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ITALY'S ECONOMIC OUTLOOK 2025-2026

- Italian GDP is expected to grow by 0.6% in 2025 and 0.8% in 2026, following a 0.7% increase over the previous two years (Table 1)

- The increase in GDP over the two-year forecast period would be entirely supported by domestic demand net of inventories (+0.8 and +0.9 percentage points, respectively), while net foreign demand would contribute negatively in both years (-0.2 and -0.1 p.p.). The forecast scenario for net foreign demand assumes a reduction in the climate of uncertainty surrounding U.S. trade policy in the second half of 2025. Nevertheless, a negative impact of tariffs on global trade and international growth prospects is still assumed.

- Private consumption is projected to continue growing at a moderate but steady pace (+0.7% in both years), supported on the one hand by the ongoing growth in wages and employment, and on the other hand curbed by a rising propensity to save. Investment growth, which accelerated in 2025 (+1.2%, up from +0.5% in 2024), is expected to benefit from the strong performance in the first quarter. However, a substantial stagnation is likely to follow in the second half of the year, before a slight further acceleration is recorded in 2026 (+1.7%), in conjunction with the final phase of the NRRP.

- Employment, measured in terms of Full Time Equivalent (FTEs), would grow slightly faster than GDP (+1.1% in 2025 and +1.2% in 2026), albeit at a slower pace than in previous years, accompanied by a further decline in the unemployment rate (6.0% this year and 5.8% in 2026).

- After the rise in prices between late 2024 and the early months of 2025, a more moderate inflation trend is expected over the year, supported by falling energy prices and weakening demand prospects. The increase in the household spending deflator in 2025 would be in line with these developments (+1.8%), followed by a slight further decrease in 2026 (+1.6%).

TABLE 1. FORECAST FOR THE ITALIAN ECONOMY– GDP AND MAIN COMPONENTS
Years 2023-2025, Concatenated values for demand components; year-on-year percentage changes and percentage points

	2023	2024	2025	2026
Gross Domestic Product	0.7	0.7	0.6	0.8
Import of goods and services (FOB)	-1.6	-0.7	2.1	2.2
Export of goods and services (FOB)	0.2	0.4	1.3	1.8
DOMESTIC DEMAND (INCLUDING INVENTORIES)	0.1	0.4	0.8	0.9
Residential household consumption expenditure and NPISH	0.4	0.4	0.7	0.7
Government Consumption	0.6	1.1	0.6	0.6
Gross fixed capital formation	9.0	0.5	1.2	1.7
CONTRIBUTION TO GDP				
Domestic demand (net of inventories)	2.3	0.5	0.8	0.9
Net export	0.7	0.4	-0.2	-0.1
Inventories	-2.3	-0.2	0.0	0.0
Household consumption expenditure deflator	5.0	1.4	1.8	1.6
Gross domestic product deflator	5.9	2.1	1.6	1.6
Compensation of employees per full-time equivalent	2.1	2.9	3.3	3.3
Full-time equivalent employment	2.4	2.2	1.1	1.2
Unemployment rate	7.5	6.5	6.0	5.8
Trade balance (level as % of GDP)	1.4	2.3	2.0	2.0

The International Framework

The global economy is slowing down, hindered by high uncertainty linked to international trade.

In 2024, global economic growth (+3.3%) was driven by stronger-than-expected momentum in China and a still robust performance in the United States. However, over the forecast horizon, a deceleration in the global economy is expected, followed by stabilisation in the following year (+2.9% in 2025 and +3.0% in 2026). This trend is being negatively affected by uncertainty fueled by continuous changes in U.S. trade policy and by heightened geopolitical tensions

Although global trade exhibited lively dynamics in the first quarter of 2025, also driven by the anticipated imposition of tariff restrictions, which prompted countries to accelerate their transactions, expectations point to a strong deceleration for the remainder of the year. The most recent forecasts from the European Commission estimate a significant slowdown in the volume of global trade in goods and services for 2025 (+1.8%, down from +2.9% in 2024), followed by a partial recovery in 2026 (+2.2%).

Moreover, the outlook for a global economic slowdown is exerting downward pressure on energy commodity prices (also restrained by increased supply).

According to the latest available data, the major economies recorded mixed performances in the first quarter of 2025. In China, GDP grew by 1.2% quarter-on-quarter (down from +1.6% in the previous three months), driven by the positive trend of the industrial sector, export performance, and fiscal and monetary stimulus measures. The slowdown in Chinese domestic demand and the uncertain trade outlook would weaken the country's growth expectations (Table 2).

