

MACROECONOMIC PROJECTIONS FOR THE ITALIAN ECONOMY

17 October 2025

This note presents the macroeconomic projections for Italy for the three years 2025-27 prepared by staff members of Banca d'Italia.¹

- According to our estimates, GDP will grow by 0.6 per cent in 2025 and 2026 and by 0.7 per cent in 2027. GDP growth is expected to be largely driven by consumption, encouraged by the recovery in real disposable income, and investment (Table 1 and Figure 1), which is benefiting from the measures under the National Recovery and Resilience Plan (NRRP) and from lower borrowing costs. Foreign sales are set to be significantly affected by tighter trade policies.
- Consumer prices are projected to rise by 1.7 per cent in 2025, 1.5 per cent in 2026 and 1.9 per cent in 2027. The higher inflation in 2027 reflects the temporary effects of the introduction of the EU's new emissions trading scheme covering greenhouse gases and pollutants ('EU Emissions Trading System 2', ETS2). Core inflation is projected to fall below 2 per cent this year and to 1.6 per cent in the following two years.

The projections are based on information available at 10 October. Our forecasting scenario takes into account trade policy developments over the past few months – particularly the agreement reached by the United States and the European Union on 27 July – and the ensuing reduction in uncertainty, which however remains well above the historical average. We assume that these developments will contribute to a marked slowdown in global trade. Based on futures contracts, oil and natural gas prices are set to edge down over the three-year period (see the box 'The assumptions'). Borrowing costs for firms and households are expected to decline gradually. Our scenario also takes into account the information on public finance contained in the Public Finance Planning Document (DPFP) approved on 2 October.

GDP is estimated to return to weak growth in the second half of this year and to continue to expand at a moderate pace over the next two years. Annual average GDP growth is projected to be 0.6 per cent in 2025 and in 2026 and 0.7 percent in 2027. Compared with the projections published last June, these estimates imply a downward revision of 0.2 percentage points for 2026, mainly based on a stronger loss of competitiveness for Italian exports, which are affected by the appreciation of the euro vis-à-vis the main currencies and by a higher US tariff base rate.²

Household consumption is set to accelerate gradually, as purchasing power strengthens and uncertainty declines. Investment is projected to grow in both the capital goods and the construction components, buoyed by NRRP measures and a gradual improvement in borrowing conditions. Meanwhile, exports are expected to remain virtually stagnant in 2025 and 2026, in the wake of tighter trade policies and the loss of competitiveness resulting from the appreciation of the euro, before returning to growth at the end of the forecasting horizon. Imports are projected to expand throughout the three-year period, driven mainly by demand for capital goods. The contribution of net foreign demand to GDP growth is expected to be negative this year and the next. The current account balance, which averaged 1.1 per cent in 2024, is estimated to decline over the three years, reflecting weakness in exports.

¹ These projections have not been prepared as part of a Eurosystem coordinated exercise, unlike those published in June and December.

² The agreement between the United States and the European Union provides for a 15 per cent base tariff on imports of goods from the EU, higher than our June assumption of around 10 per cent, with a stronger impact on Italian exports. By contrast, trade policy uncertainty abated to a greater extent than we assumed in June, diminishing its recessionary impact. Overall, these two effects tend to offset each other and do not significantly alter the assessment of the full impact of tariffs and of uncertainty on GDP growth. The latter is estimated to be around half a percentage point over the three-year period as a whole, in line with our June projections.

Employment is projected to slow starting from the second half of the current year, while still rising over the three-year period as a whole. The unemployment rate is projected to fall close to 6 per cent on average this year and slightly below this level over the next two years.

Inflation, as measured by the harmonized index of consumer prices (HICP), is projected to stand at 1.7 per cent on average this year, 1.5 per cent in 2026 and 1.9 per cent in 2027, 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 prices higher. Core inflation, estimated at 1.9 per cent on average this year, is projected to fall to 1.6 per cent over the next two years, reflecting more moderate wage pressures and a modest recovery in productivity. Compared with our June projections, inflation estimates are 0.2 percentage points higher for 2025 and 0.1 percentage points lower for 2027.

