



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

Address

Via Nazionale 91 – 00184 Roma – Italia

Telephone

+39 06 47921

Website

<http://www.bancaditalia.it>

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SYMBOLS AND CONVENTIONS

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

In the tables:

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

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

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OVERVIEW

Global economic activity has proven more resilient than expected, despite persistent geopolitical tensions. Growth has continued to benefit from investment in artificial intelligence (AI), which has helped to mitigate the effects of higher energy prices, though to different degrees across the main economies. Domestic demand remains robust in the United States, while growth in China is supported by foreign trade. Excluding energy, trade growth appears to have remained strong, fuelled by demand for AI-related goods. The ongoing conflict in the Middle East, uncertainty about US trade policies, and tighter financial conditions continue to affect the outlook for the global economy.

Supply conditions in the energy commodity markets remain tight. Oil prices began to rise again in the summer months, standing at over \$100 per barrel in early October; natural gas prices have reached new highs since the beginning of the hostilities. The marked widening in refining margins has contributed to pushing up the prices of fuel and other refined petroleum products.

Financial markets are performing well overall, though the risks stemming from rising interest rates and high equity valuations are increasing. Long-term government bond yields have gone up, reflecting heightened inflationary risks, concerns about developments in public finances in many advanced economies, and competition from the large issuance of bonds in the technology sector. Equity prices rose further, supported by strong corporate results. However, equity valuations remain at historically high levels in relation to expected earnings, and markets are still exposed to correction risks, also in view of higher interest rates and of the uncertainty regarding the profitability outlook in the technology sector.

Some central banks in the advanced economies have raised interest rates to counter inflation. Price developments continue to be affected by increases in the prices of energy commodities and refined petroleum products, albeit to varying degrees across countries, fuelling concerns about persistent inflation. In September, the Federal Reserve and the Bank of Japan raised their policy rates by 25 basis points, whereas the Bank of England kept them unchanged and the People's Bank of China continued to maintain an accommodative stance.

In the euro area, economic activity has continued to grow. Euro-area GDP, net of the highly volatile contribution of Irish GDP, increased by 0.3 per cent in the spring months. The expansion was buoyed by foreign demand and household consumption. According to our estimates, GDP growth continued at a moderate pace in the third quarter, driven by services. Inflation rose in the summer owing to the energy component; so far, there are no signs that higher prices for oil, natural gas and refined petroleum products have been passed through to the non-energy components of inflation. In the ECB staff projections published in September, GDP growth estimates were revised upwards for both this year (to 0.9 per cent) and the next. Inflation forecasts remained unchanged at 3.0 per cent in 2026, while they were raised slightly for the next two years.

The ECB has raised its key interest rates again and the cost of credit has gone up in the euro area. In its September meeting, the Governing Council raised its key interest rates by 25 basis points, bringing the deposit facility rate to 2.5 per cent, and highlighted that the conflict in the Middle East continues to exert pressure on inflation, which is expected to remain well above the 2 per cent target for an extended period of time. The cost of credit has increased for both households and firms; for the latter, it has risen by about 25 basis points since the start of the hostilities. However, growth in lending to firms has strengthened, partly owing to higher liquidity needs, while lending to households has remained stable.

Economic activity continued to expand in Italy. GDP grew by 0.2 per cent in the second quarter, driven by household consumption and investment, especially in public works and intangible goods. In the summer months, economic activity is estimated to have slowed slightly, reflecting the uncertainty associated with international tensions and higher energy costs. Investment in the digital and energy transition and favourable tourism trends appear to have made a positive contribution to GDP growth. According to our October projections, GDP will grow by 0.9 per cent in 2026, 0.7 per cent in 2027 and 0.8 per cent in 2028.

The current account surplus fell close to zero. Between April and June, the current account of the balance of payments decreased as a result of the deterioration in the energy balance. Demand for Italian securities by foreign investors was high. Italy's net international investment position remains positive.

Labour market conditions remained favourable overall. Employment grew in the second quarter, especially in private services, while it does not appear to have changed substantially in the third quarter. Both in the spring and summer months, the increase in labour market participation led to a rise in the unemployment rate, which nevertheless is still low. Wage growth slowed and is expected to be moderate in late 2026 too, as few collective bargaining agreements are awaiting renewal.

Consumer price inflation rose in the summer. Price growth continued to be affected by higher fuel prices, and increasingly by gas and electricity tariffs, which however are still below the 2021-22 energy crisis peaks. Core inflation rose slightly. According to our October projections, consumer price inflation will rise to 3.2 per cent on average in 2026, peaking in the fourth quarter, and then fall to 2.4 per cent in 2027 and 1.7 per cent in 2028. Core inflation is projected to be broadly stable, at around 2 per cent over the forecasting horizon.

Credit dynamics strengthened over the summer. Loan growth was limited to medium-sized and large non-financial corporations. The overall trend continues to be supported in part by short-term financing, in response to the greater liquidity needs associated with higher energy prices. Lending to households accelerated. The cost of new loans to firms rose, while that of new mortgage loans to households did not change significantly. Bond issuance by non-financial corporations slowed in an environment of rising yields.

Net borrowing as a share of GDP is projected to decrease this year. According to the Public Finance Planning Document approved by the Italian Government on 2 October, net borrowing is set to fall to 2.9 per cent of GDP in 2026 and to rise to 3.4 per cent in 2027. Public debt is projected to increase in both years, to 138.5 per cent of GDP, before starting to decline. These developments are consistent with the European governance framework, considering that the Government intends to activate the national escape clause to accommodate spending on energy security and defence in the two years 2027-28.

1 THE WORLD ECONOMY

1.1 THE GLOBAL CYCLE

The persistent tensions in the Middle East are still the main risk factor for the global economy. Oil prices have risen again and gas prices have reached new highs since the outbreak of the conflict. Global economic activity has so far proven more resilient than expected, as it continues to benefit from investment in artificial intelligence. The central banks of the United States and Japan, as well as the European Central Bank, have raised interest rates in response to price pressures. Long-term government bond yields have gone up, reflecting inflationary risks, larger bond issuance by the technology sector and a greater focus of investors on developments in public finances. Equity valuations remain at historically high levels and are exposing financial markets to correction risks, linked to an increase in funding costs and a possible revision of the profitability outlook in the technology sector.

The conflict in the Middle East is keeping supply conditions in the energy markets tight, compounding the risks of further supply disruptions. Crude oil exports from the Gulf countries have increased significantly since September, aided by alternative trade routes and by US military protection for shipping, whereas exports of refined products have remained well below pre-conflict levels. The partial recovery in trade is still fragile, however: the renewed hostilities between Iran and the United States since the end of August, the subsequent attacks on Saudi Arabia's energy infrastructure and the threats to navigation in the Bab el-Mandeb Strait are raising the risks of new supply disruptions.

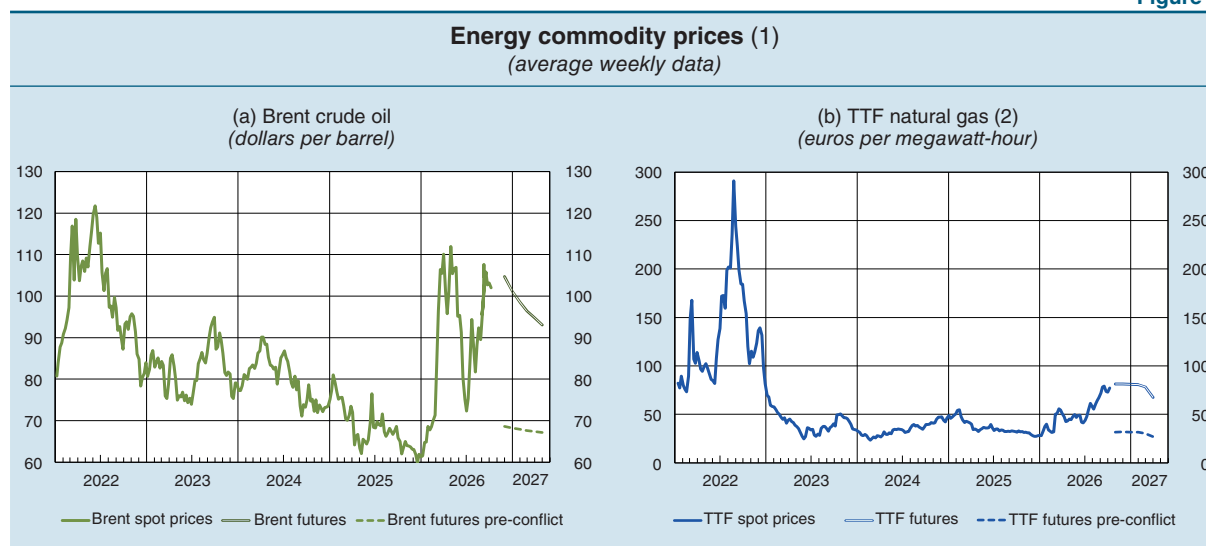
Oil prices return to high levels. Crude oil prices have risen rapidly again since July, to over \$100 per barrel in the second week of October (Figure 1.a). The prices of refined products have continued to go up and the spreads over crude oil have widened further, partly as a result of the supply restrictions deriving from the attacks on Russian refineries and from the limits on exports of refined petroleum products imposed by Russia and China. The impact of the conflict in the Middle East on oil prices was partially mitigated by the release of reserves by China and the main advanced economies, as well as by the reduction in oil demand, especially in China. In early October, the G7 countries announced, together with the International Energy Agency (IEA), a further release of around 100 million barrels of crude oil and refined products spread over four months. However, once the temporary effects of these measures have been exhausted, the continuation of tensions is likely to lead to further price pressures.¹

Natural gas prices have risen. The Title Transfer Facility (TTF), which is the European benchmark price for natural gas, has reached new highs since the start of the conflict, at over €75 per megawatt-hour in the second week of October, while remaining well below its 2022 peaks (Figure 1.b). As well as disruptions in Middle East production, the increase reflects low inventory levels and competition with Asian economies for the supply of liquefied natural gas on the international market. Especially high temperatures during

¹ For an analysis of the impacts of the conflict on energy markets, see A. D'Orazio, S. Emiliozzi, F. Ferriani, A. Gazzani, M. Taboga and G. Veronese, 'Energy markets under chokepoint stress: the 2026 Hormuz shock', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 1067, 2026.

the summer months exerted upward pressures on prices, by increasing the electricity demand for air conditioning and by reducing the output from hydroelectric and nuclear plants.²

Figure 1



Source: LSEG.

(1) For spot prices, weekly averages up to 9 October 2026. For futures, the solid line refers to prices as at 9 October 2026 (latest available data), while the dashed line refers to prices as at 27 February 2026, prior to the start of the conflict in the Middle East. – (2) Price of natural gas traded on the Dutch TTF market.

Global economic activity has proven more resilient than expected, despite the continuation of the conflict. Investments tied to the development of AI have continued to sustain growth, helping to mitigate the effects of higher energy prices on production in the main economies. The latest indicators suggest continued expansion in the third quarter. The purchasing managers' indices (PMIs) for manufacturing and services improved, in spite of supply chain strains, especially in the sectors producing semiconductor and electronic components for AI infrastructures. According to the International Monetary Fund's forecasts released in October, global growth is expected to stand at 3.1 per cent in 2026, down slightly from the previous year (Table 1).

Global trade slowed in the second and third quarters, but less than expected. This was mainly due to a decline in China's imports, especially of oil. Net of this component, trade remained robust, buoyed by the demand for AI-related goods. The new system of US tariffs that entered into force last July, while leaving the rates in force since February broadly unchanged, did not curb uncertainty about US trade policy developments (see the box 'US tariffs following the Supreme Court's decision', *Economic Bulletin*, 2, 2026). The United States raised its tariffs against Canada in August, and further increases in specific sectors could be introduced against other trading partners, based on the outcomes of an investigation initiated by the current US administration into alleged unfair trade practices.

Economic activity in the United States remains robust. In the second quarter, US GDP grew at an annualized rate of 2.2 per cent (Table 1), slightly more slowly than in the previous quarter. Private domestic demand remained solid, whereas net exports and changes in inventories made a negative contribution to growth. Based on highest frequency qualitative data, the expansion continued in the third quarter, both in manufacturing and in services (Figure 2.a). Private consumption increased moderately in July, then rose at a robust pace in August, driven mainly by purchases of goods.

² High temperatures and low river flow rates can reduce the efficiency of nuclear power plant cooling systems, temporarily limiting their production.

Labour market conditions remained favourable, with the unemployment rate at very low levels (4.2 per cent), while employment continued to grow, albeit at a slower pace than in the second quarter. There are ongoing signs of pressure on production input costs, with services facing rising costs (Figure 2.b).

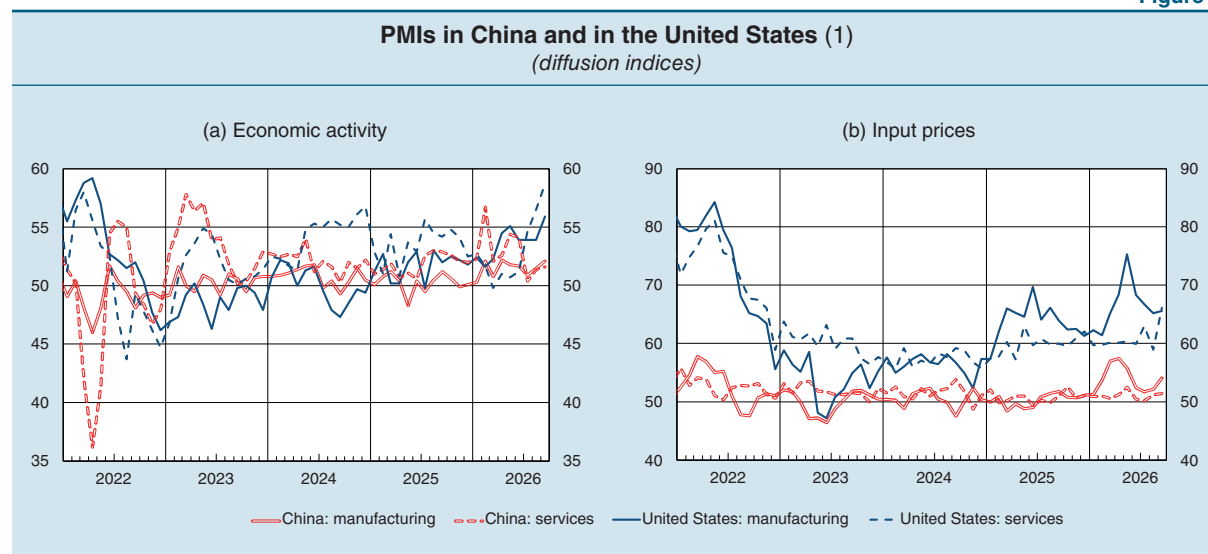
Table 1

GDP growth and forecasts (percentage changes)							
	Growth			Forecasts		Revisions (2)	
	2025	2026 Q1 (1)	2026 Q2 (1)	2026	2027	2026	2027
World	3.5	–	–	3.1	3.4	0.1	0.0
Japan	1.2	1.9	1.4	0.7	0.7	0.1	0.0
United Kingdom	1.2	2.6	2.1	1.3	1.2	0.3	-0.1
United States	2.3	2.5	2.2	2.3	2.3	0.0	0.1
Brazil	2.3	1.8	2.0	2.2	1.9	-0.2	-0.3
China	5.0	5.0	4.3	4.5	4.0	-0.1	-0.1
India (3)	7.8	8.6	7.8	7.0	7.0	0.6	0.3
Russia	1.0	-0.2	1.3	0.9	0.9	-0.2	-0.2

Sources: National statistics for data on growth; IMF, *World Economic Outlook. Resilience Under Strain, Urgent Choices*, October 2026, for world GDP and for the forecasts.

