BANCA D'ITALIA
EUROSISTEMA

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

16 June 2023

This note presents the projections for Italy for the three years 2023-25 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 15 June.

As agreed for the coordinated exercise, the projections are based on information available on 23 May (for the technical assumptions) and on 31 May (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 14 July 2023.

The scenario presented assumes that the tensions connected to the conflict in Ukraine will not cause further problems in the supply of commodities; in line with this, commodity prices are expected to remain broadly stable over the three-year forecast period at much lower levels than those of 2022. Conversely, the macroeconomic outlook is affected by the tighter monetary and credit conditions for firms and households. The scenario incorporates the measures included in the Decreto Lavoro ('Labour Decree') and takes account of the interventions funded 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 strong recovery in the first quarter of 2023 (0.6 per cent), GDP is expected to grow moderately over the rest of the three-year forecast period, curbed by the effects of worsening financing conditions. GDP is projected to increase by an annual average of 1.3 per cent in 2023, 1.0 per cent in 2024 and 1.1 per cent in 2025[1] (Table 1 and Figure 1).

Compared with the projections published in January, GDP growth has been revised upwards for 2023, thanks to a better than expected performance in the first quarter, and downwards for the two years 2024-25, mainly owing to a more marked deterioration in financial conditions.

Following the fall recorded at end-2022, household consumption is expected to expand moderately over the three-year forecast period, at a similar pace to GDP. Investment is projected to slow markedly, held back in the private sector by the rise in funding costs and by tighter credit access conditions; in contrast, the boost from public investment will increase, thanks to interventions under the NRRP. Residential construction spending should increase further this year, benefiting from some remaining support measures for this sector, but will then stagnate in the following two years. Exports are projected to expand at low rates over the three years, in line with the performance of foreign demand. Imports will grow to a lesser extent, owing to the weakness in the demand for investment in capital goods with a high import content. The contribution of net foreign demand to GDP growth is likely to remain positive over the three-year forecast period.

In the labour market, the number of hours worked, which increased considerably in the first quarter, should continue to grow over the rest of the three years 2023-25, at a slower pace than GDP. The number of people in work is projected to increase to a lesser extent. The unemployment rate is projected to fall gradually, to around 7.5 per cent at the end of 2025.

[1] The annual figure is obtained based on the quarterly data adjusted for seasonal and calendar effects published in Istat's national quarterly accounts. If this adjustment is not considered, GDP growth is expected to be 0.1 percentage points lower in 2023 and in 2025, and 0.2 points higher in 2024.

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

			June 2023			January 2023	
	2022	**2023**	**2024**	**2025**	**2023**	**2024**	**2025**
GDP (1)	3.8	1.3	1.0	1.1	0.6	1.2	1.2
Household consumption	4.6	1.3	1.2	1.1	1.6	0.7	0.9
Government consumption	0.0	1.4	0.3	0.8	-1.0	0.4	1.3
Gross fixed capital formation	9.7	3.0	0.0	0.9	2.9	1.6	1.0
of which: in capital goods	7.3	3.6	-1.0	0.8	3.1	3.1	2.3
in construction	12.2	2.4	1.0	1.0	2.7	0.2	-0.3
Total exports	10.2	1.7	2.8	2.7	1.8	3.3	2.8
Total imports	12.5	-0.1	2.1	2.4	4.1	2.4	2.4
Consumer prices (HICP)	8.7	6.1	2.3	2.0	6.5	2.6	2.0
HICP net of energy and food	3.3	4.6	2.4	2.0	3.8	2.6	2.2
	7.4	5.4	2.3	2.0	4.8	2.8	2.0
Employment (hours worked)	3.5	2.0	0.5	0.5	0.5	0.6	0.8
Employment (persons employed)	2.5	1.4	0.3	0.3	0.4	0.5	0.7
Unemployment rate (2)	8.1	7.9	7.8	7.8	8.2	7.9	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 15 June, based on information available on 23 May (for the technical assumptions) and at 31 May (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 1.2 per cent in 2023 and 2024 and 1.0 per cent in 2025. – (2) Annual averages, per cent.

