Note
ON THE ITALIAN ECONOMY

Istat

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- In the second quarter of 2025, GDP is recovering in the United States, slowing in China and in the euro area. However, global economic growth prospects remain highly uncertain, with negative signals emerging from leading indicators of international trade.
- In Italy, GDP recorded a slight decline in the second quarter (-0.1% quarter-on-quarter): while exports fell and inventories increased, private consumption remained stable and investment dynamics, although slowing, were still positive.
- The second quarter also saw a deceleration in Italian trade, primarily driven by a reduction in exports to non-EU markets: this downturn in exports to the United States was accompanied by pronounced declines in shipments to the United Kingdom, China, Russia, and Turkey.
- The industrial production exhibits quarter-on-quarter growth in July for the second consecutive month; manufacturing confidence decreased in August, whereas confidence in the services sector increased.
- The labor market continues to demonstrate resilience, evidenced by a further increase in July in both the number of employed individuals compared to the preceding month (+0.1%, or +13,000) and in the employment rate (62.8%, +0.1 percentage point). Employment levels among professional categories increased for both permanent and temporary positions, while they decreased among self-employed individuals.
- Consumer price inflation, as measured by the Harmonized Index of Consumer Prices (HICP), remained stable in August on a year-on-year basis (+1.7%). Inflation for consumer goods (including food, household items, and personal care products) continued to accelerate, reaching 3.5%.

Focus: *The robust post-pandemic recovery of energy demand and the Russian-Ukrainian conflict have led to a significant increase in costs, adversely affecting the financial resources of households and businesses in Italy and numerous other European countries. The focus examines the distributional profile of the income of households that have benefited from the energy subsidies implemented by the Italian government in recent years, as well as their efficacy in alleviating the prevalence of energy poverty.*

TABLE 1. MAIN ECONOMIC INDICATORS FOR ITALY AND THE EURO AREA - q-o-q and m-o-m % variations.

INDICATORS	ITALY	EURO AREA	PERIOD	ITALY PREVIOUS PERIOD	EURO AREA PREVIOUS PERIOD
GDP	**-0.1**	**0.1**	**Q2 2025**	**0.3**	**0.6**
Industrial Production	0.4	-1.3 (Jun)	Jul. 2025	0.2	1.1
Production in the construction sector	-1.4 (May)	-0.8	Jun. 2025	2.8	-2.1
Retail sales (volume)	-0.2	-0.5	Jul. 2025	0.6	0.6
Producer prices in the industry – domestic market	0.6	0.4	Jul. 2025	2.2	0.8
Consumer prices (HICP)*	1.7	2.1	Aug. 2025	1.7	2.0
Unemployment rate	6.0	6.2	Jul. 2025	6.2	6.3
Economic Sentiment Indicator**	-1.0	-0.5	Aug. 2025	0.4	1.6

*Year-on-year variations **Absolute differences compared to the previous month

Source: Eurostat, European Commission, Istat

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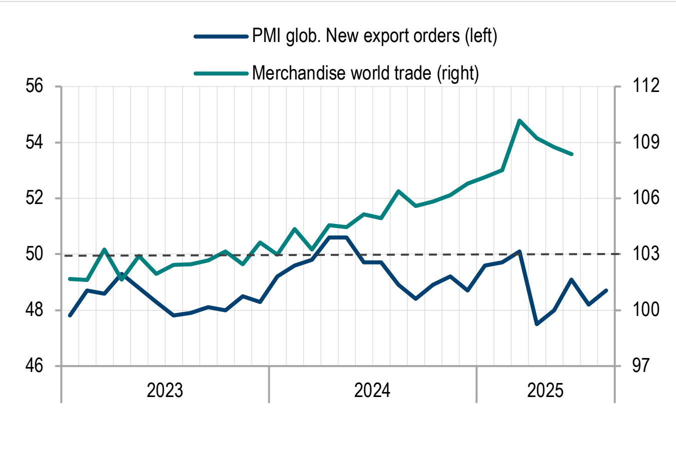
THE INTERNATIONAL FRAMEWORK

The international economy demonstrated notable resilience during the first half of 2025. Trade flows exhibited particular strength, pending the anticipated tariff increase. Average effective rates, after the finalization of the tariff framework by the US administration, were lower than previously projected. At the same time, financial conditions improved, while stock market volatility diminished. In light of these developments, the IMF has adjusted its global growth estimates upward. GDP is expected to grow by 3.0% in 2025, reflecting a 0.2 percentage point increase compared to the April forecast, and by 3.1% in 2026, representing a 0.1 percentage point increase.

However, the outlook remains uncertain: notwithstanding these positive indicators, uncertainty continues to characterize the trajectory of the global economic cycle in the forthcoming months. International trade in goods by volume, as reported by the CPB, declined in May (-0.4% compared to the preceding month) and further contracted in June (-0.3%). Imports from the United States underwent a significant reduction (-4.5% quarter-on-quarter), following fluctuations of 0.3% and -20% in May and April, respectively. On a quarterly basis, the downturn in US imports during the April-June interval (-18.1% quarter-on-quarter) nearly offset the substantial increase observed in the initial three months of the year (+18.4%), which had, in turn, been influenced by anticipatory behaviors regarding impending tariff escalations.

