



Summary*

The international environment still appears dominated by high geopolitical uncertainty, mainly affecting energy prices, trade flows and market expectations. In this context, investors are showing growing interest in safe-haven assets, whose prices have accelerated in recent months and displayed greater volatility in recent days. Global growth remains fragmented: in 2025, economic activity in the United States remained relatively solid, while in China exports continued to be very dynamic despite protectionism. In the euro area, production continues at generally moderate and differentiated rates across countries, with stronger performance in those focused on domestic demand. In its latest forecasts, the International Monetary Fund (IMF) expects global growth to continue at slightly above 3 per cent, while in the euro area it would not exceed 1.5 per cent. Despite expectations of stable global GDP growth this year, a sharp slowdown in world trade is projected (from 4.1 per cent in 2025 to 2.6 per cent).

In Italy, productive activity was little more than stagnant in the middle quarters of 2025; the cyclical phase strengthened in the final part of the year, when GDP increased by 0.3 per cent. Overall, in 2025 GDP rose by 0.7 per cent based on quarterly data adjusted for working days, while the annual figure (to be released by Istat on 2 March) is expected to be lower due to calendar effects. During the summer, labour input increased, supported by a recovery in hours worked per employee, particularly in manufacturing and services; wage growth remains moderate, so the negative gap in real wages compared with the pandemic period remains wide. Italian inflation continues to be modest and below the European average; expectations of households and firms remain oriented toward stability.

The update of the Ufficio Parlamentare di Bilancio (UPB) macroeconomic forecasts for Italy indicates that GDP would strengthen only very gradually, accelerating to 0.7 per cent in 2026–27. Compared with the autumn projections, prepared during the endorsement of the Ministry of Economy and Finance (MEF) forecasts, the estimates have been revised upward for 2026 and slightly trimmed for 2027, reflecting updated international assumptions. The Italian macroeconomic outlook remains exposed to downside risks, largely attributable to the global environment.

* This report was prepared by the Macroeconomic Analysis Service, and coordinated by Monteforte L. with contributions from Caterini G., Fantozzi D., Frate C., Girardi A., Fioramanti M. and Pappalardo C.; It is based on information available as of 3 February 2026.

The international context

Geopolitical tensions strengthen demand for safe-haven assets

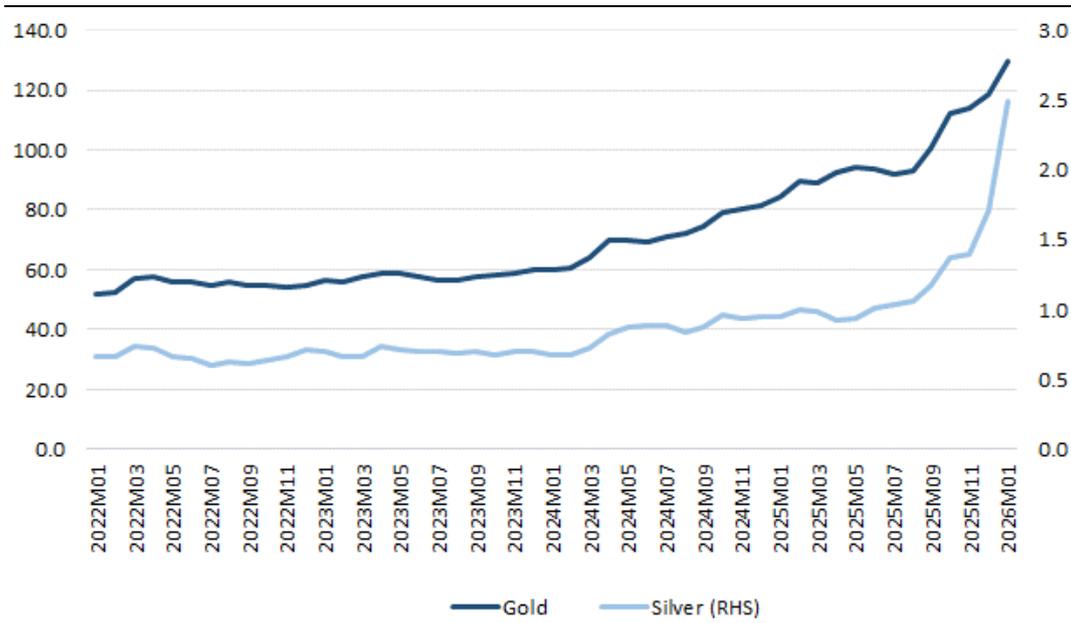
The international environment remains characterized by high geopolitical uncertainty, which is reflected in the global economy mainly through the energy quotations, international trade and expectations channels. In recent months, tensions have intensified in several areas of strategic importance for natural resources and maritime shipping routes, including the Arctic region, Iran and Venezuela.

The US Administration has renewed the hypothesis of annexing Greenland, deemed strategic for national security, both to secure unrestricted access to rare earth elements and to control Arctic shipping routes. The announcement was accompanied by threats of new tariffs on imports from countries opposing the annexation, although these currently appear to have subsided. At the beginning of 2026, Venezuela returned to the centre of international attention following a US operation that led to the capture of President Nicolás Maduro; political instability continues to constrain oil production, and so far, the repercussions on global supply have been limited. Since late 2025, Iran has been shaken by mass protests, harshly repressed by the authorities; this has increased uncertainty regarding oil supply and, more broadly, the security of major energy routes. Meanwhile, the Russia–Ukraine conflict, which affects trade flows and commodity markets, continues without signs of a lasting short-term resolution.

The overlap of these crisis hotspots heightens uncertainty and creates downside risks for global growth, fuelling volatility in commodity prices and, consequently, in inflation outlook and monetary policy expectations. In this context of geopolitical instability, systemic risk increases and investors tend to shift towards safe-haven assets. Since the beginning of last year, gold and silver prices have strengthened their upward trend (Figure 1) in response to mounting global risks; last December, the year-on-year change in euro prices per gram amounted to 45.6 per cent for gold and 81.4 per cent for silver, respectively. In January, as geopolitical tensions intensified, precious metal prices continued to record marked increases, reflecting demand for “safe” assets. After mid-January, gold exceeded €130 per gram (compared with an average of €97.7 per gram in 2025) and silver rose above €2.50 per gram (compared with an average of €1.13 per gram in 2025), reaching their highest levels in the past ten years. In recent days, prices of these safe-haven assets have fallen sharply, partly following the appointment of the new Federal Reserve Chair, but they remain very high compared with last year.

