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

13 June 2025

This note presents the projections for Italy for the three years 2025-27 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 5 June. The key findings are as follows.

- Italy's GDP is projected to grow by 0.6 per cent in 2025, 0.8 per cent in 2026 and 0.7 per cent in 2027, mainly driven by the recovery in consumption (Table 1 and Figure 1). The increase in tariffs and uncertainty is instead expected to undermine investments and exports, curbing GDP growth by 0.5 percentage points for the period 2025-27 as a whole.
- Inflation is projected to remain low, at 1.5 per cent on average this year and the next, and at 2.0 per cent in 2027. Net of food and energy, it is expected to stand at 1.8 per cent on average this year and to decline to 1.6 per cent in the next two years, mainly as a result of lower labour cost pressures.

As agreed for the coordinated exercise, the projections are based on information available at 14 May (for the technical assumptions) and at 20 May (for other data).

The forecasting scenario assumes a sharp increase in average tariffs on US goods imports compared with pre-April levels; amid high uncertainty, this is expected to slow world trade significantly.[1] Based on futures contracts, oil and natural gas prices are set to decline over the three-year period (see the box 'The assumptions'). Borrowing costs for firms and households are forecast to decline gradually, and then stabilize in 2027.

GDP is estimated to grow marginally in the current and in the summer quarters, dampened by the direct and indirect effects of the tariffs, and then slightly pick up pace, thanks above all to the favourable trends in consumption. GDP growth projections have remained unchanged relative to April, at 0.6 per cent in 2025, 0.8 per cent in 2026 and 0.7 per cent in 2027.

Consumption is set to continue to expand, buoyed by the favourable trends in households' purchasing power and by lower interest rates. Investment is forecast to be held back by the heightened uncertainty and the phasing out of incentives for residential building renovation but it is projected to benefit from the implementation of the projects under the National Recovery and Resilience Plan (NRRP) and from the gradual decline in financing costs.

Exports are set to decrease in the current year and to return to growth no earlier than next year, though at a slower pace than foreign demand weighted by outlet markets due to the loss of competitiveness caused by the appreciation of the exchange rate. Imports are likely to expand to a greater extent, especially this year, supported by resilient domestic demand. The current account of the balance of payments is projected to stabilize at around 1.0 per cent of GDP.

Employment is expected to continue to grow, though at a slower pace than GDP, leading to a slight recovery in labour productivity. The unemployment rate appears set to decrease marginally, to 6 per cent in 2027.

Consumer price inflation is projected to stand at 1.5 per cent on average this year and the next. In 2027, the extension of the scope of the EU Emission Trading System to cover fuel combustion in buildings and road transport (EU Emission Trading System 2, ETS2) is expected to push up the prices

[1] Based on the assumptions of the Eurosystem exercise, US tariffs on goods imports would increase by 10 percentage points for all economies except China, for which they would increase by about 20 percentage points, bringing the effective tariff rate on goods and services close to 40 per cent. The international scenario excludes retaliatory measures by the European Union.

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 stand at 1.8 per cent on average this year and then to fall to 1.6 per cent in the years 2026-27. Unit labour cost pressures are expected to be largely absorbed by profit margins this year and to ease significantly over the next two years. Compared with the projections published last April, consumer price inflation has been revised slightly downwards for this year, mainly because of the assumed decline in energy prices.

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

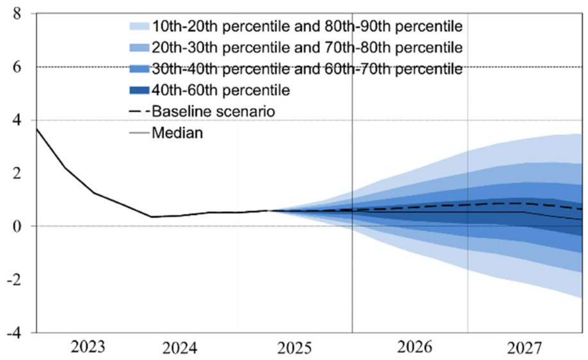
		June 2025			April 2025		
	2024	**2025**	**2026**	**2027**	**2025**	**2026**	**2027**
GDP (1)	0.5	0.6	0.8	0.7	0.6	0.8	0.7
Household consumption	0.4	1.0	1.1	1.1	1.0	1.2	1.2
Government consumption	1.1	1.2	0.4	-0.7	0.1	1.0	-1.1
Gross fixed capital formation	0.0	0.3	1.1	0.4	0.6	0.4	0.6
of which: in capital goods	-1.2	0.0	2.4	1.1	1.1	1.8	0.7
in construction	1.0	0.5	0.0	-0.2	0.2	-0.8	0.4
Total exports	-0.3	-0.2	1.2	2.2	-0.1	1.5	2.2
Total imports	-1.5	1.5	1.8	2.2	1.1	2.0	2.2
Current account of the balance of payments (2)	1.1	0.9	0.9	1.0	1.0	1.0	1.1
Consumer prices (HICP)	1.1	1.5	1.5	2.0	1.6	1.5	2.0
HICP net of energy and food	2.2	1.8	1.6	1.6	1.5	1.5	1.6
Employment (hours worked)	1.6	0.8	0.5	0.5	0.7	0.5	0.5
Employment (persons employed)	1.6	1.3	0.5	0.5	1.1	0.6	0.5
Unemployment rate (3)	6.6	6.2	6.1	6.0	5.9	6.0	6.1