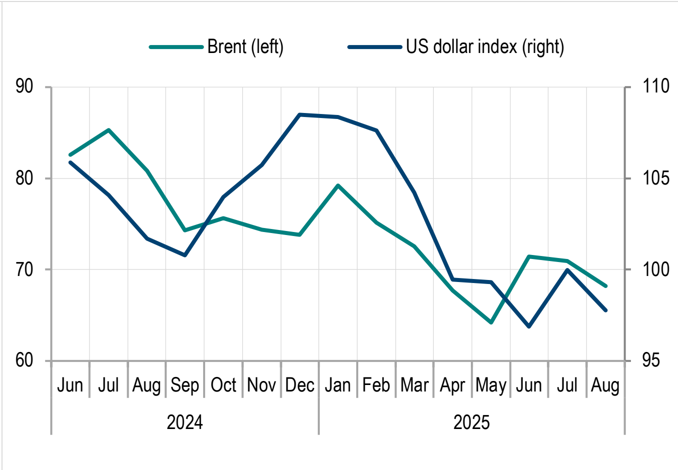
Indicators for global trade remain dismal. The global composite Purchasing Managers' Index (PMI) for new export orders, a gauge of international demand dynamics, demonstrated slight recovery during the two months from May to June; however, it recorded a further decline in July (48.2) and a marginal increase in August (48.7), remaining below the critical 50-point mark indicative of expansion (Figure 1).

FIGURE 1. MERCHANDISE WORLD TRADE IN VOLUME AND PMI GLOBAL COMPOSITE NEW EXPORT ORDERS. Index 2021=100, >50 = growth



Source: CPB and IHS

FIGURE 2. US DOLLAR INDEX AND OIL PRICE. Brent: US dollars per barrel; USDX: index number*



Source: World Bank and Marketwatch

* The USDX index is calculated as the weighted geometric mean of the values of the U.S. dollar against the euro, Japanese yen, British pound, Canadian dollar, Swedish krona, and Swiss franc.

The depreciation phase of the dollar has concluded. The US currency has ceased the declining trend it experienced since the beginning of the year. Between January and July, the dollar depreciated against the euro by an average of 12.8%. Between July and August, daily prices initially experienced a period of appreciation, then they began to weaken once more, resulting in a significant stabilization of the monthly average compared to July (August average: $1.16 per euro). Analogous trends were also observed in relation to other principal currencies. The US dollar index, which measures the dollar's exchange rate against the euro, yen, sterling, Canadian dollar, Swedish krona, and Swiss franc, appreciated in July but subsequently weakened again (Figure 2). This trend was further influenced by anticipations of an interest rate reduction by the Federal Reserve, which gained strength following lower-than-expected inflation data for July.

Energy commodity prices have decreased once again. Following a rebound in June, the alleviation of geopolitical tensions between Iran and Israel has resulted in a subsequent decline in gas and oil prices. The average price of Brent crude effectively stabilized in July before decreasing by 3.9% in August to $68.2 per barrel, down from $70.9 in July. Natural gas prices experienced an even steeper decline, decreasing by 5.6% (the index fell from 102.1 to 96.3). Oil prices were also adversely affected by the production increases announced by OPEC+ for August and September.

In the United States, economic growth in the second quarter indicates a rebound following a contraction in the first quarter. The U.S. gross domestic product (GDP) exhibited a robust recovery in the second quarter, recording a 3.3% quarter-on-quarter and year-over-year increase, contrasting with a 0.5% decline observed in the initial three months of 2025. This recovery is predominantly characterized by a significant reduction in imports (-29.8%) alongside an increase in consumer spending (+1.6%), although this was offset by a substantial decrease in private investment (-13.8%) and a more moderate decline in exports (-1.3%). A deceleration in economic activity is anticipated in the forthcoming months. In July, the Conference Board's leading indicator, which signals turning points in the business cycle, experienced a further modest decrease (-0.1%, after a -0.3% in June), thereby continuing a declining trend (-2.7% from January to July) and indicating a potential weakening of the economic cycle in the second half of the year. The inflationary impacts resulting from the implementation of import tariffs have yet to materialize; in July, the consumer price index remained stable on a year-on-year basis (+2.7%; +0.2% in comparison to the previous month), which has led to increased expectations regarding monetary policy easing in the approaching months, as mentioned above.

In China, economic activity moderated slightly in the second quarter compared to the previous quarter, recording a year-on-year growth rate of +5.2%, down from +5.4% in the first quarter. Despite a diminished contribution from exports, GDP growth remains consistent with the government's target of an expansion of "around 5%" for 2025. Industrial production experienced a slowdown in July, with an annual growth rate of +5.7%, a decline from +6.8% in June. However, the manufacturing Purchasing Managers' Index (PMI) indicated a marginal improvement in August, rising just above the 50-point threshold that indicates expansion (50.5 points), attributed to an increase in new orders. In response to the decline in domestic demand, the government implemented two stimulus programs aimed at boosting household consumption and supporting service enterprises.

In the euro area, economic activity experienced a pronounced slowdown in the second quarter, with GDP growth increasing by 0.1% quarter-on-quarter, down from 0.6% in the first quarter, and a year-on-year growth rate of 1.4%, a decrease from 1.5% in the previous quarter. The most substantial contribution to growth stemmed from inventories (0.5 points), while household and public final consumption contributed slightly positively (0.1 points); conversely, investments (- -0.4 points) and net exports (-0.2 points) exerted negative contributions. Among the major economies, Spain demonstrated stronger growth rates at +0.7%, consistent with those observed in the prior three quarters; France recorded an acceleration at +0.3%, up from +0.1% in the first quarter of 2025. In contrast, Germany returned to a contraction of the economic activity, recording a decline of -0.3% following a growth rate of +0.3% in the January-March period.

The euro area inflation has seemingly accelerated moderately in August relative to the preceding month, registering at 2.1% year-on-year according to the preliminary estimate, an increase from 2.0% in July. This rise is attributed to the robust performance of food, beverages, and tobacco (which increased by 3.2%) and services (which rose by 3.1%), juxtaposed against the lackluster performance of non-energy industrial goods (which saw only a 0.8% increase) and a decline in energy goods (which contracted by 1.9%). Eurozone industrial production decreased by 1.3% in June compared to May, exhibiting essentially stagnant growth when measured against the same month in 2024 (which saw an increase of 0.2%). This contraction affected all principal aggregates—intermediate, consumer, and capital goods—except for energy.

