MACROECONOMIC PROJECTIONS FOR THE ITALIAN ECONOMY (EUROSYSTEM STAFF MACROECONOMIC PROJECTIONS)

6 June 2016

This note presents the projections for Italy for the next three years prepared by staff members of the Bank of Italy as part of the Eurosystem staff macroeconomic projections. The projections for the whole of the euro area were released on 2 June at the press conference following the meeting of the Governing Council. The projections for the individual countries will be published on the European Central Bank's website two weeks later. A more detailed analysis of the outlook for the Italian economy, including any updates made necessary by changes in the external environment or by new data, will be presented in the forthcoming *Economic Bulletin* of the Bank of Italy, to be published on 15 July.

The projections are affected by the weak international environment, due above all to the slowdown in the emerging economies, in line with the latest assessments of international organizations (see the box 'Technical assumptions'). Highly expansionary monetary conditions, the fiscal stance, and persistently low oil prices continue to support growth.

In this scenario, growth in Italy is driven mainly by domestic demand. In the first quarter of this year GDP increased by 0.3 per cent, a slightly faster pace than at the end of 2015; the latest information suggests similar growth in the current quarter. On an annual basis, GDP is expected to increase by 1.1 this year and slightly accelerate to 1.2 per cent in both 2017 and 2018. This assessment is in line with that of the leading international organizations. Growth estimates have been revised downwards with respect to the projections published in the *Economic Bulletin* in January 2016 mainly as a result of weakening global economic activity. Domestic demand will be driven by rising consumption, buoyed by steadily improving labour market conditions, and by the recovery in investment, which should benefit from favourable financial conditions and, this year, from incentives for capital spending introduced in the last Stability Law.

Employment is expected to strengthen thanks to a gradual firming up of economic activity and the introduction of measures to support labour demand. It is estimated that total employment will increase by around 2 per cent over the three-year projection horizon (and by almost 2.5 per cent in the private sector). An improvement in employment prospects should also expand labour supply by more than half a percentage point cumulatively over the three years. The unemployment rate is expected to fall gradually to 10.8 per cent in 2018 (more than 1 percentage point less than in 2015).

Inflation should remain nil on average this year and then gradually increase (to 0.9 per cent in 2017 and 1.5 per cent in 2018), reflecting the contribution of both imports and domestic prices, driven mainly by the cyclical recovery in profit margins. The consumer price index, net of energy, is projected to rise by 0.6 per cent in 2016, 1.0 per cent in 2017, and 1.5 per cent in 2018.

The main factors of uncertainty weighing on this scenario are of a global nature: the continued weakness of the emerging economies and a less florid recovery in the advanced ones could put a brake on international trade for longer than expected; if geopolitical tensions worsen, volatility on the financial markets and in risk premiums could increase sharply. Conversely, the measures planned by the Government in the 2016 Economic and Financial Document could lead to stronger growth in the domestic components, but it will only be possible to estimate their effects when details of the single measures are published.

Table – Macroeconomic projections for the Italian economy
(percentage changes on previous year, unless otherwise indicated)

		June 2016			January 2016		
	2015	2016	2017	2018	2016	2017	2018
GDP (1)	0.6	1.1	1.2	1.2	1.5	1.4	-
Household consumption	0.9	1.5	1.4	1.1	1.6	1.4	-
Government consumption	-0.7	0.2	-0.5	-0.4	0.6	-0.3	-
Gross fixed capital formation	0.6	2.9	2.7	2.3	2.7	2.2	-
Total exports	4.1	2.3	4.2	4.1	3.9	5.6	-
Total imports	5.8	4.1	4.8	3.8	4.7	5.1	-
Change in stocks (2)	0.5	0.1	0.0	0.0	0.1	0.0	-
Consumer prices (HICP)	0.1	0.0	0.9	1.5	0.3	1.2	-
HICP net of energy and food	0.7	0.7	1.0	1.5	0.7	0.9	-
Employment	0.8	0.7	0.7	0.7	0.9	1.1	-
Unemployment rate (3)	11.9	11.4	11.1	10.8	11.1	10.7	-

Sources: Based on Bank of Italy and Istat data.
(1) For GDP and its components, quarterly data adjusted for seasonal and calendar effects (2) Contribution to GDP growth in percentage points; (3) Annual averages, per cent.

Chart 1
GDP
(quarterly data; percentage changes on corresponding period; 4-term moving averages)

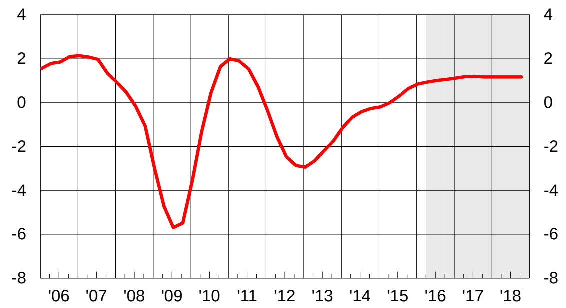
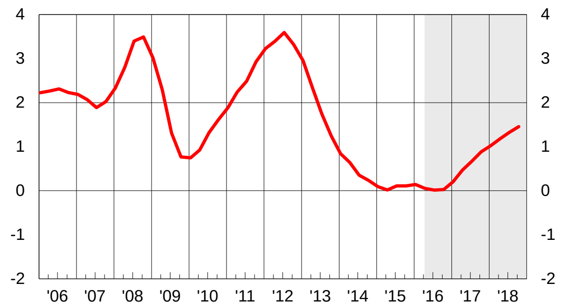


Chart 2
Harmonized index of consumer prices
(quarterly data; percentage changes on corresponding period; 4-term moving averages)



THE ASSUMPTIONS

The underlying assumptions have been agreed within the context of the Eurosystem staff macroeconomic projection exercise (see *A guide to Eurosystem staff macroeconomic projection exercises*, https://www.ecb.europa.eu/pub/pdf/other/staffprojectionsguideen.pdf). The technical assumptions for exchange rates, commodity prices and interest rates reflect market developments in the ten working days to 11 May.

The scenario assumes a still weak international environment in 2016 that will strengthen gradually in the following two years. It incorporates the measures contained in the Stability Law for 2016, in particular property tax relief and incentives for capital investment, and it takes account of the public finance policy framework contained in the 2016 Economic and Financial Document.

Assumptions for the main exogenous variables

		2015	2016	2017	2018
Weighted foreign demand	(1)	3.2	2.7	4.0	4.3
Dollar/Euro	(2)	1.11	1.13	1.14	1.14
Nominal effective exchange rate	(1), (3)	4.4	-0.3	-0.1	0.0
Foreign manufactured goods prices	(1)	-0.9	0.1	1.1	1.1
Crude oil price	(4)	52.4	43.4	49	51.4
Three-month Euribor rate	(2)	0.0	-0.3	-0.3	-0.3
Interest rate (BTP average)	(2)	1.2	1.0	1.4	1.9

(1) Percentage changes; (2) Annual averages; (3) Positive changes indicate depreciation; (4) Dollars per barrel (Brent)