(1) Quarterly data. For 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. Global Economy in Crosscurrents of War and Technology*, July 2026. – (3) The actual data and the forecasts refer to the fiscal year starting in April.

Figure 2



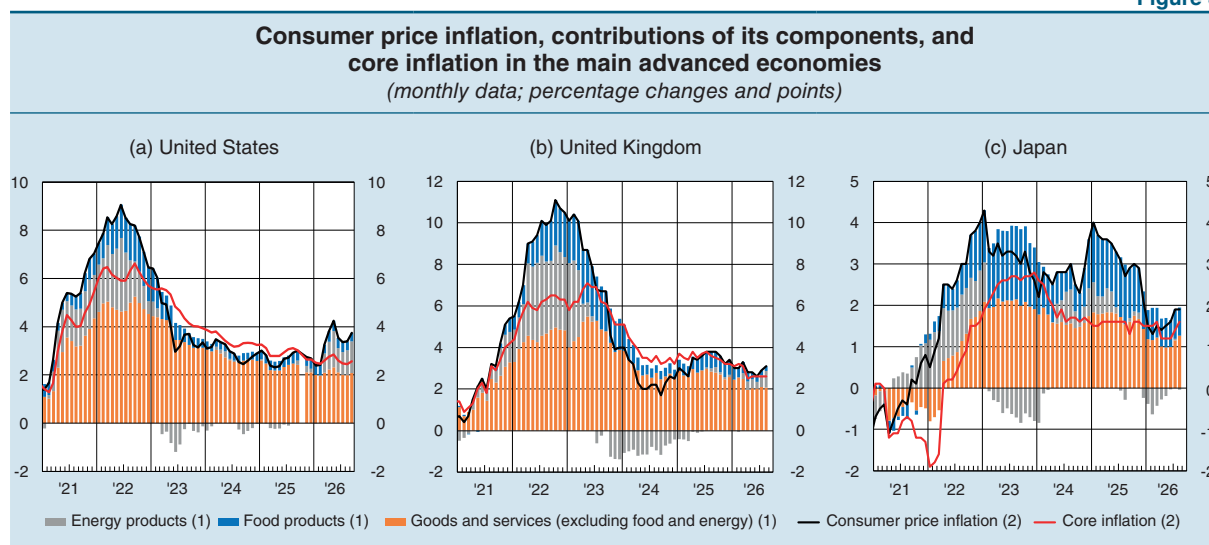
Source: Standard & Poor's Global Ratings.

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

Growth in China continues to be driven by foreign demand. Chinese exports remained robust in the third quarter, mainly as a result of sales of AI-related goods. Following weaker-than-expected growth in the second quarter, domestic demand lost momentum again, owing to both consumption and investment being sluggish, particularly in the real estate sector. At the end of September, the government announced a support package for real estate, but the scope of the measures has been limited so far.

Price growth remains above the targets set by central banks in the main advanced economies. In the United States, consumer price inflation remained high and stood at 3.7 per cent in September (from 3.4 per cent in July; Figure 3.a). Prices continued to be especially affected by the increase in energy costs (see the box ‘The blockade of the Strait of Hormuz and the pass-through of higher energy prices in the main advanced economies’, *Economic Bulletin*, 3, 2026); core inflation rose to 2.6 per cent. In the United Kingdom, inflation reached 3.1 per cent in August (Figure 3.b), mostly due to higher fuel prices, whereas in Japan it remained high in comparison with the first two decades of the century, driven by the core component (Figure 3.c). Conversely, price growth in China is being held back by ample spare capacity and by weak domestic demand.

Figure 3



Source: Based on national statistics.

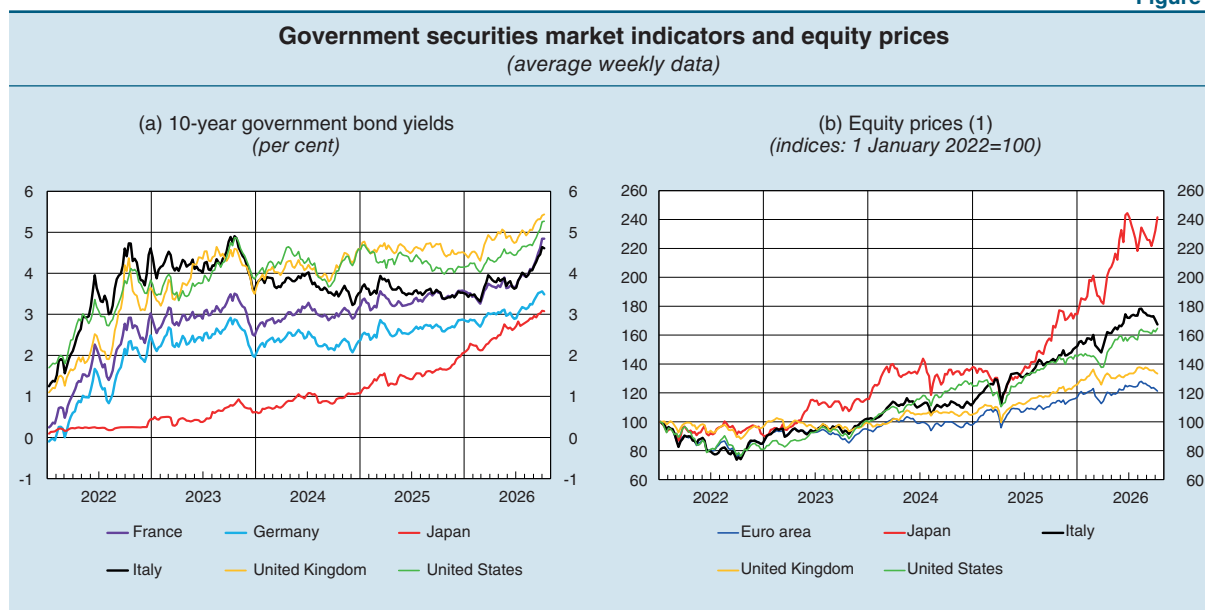
(1) For the United States, the figure for October 2025 was not published owing to the US federal government shutdown that occurred between early October and mid-November of that year. – (2) 12-month percentage changes; core inflation excludes food and energy products.

The main central banks have raised interest rates. Following five meetings with no changes, the Federal Reserve raised its policy rate by 25 basis points in September, bringing it to 3.75-4.00 per cent, against a backdrop of inflation still above the 2 per cent target and persistent geopolitical instability. Markets expect further increases by spring 2027. The Bank of Japan also raised its rate to 1.25 per cent, continuing the gradual normalization of its monetary policy stance. The Bank of England kept rates unchanged at 3.75 per cent, but markets expect an increase by the end of the year. The People’s Bank of China has instead continued to maintain an accommodative stance.

Sovereign bond yields have risen, equity prices remain high, and the dollar has strengthened. Interest rates on long-term government bonds have risen across the main economies, compared with July (Figure 4.a). The contributing factors were inflation risks, expectations of further increases in monetary policy rates, ongoing concerns about government deficits, and competition from the increased supply of long-term securities issued by large technology firms to fund their AI investment programmes (see the box ‘The recent rise in long-term government bond yields’).

Equity prices have risen in the main advanced economies since July (Figure 4.b). The increase in the United States was spearheaded by the technology sector, supported by solid corporate results. Equity valuations remain very high in relation to expected earnings, and markets are still exposed to correction risks, at a time of persistent geopolitical uncertainty and rising interest rates. Moreover, there continue to

Figure 4



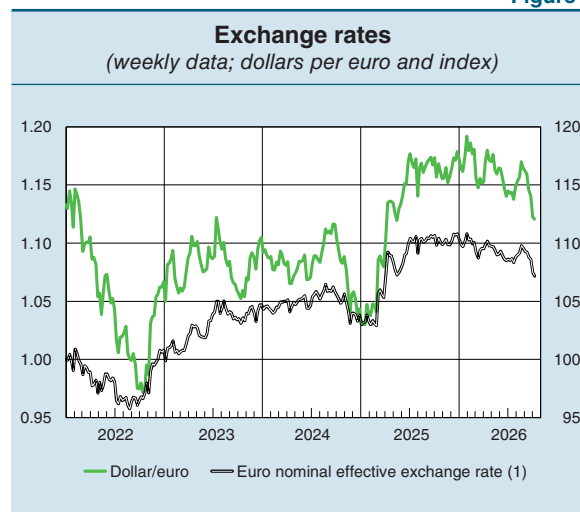
Source: LSEG. The latest figure refers to 9 October 2026.

(1) Datastream equity price index for the euro area and for Italy, Nikkei 225 for Japan, FTSE All-Share for the United Kingdom and Standard & Poor's 500 (S&P 500) for the United States.

be doubts regarding the profitability outlook in the technology sector, in view of both the industry's considerable investments in infrastructure (increasingly funded through debt financing and off-balance sheet contractual bonds), and the greater competition from lower-cost AI models.

Compared with July, the dollar appreciated slightly against the euro (Figure 5). After declining over the summer, the US dollar has been growing stronger since the end of August, reflecting expectations of monetary policy tightening by the Federal Reserve. The dollar continues to be weak against the yen, instead, owing to Japan's measures to support its currency. The price of gold recovered in August but subsequently declined in September, partly in connection with the increase in long-term yields, which reduced its attractiveness.

Figure 5



Source: LSEG. The latest figure refers to 9 October 2026.

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

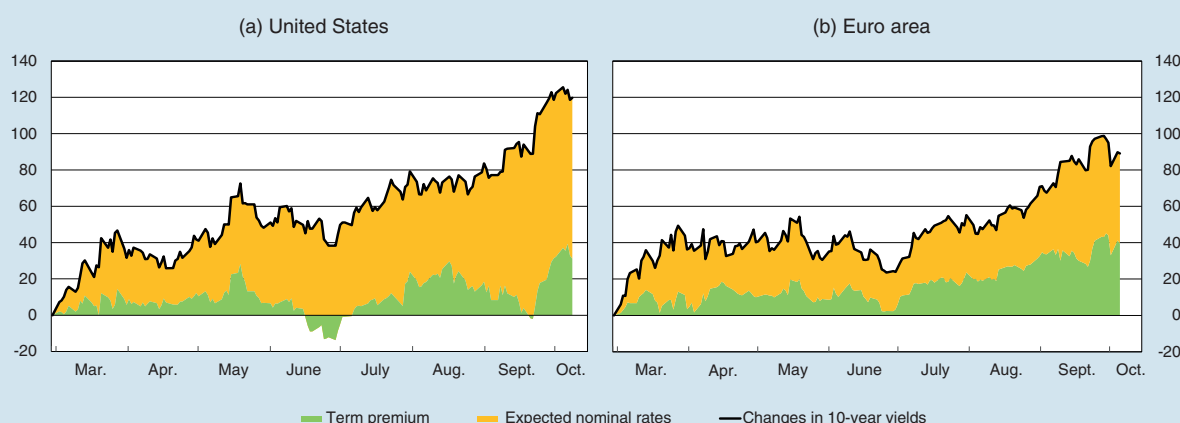
THE RECENT RISE IN LONG-TERM GOVERNMENT BOND YIELDS

Since the end of February, long-term government bond yields have climbed to historically high levels in the main advanced economies. In the United States, the yield on ten-year Treasury bonds has exceeded 5 per cent, a level not seen in more than 20 years. Among the main euro-area economies, the ten-year yield has reached 3.5 per cent in Germany and 4.9 per cent in France. In Italy, it has increased to 4.6 per cent.

The revision of the inflation and monetary policy outlook following the conflict in the Middle East has contributed to the rise in yields. The severe tensions on the energy markets have led to sharp increases in the prices of energy commodities and their derivative products, tilting inflation risks to the upside. As a result, market participants have revised their expectations for policy rates upwards: in addition to the increases already in place in some economies, they have priced in a higher probability that, during the next year, policy rates will rise above the levels anticipated before the outbreak of the hostilities, leading to upward pressures on government bond yields.

Figure

Contributions to the change in ten-year yields in the United States and the euro area (1)
(basis points; changes compared with 27 February 2026)



Source: Based on LSEG data. Data as at 9 October 2026.

(1) The figure breaks down government bond yields into two components: one for short-term interest rate expectations and one for the term premium. The term premium is estimated using the arbitrage-free term structure model proposed by T. Adrian, R. K. Crump and E. Moench (2013) 'Pricing the term structure with linear regressions', *Journal of Financial Economics*, 110, 2013, pp. 110-138. The breakdown is based on the ten-year Treasury yield for the United States and on the ten-year Overnight Index Swap (OIS) rate for the euro area.

The increase in long-term yields can be broken down into two components: one reflecting the expectations about future monetary policy rates for the residual maturity of the securities, and one representing the term premium, i.e. the compensation demanded by investors for holding securities with longer maturities. The rise in ten-year US Treasury yields since the onset of the conflict is estimated to have been driven by an increase in expected short-term nominal rates (see panel (a) of the figure), reflecting US growth and the outlook for a more restrictive stance by the Federal Reserve; by contrast, the term premium has contributed modestly, though it has increased more recently. In the euro area, upward revisions to expected nominal rates have made the largest contribution to the increase in yields in its initial phase, while the term premium, which has risen gradually over time, has recently played an increasing role (see panel (b) of the figure).¹ Heightened risks to the macroeconomic outlook, amid ongoing geopolitical tensions, may have contributed to the increase in term premiums in the euro area, which is more exposed to energy shocks. Greater uncertainty about the strength and persistence of inflationary pressures makes the future path of interest rates less

¹ The term premiums shown in the figure for the euro area and the United States are not directly comparable, as they are estimated based on different financial instruments. In the euro area, the breakdown is based on OIS rates, for which the term premium mainly reflects the compensation investors demand for bearing uncertainty about the future path of interest rates. Conversely, in the United States, the breakdown is based on Treasury bond yields, for which the term premium also incorporates components associated with specific features of government securities, such as liquidity, issue scarcity and their safe-haven status.

predictable and increases the price risk associated with long-term securities, prompting investors to demand higher compensation for holding them.

The rise in government bond yields observed across the main advanced economies in recent months is part of a longer-term trend, potentially driven by more structural factors. The global debt-to-GDP ratio, which rose considerably during the pandemic, also due to the fiscal measures to support the economy, is still above pre-pandemic levels. Large public deficits and the resulting financing needs increase the volume of government bonds that must be absorbed by private investors,² while persistently higher yields raise debt-servicing costs. This heightens investors' focus on fiscal developments, putting upward pressure on the term premium and, consequently, on yields.

Another factor that may have contributed to the recent rise in yields is the growing demand for private sector funds, in particular from large US technology firms. In the first eight months of 2026, dollar-denominated private-sector bonds issued by US firms grew by 47 per cent year on year, supported in particular by hyperscalers, i.e. firms engaged in expanding the physical and digital infrastructure underpinning the development of artificial intelligence.³ Looking ahead, the issuance of large volumes of corporate bonds, particularly at longer maturities, could intensify competition with public issuers for long-term savings and generate further upward pressure on bond yields.

² Shifts in the composition of public debt holders, with a larger role for foreign investors and a smaller share held by central banks, can also affect yield dynamics, reflecting differences in investors' risk appetite.

³ For further details, see the box 'The surge in global demand for computational resources: macrofinancial impacts and risks', *Economic Bulletin*, 1, 2026. In the first eight months of 2026, these firms raised \$157 billion (approximately \$196 billion when also considering bonds issued in non-dollar currencies), compared with \$98 billion (\$113 billion) for 2025 as a whole. Their US dollar-denominated bond issuance this year accounts for 19 per cent of total US non-financial corporate bond issuance. For a recent analysis of the financing conditions of hyperscalers, see M. Albori and A. Zaghini, 'Corporate bond pricing in the AI era', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 1057, 2026.

