BANCA D'ITALIA
EUROSISTEMA

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

13 June 2024

This note presents the projections for Italy for the three years 2024-26 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 6 June. The key findings are as follows.

- Italy's GDP is projected to grow by 0.6 per cent in 2024, 0.9 per cent in 2025 and 1.1 per cent in 2026; without adjusting for calendar effects, GDP growth would be 0.8 per cent in 2024 and in 2025 and 1.2 per cent in 2026. Economic activity is expected to benefit from the acceleration in foreign demand and the recovery in disposable income, though the still tight financing conditions and the reduction in incentives for residential building renovation look set to weigh on investment.
- Inflation is projected to reach 1.1 per cent in 2024 and just over 1.5 per cent on average over the next two years. The sharp drop compared with last year appears due above all to the moderation in the prices of energy and intermediate goods. The effects of the acceleration in wages will likely be offset by the decrease in profit margins and the moderate developments in import prices.

As agreed for the coordinated exercise, the projections are based on information available at 15 May (for the technical assumptions) and at 22 May (for other data).[1]

The scenario presented here assumes that the geopolitical uncertainty and the associated tensions on the international financial markets, while remaining high, will not rise further. 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.

GDP growth is estimated to remain moderate in 2024 and to pick up pace from the second half of 2025 onwards, thanks to the recovery in disposable income and in foreign demand. GDP is projected to grow by an annual average of 0.6 per cent in 2024, 0.9 per cent in 2025 and 1.1 per cent in 2026 (Table 1 and Figure 1). Compared with last April, the GDP growth projections are unchanged for this year and 0.1 percentage points lower for both 2025 and 2026, mainly owing to the assumption, implied by market developments, of slightly higher interest rates.

Following the setback recorded at the end of 2023, consumption is expected to turn upwards again starting this year, buoyed by the recovery in households' purchasing power. Investment is projected to slow considerably, hampered by high funding costs and the sharp reduction in incentives for residential building renovation. These factors, and especially the latter, will likely lead to a marked drop in investment in construction, to be only partially mitigated by an increase in spending on infrastructure under the National Recovery and Resilience Plan (NRRP). The measures to encourage private investments provided for under the NRRP are expected to support the growth in the capital goods component, which is projected to continue to expand over the entire three-year period.

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 of the balance of

[1] The scenario does not include the quarterly economic accounts data published by Istat on 31 May, in which the GDP growth carried over from last year was revised slightly upwards. All other things being equal, incorporating these data into the projection scenario would increase the estimated average annual GDP growth for 2024 by 0.1 percentage points.

payments, which had already returned to a surplus last year, is set to improve further, nearing 2 per cent of GDP in 2026.

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

		June 2024			April 2024		
	2023	**2024**	**2025**	**2026**	**2024**	**2025**	**2026**
GDP (1)	1.0	0.6	0.9	1.1	0.6	1.0	1.2
Household consumption	1.2	0.2	1.2	1.3	0.1	1.3	1.3
Government consumption	1.2	0.8	0.3	0.0	0.5	-0.5	-0.2
Gross fixed capital formation	4.9	0.9	-0.2	-0.3	1.3	0.0	0.3
of which: in capital goods	6.3	1.2	3.2	1.1	2.1	2.6	1.3
in construction	3.5	0.6	-3.5	-1.7	0.6	-2.5	-0.8
Total exports	0.5	2.3	3.0	3.2	2.2	2.9	3.1
Total imports	-0.2	-0.7	2.9	2.4	-0.2	2.2	2.3
Current account of the balance of payments (2)	0.5	1.3	1.5	1.8	0.9	1.3	1.8
Consumer prices (HICP)	5.9	1.1	1.5	1.6	1.3	1.7	1.7
HICP net of energy and food	4.5	2.0	1.6	1.7	2.0	1.7	1.7
Employment (hours worked)	2.7	1.3	0.6	0.7	1.0	0.6	0.5
Employment (persons employed)	1.9	1.0	0.3	0.5	0.9	0.4	0.5
Unemployment rate (3)	7.7	7.3	7.3	7.3	7.5	7.5	7.4

