slackened slightly, while lending to households continued to expand at a moderate pace. A prolonged war could further increase the risks perceived by banks, with a negative impact on credit supply.

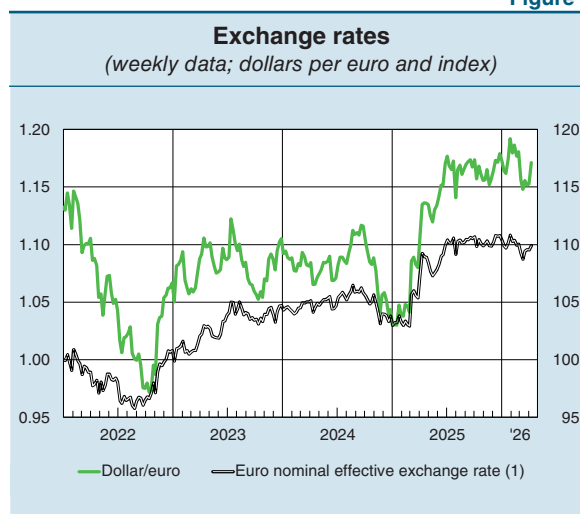
Euro-area GDP grows again in late 2025 ...

Euro-area GDP grew by 0.2 per cent in the fourth quarter of 2025 (0.4 per cent net of Ireland's negative contribution),² slightly less than in the previous quarter (Table 2). GDP grew by 1.4 per cent in 2025 as a whole. In late 2025, investment continued to expand (0.6 per cent), driven above all by construction. Growth in private consumption also picked up (to 0.4 per cent, from 0.2 per cent in the previous three months), supported by households' lower propensity to save (which fell to 14.4 per cent, the lowest level since mid-2023). In the autumn months, exports contracted slightly and to a greater extent than imports, resulting in a negative contribution from foreign demand to growth (zero excluding Ireland).

Value added rose by 0.2 per cent in services, especially in the sectors most closely linked to the digital transition. Economic activity grew more sharply in construction, while it declined in industry excluding construction, though it was still higher than a year earlier.

² Ireland's GDP contracted by 3.8 per cent in the fourth quarter. This was driven mainly by a sharp fall in exports and by the reduction in investment by multinational corporations.

Figure 5



Sources: ECB and LSEG. The latest figure refers to 10 April 2026.
(1) Index: 1st week of 2022 = 100. An increase in the index corresponds to an appreciation of the euro. Right-hand scale.

The rise in GDP in the autumn months was broadly based across the main euro-area economies. GDP continued to grow markedly in Spain (0.8 per cent), driven by domestic demand, and returned to growth in Germany (0.3 per cent). Germany's economic growth was buoyed by higher government and household consumption, though the latter was held back by still low confidence in the general state of the economy. Investment made a positive contribution. Growth in France instead slowed to 0.2 per cent, from 0.5 per cent in the third quarter: household consumption recovered, but exports, investment and government consumption slowed. GDP rose by 0.3 per cent in Italy (from 0.2 per cent in the summer quarter; see Section 2.1).

... and is likely to rise more modestly in the first quarter of 2026

According to our estimates, euro-area GDP growth remained stable in the winter months, though with uneven developments across the main sectors, reflecting the first effects of the war in the Middle East in March. In manufacturing, the PMI for current output remained at levels consistent with a slight expansion (Figure 6). Business confidence, as measured by the European Commission, stayed at its highest levels since mid-2023, reflecting positive assessments of current activity. After the outbreak of the conflict, however, momentum appears to have waned: commodity costs have risen and supply chains have weakened, with delivery delays returning to levels last seen in the second half of 2022. These factors will weigh on industrial production in the spring months and may already have partly curbed manufacturing activity in the first quarter, with a sizeable contraction in the pharmaceutical sector. In the service sector, activity likely continued to grow, driven in particular by digital and business services, as suggested by the European Commission's confidence indicators. The reduction in the PMI and the sharp fall in expectations for the coming months point to a slowdown (Figure 6).

Consumption seems to slow in early 2026 ...

The outbreak of the conflict in the Middle East reversed the favourable trend in household confidence in the first two months of the year, leading to a sharp deterioration in the corresponding index in March and consequently pulling down the first-quarter average. This points to a slowdown in consumption spending, despite still positive growth in disposable income.

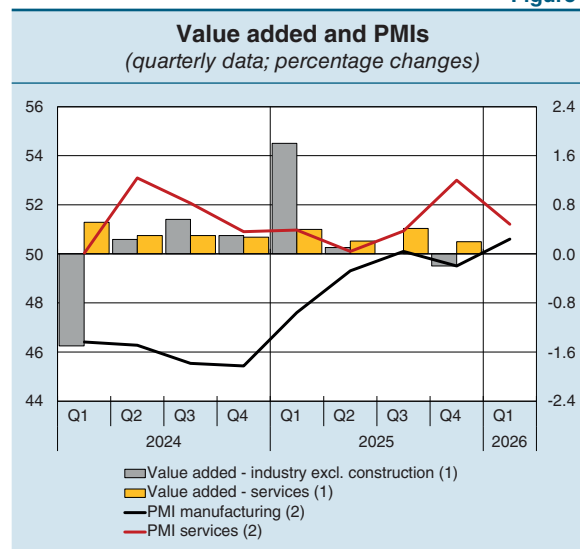
Table 2

Euro-area GDP growth and inflation
(percentage changes)

	GDP growth			Inflation
	2025	2025 Q3 (1)	2025 Q4 (1)	2026 March (2)
France	0.8	0.5	0.2	2.0
Germany	0.2	0.0	0.3	2.8
Italy	0.5	0.2	0.3	1.6
Spain	2.8	0.6	0.8	3.4
Euro area	1.4	0.3	0.2	2.6

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 6



Sources: Eurostat and Standard & Poor's Global Ratings.
(1) Data adjusted for seasonal and calendar effects; percentage changes on previous period. Right-hand scale. – (2) Quarterly averages of the 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.

Spending decisions are affected by the impact of rising energy prices on purchasing power and by uncertainty about the course of the war in the Middle East. In March, perceptions of changes in the global economic environment deteriorated again, after the marked improvement in February; according to the European Commission's surveys, intentions to purchase durable goods weakened again. However, compared with what was observed after Russia's invasion of Ukraine, the overall decline in household confidence has been less marked, probably because inflation is now more contained and the conflict in the Middle East is geographically more distant: compared with 2022, both the uncertainty perceived by consumers and their expectations of price increases rose to a lesser extent.

According to the ECB's Consumer Expectations Survey, nominal income growth expectations over the following 12 months remained stable in February, while those for spending declined slightly over the same period.

... as does investment Capital accumulation slowed in the first quarter – mainly owing to a contraction in residential investment, which was widespread across many major economies – while investment for the digital and energy transitions continued to expand. Looking ahead, the fiscal stimulus package adopted by Germany, together with the ongoing investment projects under the Recovery and Resilience Facility, is also likely to support capital accumulation, as confirmed by the still positive expectations of capital goods producers.

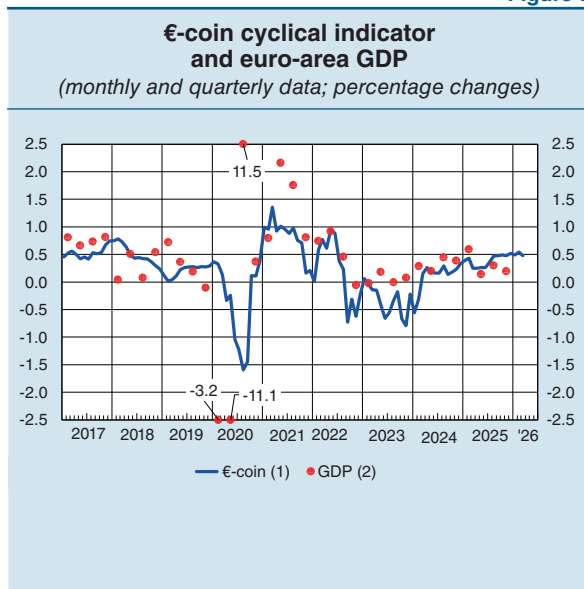
The contribution of foreign demand is likely nil According to our estimates, the contribution of foreign demand to growth in economic activity was virtually zero in the winter months. The PMI for new orders from abroad is below the expansion threshold, albeit higher than in the previous quarter.

The €-coin indicator, estimated at the end of March using a set of variables observed both before and after the outbreak of the conflict in the Middle East, inched down. The decline mainly reflected the deterioration in economic sentiment in the euro area, due to the sharp drop in consumer confidence (Figure 7).

Inflation is above 2 per cent and is set to rise in the coming months The 12-month change in the consumer price index rose to 2.6 per cent in March (from 1.9 per cent in February; Figure 8). Core inflation, which excludes food and energy, instead edged down (to 2.3 per cent), reflecting the decline in both services (from 3.4 to 3.2 per cent) and non-energy industrial goods (from 0.7 to 0.5 per cent). Among the volatile components, food price inflation stood at 2.4 per cent. Energy prices rose markedly, from -3.1 to 5.1 per cent; this increase is almost entirely due to the sharp rise in fuel prices, which were up by nearly 15 per cent both month on month and year on year.

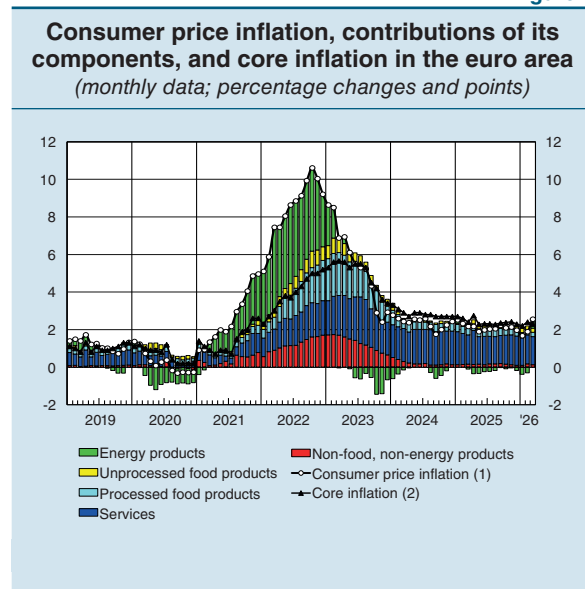
In January, import prices continued to fall year on year across the main components, reflecting competitive pressures from China. In February, producer-price inflation for industrial goods sold on the internal market, excluding energy, went down slightly to 1.0 per cent year on year. In March, however, the PMI showed the fastest increase in input prices since February 2023. Services also accelerated, though the pickup was more pronounced in manufacturing. Euro-area firms indicate that their selling prices could also rise in response to the sharp increase in costs, albeit much less markedly. Higher energy prices linked to the conflict in the Middle East could have a significant impact on inflation in the short term: the experience of the 2021-22 energy shock shows that increases in oil prices are passed through quickly to fuel prices, whereas higher gas prices are transmitted to energy bills more gradually. The impact on the other non-energy components of the PMI will crucially depend on how persistent high energy commodity prices prove to be.

Figure 7



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: March 2026. The methodology used to construct the indicator and the updated data for the indicator are available on Banca d'Italia's website, 'Cyclical coincident indicator of the euro area economy (€-coin)'. – (2) Quarterly data adjusted for seasonal and calendar effects; percentage changes on previous period.

Figure 8



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.

Wages continue to slow

Actual hourly wage growth slowed again in the autumn in all the main euro-area countries, with the exception of Spain. In the winter months, negotiated wage growth also moderated and is expected to stabilize in 2026, according to the ECB's wage tracker.³ Headcount employment in the euro area increased by 0.2 per cent in the fourth quarter of 2025 and, according to the latest data, continued to grow in early 2026 as well.

The ECB revises its inflation forecasts upwards and its growth forecasts downwards

The ECB staff projections published in March revised the inflation forecasts upwards and the growth forecasts downwards compared with last December, incorporating the impact that the war in the Middle East will have on global commodity markets, real incomes and confidence. In the baseline scenario, inflation is expected to stand at 2.6 per cent in 2026 and to stabilize close to the target in the following two years; economic growth is expected to be 0.9 per cent in 2026, 1.3 per cent in 2027, and 1.4 per cent in 2028. In a particularly unfavourable scenario, which assumes a prolonged disruption to the transport of oil and LNG through the Strait of Hormuz and a persistent increase in financial market uncertainty, euro-area inflation would rise above 4 per cent in 2026 and 2027, before falling to around 3 per cent in 2028. GDP growth would decline to about half a percentage point this year and 1 point next year, before rising to almost 2 per cent in 2028.

