BANCA D'ITALIA
EUROSISTEMA

Annual Report at a Glance

Rome, 30 May 2025

2024

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2024 ANNUAL REPORT AT A GLANCE

The global economy and international relations

[1] Global growth remained moderate and uneven in 2024. Economic activity expanded in the advanced economies, led by the United States, but slowed somewhat in the emerging economies, while continuing to grow at a robust pace. Inflation continued to decline in the major advanced economies, paving the way for a gradual normalization of monetary policy by the ECB, the Federal Reserve and the Bank of England in the second half of the year. By contrast, in Japan, rising inflation led the central bank to raise interest rates for the first time in almost two decades. Among the main emerging economies, Brazil and Türkiye maintained restrictive monetary policy stances to counter persistently high inflation, while in China, despite the various expansionary measures adopted by the central bank, price growth remained feeble, with consumer price inflation hovering around zero since the beginning of 2023.

In the early months of 2025, the surge in uncertainty surrounding trade policies and the future of international relations, sparked by the new US administration's more inward-looking stance, dampened the growth outlook for the world economy this year. The US announcement, on 2 April, of higher than expected import tariffs caused stock market indexes to tumble and triggered a sell-off of US Treasuries. However, the stock markets have recovered their losses thanks to the 90-day suspension of some of the announced tariffs and the opening of negotiations with China and other countries; at the same time, long-term interest rates in the United States have remained high. These developments, together with the depreciation of the dollar, reveal market concerns about the consequences of a wide-reaching and protracted trade dispute, and about a further worsening of US public finances. Against this backdrop, gold prices reached new all-time highs, once again highlighting its role as a safe-haven asset. Uncertainty continues to remain high, partly fuelled by the succession of new tariff announcements, temporary suspensions and partial deals coming from the US administration.

In 2024, international economic and financial cooperation in G7 and G20 forums focused on strategic issues such as sustainable growth, energy security, reform of international financial institutions and support for the most vulnerable and highly indebted countries; the forums took place amid increasing geopolitical polarization and pressure from emerging economies to be given a greater say in global governance, moving away from the arrangements made after the Second World War. The policies launched in early 2025 by the US administration, with their strong focus on national economic security, risk exacerbating trade fragmentation and making effective coordination between blocs of countries with diverging interests more difficult.

BOX:

The debt situation in low-income countries

Economic developments and fiscal policy in the euro area

[2] In 2024, euro-area GDP rose by 0.9 per cent, thanks to the contribution of both private and public consumption and exports, which grew more than imports. In comparison, investment fell in an environment of ample spare production capacity and still tight financial conditions. Economic activity expanded moderately in early 2025 as well, buoyed both by the increase in consumption and by the frontloading of exports to the United States ahead of the tariff hikes.

On average, last year, consumer price inflation more than halved compared with 2023, falling to 2.4 per cent, owing above all to the marked decline in the core component and in food prices. In the early months of 2025, it stood just above 2 per cent, reflecting the further, albeit gradual, easing of service price inflation; the ECB and international institutions forecast that inflation will continue to fall this year.

Financial market conditions improved in 2024, thanks to stronger confidence that inflation would return to 2 per cent and to the progressively less restrictive monetary policy stance. In the second half of the year, however, they were affected by the political uncertainty in some euro-area countries and by heightened trade tensions. After improving further in early 2025, uncertainty surged in response to the new tariffs announced by the US administration.

In 2024, the deficit-to-GDP ratio in the euro area fell by almost half a percentage point to 3.1 per cent; according to the latest European Commission forecasts, it will amount to 3.2 per cent this year. The debt-to-GDP ratio, equal to 88.9 per cent in 2024, is expected to rise by more than 1 percentage point this year. These forecasts only partially account for the ReArm Europe/Readiness 2030 plan, announced last March by the European Commission.

Disbursements through the Recovery and Resilience Facility, at the heart of the NextGenerationEU (NGEU) programme, continued: so far, over €311 billion has been paid to the Member States, with some €201 billion in the form of grants.