The outlook for the third quarter suggests a further deceleration, following the conclusion of the period characterized by significant acceleration in euro area exports, a trend anticipated to be influenced by the forthcoming implementation of new US tariff rates. Notably, euro area exports to the United States showed a slowdown in June, with the value of exports declining to €40.2 billion, representing a 10.3% year-on-year contraction. Concurrently, the surplus decreased from €18.5 billion in June 2024 to €9.6 billion. The effective tax rates implemented since early August, ranging from 12% to 16%, align with the assumptions used in the European Central Bank's projections from June.

In August, the European Commission's European Sentiment Indicator (ESI) declined by 0.5 points compared to the preceding month. This reduction was predominantly driven by diminished confidence within the construction and services sectors, despite a slight improvement in the industrial sector; the most significant deterioration was noted among consumers, particularly with respect to their financial outlook for the subsequent 12 months. At the national level, within the prominent countries in the region, the ESI fell in Spain (by 2.6 points), Germany, and Italy (each by 1.0 point). In contrast, it exhibited a marginal increase in France (by 0.1 points).

THE ITALIAN ECONOMIC SITUATION

GDP declined in the second quarter. The GDP, measured in chained values with a reference year of 2020 and adjusted for calendar effects and seasonality, experienced a marginal decline of 0.1% in the second quarter compared to the previous quarter, thereby interrupting the growth trajectory that commenced in the third quarter of 2023.

Among the aggregate components, inventories contributed positively (+0.4 percentage points). In contrast, net foreign demand had a detrimental effect (-0.7 percentage points), primarily due to a pronounced deceleration in exports (-1.7%), which was offset by a positive, albeit limited, increase in imports of goods and services (+0.4%). Domestic demand excluding inventories, nonetheless, made a modest positive contribution (+0.2 percentage points) (Figure 3). National final consumption remained constant relative to the preceding quarter, reflecting a marginal increase in expenditure by public administrations (0.2% quarter-on-quarter) and stagnation in expenditure by resident households and NPISHs. Household spending within the economic territory exhibited greater growth for durable goods than for non-durable goods (+0.5% and +0.1%, respectively). In comparison, consumption of semi-durable goods declined (-0.6%), and that of services remained stable. Among the principal aggregates, investment experienced the most substantial increase (+1.0% quarter-on-quarter), albeit at a slightly reduced rate compared to the previous two quarters. Growth was observed across all categories, with notable increases in plants, machinery, and armaments (+2.1%), more moderate growth in housing and non-residential buildings and other structures (+0.6% and +0.7%), and nearly negligible growth in intellectual property products (+0.1%).

On the supply side, in the second quarter, the value added of the industrial sector excluding construction declined (-0.7%), while that of construction increased (+0.9%). In the services sector, which generally exhibited stability, professional activities recorded a higher increase (+0.4%) than artistic, entertainment, and other services (+0.2%). The added value of trade, transportation, accommodation, and food services, as well as information and communication services, both decreased by 0.1%. The contraction in financial and insurance activities was more pronounced at -0.4%.

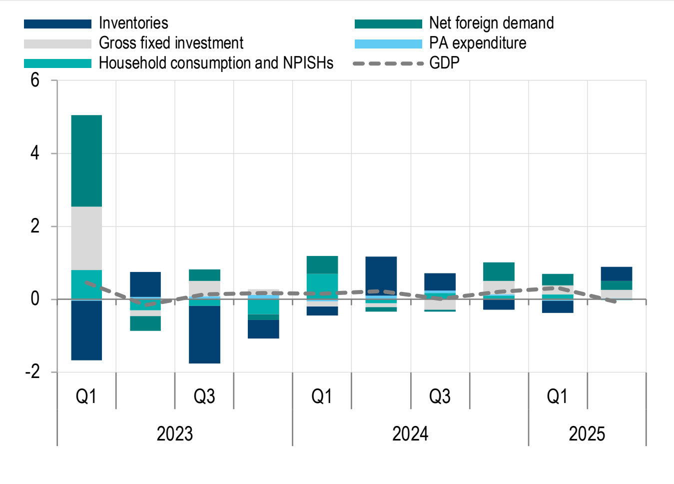
Industrial production exhibits a modest increase. Following an uptick in June (+0.2% quarter-on-quarter), the seasonally adjusted index of industrial production continued its ascent in July (+0.4%). Consequently, the average production level for the May-July period increased by +0.4% relative to the preceding three months. Except for the energy sector (-7.8%), growth was observed in July across all principal industrial categories. Intermediate goods (+0.7%) experienced a less pronounced increase than capital goods (+1.6%) and consumer goods (+2.1%).

In August 2025, the business confidence index remained stable, reflecting divergent trends across various sectors. Market services exhibited a significant recovery, primarily driven by the transportation, warehousing, and information and communication sectors; however, tourism faced a decline. Within manufacturing, the deterioration in business confidence is attributed to worsening production expectations and an increase in finished goods inventories; nonetheless, evaluations of orders are improving. The construction industry experienced a second consecutive decline in confidence, driven by a deteriorating assessment of orders.

Foreign trade growth is decelerating…. Following a notable acceleration in the first quarter, partly in anticipation of the introduction of tariffs by the United States, trade growth slowed in the second quarter of the year. Between April and June, exports of goods in value grew by 1.1% year-on-year (down from 3.2% in the first quarter), while imports expanded by 2.9% (down from 6.2%).