Firms and households expect prices to rise

The conflict in the Middle East has had a significant impact on firms' and households' expectations regarding price trends. The European Commission's surveys of households and firms and the relevant PMIs showed a rapid increase in selling price growth expectations in the first quarter on average. For firms, this increase was more

³ The wage tracker is an indicator that measures wage growth based only on active collective bargaining agreements; see the box 'The impact of recent contractual wage increases on wage growth' in *Economic Bulletin*, 1, 2026).

pronounced in the manufacturing sector than in services, probably owing to the former's greater exposure to higher energy prices.

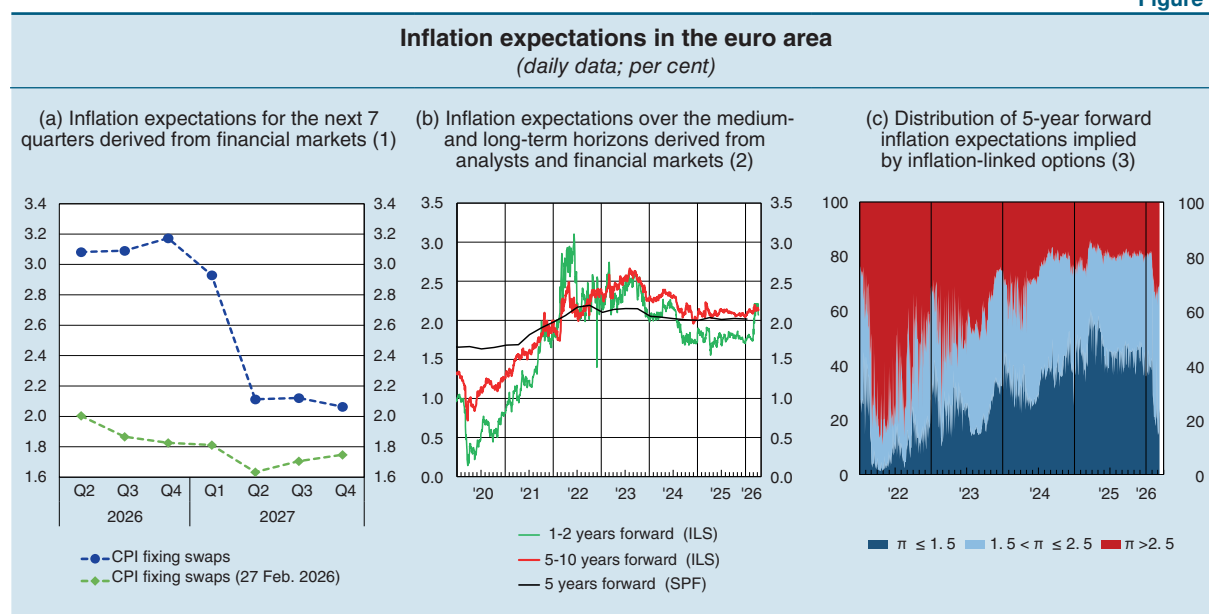
According to the ECB's Consumer Expectations Survey, the median of households' consumer price inflation expectations over a twelve-month horizon in the euro area had declined to 2.5 per cent in February. Three-year-ahead expectations decreased to 2.5 per cent, a level that has been broadly stable since spring 2023.⁴

Inflation expectations based on financial markets are revised upwards significantly

Based on the latest data, CPI fixing swaps⁵ incorporated expectations of a substantial rise in inflation, which would stand at around 3.2 per cent at the end of 2026, and then return to around 2.1 per cent in the second quarter of 2027 (Figure 9.a). Over the horizon between one and two years ahead, the inflation expectations implied by inflation-linked swaps (ILS) increased to

2.1 per cent; those over longer horizons also stood at similar levels (Figure 9.b). The distribution of inflation expectations based on options prices points to a 22 per cent chance of inflation being below 1.5 per cent on average over the next five years, and a 30 per cent chance of inflation exceeding 2.5 per cent. At the end of February, these probabilities were 43 and 18 per cent respectively (Figure 9.c).

Figure 9



Sources: ECB and based on Bloomberg data. The latest figure refers to 10 April 2026, unless otherwise specified.

(1) Annual inflation rates expected for the next 7 quarters, implied by CPI fixing swaps (the underlying inflation rate is calculated based on the euro-area HICP excluding tobacco). – (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 February 2026). – (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.

⁴ The February survey was conducted between 5 February and 3 March, so only around 3 per cent of the responses were collected after the outbreak of the conflict in the Middle East.

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 financial markets over the following 24 months. Inflation expectations based on CPI fixing swaps are updated more frequently than those of analysts, and may be affected by sudden reactions to news about macroeconomic developments in the euro area and in the other major economies. For more details, see M. Bernardini, L. D'Arrigo, A. Lin and A. Tiseno, 'Real interest rates and the ECB's monetary policy stance', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 857, 2024.

The ECB keeps its key interest rates unchanged

At its March meeting, the ECB Governing Council left the key interest rates unchanged (Figure 10), stressing the need to continue to monitor the course of the war in the Middle East closely to assess its impact on the inflation outlook.

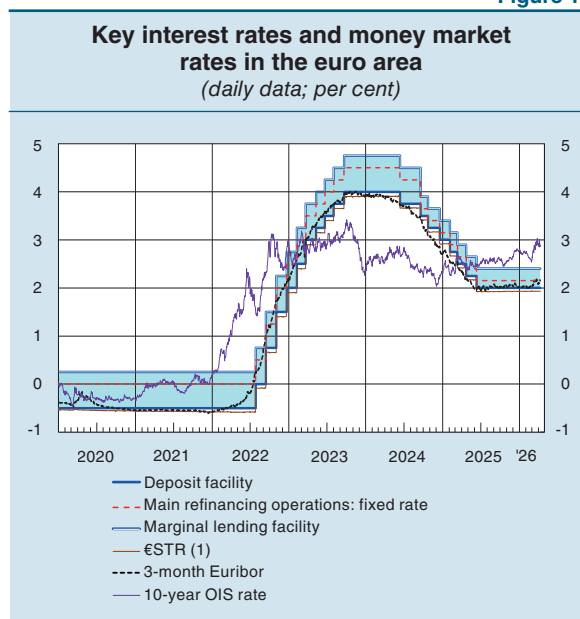
Expectations for key interest rates are revised upwards after the outbreak of the war

The key interest rate expectations implied by €STR rate swap contracts have risen across all maturities since the start of the hostilities. Markets expect two key interest rate increases over the year and see a third one as highly likely.

Government bond yields rise ...

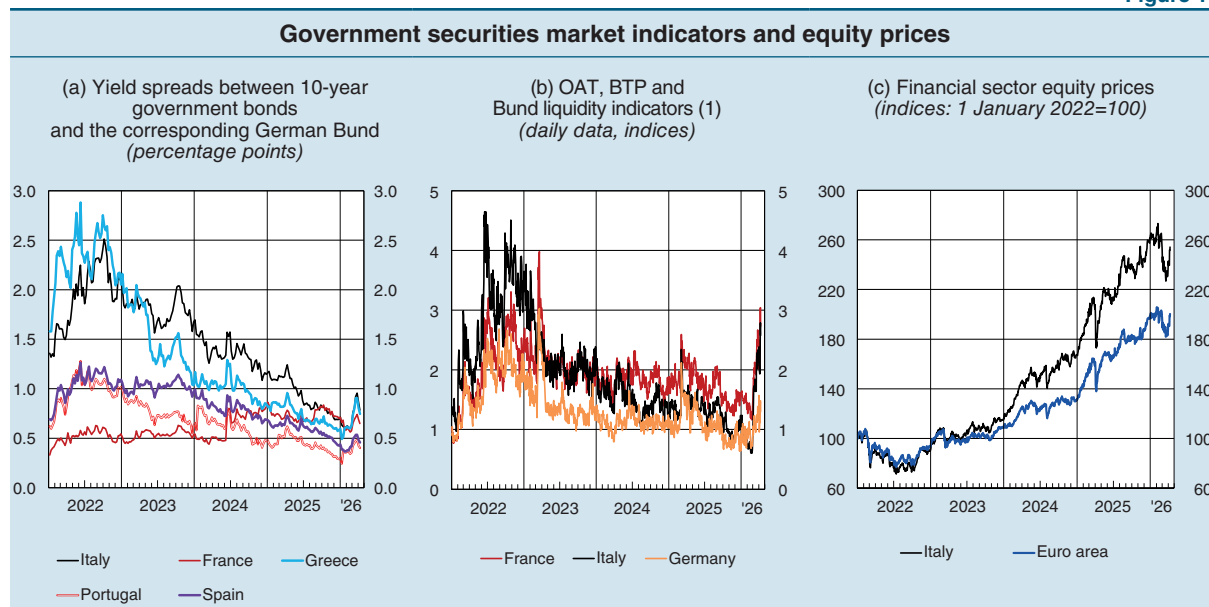
Ten-year government bond yields in the main euro-area countries declined in the first two months of the year, but increased significantly after the start of the conflict in the Middle East (Figure 4.a), reflecting concerns about rising inflation. Since the beginning of March, the spread between Italian and German ten-year government bonds has risen to 79 basis points. The yield spreads between the sovereign bonds of the other main euro-area economies and the German Bund also widened (Figure 11.a). Liquidity conditions deteriorated in the three main government bond markets (Figure 11.b).

Figure 10



Sources: ECB and LSEG. The latest figure refers to 10 April 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 11



Sources: LSEG, based on data from Bloomberg and Tradeweb. The latest figure refers to 10 April 2026, unless otherwise specified. (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 equity prices fall

The euro-area equity index has fallen by about 3 per cent since the end of February (Figure 4.b), returning to near start-of-year levels. The decline was limited in the financial sector and more pronounced in industry, owing to concerns about a possible slowdown in the business cycle and to fears about firms' profitability linked to the sharp rise in energy commodity prices (Figure 11.c). The Italian equity index has remained broadly unchanged since the conflict started and is now around 3 per cent higher than in early January.

The cost of mortgage loans edges up

Between November and February, the interest rate on new loans to non-financial corporations remained practically unchanged at 3.5 per cent (Figure 12). The cost of new loans to households for house purchase inched up (from 3.3 to 3.4 per cent), reflecting the slight increase in longer-term market yields.

Growth in lending to firms weakens slightly

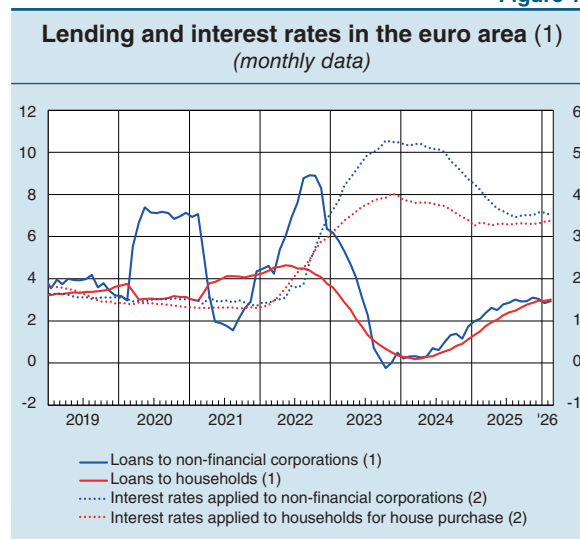
Growth in lending to non-financial corporations in the euro area declined slightly in February (to 2.9 per cent year on year, from 3.1 per cent in November). Lending to firms contracted again in Germany, while it continued to increase at a modest pace in Italy (see Section 2.7) and more rapidly in France and Spain.

In the fourth quarter of 2025, lending to non-financial corporations in the euro area was affected by a further and unexpected tightening of credit standards. This reflected higher perceived risks for the economic outlook and banks' lower risk tolerance. Firms' demand for loans is still weak but picking up slightly.⁶ A prolonged conflict could further increase the risks perceived by banks, thereby adversely affecting the supply of credit.

Lending to households continues to grow at a moderate pace

In February 2026, the growth rate of lending to households remained at levels similar to those in November 2025 (3.0 per cent year on year). Credit growth continued to strengthen in Spain and Italy, while it remained broadly unchanged in Germany and France. Mortgage lending growth reflected greater household demand and easier supply conditions overall on the part of banks.

Figure 12



Source: ECB.
(1) 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. – (2) 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.

⁶ For more details, see ECB, 'January 2026 euro area bank lending survey', press release, 3 February 2026.

