

MACROECONOMIC PROJECTIONS FOR THE ITALIAN ECONOMY

3 April 2026

This note presents the macroeconomic projections for Italy for the three years 2026-28 prepared by Banca d'Italia staff.¹ The scenario formulated is largely conditioned on the future evolution of the ongoing conflict in the Middle East and, consequently, on the assumptions for commodity prices, which are characterized by high uncertainty. The baseline projections, which use market-implied assumptions for oil and natural gas prices, are complemented by an alternative scenario, prepared for illustrative purposes, aimed at assessing the potential repercussions on the Italian economy of an escalation of the conflict leading to stronger and more enduring increases in commodity prices, a slowdown in global demand, financial tensions and a higher degree of uncertainty.

The projections are based on information available at 27 March (for the technical assumptions) and at 31 March (for other data).

The key findings are as follows.

- Italy's GDP is projected to grow by 0.5 per cent both this year and the next and by 0.8 per cent in 2028. Economic activity is affected by weaker domestic demand, especially this year, held back by sudden energy price hikes, a further heightening in uncertainty and a deterioration in confidence; it is expected to strengthen gradually in the next two years.
- Consumer price inflation is set to rise to 2.6 per cent in 2026, mainly as a result of the surge in commodity prices, and then to return to just below 2.0 per cent in 2027 and 2028.

Under the baseline scenario, oil prices will stand at \$103 per barrel and natural gas prices at €55 per megawatt-hour on average in the second quarter of this year, and then fall gradually over the remainder of the forecast period, in line with recent developments in forward energy markets. Global trade is projected to expand modestly this year, amid heightened uncertainty and high energy costs, before gradually recovering over the next two years. Borrowing conditions are set to worsen over the projection horizon.

In this context, Italy's GDP is expected to grow by an annual average of 0.5 per cent in 2026 and 2027 and by 0.8 per cent in 2028 (Table 1). According to the projections, the outbreak of the conflict and the spike in energy prices will have a negative impact on the short-term outlook, squeezing domestic demand in the current quarter and in the two quarters ahead. Economic activity is assumed to regain strength in early 2027, as inflationary pressures ease.

Compared with last December's projections, GDP growth has been revised downwards by about half a percentage point over the three-year period as a whole, largely on account of the rise in energy prices.

Consumption is affected by the erosion in real income stemming from higher inflation and waning confidence, amid heightened uncertainty; household spending growth is projected to remain weak this year and the next, and then regain momentum in 2028.

Investment is expected to slow considerably, especially in machinery and equipment, dampened by the deterioration in profitability and in the outlook for demand, as well as by heightened uncertainty and higher financing costs. However, investment in construction is set to continue to benefit from the completion of NRRP projects.

Exports are assumed to be held back by weak global trade in the short term and then gather pace gradually over the next two years, in line with international trade dynamics. The contribution of net

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

foreign demand to GDP growth is expected to be negative this year and virtually nil in the two years ahead.

Employment is set to continue to grow at a slower pace than last year. The unemployment rate, which fell to historical lows at the end of 2025, is expected to edge up over the next three years.

Inflation, as measured by the harmonized index of consumer prices (HICP), is projected to average 2.6 per cent in 2026, which is 1 percentage point higher than in the previous year, before returning to just below 2 per cent. The increase in inflation this year is largely attributable to the energy component, which is affected by the run-up in commodity prices. The surge in energy prices is assumed to pass through gradually to wages and salaries and to the prices of other goods and services, partly owing to the small share of collective bargaining agreements awaiting renewal: net of its food and energy components, inflation is projected to rise only slightly this year, to 2.0 per cent on average, before returning to 1.8 per cent in the two years 2027-28.

Compared with the projections published in December, inflation has been revised upwards, more significantly this year.

