BANCA D'ITALIA
EUROSISTEMA

MACROECONOMIC PROJECTIONS FOR THE ITALIAN ECONOMY

11 October 2024

This note describes the macroeconomic projections for Italy for the three years 2024-26 prepared by staff members of the Bank of Italy.[1]

- Our projections confirm for 2024 those previously made, with GDP growth at 0.6 per cent (0.8 per cent without adjusting for working days) and foresee an acceleration over the following two years, during which GDP is expected to grow cumulatively by more than 2 per cent (Table 1 and Figure 1). Economic activity is projected to be supported primarily by consumption, driven by the recovery in real disposable income, and by exports, due to the increase in foreign demand. It should be also affected by weaker investment in housing owing to the reduction in incentives for residential building renovation.
- Inflation is expected to remain low at 1.1 per cent in 2024 and 1.6 per cent in 2025 and 2026. The drop compared with last year largely reflects lower energy prices and intermediate goods costs. The pressures resulting from wage acceleration should be mostly offset by a decline in profit margins and the recovery in productivity.

The forecasting scenario presented here assumes that foreign demand will gradually regain ground and that, despite geopolitical uncertainty, no significant tensions will arise on energy commodity and financial markets. 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 households and firms are set to remain high this year, before falling gradually over the next two years.[2]

Compared with last June, the GDP growth projections are slightly higher for 2025 and 2026, mainly owing to the impact of the expansionary measures set out in the medium-term fiscal-structural plan (MTP) and of the assumption of more favourable financial conditions.

Household consumption, which should remain stagnant on average this year, is projected to rise over the next two years at slightly higher rates than GDP, buoyed by the recovery in purchasing power. Investment is expected to be hampered by financing conditions that remain tight, albeit improving, and by the reduction in incentives for residential building renovation. The measures introduced under the National Recovery and Resilience Plan (NRRP) should continue to provide a boost. Exports are projected to decline this year and to gradually grow again over the next two years, owing to reviving foreign demand. After falling sharply in the first half of this year, imports should rise at the same average rates as exports over the next two years. The current account balance of payments is set to improve further, close to 1.5 per cent of GDP in 2026.

Employment is expected to continue to grow over the three-year horizon at a slower pace than observed in 2023. The unemployment rate, which averaged 7.7 per cent in 2023, is projected to fall to 6.7 per cent on average in 2024 and to 6.3 per cent in the two years following.

Consumer price inflation is projected to remain low, just over 1 per cent this year and around 1.6 over the next two years (Figure 2), thanks to moderation in the prices of intermediate and energy goods. The pressures arising from the acceleration in wages (which are projected to rise by around 3.3 per cent on average in each of the three years 2024-26) should be mostly offset by a decline in profit margins and the recovery in productivity. Core inflation is expected to be just above 2 per cent on average this year and to then fall to headline inflation levels over the next two years. Compared with the projections published last June, consumer price inflation remains essentially unchanged.

[1] These projections have not been prepared as part of a Eurosystem coordinated exercise, unlike those published in June and December.
[2] The projections are based on information available at 4 October.

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

		October 2024			June 2024		
	2023	**2024**	**2025**	**2026**	**2024**	**2025**	**2026**
GDP (1)	0.8	0.6	1.0	1.2	0.6	0.9	1.1
Household consumption	1.0	-0.1	1.0	1.3	0.2	1.2	1.3
Government consumption	1.9	0.7	1.5	0.4	0.8	0.3	0.0
Gross fixed capital formation	8.7	1.2	0.2	0.9	0.9	-0.2	-0.3
of which: in capital goods	2.7	-0.8	3.6	2.6	1.2	3.2	1.1
in construction	14.9	3.1	-2.9	-0.8	0.6	-3.5	-1.7
Total exports	1.1	-0.3	1.8	3.5	2.3	3.0	3.2
Total imports	0.0	-4.2	2.2	3.2	-0.7	2.9	2.4
Current account of the balance of payments (2)	0.0	1.1	1.2	1.4	1.3	1.5	1.8
Consumer prices (HICP)	5.9	1.1	1.6	1.6	1.1	1.5	1.6
HICP net of energy and food	4.5	2.2	1.6	1.5	2.0	1.6	1.7
Employment (hours worked)	2.7	1.6	0.5	0.9	1.3	0.6	0.7
Employment (persons employed)	1.9	1.7	0.9	0.6	1.0	0.3	0.5
Unemployment rate (3)	7.7	6.7	6.3	6.2	7.3	7.3	7.3

