2.10 PROJECTIONS

In our baseline scenario, GDP is set to grow by 0.7 per cent this year, 0.8 per cent next year, and 1.0 per cent in 2025. Inflation is projected to stand at 6.1 per cent this year on average and to fall to 2.4 per cent in 2024 and 1.9 per cent in 2025. The macroeconomic outlook, which has deteriorated significantly since the second quarter, will continue to be affected by the tightening of monetary and financial conditions and the weakness in global trade going into next year. The risks to growth are tilted to the downside, while the inflation outlook is balanced.

The assumptions underlying the new projections are less favourable than those made for the July projections

Compared with the macroeconomic situation in July, the current scenario incorporates a weakening in foreign demand, higher oil prices over the projection horizon and a further tightening of credit access conditions.

The prices of energy commodities are assumed to remain largely stable over the three-year forecast period, at much lower levels than in 2022; only oil prices are expected to exhibit a higher upward trend than in the July update (Table 11). Our scenario also factors in a significant slowdown in global trade this year, with an upturn in 2024 and 2025. In line with market participants' expectations, short-term nominal interest rates are assumed to increase further this year, stabilize next year and decline in 2025, while long-term interest rates are assumed to rise for most of the three-year period. Tighter monetary policy will likely translate into higher funding costs and more stringent conditions for access to credit, as signalled by the latest surveys conducted with banks and businesses (see the box 'Credit supply and demand since the start of monetary policy normalization'). Finally, the scenario considers the budget variance authorization request submitted to Parliament together with the Update to the 2023 Economic and Financial Document (NADEF) and the effects of the use of European funds under the Next Generation EU programme on the basis of the information currently available on the NRRP.

Table 11

The macroeconomic scenario assumptions for the main exogenous variables

	2022	2023	2024	2025
Potential foreign demand (1)	6.7	1.0	3.1	3.0
Dollar/euro (2)	1.05	1.08	1.06	1.06
Nominal effective exchange rate (1) (3)	1.1	-1.6	0.3	0.0
Crude oil prices (2) (4)	100.8	83.8	82.4	77.3
Natural gas prices (2) (5)	123.1	41.1	46.9	44.5
3-month Euribor (2)	0.3	3.4	3.6	3.1
1-year BOT yields (2)	0.9	3.6	3.4	3.1
10-year BTP yields (2)	3.2	4.4	5.1	5.3

Sources: Based on Istat and Refinitiv data as at 6 October.
(1) Percentage changes. – (2) Annual averages of crude oil futures prices at various quarterly maturities. – (3) Positive changes indicate a depreciation. – (4) Dollars per barrel of Brent crude oil. – (5) Euros per megawatt-hour.

GDP growth is projected to slow sharply, to just under 1 per cent

GDP is expected to grow by 0.7 per cent on average in 2023 (3.9 per cent in 2022), by 0.8 per cent in 2024 and by 1.0 per cent in 2025 (Table 12 and Figure 28). Following the unexpected contraction in the second quarter (see Section 2.1), GDP is projected to expand modestly in the second half of this year and at the beginning of next year, and to accelerate slightly starting from the spring of 2024. Growth will likely be affected by the negative effects of tighter financing conditions and weak international trade, which are expected to dampen the positive impulse stemming from the measures provided for under the NRRP and the gradual recovery in household purchasing power.

Inflation is projected to fall significantly in the two years 2024-25

Harmonized consumer price inflation (HICP) is projected to average 6.1 per cent this year (against 8.7 per cent in 2022), and to subsequently decline to 2.4 per cent in 2024 and 1.9 per cent in 2025 (Table 12 and Figure 29). The downtrend mainly reflects a sharp drop in import prices, largely driven by falling energy commodity prices. Inflation excluding food and energy (core inflation) is set to

Table 12

The macroeconomic scenario

(percentage change on previous year unless otherwise indicated)