With the exception of Germany, all EU Member States have submitted their medium-term fiscal-structural plans required under the new European governance rules; most of them were assessed favourably by the European Commission and endorsed by the Council.

BOX:

Defence spending in EU countries

Monetary policy in the euro area

[3] The ECB tapered its restrictive monetary policy in 2024. This stance reflected the Governing Council's increasing confidence that inflation was converging towards the 2 per cent target over the medium term, in an environment of persistently weak economic activity.

Since its June 2024 meeting, the ECB Governing Council has cut key interest rates seven times, with the deposit facility rate being lowered by 175 basis points overall, to 2.25 per cent last April. In the first few months of 2025, amid exceptional uncertainty fuelled by rising trade tensions, the Governing Council reaffirmed its intention to maintain a data-driven approach to monetary policy decisions, which would be taken on a case-by-case basis without precommitting to a particular rate path.

The normalization of the Eurosystem's balance sheet, which began in 2022, continued in 2024, helped by the repayments of loans disbursed under the third series of targeted longer-term refinancing operations (TLTRO III) and the gradual downsizing of the securities portfolios held under the asset purchase programme (APP) and the pandemic emergency purchase programme (PEPP).

Over the course of the year, monetary easing led to a gradual decline in risk-free interest rates and in bank lending rates, helping to improve borrowing conditions for firms and households. Credit growth gradually strengthened, although it remained weak by historical standards. Between the end of 2024 and the early months of this year, long-term risk-free interest rates turned upwards amid high volatility, as Germany unveiled plans for a significant expansion in government spending and the United States announced new tariffs.

BOXES:

Monetary policy in the euro area and the data-driven approach

Interest rate trends in the euro area: key drivers and responsiveness to macroeconomic developments

The bank-based transmission of monetary policy easing in the euro area

The Italian economy: an overview

[4] Italy's GDP, valued at chain-linked prices and without calendar adjustments, rose by 0.7 per cent in 2024, as in 2023 and broadly in line with early-year expectations; domestic demand and net foreign demand made equal contributions to growth. The increase in household consumption remained modest, while that in general government spending accelerated. Investment slowed sharply, with a decline in the machinery and equipment component; by contrast, investment in non-residential construction grew, partly as a result of the projects carried out under the National Recovery and Resilience Plan (NRRP), though with delays. Imports fell for the second year in a row, while exports rose further, at a moderate pace.

On the supply side, value added grew by 0.5 per cent, across all geographical areas. Economic activity stagnated in industry excluding construction and slowed in construction and in services, respectively due to the sharp reduction in tax incentives for residential building and to post-pandemic momentum slowing in high-contact sectors (e.g. tourism and food services).

The Harmonised Index of Consumer Prices (HICP) dropped to 1.1 per cent in 2024, a much lower level than in the previous two years, especially in the wake of falling energy prices at the start of the year, a trend that eased in the summer months.

GDP increased moderately in the first quarter of 2025, buoyed by ongoing growth in consumption and construction spending. While services have stagnated, manufacturing activity appears to have expanded; looking ahead, this sector may be adversely affected by US trade policies. In the first four months of 2025, inflation rose marginally to 1.9 per cent, owing to services and food prices; it is expected to remain below 2 per cent on average for the remainder of the year as well.

BOXES:

GDP growth and inflation in 2024: the determinants of the gap between realized and projected values

Recent changes in the gaps between Italy's Central-Northern regions and the South and Islands

The impact of energy costs on the industrial sector

The state of progress of the National Recovery and Resilience Plan (NRRP)

Households

[5] In 2024, Italian households' disposable income continued to expand, though less than in the previous year owing to a significant slowdown in self-employment and property income. By contrast, payroll income continued to rise strongly, driven by employment and wage growth; however, real wages remain well below their 2021 levels. Government support measures continued to target mainly low-income households and those with children, for which the risk of poverty is higher. Thanks to the significant drop in inflation, purchasing power returned to growth after contracting slightly in the previous two years. However, the rise in consumer spending remained moderate, held back by historically high real interest rates, which encouraged saving, and by worsening unemployment expectations. An ad hoc analysis indicates that the latter only marginally reflect concerns about the impact of artificial intelligence on the labour market. The savings rate began to rise again, exceeding pre-pandemic levels.