Sources: Based on Bank of Italy and Istat data. Forecasting scenario for Italy, based on information available at 4 October.
(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, 0.9 percent in 2025 and 1.3 percent in 2026. – (2) Per cent of GDP. – (3) Annual averages, per cent.

The projections are subject to very high uncertainty at the global level. The weakened Chinese economy, ongoing conflicts in Ukraine and the Middle East, and a possible heightening of international trade tensions could hinder the recovery in world trade and lead to a drop in consumer and business confidence. Domestic demand could also be affected more than had been expected by lingering tightness in monetary and financial conditions, and the progressive reduction in incentives for residential building renovation.

Uncertainty about the inflation profile stems from global tensions, which could lead to further increases in commodity and intermediate goods prices, and, in the opposite direction, from possibly weaker developments in foreign and domestic demand, which could hold back wage growth, profit margins and consumer prices.

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

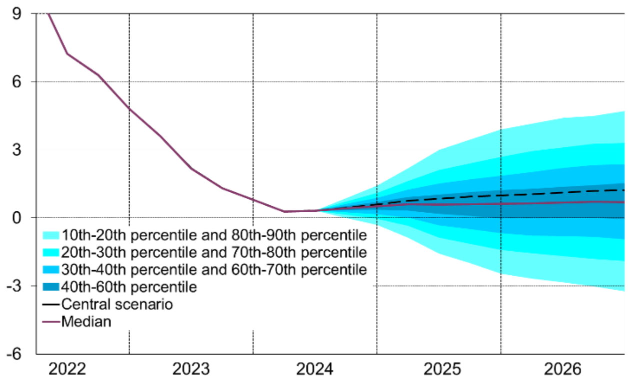
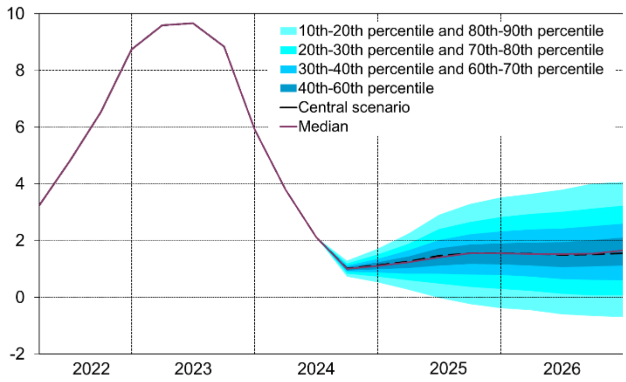


Figure 2
Harmonized index of consumer prices
(year-on-year percentage changes; 4-term moving averages)



THE ASSUMPTIONS

The technical assumptions for exchange rates, commodity prices and interest rates underlying the scenario reflect the developments implied by market prices as at 4 October. The scenario takes into account the information from the medium-term fiscal structural plan 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	1.4	3.1	3.3
Dollar/Euro	(2)	1.08	1.09	1.11	1.11
Nominal effective exchange rate	(1), (3)	-2.5	-0.8	0.0	0.0
Prices of foreign manufactures	(1)	2.5	1.7	2.0	2.0
Crude oil prices	(2), (4)	82.6	80.3	73.4	71.3
Natural gas prices	(2), (5)	40.6	33.9	40.0	34.6
3-month Euribor	(2)	3.4	3.6	2.2	2.1
Interest rate (10-year BTPs)	(2)	4.3	3.7	3.6	3.9

(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.