	October 2023 forecasts				Revisions compared with July 2023		
	2022	2023	2024	2025	2023	2024	2025
GDP (1)	3.9	0.7	0.8	1.0	-0.6	-0.1	0.0
Household consumption	5.0	1.3	0.9	1.0	0.0	-0.3	-0.1
Government consumption	0.7	0.0	0.0	0.5	-1.3	0.2	0.0
Gross fixed investment	10.1	0.5	0.3	1.3	-2.3	0.6	0.7
of which: in capital goods	8.1	3.6	-0.3	1.2	0.1	1.1	0.7
Total exports	10.7	0.4	2.4	3.1	-1.1	-0.4	0.3
Total imports	13.1	1.1	2.3	3.1	1.2	0.2	0.5
Change in stocks (2)	-0.7	0.1	0.1	0.0	1.0	0.1	0.0
Prices (HICP)	8.7	6.1	2.4	1.9	0.1	0.1	-0.1
HICP net of food and energy	3.3	4.6	2.3	1.9	0.1	-0.1	-0.1
GDP deflator	3.0	4.5	2.8	3.7	-0.9	0.2	0.2
Employment (hours worked)	4.5	1.7	0.5	0.6	-0.3	0.0	0.2
Employment (persons employed)	2.5	1.7	0.6	0.5	0.2	0.2	0.2
Unemployment rate (3)	8.1	7.6	7.6	7.6	-0.1	0.0	0.0
Current account of the balance of payments (4)	-1.5	0.3	0.8	1.2	-1.4	-1.4	-1.4

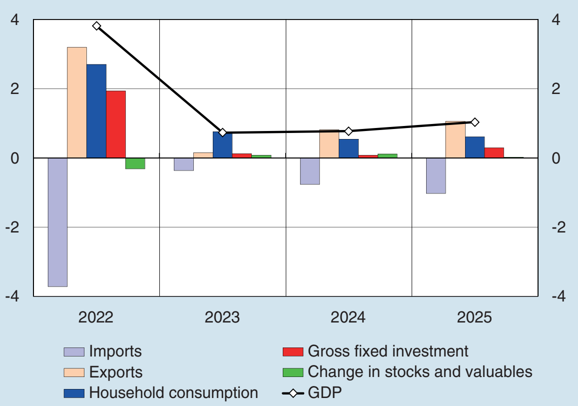
Sources: Based on Bank of Italy and Istat data. Forecasts for Italy, based on the data available at 6 October for the technical assumptions and at 10 October for the cyclical data.
(1) For GDP and its components: chain-linked volumes; changes estimated on the basis of quarterly data adjusted for seasonal and calendar effects. – (2) Includes valuables. Contributions to GDP growth; per cent. – (3) Annual average; per cent. – (4) Per cent of GDP.

remain high in 2023 (at 4.6 per cent on average) – mostly fuelled by the gradual pass-through of previous energy price increases – and to progressively slow over the next two years, to 2.3 per cent in 2024 and 1.9 per cent in 2025, thanks to the fall in the cost of intermediate goods and to the weakening in demand. Domestic inflation, as measured by the GDP deflator, is projected to rise to 4.5 per cent in 2023 (from 3.0 per cent in 2022) and to return to just over 3 per cent on average in the following two years. These developments are mostly attributable to trends in unit labour costs.

Figure 28

GDP growth and the contributions of the main demand components and imports (1)

(annual data; percentage changes and points)

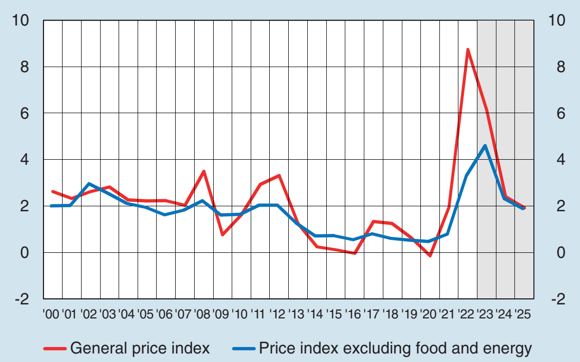


Sources: Based on Bank of Italy and Istat data.
(1) Adjusted for seasonal and calendar effects.

Figure 29

Consumer price inflation (1)

(annual data; percentage changes on the previous period)



Sources: Based on Bank of Italy and Istat data.
(1) HICP. The shaded area shows forecast data.

Labour demand is likely to display weak growth

Growth in hours worked and in headcount employment looks set to moderate considerably in the second half of this year and to subsequently continue at a slower pace than GDP growth. The unemployment rate is expected to remain stable at 7.6 per cent over the three-year period, just below the average level for 2022 (8.1 per cent).