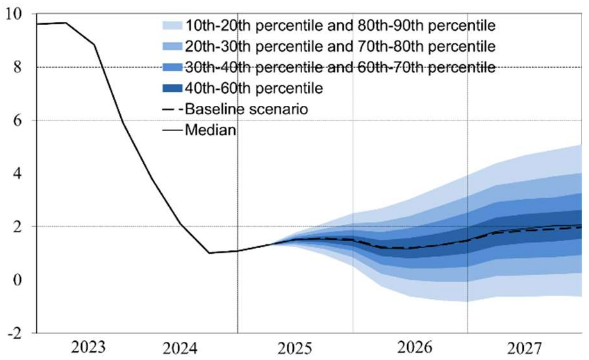
Sources: Based on Bank of Italy and Istat data. Forecasting scenario for Italy based on information available at 14 May (for the technical assumptions) and at 20 May (for other data).
(1) For GDP and its components, changes estimated on the basis of quarterly data adjusted for seasonal and calendar effects. Without this adjustment, the projected GDP growth is 0.5 percent in 2025, 0.9 percent in 2026 and 0.7 percent in 2027. – (2) Per cent of GDP. – (3) Annual averages, per cent.

The uncertainty surrounding the forecasting scenario is high and stems mainly from the ongoing negotiations between the United States and the European Union and subsequent developments in trade policies. A further tightening of trade policies could significantly hurt economic activity and, in particular, exports and investments, especially if accompanied by persistently high uncertainty. Should the tariffs rise to the levels announced on 2 April[2] and uncertainty remain high, GDP growth might be around 0.2 percentage points lower than under the baseline scenario for the current year, and up to 0.5 percentage points lower per year for the next two years. The overall impact on GDP over the three-year period would be similar to that estimated by the ECB for the euro area.[3] By contrast, higher growth could stem from more pronounced effects of the increase in defence and infrastructure spending at European level or from a more favourable outcome of trade negotiations than assumed under the baseline scenario.[4] As for inflation, any retaliatory tariffs imposed by the EU could create temporary upward pressures, the effects of which would be more than offset in the medium term by the contrary effects of a marked and persistent deterioration in aggregate demand.

[2] Under this assumption, the tariffs on the EU would be equal to 20 per cent.
[3] See 'Eurosystem staff macroeconomic projections for the euro area, June 2025'.
[4] The baseline scenario takes into account the announced increase in defence and infrastructure spending, which would have positive, yet limited, indirect effects also on the Italian economy.

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 baseline 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 14 May.

The scenario takes into account the budgetary provisions for 2025-27 and the use of EU funds under the NextGenerationEU programme, based on the information currently available on the NRRP.

Assumptions for the main exogenous variables

		2024	2025	2026	2027
Weighted foreign demand	(1)	1.9	2.4	1.9	3.0
Dollar/Euro	(2)	1.08	1.11	1.13	1.13
Nominal effective exchange rate	(1), (3)	-1.2	-0.7	-0.3	0.0
Prices of foreign manufactures	(1)	1.1	1.3	1.7	2.0
Crude oil prices	(2), (4)	82.0	66.7	62.8	64.2
Natural gas prices	(2), (5)	34.4	38.0	33.2	29.3
3-month Euribor	(2)	3.6	2.1	1.9	2.2
Interest rate (10-year BTPs)	(2)	3.7	3.7	4.0	4.3

(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.