1.2 THE EURO AREA

The increase in euro-area GDP in the second quarter of the year was boosted by exports and household consumption. Based on our estimates, economic activity continued to grow in the summer, driven by services. Since the start of the conflict in the Persian Gulf, the rise in consumer price inflation has mainly reflected the performance of the energy components; there are no signs so far of a pass-through of higher oil and natural gas prices to the other items on the price index. In its September meeting, the Governing Council of the European Central Bank raised its key interest rates by 25 basis points. Yields on government bonds and sovereign spreads have gone up, while equity prices have gone down slightly since July. Between May and August, growth in lending to firms strengthened, partly as a result of increased liquidity needs, while growth in mortgage loans to households remained stable.

Euro-area GDP, net of the highly volatile contribution of Irish GDP, grew by 0.3 per cent in the second quarter of 2026, in line with the previous quarters (Table 2).³ The expansion was mainly driven by foreign demand and by household consumption, especially of durable and semi-durable goods and of services. Investment stagnated, reflecting a slight decrease in spending on machinery and equipment, partly offset by a moderate recovery in construction, after it declined in the first quarter. Destocking subtracted 0.2 percentage points from GDP growth, after making a modest positive contribution in the

³ In Ireland, there are sharp fluctuations in the measure of economic activity, partly due to the tax optimization accounting practices adopted by the multinational companies based there. The main contribution to the growth of 10.2 per cent in GDP in the second quarter was the sharp increase in the goods exports attributable to these firms, especially in the pharmaceutical sector.

quarter, when inventories had increased to tackle the risks of disruption to global value chains linked to the war in the Middle East.

On the supply side, services continued to provide a boost to growth, especially business services. Manufacturing also made a positive contribution, mainly driven by the sectors linked to defence and to the energy and digital transition. Value added in construction rose, benefiting from the infrastructure renovation plans under way in several euro-area countries; the residential sector appears to have weakened.

Among the main euro-area economies, GDP grew moderately in Germany, driven by net exports, while both consumption and investment were weak. Economic activity also increased in Italy and, more markedly, in Spain, where private consumption continued to be the main driver. GDP stagnated in France: the fall in investment and the negative contribution of inventories offset the support of foreign demand and of household consumption.

According to our estimates, euro-area GDP grew moderately in the third quarter. Net of the volatility of Irish data, economic activity appears to have increased in the summer months, still driven by services, especially those linked to tourism and business support activities, including information and communication technology services (Figure 6).⁴ These trends are consistent with the findings of the European Commission's business confidence surveys and of the PMI for services. Manufacturing production weakened, affected by higher energy prices and difficulties in sourcing production inputs owing to the protracted conflict in the Middle East. The PMI for manufacturing remained broadly unchanged in September at the high level reached in August, thanks especially to the favourable contribution of current production and new orders. While the general PMI declined, industrial activity in the sectors linked to defence and in those more involved in the energy and digital transition continued to expand.

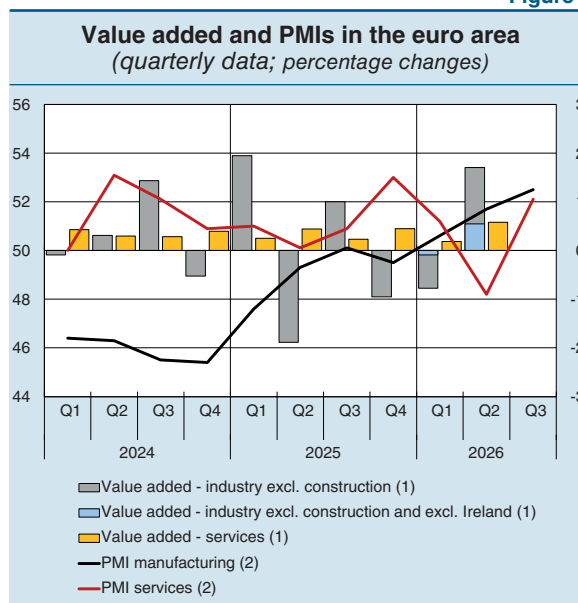
⁴ In addition to the uncertainty over the situation in the Middle East, downside risks to growth estimates could stem from the particularly high temperatures recorded in the summer, which may have temporarily held back activity on construction sites and hindered river transport, especially in Germany.

Table 2

Euro-area GDP growth and inflation (percentage changes)				
	GDP growth			Inflation
	2025	2026 Q1 (1)	2026 Q2 (1)	2026 September (2)
France	0.8	-0.2	0.0	3.4
Germany	0.2	0.4	0.3	3.3
Italy	0.6	0.3	0.2	(4.1)
Spain	2.6	0.6	0.7	5.0
Euro area excl. Ireland	1.0	0.3	0.3	
Euro area	1.2	0.0	0.6	(3.8)

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) Quarterly data adjusted for seasonal and calendar effects; percentage changes on previous period. Right-hand scale. Data excluding Ireland reported only for 2026. – (2) Quarterly averages of the monthly 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.

Household consumption slowed in the third quarter, after increasing by 0.4 per cent in the second quarter. Rising energy prices and geopolitical uncertainties continue to weigh on consumer confidence. Energy expenditure linked to exceptionally high temperatures rose in the summer months, offset by a slowdown in consumption for other goods and services.

Investment returned to growth. The improved confidence of firms producing capital goods and the positive assessments of firms' investment plans point to a recovery in capital accumulation. The energy and digital transition, defence spending and infrastructure renovation plans under way in the main economies probably boosted spending on machinery and equipment. Digitalization also appears to have supported investment in intangible goods, while investment in construction grew at modest rates.

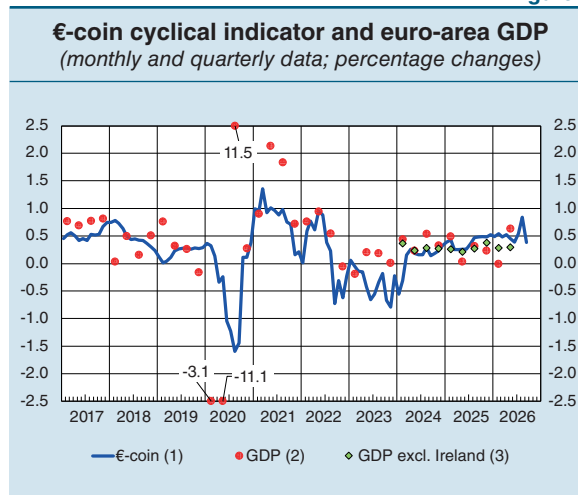
The contribution of net foreign demand to growth was practically nil. The increase in exports, which is consistent with the positive trend of PMIs for foreign orders, tourism and air traffic, was offset by the comparable increase in imports.

The €-coin indicator, which measures GDP growth net of the most erratic components, was positive on average in the summer months, pointing to modest growth in economic activity (Figure 7).

The ECB has revised its growth forecasts for the euro area upwards for this year and the next. The Eurosystem staff macroeconomic projections released in September⁵ indicate GDP growth of 0.9 per cent in 2026, 1.4 per cent in 2027 and 1.5 per cent in 2028. Compared with last June, the estimates have been revised upwards by 0.1 percentage points for 2026 and by 0.2 points for 2027, reflecting the resilience of the euro-area economy to the conflict in the Middle East.

Inflation has gone up. According to preliminary estimates, the harmonized index of consumer prices rose by 3.8 per cent in September compared with the same month last year, from 3.2 per cent in August (Figure 8). The rise in inflation continues

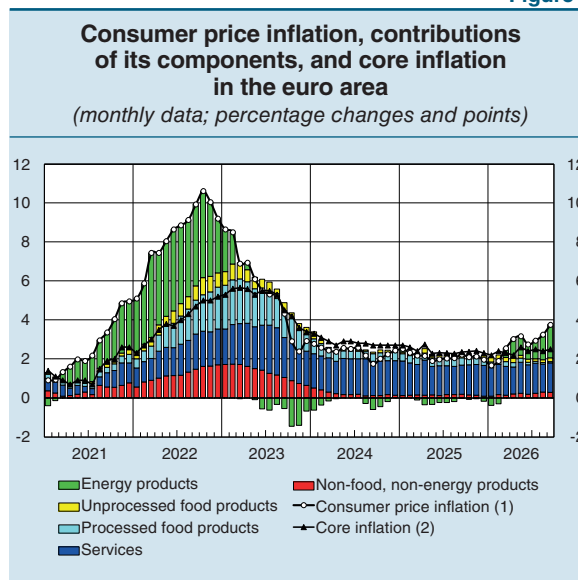
Figure 7



Sources: Banca d'Italia and Eurostat.

(1) For €-coin, monthly estimates of changes in GDP on the previous quarter, net of the most erratic components. 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) For GDP, quarterly data; percentage changes on the previous quarter. – (3) The figure also shows the change in euro-area GDP excluding Ireland, in order to remove the extreme volatility of the latter's data from the time series, as it is largely unrelated to the European economic cycle.

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.

⁵ For more information, see the ECB's website, 'Macroeconomic projections', September 2026.

to be driven above all by energy product trends. The growth rate of the prices of the core component, which excludes food and energy, has risen marginally in the last month, owing to an increase in services inflation, while growth in the prices of non-energy industrial goods declined. Overall, core inflation remained at the levels recorded prior to the conflict in the Middle East; there have been no signs so far of a transmission of the energy shock to the non-energy components. Food price inflation increased in September, although it remained subdued.

The conflict in the Middle East is affecting import prices, especially for intermediate goods, which rose further on an annual basis in August. Geopolitical tensions are also being transmitted to the producer prices of industrial goods sold on the domestic market, whose annual growth, excluding energy, rose to 3.4 per cent in August. In September, the PMI pointed to an acceleration in input prices in both manufacturing and services; however, both indices were below the peak reached in the spring months.

Employment has remained stable while wages have slowed. In the spring quarter, the number of persons employed in the euro area increased by just 0.1 per cent compared with the first quarter of 2026. The latest indicators suggest that employment remained unchanged overall in July and August as well, only growing in Spain, among the main countries.

Euro-area contractual wages slowed to 2.5 per cent in the second quarter, a growth rate that is 0.5 percentage points lower than inflation; the deceleration was widespread across the leading economies, with the exception of Spain. Actual wages rose by 3.3 per cent: the spread with the increase in contractual wages (wage drift) remained positive, although it narrowed compared with the first quarter; it is expected to contract further in the latter part of the year, as indicated by the ECB's wage tracker⁶ and the latest staff macroeconomic projections. Overall, the slowdown in wage growth also reflects the gradual weakening of labour demand, as evidenced by the fall in the job vacancy rate, while the unemployment rate is broadly stable (see the box 'The euro-area labour market: insights from vacancy and worker flow data', *Economic Bulletin*, 3, 2026).

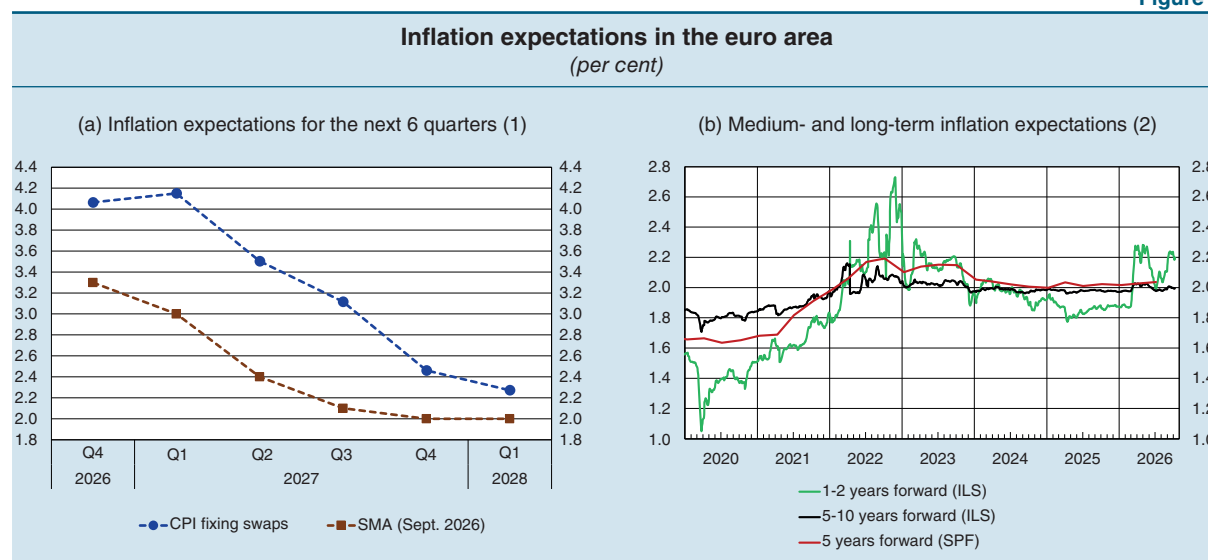
The ECB has revised its inflation forecasts for the next two years upwards. According to the September ECB staff projections, inflation will stand at 3.0 per cent in 2026, at 2.5 per cent in 2027 and at 2.1 per cent in 2028. Compared with the June projections, the estimates have been revised upwards by 0.2 percentage points for 2027 and by 0.1 percentage points for 2028, mainly reflecting expectations of higher energy commodity prices. Core inflation is projected to stand at 2.5 per cent in 2026, 2.6 per cent in 2027 and 2.3 per cent in 2028.

Households' and firms' short-term inflation expectations remain high. In September, the European Commission's surveys and the PMIs pointed to a pick-up in both consumer inflation expectations and in firms' expectations regarding changes in their selling prices. According to the ECB's Consumer Expectations Survey, the median for consumer price inflation expectations for households three years ahead increased slightly, while those for five years ahead remained broadly stable.

⁶ The wage tracker is an indicator that measures wage growth based only on active collective bargaining agreements; for further details, see the box 'The impact of recent contractual wage increases on wage growth', *Economic Bulletin*, 1, 2026.

Financial markets and analysts expect higher inflation in the short term, while medium- and long-term expectations remain in line with the target. Price quotes for CPI fixing swaps⁷ have increased since early August, amid rising energy commodity prices. In early October, these contracts incorporated expectations of a rise in inflation (up to 4.0 per cent in the first quarter of 2027) and of a subsequent rapid decline (to 2.3 per cent in the first quarter of 2028). According to the experts interviewed at the end of August by the ECB as part of the Survey of Monetary Analysts (SMA), inflation is expected to stand at 3.3 per cent at the end of this year, before returning to the 2 per cent target from the third quarter of 2027 (Figure 9.a). The inflation expectations implied by one-year, one-year forward inflation-linked swap (ILS) contracts have risen again since the beginning of August, and currently stand at around 2.2 per cent. Over longer-term horizons, both market indicators and analyst surveys continue to point to inflation expectations being firmly anchored to the ECB's target (Figure 9.b). The distribution of expectations drawn from the SMA also indicates a broadly balanced assessment of long-term inflation risks: the probability assigned to inflation being below 1.5 per cent is slightly above 10 per cent, almost the same as that assigned to inflation being above 2.5 per cent.

Figure 9



Sources: ECB and based on Bloomberg data. The latest figure refers to 9 October 2026, unless otherwise specified.

(1) Expected annual inflation rates over the next 6 quarters, implied by CPI fixing swaps (the underlying inflation rate is calculated on the euro-area HICP excluding tobacco) and the median of the expectations of respondents to the ECB's SMA conducted between 24 and 26 August 2026. – (2) Expected inflation rates, implied by ILS contracts between 1 and 2 years ahead and between 5 and 10 years ahead, excluding risk components (see F. Lilla and G. Zinna, 'Survey-based daily estimates of inflation expectations and risk premia in the euro area', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 991, 2025) and 5-year forward inflation expectations derived from the quarterly Survey of Professional Forecasters (SPF); the latest figure refers to July 2026.