TABLE 2. MAIN VARIABLES RELATING TO THE GLOBAL ECONOMY AND MAJOR ECONOMIES

Years 2024-2026, Levels and year-on-year percentage changes

	2024	2025	2026
Brent crude oil (dollars per barrel)	80.5	67.7	65.0
USD to Euro exchange rate	1.08	1.11	1.13
Global trade in volume*	2.9	1.8	2.2
GROSS DOMESTIC PRODUCT			
World	3.3	2.9	3.0
Developed countries	1.9	1.5	1.7
USA	2.8	1.6	1.6
Japan	0.1	0.7	0.6
Euro Area	0.9	0.9	1.4
Emerging and developing countries	4.3	3.9	4.0
China	5.0	4.1	4.0

Source: DG-ECFIN Spring Forecasts (2025) and Istat elaboration

* Global export of goods and services in volume

In the United States, GDP registered a slight contraction for the first time in three years in the first quarter (-0.1% quarter-on-quarter, down from +0.6% in the previous period), mainly due to a sharp increase in imports. The historically unprecedented rise in effective import tariff implementation, combined with considerable uncertainty stemming from trade policy, could negatively impact household consumption and investment decisions in the months ahead. For 2025, a slowdown in the U.S. economy is projected (+1.6%, down from +2.8%), followed by a stabilisation of the growth rate in 2026.

The euro area's GDP growth accelerated in the first quarter (+0.4%, up from +0.2% in the previous three months). At the national level, increases were recorded in both Germany (+0.2% quarter-on-quarter after -0.2% in the last quarter) and France (+0.1% after -0.1% in late 2024); in Spain, economic activity continued to grow at a higher pace (+0.6% quarter-on-quarter, down from +0.7% in Q4 2024).

According to European Commission forecasts, the euro area's economic activity is expected to grow at the same pace as in 2024 in 2025 (+0.9%), followed by an acceleration in 2026 (+1.4%). Trends would, however, be uneven across countries: in Germany, following two consecutive years of recession, GDP growth in 2025 would remain flat, before rebounding to 1.1% in 2026; in France, the expansion rate would halve this year (+0.6%, down from +1.2%) before recovering in 2026 (+1.3%); in Spain, finally, GDP would show a downward trend (+2.6% and +2.0% in 2025 and 2026 respectively, down from +3.2% in 2024).

Regarding international exogenous variables used by Istat to develop forecasts, the euro-dollar exchange rate exhibited significant volatility in the first five months of 2025, primarily due to persistent uncertainty. A technical assumption is adopted for 2025 and 2026, projecting May's average exchange rate throughout the forecast period; this results in a gradual appreciation of the euro against the dollar (Table 2).

Regarding major energy commodities, expectations of weaker global demand, combined with OPEC's decision to increase oil production starting in June, are exerting downward pressure on oil and natural gas prices, helping to reduce global inflation expectations. Additionally, for Brent prices, which stood at $ 80.50 per barrel in 2024, a technical assumption of invariance is adopted throughout the forecast period, based on the average price in May 2025. Prices are expected to settle at $67.7 per barrel this year and at $65 in 2026.

Economic situation in the early months of 2025 and forecasts for the Italian economy

In the first quarter of 2025, following the weak trend of the second half of the previous year, GDP grew by 0.3% quarter-on-quarter (0.7% year-on-year), reflecting a positive contribution from domestic demand net of inventories (+0.4 p.p.) and net foreign demand (+0.1 p.p.), while inventories had a negative impact (-0.3 p.p.).

Gross fixed capital formation was the most dynamic component of domestic demand in the first quarter of 2025 (+1.6% quarter-on-quarter); household and non-profit consumption expenditure also increased slightly (+0.2%), whereas public administration spending declined (-0.3%).

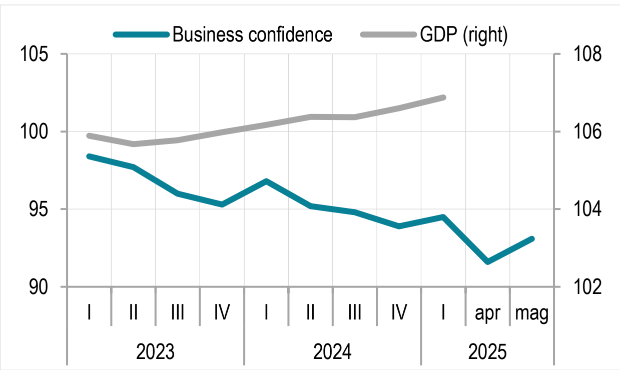
On the supply side, in Q1 2025, there were positive quarterly changes in value added in the industrial sector (+1.2%) and in the agriculture sector, while services saw a slight decrease (-0.1%). Within industry, construction showed slightly stronger growth (+1.4%) than the rest of the sector (+1.1%). Among services, artistic and entertainment activities saw a significant expansion (+2.3%), while financial and insurance services (-1.4%) and real estate activities (-0.9%) contracted.

