Macroeconomic projections for the Italian economy

5 April 2024

This note presents the macroeconomic projections for Italy for the three years 2024-26 prepared by staff members of the Bank of Italy.[1] The key findings are as follows.

- Italy's GDP is projected to grow by 0.6 per cent in 2024, 1.0 per cent in 2025 and 1.2 per cent in 2026. Economic activity stands to benefit from the recovery in foreign demand and in households' purchasing power, but still tight financing conditions and reduced incentives for residential building renovation are expected to weigh on investment.[2]
- Inflation is projected to fall sharply in 2024, to 1.3 per cent, mainly as a result of lower energy and intermediate goods prices. Absent this, and with rising wages, inflation is set to pick up slightly over the following two years, to 1.7 per cent.

The forecasting scenario presented here assumes that the international situation, while uncertain, will not cause significant tensions on energy and financial markets. Potential demand from Italy's key export markets is assumed to return to growth over the three-year period, expanding by around 2.5 per cent on average per year. Based on futures contracts, energy prices will edge down over the forecasting horizon. Borrowing costs for households and firms are set to remain high this year, before declining gradually over the next two years.[3]

GDP growth is estimated to remain muted in 2024 and to accelerate later, thanks to the recovery in disposable income and in foreign demand. GDP is projected to increase by an annual average of 0.6 per cent in 2024, 1.0 per cent in 2025 and 1.2 per cent in 2026 (Table 1 and Figure 1). Compared with the projections published last December, GDP growth remains broadly unchanged, as the positive impact of more favourable assumptions on commodity prices and interest rates is likely to be largely offset by a sharper slowdown in construction following the phasing out of incentives for improving buildings' energy efficiency.

After plummeting in late 2023, household consumption is estimated to have returned to growth in the first quarter and is projected to continue to rise afterwards, at slightly higher rates than GDP, buoyed by the recovery in purchasing power. Investment is projected to slow sharply, hampered by higher funding costs, tighter credit standards and reduced incentives for building renovation. The combined effect of these factors should be partly offset by the boost from NRRP measures. Exports are projected to expand in line with trends in foreign demand, while imports will grow at a slower pace, owing to the weakness in investment expenditure. The current account balance of payments, which returned to surplus as early as last year, is set to improve further, to close to 2 per cent of GDP in 2026.

Employment, which rose strongly in 2023, is expected to continue to grow, though at a slower pace than GDP. The unemployment rate is projected to decline slowly, to 7.4 per cent in 2026, i.e. more than 5 points below its peaks following the debt crisis a decade ago.

Consumer price inflation, which averaged 5.9 per cent in 2023, is projected to fall sharply this year, to 1.3 per cent, and to pick up over the next two years, while remaining below 2 per cent (Figure 2). According to our estimates, the significant decline in inflation in 2024 will mainly reflect the negative contribution of intermediate goods and energy prices, which will only partly be offset by the

[1] These projections have not been prepared as part of a Eurosystem coordinated exercise, unlike those published in June and December.
[2] The estimates are based on quarterly data adjusted for seasonal and calendar effects. Without the latter adjustment, GDP growth would be 0.8 per cent in 2024, 0.9 percent in 2025 and 1.3 per cent in 2026.
[3] The projections are based on information available at 22 March (for the technical assumptions) and at 29 March (for other data).

acceleration in wage growth (around 3.5 per cent per year on average in 2024-26). Core inflation is projected to drop to 2 per cent on average this year and to decline further over the next two years.

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

		April 2024			December 2023		
	2023	**2024**	**2025**	**2026**	**2024**	**2025**	**2026**
GDP (1)	1.0	0.6	1.0	1.2	0.6	1.1	1.1
Household consumption	1.2	0.1	1.3	1.3	0.9	1.2	1.1
Government consumption	1.2	0.5	-0.5	-0.2	-0.1	0.6	-0.7
Gross fixed capital formation	4.9	1.3	0.0	0.3	-0.1	1.5	1.8
of which: in capital goods	6.3	2.1	2.6	1.3	-0.9	1.3	2.0
in construction	3.5	0.6	-2.5	-0.8	0.6	1.7	1.7
Total exports	0.5	2.2	2.9	3.1	2.1	3.0	3.2
Total imports	-0.2	-0.2	2.2	2.3	2.0	3.0	2.8
Current account of the balance of payments (2)	0.5	0.9	1.3	1.8	1.1	1.1	1.3
Consumer prices (HICP)	5.9	1.3	1.7	1.7	1.9	1.8	1.7
HICP net of energy and food	4.5	2.0	1.7	1.7	2.2	1.9	1.8
Employment (hours worked)	2.7	1.0	0.6	0.5	0.3	0.6	0.5
Employment (persons employed)	1.9	0.9	0.4	0.5	0.8	0.4	0.4
Unemployment rate (3)	7.6	7.5	7.5	7.4	7.7	7.6	7.4

