

MACROECONOMIC PROJECTIONS FOR THE ITALIAN ECONOMY

(EUROSYSTEM STAFF MACROECONOMIC PROJECTIONS)

19 December 2025

This note presents the macroeconomic projections for Italy for the four years 2025-28 prepared by staff members of Banca d'Italia as part of the Eurosystem coordinated exercise. The projections for the euro area were published on the ECB's website on 18 December. The key findings are as follows.

1. According to our estimates, GDP will grow by 0.6 per cent in 2025 and in 2026, by 0.8 per cent in 2027 and by 0.9 per cent in 2028. GDP growth is driven by consumer spending, fuelled by the increase in real disposable income, and investment (Table 1 and Figure 1), which benefits from the measures set out in the National Recovery and Resilience Plan (NRRP). Foreign sales are set to be affected by tighter trade policies in the two years 2025-26 and to return to growth in line with foreign demand over the following two years.
2. Consumer prices are projected to rise by 1.7 per cent in 2025 and 1.4 per cent in 2026, before accelerating to 1.6 per cent in 2027 and 1.9 per cent in 2028. The higher inflation in 2028 reflects the impact of the introduction of the EU's new emissions trading scheme covering greenhouse gases and pollutants ('EU Emissions Trading System 2', ETS2). Inflation excluding food and energy, equal to 1.9 per cent this year, is projected to fall to 1.6 per cent in 2026 and to remain at that level over the following two years.

As agreed for the coordinated exercise, the projections are based on information available at 26 November (for the technical assumptions) and at 2 December (for other data).¹

The scenario takes account of the developments in trade policies in recent months and the resulting reduction in uncertainty, which is expected to continue over the next two years. The tighter trade tariffs, compared with 2024 levels, are assumed to contribute to a marked slowdown in global trade next year. Based on futures contracts, oil and natural gas prices are set to edge down over the three-year period 2026-28 (see the box "The assumptions"). Borrowing costs for firms and households are estimated to stabilize in 2026, before inching up towards the end of the forecasting horizon. Our scenario takes into account the information on public finance made available in the Public Finance Planning Document (DPFP) and the Draft Budgetary Plan (DPB). The scenario assumes that the introduction of the ETS2 legislation will be postponed by one year, to 2028, as proposed by the European Council on 5 November.

GDP growth, which stood at 0.1 per cent in the third quarter, is estimated to pick up slightly starting from the current quarter, driven by domestic demand. In terms of annual average rates, GDP is projected to grow by 0.6 per cent in 2025 and in 2026, by 0.8 per cent in 2027 and by 0.9 per cent in 2028. Compared with last October's projections, these estimates are revised marginally upwards for 2027, mainly on account of slightly higher consumption growth, helped by moderate inflation.

Household consumption is set to accelerate gradually, as purchasing power strengthens and uncertainty declines. Investment is projected to continue to expand, albeit at a more moderate pace, buoyed by NRRP measures and a gradual improvement in demand conditions. Exports are projected to grow at lower rates than weighted foreign demand in 2025 and 2026, reflecting the impact of tighter trade policies and the loss of competitiveness resulting from the appreciation of the euro, before accelerating in 2027 and 2028. Imports are projected to expand throughout the four-year period, driven mainly by demand for capital goods. The contribution of net foreign demand to GDP growth is expected to be

¹ The scenario presented here takes into consideration the national accounts data released by Istat for the third quarter of this year, showing GDP growth of 0.1 per cent on the previous quarter.

negative this year and the next, and virtually nil on average over the two years 2027-28. The current account balance is estimated to increase to 1.3 per cent in 2025 and to remain stable over the next three years.

Employment is projected to expand further over the four-year period, though not as strongly as in recent years. The unemployment rate, standing at just over 6 per cent in 2025, is projected to edge down over the next three years.

Inflation, as measured by the harmonized index of consumer prices (HICP), is projected to average 1.7 per cent this year and 1.4 per cent in 2026, before picking up to 1.6 per cent in 2027 and 1.9 per cent in 2028, when the introduction of the EU's new emissions trading scheme covering greenhouse gases and pollutants ('EU Emissions Trading System 2', ETS2) will temporarily drive energy price inflation higher. Inflation excluding food and energy, estimated at 1.9 per cent on average this year, is projected to fall to 1.6 per cent over the next three years, reflecting more moderate wage pressures and a modest recovery in productivity. Compared with our October projections, inflation estimates are 0.1 percentage points lower for 2026 and 0.3 percentage points lower for 2027, reflecting the EU's decision to postpone the introduction of the ETS2 legislation by one year.

The growth projections presented here are largely in line with those made in recent months by the major international organizations. The inflation projections are generally lower than those of the other forecasters.