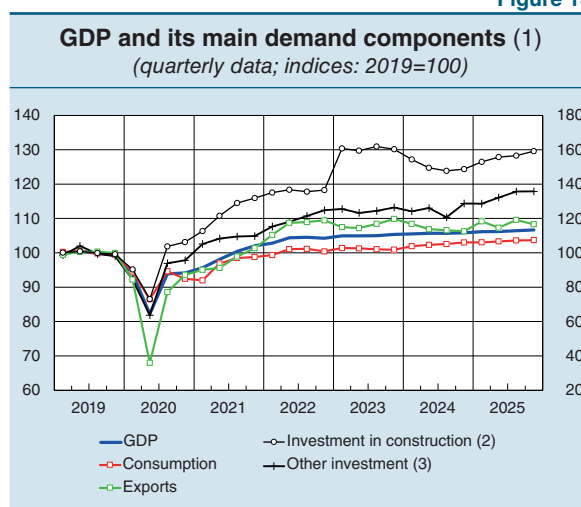
2 THE ITALIAN ECONOMY

2.1 CYCLICAL DEVELOPMENTS

GDP growth continued in the fourth quarter of 2025; investment expanded at a good pace, while private consumption slowed. Data suggest the economy continued to expand at a moderate pace in the early months of the year, supported by activity in services. The conflict in the Middle East has led to a marked increase in energy prices and greater global uncertainty, with substantial upside risks to inflation and downside risks to consumption and investment.

Economic activity increases in the fourth quarter ... In the fourth quarter of 2025, economic activity in Italy grew by 0.3 per cent (from 0.2 per cent in the previous quarter; Figure 13 and Table 3), with the main contribution coming from investment. Household consumption slowed, partly reflecting the decline in disposable income in the quarter, and foreign demand made a negative contribution.

Figure 13



Source: Based on Istat data.
(1) Chain-linked volumes; adjusted for seasonal and calendar effects. – (2) Right-hand scale. – (3) Include, as well as investment in plant, machinery and arms (which also include transport equipment), cultivated biological resources and intellectual property products.

Table 3

	2025	2025			
		Q1	Q2	Q3	Q4
GDP	0.5	0.3	0.0	0.2	0.3
Imports of goods and services	3.6	1.6	0.5	2.0	1.0
Domestic demand (2)	1.3	0.0	0.7	0.2	1.0
Domestic consumption	0.9	0.0	0.3	0.3	0.1
Household spending (3)	1.1	0.1	0.3	0.3	0.1
General government spending	0.6	-0.2	0.3	0.1	0.2
Gross fixed investment	3.5	1.4	1.7	1.0	0.9
Construction	3.3	2.8	1.9	0.5	1.7
Capital goods (4)	3.6	-0.1	1.5	1.6	0.0
Change in inventories (5)	-0.2	-0.3	0.2	-0.3	0.7
Exports of goods and services	1.2	2.7	-1.7	2.1	-1.2
Net exports (6)	-0.7	0.4	-0.7	0.1	-0.7

Source: Istat.

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

Value added expanded again in manufacturing, especially in the sectors driven by the digital and energy transitions, and in the pharmaceutical sector. Economic activity increased to a greater degree in construction and especially in residential construction, where it was partly driven by the impending expiry of a number of tax incentives for renovation, which were later extended to the end of 2026 (see Section 2.2). The trend in services was positive but uneven, with a more pronounced expansion in the trade, transport, accommodation and communication and information services sectors, accompanied by a dip in financial and insurance services.

... with signs of growth continuing at a slower pace in the first three months of the year

There are indications that GDP continued to grow at a moderate pace in the first quarter of this year, sustained by activity in services, and especially those targeting firms. The Winter Olympics are estimated to have made a positive contribution, as data on the presence of foreign tourists and on international flights show (see Section 2.4). After performing well in the previous quarter, capital formation seems to have stagnated, with investment in areas relating to the digital and energy transitions expanding and offsetting the performance in the residential sector. The contribution of foreign demand to growth appears to have turned positive, owing to the increase in exports of both goods and services.

The conflict in the Middle East weighs on the economic outlook

The war in the Middle East has led to a worsening of the economic outlook. On the business side, while the impact on current activity in March appears to have been mitigated by a still solid flow of orders, the surveys by the European Commission and the PMIs all point to a deterioration in expectations. This reflects the heightened tensions in costs, especially in the sectors most exposed to energy price hikes, and in the supply of other production inputs. The impact on households was instead more immediate. Confidence in March was affected by the deteriorating geopolitical environment and rising uncertainty, as well as by the effects of higher fuel prices. Overall, these factors could translate into a weakening of consumer spending and a postponement of investment decisions (see Sections 2.2 and 2.3).

Looking forward, the contraction in oil and gas supplies and renewed increases in their prices are the main sources of upside risks to inflation and downside risks to growth. Persistent increases in energy prices can have indirect effects along value chains and thus fuel inflationary pressures, which could be exacerbated if expectations of further price growth should prevail (see Section 2.6). Strong wage increases seem unlikely at present (see Section 2.5).

According to the macroeconomic projections published by Banca d'Italia in April, Italy's GDP is set to expand by 0.5 per cent both this year and the next and by 0.8 per cent in 2028. Compared with last December's projections, GDP growth has been revised downwards by about half a percentage point over the three-year period as a whole, on account of the rise in energy prices (see the box 'Macroeconomic projections for the Italian economy').

MACROECONOMIC PROJECTIONS FOR THE ITALIAN ECONOMY

On 3 April, Banca d'Italia published its projections for the Italian economy for 2026-28.¹ The estimates are largely dependent on the assumptions made for commodity prices, which are characterized by high uncertainty linked to the evolution of the conflict in the Middle East. The baseline projections are complemented by an alternative scenario, prepared for illustrative purposes, aimed at assessing the potential repercussions on the Italian economy of an escalation of the conflict leading to stronger tensions on the energy and financial markets and to weaker global demand.

¹ For further details, see Banca d'Italia 'Macroeconomic projections for the Italian economy', 3 April 2026.

The scenario assumes that oil and natural gas prices will be in line with the futures prices observed in the last week of March, which are projected to increase significantly in the second quarter of 2026 and then fall gradually to levels close to those prior to the outbreak of the war. Global trade is projected to expand modestly this year, amid heightened uncertainty, and then accelerate over the next two years. Borrowing costs for firms are set to rise over the projection horizon.²

Under these assumptions, Italy's GDP is expected to grow by 0.5 per cent both this year and the next and by 0.8 per cent in 2028 (see the table). Domestic demand will likely be affected by the price increases, a deterioration in business and consumer confidence and higher financing costs; it is expected to regain strength in early 2027, as inflationary pressures ease. Exports are assumed to be held back by weak global trade in 2026 and then gather pace over the next two years, in line with international trade dynamics. Employment is set to continue to grow, albeit at a slower pace than in previous years. The unemployment rate, which fell to historical lows at the end of 2025, is expected to edge up over the next three years. Consumer price inflation is projected to rise to 2.6 per cent in 2026, mainly reflecting the run-up in oil and natural gas prices, before returning to just below 2.0 per cent in 2027 and 2028. The surge in energy prices is estimated to pass through gradually to wages and salaries and to the prices of other goods and services: net of its most volatile components, inflation is projected to barely inch up this year, to 2 per cent, and to stabilize at 1.8 per cent in the two years 2027-28.

Table

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

	GDP (1)			Inflation (2)		
	2026	2027	2028	2026	2027	2028
Banca d'Italia (April)	0.5	0.5	0.8	2.6	1.8	1.9
IMF (April)	0.5	0.5	–	2.6	2.4	–
Confindustria (March)	0.5	0.6	–	2.5	2.2	–
OECD (March)	0.4	0.6	–	2.4	1.8	–
Prometeia (March)	0.4	0.5	0.5	2.9	1.6	2.0
PBO (February)	0.7	0.7	–	1.7	1.5	–
<i>Memorandum item: Banca d'Italia (December)</i>	0.6	0.8	0.9	1.4	1.6	1.9

Sources: Banca d'Italia, 'Macroeconomic projections for the Italian economy', 3 April 2026; IMF, *World Economic Outlook. Global Economy in the Shadow of War*, April 2026; Confindustria, *Wars, tariffs, uncertainty: growth at risk*, Forecasts Reports, Spring 2026; OECD, *OECD Economic Outlook, Interim Report. Testing Resilience*, March 2026; Prometeia, *Quarterly Economic Outlook*, March 2026; Parliamentary Budget Office (PBO), *Report on Recent Economic Developments*, February 2026.

(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 0.6 per cent in 2026, 0.5 per cent in 2027 and 0.6 per cent in 2028. – (2) HICP. The PBO's forecasts refer to the consumption deflator.

Compared with the projections published in December, GDP growth has been revised downwards by about half a percentage point over the three-year period as a whole, largely on account of a less favourable trend in consumption and real income following the spike in energy prices, which is also reflected in the sharp upward revision of inflation estimates (by more than 1 percentage point this year and by 0.2 percentage points next year).

The growth projections presented in this box are broadly in line with the most recent assessments published by the leading institutional and private forecasters, while the inflation projections for 2027 are lower than those made by the IMF and Confindustria.

² The projections are based on information available at 27 March (for the technical assumptions) and at 31 March (for other data).

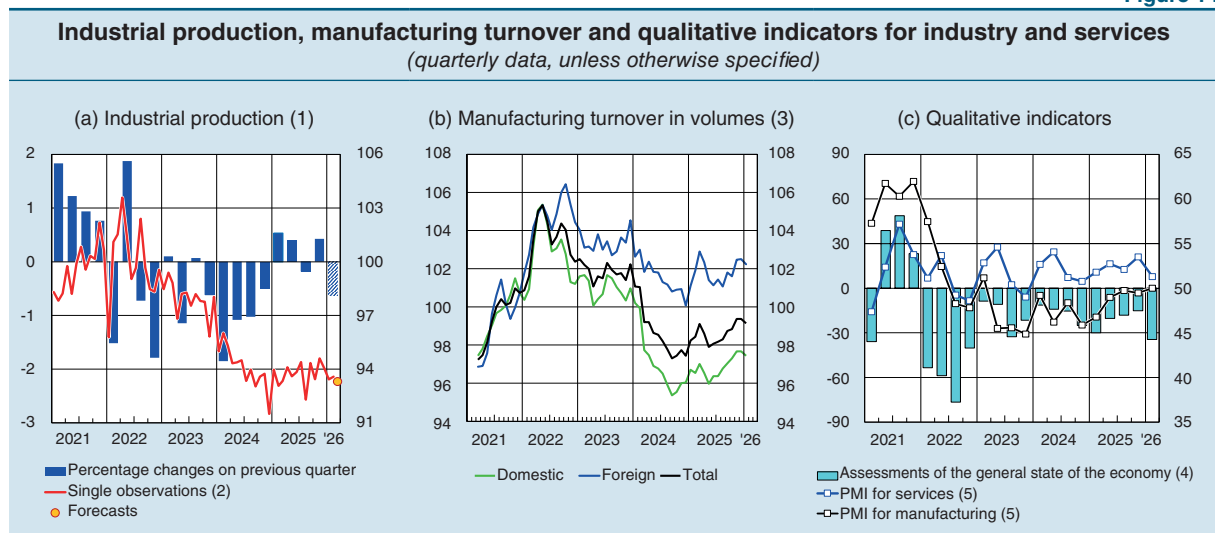
The uncertainty surrounding the projections presented here is exceptionally high. The continuation of hostilities in the Middle East and the possibility of additional major damage to energy infrastructure could cause commodity prices to soar even further, weakening international trade and weighing down consumer, business and investor confidence. Under this scenario, inflation in Italy could rise to 4.5 per cent in 2026 and to 3.3 per cent in 2027, while economic activity would stagnate this year and decrease in 2027 (see the box ‘The consequences of the conflict in the Middle East: an adverse scenario’, in ‘Macroeconomic projections for the Italian economy’, Banca d’Italia, 3 April 2026).

2.2 FIRMS

Value added grew in both manufacturing and in construction in the final months of 2025. The first quarter of this year ended with profound uncertainty about the effects of the war in the Middle East, especially for manufacturing, because of the increase in energy costs and the difficulties in sourcing certain raw materials. Activity in services, which remained effectively stable in the fourth quarter of last year, benefited from the positive impact of the Winter Olympics. Investment appears to have slowed on account of greater uncertainty about the macroeconomic outlook.

Industrial production grows in the autumn ... Manufacturing activity grew in the fourth quarter of 2025 (Figure 14.a). The main contribution came from the increase in the production of capital goods, supported by investment in transport equipment and by greater energy production, whereas the production of consumer goods, especially durable goods, declined. Turnover picked up, with a slightly more pronounced rise in sales on the domestic market than on foreign markets (Figure 14.b). Production continued to expand in metalworking and in the sectors more closely linked to the digital and energy transitions, whereas it declined in the chemical and automotive industries due to the heavy competition and increasing penetration of imports from China. The ongoing weakness in the demand for goods continues to weigh on the textile and clothing industry.

