

ITALY'S ECONOMIC OUTLOOK

Year 2014-2016

- In recent months, after a temporary slowdown in the first quarter of 2014, the U.S. economy has recovered, while growth in the Euro area is still weak. Our forecast envisages a further depreciation of the euro/dollar exchange rate both in 2014 and 2015 fostered by the U.S. restrictive monetary policy. In 2014, world trade is expected to expand by 3 percent in real terms, increasing to 4.4 and 4.8 percent in 2015 and 2016 respectively. World economic growth is worse than forecast in May, thus influencing the projection of oil price which was significantly revised downwards (from 112 to 97.8 dollar per barrel). Brent crude oil price is assumed to remain below 100 dollar per barrel in 2014-16.
- In 2014, GDP is expected to decrease by 0.3 percent, expanding by 0.5 percent in 2015 and growing by 1.0 percent in 2016, in real terms. The recovery will be mainly driven by domestic demand.
- In 2014, the fall in domestic demand (net of inventories) will account for 0.3 percentage points of GDP growth decline, while foreign demand will support growth by 0.1 percentage points. In 2015, domestic demand is expected to support GDP expansion (+0.5 percentage points) while foreign demand will account for an increase of 0.1 percentage points. In 2016, domestic demand will be the main driver of GDP growth.
- Domestic consumption is expected to increase by 0.3 percent in 2014 and by 0.5 percent in 2015 (reaching a growth rate of 0.8 percent in 2016). In 2014, capital accumulation is expected to decrease by 2.3 percent, recovering at 1.3 percent in 2015 and 1.9 percent in the following years. This reflects softer credit conditions and an improvement in general economic sentiment after 2014.
- In 2014, the unemployment rate is foreseen to remain high at 12.5 percent and to decrease slightly to 12.4 percent the following year and to 12.1 percent in 2016.

TABLE 1: FORECAST FOR THE ITALIAN ECONOMY - 2014-2016 (% CHANGE ON PREVIOUS YEAR)

	2012	2013	2014	2015	2016
Gross Domestic Product	-2.3	-1.9	-0.3	0.5	1.0
Imports of goods and services (fob)	-8.0	-2.7	1.2	2.3	3.3
Exports of goods and services (fob)	2.0	0.6	1.5	2.5	3.2
DOMESTIC DEMAND (INCLUDING INVENTORIES)	-5.0	-2.9	-0.4	0.4	0.9
Residential households consumption expenditure	-4.0	-2.8	0.3	0.6	0.8
Government Consumption	-1.5	-0.7	-0.2	-0.6	0.0
Gross fixed capital formation	-7.4	-5.4	-2.3	1.3	1.9
CONTRIBUTION TO GDP					
Domestic demand (net of Inventories)	-4.2	-2.9	-0.3	0.5	0.8
Foreign balance	2.8	0.9	0.1	0.1	0.1
Inventories	-0.9	0.0	-0.1	-0.1	0.1
Households consumption expenditure deflator	2.8	1.2	0.3	0.7	1.8
Gross domestic product deflator	1.6	1.4	0.4	0.6	1.1
Compensation of employees per full-time equivalent	1.3	1.4	1.0	0.9	1.0
Full time equivalent employment	-1.1	-1.9	-0.2	0.2	0.7
Unemployment rate	10.7	12.2	12.5	12.4	12.1
Trade balance (level as % of GDP)	0.9	2.3	2.8	2.9	3.0