

Italy's Economic Outlook - 2013-2014

■ Global economic growth has improved since mid-2012, but advanced economies are forecast to recover gradually only in the second half of 2013. As a result, oil price is expected to reach 106.2 dollars per barrel in 2013, increasing slightly to 107.2 dollars per barrel in the following year. In 2014, world trade is expected to expand by 6.2% per year in volumes, up from 3.6% in 2013. Against this background, the euro/dollar exchange rate is assumed to stabilize at around 1.29 in 2013 with a slight depreciation in 2014 (1.28).

■ In 2013, the Italian GDP is expected to fall by 1.4% in real terms, as a result of a reduction in domestic demand. This is only partially offset by the positive contribution of external demand, as import growth is projected to remain negative and export increases. Total investment are forecast to decline due to tight credit conditions and persistent negative economic sentiment. Private consumption is expected to fall further, reflecting a decline in households' purchasing power and rising unemployment.

■ In 2014, GDP is expected to return gradually to growth (+0.7%). Private consumption would contribute positively to output growth. Investment are projected to rebound, supported by buoyant export. As a result, the contribution of domestic demand to output growth is estimated to be positive.

■ This outlook is based on the assumption of mild positive effects on 2014 private investment growth of recent measures approved by Parliament to accelerate budget arrears repayments to the private sector.

■ Downside risks to these forecasts reflect weaker external demand. Upside risks are related to higher investment and consumption effects from reduced liquidity constraints in the private sector.

TABLE 1: FORECAST FOR THE ITALIAN ECONOMY - 2013-2014 (% CHANGE ON PREVIOUS YEAR)

	2010	2011	2012	2013	2014
Gross Domestic Product	1,7	0,4	-2,4	-1,4	0,7
Imports of goods and services (fob)	12,6	0,5	-7,7	-1,5	3,8
Exports of goods and services (fob)	11,4	5,9	2,3	2,3	3,9
Domestic demand (including inventories)	2,1	-1,0	-5,3	-2,5	0,6
Residential households consumption expenditure	1,5	0,1	-4,3	-1,6	0,4
Government Consumption	-0,4	-1,2	-2,9	-1,7	-0,4
Gross fixed capital formation	0,6	-1,8	-8,0	-3,5	2,9
Households consumption expenditure deflator	1,5	2,9	2,8	1,8	1,7
Gross domestic product deflator	0,4	1,3	1,6	1,6	1,7
Compensation of employees per full-time equivalent	2,8	1,3	1,0	1,0	1,3
Full time equivalent employment	-1,1	0,1	-1,1	-1,0	0,1
Unemployment rate	8,4	8,4	10,7	11,9	12,3
Trade balance (level as % of GDP)	-1,9	-1,5	+1,2	2,6	2,9
Contribution to GDP					
Domestic demand (net of Inventories)	0,9	-0,5	-4,8	-2,0	0,7
Foreign balance	-0,4	1,4	3,0	1,1	0,1
Inventories	1,1	-0,5	-0,6	-0,5	-0,1