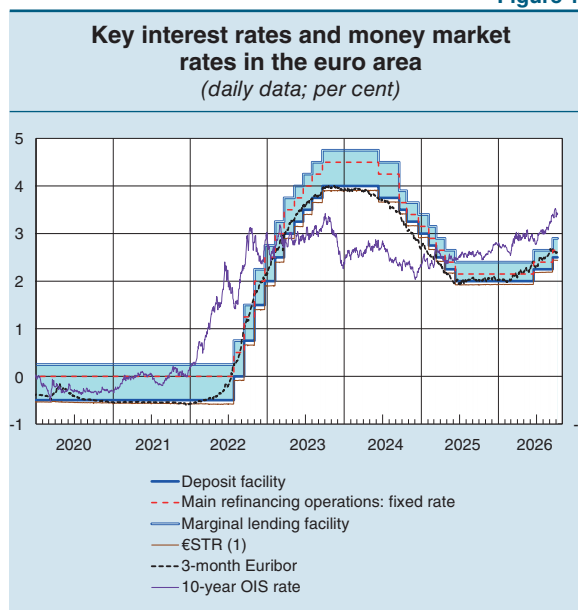
The ECB has raised its key interest rates. The ECB Governing Council raised its policy rates by 25 basis points in its September meeting, bringing the deposit facility rate to 2.5 per cent

⁷ CPI fixing swaps are swap contracts linked to the publication of monthly data on annual euro-area inflation, as measured by the HICP index excluding tobacco. The interest rates implied by these contracts indicate the annual inflation expected by financial markets over the next 24 months. Inflation expectations based on CPI fixing swaps are updated more frequently than those of analysts, and may be affected by sudden reactions to news about macroeconomic developments in the euro area and in the other major economies. For more details, see M. Bernardini, L. D'Arrigo, A. Lin and A. Tiseno, 'Real interest rates and the ECB's monetary policy stance', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 857, 2024.

(Figure 10). It also highlighted that the conflict in the Middle East continues to exert pressure on inflation, which is expected to remain well above the target for an extended period of time.

Government bond yields have gone up. The yields on the ten-year government bonds of the main euro-area countries have risen by around 70 basis points on average since July (Figure 4.a). Yield spreads vis-à-vis the German Bund widened (Figure 11.a). The increase was more marked in France, because of political uncertainty and concerns about the outlook for the public finances. The spreads of Italian, Greek and Spanish bonds also increased, albeit to a lesser extent. The spread for the ten-year BTP vis-à-vis the Bund stands at 110 basis points. Liquidity conditions in the government securities markets worsened in France, especially at the end of September when the draft budget law was presented, and to a lesser extent in Italy and Germany (Figure 11.b).

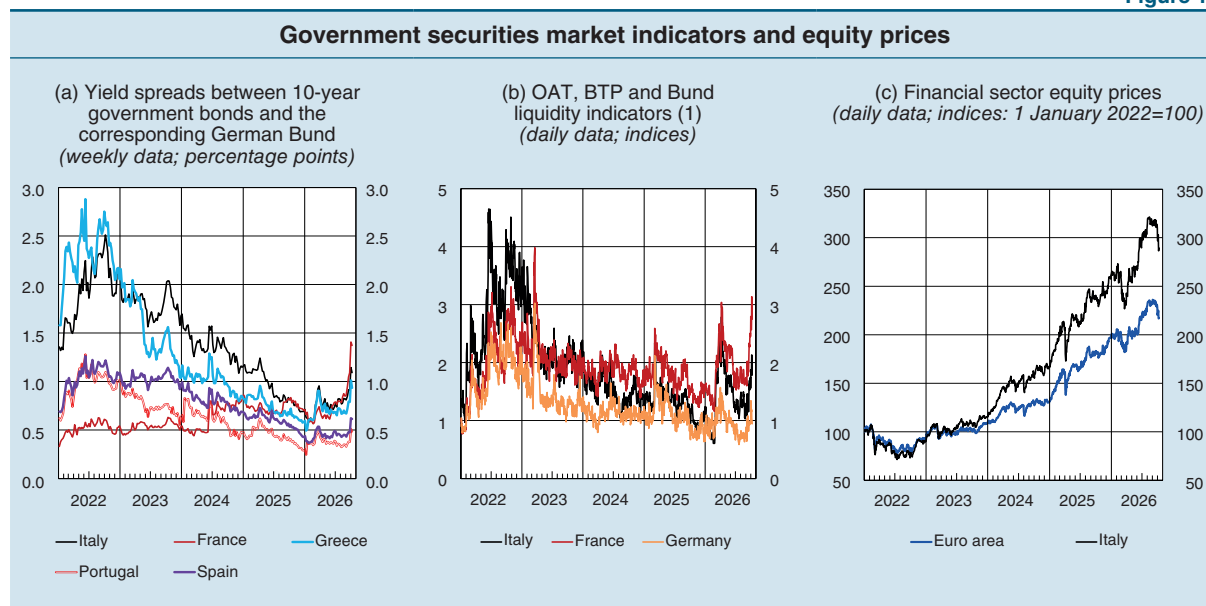
Figure 10



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

(1) As of 1 October 2019, the euro short-term rate (€STR) is the overnight benchmark rate for the euro-area money market.

Figure 11



Sources: LSEG, based on Bloomberg and Tradeweb data. The latest figure refers to 9 October 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.

Share prices have fallen. The euro-area equity index has declined slightly since early July (Figure 4.b). Compared with the decreases observed in almost all sectors, which are more pronounced in the consumer discretionary and telecommunications sectors, the indices for the energy and technology sectors have gone up. The Italian stock market recorded a more marked decline than that in the euro area, partly as a result of the fall observed in the financial sector (Figure 11.c).

The cost of credit has increased for firms and households. The interest rates on new mortgage loans to households and on new loans to non-financial corporations rose by 12 and 14 basis points respectively between May and August; for the latter, the cost of credit has gone up by 26 basis points since the start of the conflict (Figure 12), roughly half the increase observed over the same period for the short-term market interest rate.

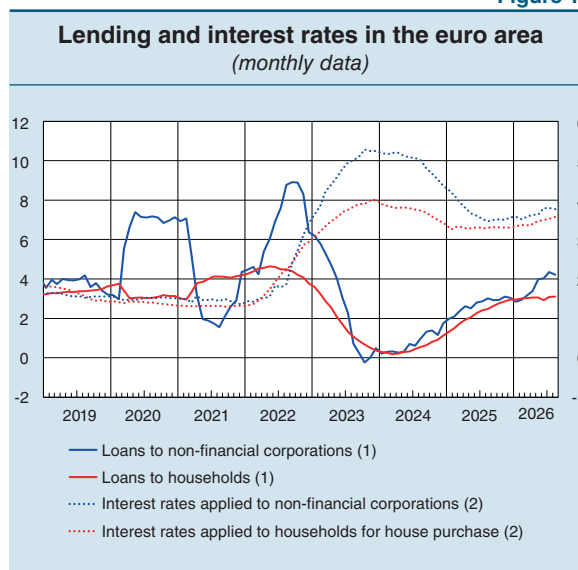
Growth in lending to firms has strengthened. The growth rate of credit to non-financial corporations in the euro area increased to 4.2 per cent year on year in August. The increase was driven by both loans with an original maturity of less than one year – in connection with higher liquidity needs because of higher energy prices – and by longer-term loans, in line with the recovery in demand for investment credit. Growth in lending strengthened in Italy (see Section 2.7) and in Spain, while it remained unchanged in France, where it continues to be strong, and in Germany, where instead it remains weak.

Banks have tightened credit supply standards for firms. In the euro-area bank lending survey (BLS)⁸ for the second quarter of the year, banks reported a moderate tightening of credit standards for loans to firms. Contributory factors were higher risk perception and lower risk tolerance on the part of banks, also in connection with geopolitical and energy developments. Firms' demand for credit increased slightly, mainly owing to higher financing needs for inventories and working capital and for fixed investment.

Lending to households continues to grow at a moderate pace. Growth in lending to households remained stable in the euro area in August; among the main countries, it only strengthened slightly in Italy. Banks participating in the BLS reported that deteriorating consumer confidence, rising interest rates and worsening housing market prospects all contributed to dampening demand for mortgage loans in the second quarter. Credit standards on loans to households for house purchase were tightened, owing especially to lower risk tolerance and higher risk perception.

Total funding under the national recovery and resilience plans has reached €450 billion. More than €20 billion have been disbursed in funding connected with the plans of individual Member States since last July. The last instalments of the facility, totalling €123 billion, will be paid by the end of 2026, when the NextGenerationEU programme concludes. Italy will receive an instalment of €28.4 billion as part of these final disbursements.

Figure 12



Source: ECB.

(1) 12-month percentage changes calculated net of reclassifications, exchange rate variations, value adjustments, and other variations not due to transactions. Loans include bad debts, repos and loans not reported in banks' balance sheets because they have been securitized. – (2) Per cent. Average of interest rates on new short-, medium- and long-term loans, weighted using the 24-month moving average for new loan disbursements; for non-financial corporations, includes overdrafts. Right-hand scale.

⁸ For more details, see ECB, 'July 2026 euro area bank lending survey', press release, 21 July 2026.

2 THE ITALIAN ECONOMY

2.1 CYCLICAL DEVELOPMENTS

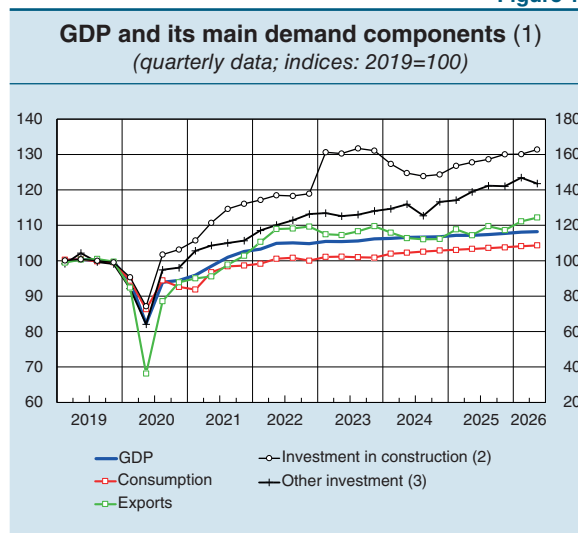
In the second quarter of 2026, Italian GDP continued to grow, buoyed by domestic demand. Our estimates indicate economic activity slowed slightly in the third quarter, in a context of more modest real disposable income.

GDP continued to grow in Italy over the second quarter of the year. Economic activity rose by 0.2 per cent (0.3 per cent in the previous three months; Figure 13 and Table 3). Household consumption continued to grow, especially in services and durable goods; purchases in the latter category were still favoured by the incentives for low-emission vehicles. Investment slowed, reflecting the decline in spending on machinery and equipment, which in the early months of the year had been supported by tax incentives for the purchase of light commercial vehicles by small and medium-sized enterprises and of heavy-duty vehicles by road transport companies. Investment in construction returned to growth, driven by the non-residential construction sector, where spending on the implementation of the National Recovery and Resilience Plan (NRRP) projects remained significant. Investment in intangible assets continued, driven by the digital transition. Net foreign demand made a negative contribution to GDP growth.

Value added continued to increase in services. Activity in the service sector was mainly supported by firms involved in the energy and digital transition processes, including those providing information and communication services and scientific and professional consultancy services. Tourism-related sectors also appear to have made a positive contribution. Value added instead declined in industry excluding construction, in spite of a modest increase in production that was mainly due to the build-up of finished goods inventories to mitigate the risk of disruptions to the supply of production inputs stemming from the conflict in the Middle East (see Section 2.2).

GDP growth appears to have slowed in the summer months. Household consumption gave signs of losing momentum, although qualitative surveys indicated that assessments of both the general state of the economy and of finances at household level were more favourable than in the previous quarter (see Section 2.3), in a context of weakened real disposable income. Economic activity was supported by the NRRP projects that are still under way in the public works sector, by investments relating to defence and the energy and digital transitions, and by the recovery of certain manufacturing sectors

Figure 13



Source: Based on Istat data.

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

in Germany, including electronics and electrical engineering, which are closely integrated with Italian industry.¹ Capital formation appears to have increased at a modest rate, owing to persistent global uncertainty and higher energy commodity prices (see Section 2.6). The contribution of net foreign demand to the expansion in economic activity appears to have been practically nil (see Section 2.4).

Table 3

GDP and its main components (1) (percentage changes on previous period and percentage points)					
	2025	2025		2026	
		Q3	Q4	Q1	Q2
GDP	0.6	0.2	0.3	0.3	0.2
Imports of goods and services	4.2	2.0	1.4	-0.1	1.5
Domestic demand (2)	1.4	0.1	1.1	-0.4	0.3
Domestic consumption	1.0	0.3	0.1	0.4	0.2
Household spending (3)	1.2	0.3	0.1	0.5	0.3
General government spending	0.3	0.2	0.2	0.0	0.0
Gross fixed investment	3.9	1.3	0.9	1.0	0.2
Construction	3.7	1.1	1.8	0.0	1.7
Capital goods (4)	4.1	1.5	-0.1	2.0	-1.4
Change in inventories (5)	-0.3	-0.4	0.8	-0.9	0.1
Exports of goods and services	1.7	2.4	-1.0	2.3	1.0
Net exports (6)	-0.7	0.1	-0.8	0.7	-0.1

Source: Istat.

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

Based on our October macroeconomic projections, GDP is set to increase by 0.9 per cent this year, 0.7 per cent next year, and 0.8 per cent in 2028 (see the box ‘The macroeconomic projections for the Italian economy published in October’).

THE MACROECONOMIC PROJECTIONS FOR THE ITALIAN ECONOMY PUBLISHED IN OCTOBER

Banca d’Italia has published its projections for the Italian economy for 2026-28.¹ The forecasting scenario remains heavily influenced by the evolution of the crisis in the Middle East and its impact on commodity prices.

The projections² assume that oil and natural gas prices, as implied by futures prices, will remain high up to the first few months of next year, to then decrease over time. Interest rates will rise

¹ For further details, see Banca d’Italia, ‘[Macroeconomic projections for the Italian economy](#)’, Banca d’Italia, 16 October 2026.

² The assumptions underlying commodity prices and interest rates are technical in nature and reflect the market-implied paths embedded in the market prices as at 9 October.

¹ For further details, see M. Flaccadoro, ‘[The recent weakness in the German manufacturing sector](#)’, Banca d’Italia, Questioni di Economia e Finanza (Occasional Papers), 902, 2024.

across all maturities, resulting in a gradual increase in the cost of financing for households and firms throughout the forecasting horizon. World trade will strengthen progressively, reflecting the assumption of a gradual dissipation of uncertainty and the continuation of the expansionary phase of AI-related investment. Our scenario takes into account the information on public finance contained in the Public Finance Planning Document 2026 (PFPD 2026), which was approved by the Council of Ministers on 2 October.

Based on these assumptions, Italy's GDP is estimated to increase by 0.9 per cent in 2026, by 0.7 per cent in 2027 and by 0.8 per cent in 2028 (see the table); without the adjustment for calendar effects, the projected growth rate is 1.0 per cent, 0.7 per cent and 0.6 per cent, respectively. In the second half of this year and in the first half of 2027, household spending will be affected above all by the sharp increase in energy prices on the international markets; it is expected to subsequently strengthen, as the impact of the Middle East crisis subsides. The increase in financing costs will affect firms' investment plans, especially in the last year of the forecasting period. Export growth is expected to be supported by the strengthening of international trade; it is estimated to be lower than the expansion in potential foreign demand, which is partly driven by the high-technology goods supply chain, in which Italy is still involved to a limited extent. Employment is projected to continue to grow at a moderate pace and the unemployment rate looks set to remain broadly stable over the forecasting horizon, at around 6 per cent. Inflation is projected to rise to 3.2 per cent this year, driven by the energy component, and to decrease to 2.4 per cent in 2027 and to 1.7 per cent in 2028. Excluding food and energy, the increase in consumer prices is projected to be around 2 per cent over the whole forecasting horizon.