Figure 14



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

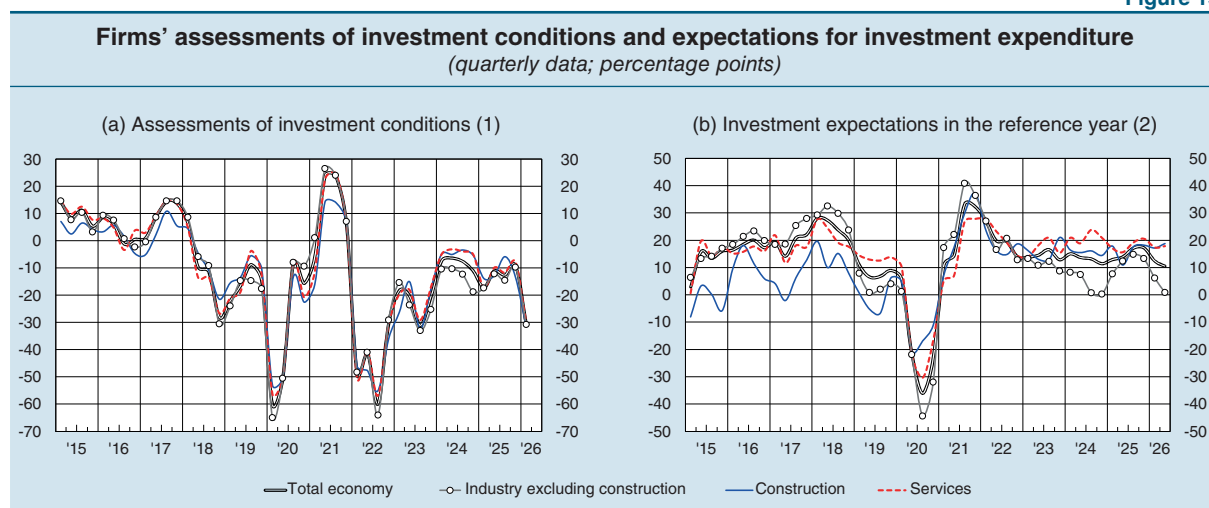
(1) Data adjusted for seasonal and calendar effects. The yellow dot indicates the forecast for March 2026; the last bar represents the forecast for the first quarter of 2026. – (2) Monthly data. Index: 2021=100. Right-hand scale. – (3) Monthly data. Index: 2021=100, volumes, 3-month moving average ending in the reference month. – (4) Balance, in percentage points, between the responses ‘better’ and ‘worse’ to the question on the general state of the economy (see ‘Survey on Inflation and Growth Expectations’, Banca d’Italia, Statistics Series, 14 April 2026). – (5) Average quarterly data. Diffusion indices for economic activity in the sector. Right-hand scale.

... and declines in the first quarter of 2026

Industrial production increased slightly in February compared with January (by 0.1 per cent). In the first two months as a whole, however, there was a decline in activity compared with the end of 2025, largely attributable to the sectors that had shown more pronounced growth last year, especially the pharmaceutical sector. The surge in energy prices and in the prices of other production inputs, combined with the worsening outlook for demand since late February, are likely to have repercussions on production – especially in energy-intensive sectors – and on firms’ investment plans.

Compared with the last quarter of 2025, the PMI for manufacturing rose in the first three months of 2026 on average, indicating an expansion in current production and new orders, largely domestic (Figure 14.c). The confidence indicators reported in Istat surveys over the quarter were broadly stable on average, underpinned by favourable expectations regarding orders, although production expectations worsened in March. The [Survey on Inflation and Growth Expectations](#) conducted by Banca d’Italia in March instead showed a sharp deterioration in firms’ business conditions in the short term – mainly referable to the outbreak of the conflict in the Middle East – and worsening sales assessments, primarily regarding foreign demand (Figure 15; see the box ‘The repercussions of the conflict in the Middle East on Italian firms’ expectations’).

Figure 15



Source: ‘Survey on Inflation and Growth Expectations’, Banca d’Italia, Statistics Series, 14 April 2026.

(1) Balance 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.

THE REPERCUSSIONS OF THE CONFLICT IN THE MIDDLE EAST ON ITALIAN FIRMS’ EXPECTATIONS

The [Survey on Inflation and Growth Expectations](#), conducted between 20 February and 18 March 2026 around the time of the outbreak of the conflict in the Middle East, made it possible to promptly quantify the impact on firms’ expectations and investment plans for this year. After 28 February, there was a marked worsening in expectations regarding own economic conditions and in foreign demand, together with an increase in expectations regarding production costs. Investment intentions for 2026, however, remain broadly stable at present.

Firms’ expectations for their own economic conditions worsened significantly after the start of the war: 34 per cent of the firms interviewed after 28 February reported a negative outlook for the next three months and only 6 per cent expected an improvement; the pre-conflict percentages were 14 and 11 per cent respectively (see panel (a) of the figure). According to firms, the high macroeconomic

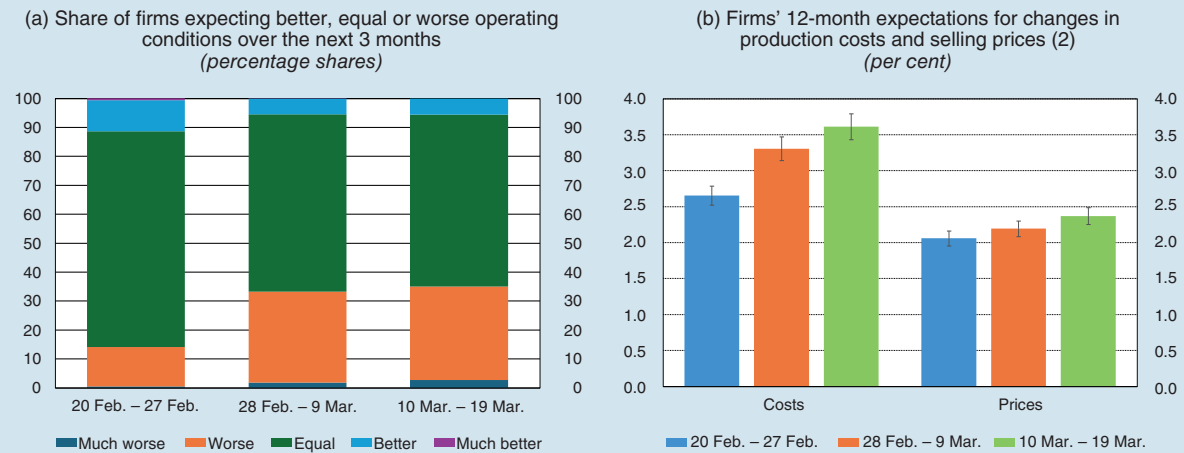
and geopolitical uncertainty will play an important role among the factors influencing their activity in the second quarter of 2026. The deterioration in expectations for the outlook for foreign demand over the next three months was particularly marked: after 28 February, the share of assessments of a worsening doubled, whereas there was a contraction in both assessments of stability and especially those of improvements.

The assessments of investment conditions have also deteriorated, without affecting the investment plans for 2026, which for the time being remain expansion-oriented for more than one third of firms in industry excluding construction and in services.

Changes in oil prices and, more generally, in production costs are one of the main concerns. The firms interviewed after 28 February expect an average increase in production inputs of 3.4 per cent over the next 12 months, about 1 percentage point more than that recorded among the firms interviewed before the outbreak of the war (see panel (b) of the figure). However, the 12-month expectations of changes in own selling prices remained virtually unchanged and close to 2.0 per cent, pointing to a possible margin squeeze, at least in the short term.

Figure

Italian firms' expectations for their economic conditions, production costs and selling prices before and after the outbreak of the conflict in the Middle East (28 February 2026) (1)



Source: 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 14 April 2026. (1) Weighted statistics. – (2) Expected change over the next 12 months in the prices of goods and services purchased and applied. The black lines above the bars represent 95 per cent confidence intervals.

The Russian invasion of Ukraine that began in February 2022 and its effects on energy prices provide a natural yardstick for assessing the impact of the war in the Middle East on firms' expectations, despite the differing macroeconomic environments prior to the two conflicts.¹ According to our analyses, the upward revision of the 12-month selling price expectations was significantly more pronounced in 2022: 0.7 percentage points, against 0.2 points in the current survey. The difference is conceivably attributable to consumption being weak at the moment, which could lead to greater caution in the upward adjustment of selling prices.

¹ In the survey, which was done in the first quarter of 2022, around one fifth of the interviews had been conducted before Russia's invasion of Ukraine.

Following a period of expansion supported by robust demand, the conflict in Ukraine had led to a significantly bigger downsizing of investment plans in the first quarter of 2022 than is suggested by the results of the latest survey. More than one third of firms currently continue to anticipate an increase in capital accumulation. According to the European Commission's business confidence survey and the European Investment Bank survey,² the bulk of investment spending is driven by the need to renew productive capital, to streamline processes through digitalization and automation, to reduce costs and to adapt to the latest regulation, for example in the environmental sphere. These investments, unlike those aimed at expanding production capacity, are not closely linked to developments in demand. Looking ahead, a climate of persistent and great uncertainty and a sizeable increase in production costs could cause firms to be more cautious in this type of investment as well.

² EIB, *EIB Investment Survey 2025: Italy Overview*, 2026.

Activity in services appears to have picked up again in the winter months

Value added in the service sector remained virtually unchanged in the fourth quarter, but with uneven trends across sectors. It declined in financial and insurance activities and in professional, research and consultancy activities, which had grown robustly over the first nine months of the year. Conversely, information and communication services continued to expand, buoyed by the technological transformation process. Trade, transport and accommodation services continued to grow over the year, benefiting from the positive trend in tourism flows, which was confirmed with the Winter Olympics in the early months of 2026.

PMIs remained above the expansion threshold on average in the winter months, pointing to positive developments in the service sector. Istat's qualitative surveys also point to a favourable assessment of developments in demand across the entire service sector, with greater optimism in business services and in tourism. With the exception of the latter, the March survey showed an overall deterioration in activity expectations. The service firms interviewed for Banca d'Italia's [Survey on Inflation and Growth Expectations](#) since the outbreak of the war in the Middle East also reported a sharp deterioration in their short-term operating conditions (Figure 15).

Activity in construction slows after its end-of-year increase

Activity in construction increased significantly at the end of 2025: value added grew by 1.4 per cent compared with the previous quarter (5.2 per cent on an annual basis), reflecting the strong increase in housing investment. According to our estimates, confirmed by Istat's business confidence surveys for the construction sector, economic activity effectively stabilized in the first three months of 2026.

Investment is being affected by the slowdown in the residential sector

Total investment increased by 0.9 per cent in the fourth quarter of last year, and was the main contributor to GDP growth.

The expansion was particularly strong in residential construction, probably because renovation works that qualified for government incentives were brought forward ahead of the expiry date for the scheme, initially set for the end of the year and later extended.¹ Investment in intangible assets also continued to increase on the back of the digital transition. While these investments

¹ Based on the revised data for 2024, the expansion in investment in construction was more robust in 2025 than previously estimated, especially in the residential sector, probably because of the NRRP. Conversely, investment growth was lower in those areas that are linked more closely to the production capacity of firms, i.e. in machinery and equipment excluding transport equipment.

have grown by 23 per cent since 2019, they remain below the euro-area average as a share of GDP (3.0 per cent, against 4.2 per cent in the euro area excluding Ireland).

Investment in machinery and equipment declined slightly after two quarters of strong expansion, whereas investment in transport equipment grew at a much slower pace than in the previous four quarters, when growth had been partly driven by tax incentives to renew vehicle fleets.

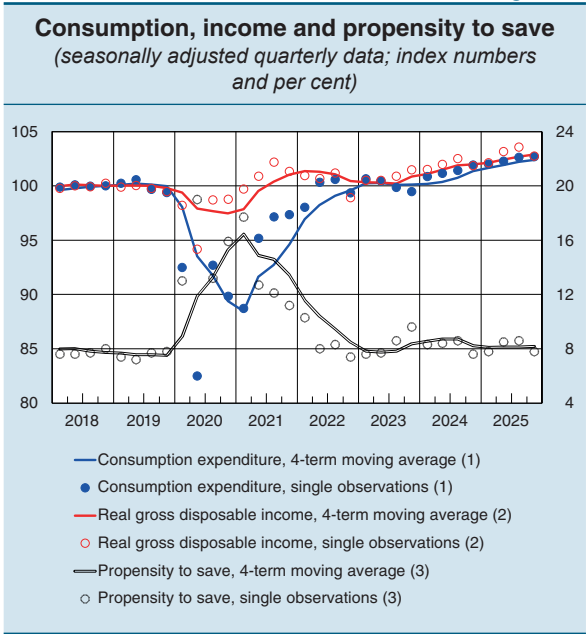
In the first quarter of 2026, capital formation appears to have stagnated, despite the still positive contribution of structural factors linked to the digital and energy transitions. Data from the Italian Leasing Association (Assilea) indicate that the number of contracts for the purchase of capital goods increased year on year in the first three months of 2026, partly thanks to the incentives for investment by small and medium-sized firms provided for in the ‘nuova Sabatini’ law. The marked slowdown in the residential sector appears to have weighed on overall investment growth, however. Banca d’Italia’s business surveys point to a deterioration in investment conditions across all sectors after the outbreak of the conflict in the Middle East. These conditions have not yet affected firms’ investment plans for the year, which remain expansion-oriented for service firms as a whole and, to a lesser extent, for industry excluding construction.