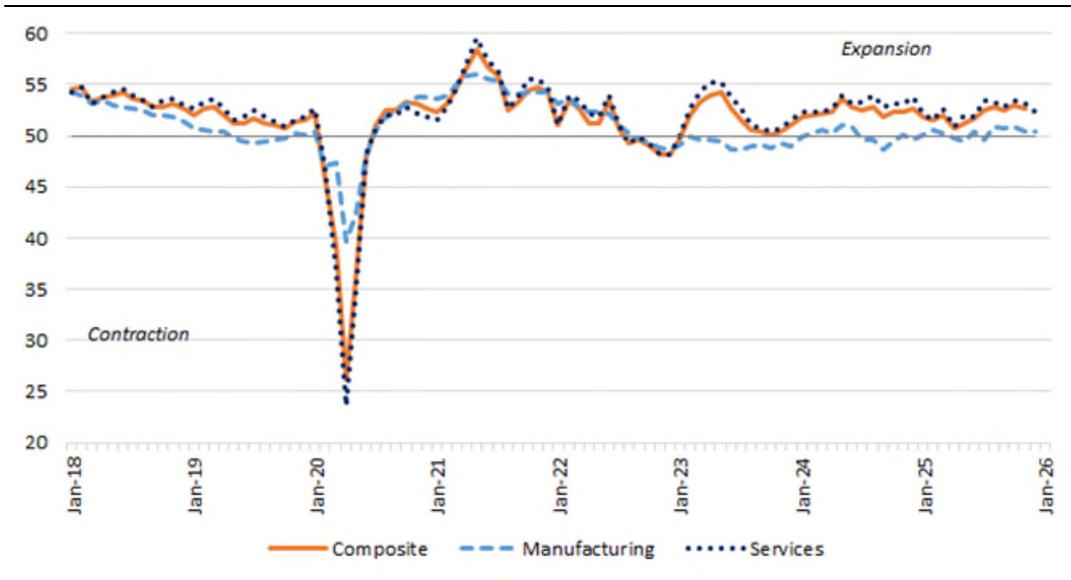
Global short-term prospects are moderately favourable. The global Purchasing Managers' Index (PMI), which anticipates trends in international demand, recorded a value slightly above 50 in December, signalling an expansion in economic activity. The December reading (52.1) is in line with the 2025 average, but slightly below the 2024 average (52.5). The services component remains more dynamic than manufacturing, whose index stands below the annual average (50.3 in 2025; Figure 2).

Figure 1 – Gold and Silver Prices
(values expressed in €/gram)



Source: calculations based on World Bank data.

Figure 2 – JP Morgan Global PMI Index

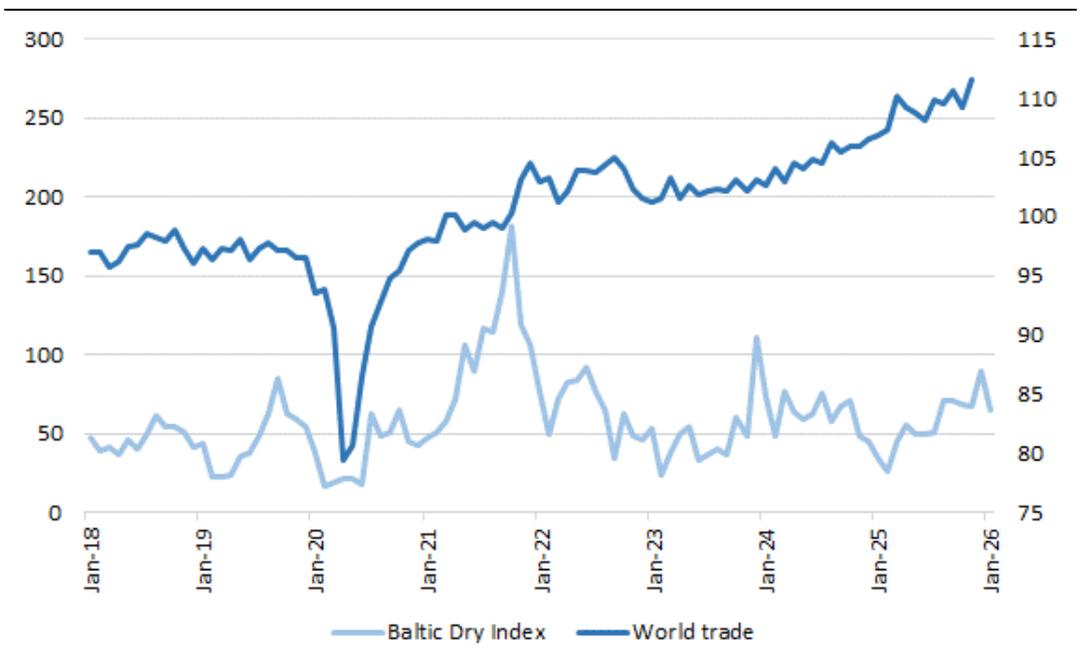


Source: LSEG

In 2025, shipping costs for dry bulk commodities (e.g. iron ore, coal, and wheat) showed a differentiated trend, as reflected in the Baltic Dry Index (BDI; Figure 3), which is considered a leading indicator of global commodity demand. During the first half of the year, freight rates increased, partly due to stockpiling by U.S. firms in anticipation of new tariffs and protectionist measures. Subsequently, the Baltic Dry Index displayed a fluctuating pattern, reflecting heightened uncertainty regarding trade and commodity demand. Between the end of 2025 and the beginning of 2026, the index declined, a development that could signal a weakening of global trade in the coming months, given the historical correlation between the two variables. The latest data on international trade, released by the Netherlands Bureau for Economic Policy Analysis (CPB), refer to November and instead point to a cyclical acceleration.

In the United States, after a temporary contraction in the first three months of 2025, the economy recovered swiftly over the remainder of the year. In particular, during the summer quarter US GDP expanded at an annualised rate of 4.4 per cent, exceeding expectations, driven by consumer spending, investment in advanced technologies and foreign trade, with a marked improvement in the trade balance due to a decline in imports. Overall, based on the data now available following the prolonged government shutdown between October and November, US economic growth in 2025 stood at slightly above 2 per cent. Although lower than in previous years, the pace remained solid and continued to be supported by the boom in artificial intelligence, despite ongoing trade tensions.

Figure 3 – Global activity indices
(index numbers, 2010 = 100)



Source: LSEG

In the fourth quarter of 2025, the Chinese economy grew by 4.5 per cent year on year, slowing from 4.8 per cent in the third quarter, but not to an extent that would jeopardise the achievement of the government's full-year target of growth "around 5 per cent." Last year, the world's second-largest economy showed notable resilience, supported by the US tariff increases that were smaller than expected and by exporters' strategies aimed at diversifying destination markets. Exports remained a key driver of Chinese growth: on average in 2025, China recorded a historic trade surplus of around USD 1.2 trillion, sustained by exports to non-US markets (such as Southeast Asia, the EU and Africa), while shipments to the United States declined due to tariffs. By contrast, consumer spending remained weak relative to the standards of major advanced economies and to domestic potential, reflecting cautious household purchasing behaviour and the prolonged real estate crisis.

In the fourth quarter of 2025, euro area GDP increased by 0.3 per cent compared with the previous quarter and by 1.3 per cent year on year. This pace of expansion remains moderate and slightly below that recorded in earlier quarters. According to Eurostat estimates, economic activity in the area grew by 1.5 per cent in 2025, somewhat above expectations. Growth was supported mainly by domestic demand, in particular household consumption, underpinned by a still relatively resilient labour market and a gradual recovery in real incomes. Investment also made a positive, albeit moderate, contribution. In a context marked by the appreciation of the euro and a trade dispute with the United States, the increase in imports largely offset export dynamics. Overall, the European Union's trade balance recorded a smaller surplus in 2025 than in 2024, with a slowdown in both goods and services trade.

The cyclical phase remains differentiated across EU countries. In the second half of 2025, economies more oriented toward domestic demand and services, such as Spain, recorded stronger growth, while countries more reliant on manufactured exports, notably Germany and Italy, showed weaker performance. In the final part of the year, France was the only major economy to experience a deceleration in GDP growth (0.2 per cent), owing to weaker investment.

International Monetary Fund updated forecasts

In January 2026, the IMF slightly revised upward its projections for the current year for the major economies, compared with the forecasts released last October (Table 1). The IMF's estimates are formulated on the basis of current trade policies and assume that the measures in place at the end of December remain unchanged. It is assumed that uncertainty regarding economic policies will remain elevated through 2026, while the impact of tariffs is expected to ease in 2026–27.