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 (October)	0.9	0.7	0.8	3.2	2.4	1.7
IMF (October)	0.8	0.6	–	3.3	2.8	–
OECD (September)	0.9	0.6	–	3.0	2.6	–
European Commission (May)	0.5	0.6	–	3.2	1.8	–
MEF – policy scenario (October)	1.0	0.8	0.9	3.0	2.3	1.6
MEF – current legislation scenario (October)	1.0	0.6	0.8	3.0	2.3	1.6
PBO (August)	0.9	0.6	–	3.1	2.3	–
<i>Memorandum item: Banca d'Italia (June)</i>	0.5	0.4	0.9	3.1	2.0	1.9

Sources: Banca d'Italia, 'Macroeconomic projections for the Italian economy', 16 October 2026, and 'Macroeconomic projections for the Italian economy (Eurosystème staff macroeconomic projections)', 12 June 2026; IMF, *World Economic Outlook, Resilience Under Strain, Urgent Choices*, October 2026 (the projections for 2028 are available in the World Economic Outlook Database); OECD, *OECD Economic Outlook, Interim Report. Weathering Successive Shocks*, September 2026; European Commission, *European Economic Forecast. Spring 2026*, May 2026; Ministry of Economy and Finance (MEF), *Public Finance Document 2026*, October 2026; Parliamentary Budget Office (PBO), *Report on Recent Economic Developments*, August 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 1.0 per cent in 2026, 0.7 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 last June, growth estimates have been revised upwards by 0.4 percentage points for 2026 and by 0.3 points for 2027, and downwards by 0.1 percentage points for 2028. The upward revision for this year reflects a less severe impact of the conflict in the Middle

East than expected in June, with positive carry-over effects also for 2027. For the latter year, the higher defence and energy security spending set out in the PFPD 2026 is also contributing to the upward revision. Inflation forecasts were revised upwards by 0.1 percentage points this year and by 0.4 points in the next, mainly owing to the higher prices of commodities and refined petroleum products. For 2028, they were revised downwards by 0.2 percentage points owing to stronger negative base effects connected to the reduction in energy prices. For the two years 2026-27, the growth and inflation projections reported in this box are similar to the latest figures released by the main institutional forecasters.

The uncertainty surrounding these projections is high. By further fuelling geopolitical uncertainty and pushing up energy prices, protracted hostilities between the United States and Iran could lead to even higher and more persistent inflation and weaken growth prospects. Economic activity could also be affected by a tightening of financial conditions – in connection with renewed increases in long-term sovereign bond yields on the international markets – as well as by the negative repercussions on world trade and on stock market valuations of a possible slowdown in AI-related investment and of a worsening profitability outlook for the sector. By contrast, stronger growth could arise from a resolution of the Middle East conflict.

2.2 FIRMS

In the second quarter, economic growth was buoyed by the expansion in services and construction. In the summer months, value added in industry excluding construction appears to have essentially stagnated, with considerable differences across sectors. Activity in construction declined, partly as a result of the high temperatures slowing work at construction sites. Conversely, services continued to expand, especially in the information and communication sectors and in tourism. Investment seems to have increased more moderately, reflecting the uncertainty stemming from the conflict in the Middle East.

Value added and turnover in industry declined in the second quarter, while industrial production grew, albeit modestly (Figures 14.a and 14.b). The latter is partly due to the stockpiling of finished goods to ensure continuity of supply in the event of disruptions to global value chains stemming from geopolitical developments. Output remained particularly strong in the sectors linked to defence and the digital transition. The marked decline in fuel imports from Persian Gulf countries boosted the recovery in Italy's petrochemical and oil refining industries, whose output rose by 10 per cent compared with the previous three months. Activity in the automotive industry also increased again, partly supported by incentives for the purchase of low-emission vehicles. Traditional sectors instead continued to be weak, especially clothing, furniture and textiles; purchases of these products can be easily postponed and are more affected by uncertainty.²

Economic activity continued to expand in the service sector and returned to growth in construction. In the second quarter, the expansion in services was driven above all by the sectors most closely involved in the digital and energy transitions, such as information and communication and scientific and professional consultancy services, continuing a trend that has been under way since 2025. Tourism-related activities also made a positive contribution, as they were only mildly affected by the conflict and the associated risks of air traffic disruptions (see the box 'Recent developments in the tourism sector in Italy'). After stagnating in the first quarter, value added in construction returned to growth, supported by activity in the non-residential sector.

² F. Corsello, A. Foschi, M. Fruzzetti and M. Riggi, 'Household consumption in Italy: basket composition and responsiveness to macroeconomic shocks', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 1044, 2026.

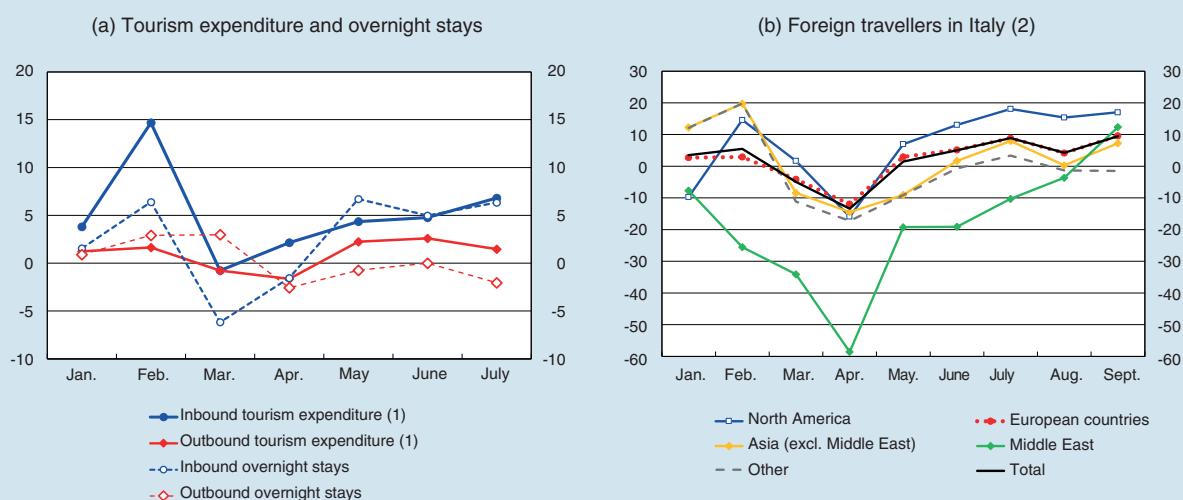
RECENT DEVELOPMENTS IN THE TOURISM SECTOR IN ITALY

Tourism is the main item of Italy's services exports, accounting for 38 per cent of the total at current prices in 2025. It is also the only services component that structurally generates a large and persistent external surplus, amounting to about 1 per cent of GDP.¹

In early 2026, inbound tourism expenditure increased significantly year on year, partly thanks to arrivals connected with the Winter Olympics.² Following a modest decline in March with the start of the conflict in the Middle East, tourism receipts rapidly returned to growth (see panel (a) of the figure); they rose by 4.4 per cent in the first half of the year as a whole.

Figure

International tourism in Italy in 2026 (year-on-year percentage changes)



Sources: Based on Banca d'Italia data, for panel (a); based on mobile phone data, for panel (b).

(1) Expenditure at current prices. – (2) 'North America' means Bermuda, Canada, Greenland, Saint Pierre and Miquelon, and the United States. 'European countries' means the EU countries, Albania, Andorra, Belarus, Bosnia and Herzegovina, Faroe Islands, Gibraltar, Guernsey, Iceland, Isle of Man, Jan Mayen, Jersey, Kosovo, Liechtenstein, Moldova, Monaco, Montenegro, North Macedonia, Norway, Russia, San Marino, Serbia, Svalbard, Switzerland, Türkiye, Ukraine and the United Kingdom. 'Asia (excl. Middle East)' means Afghanistan, Armenia, Azerbaijan, Bangladesh, Bhutan, British Indian Ocean Territory (including Chagos Islands), Brunei, Cambodia, China, Georgia, Hong Kong, India, Indonesia, Japan, Kazakhstan, Kyrgyzstan, Laos, Macao, Malaysia, Maldives, Mongolia, Myanmar, Nepal, North Korea, Pakistan, the Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Tajikistan, Thailand, Timor-Leste, Turkmenistan, Uzbekistan and Vietnam. 'Middle East' means Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, the Palestinian Territories (West Bank and Gaza Strip), Qatar, Saudi Arabia, Syria, the United Arab Emirates and Yemen.

The impact of the Middle East crisis on tourism flows was mitigated by three main factors. First, the increase in air fares was limited despite the energy price hikes. Second, arrivals

¹ The only other services category generating a significant surplus is manufacturing services on physical inputs owned by others (equal to 0.2 per cent of GDP in 2025). In the other main EU economies, the balance for the travel item as a share of GDP was 4.2 per cent in Spain, 0.7 per cent in France and -1.7 per cent in Germany in 2025. Italy has been in surplus since 1947; see E. Tosti, 'The reconstruction of back data for Italy's balance of payments and international investment position (1945-1969)', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 694, 2022 ([only in Italian](#)).

² International travellers arriving for the Winter Olympics spent around €0.4 billion; see V. Amato (ed.), 'An analysis of international tourism flows related to the 2026 Winter Olympic Games', Banca d'Italia, Statistics Series. Methods and Sources: Special Topics, 28 August 2026 ([only in Italian](#)).

from Europe (accounting for two thirds of tourism receipts) and North America were not significantly affected by the conflict, owing to Italy's distance from the areas directly involved. Based on mobile phone data, the decline in the number of European and North American travellers at the start of hostilities was modest, while the subsequent recovery was rapid and strong (see panel (b) of the figure). Finally, the share of travellers from the Middle East, or transiting through the region's airport hubs, was limited: in particular, in 2025, tourism receipts attributable to travellers from the Middle East accounted for 2.5 per cent of the total, while the shares ascribable to travellers from the rest of Asia and from Oceania were 6.4 and 2.4 per cent, respectively.

Mobile phone data point to an increase in foreign travellers in the third quarter too, a period that typically accounts for a substantial share of exports of tourism services.³

As for Italian travellers, outbound tourism expenditure rose by 1.0 per cent year on year in the first seven months of 2026 (see panel (a) of the figure), while there were no signs of growth in domestic tourism. According to Istat's survey on the occupancy of tourist accommodation establishments, overnight stays by residents within Italy were broadly stable in the first eight months of the year. The expansion of the tourism sector therefore appears to have been driven entirely by foreign travellers.

Based on a broad set of indicators, developments in the hospitality sector during the summer months appear to have been positive overall. In particular, according to our estimates,⁴ spending on restaurants and accommodation services – the main component of tourism expenditure – increased slightly, thereby supporting GDP growth in the third quarter.

³ Tourism receipts registered between July and September accounted for 38 per cent of the total for 2025.

⁴ The estimates draw not only on international tourism receipts, but also on overnight stay, air and motorway traffic, Confcommercio consumption, and qualitative business confidence indicators.

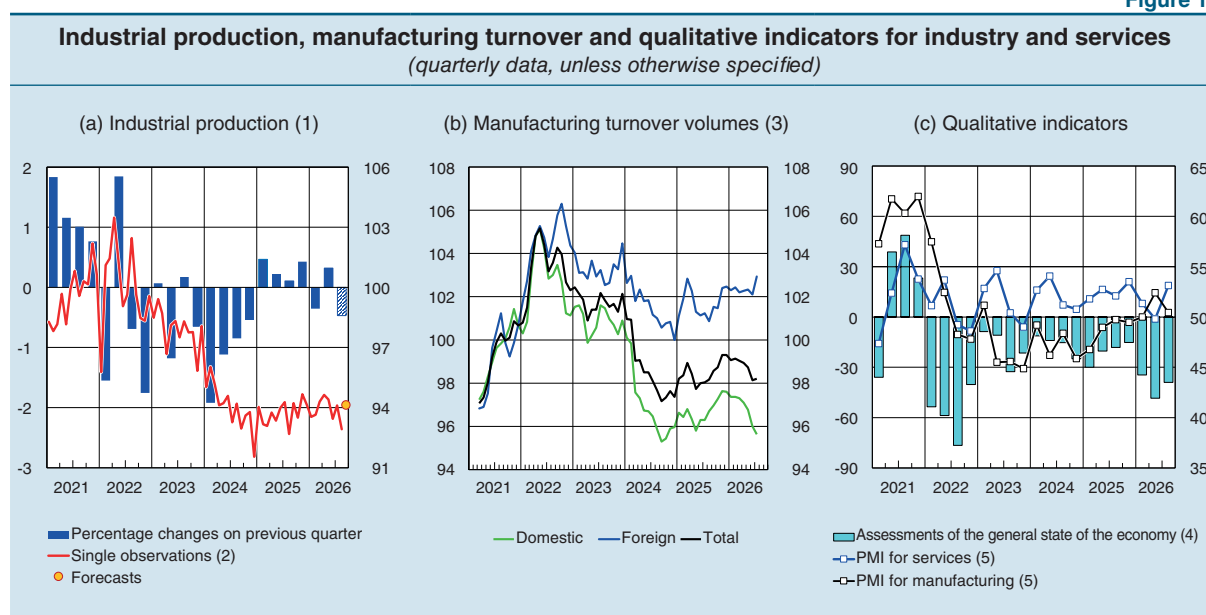
Investment continued to grow. It rose markedly in the civil engineering and specialized activities sectors, still benefiting from the NRRP, but fell in housing. Among the non-construction components, investment in intangible assets continued to grow. The latter has increased for more than two years and its share of GDP has risen to 3.4 per cent (from 3.2 per cent in 2023); compared with other investments, it is less sensitive to economic cycles and more responsive to incentives for innovation and to structural transformations in the economy.³ By contrast, investment in machinery and equipment declined, especially in the transport equipment component, where purchases had risen sharply in the first quarter owing to tax incentives for the renewal of commercial vehicle fleets.

Value added in industry is estimated to have broadly stagnated in the third quarter. Output weakened in the summer months. These developments are in line with the indications of the manufacturing PMI, which declined in the summer quarter on average as the precautionary stockpiling of finished goods came to an end (Figure 14.c). Banca d'Italia's Survey on Inflation and Growth Expectations, conducted between August and September, points to slightly unfavourable assessments of current demand in industry excluding construction, and to a positive outlook for

³ T. Ropele and G. Zevi, 'Investment dynamics in the euro area: drivers, composition, and cross-country differences', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 1059, 2026.

sales growth. However, the latest Istat surveys provide more encouraging signals on production, partly attributable to the recovery in certain branches of Germany's industry, including electronics, electrical engineering and defence, which are closely integrated with Italian manufacturing. This is consistent with the findings of the survey on the state of regional economies conducted by Banca d'Italia's branch network.

