

MACROECONOMIC PROJECTIONS FOR THE ITALIAN ECONOMY

16 October 2026

This note presents the macroeconomic projections for Italy for the three years 2026-28 prepared by Banca d'Italia staff.¹ The forecasting scenario remains highly dependent on developments in the conflict in the Middle East and its effects on commodity prices and refined petroleum products. In the baseline scenario, oil and natural gas price developments are, as usual, assumed on the basis of the latest spot and forward market prices.

Overview

The key findings are as follows.

- Italy's GDP is projected to grow by 0.9 per cent this year, 0.7 per cent next year, and 0.8 per cent in 2028. Net of calendar adjustments, the projected increase over the three years is 1.0 per cent, 0.7 per cent and 0.6 per cent, respectively. Economic activity is projected to benefit from favourable developments in foreign demand. Domestic demand is expected to be affected by rising energy prices and higher financing costs, which will likely dampen household spending and firms' investment plans.
- Consumer price inflation is estimated to rise to 3.2 per cent on average in 2026, driven by the energy component, and to decline to 2.4 per cent in 2027 and 1.7 per cent in 2028. Core inflation is expected to remain broadly stable at around 2 per cent over the forecasting horizon.
- The uncertainty surrounding these projections is high, connected above all to the evolution of the conflict in the Middle East. The consequences of different commodity price developments are examined in alternative scenarios.

The projection exercise

The projections are based on information available as at 9 October. In the baseline scenario, oil prices stand at \$114 per barrel and natural gas prices at €76 per megawatt hour on average in the fourth quarter of this year, before declining over the forecasting horizon (see the box "The assumptions"). The increase in market interest rates will be gradually transmitted to borrowing costs for firms and households over the forecasting horizon. The scenario also takes into account the information on public finance contained in the Public Finance Planning Document 2026 (PFPD 2026), which was approved on 2 October, as well as that relating to measures to increase spending on defence and energy security.

In terms of yearly average figures, GDP is projected to grow by 0.9 per cent in 2026, 0.7 per cent in 2027 and 0.8 per cent in 2028 (Table 1). The ongoing conflict in the Middle East and the ensuing increase in energy prices are weighing on the short-term growth outlook, squeezing domestic demand in the coming quarters. Economic activity is projected to regain strength in the second half of 2027, as inflationary pressures ease gradually.

Compared with the projections published in June, GDP growth has been revised upwards by 0.4 percentage points for 2026 and by 0.3 percentage points for 2027, and downwards by 0.1 percentage points for 2028. The upward revision for 2026 mainly reflects a less severe impact of the Middle East

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

crisis in the first two quarters of this year than expected in June, as well as favourable trends in investment linked to the digital and energy transition and, in the summer quarter, in tourism. The defence and energy spending measures planned by the Government will help to support economic activity over the next two years; in 2028, the boost from these measures is expected to be more than offset by the effects of higher interest rates.

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

	October 2026				June 2026		
	2025	2026	2027	2028	2026	2027	2028
GDP (1)	0.7	0.9	0.7	0.8	0.5	0.4	0.9
Household consumption	1.2	1.0	0.2	1.2	0.4	0.3	1.3
Government consumption	0.3	0.1	0.3	0.1	0.7	-0.2	0.1
Gross fixed capital formation	4.2	3.3	2.3	0.6	1.7	0.8	0.5
of which: in capital goods	4.1	2.4	1.8	0.6	0.7	0.5	0.5
in construction	4.3	4.2	2.7	0.7	2.5	0.9	0.5
Total exports	1.9	3.4	2.7	3.0	0.9	2.4	2.9
Total imports	4.4	3.3	2.9	3.6	2.8	1.9	3.3
Current account of the balance of payments (2)	0.7	0.1	0.3	0.4	0.5	1.0	1.3
Consumer prices (HICP)	1.6	3.2	2.4	1.7	3.1	2.0	1.9
HICP net of energy and food	1.9	1.9	2.1	2.0	2.0	2.0	1.9
Employment (hours worked)	1.5	1.0	0.5	0.5	0.5	0.2	0.5
Employment (persons employed)	0.7	0.9	0.6	0.5	0.2	0.2	0.5
Unemployment rate (3)	6.1	5.8	6.0	6.0	5.4	5.5	5.5

Sources: Based on Banca d'Italia and Istat data. Forecasting scenario for Italy based on information available at 9 October (for the technical assumptions and 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 1.0 per cent in 2026 and 0.7 per cent in 2027 and 0.6 per cent in 2028. –

(2) Per cent of GDP. – (3) Annual averages, per cent.