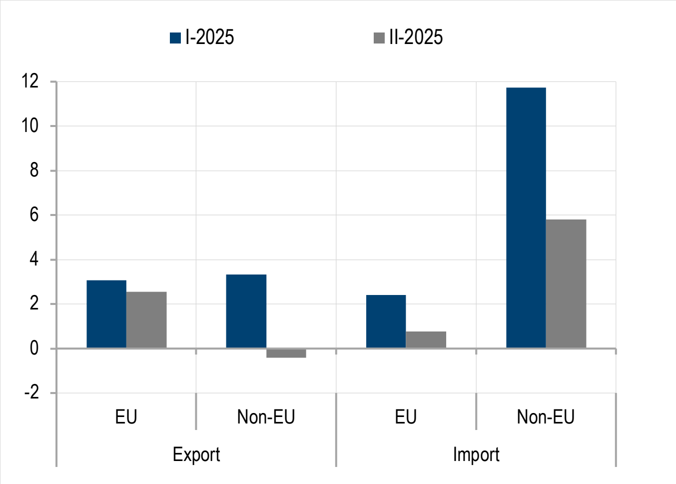
… **in EU markets**… These trends were influenced by relatively less favorable trade dynamics with EU markets, which saw a 2.5% increase in exports on a year-on-year basis, down from 3.1% in the previous quarter, and a 0.8% growth in imports, a decrease from 2.4% (Figure 4). Regarding trade with individual countries, positive sales dynamics towards France and particularly Spain were confirmed (+2.0% and +13.8%, respectively, following increases of +1.8% and +9.6% in the first quarter), while a decline in exports was noted towards Germany and the Netherlands (-0.2% and -8.3%, respectively, after increases of +5.4% and +7.8%).

FIGURE 3. CONTRIBUTIONS TO GDP GROWTH. Quarter-on-quarter changes and percentage points.



Source: Istat

FIGURE 4. CHANGE IN TRADE GOODS WITH EU AND NON-EU COUNTRIES. Year-on-year percentage changes



Source: Istat

…**as well as in non-EU markets**. The observed slowdown in economic activity has also extended to non-EU markets. In the second quarter, exports declined by 0.4% compared to the first quarter, following a 3.3% increase between January and March. While imports have maintained robust levels, the rate of growth has moderated, rising by 5.8% compared to 11.7% in the first quarter. The performance of exports has been adversely affected by a reduction in shipments to the United States, following a robust performance in the preceding three months (exports decreased from +11.8% to +3.7%). Additionally, there was a notable decline in sales to the United Kingdom (-6.4%, previously +9.2%) and continued contractions in exports to China (-12.2%, from -11.1%), Russia (-17.5% after -17.1%), and Turkey (-18.7%, from -17.8%). These declines were only partially mitigated by an increase in direct sales to Switzerland (+15.5%, from +11.2%), a significant destination for Italian exports.

Notably, pharmaceutical exports to the United States have exhibited considerable acceleration. In terms of trade with the US (provisional data), exports in the pharmaceutical sector—where multinational companies have a significant presence—almost doubled in the first quarter compared to the same period in 2024, and increased by more than 60% in the second quarter. Sales in this sector account for approximately one-quarter of total flows directed to the US. Conversely, there has been a decline in the sales of beverages (-2.7%, down from +13.9%), machinery (-9.7%, down from -8.4%), and transportation equipment—particularly motor vehicles, which fell by 35.8% after a previous decline of 9.2%, while other transportation equipment saw a decrease of 6.5% from +15.9%. Meanwhile, the growth in food exports has decelerated, recording an increase of only 1.1%, compared to 9.2%.

On the import front, purchases of pharmaceutical products, which had declined by 38.9% year-on-year in the first quarter, nearly doubled between April and June, reflecting a growth rate of 91.2%. Additionally, imports of base metals increased significantly, with respective growth rates of 19.7% and 59.2% in the first and second quarters of the year. There were also increases in imports of computers (9.0% and 13.7%) and electronics (16.1% and 14.9%).

Employment continues to exhibit growth. In July, a further increase in employment was recorded, with the number of employed individuals reaching 24,217,000, representing a 0.1% increase compared to June, equivalent to an addition of 13,000 individuals. The growth was particularly observed among males aged 15-24 and 35-49 years. By professional category, employment increased among both permanent and temporary employees, while a decline was noted among the self-employed. The employment rate rose to 62.8%.

In comparison to June, the unemployment rate decreased by 0.3 percentage points (6%), attributed to reductions affecting both genders and all age groups; notably, youth unemployment saw a more pronounced decline of 1.4 percentage points, reaching 18.7%. Additionally, the inactivity rate increased to 33.2%, a 0.1 percentage point rise.

Furthermore, a comparison of the May-July quarter with the preceding quarter (February-April 2025) reveals an uptick in employment levels of 0.2%, translating to an additional 51,000 employed persons, inclusive of both males and females, permanent employees, the self-employed, individuals aged 25-34, and those aged 50 and older. The interval comparison indicates that the employment growth is concomitant with a rise in the number of job seekers (+1.8%, or +28,000) and a decrease in the population of inactive individuals (-0.5%, or -67,000).

In the year-over-year analysis, there was an increase of 218,000 employed persons in July, amounting to a 0.9% rise, while the employment rate improved by 0.4 percentage points compared to July 2024. The number of unemployed individuals indicates a reduction of 114,000 (6.9%). Year-over-year, the unemployment rate declined by 0.5 percentage points overall and by 2.8 percentage points among the youth demographic. Additionally, the number of inactive individuals decreased by 0.7% (81,000) over the year, as did the inactivity rate, which fell by 0.1 percentage points.

Consumer confidence indicators reveal a negative trend. The consumer confidence index declined in August, dropping from 97.2 in July to 96.2, with decreases across all components. The most significant declines were observed in future and economic sentiment, which fell from 93.9 to 92.2 and from 98.2 to 97.0, respectively. The declines in personal and current sentiment were less pronounced, dropping from 96.9 to 95.9 and from 99.7 to 99.2, respectively.