Figure 14



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

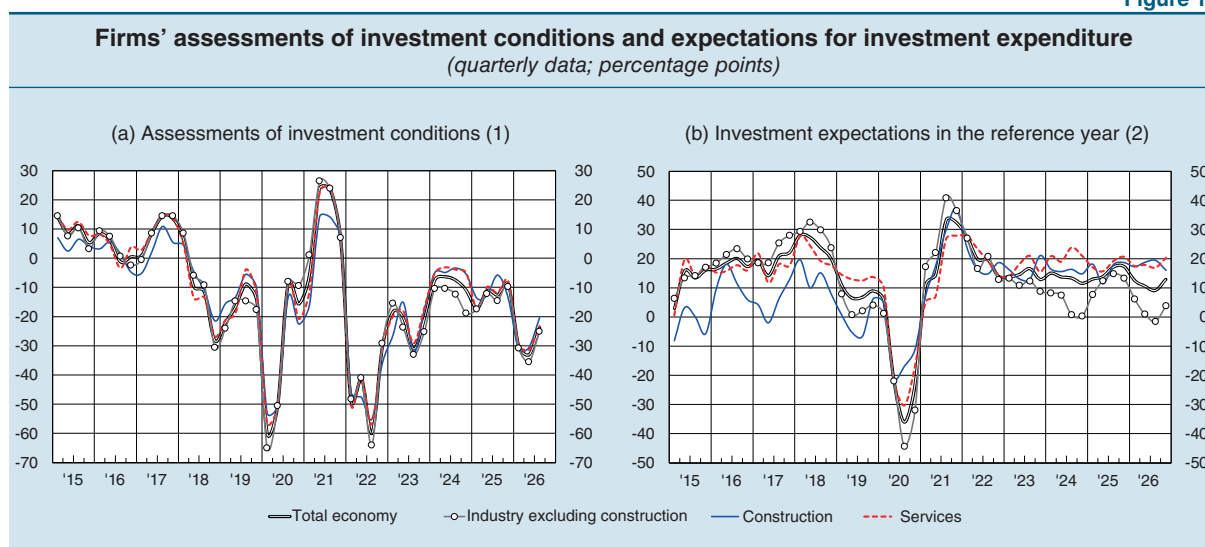
(1) Data adjusted for seasonal and calendar effects. The yellow dot indicates the forecast for September 2026, the last bar represents the forecast for the third quarter of 2026. – (2) Monthly data. Index: 2021=100. Right-hand scale. – (3) Monthly data, volumes, 3-month moving average ending in the reference month. Index: 2021=100. – (4) Balance, in percentage points, between the responses 'better' and 'worse' to the question on the general state of the economy (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 8 October 2026). – (5) Average quarterly data. Diffusion indices for economic activity in the sector. Right-hand scale.

The positive trend in services appears to have continued. The PMI for current activity improved in the summer months, reaching its highest level since last December. The service firms interviewed for Banca d'Italia's surveys continue to report positive assessments of current demand and future orders. According to Istat's surveys, the confidence indicator fell slightly in September compared with August, while remaining higher than in the second quarter. The indices relating to expectations of new orders for tourism, logistics, and information and communication activities rose further.

Activity in construction appears to have declined. In the third quarter, the sector was likely affected by high temperatures slowing work at construction sites. According to Banca d'Italia's Survey on Inflation and Growth Expectations, firms' assessments of the general state of the economy are still unfavourable, although demand expectations continue to be slightly positive, in line with the previous survey; the outlook for operating conditions, albeit improving, remains negative.

Capital formation continued to increase, though at a slower pace than earlier in the year. The persistently positive contribution from structural factors linked to the energy and digital transitions was seemingly offset by the negative effects of higher energy prices and expectations of both tighter credit supply conditions and weakening demand caused by the ongoing tensions in the Middle East. Banca d'Italia's business surveys point to an expansion in investment plans for 2026 as a whole, despite investment conditions still being regarded as unfavourable (Figure 15).

Figure 15



Source: 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 8 October 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. Expectations for the reference year are first surveyed in the fourth quarter of the preceding year.

2.3 HOUSEHOLDS

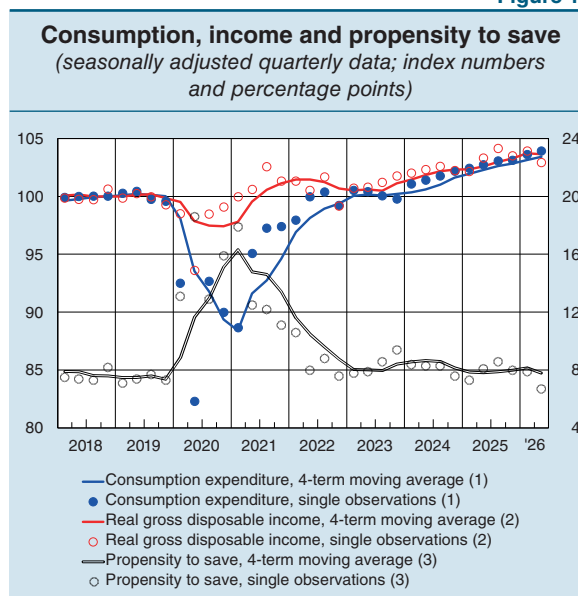
Household consumption grew in the second quarter, despite a drop in real income; the saving rate declined. Consumption continued to increase in the summer months, albeit at a slower pace, owing to higher energy prices and to caution in households' purchasing decisions.

Household consumption rose in the spring.

Growth was driven mainly by spending on services, which increased for the second consecutive quarter, and on durable goods, partly supported by incentives for the purchase of low-emission vehicles. Purchases of semi-durable goods returned to growth, while those of non-durable goods stagnated. Real disposable income shrank and the saving rate declined (Figure 16).

Consumption appears to have increased further in the summer months, albeit more moderately than in the second quarter. The consumer confidence index edged up (Figure 17), though it remains below its historical average. This partly reflected more favourable expectations for both personal financial conditions and the general economic outlook. Overall, consumption decisions remain cautious, as indicated by weak retail sales, subdued purchasing intentions (especially of durable goods), and the decline in vehicle

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.

registrations, which were particularly affected by the expiry of incentives for the purchase of low-emission vehicles.

According to the preliminary findings from Banca d'Italia's Household Outlook Survey, conducted between late August and early October, the need to cover unexpected expenses remained the main motive among households that save for precautionary reasons; however, concerns about inflation have become increasingly important (see Section 2.6), especially among lower-income households, for whom energy accounts for a significant share of consumption. In the event of further increases in energy prices, almost nine out of ten households reported that they would adjust their spending habits in the following months, mainly by reducing consumption or postponing purchases and other major spending decisions.

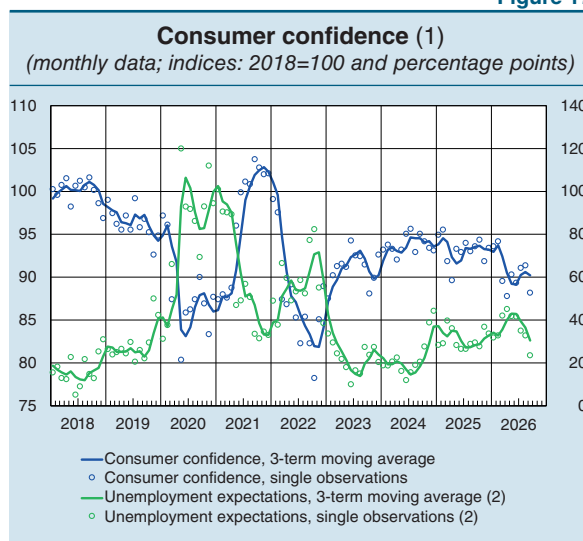
The housing market showed signs of slowing.

Year-on-year growth in house prices was more moderate in the spring than in the previous three months, reflecting slower price growth for both existing and new homes. Sales volumes declined (Figure 18). According to the Italian Housing Market Survey conducted by Banca d'Italia in June and July, the slowdown in selling prices in the second quarter affected all areas of the country in the second quarter, but was more pronounced in the North-West. Demand for housing continued to decline, although less sharply than in the previous three months, despite still relaxed credit access conditions. According to our calculations, based on the listings published on the Immobiliare.it online platform, demand for rental housing was strong in the summer months. The real estate agents interviewed in Banca d'Italia's survey reported that rents continued to rise, albeit at a slower pace than in previous quarters.

2.4 FOREIGN TRADE AND THE BALANCE OF PAYMENTS

Imports rose more than exports in the second quarter. The current account balance narrowed, mainly owing to the sharp rise in energy prices caused by the conflict in the Middle East. Foreign demand for Italian securities was strong. Italy's net international investment position remained stable. Exports of goods appear to have stagnated in July and August, while international tourism is estimated to have grown further.

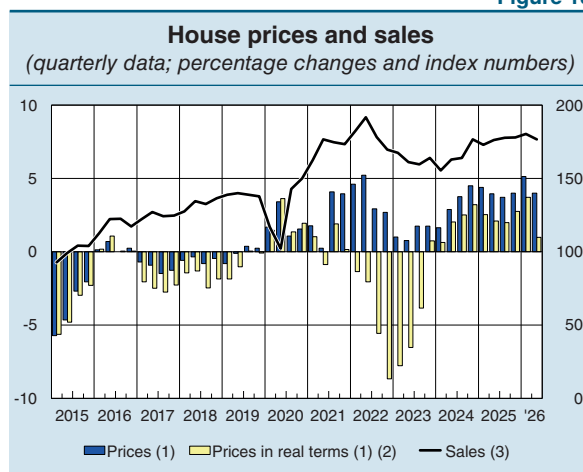
Figure 17



Source: Based on Istat data.

(1) Raw 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.

Both exports and, to a greater extent, imports increased in the second quarter. Export volumes continued to grow at a similar pace for both goods and services (Table 4). Exports of goods to euro-area markets, especially Germany, rose significantly, while those to non-euro-area countries declined. By sector, the main contributions came from refined oil products, motor vehicles, other transport equipment and food, while sales of pharmaceuticals, basic metals and fabricated metal products decreased, following strong growth in previous quarters. Imports grew both for services and, less markedly, for goods. For the latter, the increase reflected greater purchases from non-euro-area countries, while those from euro-area countries contracted; by product category, growth was driven by metals and mining products.

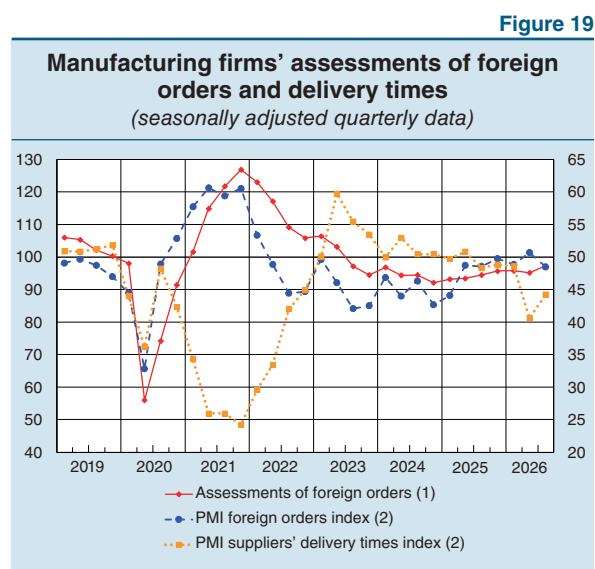
In the summer months, goods exports remained stable and international tourism continued to grow. According to our calculations based on still partial foreign trade data, seasonally adjusted goods sales volumes stagnated in July and August compared with the average for the previous three months. The manufacturing firms' assessments of foreign orders and the corresponding PMI stood below their respective expansion thresholds in the third quarter on average, pointing to persistent weakness in foreign demand (Figure 19). The PMI suppliers' delivery times index suggests that supply chain delays are easing, after worsening in previous months as a result of the conflict in the Middle East. The number of foreign travellers in Italy seems to have grown in the third quarter compared with the same period in 2025 (see the box 'Recent developments in the tourism sector in Italy').

The current account balance narrowed.⁴ In the second quarter, the seasonally adjusted current account balance was broadly balanced as a share of GDP, down from the surplus recorded in

Table 4

Export and import volumes (1) (percentage changes on previous period)					
	2025	2025		2026	
		Q3	Q4	Q1	Q2
Exports	1.7	2.4	-1.0	2.3	1.0
Goods	1.2	3.1	-1.4	1.9	1.1
To euro-area countries	1.2	2.7	-2.1	0.1	4.2
To non-euro area countries (2)	1.2	3.4	-0.9	3.1	-1.1
Services	3.4	-0.4	0.7	3.8	0.7
Imports	4.2	2.0	1.4	-0.1	1.5
Goods	3.6	1.6	1.6	0.2	1.1
From euro-area countries	6.8	3.1	1.5	-1.1	-1.2
From non-euro area countries (2)	0.3	..	1.7	1.7	3.7
Services	6.1	3.4	0.6	-1.0	2.8

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.



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. Values above (below) 100 indicate an improvement (a deterioration) in foreign order expectations compared with the historical average. Q2 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 increase (a decrease). Quarterly average. Right-hand scale.

⁴ The balance of payments and international investment position series have recently been revised to incorporate updated source data and improvements to the compilation methodologies. The most significant revisions to the current account concern the goods balance, reflecting the incorporation of Istat's new estimates of the transactions carried out by non-resident VAT entities. This resulted in a significant downward revision of imports and exports of goods and a modest increase in exports of manufacturing services on physical inputs. The current account balance was revised downwards by 0.3 percentage points of GDP between 2018 and 2025 on average. For further details, see Banca d'Italia's website, 'Revision of balance of payments and international investment position statistics (September 2026)', 30 September 2026.

the previous quarter (Table 5 and Figure 20). The increase in the prices of oil, refined oil products and natural gas widened the energy deficit, which nevertheless remained well below the peak reached in the third quarter of 2022.⁵ According to our estimates, assuming unchanged consumption, the deficit will be almost 1 percentage point of GDP higher in 2026, if oil and natural gas prices are consistent with the scenario of the macroeconomic projections for Italy (see the box ‘The macroeconomic projections for the Italian economy published in October’). The primary income balance also worsened.

Foreign demand for Italian securities was strong. The portfolio investment balance turned negative again in the second quarter (Table 5), mainly owing to sizeable purchases of Italian portfolio securities by foreign investors (€78.9 billion). More than two thirds of these foreign investments were in government bonds, amid substantial net issuance, while the remainder was in debt securities issued by the private sector. By contrast, purchases of foreign securities by residents slowed, reflecting lower demand for bonds, which was only partly offset by higher investment in investment fund shares.

The negative TARGET balance narrowed. Banca d’Italia’s negative TARGET balance narrowed in the second quarter, reaching €335.6 billion at the end of June. It continued to decrease in the following quarter, to €324.2 billion at the end of September.

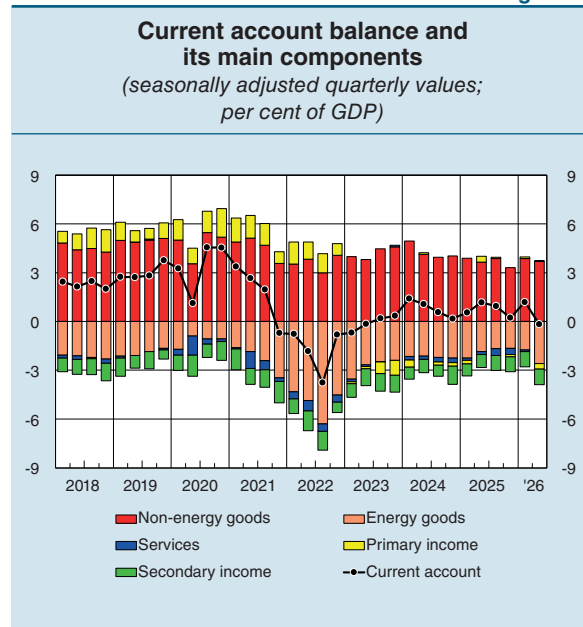
Italy’s net international investment position is stable. At the end of June, Italy’s net international investment position was positive by €335 billion, equal to 14.6 per cent of GDP, and broadly unchanged compared with the previous quarter (€328 billion; 14.4 per cent of GDP). The decline in the value of reserves, due to the fall in the price of gold, was offset by the appreciation of portfolio assets, linked to the favourable performance of equity markets.