In the first four months of 2025, surveys on consumer and business confidence indicated a progressive worsening, particularly regarding the economic trend, which was only partially offset by a rebound in May (Figures 1 and 2).

For consumers, in May the overall index shows a lower level compared to January (a difference of -1.7 points in the balances); among the components of the indicator, the deterioration is more evident in the economic climate (-3.5 points) and the future climate (-2.4 points), and less so in the personal climate (-1.0) and the current climate (-1.2), reflecting the high level of uncertainty characterising the evolution of the international scenario.

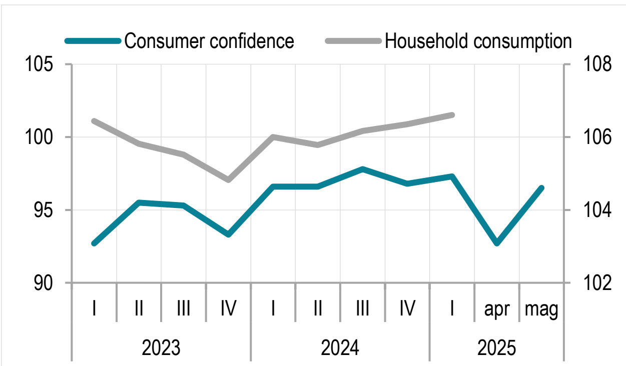
Among businesses, the decline in confidence appears more pronounced (-2.4 points difference in balances between January and May), but also highly uneven across sectors: the drop is more significant in market services (-4.3 points) and retail trade (-3.3), less so in construction (-2.0), and slight in manufacturing (-0.2). In the latter sector, however, over the same period, assessments of current production (-0.4 points) and expected production (-1.4), as well as future orders (-1.8) and, most notably, economic outlook (-5.0), remain below the levels recorded at the beginning of the year

FIGURE 1. GDP AND BUSINESS CONFIDENCE CLIMATE. Chained values and index base 2021=100



Fonte: Istat

FIGURE 2. HOUSEHOLD CONSUMPTION AND CONSUMER CONFIDENCE CLIMATE. Chained values and index base 2021=100



Fonte: Istat

The weakening in business and consumer sentiment was therefore influenced by the high uncertainty resulting from the succession of announcements regarding the imposition of tariffs on international trade.

However, Italy's foreign trade appears to have benefited both from contracts in the ship building industry, that have been scheduled for a long time, and from the "advance effect": the imminent implementation of tariff restrictions may have accelerated both imports and exports in Q1 2025 (+2.6% and +2.8% quarter-on-quarter, respectively for imports and exports).

In the forecast scenario, although these tensions are expected to ease gradually in the second half of 2025, they will still hurt the economic cycle, with more pronounced effects on investment and foreign trade, and to a lesser extent on household consumption. The latter would continue to benefit from the recovery in wages and employment, while being held back by uncertainty regarding the evolution of the economic cycle and the resulting increase in the propensity to save.

For 2025, the growth of capital accumulation, following the strong performance in the first quarter, is expected to be negatively impacted by the weakening of domestic and foreign growth prospects. However, on an annual average, it is still expected to register an increase compared to 2024. In 2026, a return to a positive growth path is projected, partly driven by investment contributions from the Transition 5.0 Plan and the implementation of projects under the National Recovery and Resilience Plan (NRRP). However, both programs are currently facing delays in their implementation. Further support could come from the continuation of the interest rate reduction process expected from the ECB.

The moderate trend in consumption and the solid conditions in the labour market are not expected to significantly affect inflation dynamics, which should remain consistent with the Central Bank's targets, also benefiting from the anticipated slowdown in the energy component over the biennium (as well as from the appreciation of the euro). The potential recovery from inflation remains contingent upon exogenous risks, depending on the global economic scenario.