Households' net wealth, equal to the value of financial and real assets net of liabilities, grew in line with disposable income. Gross financial wealth increased, driven by rising asset prices and higher savings rates. Portfolio reallocation towards bonds continued, especially towards Italian public sector securities: the largest contribution came from the issuance of securities targeted at retail investors. Real estate wealth also increased, reflecting a stronger housing market. The debt-to-disposable income ratio declined further, far below that of the leading euro-area economies. Mortgage loans began to rise again, albeit to a limited extent; consumer credit growth was stronger.

BOXES:

The use of generative artificial intelligence by Italian households

Italian households' financial assets in 2010-24

Firms

[6] In 2024, value added in Italy rose moderately, as in the previous year. The pace of growth weakened in services – owing to the slowdown in high-contact sectors, such as leisure activities – and in construction, as a result of the sharp reduction in tax incentives for residential buildings. After falling in 2023, value added in industry excluding construction remained stable, reflecting expansion in the energy sector and a further moderate contraction in manufacturing.

Investment slowed sharply compared with 2023. While investment in non-residential construction picked up, partly as the NRRP came into force, investment in housing slipped after being driven upward by the 'Superbonus' incentives. Spending on machinery and equipment declined, largely as an effect of weak demand, following four years of sustained growth. Firms – especially large ones – expect it to increase overall in 2025.

Last year, the weakening of the economic cycle and the rise in labour costs weighed on firms' profitability, while the contraction in investment spending limited their financing needs. The cost of bank lending fell as a result of the easing of monetary policy. Credit growth, while still negative, was uneven across different types of firms. Syndicated loans accounted for a significant share of bank lending.

Labour productivity in the private sector declined for the second consecutive year, after a long period of growth that had been driven by the overhaul of the production system following the sovereign debt crisis; it was supported both by a reallocation of activity towards more efficient firms and by productivity gains within individual businesses.

Research and development spending as a share of GDP is still well below the EU average. The gap is mainly attributable to the private sector and results in Italy registering fewer patents than the other main European countries.

A significant contribution to innovation comes from start-ups, which rely more heavily on own funding. The supply of venture capital to these firms has increased in recent years, but remains limited by international standards.

Progress has been made in both digitalization and decarbonization. The uptake of advanced technologies, including artificial intelligence, is rising among firms, which are already making widespread use of basic digital tools. The rollout of new renewable energy installations also continues to accelerate. Climate change poses significant hydrogeological risks that Italian firms must face.

BOXES:

The innovation system in Italy: an international comparison

The use of artificial intelligence by Italian firms

The exposure of Italian manufacturing firms to hydrogeological risks

Syndicated bank lending to non-financial corporations

The labour market

[7] Employment in Italy, though slowing, continued to outpace GDP in 2024. Labour demand still benefited from the moderate wage dynamics of the past three years, which made labour relatively more cost-effective than other factors of production.

Employment growth was broad-based across all sectors and strongest for permanent positions and older workers; labour demand weakened compared with 2023, especially for young workers and temporary contracts, which tend to be more sensitive to the economic cycle.

The participation rate remained at the high levels reached in 2023, buoyed by the steady increase in labour supply among workers aged 55 and over, which offset the decline observed among younger age groups. Immigration partly offset the decrease in Italy's working-age population. Foreign workers mostly have less stable contracts and lower wages than people born in Italy. The unemployment rate fell to its lowest level in 17 years.

The ratio of corporate vacancies to total job seekers – an indicator of the level of competition for workers – increased, approaching the EU average.

According to preliminary estimates, employment bounced back sharply in the early months of 2025, partly supported by NRRP-related investments.