2.3 HOUSEHOLDS

In the fourth quarter of last year, household consumption slowed compared with the previous three months. The propensity to save fell back to pre-pandemic levels, partly as a result of statistical revisions. Consumption is estimated to have expanded at a modest pace in early 2026 as well, reflecting households’ caution amid the risks arising from the macroeconomic outlook. The spike in energy prices and heightened uncertainty following the outbreak of the conflict in the Middle East weighed on household confidence and spending decisions.

Household consumption barely grows in the autumn ... Household consumption grew marginally in the fourth quarter of 2025. The slowdown in spending on goods, especially durable goods, was countered by a slight recovery in spending on services, particularly information and communication services. The weaker growth in overall consumption was accompanied by a fall in disposable income, leading to a lower propensity to save (7.8 per cent, from 8.6 per cent in the summer months of last year; Figure 16). Based on Istat’s revisions of consumption and income data at the time of the release of the annual accounts, the saving rate in the first nine months of 2025 was about 2 percentage points lower than previously estimated. More specifically, the downward revisions of income data for 2024 and 2025 (especially for the non-payroll component), together with higher consumption levels, imply that households’ propensity to save was close to pre-pandemic levels at the end of 2025, with a broadly stable pattern over the past two years.

Figure 16



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

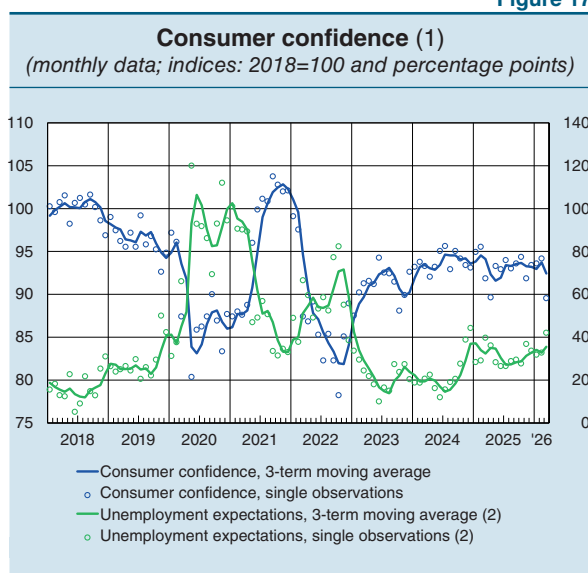
... and remains sluggish in the first quarter of this year

According to our estimates, consumption continued to expand at a slow pace in the first three months of 2026. Following favourable signals from retail sales data and the Confcommercio consumption indicator for January and February, spending decisions appear to have been affected by the conflict in the Middle East in March. Consumer confidence, as measured by Istat, worsened considerably in March (Figure 17), especially in terms of expectations for personal finances and the general economic sentiment, which had improved in the first two months of the year. Despite positive data on new car registrations throughout the quarter, the indicator of households' intentions to purchase durable goods contracted in March, hitting its lowest levels since mid-2025.

The real estate market is supported by demand at the end of 2025

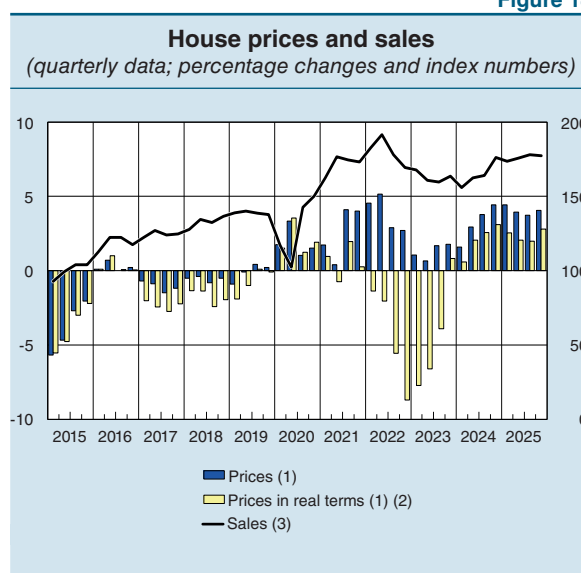
House prices accelerated in the fourth quarter of 2025 (4.1 per cent year-on-year), driven by growth in existing property prices. Sales volumes edged down, albeit remaining high (Figure 18). According to the [Italian Housing Market Survey](#) conducted by Banca d'Italia last February, rent growth continued, though it moderated in urban areas; sale listings declined further, despite favourable borrowing conditions. According to our calculations based on listings on the Immobiliare.it online platform, housing demand remained buoyant in the first quarter.

Figure 17



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

Figure 18



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

2.4 FOREIGN TRADE AND THE BALANCE OF PAYMENTS

Goods exports declined in volume terms in the fourth quarter of 2025. The current account surplus narrowed owing to a smaller merchandise trade surplus. Goods exports are estimated to have grown in January and February 2026, and services exports to have received a boost from the Winter Olympics. The spike in energy prices following the conflict in the Middle East will lead to a deterioration in Italy's energy balance. Italy's positive net international investment position widened.

Exports decline in the fourth quarter of 2025 ...

Following significant growth in the summer months, export volumes declined in the fourth quarter of 2025 (Table 4). Sales of goods were down by 1.6 per cent, with a stronger contraction on euro-area markets, especially France and Germany (Figure 19.a); sales to non-euro area markets were affected by lower exports to the United States, following brisk ship sales in the previous quarter (Figure 19.b). By sector, the decline was driven mainly by pharmaceuticals, transport equipment other than motor vehicles and refined petroleum products. Meanwhile, exports of services returned to growth, despite broadly stable international tourism receipts. Import volumes slowed, mainly as a result of a sharp deceleration in services, while growth in goods imports moderated only slightly.

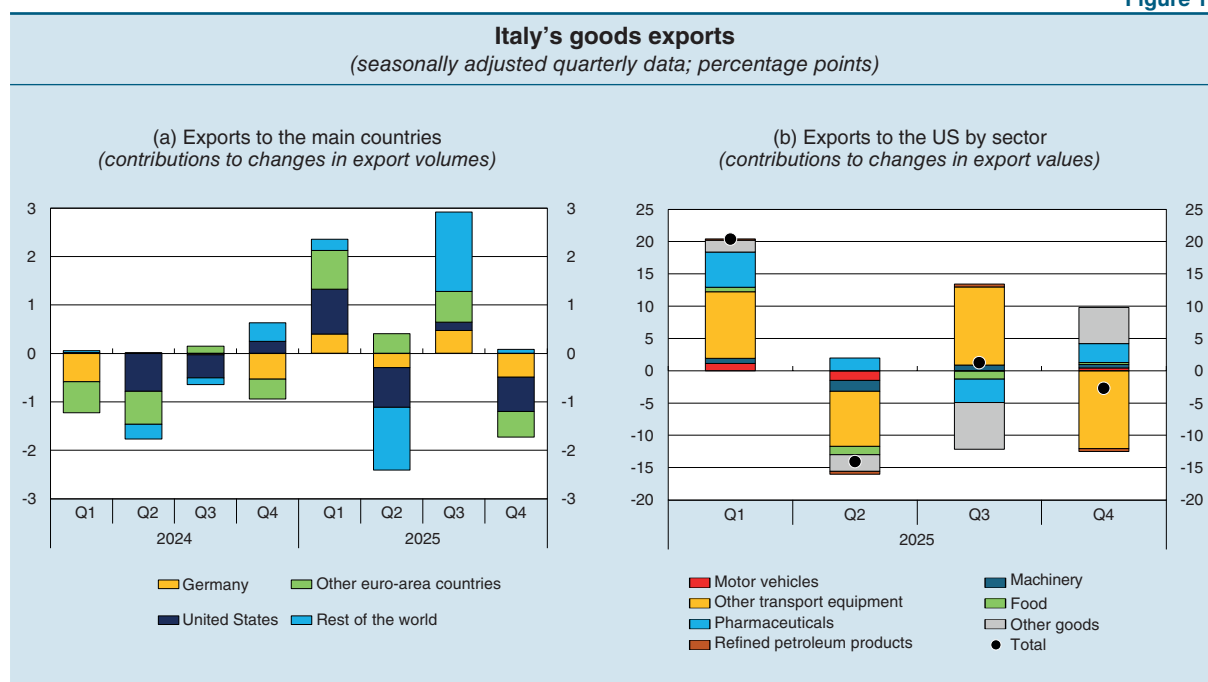
Table 4

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

	2025		2025		
			Q1	Q2	Q3
Exports	1.2	2.7	-1.7	2.1	-1.2
Goods	0.7	2.4	-2.0	2.9	-1.6
To euro-area countries	1.6	2.9	0.3	2.6	-2.4
To non-euro area countries (2)	..	2.0	-3.6	3.2	-1.1
Services	3.6	4.0	-0.5	-1.0	0.8
Imports	3.6	1.6	0.5	2.0	1.0
Goods	3.2	2.4	..	1.6	1.4
From euro-area countries	6.2	4.8	0.4	3.7	1.0
From non-euro area countries (2)	..	-0.1	-0.5	-0.8	1.8
Services	5.2	-0.9	2.4	3.6	..

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.

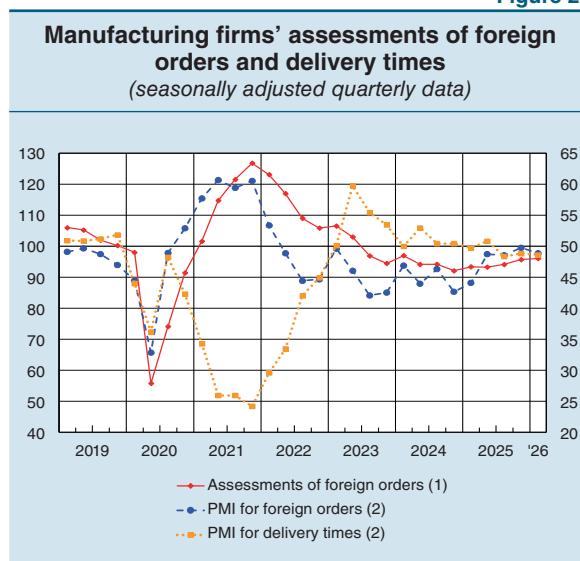
... but rise in January and February 2026

According to our estimates based on foreign trade data, seasonally adjusted goods sales volumes rose moderately in January and February 2026 compared with the prior quarter's average. Exports of services appear to have grown more strongly, as the Winter Olympics provided a boost in the form of international tourism receipts and broadcast rights sold abroad.

The manufacturing firms' assessments of foreign orders, as recorded by Istat, and the corresponding PMI were below their respective expansion thresholds on average in the first three months of 2026, pointing to still weak foreign demand in the following months (Figure 20). The conflict in the Middle East has added to uncertainty over the international macroeconomic outlook and could lead to a further slowdown in foreign demand. In Italy, oil and natural gas price increases will have a negative impact on the energy balance and on the competitiveness of exporting firms (see the box 'The Middle East's role in Italy's energy supply and trade').

The current account surplus narrows Net of seasonal factors, the current account balance recorded a €4.2 billion surplus in the last quarter of 2025 (0.7 per cent of quarterly GDP), half the figure for the previous quarter, mainly due to the reduction in the merchandise trade surplus (Figure 21 and Table 5). According to preliminary data, for 2025 as a whole the

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 (a deterioration). Quarterly average. Right-hand scale.