In 2025, GDP is projected to grow by 0.6%, driven exclusively by domestic demand, which, net of inventories, would contribute positively by 0.8 percentage points, while net foreign demand would have a slightly negative impact (-0.2 percentage points). The expansion phase of the Italian economy would see a slight acceleration in 2026 (+0.8%), in line with a strengthening of the international cycle; again, the contribution would come from domestic demand net of inventories (+0.9 p.p.); foreign trade recovery is expected to be led by stronger import growth compared to exports, thus confirming a slightly negative contribution (-0.1 p.p.) from net foreign demand.

In this scenario, the trade balance would remain positive in both 2025 (2.2% of GDP) and 2026 (2.0%).

Moderate growth in consumption

In Italy, final national consumption increased by 0.6% in 2024; both household and NPISH (non-profit institutions serving households) spending, as well as government consumption, contributed positively to GDP growth (by 0.2 percentage points). Final consumption expenditure by resident households grew by 0.4% in volume terms (+0.3% in 2023). Across the domestic economy, consumption spending on services increased by 0.4%, and on goods by 0.6%.

In the first quarter of 2025, the contribution of final national consumption to GDP growth remained positive, albeit more limited, driven by household and NPISH spending (0.21 percentage points), while public administration expenditure made a negative contribution (-0.1 percentage points).

Final national consumption spending grew moderately on a quarterly basis (+0.1%), slowing down compared to the two previous quarters and lagging behind the increase observed in Spain (+0.4%) and Germany (+0.2%). In contrast, France recorded a negative quarterly variation in Q1 2025 (-0.1%), despite having shown stronger consumption growth than Italy in 2024.

In Italy, household spending within the domestic economy increased by 0.2% quarter-on-quarter in Q1 2025, the same rate as in the previous quarter. The increase was supported by the growth in service purchases (+0.6%), continuing the expansion seen in 2024. Durable goods, on the other hand, showed a marked decline (-1.3%), confirming the slowdown that was reported in the previous quarter. Spending on non-durable goods remained flat, as seen in the fourth quarter of 2024 (0.0% and -0.1% respectively). Semi-durable goods continued to grow, albeit at a slower pace than in the previous quarter (+0.6%).

In 2025, private consumption is expected to grow by +0.7% compared to the previous year; this increase would be supported, on the one hand, by the rise in employment and per capita wages at a pace higher than inflation, and, on the other, would be negatively affected by the climate of uncertainty, with the ongoing recovery phase of the propensity to save. In 2026, growth is projected to stabilise at the same pace as in 2025. Public consumption is expected to increase at a steady rate over the forecast period (+0.6% in both 2025 and 2026), although it will slow compared to 2024.

Recovery of the capital accumulation process

In 2024, gross fixed capital formation in Italy grew at a moderate pace (+0.5% compared to the previous year). Compared to the main euro area countries, Spain recorded a significantly more substantial increase in the same period (+3%), while investment declined in France (-1%) and, above all, in Germany (-2.7%). Regarding GDP, the investment-to-GDP ratio in Italy decreased from 22.5% in 2023 to 22% in 2024, a share higher than that of Spain (19.5% in 2024) and Germany (20.9% in 2024), and slightly lower than in France (22.1% in 2024).

In the first quarter of 2025, capital accumulation showed a strong increase (+1.6% quarter-on-quarter, seasonally and calendar-adjusted), the highest among the main euro area countries. Spain and Germany also posted positive growth (+1.2% and +0.9%, respectively), while France remained flat. As to investment by type (Figure 3) in Italy, investment expanded across all significant categories: construction (+1.7% quarter-on-quarter), both residential (+1.7%) and non-residential (+1.8%); investment in intellectual property products (+1.7%); and investment in equipment, machinery, and weapons (+1.2%).

In the short term, positive signals come from quarterly business confidence surveys in the manufacturing sector, with a slight increase in capacity utilisation and improved expectations regarding liquidity and access to credit. However, these are counterbalanced by signs of stagnation in industrial production and the strong uncertainty linked to trade and geopolitical tensions, which could negatively affect both international and domestic growth prospects.

Investments, after performing well in the first three months of the year, are expected to stagnate in the second half of 2025. This trend would be negatively influenced by residential investments, due to the phasing out of construction incentives; uncertainty and the worsening of both domestic and international growth prospects would limit the contribution of investments in transport equipment. Conversely, investments in non-residential buildings are expected to grow, as they will benefit from the carry-over effect of the first quarter's performance and, to a lesser extent, from the implementation of measures under the NRRP. Considering these factors, the capital accumulation process is expected to show growth in 2025 (+1.2% compared to 2024). In 2026, a return to a further expansionary trend is expected, leading to a slight acceleration in the annual average figure (+1.7%). The investment-to-GDP ratio is forecast to remain essentially stable, at 21.9% in 2025 and 22% in 2026.