Table 1 – IMF forecasts

	WEO Update January 2025			Differences from WEO October 2025	
	2025	2026	2027	2026	2027
World product	3.3	3.3	3.2	0.2	0.0
<i>Advanced economies</i>	1.7	1.8	1.7	0.2	0.0
<i>United States</i>	2.1	2.4	2.0	0.3	-0.1
<i>Euro area</i>	1.4	1.3	1.4	0.1	0.0
<i>Emerging economies</i>	4.4	4.2	4.1	0.2	-0.1
<i>China</i>	5.0	4.5	4.0	0.3	-0.2
World trade	4.1	2.6	3.1	0.3	0.0

Source: IMF, *World Economic Outlook*, January update 2026.

In the United States, GDP is projected to grow by 2.4 per cent in 2026 and by 2.0 per cent in 2027, supported by expansionary fiscal policies, low interest rates and investment incentives, with technological innovation continuing to make a positive contribution.

In the euro area, growth is expected to remain modest (1.3 per cent in 2026 and 1.4 per cent in 2027), with a slight upward revision for the current year reflecting higher public expenditure. Across emerging market and developing economies, GDP growth is projected to average slightly above 4 per cent in both 2026 and 2027. Compared with the October estimates, China's 2026 growth forecast has been revised upward to 4.5 per cent, reflecting the trade truce with the United States and additional expansionary policies. In 2027, Chinese growth is expected to ease to 4.0 per cent, owing to the re-emergence of adverse structural factors. Finally, world trade is projected to decelerate sharply, from 4.1 percent in 2025 to 2.6 percent in 2026, as the front-loading of trade flows observed in 2025 fades.

Overall, the macroeconomic projections for 2026 and 2027 suggest that, despite uncertainty and restrictive trade policies, global economic activity would display a degree of resilience. However, the IMF assesses the balance of risks as tilted to the downside, citing geopolitical tensions, rising sovereign debt levels and the potential overvaluation of returns on artificial intelligence investments.

Energy commodity prices declined during 2025

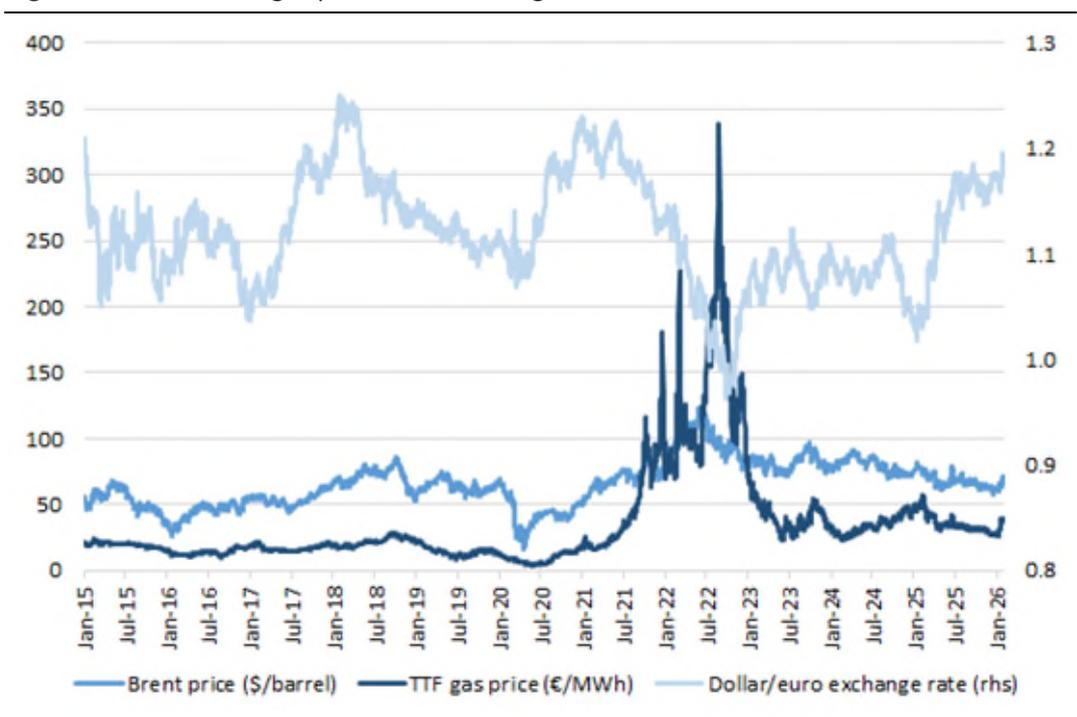
During 2025, energy commodity prices followed a downward trend, reflecting relatively ample global supply and weaker-than-expected demand (Figure 4). In December, Brent crude oil stood at USD 61.8 per barrel, slightly down from USD 63.7 in the previous month and well below the USD 69.8 recorded in June, during the period of Israeli bombings in Iran. This development occurred despite a reduction in output of around 100,000 barrels per day, mainly due to declines in Iran and Venezuela. The effects of these supply cuts became visible in the recovery of prices in the first weeks of 2026. Overall, also taking into

account the appreciation of the euro, crude oil prices in the first two weeks of January 2026 were about three percentage points lower than in mid-October.

Gas demand strengthened in the early months of 2025 due to temporary weather-related factors, before easing over the remainder of the year (prices declined from €41.2 to €31.6 per MWh between the first and second halves of 2025). Geopolitical events, seasonal variables and new supply dynamics — triggered by the closure of Russian gas transit through Ukraine to European markets — increased price uncertainty during the year, contributing to volatility and downward pressures. A modest recovery emerged in the first half of last month.

The euro–dollar exchange rate averaged 1.13 in 2025, with a tendency to appreciate in the second half of the year. In December, the exchange rate stood at 1.17 dollars per euro, 13.1 percent higher than at the beginning of 2025. In the first days of 2026, the appreciation phase continued, also reflecting differing expectations regarding the forthcoming decisions of central banks.

Figure 4 – Oil and gas prices and exchange rates



Source: LSEG.

Euro area inflation converges towards the central bank's target

Euro area inflation declined to 1.9 percent in December 2025, down from 2.1 percent in November. This was the lowest level since August 2025 and is consistent with the European Central Bank's (ECB) medium-term objective. Services prices continued to show relatively strong growth (3.4 percent), as did food prices, particularly unprocessed food, which accelerated to 4.2 percent (from 3.2 percent in November), while non-energy industrial goods prices slowed. Energy prices recorded a deeper year-on-year decline (-1.9 percent), making a negative contribution to headline inflation for the tenth consecutive month. The dynamics of services prices remain robust and core inflation is persistent (2.3 percent in December) (Figure 5).

In December, inflation eased in Germany to just above the euro-area average. In Spain and France, inflation also declined during the same period, though at markedly different levels (3.0 percent and 0.7 percent, respectively).