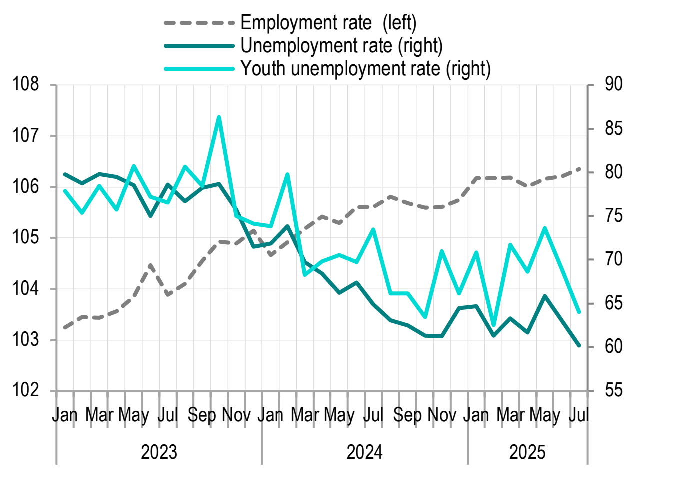
Similarly, retail sales data illustrated stabilization in value in July compared to the preceding month, accompanied by a slight volume decrease of 0.2%. Specifically, food sales declined in both value (-0.4%) and volume (-0.9%), while non-food sales experienced increases in both value and volume, rising by 0.3%.

On a quarterly basis, from May to July, retail sales witnessed a value increase of 0.6% and a volume increment of 0.1%, with gains in both food (+1.1% in value, +0.1% in volume) and non-food sales (+0.4% in value, +0.2% in volume). In an annual comparison, a value increase of 1.8% was documented, alongside stable volume figures. Specifically, food product sales increased in value by 2.9% but decreased in volume by 0.8%, whereas non-food product sales escalated in both value (+1.0%) and volume (+0.5%). Among the latter, the most significant value increase occurred in perfumery and personal care products (+3.7%). At the same time, the most considerable volume decrease was observed in household appliances, radios, televisions, and tape recorders (-3.1%).

Employment expectations for manufacturing and service enterprises in August 2025 experienced a slight decline compared to the previous month, with similar trends noted in retail trade; however, an improvement was recorded in the construction sector.

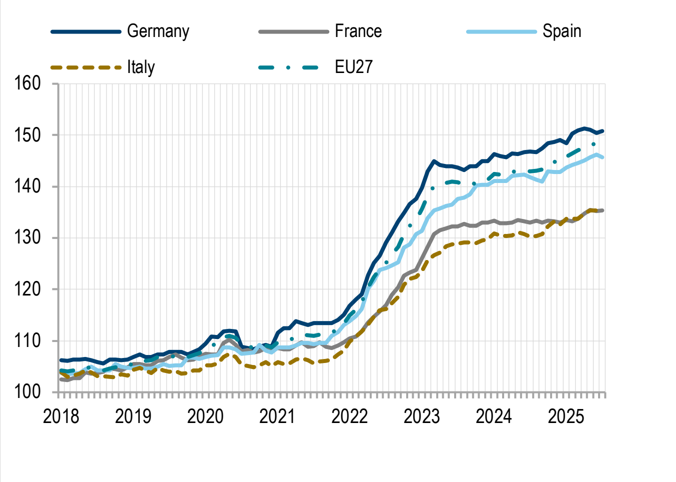
The positive trajectory of the hourly wage index has been reaffirmed, with a 0.5% increase in June compared to the previous month and a 2.7% rise compared to June 2024. Year-over-year increases were documented at 2.3% for industrial employees, 2.7% for private sector workers, and 2.9% for public administration personnel. The sectors experiencing the highest year-over-year increases included ministries (+6.9%), military and defense, electricity (+6.7%), and law enforcement (+5.8%). Conversely, private pharmacies and telecommunications did not exhibit any increase in sales.

FIGURE 5. EMPLOYMENT RATE (AGE 15-64), TOTAL UNEMPLOYMENT RATE, AND YOUTH UNEMPLOYMENT RATE (AGE 15-24)
Index numbers: 2019 average base, seasonally adjusted data



Source: Istat

FIGURA 6. CONSUMER PRICES OF FOOD* (HICP) IN THE PRINCIPAL COUNTRIES OF THE EUROPEAN UNION..
Base index numbers 2015=100.



Source: Eurostat

* Harmonised Index of Consumer Prices for Food and Non-Alcoholic Beverages.

Consumer price inflation is experiencing a decline once again. The annual rate of change in the National Index of Consumer Prices for the Whole Nation (NIC) fell to 1.6% in August, according to preliminary estimates, down from 1.7% in July. On a quarterly basis, the index recorded a modest increase of 0.1% (+0.4% in July), driven primarily by rising prices in services and food products, which more than counterbalanced the notable decrease in energy prices. The inflation forecast for 2025, as of August, stands at 1.7%.

This decline in inflation can be attributed to the reduction in energy prices, which decreased by 1.6% on a quarterly basis in August. This decline partially offset the previous month's increase of 2.2%, leading to energy prices being 7% lower than at the beginning of the year and 4.4% lower than in the same month of the previous year (the annual rate in July was -3.4%).

Food prices have resumed their upward trajectory. Following a period of stabilization over the preceding two months, food prices rose by 0.4% in August. This increase translates to a 1.4% rise from the beginning of the year and a 4% increase compared to August 2024 (+3.7% in July). This trend can be attributed to a substantial increase in the prices of processed foods (+0.7%; +0.3% in the previous month), juxtaposed with a slight decrease in the prices of unprocessed foods (-0.1%; -0.6% in July).