Foreign trade recovering

In 2024, foreign trade showed moderate growth, in line with the previous year's performance: exports of goods and services in volume grew by 0.4% (compared to 0.2% in 2023). This result was driven by a light decline in goods exports to foreign markets, offset by an increase in service exports, particularly boosted by the strong performance of the tourism sector.

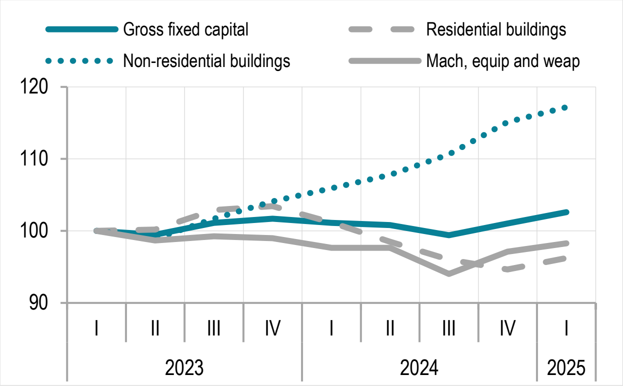
Imports of goods and services continued to decline, though at a slower pace than in the previous year (-0.7%, compared to -1.6% in 2023); here too, the contraction in goods imports, caused by weak demand, was offset by an increase in service imports.

Overall, Italy's increase in the export of goods and services in 2024 was lower than that observed in France (+2.5%) and Spain (+3.1%), but higher than in Germany, where exports declined (-1.8%)

The weakness in goods and services imports was a common trend in Italy (-0.7%), France (-1.2%), and Germany (-0.7%), while in Spain, foreign purchases continued to rise (+2.4%).

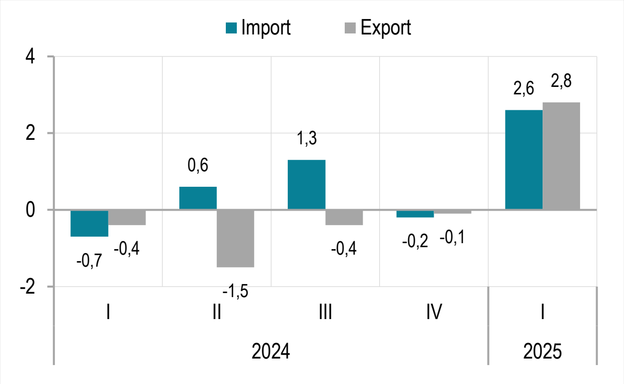
At the beginning of 2025, Italy's trade showed a sharp increase affecting both goods and services (Figure 4). Exports of goods and services rose by 2.8% quarter-on-quarter and by 0.8% year-on-year. Imports also recorded a strong recovery both on a quarterly and annual basis (+2.6% and +4.3%, respectively).

FIGURE 3. TRENDS IN GROSS FIXED INVESTMENTS BY ASSET TYPE. Years 2023-2025, seasonally adjusted and chained data, index base Q1 2023=100



Source: Istat

FIGURE 4. TREND IN ITALY'S TRADE OF GOODS AND SERVICES. Years 2024-2025, seasonally adjusted and chained data, year-on-year changes



Source: Istat

Despite an expected reduction in uncertainty related to trade tensions, a slowdown in global trade of goods and services is projected for the remainder of the year, as well as in Italian foreign trade. Over the forecast period, both exports (+1.3% in 2025 and +1.8% in 2026) and imports (+2.1% and +2.2%) are projected to increase. However, imports are expected to grow at a slightly faster pace than exports, also supported by the euro's appreciation against the dollar, resulting in a negative contribution to GDP growth in both 2025 and 2026 (respectively -0.2 and -0.1 percentage points).

Labour market conditions continue to improve

In the first quarter of 2025, the positive trend in the labour market continued, with quarter-on-quarter increases in both hours worked and full-time equivalents (FTEs) across the entire economy (+0.7% for both indicators). The improvement was widespread across sectors, strongest in services (+1.0% for both FTEs and hours worked), more moderate in construction (+0.4% and +0.6% respectively), while the industrial sector remained stagnant.

