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

15 December 2023

This note presents the projections for Italy for the four years 2023-26 prepared by staff members of the Bank of Italy as part of the Eurosystem coordinated exercise. The projections for the euro area were published on the ECB's website on 14 December.

As agreed for the coordinated exercise, the projections are based on information available at 23 November (for the technical assumptions) and at 30 November (for other data).[1]

The scenario presented here assumes that geopolitical uncertainty will continue to have limited repercussions on the economy and will not cause significant tensions on the international commodity and financial markets. The exercise assumes that international trade will start growing again in the next three years, by about 3 per cent on average, and that, based on futures contracts, energy prices will decrease slightly over the forecasting horizon. The macroeconomic outlook is affected by tighter monetary and credit conditions for firms and households stemming from the sharp rise in monetary policy interest rates. The scenario incorporates the effects of the budgetary provisions for 2024-26 and takes into account the use of EU funds under the Next Generation EU programme, based on the most up-to-date information relating to the National Recovery and Resilience Plan (NRRP).

Following the slight increase recorded in the summer months of 2023, the latest cyclical indicators suggest that GDP is stagnating in the current quarter and will gradually return to growth from the beginning of next year, supported by the recovery in disposable income and in foreign demand. GDP is projected to increase by an annual average of 0.7 per cent in 2023, 0.6 per cent in 2024 and 1.1 per cent in 2025 and 2026 (Table 1 and Figure 1).[2]

Compared with the projections published last October, GDP growth has been revised downwards for 2024, in line with indications that cyclical conditions will remain weak for longer than expected, and upwards for 2025, mainly because of the effects of market-based assumptions of slightly lower interest rates over the forecasting horizon.

Household consumption is expected to expand at a slightly faster pace than GDP over the next three years, benefiting from the recovery in household purchasing power. Investment is projected to slow markedly, held back in the private sector by the rise in funding costs, tighter credit access conditions and the fading impact of the construction incentives; in contrast, the boost from measures provided for under the NRRP will increase. Exports are projected to expand in line with the performance of foreign demand. Imports will increase at a slightly slower pace, owing to the weak investment expenditure on capital goods, which have a high import content.

Employment, which expanded strongly in 2023, is expected to continue to grow, though at around half the pace of GDP. The unemployment rate is projected to decline slowly, to just under 7.5 per cent in 2026.

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[1] The scenario considers the preliminary inflation estimate for November but does not include the quarterly accounts estimate published on 1 December, in which Istat revised GDP growth for the third quarter slightly upwards (to 0.1 per cent). The revision had a negligible impact on the annual average growth estimates presented in these projections.

[2] The annual figure is obtained based on the quarterly data, adjusted for seasonal and calendar effects, published by Istat. If this adjustment is not considered, GDP growth is projected to be 0.6 per cent in 2023, 0.8 per cent in 2024, 1.0 per cent in 2025 and 1.2 per cent in 2026.

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

	December 2023				October 2023		
	2023	**2024**	**2025**	**2026**	**2024**	**2025**	**2026**
GDP (1)	0.7	0.6	1.1	1.1	0.7	0.8	1.0
Household consumption	1.3	0.9	1.2	1.1	1.3	0.9	1.0
Government consumption	-0.3	-0.1	0.6	-0.7	0.0	0.0	0.5
Gross fixed capital formation	0.5	-0.1	1.5	1.8	0.5	0.3	1.3
of which: in capital goods	3.7	-0.9	1.3	2.0	3.6	-0.3	1.2
in construction	-2.5	0.6	1.7	1.7	-2.4	1.0	1.4
Total exports	0.5	2.1	3.0	3.2	0.4	2.4	3.1
Total imports	1.0	2.0	3.0	2.8	1.1	2.3	3.1
Consumer prices (HICP)	6.0	1.9	1.8	1.7	6.1	2.4	1.9
HICP net of energy and food	4.5	2.2	1.9	1.8	4.6	2.3	1.9
	5.2	2.1	1.8	1.7	4.8	2.8	2.0
Employment (hours worked)	1.7	0.3	0.6	0.5	1.7	0.5	0.6
Employment (persons employed)	1.9	0.8	0.4	0.4	1.7	0.6	0.5
Unemployment rate (2)	7.7	7.7	7.6	7.4	7.6	7.6	7.6

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 14 December, based on information available at 23 November (for the technical assumptions) and at 30 November (for other data).
(1) For GDP and its components, changes estimated on the basis of quarterly data adjusted for seasonal and calendar effects. Without this adjustment, the projected GDP growth is 0.6 per cent in 2023, 0.8 per cent in 2024, 1.0 per cent in 2025 and 1.2 per cent in 2026. – (2) Annual averages, per cent.

