# Macroeconomic projections for the Italian economy (Eurosystem staff macroeconomic projections)

17 December 2021

This note sets out the projections for Italy for the four years 2021-24 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 16 December following the meeting of the ECB Governing Council.[1]

As agreed for the coordinated exercise, the projections are based on information available at 25 November (for the technical assumptions) and at 1 December (for other data). A more detailed analysis of the forecasting scenario for the Italian economy, including any new information that becomes available in the intervening period, will be provided as usual in the Bank of Italy's Economic Bulletin, due out on 21 January 2022.

The Italian economy staged a very strong recovery in the second and third quarter of 2021, thanks to a successful vaccination campaign and the resulting easing of the containment measures. In the current quarter and in the first quarter of 2022, economic activity will be affected by the impact of the resurgence of the pandemic and tensions in the global supply chains. The projections presented here assume that the current phase marked by a rise in the number of infections will continue in the coming weeks, but will not lead to a significant tightening of the restrictions on mobility, and will gradually fade in the early months of 2022 thanks to the further increase in vaccination coverage rates. It is assumed that, over the forecasting horizon, the growth in foreign demand for goods produced in Italy, estimated at almost 9 per cent this year, will remain robust (around 5 per cent on average in the next three years) and monetary, financial and credit access conditions will continue to be relaxed.

Under these assumptions, GDP will return to strong growth next spring, in conjunction with the expected improvement in the coronavirus situation, and will regain pre-pandemic levels by mid-2022. GDP growth is subsequently expected to remain robust, though less so than that recorded during the rebound in production that followed the reopening of the economy in 2021. The macroeconomic scenario points to GDP growth in Italy equal to 6.2 per cent on average this year, 4.0 per cent in 2022, 2.5 per cent in 2023, and 1.7 per cent in 2024 (Table 1 and Figure 1).

Substantial support to economic activity is being provided by fiscal policy and the measures set out in the National Recovery and Resilience Plan (NRRP). We estimate that the support measures introduced over the course of this year and those laid out in the draft budget law and in the NRRP could raise GDP by a total of about 5 percentage points over the four years 2021-24, of which more than 2 percentage points ascribable to the measures set out in the NRRP.

Compared with the projections published in last July's Economic Bulletin, the recovery in GDP is markedly stronger in 2021, thanks to the strong rebound recorded in the last two quarters, which exceeded expectations especially in the spring months; the recovery was revised slightly downwards for 2022, owing to the slowdown projected in the final part of this year, and upwards for 2023, when it is expected to benefit from the impact of further fiscal policy stimulus measures.

[1] ECB, 'Eurosystem staff macroeconomic projections for the euro area', December 2021.

**Table 1– Macroeconomic projections for the Italian economy**
*(percentage changes on previous year unless otherwise indicated)*

| | December 2021 | | | | July 2021 | | |
|---|---|---|---|---|---|---|---|
| | **2021** | **2022** | **2023** | **2024** | **2021** | **2022** | **2023** |
| GDP (1) | 6.2 | 4.0 | 2.5 | 1.7 | 5.1 | 4.4 | 2.3 |
| Household consumption | 5.1 | 4.6 | 2.2 | 1.5 | 3.3 | 5.6 | 2.2 |
| Government consumption | 1.0 | 1.9 | -0.0 | -0.3 | 2.2 | -1.9 | 0.6 |
| Gross fixed investment | 15.6 | 5.5 | 6.1 | 3.3 | 15.2 | 8.7 | 5.0 |
| of which: Investment in capital goods | 11.4 | 7.6 | 7.2 | 4.8 | 11.6 | 8.2 | 7.6 |
| Investment in construction | 20.6 | 3.2 | 4.9 | 1.7 | 19.5 | 9.3 | 2.2 |
| Total exports | 12.4 | 4.8 | 6.0 | 3.6 | 11.0 | 6.5 | 3.2 |
| Total imports | 12.6 | 5.2 | 6.6 | 3.4 | 12.9 | 7.7 | 3.7 |
| Consumer prices (HICP) | 1.9 | 2.8 | 1.5 | 1.7 | 1.5 | 1.3 | 1.3 |
| HICP net of energy and food | 0.8 | 0.9 | 1.4 | 1.6 | 0.5 | 0.6 | 1.1 |
| Employment (hours worked) | 6.9 | 4.0 | 2.0 | 1.3 | 5.0 | 4.1 | 2.5 |
| Employment (persons employed) | 1.0 | 1.5 | 1.0 | 1.3 | -0.7 | 1.6 | 1.8 |
| Unemployment rate (2) | 9.5 | 9.0 | 8.9 | 8.7 | 10.5 | 10.3 | 9.9 |

Sources: Based on Bank of Italy and Istat data. Forecasting scenario for Italy included in the projections for the euro area published by the ECB on 16 December, based on information available at 25 November (for the technical assumptions) and at 1 December (for other data).
(1) For GDP and its components, changes estimated on the basis of quarterly data adjusted for seasonal and calendar effects. – (2) Annual averages, per cent.

