BANCA D'ITALIA
EUROSISTEMA

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

11 June 2021

This note presents the projections for Italy for the three years 2021-23 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 10 June following the meeting of the ECB Governing Council.

As agreed for the coordinated exercise, the projections are based on information available at 18 May (for the technical assumptions) and at 26 May (for other data).[1] They do not incorporate the data released by Istat on 1 June, in which GDP growth for the first quarter of 2021 was revised upwards by half a percentage point. 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 16 July 2021.

The projections presented here assume that the public health situation will keep improving at national and global level and that the support of monetary and fiscal policy will continue. The following assumptions were made: the vaccination campaign proceeds according to plan, making it possible to lift most restrictions on mobility by the end of 2021; the recovery in world trade will translate into robust growth in foreign demand for goods produced in Italy (assumed equal to 8.8 per cent in 2021 and averaging about 5 per cent the following biennium); and monetary, financial and credit access conditions will continue to be highly accommodative, with long-term yields remaining very low.

Under these assumptions, Italian economic growth is projected to strengthen markedly in the second half of this year, to well-above 4 per cent in 2021 as whole, and to continue to grow at a high rate in the next two years (Table 1 and Figure 1). Pre-pandemic levels of economic activity will likely be regained by the end of next year. As mentioned, this estimate does not incorporate the data on the first quarter released on 1 June, which, if included, would raise GDP growth for 2021 by more than 0.5 percentage points compared with the figure reported in Table 1.

This growth profile is strongly dependent on the effectiveness of the economic support and recovery measures financed through the national budget and using EU funds, including the interventions set out in the National Recovery and Resilience Plan (NRRP).[2] In this scenario, all these measures combined would raise the level of GDP by about 4 percentage points over the three-year forecasting horizon. The effects of the NRRP would account for half of the impact; this reflects the assumption that the interventions, especially investment, will be carried out without major delays and will be effective in supporting the country's production capacity.

Compared with our previous macroeconomic projections published in January's Economic Bulletin, the growth estimates are higher for both 2021 and 2022. The upward revision reflects above all the

[1] The projection incorporates the flash estimate of GDP growth for the first quarter that was released on 30 April (-0.4 per cent); therefore, it does not take into consideration the national accounts data released by Istat on 1 June, in which GDP growth was revised upwards (to 0.1 per cent) for the first quarter of 2021 and, to a very small extent, for the earlier quarters. Overall, the revisions entail a carry-over effect on growth in the current year that is more than half a percentage point higher than that implied in the data released on 30 April and included in the projections presented here. As is the case for other economic data made available after 26 May, these revisions will be included in the projections that will be published in the Economic Bulletin of 16 July.

[2] The projections take into account the interventions provided for in the 2021 Budget Law, in Decree Law 41/2021 ('Support Decree') and in Decree Law 59/2021 ('Complementary Fund to the National Recovery and Resilience Plan'); they also incorporate measures consistent with those of Decree Law 73/2021 ('Support Decree-*bis*') and the assumption formulated based on information provided in the NRRP with respect to the measures funded by the EU.

stimulus from the additional support measures introduced by the Government in recent months and updated information about the use of EU funds that were included in the NRRP recently submitted to the European Commission.

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

		June 2021			January 2021		
	2020	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**
GDP (1)	-8.9	4.4 (*)	4.5	2.3	3.5	3.8	2.3
Household consumption	-10.7	3.7	5.3	2.0	3.2	3.1	1.9
Government consumption	1.6	1.5	-1.4	0.8	-0.9	1.4	0.5
Gross fixed capital formation	-9.2	13.8	9.3	4.8	10.1	11.2	5.2
of which: in capital goods	-11.4	11.3	10.4	7.8	8.6	13.9	7.0
in construction	-6.6	16.8	8.0	1.4	11.9	7.9	3.0
Total exports	-14.5	11.0	6.5	3.4	9.8	4.5	3.3
Total imports	-13.1	12.0	7.7	3.8	9.0	6.6	3.6
Consumer prices (HICP)	-0.1	1.3	1.2	1.3	0.7	0.8	1.1
HICP net of energy and food	0.5	0.6	0.7	1.1	0.2	0.5	0.9
Employment (hours worked)	-11.2	5.4	3.9	2.5	5.3	3.6	2.2
Employment (persons employed)	-2.8	-1.2	1.8	1.9	-0.9	1.7	1.3
Unemployment rate (2)	9.3	10.2	9.9	9.5	10.5	10.0	9.5

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 10 June, based on information available at 18 May (for the technical assumptions) and at 26 May (for other data).
(*) The projections do not incorporate the national accounts data released by Istat on 1 June. If they were included, they would raise the GDP growth estimate for 2021 by more than half a percentage point compared with the figure reported here.
(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.