Sources: Based on Bank of Italy and Istat data. Forecasting scenario for Italy based on information available on 22 March (for the technical assumptions) and at 29 March (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 0.8 per cent in 2024, 0.9 percent in 2025 and 1.3 per cent in 2026. – (2) Per cent of GDP. - (3) Annual averages, per cent.

Compared with the projections published last December, consumer price inflation has been revised downwards, especially for 2024, mainly reflecting a swifter-than-expected decline in energy prices, particularly for gas.

The risks to growth are tilted to the downside. Lower growth could occur should weakness in global trade persist, owing to the uncertainty that surrounds China's economic recovery and to a potential surge in international political tensions. In addition, the impact of monetary tightening may be stronger than expected and weigh more heavily on domestic demand. Lastly, the phasing out of incentives for residential building renovation could lead to a sharper-than-expected correction in construction.

The risks to inflation are balanced. Upward pressures could materialize if a surge in global tensions were to cause further increases in commodity and intermediate goods prices. Conversely, the possibility of a deterioration in the international situation and of monetary tightening having a stronger impact than expected could result in less favourable trends in demand, with downside effects on wages, profit margins and consumer price inflation.

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

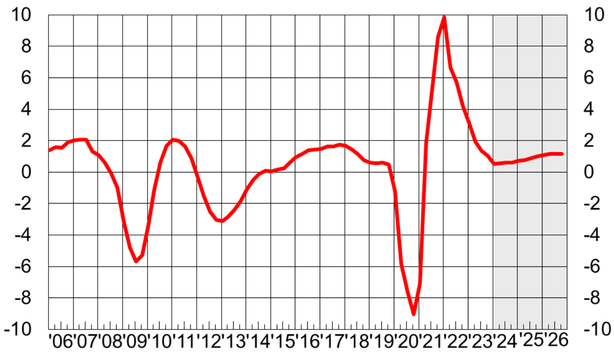
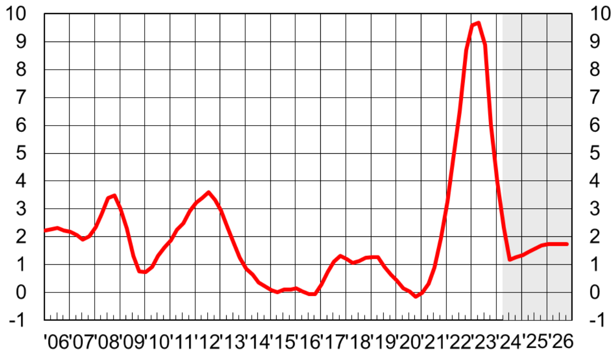


Figure 2
Harmonized index of consumer prices
(quarterly data; year-on-year percentage changes; 4-term moving averages)



THE ASSUMPTIONS

The technical assumptions for exchange rates, commodity prices and interest rates underlying the scenario reflect the developments implied by the average market prices as at 22 March. The scenario takes into account the budgetary provisions for 2024-26 and the use of EU funds under the Next Generation EU programme, based on the information currently available on the NRRP.

Assumptions for the main exogenous variables

		2023	2024	2025	2026
Weighted foreign demand	(1)	0.1	1.7	3.1	3.1
Dollar/Euro	(2)	1.08	1.09	1.09	1.09
Nominal effective exchange rate	(1), (3)	-2.0	-0.2	-0.1	0.0
Prices of foreign manufactures	(1)	3.4	1.8	2.0	2.1
Crude oil prices	(2), (4)	83.2	84.1	77.9	74.3
Natural gas prices	(2), (5)	41.5	28.7	31.2	29.0
3-month Euribor	(2)	3.4	3.5	2.5	2.3
Interest rate (10-year BTPs)	(2)	4.3	3.7	3.9	4.0

(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.