Table 5

Balance of payments (billions of euros)					
	2025	2025	2026		
		Q3	Q4	Q1	Q2
Current account	15.6	10.7	1.3	-0.2	-0.6
Adjusted for seasonal and calendar effects	16.3	5.4	1.3	6.8	-1.0
Memorandum item: % of GDP (1)	0.7	0.9	0.2	1.2	-0.2
Capital account	4.2	-1.3	5.2	0.2	1.9
Financial account	2.2	4.7	12.4	-17.7	5.2
Foreign direct investment	-3.1	2.3	2.6	1.7	0.4
Portfolio investment	-36.6	23.6	-14.5	0.8	-46.9
Derivatives	-3.0	-3.1	..	1.6	-2.4
Other investment (2)	43.2	-18.5	24.8	-23.0	50.0
Changes in official reserves	1.7	0.4	-0.3	1.3	4.0
Errors and omissions	-17.5	-4.6	6.0	-17.7	3.9

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

Figure 20



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

⁵ For an analysis of the impact of the 2021-22 energy crisis, see C. Giordano and E. Tosti, ‘Weathering the storm: a characterization of the recent terms-of-trade shock in Italy’, Questioni di Economia e Finanza (Occasional Papers), 831, 2024.

2.5 THE LABOUR MARKET

Labour market conditions remained favourable overall, in line with cyclical developments. Employment rose in the second quarter and stabilized in the summer months. The unemployment rate edged up, reflecting the expansion in labour supply, especially in the older cohorts of the population. Only a small share of collective bargaining agreements is awaiting renewal; wage growth, which has slowed slightly since the start of the year, is expected to remain subdued in late 2026 as well.

Employment continued to grow in the second quarter. According to Istat's quarterly national accounts, headcount employment rose further (Figure 21.a), especially in private services, namely in trade, tourism, finance and insurance, and to a lesser extent in manufacturing. The upswing was observed both in self-employment, which has now fully recovered from its decline during the pandemic, and in payroll employment. By contrast, employment fell in construction, after six quarters' growth, while the number of hours worked per worker grew markedly. The use of short-time working schemes declined further: in the spring months, the number of hours authorized fell by 10 per cent year on year.

Labour market participation has strengthened. The participation rate rose both among the over-50s, still reflecting the impact of pension reforms, and among other age groups, after essentially stagnating for two years. The increase in labour supply was mirrored by an uptick in the unemployment rate, which still remains at historically low levels (Figure 21.b). The youth unemployment rate fell, with the share of 15-29 year olds who are not in employment, education or training holding broadly stable at 13.1 per cent, almost 2 percentage points above the euro-area average.

Over the summer months, employment remained unchanged and the unemployment rate rose. According to provisional data from Istat's labour force survey, employment stabilized in July and August, with a decline in fixed-term positions. The unemployment rate rose to 6.1 per cent, from 5.8 per cent in the previous two months, still driven by higher participation. According to the Survey on Inflation and Growth Expectations conducted by Banca d'Italia between August and September, three-month employment expectations are still positive, but below the levels recorded in the first part of the year. The outlook remains weak in manufacturing, in trade and tourism and, more broadly, among smaller firms.

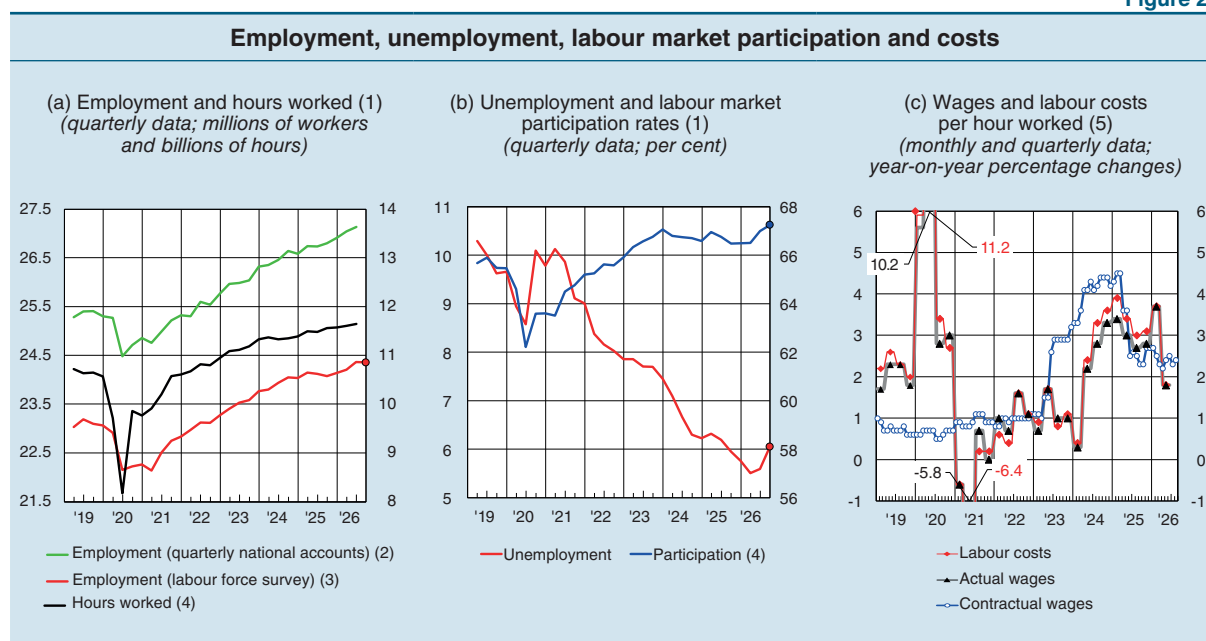
Wage growth remains moderate. In the spring months, contractual wage growth slowed in the non-farm private sector, falling short of consumer price inflation. Actual hourly wages, which also include wage components in excess of wage floors, grew even more moderately. The slowdown in wage growth more than offset the deterioration in productivity growth: unit labour cost (ULC) growth fell to 2.6 per cent year on year, 1 percentage point lower than in the first quarter of 2026 (see Section 2.6). Contractual wage growth remained moderate in July and August (Figure 21.c). No substantial upward pressure is expected in the coming months, partly due to the small share of employees with collective bargaining agreements awaiting renewal in the private sector (less than 11 per cent).⁶ Moreover, under the current system, collective bargaining agreements do not generally provide for wage indexation to inflation. Where such clauses exist, indexation is usually based on the HICP net of imported energy, which has less pronounced dynamics than the general index.

In the public sector, collective bargaining agreements for the main sectors were renewed more rapidly than in the recent past. The negotiation process was partly expedited by multiannual budgeting under the new European governance rules.⁷

⁶ Istat's data do not yet take account of the recent renewal of the agreement for the wood and furniture sector, signed last September, which covers just over 1 per cent of employees in the survey on contractual wages.

⁷ For more details, see the medium-term fiscal structural plan 2025-29 (MTP 2025-29).

Figure 21



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

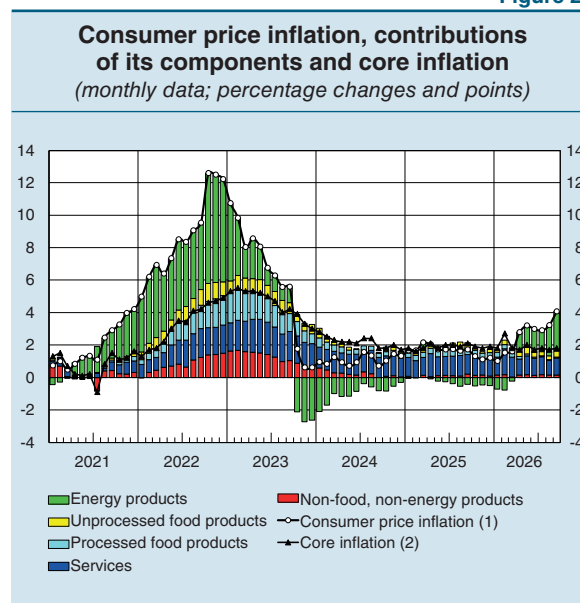
(1) Seasonally adjusted data. The points corresponding to Q3 2026 indicate the average value for July and August. – (2) Includes all persons engaged in production activity in Italy's economic territory. – (3) Includes all resident persons that are employed, excluding workers living permanently in an institution and military personnel. – (4) Right-hand scale. – (5) Non-farm private sector. Raw monthly data for contractual wages. Seasonally adjusted quarterly data for actual wages and labour costs.

2.6 PRICE DEVELOPMENTS

Consumer price inflation rose in recent months, to 4.1 per cent in September, driven by energy price pressures. The price spikes caused by the conflict in the Middle East fed into electricity and gas tariffs, which, despite rising sharply, remain below the levels observed during the 2021-22 energy crisis. However, persistently high energy commodity prices point to further increases in utility bills in the autumn. Core inflation remained below 2 per cent. Firms and households continue to expect price increases in the near term, albeit to a lesser extent than last spring.

Inflation has gone up. According to preliminary estimates, the harmonized index of consumer prices rose by an annual rate of 4.1 per cent in September (3.2 per cent in August; Figure 22 and Table 6). Core inflation, which excludes food and energy, rose slightly as a result of faster growth in service prices, although it remains moderate. The increase in the prices of technological products – which are affected by

Figure 22



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.

strains in global semiconductor supply chains, due to strong demand for AI investment – is putting upward pressure on non-energy industrial goods inflation. Among the most volatile components, energy inflation rose as a result of soaring fuel prices and gas and electricity bills; food price inflation went up, driven by unprocessed food prices, although it remains moderate.

Table 6

Indicators of inflation in Italy <i>(year-on-year percentage changes, unless otherwise specified)</i>						
	HICP (1)				CPI (2)	PPI (3)
	General index	Food	Energy	Excl. food and energy	General index	General index
2022	8.7	8.0	51.4	3.3	8.2	42.8
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	1.5	2.7
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	5.4
Apr.	2.8	2.9	9.3	1.7	2.7	8.8
May	3.2	2.5	12.0	2.0	3.2	9.1
June	3.0	1.8	12.9	1.7	3.0	6.8
July	2.9	1.4	11.7	1.8	2.9	9.3
Aug.	3.2	1.3	17.1	1.7	3.3	13.5
Sept.	(4.1)	(2.0)	(22.3)	(1.8)	(4.2)	

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

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

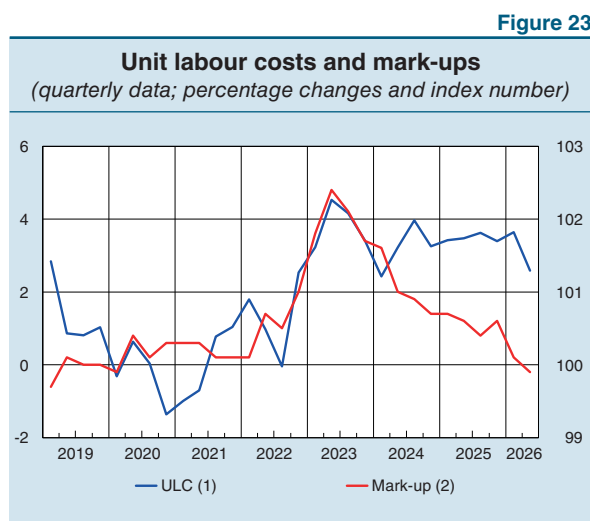
Energy price increases continue to feed into fuel prices, especially for diesel, and increasingly into gas and electricity prices. Based on the average weekly figures published by the Ministry of Environment and Energy Security, final prices have gone up by an average of 35 euro cents per litre for petrol and 55 cents for diesel since the beginning of the conflict,⁸ also due to the increase in refining margins, which have reached their highest levels in the last two decades. In the summer months, the Government stepped in repeatedly to extend the reduction in excise duties on diesel, which expired on 5 October. In addition, since the end of September, major fuel distributors have introduced price caps on petrol and diesel on a voluntary and temporary basis. By mid-October, approximately 50 per cent of service stations had joined the initiative for petrol, and 70 per cent for diesel. The average reduction in daily prices between 27 September and 12 October was around 10 euro cents for both petrol and diesel, almost entirely due to the stations implementing price caps. According to our latest assessments, the initiative will shave almost 3.5 percentage points off energy inflation, which was 22.3 per cent in September, based on preliminary estimates.

⁸ Latest data as of 12 October 2026.

Since February, the pass-through of higher energy prices to gas and electricity bills has contributed almost half of the increase in energy inflation, with more pronounced effects in the summer months. In September, consumer electricity and gas prices were around 12 and 20 per cent higher, respectively, than in February, although they remain below the levels observed during the 2021-22 energy crisis. However, the sharp rise in natural gas prices in the last month points to further increases in energy bills in the autumn. The Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) has announced an increase of around 37 per cent in electricity tariffs for vulnerable customers in the regulated market ('maggior tutela') in the fourth quarter of 2026.

Producer price pressures remain high. In August, the producer prices for industrial goods sold on the domestic market rose by 13.5 per cent year on year. Price growth also remained strong net of the energy component, especially for capital and intermediate goods. By contrast, food producer prices continued to decline. In September, the purchasing managers' indices (PMIs) for input prices rose considerably in both manufacturing and services, reflecting commodity sourcing headwinds and high energy costs, although they remain below their spring peak.

Unit labour costs (ULCs) slowed in the second quarter. In the non-farm private sector, unit labour costs rose by 2.6 per cent on an annual basis in the spring months (Figure 23), 1 percentage point lower than in the first quarter of the year. This considerable deceleration reflects the slowdown in hourly labour costs (to 1.8 per cent, from 3.7 per cent), which more than offset the deterioration in productivity growth (-0.8 per cent, from 0.1 per cent). Mark-ups continued to shrink, especially in private services and in industry excluding construction. As a result of these developments, the share of profits⁹ in value added decreased, although it was still above pre-pandemic levels (see the box 'The labour share in Italy and the euro area: recent developments', Chapter 8, *Annual Report for 2025, 2026*).

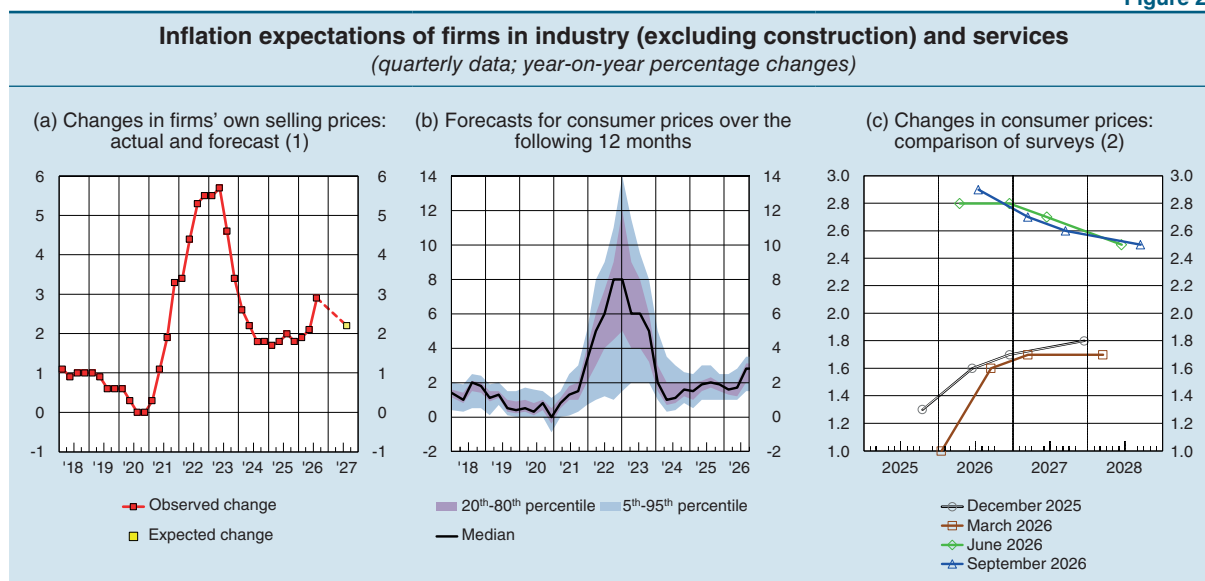


Source: Based on Istat data.
(1) Year-on-year percentage changes; non-farm private sector. – (2) The mark-up is the ratio of the output deflator to total variable costs. Index: Q4 2019=100. Total economy; right-hand scale.