According to our estimates, consumption will weaken in the second half of this year and in 2027, mainly owing to the erosion of real income due to higher inflation, and will then regain momentum in the final part of the three-year forecasting period. Investment will continue to expand but will slow markedly in 2028, held back by the rise in financing costs. Export growth will be supported by favourable developments in demand for Italian products in the main destination markets, but will remain lower than that of international trade, which is driven by high-technology goods (especially AI-related goods), a sector in which Italy still participates to a limited extent. Employment is projected to continue to grow and the unemployment rate looks set to remain practically stable over the forecasting horizon, at around 6 per cent.

Inflation, as measured by the harmonized index of consumer prices, is estimated to average 3.2 per cent in 2026, before declining to 2.4 per cent in 2027 and 1.7 per cent in 2028. The increase in inflation this year is largely attributable to pressures stemming from higher energy prices, which are expected to fade over the course of next year. The pass-through of these price increases to the prices of goods other than energy and of services is assessed to remain limited, in an environment of overall moderate aggregate demand pressures. The feedback effects on wages are also expected to be limited and gradual. Excluding food and energy, inflation is projected to stand at around 2 per cent throughout the forecasting horizon.

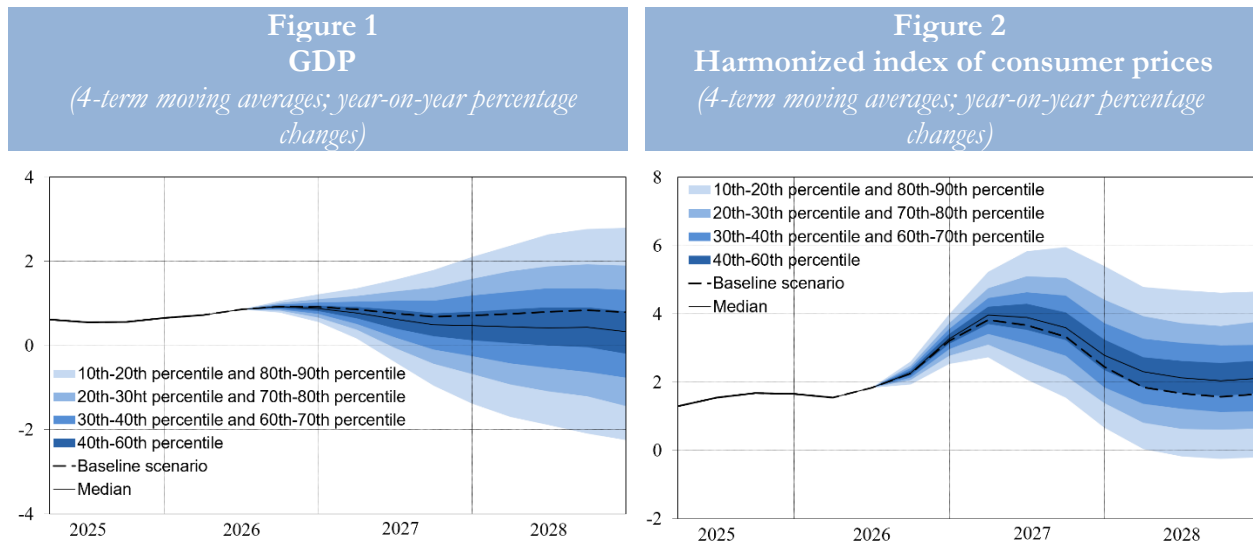
Compared with the projections published in June, inflation has been revised upwards by 0.1 percentage points this year and by 0.4 percentage points for 2027, owing to higher energy prices. For 2028, the

downward revision has been of 0.2 percentage points owing to stronger negative base effects stemming from an assumed reduction in energy prices.

