BANCA D'ITALIA
EUROSISTEMA

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

13 December 2019

This note sets out the projections for Italy for the four years 2019-22 prepared by staff members of the Bank of Italy as part of the Eurosystem staff macroeconomic projections. The projections for the euro area were released on 12 December 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 exercises, the projections are based on information available at 19 November (for the technical assumptions) and at 25 November (for the other data).[1] A more detailed analysis of the outlook for the Italian economy, including any updates that become necessary in the meantime, will be provided as usual in the Bank of Italy's forthcoming *Economic Bulletin*, due out on 17 January 2020.

The macroeconomic outlook presented here assumes a very gradual strengthening of world trade, after the hiatus observed this year. The structure of interest rates and that of crude oil prices are based on market developments in the ten working days up to 19 November. This implies a lower return on 10-year government bonds than in July's projections (around 50 basis points in 2019 and 90 basis points in the two years 2020-21), thanks to the more expansionary monetary policy and the reduction in sovereign risk premiums. In accordance with the guidelines of the Eurosystem, the forecasting scenario does not incorporate the effects of the increase in indirect taxes envisaged under the safeguard clauses for the two years 2021-22.

The central projection puts average GDP growth at 0.2 per cent in Italy this year, rising gradually in the three subsequent years to 0.5 per cent in 2020, 0.9 per cent in 2021, and 1.1 per cent in 2022 (Figure 1).[2] Compared with the previous projections published in July's *Economic Bulletin*, this estimate is marginally higher for 2019, reflecting the more favourable information available for the first nine months of the year. It is slightly lower in 2020 and in 2021, due to the effects of the weaker international outlook, mostly, but not entirely, offset by the stimulus stemming from lower interest rates.

Household expenditure and investment in capital goods are expected to contribute to GDP growth, driven by favourable lending conditions; growth in investment is nonetheless projected to remain more moderate than that observed in the last three years, reflecting heightened uncertainty over the outlook for demand. Exports are set to expand in line with the moderate increase in foreign demand for Italian products. Employment is projected to rise on average at a slightly slower pace than GDP.

Inflation is expected pick up gradually in the next three years (Figure 2). Consumer prices are projected to rise by 0.6 per cent on average this year, 0.7 per cent in 2020, 1.1 per cent in 2021 and 1.3 per cent in 2022. Core inflation will remain low this year and the next, before gradually rising in the two subsequent years, driven by progressively stronger wage growth and higher profit margins. Compared with our previous projections published in July, inflation has been revised downwards by

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[1] Accordingly, the projections do not incorporate the national accounts data for the third quarter of this year published by Istat on 29 November. However, the data did confirm the provisional GDP growth estimate for the same period released on 31 October (up 0.1 per cent on the second quarter).

[2] The annual data are obtained based on the quarterly data adjusted for seasonal and calendar effects published in Istat's national quarterly accounts. Without this adjustment, GDP growth would be 0.1 percentage points higher in 2020 and 0.1 points lower in 2022.

0.1 percentage points in 2019, 0.2 points in 2020 and 0.3 points in 2021, mainly as a result of lower commodity prices.

The principle risks surrounding these projections remain those associated with global uncertainty, trade tensions and developments in the economies of our main European partners, which could affect our exports and propensity to invest in business, and those associated with any new episodes of financial volatility.

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

	December 2019				July 2019		
	2019	**2020**	**2021**	**2022**	**2019**	**2020**	**2021**
GDP (1)	0.2	0.5	0.9	1.1	0.1	0.8	1.0
Household consumption	0.5	0.8	0.7	0.8	0.4	0.9	0.9
Government consumption	0.2	0.3	0.5	0.4	-0.2	0.3	-0.1
Gross fixed capital formation	3.1	0.4	1.6	2.1	1.3	0.8	1.8
of which: in machinery, equipment and transport equipment	2.8	0.5	1.5	2.3	-1.3	-0.7	1.1
in construction	3.4	0.3	1.7	1.9	4.5	2.5	2.5
Total exports	2.6	1.7	2.5	2.7	2.7	2.8	3.4
Total imports	0.8	2.0	2.3	2.5	0.7	2.6	3.3
Change in stocks (2)	-1.3	-0.1	0.0	0.0	-1.0	0.0	0.0
Consumer prices (HICP)	0.6	0.7	1.1	1.3	0.7	0.9	1.4
HICP net of energy and food	0.5	0.7	1.1	1.3	0.6	0.9	1.3
Employment	0.5	0.4	0.6	0.7	0.5	0.3	0.6
Unemployment rate (3)	10.0	9.7	9.6	9.4	10.2	10.2	10.0

Sources: Based on Bank of Italy and Istat data. Projections for Italy included in the Eurosystem exercise published on 12 December and containing the data available at 19 November (for the technical assumptions) and at 25 November (for the other data). The estimates do not therefore incorporate the national accounts data released by Istat on 29 November.
(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 0.6 per cent in 2020, 0.9 per cent in 2021 and 1.0 per cent in 2022. – (2) Contributions to GDP growth, per cent. (3) Annual averages, per cent.

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

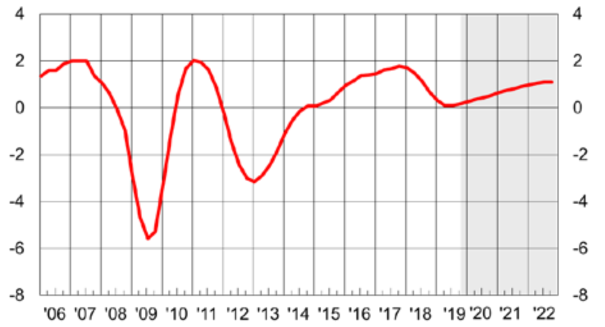
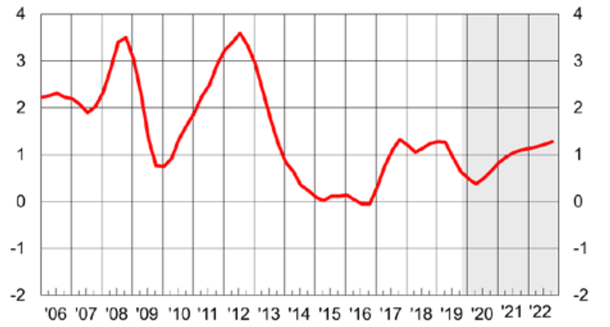


Figure 2
Harmonized index of consumer prices
(quarterly data; percentage changes on corresponding period; 4-term moving averages)



THE ASSUMPTIONS

The underlying assumptions have been agreed 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 in the ten working days to 19 November.

The scenario incorporates the public finance measures set out in the budget for the three years 2020-2022. 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 2021-22.

Assumptions for the main exogenous variables

		2019	2020	2021	2022
Weighted foreign demand	(1)	1.3	1.7	2.6	2.7
Dollar/Euro	(2)	1.12	1.10	1.10	1.10
Nominal effective exchange rate	(1), (3)	0.9	0.2	0.0	0.0
Foreign manufactured goods prices	(1)	1.1	1.5	1.6	1.6
Crude oil price	(4)	63.8	59.6	57.4	56.8
Three-month Euribor rate	(2)	-0.4	-0.4	-0.4	-0.3
Interest rate (BTP 10 years)	(2)	1.9	1.5	1.8	2.0

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