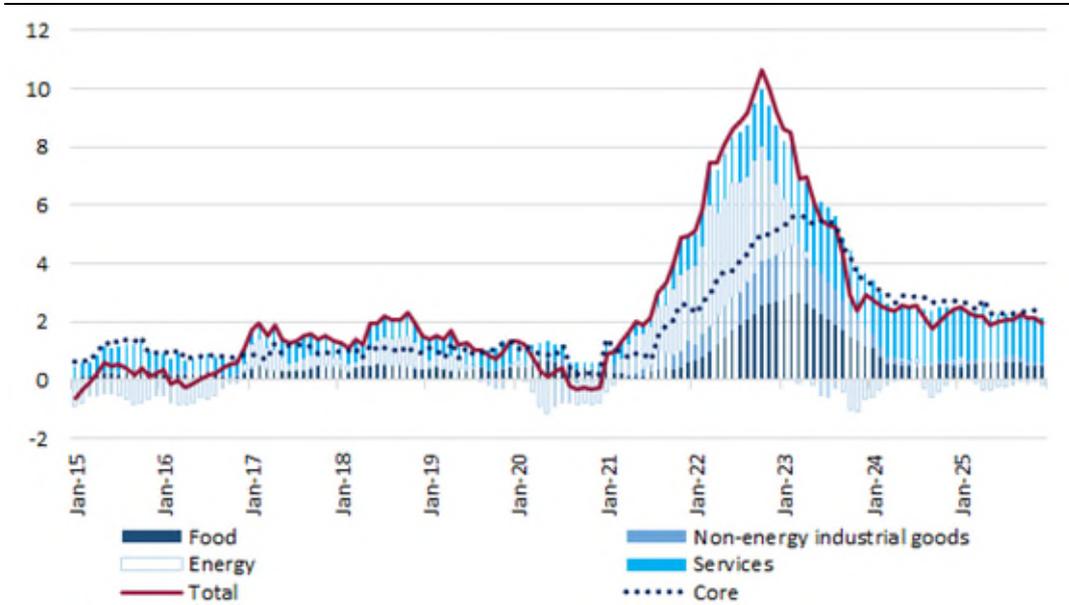
At its December meeting, the ECB left its three key policy rates unchanged (between 2.0 and 2.4 percent). This decision reflects the current monetary policy stance, with euro-area inflation close to the 2 percent target. Markets and analysts consider the rate-cutting cycle to be concluded, at least in the short term, and do not anticipate further changes in 2026. Across the Atlantic, at its end-2025 meeting, the Federal Reserve (Fed) lowered interest rates for the third consecutive time, bringing the target range to 3.50–3.75 percent. This easing cycle was initiated in response to expectations of an economic slowdown, but the outlook for 2026 has become more cautious. In January, the Federal Reserve decided to keep rates unchanged, taking into account positive growth assessments and inflation still above its medium-term objective. Many analysts and financial markets no longer take further rate cuts for granted in the coming months, reflecting a macroeconomic environment that remains relatively solid in terms of inflation and labour market conditions.

The Personal Consumption Expenditures (PCE) price index — closely monitored by the Fed — accelerated in the third quarter of 2025 (to 2.8 percent, from 2.1 percent in the previous period). Excluding the more volatile food and energy components, core PCE inflation rose to 2.9 percent, from 2.6 percent.

In the euro area, market-based inflation expectations remained anchored around 2 percent on average in 2025, consistent with the ECB's target, although long-term expectations (2.3 percent at the 10-year horizon) edged up slightly, reflecting a higher risk premium. This premium is influenced by increased uncertainty stemming from geopolitical tensions in Europe and the Middle East, as well as potential constraints on energy supply and persistent trade fragmentation. In the United States, inflation expectations are somewhat higher, just below 2.5 percent across maturities (Figure 6). Expectations are influenced by trade policies and geopolitical tensions, which weigh on

both growth outlook and inflation dynamics, increasing uncertainty regarding financial conditions and monetary policy decisions.

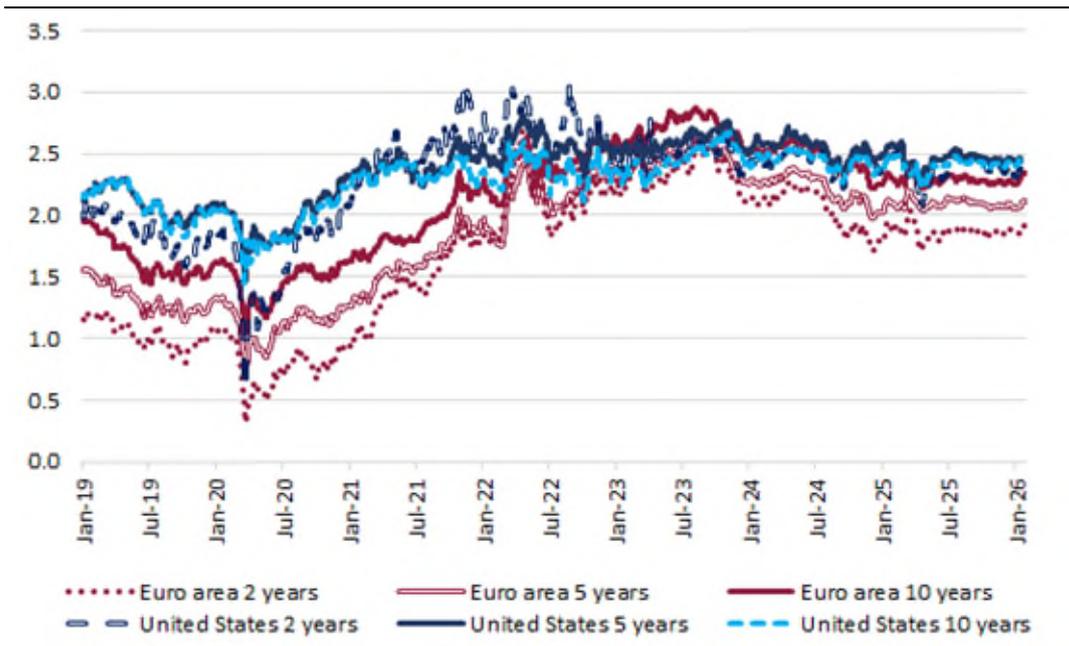
Figure 5 – Consumer inflation in the euro area (1)
(percentage changes and contributions)



Source: calculations based on Eurostat data.

(1) The sum of the contributions may not correspond to the total index, as it is chain-linked with fixed basis and calculated at a higher level of detail.

Figure 6 – Inflation expectations implied by inflation-linked swaps in the euro area and the United States
(percentage points)



Source: LSEG.

The Italian economy

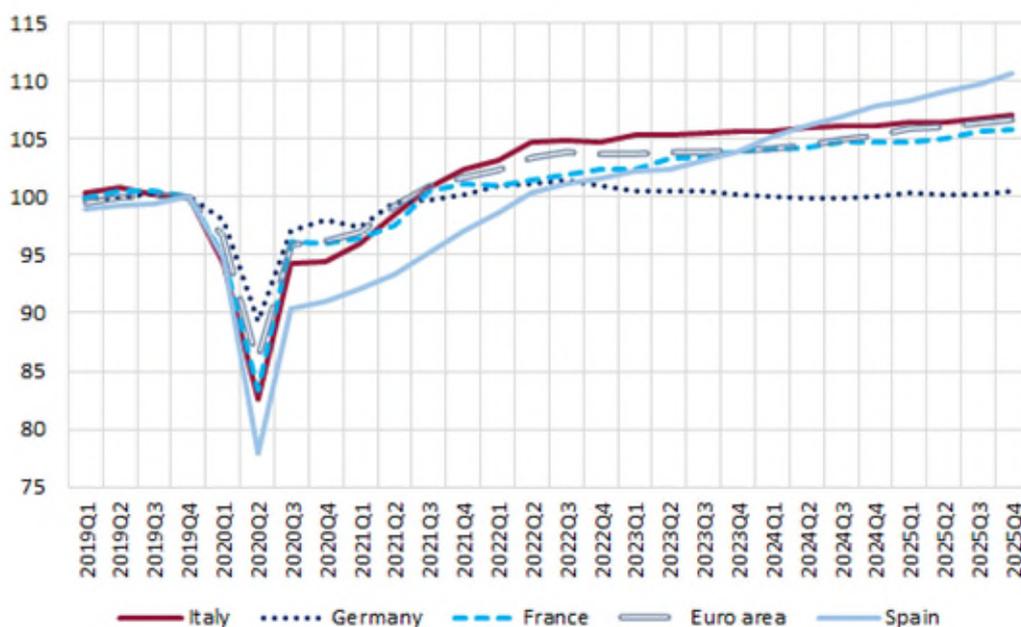
The business cycle strengthened in the final part of 2025

After recording weak growth in the two middle quarters of 2025, the Italian economy accelerated in the final three months of the year. According to preliminary estimates recently released by Istat, GDP increased by 0.3 percent in the fourth quarter compared with the previous period. The positive contribution of domestic demand excluding inventories was offset by a negative contribution from net foreign demand. On the supply side, value added increased mainly in agriculture and industry.