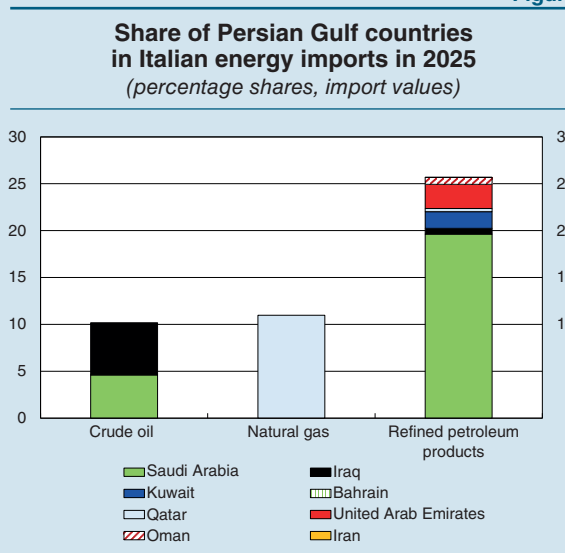
THE MIDDLE EAST'S ROLE IN ITALY'S ENERGY SUPPLY AND TRADE

The Middle East war has brought to the fore the risks associated with energy supplies from Persian Gulf countries. For Italy, these risks are mainly transmitted through higher oil and natural gas prices, which could significantly widen the energy deficit and reduce the competitiveness of energy-intensive sectors.

In 2025, the countries bordering the Gulf provided Italy with around 10 per cent of crude oil (especially Saudi Arabia and Iraq), 11 per cent of natural gas (Qatar) and one quarter of refined petroleum products (mainly Saudi Arabia; see the figure). Italy's dependence on crude oil from this region is similar to that of the other major euro-area countries, but it is higher for refined petroleum products and natural gas.

The closure of the Strait of Hormuz led to a sudden and marked increase in energy prices, given the integrated nature of this market and the international competition for the supply of limited resources. Persistently high energy commodity prices would have a considerable impact on Italy's current account

Figure



Source: Based on Istat data.

balance. Assuming equal consumption, if oil and natural gas were to have prices in 2026 in line with the prices implied by futures contracts observed at the end of March, the national energy deficit would widen by just over half a percentage point of GDP. However, if a more severe alternative scenario is assumed (see the box ‘Macroeconomic projections for the Italian economy’), the energy deficit would widen by almost 2.5 percentage points of GDP, to 4.3 per cent.¹ In 2022, as a result of the price increases following Russia’s invasion of Ukraine, the energy deficit peaked at 5.1 per cent.

The rise in energy prices would also affect the international competitiveness of high-energy sectors (chemicals, metallurgy, non-metallic mineral products and paper products), which account for about 16 per cent of Italy’s goods exports, a share similar to that of Germany.²

The conflict could also influence trade in non-energy goods and services with Middle East countries.³ The importance of this area as a destination market for Italy has increased in recent years: it absorbed about 4 per cent of Italy’s goods exports in 2025. More than one quarter of the total were machinery and metal products, together with a wide range of other products (food, fashion, pharmaceuticals and jewellery).⁴ Conversely, Italy’s imports of non-energy goods from the Middle East accounted for less than 1 per cent of the total and mainly included metals (aluminium) and basic chemicals (polymers and plastics). Italy had a deficit in services vis-à-vis the Gulf countries, mainly owing to transport; net of the latter, the balance was positive by almost €1 billion, thanks above all to tourism (about 3 per cent of Italy’s tourism receipts).

¹ In the baseline scenario, in line with futures pricing, oil and natural gas prices average \$90 per barrel and €51 per megawatt hour respectively in 2026. The prices assumed in an unfavourable alternative scenario are \$133 per barrel and €96 per megawatt hour.

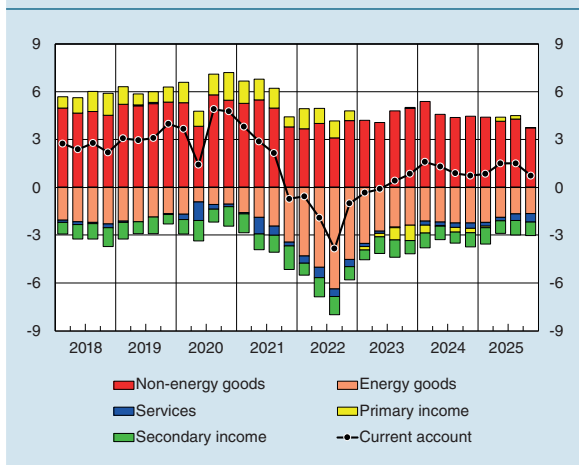
² For further details, see S. Giglioli and C. Giordano, ‘Exploring the recent resilience of Italy’s goods exports: competitiveness, energy intensity and supply bottlenecks’, Banca d’Italia, Questioni di Economia e Finanza (Occasional Papers), 785, 2023.

³ Further repercussions on exports to other countries could stem from the slowdown in global trade linked to the uncertainty about the course of the conflict and its consequences.

⁴ The Middle East also has a high share in the defence sector: according to data from the Stockholm International Peace Research Institute (SIPRI), over half of Italy’s arms exports have gone to this region over the last five years.

Figure 21

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



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

Table 5

	Balance of payments (billions of euros)				
	2025	2025			
		Q1	Q2	Q3	Q4
Current account	25.0	-3.1	9.6	13.7	4.8
Adjusted for seasonal and calendar effects	25.7	4.7	8.4	8.5	4.2
Memorandum item: % of GDP (1)	1.1	0.8	1.5	1.5	0.7
Capital account	3.9	0.1	0.4	-1.2	4.6
Financial account	27.9	-12.0	8.4	12.4	19.1
Foreign direct investment	18.5	-6.2	7.9	6.7	10.2
Portfolio investment	-33.3	-1.2	-42.7	25.5	-14.9
Derivatives	-3.0	0.1	0.1	-3.1	..
Other investment (2)	43.9	-4.2	41.0	-17.1	24.2
Changes in official reserves	1.7	-0.5	2.2	0.4	-0.3
Errors and omissions	-1.1	-9.1	-1.6	..	9.6

(1) The annual figure for 2025 refers to the non-seasonally adjusted current account balance. – (2) Includes change in the TARGET balance.

current account surplus was 1.1 per cent of GDP, in line with 2024. In 2026, taking into account the effects of the expected energy price increases, the current account surplus is estimated to narrow by half a percentage point.²

Foreign investors' demand for Italian government bonds is up The financial account recorded an increase in net foreign assets in the fourth quarter of 2025 (+€19.1 billion; Table 5), reflecting the decline in net liabilities for 'other investment' – associated with a narrower negative TARGET balance – and the increase in net assets for foreign direct investment, mainly due to the reduction in intercompany loans from non-resident entities. By contrast, the balance on portfolio investment turned negative, largely as a result of an acceleration in foreign purchases of Italian government bonds (€24.8 billion, from €2.1 billion in the previous quarter), amid considerable net issuance and following Italy's credit rating upgrades (see *Economic Bulletin*, 1, 2026). Another, albeit minor, factor was the slowdown in Italian residents' investments in foreign portfolio assets, which nearly halved from the summer months.

The negative TARGET balance shrinks Banca d'Italia's debtor position in the TARGET system fell further in the fourth quarter of 2025 (by €24.3 billion), continuing the improvement under way since mid-2023. Capital inflows stemming from foreign investments in Italian securities, the current account and capital account surpluses, and the disbursement of the eighth NRRP tranche in December 2025 (€12.8 billion) more than offset the outflows arising from Italian residents' investments in foreign securities. The negative balance was €358 billion at the end of December 2025, the smallest end-of-year value since 2016. It remained at similar levels over the first three months of 2026 (€357 billion at the end of March).

Italy's positive net international investment position expands further At the end of 2025, Italy's net international investment position was positive by €348.5 billion, equal to 15.4 per cent of GDP (from 13.2 per cent at the end of the previous quarter). The €52.3 billion increase since end-September reflects the current account and capital account surpluses and, above all, price adjustments, partly due to the revaluation of Italy's gold reserves.

2.5 THE LABOUR MARKET

Headcount employment increased in the fourth quarter of 2025. The expansion continued into the winter months. The unemployment rate declined, partly as a result of lower labour market participation across all age groups, with the exception of older workers. Wage growth in the non-farm private sector remained stable. Given the very small share of collective bargaining agreements awaiting renewal, substantial wage rises in 2026, to adjust for the higher inflation generated by the conflict in the Middle East, currently appear to be unlikely.

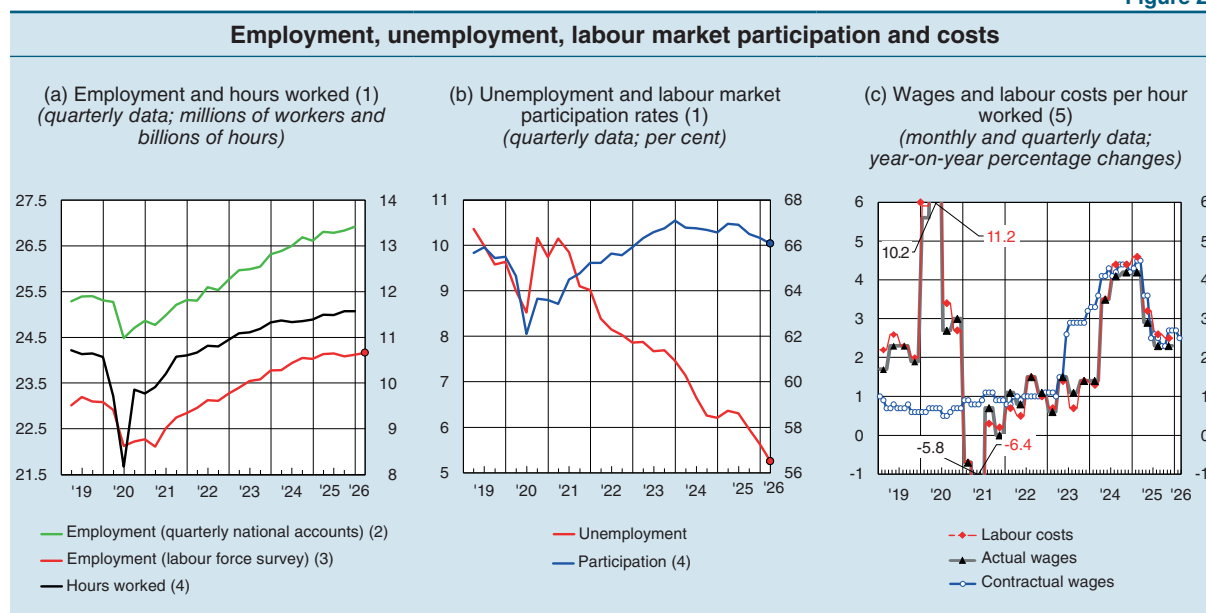
Headcount employment rises in the fourth quarter and hours worked remain stable According to Istat's quarterly national accounts, headcount employment increased by 0.3 per cent in the fourth quarter of 2025 (Figure 22.a). Employment grew in construction and private services, while it remained broadly unchanged in industry excluding construction. The total number of hours worked in the overall economy held stable, reflecting a reduction in hours worked per worker; however, the latter are still at historically high levels, owing to the strong growth observed since 2021. The number of authorized wage supplementation hours edged up to the levels recorded in the same period of 2024.

Employment grows but participation falls According to data from Istat's labour force survey, the increase in employment in the fourth quarter of 2025 was entirely due to growth in the 50-64 age

² For more details, see 'Macroeconomic projections for the Italian economy', 3 April 2026.

group, which more than offset the decline across the other age groups. The participation rate fell further, especially among younger workers, owing to higher youth participation in education. The share of 15-34 year olds who are not in education, employment or training remained stable at a level that is low in historical terms, but still high compared with the rest of Europe (16 per cent). Overall, labour market participation fell to 66.3 per cent, from 66.5 per cent in the previous quarter (Figure 22.b), contributing to the decrease in the unemployment rate to 5.6 per cent, a very low level by historical standards.

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 Q1 2026 indicate the average value for January and February. – (2) Includes all persons engaged in production activity in Italy's economic territory. – (3) Includes all resident persons that are employed, excluding workers living permanently in an institution and military personnel. – (4) Right-hand scale. – (5) Non-farm private sector. Raw monthly data for contractual wages. Seasonally adjusted quarterly data for actual wages and labour costs.

Employment continues to grow in January and February

unemployment rate fell further to 5.3 per cent.

According to provisional data from Istat's labour force survey, headcount employment continued to rise in January and February (by 0.3 per cent compared with the previous two months). The participation rate dropped once again in the 15-49 age group, while it inched up among older workers. The

Wage growth remains moderate

Wage growth moderation helped to keep unit labour cost growth at modest rates (see Section 2.6).