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

	April 2026				December 2025			
	2025	2026	2027	2028	2025	2026	2027	2028
GDP (1)	0.7	0.5	0.5	0.8	0.6	0.6	0.8	0.9
Household consumption	1.1	0.5	0.6	1.2	0.8	0.9	1.0	1.0
Government consumption	0.6	0.2	-0.7	-0.3	0.4	1.1	-0.3	-0.0
Gross fixed capital formation	3.8	1.5	0.8	0.7	3.4	1.3	1.5	1.3
<i>of which:</i> in capital goods	3.6	0.5	0.6	0.5	3.5	1.6	1.4	1.6
in construction	4.0	2.5	1.0	0.7	3.3	1.2	1.5	1.1
Total exports	1.4	1.0	2.4	2.9	1.1	1.3	2.5	3.0
Total imports	3.9	2.5	2.4	3.0	3.0	1.9	3.0	3.0
Current account of the balance of payments (2)	1.2	0.7	1.1	1.3	1.3	1.3	1.3	1.3
Consumer prices (HICP)	1.6	2.6	1.8	1.9	1.7	1.4	1.6	1.9
HICP net of energy and food	1.9	2.0	1.8	1.8	1.9	1.6	1.6	1.6
Employment (hours worked)	1.5	0.6	0.4	0.6	1.6	0.7	0.6	0.7
Employment (persons employed)	1.3	0.4	0.3	0.5	1.2	0.4	0.4	0.6
Unemployment rate (3)	6.1	5.7	5.8	5.8	6.2	6.1	6.0	6.0

Sources: Based on Banca d'Italia and Istat data. Forecasting scenario for Italy based on information available at 27 March (for the technical assumptions) and at 31 March (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 0.6 percent in 2025, 0.7 percent in 2026, 0.6 percent in 2027 and 0.8 percent in 2028. – (2) Per cent of GDP. – (3) Annual averages, per cent.

The uncertainty surrounding the projections presented in this note is exceptionally high (Figures 1 and 2). Developments in economic activity and inflation will be materially affected by the length of the conflict in the Middle East and by its impact on commodity production and transport flows. The continuation of hostilities and possibility of major damage to energy infrastructure in the Middle East could have a lasting impact on commodity prices, further weaken international trade and weigh on consumer and business confidence. As a result, inflation would rise further and more persistently, with significant repercussions on economic activity, especially if these developments were accompanied by financial market turbulence. While it is difficult to precisely identify the dynamics involved in these critical alternative situations, the box 'The consequences of the conflict in the Middle East: an adverse scenario' presents, merely for illustrative purposes, the possible macroeconomic developments in a particularly adverse scenario only.

Figure 1
GDP

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

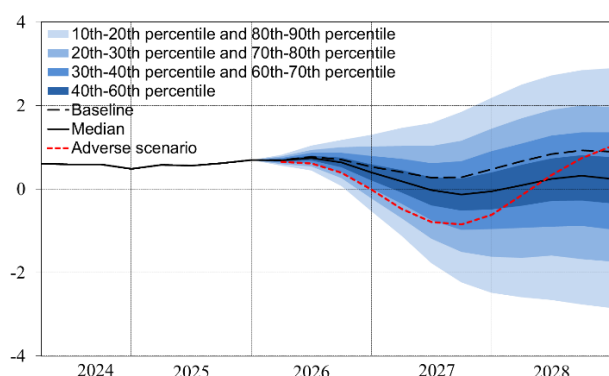
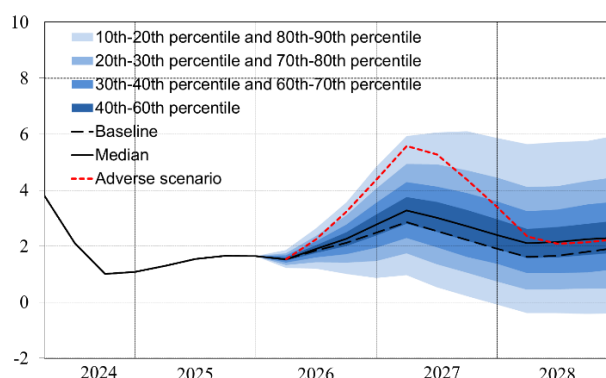


Figure 2

Harmonized index of consumer prices

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



BOX A - THE ASSUMPTIONS

The technical assumptions for exchange rates, commodity prices and interest rates reflect the developments implied by market prices as at 27 March.