BOXES:

Recent trends in Italy's activity rate: demographic drivers and economic background

Immigration and migration policies in Italy and in the main euro-area countries

Prices and costs

[8] Consumer price inflation in Italy fell sharply in 2024 compared with the levels recorded over the previous two years, remaining consistently below 2 per cent.

Energy prices, which had largely driven up headline inflation since 2022, dropped markedly. Core inflation (excluding energy and food) almost halved compared with 2023; this was due to a sharp slowdown in the prices of non-energy industrial goods and, to a lesser extent, to service prices growing at a slower pace, which nevertheless was still moderately above the historical average.

Last year, growth in hourly labour costs in the non-farm private sector picked up, driven by increases in contractual wages. However, the rise in labour costs was below the euro-area average. Despite their gradual recovery, actual wages in real terms were 8.4 per cent lower than in 2021.

In the early months of 2025, consumer inflation edged up, driven by the services and food components, but remained around 2 per cent. Limited producer price pressures, combined with weak domestic and global demand – amid heightened geopolitical uncertainty and trade tensions – are expected to keep inflation low this year.

Foreign trade, competitiveness and the balance of payments

[9] Italian export volumes recorded a modest increase in 2024. The slight decline in sales of goods, linked to weak demand from the euro area and to the negative developments in some sectors, especially motor vehicles and fashion, was more than offset by the increase in the services component, especially in tourism services. Imports decreased and net exports therefore made a positive contribution to GDP growth.

The current account surplus rose to 1.1 per cent of GDP. The return to a sizeable positive balance, as the effects of the recent energy shock have faded, is part of a long chain of surpluses that began in 2013 and was temporarily interrupted only in 2022, reflecting the ability of Italian exporting firms to remain competitive on the international markets in spite of several adverse shocks; over the last five years, goods exports by volume have grown more than in the other main euro-area countries and have broadly kept pace with the demand from destination markets.

Net portfolio investment outflows have risen sharply, driven by purchases of European bonds by banks, insurance companies and investment funds. Net investment inflows in Italian government securities have reached their highest level in 20 years. As a result of these trends, Banca d'Italia's negative balance on the TARGET2 European payment system decreased significantly.

At the end of 2024, Italy's net international investment position was positive by €335 billion, equal to 15.3 per cent of GDP. Measured as a share of GDP, it has improved by 39 percentage points since the end of 2013, and just over half of this improvement is attributable to persistent current and capital account surpluses.

BOX:

Italy's export performance over the last five years and its prospects

The public finances

[10] The general government deficit in Italy more than halved in 2024 compared with the previous year, standing at 3.4 per cent of GDP; the primary balance turned positive for the first time since 2019. This improvement was mainly due to the marked reduction in the costs linked to the 'Superbonus' building renovation incentives, which was also due to the further restrictions on the use of the related tax credits, introduced in March 2024.

The cash impact of the 'Superbonus' – estimated at almost 2 percentage points of GDP – instead contributed significantly to the debt-to-GDP ratio increasing to 135.3 per cent (from 134.6 per cent in 2023).

Last January, the Council of the European Union approved Italy's medium-term fiscal-structural plan, which is the main document on which the national governments' plans are based under the new European economic governance. The plan sets out the multi-annual path for net expenditure required to bring the deficit to below 3 per cent of GDP and that is highly likely to put the debt-to-GDP ratio on a steadily downward path over the medium term. This path and its effects on the balances in the latest budgetary provisions are in line with the Council recommendations addressed to Italy as part of the excessive deficit procedure opened in July 2024.

Based on the official assessments as updated in the public finance document for 2025 (DFP 2025) of last April, the growth rates for net expenditure for the three years 2025-27 are broadly in line with those set out in the Plan and with the European rules. Net borrowing is expected to stand at 3.3 per cent of GDP in 2025 and to fall below the 3 per cent threshold next year; the debt-to-GDP ratio is instead expected to continue to rise until 2026 (to 137.6 per cent) and to start decreasing in 2027.