In the autumn months, growth in contractual wages in the non-farm private sector hovered around 2.6 per cent on an annual basis, from 2.5 per cent in the summer (Figure 22.c). Growth in actual hourly wages was slightly lower

Contractual wage growth continued at a similar pace in January and February (2.6 per cent), but is expected to subside over the course of the year, with a low probability of higher inflation triggering significant wage rises. The collective bargaining agreements awaiting renewal, which could lead to wage acceleration, cover only a limited share of private sector workers (around 12 per cent; see the box 'The impact of recent contractual wage increases on wage growth' in *Economic Bulletin*, 1, 2026). Moreover, under the current system, collective bargaining agreements do not generally

provide for wage indexation. Where such clauses exist, indexation is usually based on the HICP net of imported energy.³

2.6 PRICE DEVELOPMENTS

Inflation has remained below the euro-area average in the early months of the year. The conflict in the Middle East has pushed fuel prices up sharply, especially in the first half of March; electricity and gas prices are expected to rise. The inflation expectations of households and firms have increased significantly, though they remain below the levels observed in March 2022, following Russia's invasion of Ukraine.

Consumer price inflation remains moderate but will rise in the coming months

Harmonized consumer price inflation edged up to 1.6 per cent in March (from 1.5 per cent in February; Figure 23 and Table 6).

Core inflation excluding food and energy declined to 1.8 per cent (from 2.7 per cent in February), mainly as a result of the slowdown in service prices after their sharp increase in February (they went from 3.9 per cent in February to 2.9 per cent in March). These developments were largely attributable to the Winter Olympics: compared with January, the prices of accommodation services had almost doubled in Milan and had risen by 50 per cent in Belluno;⁴ those of airline tickets had increased to levels higher than their historical averages. Non-energy industrial goods prices continued to grow at a low pace in March (0.1 per cent). Looking at the most volatile components, energy inflation rose; this reflected the surge in fuel prices (to 3.9 per cent, from -5.6 per cent in February) and, to a lesser extent, in electricity and gas prices. Food price inflation increased marginally, driven by unprocessed food products

The energy commodity price hikes caused by the conflict in the Middle East have continued to pass through to fuel prices in April. Based on the average weekly figures published by the Italian Ministry of the Environment and Energy Security, final prices have risen on average since the start of the war by 13 euro cents per litre for petrol and 45 euro cents per litre for diesel fuel.⁵ The effects of the increase were mitigated by the passing, on 18 March, of Decree Law 33/2026 (the 'Fuel Decree'), subsequently extended with Decree Law 42/2026, which cut excise duties by 20 euro cents per litre until 1 May, in order to bring down prices at the pump.⁶ The impact on gas and, above all, electricity bills has been more limited, though further increases are expected in the coming months.

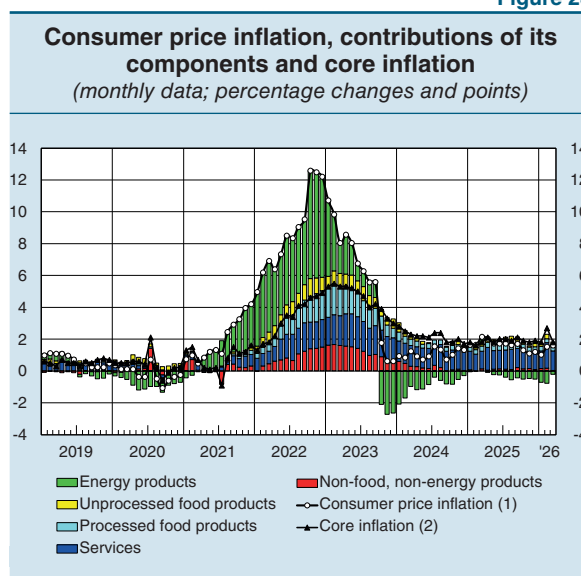
³ Among the main agreements, those for the metalworking, electricity and oil production, chemical-pharmaceutical and multi-service sectors provide for indexation to the HICP net of imported energy; the agreement for the wood and furniture sector provides for indexation to the general HICP.

⁴ Based on data from the index of consumer prices for the entire resident population.

⁵ Latest data as at 14 April 2026.

⁶ Given that the VAT rate on fuel is 22 per cent, the final impact of the government's measure was equal to 24.4 euro cents per litre.

Figure 23



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

Table 6

Indicators of inflation in Italy (year-on-year percentage changes, unless otherwise specified)						
	HICP (1)				CPI (2)	PPI (3)
	General index	Food	Energy	Excl. energy and food	General index	General index
2023	5.9	9.2	1.1	4.6	5.7	-8.3
2024	1.1	2.4	-10.1	2.2	1.0	-5.7
2025	1.6	2.9	-2.3	1.9	0.0	2.7
2025 – Jan.	1.7	2.2	-0.8	1.8	1.5	6.0
Feb.	1.7	2.5	0.7	1.6	1.6	8.5
Mar.	2.1	2.7	2.7	1.8	1.9	5.4
Apr.	2.0	3.1	-0.8	2.1	1.9	3.8
May	1.7	3.1	-1.9	1.8	1.6	2.7
June	1.7	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	1.9	1.6	0.5
Sept.	1.7	3.5	-3.7	2.1	1.6	1.5
Oct.	1.3	2.4	-4.5	1.9	1.2	0.2
Nov.	1.1	1.8	-4.1	1.8	1.1	-0.3
Dec.	1.2	2.3	-4.5	1.9	1.2	-2.0
2026 – Jan.	1.0	2.2	-6.2	1.8	1.0	-2.1
Feb.	1.5	2.5	-6.6	2.7	1.5	-3.7
Mar.	1.6	2.7	-2.1	1.8	1.7

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.

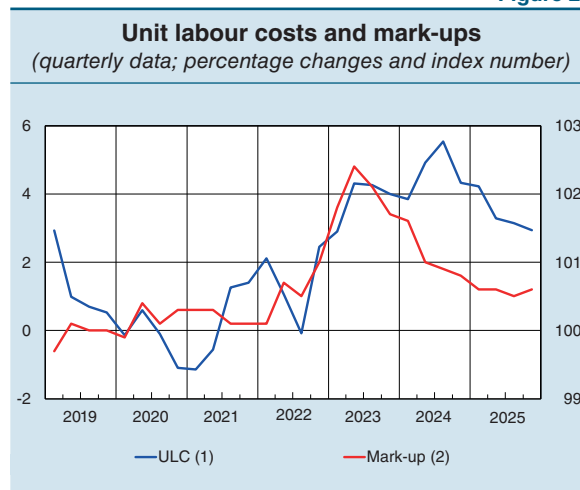
Energy prices intensify pipeline pressures for firms

In February, the producer prices for industrial goods sold on the domestic market fell by 3.7 per cent year on year. Excluding energy, producer prices continued to rise at a modest pace, by 1.1 per cent.

In the first quarter, the PMIs for input prices rose significantly in manufacturing and, to a lesser extent, in services, driven by higher commodity prices. Both PMIs are well above the expansion threshold.

The unit labour cost (ULC) in the non-farm private sector slowed slightly during the autumn (2.9 per cent year on year, from 3.1 per cent; Figure 24). While wage growth remained broadly stable (see Section 2.5), the decline in productivity moderated. Profit margins remained unchanged quarter on quarter, above pre-pandemic average levels.

Figure 24



Source: Based on Istat data.

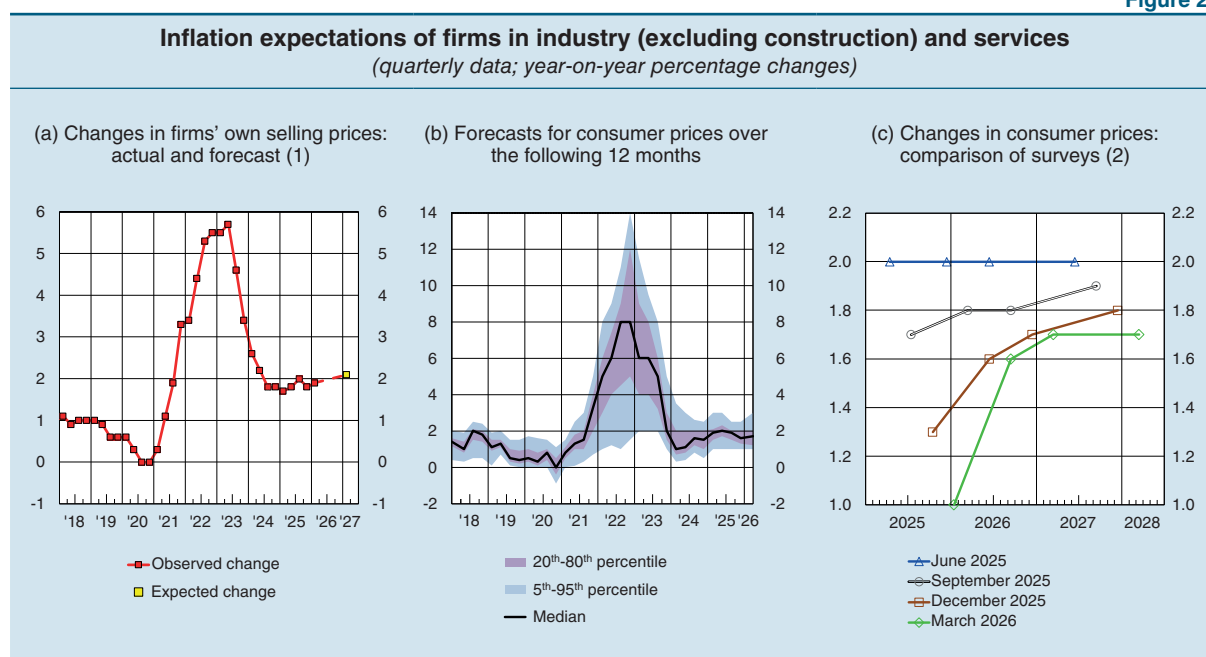
(1) Year-on-year percentage changes; non-farm private sector. – (2) The mark-up is the ratio of the output deflator to total variable costs. Index: Q4 2019=100. Total economy; right-hand scale.

The inflation expectations of households and firms remain moderate in February

The firms interviewed as part of Banca d'Italia's **Survey on Inflation and Growth Expectations** after the outbreak of the conflict in the Middle East expected their selling prices to grow by just over 2 per cent on average over the next twelve months, up slightly from the previous surveys (Figure 25.a). Inflation and growth expectations were higher among manufacturing firms, in line with Istat's March surveys, but still lower than the expected increase in production input costs.

Firms' expectations for consumer price inflation stood at 1.8 per cent over the twelve-month horizon (Figure 25.b) and across the longer-term horizons (Figure 25.c), stabilizing below 2 per cent, despite the recent developments in the energy market.

Figure 25



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

According to Istat's surveys, the share of households expecting an increase in prices over the next twelve months increased rapidly in March, in line with the developments observed in March 2022 but at considerably lower levels than in that period.

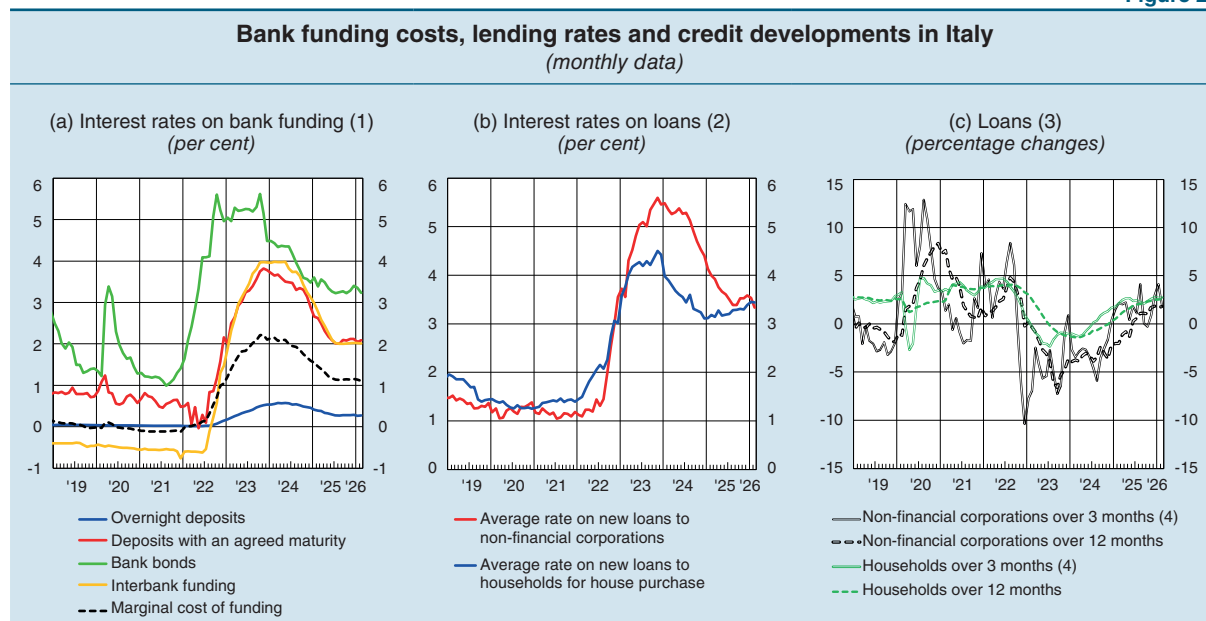
2.7 CREDIT AND FINANCING CONDITIONS

Bank funding slowed and its cost remained unchanged in the winter months. Interest rates on new loans to firms decreased, while those on loans to households for house purchase edged up. Banks' credit standards remained stable both for loans to firms and for mortgage loans to households. Demand for credit expanded overall. The yields on bonds issued by non-financial corporations increased. The conflict in the Middle East contributed to a rise in market rates, which, were it to persist, could cause financing conditions to tighten. The continuation of the war could also heighten risk perception, making banks more cautious in granting credit.