Due to the abrupt surge witnessed between late 2021 and early 2023, followed by a sustained period of significant, albeit more moderate, growth (phenomena that have affected Europe as a whole), consumer prices (harmonized index) of food products (food and non-alcoholic beverages) in Italy reached a level that is 30.1% higher than the 2019 average in July 2025 (latest available data). In comparison to the European average, this trend appears considerably more moderate, as it contrasts with the EU27 average increase of 39.2% and the increases observed in other major euro area countries, specifically Germany (+40.3%) and Spain (+38.2%). In the same period, France experienced a less pronounced increase of +27.5% (Figure 6).

This food price escalation has implications for the shopping basket, which comprises 88.5% (2025 data) of total items, including food, household and personal care products. The significant rise in food prices has impacted the performance of this index, with year-on-year changes increasing from 3.2% in July to 3.5% in August. This development has further widened the inflation gap between the shopping basket and the overall index, which is also affected by energy price trends, increasing from 0.2 percentage points in March 2025 to 1.9 percentage points in August.

Service prices continue to increase. In August, service prices rose by 0.5% relative to the preceding month and by 2.7% compared to August 2024. This growth is primarily attributed to a significant escalation in transport services (+2.1% quarter-on-quarter) and, to a lesser extent, in recreational services (+0.3%). In comparison, the decline initiated in the second quarter persisted in communication services (-0.2%).

Core inflation has surpassed 2.0%. Core inflation (excluding energy and unprocessed food) registered at 2.1% in August (averaging 2% over the preceding five months; 1.7% on average in the first quarter), thereby adjusting the projected core inflation for 2025 to 2.1%, an increase from 1.9% in July.

The Harmonised Index of Consumer Prices (HICP) in Italy remains stable and significantly lower than the euro area average. In August, the HICP in Italy reflected a quarterly variance of -0.2% (-1% in July), attributed to seasonal summer sales not reflected in the National Index of Consumer Prices (NIC). Year-on-year, it remained consistent with July (+1.7%) and below the euro area average (+2% in July and +2.1% in August). Compared to other major European nations, inflation remains moderate, with Germany (+1.8% in July; +2.1% in August) and Spain (+2.7% in both months) displaying higher rates. In contrast, France shows a more tempered rate of price growth (+0.9% in July; +0.8% in August).

The prices of imported industrial products are experiencing a slight increase. In June 2025 (the most recent data available), prices of imported products, following three months of decline (-3.5% change from March to May), increased by 0.2% on a quarterly basis due to rising energy prices (+3%), although prices of other products declined marginally (-0.1%). On a year-on-year basis, the trend remained negative, at -2.7% (-3% in May).

In July, producer prices in the energy sector resumed an upward trend. Following three months of decline, industrial producer prices exhibited growth in June and July (+1.4% and +0.5%, respectively), primarily driven by developments in the energy sector (+6.2% in June and +1.7% in July). Conversely, producer prices in other industrial sectors remained stable in July (-0.2% in June). Overall, the trend increased by 1.6% (+2.4% in the previous month).

In the construction sector, producer prices increased by 0.1% on a quarterly basis in July for buildings (down 0.3% in June) and by 0.2% for roads and railways (down 0.1% in the preceding month). Year-on-year, the trend decelerated for buildings (+1% down from +1.8%) while remaining stable for roads and railways (+0.3% in June).

Consumer expectations regarding inflation are increasing. In August, for the second consecutive month, the proportion of consumers anticipating an inflation increase over the next 12 months rose to 45.6% from 42.6% in July, while the proportion expecting stability diminished to 14.5% from 17% in July, with the share anticipating a reduction remaining constant at 39.1%.

Similarly, the proportion of companies intending to maintain stable price lists has increased. In August, the share of companies planning to keep their price lists stable over the next three months grew across all sectors (from 87.9% in July to 88.4% in manufacturing; from 91.4% to 93.6% in construction; from 83.3% to 83.4% in retail trade; from 88.6% to 89.7% in market services). Concurrently, the balance between the proportions of those anticipating price increases and decreases declined in all sectors except trade: in manufacturing, from 4.7 in July to 4.6 percentage points; in construction, from 4.6 to 3.7; in market services, from 5.1 to 4.6 points; while in trade, the balance increased from 9.4 in July to 10.3 points in August.

focus

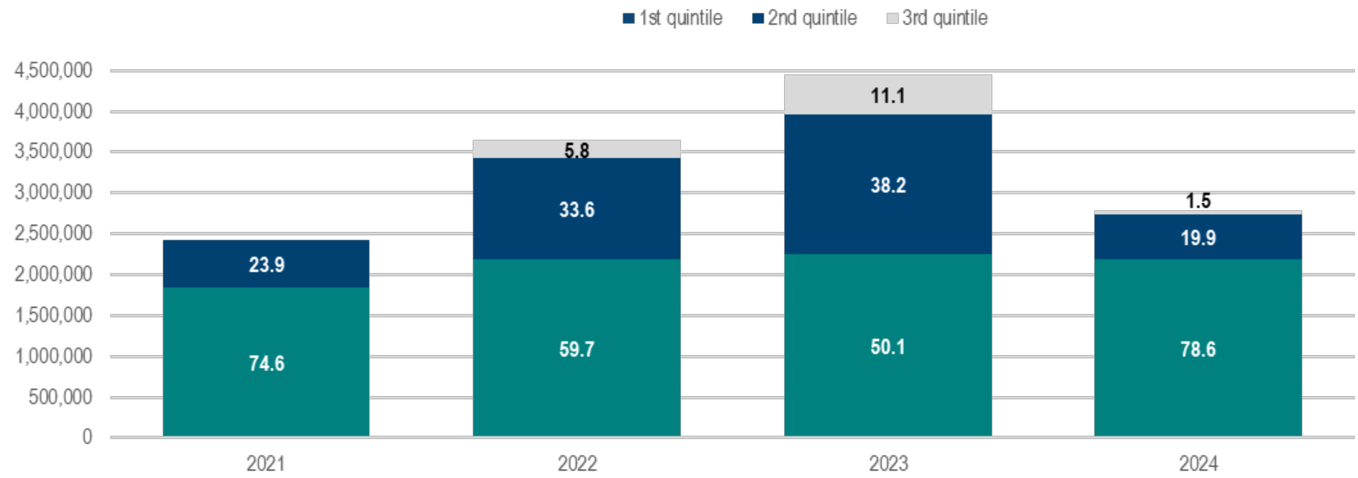
ENERGY POVERTY IN ITALY AND THE IMPACT OF ENERGY BONUSES*