Levels of economic activity exceed those recorded in the pre-pandemic period by around seven percentage points in both Italy and the euro area, by six points in France and by more than ten in Spain; in Germany, by contrast, they remain broadly in line with pre-crisis levels (Figure 7).

Overall, in 2025 GDP rose by 0.7 percent on the basis of quarterly national accounts. However, the annual figure (to be released by Istat on 2 March) is expected to be lower; indeed, quarterly accounts adjust for the number of working days, which in 2025 were three fewer than in 2024, whereas annual accounts do not. At the end of 2025, the statistical carry-over for GDP growth in 2026 amounts to 0.3 percent.

Figure 7 – GDP of the euro area and its four largest economies
(index numbers, 2019 Q4 = 100)



Source: calculations based on Eurostat data.

In December, Istat released the latest estimates of the regional economic accounts. In 2024, GDP growth (0.7 per cent) was driven by the North-West (1.0 per cent) and, to a lesser extent, by the Centre (0.8 per cent). Output growth in the South was in line with the national average, while it was much more subdued in the North-East, amounting to one-tenth of a percentage point. Territorial disparities in income and output levels have therefore continued to widen: GDP per capita in the North-West is almost twice as high as in the South.

Household propensity to save continues to strengthen

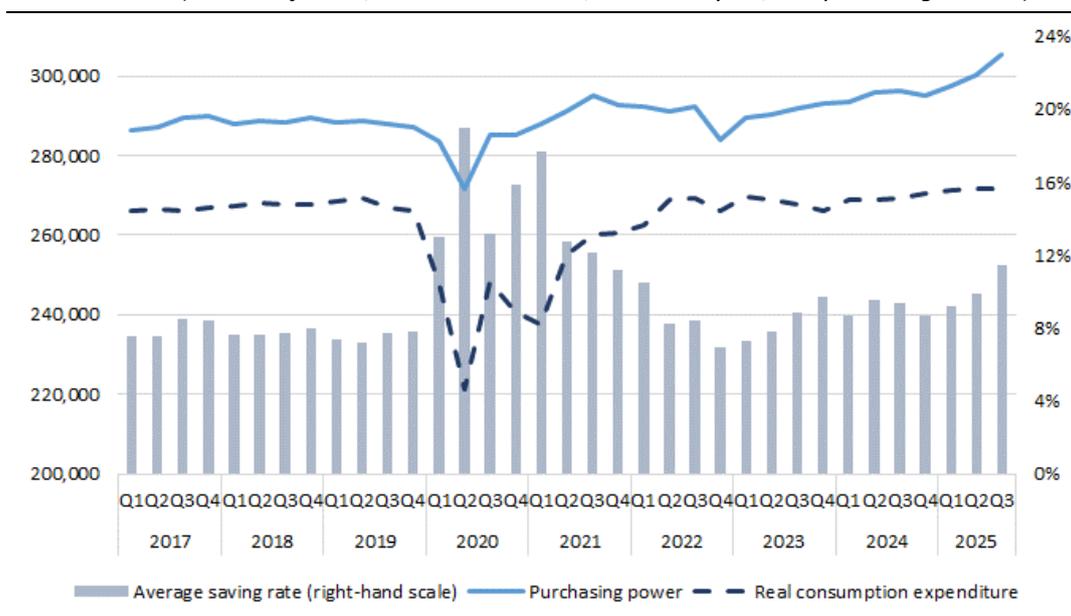
Household expenditure recorded only a negligible quarter-on-quarter increase in the third quarter of 2025, in line with the previous period. During the summer, consumption was concentrated mainly in durable and semi-durable goods, while spending on non-durable goods remained unchanged and expenditure on services declined. On average over the first nine months of last year, consumption growth was modest, driven primarily by non-durable goods and services.

The 2 percent increase in gross disposable income of consumer households in the third quarter of 2025 was accompanied by only a modest expansion in current-price expenditure (0.3 percent), resulting in a marked strengthening of the already high saving rate (Figure 8). At 11.4 percent, the saving rate stands about four percentage points above pre-pandemic levels. The rise in the saving rate, observed in recent years also in other European countries, reflects several factors, including international instability and weak household confidence.

According to the most recent monthly data, household purchases accelerated in the fourth quarter; the carry-over growth in Istat's retail sales volume index was positive in November (0.6 percent). Based on UPB calculations using Confcommercio's volume indicator of consumption, the seasonally adjusted quarter-on-quarter change in the last quarter was positive by seven-tenths of a percentage point, attributable in roughly equal measure to goods and services.

Italian consumer confidence stood in the final quarter of last year at levels close to those of the previous period, remaining relatively low compared with pre-pandemic standards. The first data released by Istat for January 2026 indicate a slight improvement in consumer sentiment.

Figure 8 – Household purchasing power, consumption and savings
(millions of euros, chain-linked values, 2020 base year, and percentage shares)



Source: Calculations based on Istat data.

Capital accumulation slowed in the summer due to the residential component

In the third quarter of 2025, gross fixed capital formation decelerated to 0.6 percent quarter on quarter, after recording growth between 1 and 2 percent in the previous three quarters. Investment spending was held back during the summer by a downturn in the housing component (-1.4 percentage points), marking the first decline since 2024.

Residential investment nonetheless remains at historically high levels, roughly double those recorded in the first quarter of 2020, when the pandemic crisis began in Italy. All other investment categories continued to expand, particularly machinery, equipment and transport equipment, whose growth strengthened during the summer. The investment rate has remained broadly unchanged at 22.8 percent for about a year.

In the third quarter of last year, the profit share (measured as gross operating surplus over value added at basic prices for non-financial corporations) declined by around one percentage point (to 42.3 percent, the lowest level since the 2020 lockdown), confirming the downward trend underway since 2024. Mark-ups also decreased for the economy as a whole and across all major sectors.

According to the latest Bank of Italy survey on inflation and growth expectations, assessments of the overall economic situation improved slightly in the final part of 2025, except in construction. Similarly, investment conditions appear less unfavourable in manufacturing and services, though they worsened in construction. The balance between firms expecting investment expansion this year relative to 2025 and those anticipating a

contraction narrowed compared with the previous survey round. The survey highlights strong interest in the “Transition 4.0” and “Transition 5.0” incentives, particularly among manufacturing firms.

Regarding financial conditions, Istat surveys show that the majority of manufacturing firms reported slightly improved expectations concerning liquidity and access to credit in the fourth quarter. A similar signal emerges from the UPB indicator of credit access difficulties, which declined slightly in the autumn and moved into expansionary territory (i.e. below the threshold value of 50; Figure 9).

In November 2025, bank lending to resident households and non-financial corporations continued to accelerate (up 2.3 percent and 1.8 percent, respectively, year on year). On the funding side, bond issuance remained broadly stable over the course of 2025, while deposit growth accelerated.

