

MACROECONOMIC PROJECTIONS FOR THE ITALIAN ECONOMY

(EUROSYSTEM STAFF MACROECONOMIC PROJECTIONS)

13 December 2024

This note presents the projections for Italy for the four years 2024-27 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 12 December. The key findings are as follows.

- Italy's GDP is projected to grow by 0.5 per cent in 2024¹ and to accelerate in the following three years, at an annual average rate of around 1 per cent, driven by the recovery in consumption and exports (Table 1 and Figure 1). Investment is expected to be held back by the reduction in incentives for residential building renovation but is projected to benefit from the implementation of the projects under the National Recovery and Resilience Plan (NRRP) and the gradual decline in financing costs.
- Inflation is projected to remain low, at 1.1 per cent on average this year, 1.5 per cent in the next two years, and 2.0 per cent in 2027. The fading of the strong negative contribution of the energy component and, in 2027, the temporary effects of the entry into force of the EU Emission Trading System 2 (ETS2) legislation will likely be the main drivers of the rise in inflation. Core inflation is projected to be just over 2 per cent on average this year and to decline to just over 1.5 per cent in the next three years, when the pressures stemming from the increase in labour costs are expected to be largely absorbed by profit margins.

As agreed for the coordinated exercise, the projections are based on information available at 20 November (for the technical assumptions) and at 27 November (for other data).

The forecasting scenario assumes that, albeit in a context of high uncertainty, especially with regard to the trade policies of the new US administration, growth in foreign demand will firm up, though at levels well below the average for the 20 years prior to the pandemic. Based on futures contracts, oil prices are expected to decline over the three-year period and natural gas prices to remain broadly stable (see the box 'The assumptions'). Borrowing costs for firms and households look set to decline gradually.

GDP is estimated to have returned to moderate expansion in the current quarter and is projected to grow at a stronger pace starting in the second half of next year, thanks above all to the favourable trends in consumption and the recovery in exports. Compared with last October, the GDP growth projections were revised downwards by around 0.1 percentage points per year, as developments in the second half of 2024 were less favourable than anticipated and as a consequence of the assumptions of lower-than-expected growth in foreign demand and slightly higher-than-expected interest rates.

Following the sharp drop recorded at the end of 2023, consumption turned upwards again as early as in the first quarter of 2024 and is projected to keep growing in the next three years, buoyed by the favourable trends in households' purchasing power and the reduction in interest rates. Investment looks set to slow, owing to the impact of the reduction in residential building renovation incentives, to be only partially mitigated by an increase in spending on infrastructure and by incentives under the National Recovery and Resilience Plan (NRRP).

Exports, which were still weak in the second half of this year, are expected to return to growth next year, at a similar pace to that of foreign demand. Imports are projected to rise at a slower rate, owing

¹ Taking into consideration the national accounts data for the third quarter released by Istat on 2 December, which were not incorporated into this scenario, GDP would increase by 0.7 per cent in non-calendar-adjusted terms.

to the weakness in investment expenditure. The current account of the balance of payments is projected to stabilize at around 1.0 per cent of GDP.

Employment looks set to continue to grow, though at a slower pace than GDP. The unemployment rate, which fell to 6.1 in the summer quarter on average, is expected to remain largely stable over the three years 2025-27.

Consumer price inflation is projected to be 1.1 per cent on average this year and to increase to 1.5 per cent in 2025-26 (Figure 2). In 2027, the extension of the scope of the EU Emission Trading System 2 (ETS2) to cover fuel combustion in buildings and road transport is expected to push up the prices of energy goods, leading to a temporary increase in consumer price inflation, to 2 per cent on average for that year. Core inflation is projected to fall from 2.2 per cent this year to just over 1.5 per cent on average in the three years 2025-27, when it is estimated that the pressures stemming from unit labour costs, which are expected to slow gradually, will largely be absorbed by profit margins.

Compared with the projections published last October, consumer price inflation is essentially unchanged.