The growth in household consumption, strong this year, is projected to remain robust next year and to continue in the following two years, thanks to the stimulus measures, the improvement in employment, and the gradual reduction in the uncertainty connected to the course of the pandemic, which is expected to lead to a return of the propensity to save to the lower levels recorded before the pandemic. Followings its sharp rise this year, investment is expected to continue to expand rapidly, driven by the measures set out in the NRRP and the favourable financing conditions. Exports are projected to grow at a slightly faster rate than foreign demand, supported by gains in competitiveness and by the recovery in trade in services, which likely reflects the gradual normalization in international tourist flows.

On the labour market, the number of hours worked is estimated to have risen this year by almost 7 per cent, and is expected to continue to expand in the next three years at a slightly lower rate than GDP, regaining pre-pandemic levels at the end of 2022. The growth in the number of persons in employment, still moderate this year, looks set to strengthen gradually over the next three years.

Consumer prices are projected to grow by 1.9 cent this year and to accelerate to 2.8 per cent in 2022, driven above all by the impact of the increase in the prices of energy products, which is expected to wane around the end of next year. In line with the assumption of a gradual decline in the prices of energy commodities, inflation is projected to decrease to 1.5 per cent in 2023 and to rebound somewhat the following year, to 1.7 per cent, reflecting the gradual acceleration in wages and the reduction in spare capacity.

This scenario is highly dependent on the assumptions made regarding the course of the pandemic and on the impact of the support measures, including those laid out in the NRRP. A worsening in the COVID-19 situation compared with the assumed scenario could lead to increased limitations on mobility and have a negative impact on consumer and business confidence, thereby hampering the recovery in economic activity. Moreover, the projections remain contingent on a full and effective implementation of the measures set out in the NRRP. Further risk factors are linked with the intensity and duration of tensions on the supply side and with the possibility that developments in world growth and trade will be less favourable. Inflation could be higher than projected should energy prices remain at high levels for longer than assumed and should the pass-through of the recent strong increase in consumer prices to wages be greater than anticipated.

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

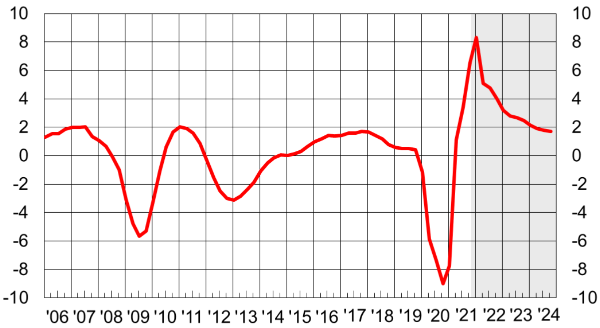
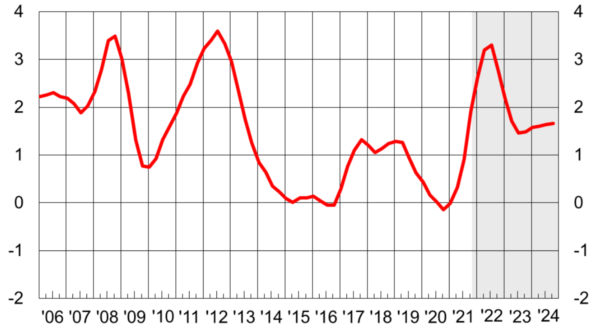



**Figure 2**
**Harmonized index of consumer prices**
*(quarterly data; year-on-year percentage changes; 4-term moving averages)*




## THE ASSUMPTIONS

The underlying assumptions have been agreed as part of the Eurosystem staff macroeconomic projection exercises (see *A guide to the 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 the developments implied by the average market prices observed in the ten working days to 25 November.

The scenario incorporates the measures included in the draft budget law and the use of EU funds under the Next Generation EU programme.

**Assumptions for the main exogenous variables**

| | | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|
| Weighted foreign demand | (1) | -9.9 | 8.6 | 4.8 | 5.4 | 3.5 |
| Dollar/Euro | (2) | 1.14 | 1.18 | 1.13 | 1.13 | 1.13 |
| Nominal effective exchange rate | (1), (3) | -1.5 | -0.8 | 1.2 | 0.0 | 0.0 |
| Prices of foreign manufactures | (1) | -0.3 | 5.0 | 4.2 | 1.3 | 1.6 |
| Crude oil prices | (4) | 42.3 | 71.5 | 77.5 | 72.3 | 69.4 |
| 3-month Euribor | (2) | -0.4 | -0.5 | -0.5 | -0.2 | 0.0 |
| Interest rate (10-year BTPs) | (2) | 1.1 | 0.8 | 1.2 | 1.5 | 1.7 |

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