Figure 9 – UPB’s index on credit conditions for businesses (1)
(diffusion index; threshold between restrictive and expansionary conditions = 50)



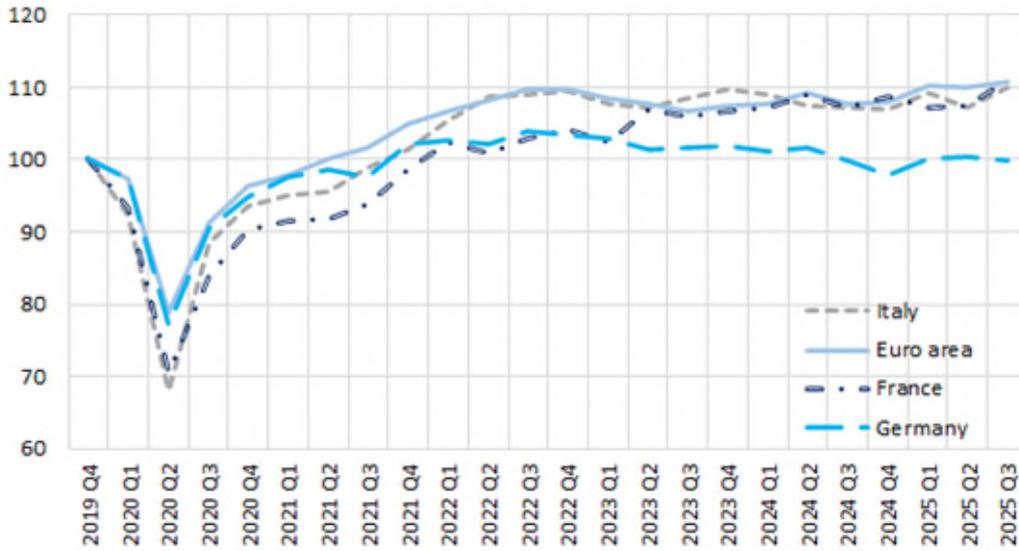
Source: calculations based on Istat data.

(1) For methodological details, see the UPB's October 2023 Economic Report.

Exports are characterised by high volatility

Last summer, exports rebounded (2.6 percent) after experiencing significant volatility in the previous two quarters, largely due to the front-loading of winter shipments in anticipation of new US tariffs. In volume terms, Italian exports in the third quarter of 2025 exceeded those recorded in the same period of 2020 — the year of the pandemic — by almost one quarter (Figure 10), in line with developments in the euro area and France and well above those in Germany.

Figure 10 – Export volumes of the euro area and its three largest economies
(index numbers, 2019Q4=100)



Source: Eurostat.

Based on monthly data on the value of foreign trade, goods trade declined in the final part of the year; carry-over growth as of November indicates a decrease of 1.6 percentage points in exports and 0.4 points in imports. Similarly, according to preliminary national accounts data, net foreign demand made a negative contribution to quarter-on-quarter GDP growth in the fourth quarter of last year. On an annual basis, exports to Turkey (-17.7 percent) and the United Kingdom (-10.5 percent) declined in December, while shipments increased to OPEC countries (4.8 percent), Switzerland (41.6 percent) and Southeast Asia (47.8 percent). Flows to the United States remained broadly stable.

Qualitative surveys conducted by Istat signalled a deterioration in export expectations during the summer quarter, confirming the pessimistic stance that has prevailed since 2024. Firms' assessments of negative factors affecting exports, which worsened in the summer, improved slightly in the autumn. The manufacturing PMI showed signs of weakness in December and January, partly attributable to subdued foreign new orders.

According to national accounts data, import volumes also accelerated in the summer quarter, although to a lesser extent (1.2 percent) than exports (2.6 percent). Overall, in the first eleven months of last year, the current account balance recorded a surplus of around €24 billion (about 1 percent of GDP), an increase compared with the same period in 2024. However, the goods surplus deteriorated by around €4 billion year on year, and the services deficit widened slightly. The strengthening of the current account was therefore mainly driven by net inflows of primary income.

Sectoral indicators point to an economic recovery

Manufacturing activity displayed a fluctuating pattern for most of 2025, showing signs of strengthening between September and November. In particular, the 1.5 percent increase in industrial production in November implies carry-over growth for the quarter of around 1 percentage point. Confidence indicators are mixed: the manufacturing PMI, which has remained below the 50 threshold for two years, stood at 48.1 in January, still in contractionary territory. By contrast, Istat's business confidence index for the sector improved slightly over the course of 2025 and continued to rise last month.

Construction output remained high last year. Carry-over growth in construction production for 2025 is around 5 percent, despite the monthly decline recorded in November. Istat's construction confidence indicator maintained momentum throughout last year, although it weakened last month. In contrast, the sectoral PMI remained in contractionary territory — below the 50 threshold — in the final part of 2025, as for most of the year.

The latest survey on the housing market, conducted between September and October by the Revenue Agency, the Bank of Italy and Tecnoborsa, confirmed robust house price growth and favourable mortgage access conditions.

The services sector, which had recorded generally positive value-added growth following the 2020 pandemic shock, weakened last year. The spring contraction (-0.1 percent) was only slightly offset by the summer rebound (0.2 percent), with moderate growth across most subsectors except financial and insurance activities (1.4 percent).

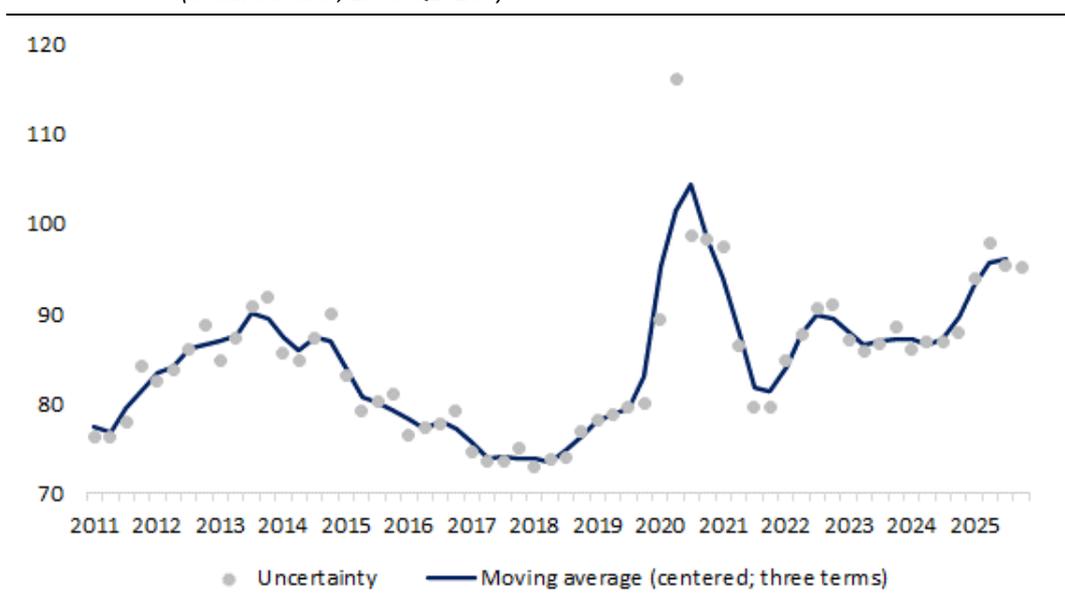
Between January and October last year, tourism flows further improved the sector's balance of payments surplus (over €21 billion, about 10 percentage points higher than in the same period of 2024). Overnight stays and arrivals by foreign visitors to Italy increased year on year, while Italians' stays abroad declined. Istat's services confidence index recovered in the second half of the year and strengthened further in January 2026. Similarly, the sectoral PMI remained in expansionary territory throughout 2025.