Consumer price inflation is projected to average 6.0 per cent this year and to decrease sharply afterwards, to less than 2 per cent on average throughout the next three-year period (Figure 2). This reduction reflects above all the sharp drop in the prices of commodities and intermediate products, only partly offset by the acceleration in wages (which are expected to grow by about 3.5 per cent per year on average in the three years 2024-26). Core inflation is projected to decrease at a slower pace, consistently with the gradual pass-through of the lower cost of intermediate inputs to final prices.

Compared with the projections published last October, consumer price inflation has been revised downwards for the entire three-year period 2023-25, and especially for 2024 (-0.5 percentage points), reflecting the swifter decline in energy prices and the more pronounced slowdown in the core component underscored by the latest data.

These projections are surrounded by high uncertainty, with risks to growth mainly tilted to the downside. The geopolitical context is still one of the main factors of instability, which may trigger further rises in the prices of energy commodities and a deterioration in the confidence of households, firms and investors. There are also non-negligible risks linked to developments in global economic activity, which could be more greatly affected by the difficult outlook for the Chinese economy and by the uncertainty stemming from international tensions. GDP could also be held back by a more marked worsening in financing conditions, partly in connection with the higher riskiness of borrowers. The risks to inflation are more balanced. Upward pressures could come from further increases in commodity prices. Conversely, the possibility of a deterioration of the international situation and of monetary tightening having a stronger impact than estimated in the baseline scenario could result in a slowdown in wages, profit margins and consumer price inflation.

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

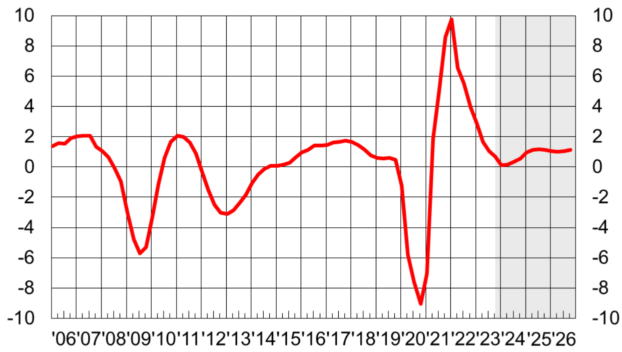
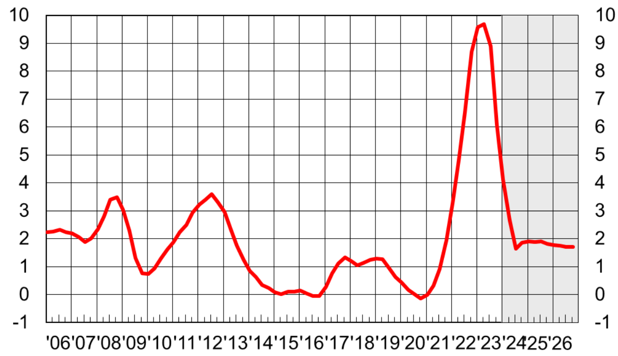


Figure 2
Harmonized index of consumer prices
(quarterly data; year-on-year percentage changes; 4-term moving averages)



THE ASSUMPTIONS

The assumptions underlying the scenario 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 as at 23 November.

The scenario takes account of the budgetary provisions for 2024-26 and of the use of EU funds under the Next Generation EU programme on the basis of the information currently available on the NRRP.

Assumptions for the main exogenous variables

		2023	2024	2025	2026
Weighted foreign demand	(1)	0.1	2.3	3.0	3.0
Dollar/Euro	(2)	1.08	1.08	1.08	1.08
Nominal effective exchange rate	(1), (3)	-2.0	-0.4	0.0	0.0
Prices of foreign manufactures	(1)	3.4	2.5	2.6	2.4
Crude oil prices	(2), (4)	83.2	79.3	75.7	72.8
Natural gas prices	(2), (5)	41.5	47.4	44.2	36.9
3-month Euribor	(2)	3.4	3.5	2.8	2.7
Interest rate (10-year BTPs)	(2)	4.3	4.4	4.6	4.8

(1) Percentage changes. – (2) Annual averages. – (3) Positive changes indicate a depreciation. – (4) Dollars per barrel of Brent crude oil. – (5) Euros per megawatt-hour.