BOXES:

The redistributive effects of public services in Italy

Changes to personal income tax (IRPEF) and other tax wedge cut measures in the latest Budget Law: a microsimulation analysis

The institutional environment and business activity regulation

[11] The quality of the institutional environment continued to improve in Italy in 2024, though not in all areas of public action.

The length of civil proceedings remained stable, halting the reduction under way for more than a decade; however, the backlog did continue to decline. The introduction of alert mechanisms and new out-of-court dispute resolution schemes in 2022 was flanked by a more timely disclosure of firms' difficulties and by greater recourse to debt restructuring tools. The average time for awarding public works contracts shrank further, partly as a result of the increased use of direct procedures – with less complex processes – and the digitalization of tenders.

The number of public sector employees rose again in 2024, returning to the levels recorded at the beginning of the last decade in all sectors, with the exception of ministries and local authorities. Despite the upturn in hiring and the need to replace staff close to retirement, public sector wages have become less attractive for skilled workers compared with those available in the private sector.

Overall, recent market regulation measures could have a limited impact on competition. Action is still needed in some areas to reduce the constraints on market entry and on running businesses, especially in professional services and retail trade, and to increase competition in tenders and concessions. Simplifying legislation is also a priority at European level: the European Commission has proposed easing environmental and social sustainability reporting and due diligence requirements, and, furthermore, has announced a broader set of measures.

BOXES:

An indicator of the quality of the institutional environment

Retail trade: regulation and e-commerce

Remuneration of managing directors and ESG factors

Banks and institutional investors

[12] In 2024, credit growth remained weak in Italy, albeit with signs of recovery supported by the gradual easing of monetary policy. Lending to firms continued to contract, mainly as a result of sluggish demand. Credit supply conditions remained prudent, especially for small firms. By contrast, lending to households returned to growth; specifically, the reduction in interest rates boosted demand for loans for house purchase. These trends were confirmed in the first quarter of 2025. In the coming months, credit developments could be affected by the heightened uncertainty surrounding the global macroeconomic outlook.

The loan default rate rose slightly, driven by that for loans to firms, but the overall quality of the assets held by banks remained in line with the euro-area average. The loan default rate is expected to inch up for firms this year and in 2026, and to remain broadly stable for households.

The amount of government bonds held by Italian banks grew, mainly due to purchases of securities issued by other euro-area countries.

Total funding continued to contract, driven by the reduction in liabilities to the Eurosystem. In the wholesale component, recourse to the foreign interbank market and to bond issuance increased; retail deposits turned upwards owing to growth in deposits from residents. The average cost of outstanding funding fell by about half a percentage point, reflecting lower interest rates.

Profitability improved further, supported by higher fee income and, to a lesser extent, by a rise in net interest income. The latter increased due to the maturing of targeted longer-term refinancing operations (TLTRO III), which reduced interest expense, thereby more than offsetting the smaller contribution from customer operations. The increase in profitability was curbed by higher staff costs stemming from the renewal of the national collective bargaining agreement. Although declining, profitability is expected to remain high this year.

Capital adequacy benefited from retained earnings, which more than offset the negative impact of share buy-backs and the slight increase in risk-weighted assets.

In April 2024, Banca d'Italia activated a systemic risk buffer to strengthen the banking system and preserve its resilience in the event of adverse circumstances; when fully phased in by June 2025, the buffer will be equal to 1.0 per cent of credit and counterparty risk-weighted exposures to residents in Italy.

The digital transformation of the Italian banking sector is moving forward, and its efficiency continues to improve thanks to growing investment in innovation. A limited number of banks are also using new technologies for assessing creditworthiness, including artificial intelligence; this could make it easier for small and innovative firms to access credit.

Growing awareness of climate risks is reflected in the fact that about one third of Italian banks are granting green loans to firms and households, e.g. loans for purchasing energy-efficient houses, at more favourable conditions. At the same time, banks are gradually implementing the climate-related and environmental (C&E) risk action plans required by the supervisory authority, with satisfactory results in terms of governance and organization. However, significant delays persist in the adoption of a comprehensive and reliable database for C&E risk profiles and in the upgrading of IT systems.