In April, for the second consecutive month, the number of employed persons remained substantially stable after a period of growth in previous months; the employment rate held steady at 62.7%. The unemployment rate declined to 5.9% (-0.2 percentage points compared to the previous month), while the number of inactive individuals increased (+0.3%), raising the inactivity rate to 33.2% (+0.1 percentage points).

In Q1 2025, the seasonally adjusted job vacancy rate for all companies with employees fell by 0.1 percentage points compared to the previous quarter, reaching 2.0%. This overall result reflects a decline in the industrial sector, which decreased to 1.8% (down 0.1 percentage points quarter-on-quarter). In the services sector, the vacancy rate remained stable at 2.1%. Similarly, among companies with at least 10 employees, the job vacancy rate showed a quarter-on-quarter decrease in the industry (-0.1 percentage points) and stability in the services sector. Furthermore, in May 2025, employment expectations worsened in the manufacturing, retail trade, and construction sectors, while improving only in the services sector.

In this context, FTEs' growth over the forecast period (respectively +1.1% in 2025 and +1.2% in 2026) is expected to outpace GDP growth. The unemployment rate is projected to improve in 2025 (6.0%) and continue to decline in 2026 (5.8%).

Price dynamics in deceleration

The year-on-year change in the Harmonised Index of Consumer Prices (HICP), according to preliminary data, was +1.9% in May (+2% in the previous month), in line with the euro area average. Compared to the other main countries in the area, the Italian figure is similar to that of Spain, lower than Germany (+2.1%), and significantly higher than that of France, which stands at considerably lower levels (+0.6% in May, the lowest level since the end of 2020).

Consumer inflation for the entire population (NIC), which had been rising since October, fell in May (according to preliminary estimates) to +1.7% (from +1.9% in April). On a month-on-month basis, price growth was flat (+0.1% the previous month), and the acquired inflation for 2025 remained at +1.4%. This trend is largely due to the decline in energy prices, which rose sharply from November 2024 to March, then fell in both April (-5.8%) and May (-1.9%). In contrast, food prices have recently increased (+0.8% in May, after +0.6% in April). Moreover, service prices, which had accelerated in the second two-month period of the year (+0.6% in March and +1.3% in April), recently slowed down (+0.2% in May), mainly due to falling prices in transport services (-1.7%).

Imported product prices, which had risen in the first two months of 2025, returned in March (the latest available data) to the level of December 2024. On a year-on-year basis, they increased by +0.6%, down from +2.2% in February, mainly due to a significant slowdown in energy product inflation (+2.5%, down from +12.8%). Over the forecast horizon, a slightly positive trend is expected, following two years of contraction.

Among entrepreneurs, the intention to maintain stable price lists over the next three months prevails, both in manufacturing (84.2% in May, up from 82.6%) and in market services (89.1%, up from 85.7%).

Based on these dynamics, and considering expectations regarding international commodity price trends and prospects for moderate growth in domestic demand, household consumption deflator growth is expected to reach +1.8% in 2025, with a slight deceleration in 2026 (+1.6%). The GDP deflator, also due to the trend in import prices, is projected to be lower in 2025 (+1.6%) than the consumption deflator, and to remain stable in 2026.

Revisions to the previous forecasting framework

The current forecast scenario provides an update for 2025, compared to the estimates published in December 2024, and introduces projections for 2026.

Compared to the December forecasts, the 2025 estimates have been revised downward for the price of Brent crude oil (-6.7) and the global trade growth rate (-1.3 percentage points), while the euro exchange rate against the US dollar has appreciated (+4.7%).

These revisions have led to a significant scaling back of Italy's foreign trade projections for 2025, with reductions in the growth rates for both imports and exports (by 0.6 and 1.2 percentage points, respectively).

The evolution of the external environment and the information derived from estimates of national accounts for Q1 2025 have led to a reallocation of contributions from the underlying aggregates. While investments were revised upward (+1.2 percentage points), household consumption was revised downward (-0.5 percentage points). As a result, the GDP growth estimate for 2025 has been reduced by -0.2 percentage points (from +0.8% to +0.6%).

The positive trend in the labour market in 2024 and the early months of 2025 led to a downward revision of the unemployment rate (-0.2 percentage points compared to the December forecast) and an upward revision of both full-time equivalents (FTEs) and wages (+0.3 and +0.7 percentage points, respectively). The recent containment of inflation, along with the changed international context, also contributed to a downward revision of the GDP and consumption deflators (by -0.6 and -0.2 percentage points, respectively).

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