In these projections, the economic recovery is driven above all by investment, which expands considerably owing to the decreasing uncertainty about the demand outlook (as confirmed by the latest Bank of Italy surveys), the favourable financing conditions, and support from the measures planned under the NRRP. Consumption returns to growth more gradually, with the saving rate on a downward trend compared with 2020, but still above pre-pandemic levels. The recovery in exports, in line with developments in foreign demand, is driven by trade in goods, while the recovery in international tourist flows appears to be more gradual.

In the labour market, the return to growth is reflected in a similar increase in the number of hours worked, which is set to regain pre-pandemic levels in 2023. The number of persons in employment, which in 2020 had decreased more moderately thanks to the measures introduced to support employment, will likely start to grow again in the current quarter. It looks set to return to 2019 levels by the end of the three-year forecasting horizon, following a reduction of 1.2 per cent on average in the current year, which reflects the fall already recorded in the first quarter.

After the slight decrease in prices in 2020, inflation will likely return positive, as the global economy starts up again, commodity prices rise and spare capacity is progressively reabsorbed, but looks set to remain moderate, at 1.3 per cent this year and at similar levels over the next two years.

The main elements of uncertainty surrounding these projections are in connection with the course of the pandemic and the effectiveness and quality of the support policies. The degree of success of the vaccination campaign, both at national and global level, will have a significant impact on expectations, consumption, and the pace of private investment. The estimates presented here assume that there will be no significant delays in the implementation of the projects set out in the NRRP and of public investment. Such delays would hamper the recovery. Conversely, more favourable developments could occur if the quality of the interventions were to ensure a more rapid increase in the confidence about the impact of the NRRP projects on the economy's potential output.

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

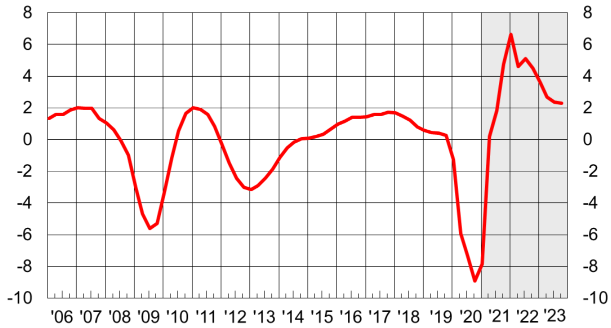
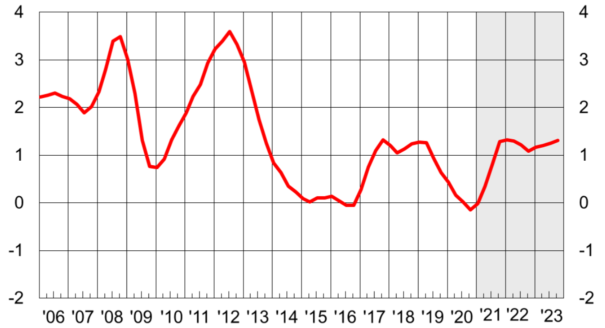


Figure 2
Harmonized index of consumer prices
(quarterly data; percentage changes on corresponding period; 4-term moving averages)



THE ASSUMPTIONS

The underlying assumptions have been agreed as part of the Eurosystem staff macroeconomic projection exercise (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 18 May.

The scenario takes into account the measures included in the 2021 Budget Law, in Decree Law 41/2021 ('Support Decree') and in Decree Law 59/2021 ('Complementary Fund to the National Recovery and Resilience Plan'); it also incorporates measures consistent with those of Decree Law 73/2021 ('Support Decree-*bis*') as well as an assumption on the use of EU funds under the Next Generation EU programme, based on information provided in the NRRP.

Assumptions for the main exogenous variables

		2020	2021	2022	2023
Weighted foreign demand	(1)	-10.0	8.8	5.9	3.4
Dollar/Euro	(2)	1.14	1.21	1.21	1.21
Nominal effective exchange rate	(1), (3)	-1.5	-1.2	0.0	0.0
Prices of foreign manufactures	(1)	-0.2	2.9	1.3	0.8
Crude oil prices	(4)	42.3	65.8	64.6	61.9
3-month Euribor	(2)	-0.4	-0.5	-0.5	-0.3
Interest rate (10-year BTPs)	(2)	1.1	1.0	1.4	1.7

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