Consumer price inflation is equal to 6.1 per cent on average this year and is expected to decrease to 2.3 per cent next year and to 2.0 per cent in 2025 (Figure 2). This reduction appears mainly to reflect the sharp drop in the contribution of the most volatile components, in connection with the fall in commodity prices. Core inflation is projected to remain high throughout the year and then to decline over the next two years, in line with a gradual pass-through of lower energy costs.

Compared with the projections published last January, consumer price inflation has been revised downwards by about 0.3 percentage points this year and the next, mainly because of the decline in energy prices, which has been swifter than expected at that time.

These projections are surrounded by high uncertainty, with risks to growth mainly skewed to the downside. The conflict in Ukraine is still one of the main factors for instability, which may trigger further rises in the prices of energy commodities and a deterioration in the confidence of households and firms. There are also non-negligible risks linked to the evolution of global economic activity, which could be more greatly affected by the effects of the monetary tightening under way in the advanced economies, resulting in lower foreign demand for Italian goods and services. In Italy, GDP could also be held back by a more marked tightening in credit supply conditions. The risks to inflation are balanced. Upward pressures could come from further increases in commodity prices and also because the pass-through of the fall in energy prices to the prices of other goods and services could be significantly slower and less marked than in the past. Conversely, the possibility of a greater and longer-lasting deterioration in aggregate demand could translate into inflation being lower than projected.

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

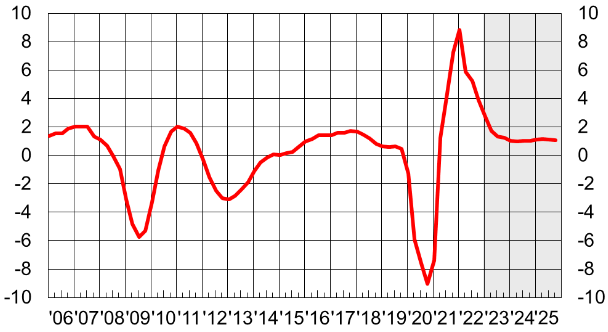
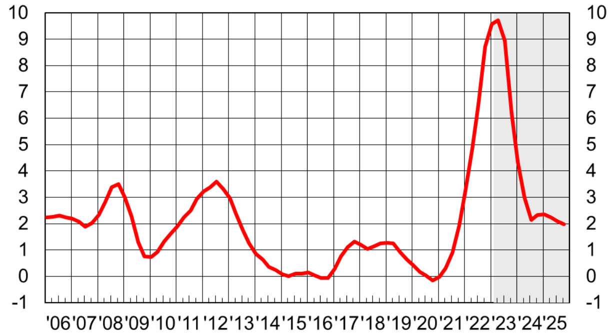


Figure 2
Harmonized index of consumer prices
(quarterly data; percentage changes on the corresponding period; 4-term moving averages)



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)](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 May.

The scenario incorporates the measures included in the Decreto Lavoro ('Labour Decree') and takes account of the use of European funds from the Next Generation EU programme, based on up-to-date information on the NRRP.

Assumptions for the main exogenous variables

		2022	2023	2024	2025
Weighted foreign demand	(1)	6.7	1.5	3.2	3.1
Dollar/Euro	(2)	1.05	1.08	1.09	1.09
Nominal effective exchange rate	(1), (3)	1.1	-1.7	0.0	0.0
Foreign manufacturers' prices	(1)	13.6	5.1	2.9	2.5
Crude oil prices	(2), (4)	100.8	76.5	71.2	69.0
Natural gas prices	(2), (5)	123.1	42.4	51.9	46.5
3-month Euribor	(2)	0.3	3.4	3.4	2.9
Interest rate (10-year BTPs)	(2)	3.1	4.3	4.5	4.7

(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.