Bank funding slows and its cost remains unchanged

The twelve-month growth rate in bank funding fell between November and February (from 4.7 to 3.8 per cent); the acceleration in deposits by residents was more than offset by the slowdown in the component held by non-residents.⁷ The marginal cost of bank funding remained unchanged at 1.1 per cent (Figure 26.a), reflecting broad stability across all components. Between the end of February and the first half of April, the average cost of bank bonds – which account for a small share of banks’ total funding – rose at a similar pace as medium- and long-term market yields.

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.

The average cost of loans to firms goes down, while that of mortgages goes up

The average rate on new loans to firms fell between November and February, (from 3.5 to 3.3 per cent; Figure 26.b), reflecting the reduction in the cost of new loans involving amounts greater than €1 million;⁸ the rate on loans up to €1 million remained stable. Conversely, the average cost of new mortgage loans to households, predominantly fixed-rate loans, rose (from 3.3 to 3.4 per cent), in line with the increase in the ten-year interest rate swap (IRS). The increase in market yields observed since the outbreak of the conflict in the Middle East could, were it to persist, generate upward pressures on the cost of bank funding and of lending to firms and households.

⁷ The deceleration in deposits by non-residents was mainly attributable to the contraction registered by one financial intermediary belonging to an international group, which might reflect the reabsorption of intra-group transactions of opposite sign carried out throughout 2025 (see *Financial Stability Report*, 2, 2025).

⁸ The reduction in the cost of new loans to firms is attributable to loans involving amounts of more than €1 million. Although the decline was relatively widespread across banks, in this segment it was largely influenced by the transactions of two medium-sized banks.

Growth in loans to firms gathers pace slightly and lending to households strengthens further

In February, lending to non-financial corporations grew at a pace than was only slightly faster than that recorded in November (Figure 26.c). Growth slowed for loans up to one year, remained broadly stable for one- to five-year loans, and turned less negative for those with maturities beyond five years.

The contraction in lending to small firms intensified (-7.2 per cent, from -6.4 per cent in November), while lending to large firms continued to expand (2.4 per cent, from 2.3 per cent). Growth in lending was moderate in the service sector, subdued in construction and weak in manufacturing.

Loans to households⁹ strengthened slightly between November and February (from 2.4 to 2.6 per cent), despite overall stability in the mortgage loan and consumer credit components.¹⁰

Credit supply policies for firms remain unchanged in the fourth quarter of 2025

According to the latest [euro-area bank lending survey](#) (BLS),¹¹ conducted before the start of the conflict in the Middle East, the Italian banks that took part in the survey reported leaving the credit standards for loans to firms unchanged and slightly easing the general terms and conditions applied to these loans in the fourth quarter of last year. Based on the banks' assessments, exposure to trade tensions had a limited impact on their credit supply policies for firms in 2025. Firms' demand for credit increased only slightly in the fourth quarter. Based on the latest information drawn from the surveys conducted by Istat and Banca d'Italia between early February and early March, conditions for access to bank credit deteriorated slightly in the first quarter of 2026.

Credit standards on loans to households remained unchanged in the fourth quarter of last year for loans for house purchase, while they tightened slightly for consumer credit. Households' demand for loans rose for both components.

Developments in the war in the Middle East could lead banks to adopt a more cautious approach in their credit supply policies, especially with regard to the more energy-intensive sectors, which are more exposed to the consequences of the conflict.

Non-financial corporate bond issuance continues to grow

Growth in net corporate bond issuance strengthened in March (to 6.8 per cent year on year, from 5.3 per cent in November). Between the beginning of January and the end of March, yields on bonds issued by Italian non-financial corporations rose (from 3.6 to 4.2 per cent).

2.8 THE PUBLIC FINANCES

General government net borrowing fell to 3.1 per cent of GDP in 2025, while the debt-to-GDP ratio rose to 137.1 per cent. In March and April, the Government introduced some temporary measures in response to the increase in energy prices.

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

¹⁰ Growth in the aggregate was due to the residual category 'other loans', which contracted more moderately during the reference period.

¹¹ For further information on the survey and its results for Italy, see Banca d'Italia's website, '[Bank Lending Survey \(BLS\)](#)'.

Table 7

General government expenditure and revenue				
	Billions of euros		% change on previous year	
	2024	2025	2024	2025
EXPENDITURE				
Compensation of employees	197.5	203.8	5.0	3.2
Intermediate consumption	128.3	133.0	6.7	3.6
Social benefits in cash	445.6	459.2	5.0	3.0
Interest expense	85.5	87.1	9.9	1.9
Other current expenditure	135.0	138.3	-5.7	2.4
Current expenditure	992.0	1.021.4	4.0	3.0
% of GDP	45.0	45.2		
Current expenditure net of interest expense				
	906.5	934.3	3.5	3.1
% of GDP	41.2	41.4		
Investment (1)	79.1	86.7	17.1	9.6
Other capital expenditure	38.7	47.2	-69.7	21.9
Capital expenditure	117.8	133.9	-39.8	13.6
Total expenditure net of interest expense				
	1.024.3	1.068.2	-4.4	4.3
% of GDP	46.5	47.3		
TOTAL EXPENDITURE	1.109.8	1.155.3	-3.4	4.1
% of GDP	50.4	51.1		
REVENUE				
Direct taxes	343.6	346.0	6.8	0.7
Indirect taxes	309.6	317.5	6.2	2.5
Social security contributions	278.1	305.9	3.7	10.0
Other current revenue	96.9	100.8	7.0	4.0
Current revenue	1.028.2	1.070.2	5.8	4.1
% of GDP	46.7	47.4		
Capital revenue	7.8	15.8	-67.7	101.2
<i>of which: capital taxes</i>	1.8	3.1	12.3	71.5
TOTAL REVENUE	1.036.0	1.085.9	4.0	4.8
% of GDP	47.0	48.1		
<i>of which: tax burden</i>	42.4	43.1		
NET BORROWING	-73.8	-69.4		
% of GDP	-3.4	-3.1		
Primary balance	11.7	17.8		
% of GDP	0.5	0.8		

Source: Based on Istat data (see Istat, Q4 2025. Quarterly non-financial accounts for general government, households income and savings and non-financial corporation profits, Flash Statistics, 3 April 2026).

(1) Includes proceeds of property sales which are entered with a negative sign.

Net borrowing as a share of GDP declines in 2025

In 2025, general government net borrowing fell further, to 3.1 per cent of GDP, from 3.4 per cent in the previous year (Table 7). This improvement reflects a 0.3 percentage point increase in the primary surplus, to 0.8 per cent of GDP, while interest expense remained stable at 3.9 per cent of GDP.

The reduction in net borrowing was slightly less than that set out in the Public Finance Planning Document 2025 (PFPD 2025), owing to a smaller primary surplus (0.8 per cent against 0.9 per cent of GDP), mainly attributable to higher than expected capital expenditure other than investment.

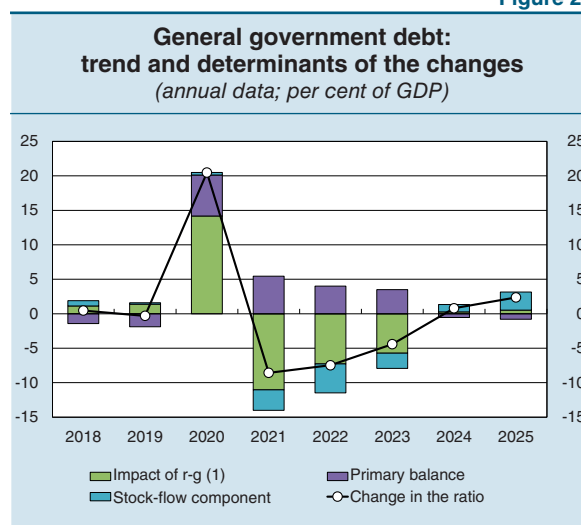
Revenue grows more than primary expenditure

The improvement in the primary balance compared with 2024 was mainly due to the increase in revenue (1 percentage point, to 48.1 per cent of GDP), driven

above all by the increase in social security contributions.¹² On the expenditure side, the ratio of capital expenditure to GDP rose by 0.6 percentage points, to 5.9 per cent; investment expenditure reached 3.8 per cent of GDP, the highest figure since the inception of the euro area. The ratio of primary current expenditure to GDP rose by 0.2 percentage points.

The debt-to-GDP ratio rises The debt-to-GDP ratio rose by 2.4 percentage points, to 137.1 per cent at the end of 2025 (Table 8). A contributory factor was the stock-flow component,¹³ in particular the cash effects of building renovation tax credits accrued in previous years and the significant increase in the Treasury's liquid balance. The expansion of the debt-to-GDP ratio also reflected, to a lesser extent, the spread between the nominal GDP growth rate (2.5 per cent) and the average cost of the debt itself (2.9 per cent). These factors were only partly offset by the primary surplus (Figure 27). The increase in the ratio was greater than that set out in the PFPD 2025 (1.3 percentage points), mainly due to a more unfavourable stock-flow component.

Figure 27



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

Table 8

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

	2022	2023	2024	2025
Change in debt = (a) + (b) + (c) + (d)	77.7	105.5	97.0	128.9
(a) Total borrowing requirement	46.9	89.4	105.4	109.5
of which: support to EMU countries	-0.8	-1.1	-1.5	-1.3
(b) Change in Treasury's liquid balances	-4.0	6.5	-12.3	14.7
(c) Issue discounts and premiums (1)	34.6	9.6	3.9	4.7
(d) Euro equivalent of foreign currency liabilities	0.2	0.0	0.0	-0.1
Debt	2.764.5	2.870.0	2.967.0	3.095.9
% of GDP	138.4	133.9	134.7	137.1

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

¹² In 2025 the ratio of social security contributions to GDP rose by 0.9 percentage points, a trend that was also influenced by the changes to the legislation providing for a reduction in the tax wedge introduced in last year's budget law (where the measure previously exempting employees from the payment of the contributions was replaced by a special allowance and by a personal income tax deduction). The reform also affected personal income tax revenues and social benefits in cash.

¹³ The stock-flow component explains the difference between the change in nominal debt and net borrowing over a given period. This is due to many factors, mostly attributable to changes in financial assets (including those ascribable to the Treasury's liquidity management) and to timing differences in the reporting of some transactions, which are on an accrual basis in the general government non-financial account and on a cash basis for the debt.

In nominal terms, the debt rose by €128.9 billion compared with 2024 (Table 8). The increase reflects above all the general government borrowing requirement (equal to €109.5 billion) and the aforementioned increase in the Treasury's liquid balance (€14.7 billion). The share of the debt held by Banca d'Italia continued to decline (18.5 per cent at the end of the year). The average residual maturity of the debt remained unchanged at 7.9 years.

**The Government
adopts measures
on energy**

In February, Decree Law 21/2026 ('Utility Bills Decree') introduced measures to limit electricity and natural gas price increases. The main measures include: (a) for natural gas plants, the reimbursement of fuel transport costs and, subject to approval by the European Commission, the costs associated with emission permits issued by the emissions trading scheme for pollutants and greenhouse gases (EU Emission Trading System, ETS); (b) the reduction and rebalancing of some of the components of electricity system charges; and (c) the temporary reduction of some of the components of the system charges for natural gas in favour of firms that rely the most on this type of fuel. According to official assessments, the decree has no effect on net borrowing.

In response to the tensions in energy prices following the conflict in the Middle East, Decree Law 33/2026, passed in March, in addition to providing for a temporary reduction in excise duties on petrol and diesel fuel (see Section 2.6), introduced a tax credit to partially compensate for the higher expenses incurred or to be incurred in March, April and May by companies operating in the road transport and fishery sectors. The expansionary measures, estimated at €527 million for the current year, are covered by the reduction in the funding allocated to some ministries.

Decree Law 42/2026, introduced in April, among other things, extended the cut in excise duties until 1 May; the revenue shortfall is wholly covered (drawing on ministerial funds and ETS revenue).