The growth projections presented here are largely in line with those made in recent months by the major international organizations and consistent with the DPF current legislation scenario. 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)

		October 2025			June 2025		
	2024	2025	2026	2027	2025	2026	2027
GDP (1)	0.5	0.6	0.6	0.7	0.6	0.8	0.7
Household consumption	0.6	0.6	0.9	0.9	1.0	1.1	1.1
Government consumption	1.0	0.1	-0.1	-0.7	1.2	0.4	-0.7
Gross fixed capital formation	-0.0	3.2	1.6	1.6	0.3	1.1	0.4
of which: in capital goods	-0.8	2.6	2.3	2.0	0.0	2.4	1.1
in construction	0.6	3.8	1.0	1.2	0.5	-0.0	-0.2
Total exports	-0.6	0.0	0.4	2.0	-0.2	1.2	2.2
Total imports	-1.1	2.7	1.5	2.2	1.5	1.8	2.2
Current account of the balance of payments (2)	1.1	1.0	0.8	0.8	0.9	0.9	1.0
Consumer prices (HICP)	1.1	1.7	1.5	1.9	1.5	1.5	2.0
HICP net of energy and food	2.2	1.9	1.6	1.6	1.8	1.6	1.6
Employment (hours worked)	1.6	1.1	0.5	0.6	0.8	0.5	0.5
Employment (persons employed)	1.6	1.0	0.4	0.5	1.3	0.5	0.5
Unemployment rate (3)	6.6	6.1	5.9	5.9	6.2	6.1	6.0

Sources: Based on Banca d'Italia and Istat data. Forecasting scenario for Italy based on information available at 10 October.

(1) For GDP and its components, changes estimated on the basis of quarterly data adjusted for seasonal and calendar effects.

Without this adjustment, GDP growth is 0.7 per cent in 2024, 0.5 per cent in 2025, 0.7 per cent in 2026 and in 2027. – (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 or heightened geopolitical tensions, which would have a particularly negative impact on exports and investment. More unfavourable developments could also stem from a surge in sovereign risk premiums in the euro area and from potential downward corrections in global stock markets, which would weigh on confidence and borrowing conditions. By contrast, a looser fiscal stance at European level, including in connection with recent announcements of an increase in defence spending, could have a positive effect on 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. By contrast, 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)

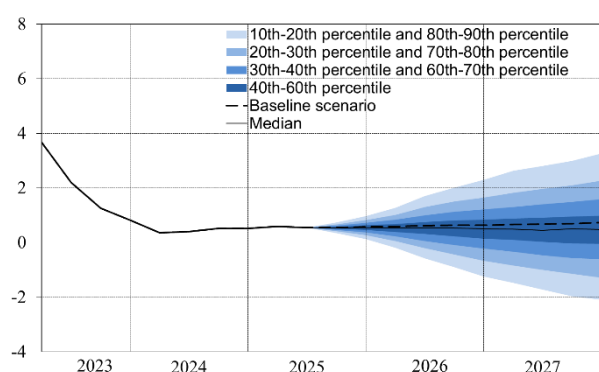
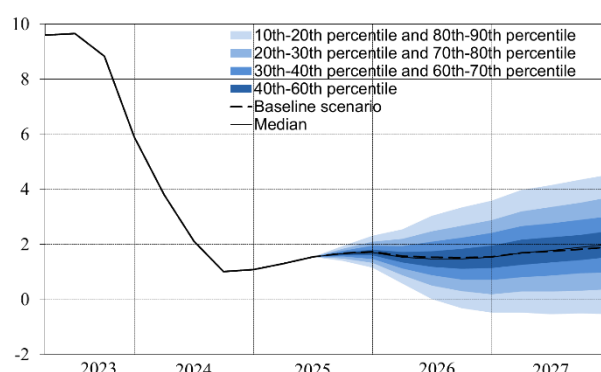


Figure 2

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 10 October. 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)	1.9	2.7	1.7	2.9
Dollar/Euro	(2)	1.08	1.13	1.17	1.17
Nominal effective exchange rate	(1), (3)	-1.2	-1.4	-0.9	0.0
Prices of foreign manufactures	(1)	1.1	1.2	1.6	2.2
Crude oil prices	(2), (4)	80.5	69.5	64.4	64.6
Natural gas prices	(2), (5)	34.4	36.8	31.5	29.4
3-month Euribor	(2)	3.6	2.2	1.9	2.1
Interest rate (10-year BTPs)	(2)	3.7	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.