The economic rebound in 2021, followed by the Russian–Ukrainian conflict, has led to a surge in energy costs. This has significantly impacted the budgets of households and businesses in Italy, as well as in many other European countries.

Back in 2008, the Italian government introduced a system of subsidies (known as social bonuses) in the form of discounts on utility bills for low-income households, to help them cope with the costs of electricity and gas. Since 2021, several legislative changes and additional financial resources have enabled an increase, in some periods, in the generosity of the benefit in terms of access thresholds and amounts.

This focus presents an analysis conducted using the FaMiMod micro-simulation model[1]. The study aims to identify the distribution profile of households receiving energy subsidies and to assess the effectiveness of these subsidies in reducing energy poverty[2].

FIGURE F1. HOUSEHOLDS RECEIVING ENERGY SUBSIDIES BY INCOME QUINTILE. Years 2021-2024 (number of households and % of recipient households)



Source: Estimates based on Istat's microsimulation model, FaMiMod.

The simulation results indicate that in 2021, nearly 1 in 10 households (approximately 2.5 million) received a discount on their energy bill, benefiting from the electricity bonus and, for some households, also from the gas bonus. All these households belong to the I and II income quintiles (the poorest groups) (Figure 1). In 2022, the system became more inclusive by raising income thresholds to support households facing rising energy prices, so that energy bonuses reached 3.7 million households, with 5.8% of them in the middle-income quintile. Thanks to the extension of the ISEE threshold to €15,000 in 2023, during the peak of energy prices, we observed the highest number of beneficiary households (4.5 million) and the highest proportion of middle-income households receiving the bonus (11.1%). In 2024, the ISEE threshold was lowered back to €9,530, resulting in a significant reduction in the proportion of eligible

*This focus was prepared by Elisabetta Segre and Paola Tanda.

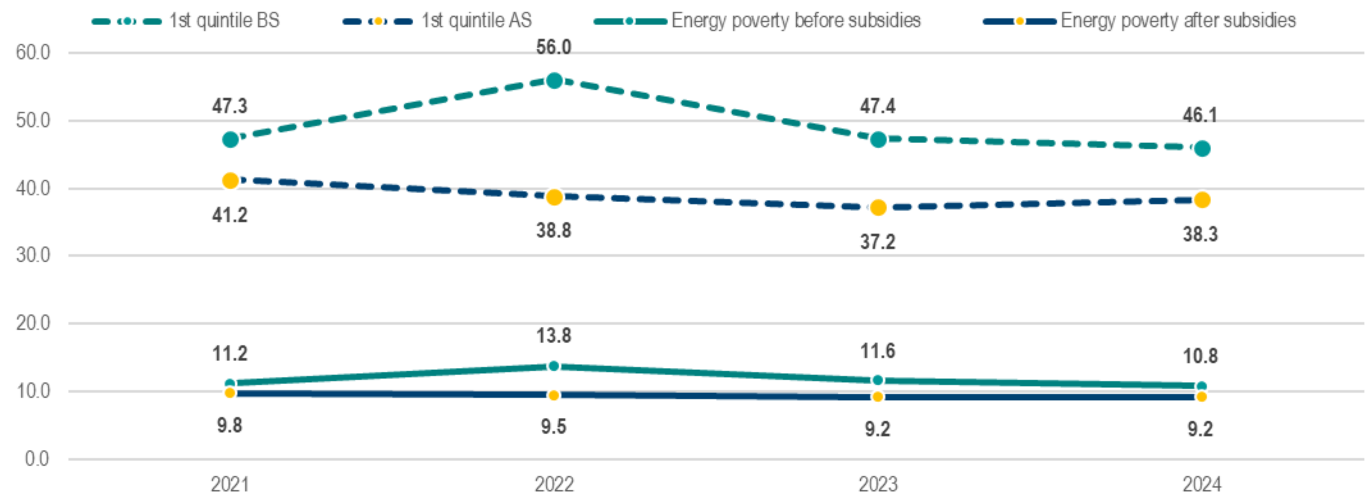
1 For details: Istat, Rivista di Statistica Ufficiale, 2/2015 http://www.istat.it/it/archivio/171133

2 We estimate energy poverty at the household level using a Low Income High Costs approach (Faiella and La Vecchia, 2014, "La povertà energetica in Italia", *Occasional Papers (240)*, Bank of Italy). We define a household as energy poor if its actual energy costs are above the national median and if its income net of the energy expenditure would fall below the at risk of poverty line (60% of the national median disposable income). At risk of poverty households reporting a null energy expenditure also were accounted as energy poor. In addition, the micro-simulation model allows us to estimate recipients' households and the amount of bonus each household received, according to policy parameters (ISEE thresholds and benefit amounts). The results presented in this Focus should not be compared with the Italian Observatory on Energy Poverty's (OIPE) estimates. Although both estimates use the same LIHC approach, the OIPE relies on Households Budget Survey data, whereas we use Survey on Income and Living Conditions data.

recipient households (from nearly 4.5 million to 2.7 million). While the number of beneficiaries corresponds with the price trend, reaching a peak in 2023, this does not apply to the average benefit amount (electricity and gas bonus combined when the household receives both), which peaked at over €1,000 in 2022 due to increased economic resources invested, then decreased to just over €500 in the following year.