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

	December 2024				October 2024		
	2024	2025	2026	2027	2024	2025	2026
GDP (1)	0.5	0.8	1.1	0.9	0.6	1.0	1.2
Household consumption	0.0	1.0	0.9	1.0	-0.1	1.0	1.3
Government consumption	0.4	1.4	1.0	-0.8	0.7	1.5	0.4
Gross fixed capital formation	0.9	-0.5	1.2	0.6	1.2	0.2	0.9
<i>of which:</i> in capital goods	-1.2	2.7	3.6	1.4	-0.8	3.6	2.6
in construction	2.7	-3.3	-1.1	-0.3	3.1	-2.9	-0.8
Total exports	-0.3	1.3	3.2	3.4	-0.3	1.8	3.5
Total imports	-4.1	1.7	3.0	2.6	-4.2	2.2	3.2
Current account of the balance of payments (2)	1.0	0.8	0.8	1.1	1.1	1.2	1.4
Consumer prices (HICP)	1.1	1.5	1.5	2.0	1.1	1.6	1.6
HICP net of energy and food	2.2	1.6	1.5	1.6	2.2	1.6	1.5
Employment (hours worked)	1.7	0.5	0.5	0.6	1.6	0.5	0.9
Employment (persons employed)	1.6	0.5	0.6	0.6	1.7	0.9	0.6
Unemployment rate (3)	6.6	6.1	6.1	6.1	6.7	6.3	6.2

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 12 December, based on information available at 20 November (for the technical assumptions) and at 27 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 and taking into consideration the national accounts data published by Istat on 2 December, which are not included in the scenario, the projected GDP growth would be 0.7 per cent in 2024 and 2025, 1.2 per cent in 2026 and 0.9 per cent in 2027. – (2) Per cent of GDP. – (3) Annual averages, per cent.

The uncertainty surrounding these projections is high and stems mainly from the international situation. A more protectionist stance in trade policies and the persistent tensions connected with the ongoing conflicts could have a negative impact on exports and, through a deterioration in household and business confidence, on domestic demand. Higher inflation could stem from fresh increases in the prices of commodities and other imported goods. Conversely, the possibility of a greater and longer-lasting deterioration in demand could weigh on employment and squeeze wages, profit margins and firms' selling prices.

Figure 1
GDP

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

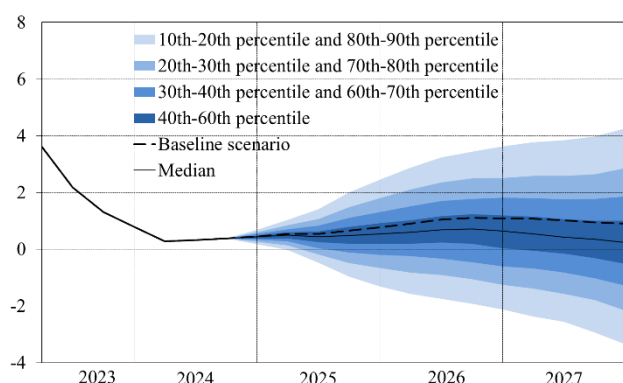
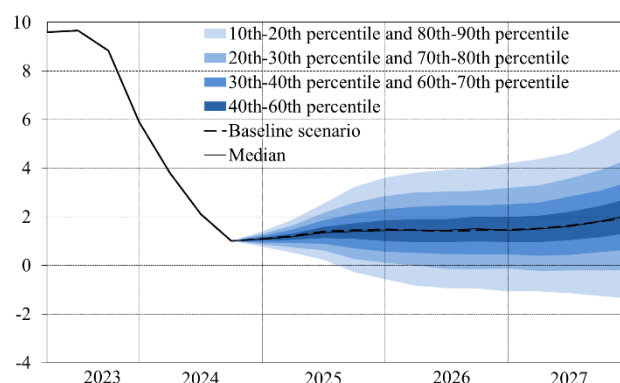


Figure 2

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 market prices as at 20 November.

The scenario takes into account the budgetary provisions for 2025-27 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

		2024	2025	2026	2027
Weighted foreign demand	(1)	1.8	2.8	3.2	3.1
Dollar/Euro	(2)	1.08	1.06	1.06	1.06
Nominal effective exchange rate	(1), (3)	-1.0	0.5	0.0	0.0
Prices of foreign manufactures	(1)	1.3	1.6	2.0	2.0
Crude oil prices	(2), (4)	81.8	71.8	70.1	69.2
Natural gas prices	(2), (5)	34.3	42.9	34.9	29.3
3-month Euribor	(2)	3.6	2.1	2.0	2.2
Interest rate (10-year BTPs)	(2)	3.7	3.6	3.9	4.1

(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.