Expectations of price increases prevail among firms and households, though to a lesser extent than in the spring. According to Istat's surveys, households' expectations of rising prices over the following twelve months remained prevalent during the summer months, though fewer respondents were anticipating a sharp increase. The firms interviewed as part of Banca d'Italia's Survey on Inflation and Growth Expectations anticipated increasing their selling prices by 2.2 per cent over the next twelve months, down slightly from the previous survey (Figure 24).

⁹ Istat's mark-up is defined as the ratio of the output deflator to total variable costs, including labour and intermediate input costs. The profit share derived from the national accounts considers the distribution of value added between labour remuneration and profits. The two measures are correlated, but may differ as a result of changes in intermediate input costs, which are included in the former but not in the latter.

Figure 24



Source: Based on the findings of the 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 8 October 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 after the survey date; the third point is the average 12 months forward; and the fourth point is the average 24 months forward.

2.7 CREDIT AND FINANCING CONDITIONS

In the summer months, interest rates on new loans to non-financial corporations rose, while those on new mortgage loans remained broadly unchanged. Lending to firms accelerated further, with short-term loans also continuing to support this trend, due to greater liquidity needs associated with higher energy prices. The expansion in lending continues to be concentrated among larger firms. Lending to households also strengthened. In the second quarter, banks' credit standards eased slightly for loans to non-financial corporations, and remained unchanged for mortgage loans. Net corporate bond issuance slowed, with average yields rising further.

Bank funding weakened and its cost edged up. The twelve-month growth rate in bank funding declined between May and August (to 1.2 per cent, from 4.1 per cent), mainly as a result of the slowdown in non-resident deposits.¹⁰ The marginal cost of funding went up slightly (Figure 25.a), reflecting the rising cost of deposits with an agreed maturity and higher interbank market rates, as a result of the Eurosystem's key interest rate hikes.¹¹ The rates on overnight deposits inched up by just 4 basis points, a much smaller increase than for other forms of funding.

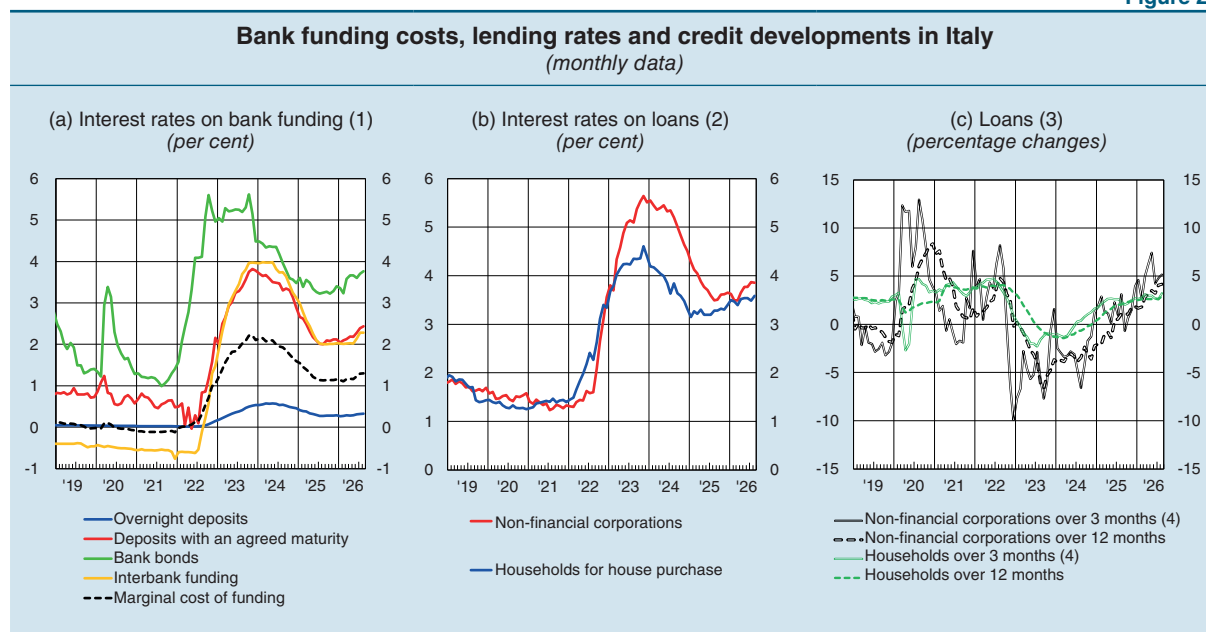
The average cost of loans to firms went up, while that of mortgage loans held broadly stable. Between May and August, the average interest rate on new loans to non-financial corporations rose by about 10 basis points (Figure 25.b); the change since the start of the conflict in the Middle East has been around 35 basis points, compared with around 50 basis points for the three-month Euribor. The average cost of new mortgage loans to households, mostly fixed-rate loans, rose by 4 basis points between May and August.

¹⁰ This was mainly due to the unwinding of some intra-group transactions carried out in 2025.

¹¹ Between the end of August and the beginning of October, interest rates on the interbank market and bank bond yields rose by around 30 and 40 basis points, respectively.

Lending to firms and households has strengthened. Between May and August, lending to non-financial corporations accelerated further (to 4.2 per cent year on year; Figure 25.c), helped by a smaller decline in loans with maturities beyond five years and higher growth in loans with short-term original maturities, partly in response to the liquidity needs arising from higher energy prices. Lending to small firms continued to contract (-4.6 per cent), while lending to larger firms expanded further (4.7 per cent). Credit growth weakened in manufacturing and in construction, while it strengthened in services and especially in other sectors, including energy supply. Household lending growth picked up: the slowdown in home mortgage loans was offset by a slight acceleration in consumer credit and a less pronounced reduction in other loans.

Figure 25



Sources: Based on data from Banca d'Italia, Bloomberg and ICE Bank of America Merrill Lynch.

(1) The marginal cost of funding is calculated as the weighted average of the costs of banks' various funding sources, using their respective outstanding amounts as weights. This is the cost that a given bank would incur to increase its balance sheet by one unit, drawing on funding sources in proportion to the composition of its liabilities at that time. – (2) Average values. Average of interest rates on new short-, medium- and long-term loans, weighted using the 24-month moving average for new loan disbursements; for non-financial corporations, includes overdrafts. – (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.

In the second quarter, banks' credit standards for loans to firms eased a little, while those for mortgage loans remained unchanged. Italian banks interviewed in the latest euro-area bank lending survey (BLS)¹² reported easing the credit standards slightly for new loans to firms. Geopolitical developments and tensions in energy markets continued to lead banks to take a more cautious approach to credit risk assessment. Stronger credit demand by non-financial corporations largely reflected greater financing needs for inventories and working capital, as well as debt restructuring and renegotiation. Based on the latest information drawn from the surveys conducted by Istat and Banca d'Italia, the conditions for access to bank credit worsened slightly in the third quarter of 2026. In manufacturing, the deterioration was more pronounced for firms with fewer than 50 employees.

Credit standards on loans to households remained unchanged for mortgages, while they tightened further for consumer credit. Households' demand for loans for house purchase was stable, while that

¹² For further information on the survey and its results for Italy, see Banca d'Italia's website, 'Bank Lending Survey (BLS)'.

for consumer loans inched up; the latter was mainly driven by spending on durable goods and by improving consumer confidence, according to banks' assessments.

Corporate bond issuance slowed and yields increased. In August, the annual growth rate of net corporate bond issuance declined compared with May. Between early July and early October, the yields on bonds issued by Italian non-financial corporations rose to 4.7 per cent, more than long-term market rates.

2.8 THE PUBLIC FINANCES

According to the Public Finance Planning Document approved by the Italian Government on 2 October, net borrowing is set to fall to 2.9 per cent of GDP in 2026, to then increase to 3.4 per cent in 2027, and then to decrease again to 3.2 per cent in 2028 and to 2.3 per cent in 2029. Public debt is set to rise through 2027, to 138.5 per cent of GDP, before starting to decline to 137.9 per cent in 2028 and 136.6 per cent in 2029. These trends appear to be consistent with the European governance framework, given that the Government intends to activate the national escape clause to accommodate spending on energy security and defence in the two years 2027-28.

The Government expects net borrowing to fall to 2.9 per cent in 2026. With the Public Finance Planning Document 2026 (PFPD 2026) approved on 2 October, the Government updated the figures for the public accounts under the current legislation scenario and set the budgetary targets for the next three years.¹³ In 2026, net borrowing is projected to stand at 2.9 per cent of GDP (Table 7). The debt-to-GDP ratio is expected to rise to 138.1 per cent (1.4 percentage points more than in 2025). This year, the net expenditure indicator¹⁴ is set to increase by 1.6 per cent, in line with the limit recommended by the Council of the European Union.

Table 7

Public finance targets and estimates for 2026 (as a share of GDP, unless otherwise specified)						
	General government				Memorandum items:	
	Net borrowing	Structural net borrowing	Primary surplus	Change in debt (1)	Real GDP growth rate	Nominal GDP growth rate
Targets						
October 2025 (2)	2.8	2.9	1.2	1.2	0.7	2.7
October 2026 (3)	2.9		1.2	1.4	1.0	2.7
Estimates based on current legislation						
April 2025 (4)	2.8		1.2		0.8	3.0
April 2026 (5)	2.9		1.2		0.6	2.4
October 2026 (3)	2.9		1.2	1.4	1.0	2.7

Sources: PFPD 2025, PFPD 2026, Public Finance Document 2025 (PFD 2025) and PFD 2026.

(1) Year-on-year change in the debt-to-GDP ratio. – (2) PFPD 2025. – (3) PFPD 2026. – (4) PFD 2025. – (5) PFD 2026.

¹³ For further information, see 'Preliminary review of the Public Finance Planning Document (PFPD) 2026', testimony by A. Brandolini, Director General for Economics, Statistics and Research at Banca d'Italia, before the 5th Committee of the Chamber of Deputies (Budget, Treasury and Planning) and the 5th Committee of the Senate of the Republic (Economic Planning and Budget), sitting jointly, Chamber of Deputies, Rome, 12 October 2026 (only in Italian).

¹⁴ Net expenditure is the reference aggregate for monitoring public accounts based on the new European economic governance framework. It consists of general government outlays net of the following items: a) interest expenditure; b) discretionary revenue measures; c) expenditure on EU programmes fully matched by revenue from EU funds; d) national expenditure on co-financing of programmes funded by the EU; e) cyclical elements of unemployment benefit expenditure (which include disbursements connected with short-time work schemes); f) one-off measures; and g) other temporary measures.

Tax revenue is up. In the first eight months of 2026, the general government borrowing requirement increased by €13.4 billion year on year (amounting to €89.3 billion).¹⁵ Tax revenue recorded in the state budget increased by 2.5 per cent (€9.4 billion). This is mainly attributable to withholding taxes on employee incomes and VAT.

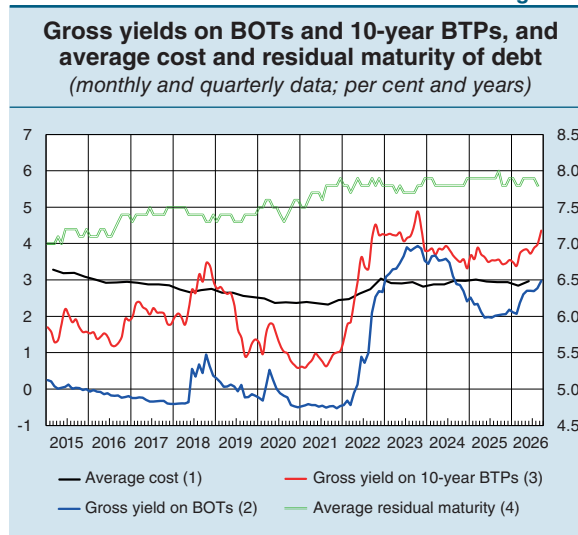
In August, general government debt stood at €3,200.8 billion, €103.8 billion more than at the end of 2025. The average residual maturity of the debt decreased slightly to 7.8 years. The share of the public debt held by Banca d'Italia shrank to 16.4 per cent, continuing the downward trend under way since 2022. The average cost of the debt edged up to 3.0 per cent at the end of June, from 2.9 per cent at end-2025 (Figure 26).

Net borrowing improved in the first half of the year. According to Istat's quarterly accounts estimates released on 5 October, general government net borrowing was 5.4 per cent of GDP in the first half of 2026, 0.3 percentage points less year on year. This trend was driven by the primary balance, which rose by 0.6 percentage points.

Under the current legislation scenario, the deficit is projected to decline gradually over the next three years. The current legislation estimates in the PFPD 2026 point to net borrowing remaining at 2.9 per cent of GDP in 2027 and then declining gradually, to 2.2 per cent in 2029. Compared with the path set out in the medium-term fiscal-structural plan 2025-29 (MTP 2025-29) agreed with the EU authorities in January 2025, net expenditure growth is expected to be slightly higher in 2027 and somewhat lower in the following two years.

Under the policy scenario, the deficit is set to widen compared with the current legislation estimates. Compared with the current legislation scenario, the deficit is projected to widen by 0.5 percentage points of GDP in 2027 and 2028 and by 0.1 points in 2029: net borrowing is set to reach 3.4 per cent in 2027, before falling back to 3.2 per cent in 2028 and 2.3 per cent in 2029 (Table 8). The difference with the current legislation scenario mainly reflects higher defence and energy expenditure connected with the activation of the national escape clause,¹⁶ which the Government intends to use in the next two years.

Figure 26



Sources: For interest expense, Istat; for debt, gross interest rates and average residual maturity, Banca d'Italia.

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

¹⁵ In September, the state sector borrowing requirement amounted to €27.0 billion, up by €1.5 billion year on year.

¹⁶ The clause allows a Member State to deviate temporarily from its agreed net expenditure path by up to 1.5 per cent of GDP per year between 2025 and 2028. It may be activated at the request of the Member State, following a recommendation from the Commission and subject to approval by the Council acting by qualified majority. In June, while keeping the overall limit unchanged, the Commission expanded the scope of the clause to include measures that strengthen the structural resilience of the energy system and accelerate the transition away from fossil fuels. So far, the Council has activated the clause for 18 Member States. Italy submitted its request on 10 September.

Table 8

Outturns and official targets for key public finance indicators (1) <i>(as a share of GDP)</i>					
	2025	2026	2027	2028	2029
Net borrowing	3.1	2.9	3.4	3.2	2.3
Primary surplus	0.8	1.2	0.9	1.4	2.4
Interest expense	3.8	4.2	4.3	4.6	4.7
Structural net borrowing	3.6	3.2	3.5	3.3	2.4
Debt (2)	136.7	138.1	138.5	137.9	136.6

Sources: PFPD 2026.

(1) Outturns for 2025 and official targets for 2026-29. Any mismatches are due to the rounding of decimals. – (2) Gross of financial support to other euro-area countries.

The budgetary flexibility requested amounts to 0.3 percentage points of GDP per year for each category. According to the assessments in the PFPD 2026, the path of net expenditure over the three-year period is consistent with that outlined in the MTP 2025-29 if these margins of flexibility are excluded.

Under the policy scenario, the debt-to-GDP ratio is expected to increase to 138.5 per cent in 2027, before decreasing to 136.6 per cent in 2029.