Sources of uncertainty

The uncertainty surrounding these projections remains high (Figures 1 and 2). Developments in economic activity and inflation will depend heavily on the course of the conflict in the Middle East and the ensuing impact on energy commodity prices. Persistently high prices could lead to even higher and more sustained inflation, weighing on growth. Economic activity could also be affected by further increases in long-term bond yields on the international markets and by global stock market corrections linked to a possible slowdown in AI-related investment. More favourable developments could stem from a faster decline in commodity prices following a resolution of the conflict and more favourable trends in long-term interest rates.

Hypothetical alternative scenarios for the evolution of the crisis in the Middle East have been examined. These scenarios are based on different assumptions on commodity price developments. Such assumptions were made in line with the methodology used by the ECB for the euro-area scenarios² (Table 2). In a severe scenario, which assumes particularly sharp increases in commodity prices, GDP growth is cumulatively lower than in the baseline scenario by almost 2 percentage points over the three-year forecasting horizon; inflation is higher by more than 3 percentage points, mostly concentrated in 2027. In an adverse but less extreme scenario, the effects on economic activity and inflation are qualitatively similar, but more limited. In a milder scenario, in which the rise in energy prices is more moderate than in the baseline scenario, growth is cumulatively higher, by 0.4 percentage points over the three years; inflation is around half a percentage points lower.



² See the ECB website, ‘[ECB staff macroeconomic projections for the euro area](#)’, September 2026.

Table 2 - Alternative scenarios for commodity prices

	Baseline scenario⁽¹⁾ <i>(percentage changes and annual averages)</i>			Differences from the baseline scenario⁽²⁾								
				Severe scenario			Adverse scenario			Milder scenario		
	2026	2027	2028	2026	2027	2028	2026	2027	2028	2026	2027	2028
GDP	0.9	0.7	0.8	-0.1	-1.0	-0.7	0.0	-0.3	-0.3	0.0	0.2	0.2
Consumer prices (HICP)	3.2	2.4	1.7	0.5	2.5	0.3	0.1	0.7	0.1	0.0	-0.5	-0.1
Oil prices	98.7	88.6	78.2	13.0	51.6	45.9	3.7	15.6	13.8	-2.9	-13.1	-12.0
Natural gas prices	57.2	60.1	39.2	32.9	62.8	41.9	8.1	16.5	11.9	-4.7	-11.3	-8.5

(1) Percentage changes for GDP and HICP. Annual averages for oil and natural gas prices, expressed in dollars per barrel and euros per megawatt-hour, respectively. - (2) For GDP and HICP, differences in percentage points from baseline growth rates. For oil and natural gas prices, absolute deviation from baseline annual average levels.

BOX - THE ASSUMPTIONS

The technical assumptions for exchange rates, commodity prices and interest rates reflect the developments implied by market prices as at 9 October. The budgetary estimates underlying the scenario take account of the budget law for the three years 2026-28, as well as the information on public finance contained in the Public Finance Planning Document 2026 (PFPD 2026) approved on 2 October.

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

			October 2026			June 2026		
	2025		2026	2027	2028	2026	2027	2028
Weighted foreign demand	(1)	3.9	2.7	3.5	3.2	2.2	2.9	3.2
Dollar/Euro	(2)	1.13	1.15	1.13	1.13	1.17	1.17	1.17
Nominal effective exchange rate	(1), (3)	-1.9	-0.5	0.6	0.0	-0.8	0.0	0.0
Prices of foreign manufactures	(1)	1.1	2.2	2.2	1.9	2.2	2.1	1.9
Crude oil prices	(2), (4)	69.1	98.7	88.6	78.2	96.9	82.3	77.2
Natural gas prices	(2), (5)	36.2	57.2	60.1	39.2	45.6	37.5	27.9
3-month Euribor	(2)	2.2	2.4	3.3	3.4	2.4	2.8	2.7
Interest rate (10-year BTPs)	(2)	3.6	4.0	4.8	5.0	3.8	4.1	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.