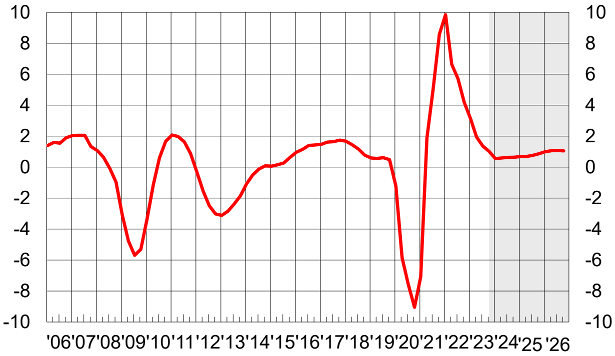
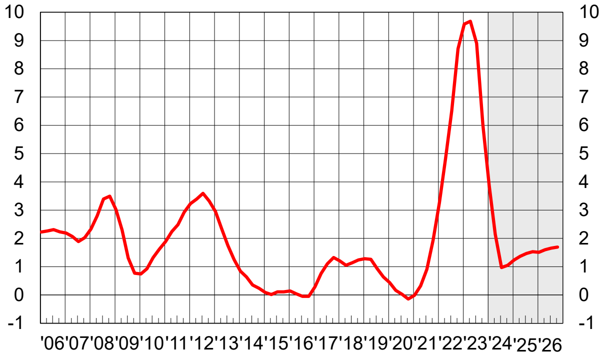
Sources: Based on Bank of Italy and Istat data. Forecasting scenario for Italy included in the projections for the euro area published by the ECB on 6 June, based on information available at 15 May (for the technical assumptions) and at 22 May (for other data).
(1) For GDP and its components, changes estimated on the basis of quarterly data adjusted for seasonal and calendar effects. Without this adjustment, the projected GDP growth is 0.8 percent in 2024 and 2025 and 1.2 percent in 2026. – (2) Per cent of GDP. – (3) Annual averages, per cent.

Employment is expected to continue to grow, though at a slower pace than GDP. The unemployment rate is projected to fall to 7.3 per cent on average in 2024 and to remain stable over the next two years.

Consumer price inflation is projected to remain very low over the whole three-year period, at just over 1 per cent this year and just over 1.5 per cent in 2025 and 2026 (Figure 2). The significant decrease compared with last year appears to reflect above all the moderation in the prices of intermediate and energy goods. Core inflation is projected to fall to 2 per cent on average this year and to decline further over the next two years. The effects of the acceleration in wages will likely be offset, especially this year, by the decrease in profit margins and the moderate developments in the prices of imported goods.

Compared with the projections published last April, consumer price inflation has been revised slightly downwards for this year and the next and, to a lesser extent, for 2026, mainly reflecting a faster-than-expected decline in energy prices and the effects of weaker demand.

Risks to growth are tilted to the downside and stem from the possibility that international trade will grow more slowly and more gradually than expected and that investment growth will weaken more markedly, owing to a more pronounced impact of tighter financial conditions and reduced incentives for housing renovation. The risks to the inflation profile appear balanced overall. Higher price growth could stem from fresh increases in commodity prices. Conversely, the possibility of a greater and longer-lasting deterioration in aggregate demand could translate into pressures in the opposite direction.

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 15 May.

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)	-0.2	1.5	3.3	3.3
Dollar/Euro	(2)	1.08	1.08	1.08	1.08
Nominal effective exchange rate	(1), (3)	-2.5	-0.8	-0.1	0.0
Prices of foreign manufactures	(1)	2.5	1.7	2.2	2.3
Crude oil prices	(2), (4)	83.7	83.8	78.0	74.5
Natural gas prices	(2), (5)	40.6	30.8	35.4	29.9
3-month Euribor	(2)	3.4	3.6	2.8	2.5
Interest rate (10-year BTPs)	(2)	4.3	3.8	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.