BANCA D'ITALIA
EUROSISTEMA

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

7 June 2019

This note sets out the macroeconomic projections for Italy for the three years 2019-21 prepared by staff members of the Bank of Italy as part of the Eurosystem coordinated exercise. The projections for the euro area were released on 6 June at the press conference following the meeting of the ECB Governing Council. The projections for the individual countries will be published on the ECB's website two weeks later.

As agreed in the Eurosystem exercise, the projections are based on information available at 15 May (for the technical assumptions) and at 22 May (for other data). They do not, therefore, take account of the slight downward revision of GDP growth in the first quarter reported by Istat on 31 May in relation to the preliminary data of 30 April. A more detailed analysis of the outlook for the Italian economy, including any necessary updates, will be provided as usual in the Bank of Italy's forthcoming *Economic Bulletin*, due out on 12 July 2019.

The projections presented here incorporate the marked weakening of international conditions observed at the start of this year and assume a slow and gradual improvement over the next two years, in line with the assessments of the leading forecasters. The structure of interest rates on government securities and the price of crude oil is based on market developments in the ten working days up to 15 May. In accordance with the guidelines of the Eurosystem and as is the case for the European Commission's projections, the forecasting scenario does not incorporate the effects of the increase in indirect taxes envisaged under the safeguard clauses for the two years 2020-21 or of alternative measures to offset the loss in tax revenues.[1]

Based on these assumptions, Italy's economy will resume a moderate pace of growth in the second half of this year. Working-day adjusted GDP will increase by 0.3 per cent this year, by 0.7 per cent in 2020 and by 0.9 per cent in 2021.[2] Compared with our previous macroeconomic projections published in January's *Economic Bulletin*, the growth estimate is down by 0.3 percentage points this year, by 0.2 points in 2020 and by 0.1 points in 2021. The revision mainly reflects the greater weakness of foreign demand observed in recent months and the continuing deep uncertainty expressed in the business surveys.

The two main contributions to GDP growth are expected to come from household consumption, boosted by fiscal policy measures to support disposable income, and exports, which are expected to grow in line with foreign demand. By contrast, growth in private investment is expected to be weak, curbed by the uncertainty surrounding the outlook for demand and the gradual increase in funding costs. Investment in productive capital is expected to contract in the two years 2019-20 and to be virtually stagnant in 2021. Employment is expected to expand slightly, above all in the first two years, reflecting in part the greater numbers of people exiting the labour market under the new early retirement arrangements which, in line with past patterns, will only partly be offset by new hires.

Inflation growth is expected to remain moderate and recover gradually. Consumer prices are projected to rise by 0.8 per cent on average this year, by 1.0 per cent in 2020, and by 1.5 per cent in 2021. Core inflation, still weak this year, will gradually gain pace in the next two years, driven by a

[1] The Government has expressed its intention to replace these clauses in the future with alternative measures; nevertheless, the latest Economic and Financial Document does not go into any further details. The effect of these alternative measures on the macroeconomic situation will depend on both their composition and the repercussions on investors' expectations and therefore on interest rates.
[2] Without the working-day adjustment, GDP growth would be 0.1 percentage point higher in 2020.

progressive strengthening of wage dynamics. Compared with our previous projections published last January, inflation has been revised downwards by 0.2 percentage points this year, by 0.3 points next year and by 0.1 points in 2021, reflecting a more prolonged weakness of the core component and less favourable demand conditions.

The risks surrounding these growth projections are elevated. They stem from continuing tensions about international trade policy, which could accentuate the weakness of the global economy and affect exports and firms' propensity to invest. In Italy, they stem from conditions on the financial markets, which could be adversely affected by an increase in uncertainty about the outlook for fiscal policy and could lead to less favourable funding conditions for firms.

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

		June 2019			January 2019		
	2018	**2019**	**2020**	**2021**	**2019**	**2020**	**2021**
GDP (1)	0.7 (*)	0.3	0.7	0.9	0.6	0.9	1.0
Household consumption	0.6	0.5	0.8	0.8	0.6	1.0	0.9
Government consumption	0.2	-0.4	0.0	0.0	0.3	0.0	-0.2
Gross fixed capital formation	3.2	-0.5	0.3	0.9	0.6	0.2	0.8
of which: in machinery, equipment and transport equipment	4.0	-2.0	-1.1	0.2	-0.3	-1.2	0.5
in construction	2.2	1.4	2.0	1.7	1.8	1.8	1.1
Total exports	1.4	2.7	2.8	3.4	3.0	3.3	3.5
Total imports	1.8	1.4	2.7	3.0	2.8	2.5	2.5
Change in stocks (2)	-0.1	-0.3	0.0	0.0	-0.1	0.0	0.0
Consumer prices (HICP)	1.2	0.8	1.0	1.5	1.0	1.3	1.6
HICP net of energy and food	0.6	0.6	1.0	1.5	0.8	1.2	1.5
Employment	0.8	0.2	0.2	0.6	0.4	0.6	0.7
Unemployment rate (3)	10.6	10.5	10.6	10.4	10.3	10.3	10.0