In 2021, 11.2% of households in Italy were estimated to be energy poor before social bonuses were paid (Figure 2). This percentage decreased to 9.8% after the bonuses were received, indicating a 1.4 percentage point reduction. The effect of the bonus on energy poverty reached its peak in 2022. With rising energy prices, the proportion of households in energy poverty, excluding subsidies, increased to 13.8%. However, the amount of bonuses was particularly substantial in 2022, resulting in a slightly lower incidence of households in energy poverty after subsidies, at 9.5%, compared to 2021. In 2023, 11.6% of households experienced energy poverty before subsidies; this figure fell to 9.2% afterwards, representing a decrease of 2.4%. In 2024, social bonuses helped reduce energy poverty by 1.6 percentage points (from 10.8% to 9.2%).

FIGURE F2. ENERGY POVERTY BEFORE AND AFTER ENERGY SUBSIDIES. Years 2021-2024 (% of households)



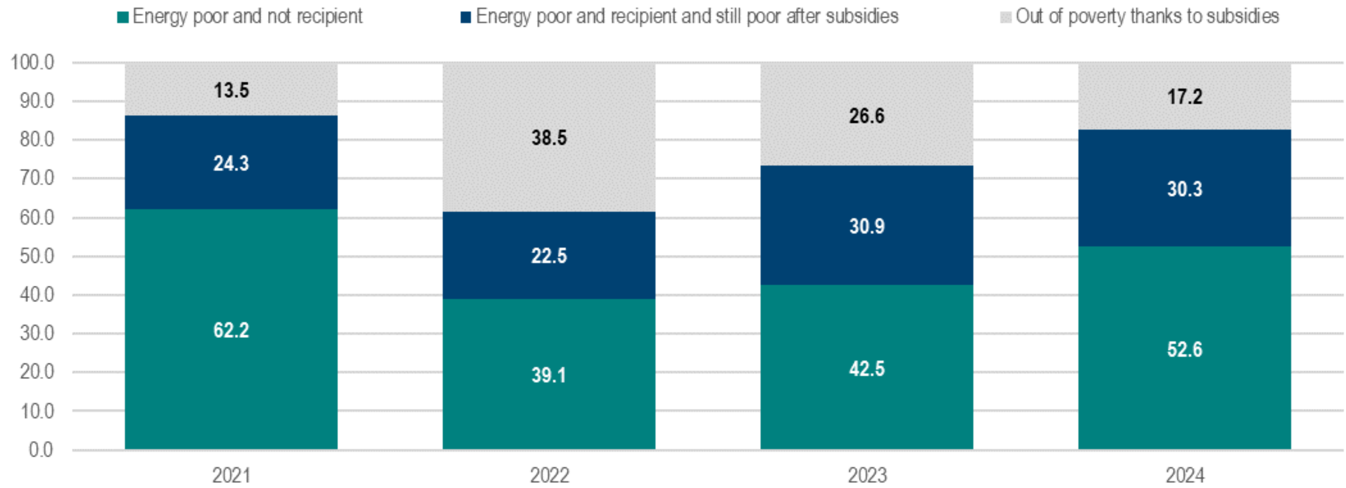
Source: Estimates based on Istat's microsimulation model, FaMiMod.

Households in the lowest income quintile are more likely to experience energy poverty. In 2022, energy poverty before subsidies peaked at 56.0% among the poorest households, up from 47.3% in 2021 (+8.7 percentage points). In 2022, the incidence of energy poverty after subsidies was lower than the previous year (38.8% compared to 41.2%), demonstrating the effectiveness of social bonuses in alleviating the impact of rising prices. However, this effectiveness gradually diminished in subsequent years.

The model also allows us to assess whether the bonuses have reached families living in energy poverty and whether they have been enough to lift them out of this situation. Focusing on households below the energy poverty threshold, in 2021, 62.2% did not receive the bonuses, 24.3% received bonuses but remained in energy poverty, and 13.5% escaped poverty thanks to the subsidies (Figure 3). There are two main reasons why some households in energy poverty do not receive the subsidy: first, the discount on bills is automatic for households with a valid ISEE certificate that meet the requirements, but not all households submit an ISEE; second, unlike the calculation of energy poverty, access to social bonuses is not based on income and consumption variables but on the ISEE — an indicator that considers households' income and wealth combined. Target efficiency improved in 2022, as the proportion of energy-poor households not reached by the social bonus decreased to 39.1%, while 38.5% of beneficiary households managed to escape energy poverty. In 2023, when the system became less generous, we observed that 30.9% of households receiving the social bonus continued to experience energy poverty. In 2024, nearly half of energy-poor households were not among the beneficiaries, and we observed the highest percentage of households receiving the bonus yet remaining in poverty (52.6%).

Findings indicate that energy subsidies have been effective in mitigating the impact of rising energy prices on energy-poor households. On the other hand, target efficiency analysis reveals that a significant share of energy-poor households were not among the recipients of the welfare measure, either because they had not submitted an ISEE certificate or because they did not meet the ISEE requirements for accessing the bonuses.

FIGURE F3. TARGET EFFICIENCY OF ENERGY SUBSIDIES. Years 2021-2024 (composition).



Source: Estimates based on Istat's microsimulation model, FaMiMod.

For technical and methodological clarifications

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