The estimates for the public accounts underlying the scenario take into account the Budget Law for 2026-28 and the recently approved Decree Law 33/26 intended to mitigate the impact of higher energy prices on households and firms.

Table A1 - Assumptions for the main exogenous variables under the baseline scenario

		2025	2026	2027	2028
Weighted foreign demand	(1)	3.5	2.0	2.9	3.1
Dollar/Euro	(2)	1.13	1.16	1.16	1.16
Nominal effective exchange rate	(1), (3)	-1.8	-0.7	0.1	0.0
Prices of foreign manufactures	(1)	1.9	1.6	1.7	1.8
Crude oil prices	(2), (4)	69.1	89.7	78.5	75.2
Natural gas prices	(2), (5)	36.2	51.3	44.1	30.8
3-month Euribor	(2)	2.2	2.6	2.8	2.8
Interest rate (10-year BTPs)	(2)	3.6	3.7	4.0	4.2

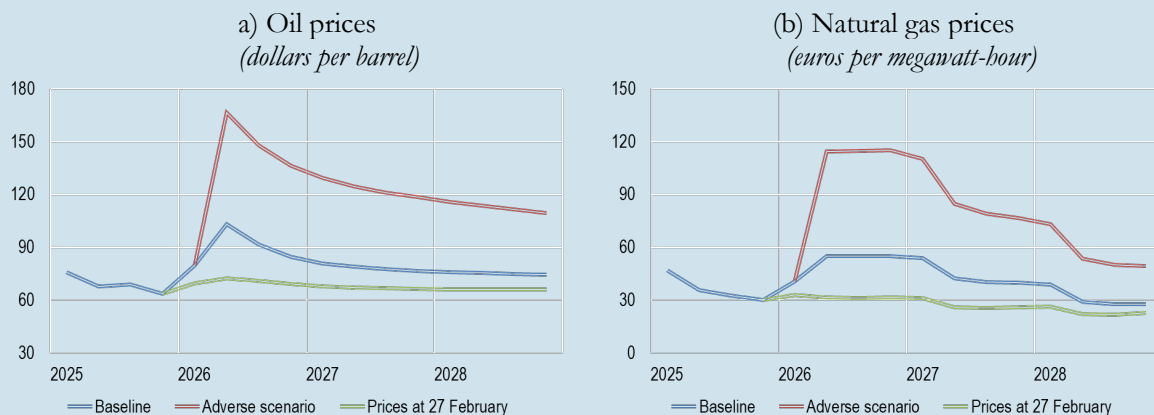
(1) Percentage changes. – (2) Annual averages. – (3) Positive changes indicate a depreciation. –

(4) Dollars per barrel of Brent crude oil. – (5) Euros per megawatt-hour.

BOX B - THE CONSEQUENCES OF THE CONFLICT IN THE MIDDLE EAST: AN ADVERSE SCENARIO

This alternative scenario, prepared for illustrative purposes, assumes greater and more lasting effects of the ongoing conflict on commodity supply and further increases in commodity prices, which are assumed to remain at very high levels for an extended period (Figure B1). Relative to the baseline scenario, this would also result in heightened uncertainty, waning confidence and tensions in the financial markets, as well as in tighter financing conditions. Finally, given the global scale of the impact of the conflict, international trade is assumed to weaken sharply.

Figure B1 - Commodity prices under the baseline and adverse scenarios



This scenario implies that GDP growth would be lower than in the central projections presented earlier in this note by about half a percentage point this year and by about 1 percentage point in the next year (Figure B2). The impact would mainly reflect the effects of higher energy prices on household income and spending and of worsened financial conditions on investment. Consumer price inflation would be higher than in the central projections by more than 1.5 percentage points per year in 2026 and 2027 and by 0.3 percentage points in 2028. In the short term, the increase would be driven directly by the surge in energy prices. The gradual pass-through to wages and salaries and to the prices of other goods and services over the next two years would also be a contributing factor, which would have indirect and second-round wage effects equal to 1.5 percentage points cumulatively.

Figure B2 - Adverse scenario: the impact on economic activity and inflation
(percentage point deviations from baseline growth rates)