Regarding business demography, Movimprese data show a balance between business births and deaths around 10,000 units in the autumn quarter, more than triple the figure recorded in the same period of 2024, although decreasing quarterly. Despite an entrepreneurial structure largely composed of small and medium-sized enterprises, the demographic trend was almost entirely driven by corporations (with a quarterly net increase of about 19,000 units), while the balance between registrations and closures was negative for partnerships.

In terms of business creation, professional services, financial and insurance activities, and information and communication services displayed greater dynamism than traditional primary and secondary sectors.

The composite business confidence index, calculated as a weighted average of sectoral indicators, rose by around two points in the autumn compared with the July–September average and strengthened further in January. The UPB’s uncertainty indicator for households and firms stabilised at high levels in the final part of 2025, close to those observed in 2020–21 (Figure 11).

Figure 11 – PBO’s uncertainty index
(index number, 1993 Q1=100)



Source: calculations based on Istat data.

Employment rises but inactivity increases, especially among young people

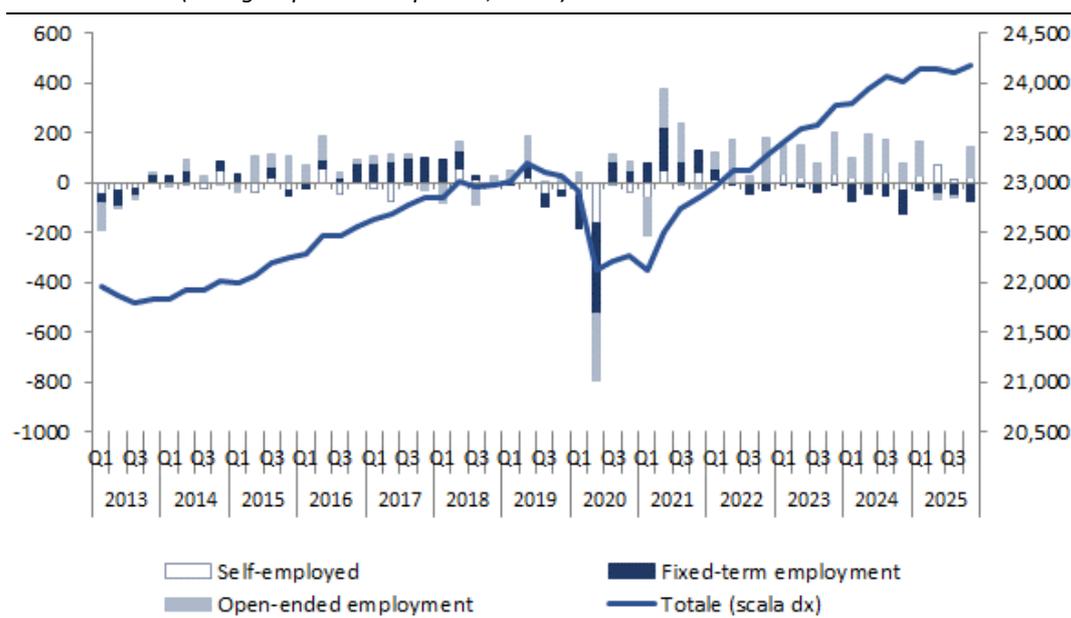
In the summer quarter, labour input showed signs of recovery. Employment increased slightly (0.1 percent quarter on quarter according to National Accounts data), offsetting the decline recorded in the previous three months; at the same time, labour units rose at a faster pace (0.6 percent) than GDP. Over the same period, total hours worked accelerated, although they declined in construction and agriculture. Hours worked per employee increased (0.6 percent), driven by services and especially manufacturing, after two years of very weak dynamics; per capita hours continued to decline in agriculture and, more markedly, in construction, where the contraction that began in the spring intensified.

Despite the increase in labour input recorded in the National Accounts, the Labour Force Survey signalled a slight decline in the number of persons employed in the third quarter².

² The two surveys differ in several respects, including: (i) data collection framework: the Labour Force Survey (LFS) is a sample survey, whereas National Accounts (NA) constitute an integrated system of accounts designed to ensure consistency among key macroeconomic aggregates (output, value added and income); (ii)

Monthly data suggest a reversal of this trend in the final quarter of the year: the decline in the number of employees came to a halt, owing to an increase in fixed-term contracts. At the same time, self-employment continued to expand, a trend that began in the winter quarter of 2024, albeit at a more moderate pace than earlier in the year (Figure 12). The employment structure, like the population, is increasingly skewed towards older age groups. In the fourth quarter, the share of workers aged 50–64 increased further, reflecting both stricter retirement requirements and demographic dynamics — population ageing and the ageing of “baby boomer” cohorts. At the same time, employment among younger age groups (15-24) continued to decline, for eight consecutive quarters. Permanent positions in the private non-agricultural sector continued to expand (up 2.4 percent year on year in the first three quarters of 2025, according to INPS Observatory on the labour market), largely driven by the conversion of fixed-term contracts into permanent ones. Seasonal and agency work contracts also increased, while intermittent contracts recorded a sharp decline (-10.2 percent year on year).

Figure 12 – Employed and self-employed workers (1)
(changes quarter on quarter; levels)



Source: Istat.

(1) Data for the fourth quarter of 2025 are estimated using preliminary monthly series.

measurement of employment: both the LFS and NA measure the number of employed persons in headcounts, but NA provides a variable that is fully consistent with the economic accounts framework; (iii) statistical coverage: the LFS monitors resident individuals, while NA measure labour input employed within the domestic economic territory. As a result, labour input in the third quarter of 2025 shows a slight increase according to NA, despite a decline in the LFS headcount measure. This evidence is consistent with a rise in labour intensity (average hours worked per employed person), as well as with differences in coverage and methodology between the two statistical sources. For further details, see the methodological note accompanying the press release [Mercato-del-lavoro-III-trim_2025.pdf](#).

In 2025, use of wage supplementation schemes eased. In manufacturing, applications for ordinary wage supplementation slowed in the summer quarter, while extraordinary wage supplementation increased, mainly in cases of corporate reorganisation or restructuring, suggesting a shift from temporary needs to more structural adjustment processes.

The decline in the working-age population is weighing on labour supply, while the unemployment rate has reached historical lows. The labour force aged 15–64 declined from the summer onwards (by 185,000 individuals), in line with the reduction in the working-age population. The contraction of the central age group (35–49) continued and intensified, only partly offset by growth in the older cohort, also supported by changes in pension rules.

Labour market participation declined in the third quarter, owing to reduced labour supply among those aged up to 49. The participation rate remains historically high (66.7 percent), but is still well below the euro-area average (75 percent on average, 80 percent in Germany). A marked gender gap also persists, wider than the European average (76.2 percent for men and 58.5 percent for women in Italy, compared with 80.3 and 71.2 percent, respectively, in the euro area). Preliminary information indicates a slight decline in participation also in the final months of the year. In this context, the unemployment rate fell in the closing months of the year to below 6 percent, reaching its lowest level in the past twenty years.

Inactivity remains high among young people, women and in the South, confirming persistent structural heterogeneity. During the summer months, the inactivity rate rose to 33.3 percent (from 33.1 percent), particularly among young people, whose rate approaches 51 percent in the 15–34 age group and reaches 57.2 percent among young women. Territorial disparities remain pronounced, with inactivity at 43.5 percent in the South, compared with below 30 percent in the Centre-North. Family-related and educational reasons remain the main causes of inactivity. The largest group of inactive individuals — those most distant from the labour market (not seeking work and not available to work) — remained broadly stable at 10.4 million in the first nine months of 2025.