Consumption spending is set to grow slightly

Consumption is expected to continue to expand – supported by the progressive reduction in inflation and the gradual strengthening of wage growth – albeit at a slower pace than in the previous two years (5.1 per cent on average), when it benefited from the normalization of spending patterns following post-COVID reopenings. Household spending is set to grow by around 1 per cent per year throughout the three-year forecasting period. The household saving rate, which was 6.5 per cent in the first half of the year, is projected to increase slightly over the three years, while remaining below the average pre-pandemic level (Figure 30).

Investment is likely affected by the worsening financing conditions

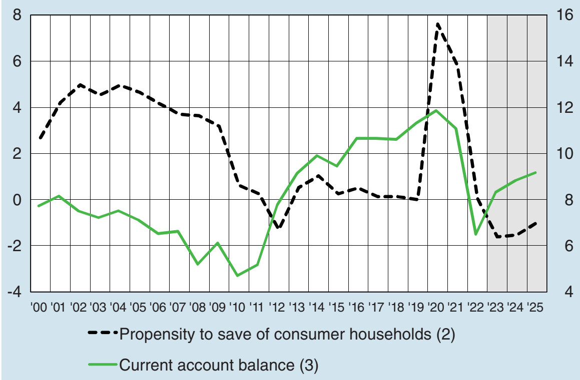
The marked increase in the cost of loans and tighter credit access conditions are projected to weigh significantly on capital accumulation in the two years 2023-24, especially in the private sector, where investment is expected to fall by around 1 percentage point per year. This development is expected to be partly countered by the expansionary impulse of the measures provided for under the NRRP. On average, investment is expected to grow at a barely positive rate this year and the next, to then accelerate slightly in 2025. Overall, the total investment-to-GDP ratio is projected to decline slightly over the three-year period, remaining at a historically high level (Figure 31).

The current account balance is expected to improve, mainly because of the smaller energy balance deficit

Exports will likely be affected by the sharp slowdown in foreign demand this year and accelerate in the next two years, to rates just below 3 per cent per year on average. Imports are projected to grow at a pace comparable to that of exports. The current account, which returned to surplus this year thanks to a significant reduction in the energy balance, is expected to rise further in the next two years (see the box 'The energy balance: recent developments and the outlook for 2023', *Economic Bulletin*, 3, 2023). As a result, Italy's net international investment position is set to strengthen (see Section 2.4).

Figure 30

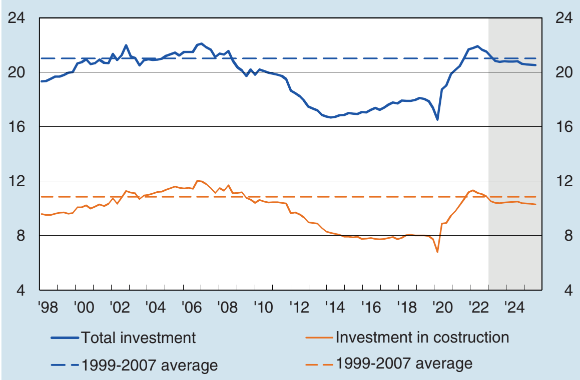
Propensity to save of consumer households and current account balance (1)
(annual data; percentage points)



Sources: Based on Bank of Italy and Istat data.
(1) The shaded area shows forecast data. – (2) Right-hand scale. – (3) Per cent of GDP.

Figure 31

Investment as a percentage of GDP (1)
(quarterly data)



Sources: Based on Bank of Italy and Istat data.
(1) Adjusted for seasonal and calendar effects. The shaded area shows forecast data.

The projections are revised slightly downwards for GDP growth and upwards for inflation

Compared with the projections published in July's *Economic Bulletin*, GDP growth has been revised downwards for 2023 and 2024 and has remained unchanged for 2025. The unexpected negative per-formance in the second quarter of this year is the main factor behind the revision for 2023 (-0.6 percentage points) and, through a carry-over effect, for 2024. Consumer price inflation has been revised upward by 0.1 percentage points for this year and the next and downwards by 0.1 points for 2025. The revisions for the two years 2023-24 stem to a large extent from the increase in energy commodity prices (see Section 1.1).

Table 13

Comparison with other organizations' forecasts for Italy
(percentage change on previous period)

	GDP (1)		Inflation (2)	
	2023	2024	2023	2024
IMF (October)	0.7	0.7	6.0	2.6
OECD (September)	0.8	0.8	6.1	2.5
European Commission (September)	0.9	0.8	5.9	2.9
Consensus Economics (October)	0.7	0.6	6.0	2.5
Bank of Italy (October)	0.7	0.8	6.1	2.4

Sources: IMF, *World Economic Outlook*, October 2023; OECD, *OECD Interim Economic Outlook*, September 2023; European Commission, *European Economic Forecast. Summer 2023 (Interim)*, September 2023; Consensus Economics, *Consensus Forecasts,* October 2023.
(1) The OECD's growth forecasts are adjusted for calendar effects; those of the European Commission and IMF are not. – (2) HICP. Consensus Economics forecasts refer to the consumer price index for the entire resident population (NIC).