In 2024, financial market and interest rate performance contributed to increasing the net funding and total assets of the major Italian institutional investors.

BOX:

Bank lending to large and small firms

The money and financial markets

[13] Conditions on the Italian financial markets in 2024 mainly reflected the progressive easing of the level of monetary policy restriction. Since the autumn, they have also been affected by geopolitical and trade tensions, leading to growing uncertainty over the macroeconomic outlook.

Over the year, the yields on Italian ten-year government bonds decreased and their spread with the corresponding German bonds narrowed, and liquidity conditions improved. The substantial net issuance was absorbed in an orderly manner, thanks to high demand from private investors in the face of a progressive reduction in purchases by the Eurosystem.

Share prices went up, albeit to varying degrees across sectors. They benefited from the fall in interest rates and, especially in early 2024, from the strong optimism at global level about the effects of artificial intelligence on firms' prospects for profitability. In the second half of the year, stock prices were affected by the global financial market tensions triggered in early August by the release of weaker than expected US macroeconomic data, as well as by uncertainty over the political situation in some euro-area countries and over US trade policies.

In 2024, Euronext completed its clearing internalization project, which envisages the use of Euronext Clearing as the group's reference central counterparty for equity and derivatives markets. The consolidation of clearing services in euros is aimed at improving the international competitiveness of the European financial system, by encouraging progress towards a single capital market.

The yield on Italian government securities rose in the early months of 2025, as it did in the other main euro-area countries, driven by the prospect of an expansion in public spending on European defence at a time of high volatility, and then benefited from the improvement in its Standard & Poor's rating. Early in April, the Italian stock price index was greatly affected by fears of a global recession, caused by the United States announcing new, higher than expected tariffs and by the considerable uncertainty about changes in their trade policy. It then fully recovered following the announcement that the measures would be suspended for 90 days and negotiations were to start between the United States and China.

BOXES:

Supply and demand for Italian government bonds in the midst of a shrinking Eurosystem balance sheet

The expansion of Italian central counterparty clearing services

Special focus section – International trade: fragmentation and digitalization

[14] Global economic integration has scaled up since the late 1970s, driven by the growth in international flows of goods, services, capital, data and people. This trend continued until the global financial crisis of 2008, when trade growth slowed because some of the driving forces lost momentum and barriers to trade were restored thereafter. The global financial crisis and China's rise in the world economy fuelled a negative perception of globalization, especially in advanced economies, where it was blamed for de-industrialization, job losses and greater inequalities. This was followed by a decline in consensus towards policies for trade openness and, in some cases, by a return to protectionism.

The rivalry between the United States and China led to a trade war in 2018-19, with the introduction of reciprocal tariffs and restrictions. The COVID-19 pandemic subsequently highlighted the vulnerability of supply chains, pushing many governments to introduce subsidies to support internal production of strategic goods.

Interdependence between countries, initially seen as a contributor to stability, has gradually come to be thought of as a source of risk, especially for foreign supplies in strategic sectors. The Russian invasion of Ukraine in 2022 exacerbated these trends and widened geopolitical divisions. The US administration has imposed new tariffs since the beginning of this year that have also affected traditional US allies and almost all goods, bringing US trade barriers to their highest level since protectionism in the 1930s and generating high market uncertainty because of the series of announcements of new measures, temporary suspensions and partial deals.

In contrast to slowing trade in goods and to its increasing fragmentation, trade in services continued to expand, boosted by technological progress and digitalization. These developments have drastically reduced communication costs and made it possible to export services initially considered as non-tradable, thereby transforming how economies integrate.

These global trade dynamics pose significant challenges for Italy, which is closely interconnected in international goods and service markets, but still has a limited presence in advanced services. Italian exports are also exposed to the imposition of tariffs by the United States, which is one of Italy's main outlet markets. An escalation in global geopolitical tensions could create difficulties for supply chains and for the supply of critical inputs, such as those for the digital and energy transition.

BOXES:

National security and new industrial policies in the chip sector

The reaction of Italian exporting firms to Brexit

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