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

	December 2025				October 2025		
	2025	2026	2027	2028	2025	2026	2027
GDP (1)	0.6	0.6	0.8	0.9	0.6	0.6	0.7
Household consumption	0.8	0.9	1.0	1.0	0.6	0.9	0.9
Government consumption	0.4	1.1	-0.3	0.0	0.1	-0.1	-0.7
Gross fixed capital formation	3.4	1.3	1.5	1.3	3.2	1.6	1.6
of which: in capital goods	3.5	1.6	1.4	1.6	2.6	2.3	2.0
in construction	3.3	1.2	1.5	1.1	3.8	1.0	1.2
Total exports	1.1	1.3	2.5	3.0	0.0	0.4	2.0
Total imports	3.0	1.9	3.0	3.0	2.7	1.5	2.2
Current account of the balance of payments (2)	1.3	1.3	1.3	1.3	1.0	0.8	0.8
Consumer prices (HICP)	1.7	1.4	1.6	1.9	1.7	1.5	1.9
HICP net of energy and food	1.9	1.6	1.6	1.6	1.9	1.6	1.6
Employment (hours worked)	1.6	0.7	0.6	0.7	1.1	0.5	0.6
Employment (persons employed)	1.2	0.4	0.4	0.6	1.0	0.4	0.5
Unemployment rate (3)	6.2	6.1	6.0	6.0	6.1	5.9	5.9

Sources: Based on Banca d'Italia and Istat data. Forecasting scenario for Italy based on information available at 26 November (for the technical assumptions) and at 2 December (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 0.5 percent in 2025, 0.7 percent in 2026, 0.8 percent in 2027 and 0.7 percent in 2028. – (2) Per cent of GDP. – (3) Annual averages, per cent.

These projections remain subject to a high degree of uncertainty, linked above all to international developments.

Economic activity could be affected by even tighter trade policies, which would have a particularly negative impact on exports and investment. More unfavourable developments could also stem from potential downward corrections in global stock markets, which would lead to tighter borrowing

conditions and a deterioration in confidence. By contrast, a looser fiscal stance, including in connection with recent announcements of an increase in defence spending, could boost growth.

Inflation could be affected by downward pressures associated with a deterioration in aggregate demand, by a stronger appreciation of the euro, and by Asian economies redirecting cheap goods' trade flows to Europe, thereby lowering import prices. In addition, uncertainties remain about the effects of ETS2 legislation towards the end of the forecasting horizon. Conversely, geopolitical and trade tensions may result in higher commodity prices and bottlenecks in global supply chains, driving inflation higher.

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

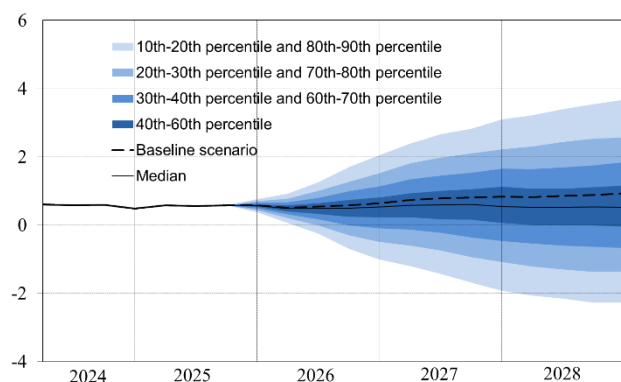
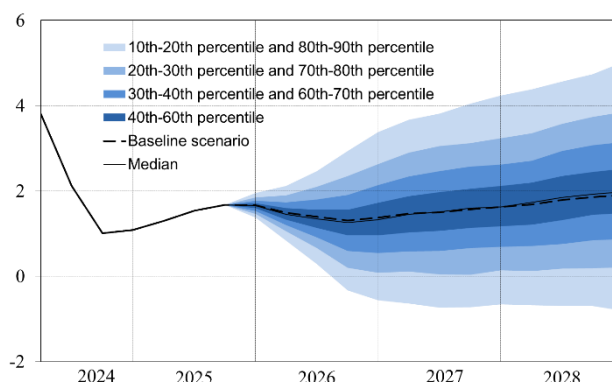


Figure 2
Harmonized index of consumer prices
(quarterly data; year-on-year percentage changes;
4-term moving averages)



THE ASSUMPTIONS

The technical assumptions for exchange rates, commodity prices and interest rates underlying the scenario reflect the developments implied by market prices as at 26 November. The scenario takes into account the information available on the budgetary provisions for 2026-28 and the use of EU funds under the NextGenerationEU programme.

Assumptions for the main exogenous variables

		2025	2026	2027	2028
Weighted foreign demand	(1)	3.5	2.1	2.9	2.9
Dollar/Euro	(2)	1.13	1.16	1.16	1.16
Nominal effective exchange rate	(1), (3)	-1.8	-1.1	0.0	0.0
Prices of foreign manufactures	(1)	1.9	1.6	1.7	1.7
Crude oil prices	(2), (4)	69.2	62.5	62.6	64.0
Natural gas prices	(2), (5)	36.5	29.6	27.5	25.0
3-month Euribor	(2)	2.2	2.0	2.1	2.3
Interest rate (10-year BTs)	(2)	3.6	3.6	3.8	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.