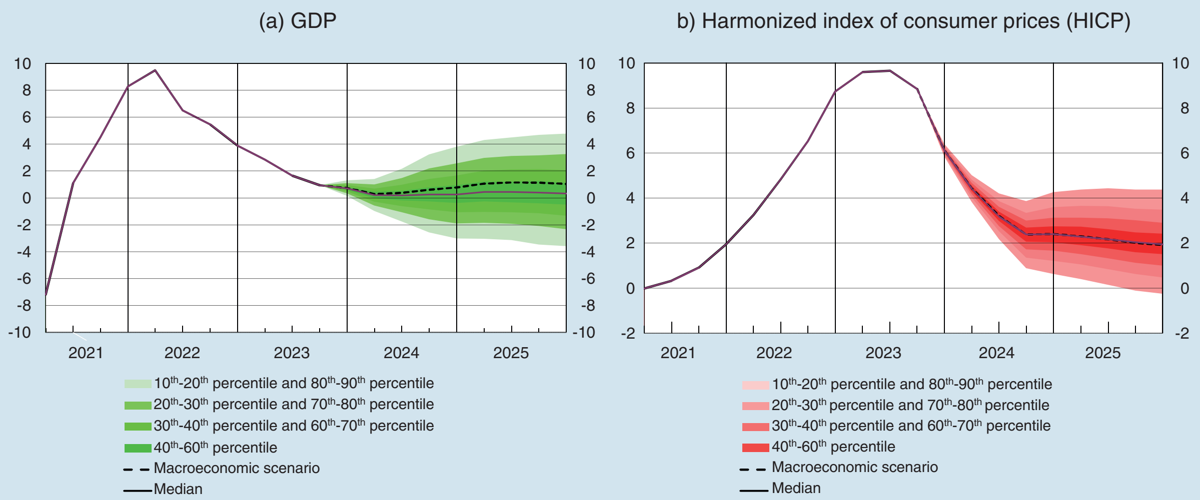
Our growth projections for 2023 and 2024 are close to the most recent estimates of the other leading forecasters (Table 13). Inflation projections differ slightly from those of the other forecasters for 2023 and are slightly lower for 2024.

The risks to growth are tilted to the downside, while the inflation outlook is balanced

The projections continue to be affected by high uncertainty, with risks to growth mainly tilted to the downside (Figure 32.a). International tensions and, in particular, those connected with the conflict in Ukraine and the extremely serious developments following the terrorist attacks in the Middle East constitute a major

Figure 32

Probability distribution of the GDP and HICP forecasts (1)
(year-on-year percentage changes; 4-term moving average)



(1) Calendar adjusted quarterly data. The probability distribution is graphed by percentile groups using fan charts, based on stochastic simulations made via random extractions from the shock distribution of the Bank of Italy's quarterly econometric model. The distribution takes account of asymmetric shocks to the equations that reflect the main risk factors according to the procedure described in C. Miani and S. Siviero, '*A non-parametric model-based approach to uncertainty and risk analysis of macroeconomic forecasts*', Banca d'Italia, Temi di Discussione (Working Papers),758, 2010. The value corresponding to the fourth quarter of each year coincides with the average annual percentage change.

risk factor for global cyclical conditions, which could also be affected by weaker growth in the Chinese economy (see the box 'The crisis in China's real estate sector and the potential effects on the global economy'). Another element of uncertainty is the impact of a tightening of credit supply conditions in Italy and in the euro area as a whole, which could become more pronounced, with negative repercussions on the investment and consumption outlook. Conversely, the risks to inflation are balanced (Figure 32.b). Developments in energy and food commodity prices remain exposed to upside risks as a result of possible supply tensions on global markets; moreover, the pass-through of the fall in energy prices from the exceptionally high levels recorded in 2022 to the prices of other goods and services may be more gradual and partial compared with historical trends. Downside risks are instead associated with a more marked and lasting deterioration in aggregate demand than that incorporated in our scenario.