Sources: Based on Bank of Italy and Istat data. Projections for Italy included in the Eurosystem exercise published on 6 June and containing the data available on 22 May. The estimates do not therefore incorporate the national accounts data released by Istat on 31 May, in which GDP growth in the first quarter was revised downwards to 0.1 per cent (from 0.2 per cent in the preliminary estimate of 30 April).

(1) For GDP and its components, the quarterly data have been adjusted for seasonal and working-day effects. Without this adjustment, the projected GDP growth is 0.3 per cent this year, 0.8 per cent in 2020 and 0.9 per cent in 2021. – (2) Contributions to GDP growth, per cent. (3) Annual averages, per cent.

Figure 1
Gross domestic product
(quarterly data; percentage changes on the corresponding period; 4-term moving averages)

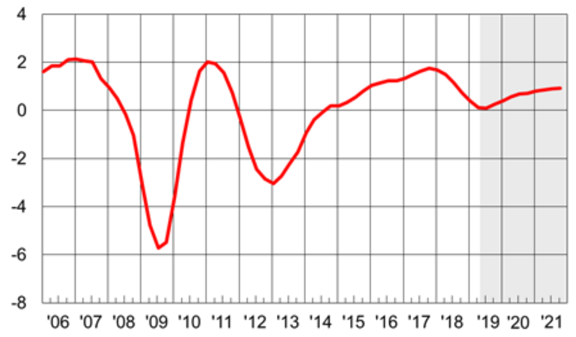
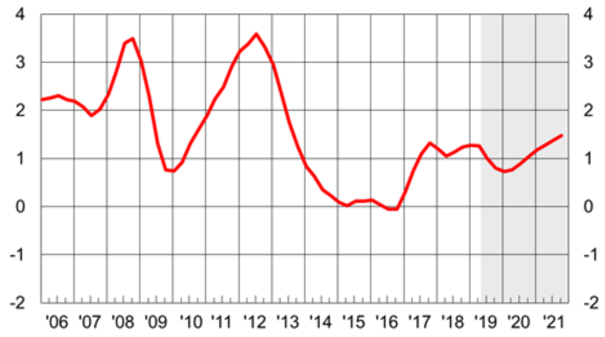


Figure 2
Harmonized index of consumer prices.
(quarterly data; percentage changes on the corresponding period; 4-term moving averages)



THE ASSUMPTIONS

The assumptions underlying the outlook have been agreed as part of the Eurosystem staff macroeconomic projection exercises (see *A guide to Eurosystem/ECB staff macroeconomic projection exercises*, available at: https://www.ecb.europa.eu/pub/pdf/other/staffprojectionsguide201607.en.pdf). The technical assumptions for exchange rates, commodity prices and interest rates reflect market developments observed in the ten working days to 15 May.

The scenario incorporates the public finance measures set out in the budget for the three years 2019-21. In accordance with the Eurosystem guidelines and, as is the case for the European Commission's latest projections, it does not include the increase in indirect taxes envisaged under the safeguard clauses for the two years 2020-21.

Assumptions for the main exogenous variables

		2018	2019	2020	2021
Weighted foreign demand	(1)	3.3	2.0	2.9	3.2
Dollar/Euro	(2)	1.18	1.12	1.12	1.12
Nominal effective exchange rate	(1), (3)	-1.4	1.7	0.0	0.0
Foreign manufactured goods prices	(1)	2.0	2.4	2.4	2.1
Crude oil price	(4)	71.1	68.1	65.8	62.7
Three-month Euribor rate	(2)	-0.3	-0.3	-0.3	-0.1
Interest rate (BTP average)	(2), (5)	1.9	2.2	2.7	3.1

(1) Percentage changes. – (2) Annual averages. – (3) Positive changes indicate depreciation. – (4) Dollars per barrel (Brent). – (5) Duration: 6.5 years.