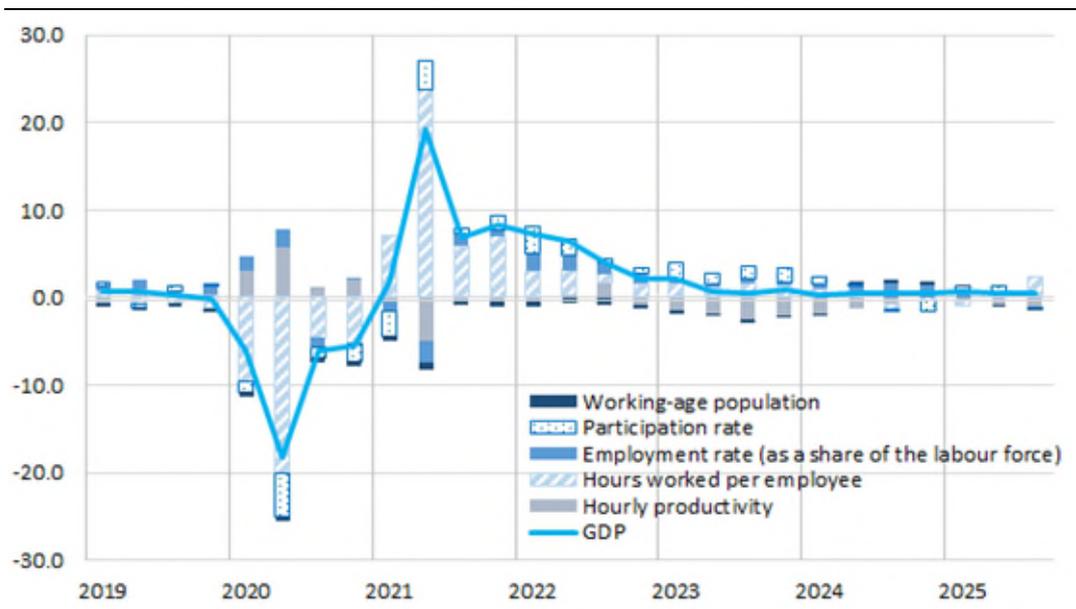
Year-on-year GDP growth in the third quarter (0.2 percent) was driven exclusively by hours worked (Figure 13). Hourly productivity and the working-age population exerted a negative contribution to output growth, while employment and participation rates made broadly neutral contributions.

Growth in contractual hourly wages moderated over the course of 2025 (from 3.9 percent year on year in the first quarter to 2.8 percent in the last), averaging 3.1 percent for the year. The slowdown in the private sector was offset by an acceleration in public administration, following contract renewals in the education and research sector and in the national health service. In the fourth quarter, private-sector contracts were renewed in the brick and cement products, telecommunications, and private radio and television

sectors. The share of employees awaiting contract renewal declined by more than 10 percentage points from the beginning of 2025, reaching 42.2 percent in December.

Actual hourly wage growth for the economy as a whole remained stable at levels above those recorded in 2024 (around 3 percent year on year in the first three quarters of 2025). In real terms, hourly wages were still significantly below the average 2020 levels (by about 8.6 percent). Growth in unit labour costs, which had moderated in the first part of the year, picked up in the summer quarter, remaining above labour cost growth, partly reflecting a renewed decline in productivity, especially in services and construction.

Figure 13 – GDP growth and the labour market (1)
(year-on-year percentage changes; contributions to growth)



Source: based on Istat data.

(1) The chart decomposes year-on-year GDP growth into the contributions of the main labour market variables, productivity, and demographic factors.

Inflation remains moderate and below the euro-area level

In 2025, inflation in Italy rose to 1.5 percent (NIC index), slightly above the 2024 figure (1.0 percent). The positive contribution of food and services components was offset by the decline in energy prices; core inflation once again exceeded headline inflation but remained below 2.0 percent. Price dynamics moderated in the latter part of the year, owing to the negative contribution of the energy component.

In the last quarter, consumer price inflation declined from 1.6 to 1.2 percent. Energy deflation deepened (-4.4 percent from -4.0 in the previous quarter), while food prices slowed (to 2.2 percent from 3.9) and services inflation eased (to 2.5 percent from 2.7

percent). Core inflation remained close to 2.0 percent (1.8 percent according to the national measure and 1.9 percent according to the harmonised index; Figure 14).

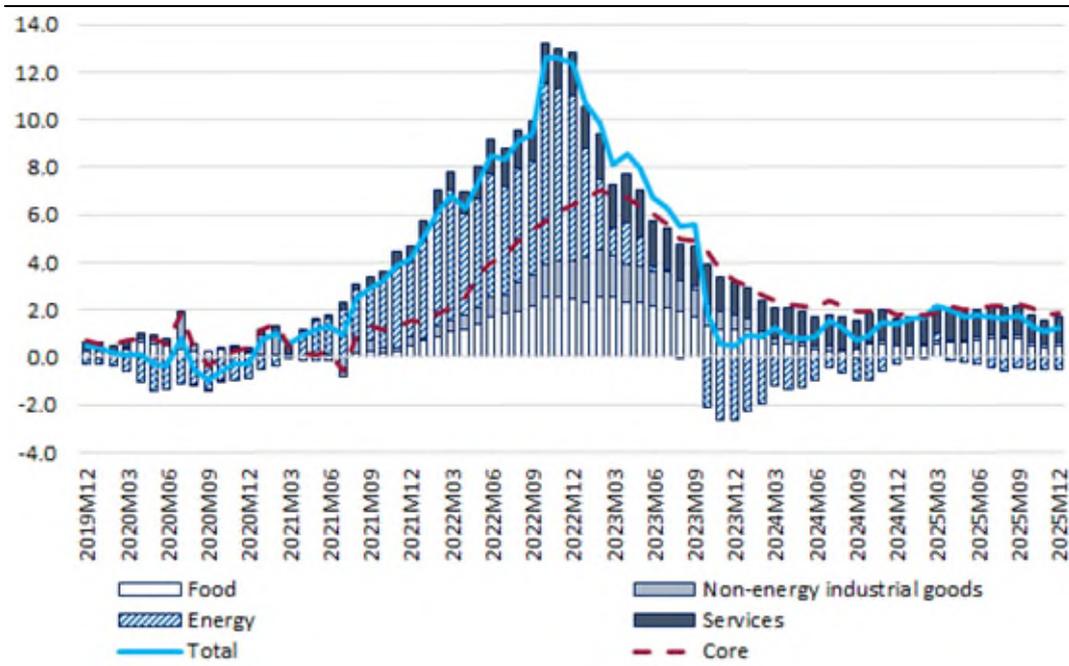
In 2025, the negative inflation differential between Italy and the euro area narrowed on average (-0.5 percentage points) (Figure 15); however, in the second half of the year the negative contribution of the energy component widened the gap again (-0.8 percentage points in the fourth quarter).

Price moderation has become more widespread across individual items: in Italy, around 60 percent of goods and services now record inflation below 2.0 percent, and by the end of the year the share below 1.0 percent had increased (40 percent of items in the third quarter). In addition to energy, prices that had experienced marked volatility in the previous two years — such as certain food products (including oils, fruit and vegetables), insurance and air transport — are now in deflation.

Upstream in the production chain, prices mainly reflect fluctuations in the energy component, and no significant deflationary dynamics are visible, including those that might potentially stem from the trade conflict between the United States and China (Figure 16). Import prices increased slightly on a quarter-on-quarter basis in November, largely due to temporary rises in certain energy products (natural gas and electricity); the year-on-year rate remained just below 3 percent, as it has since May. Industrial producer prices in December stood nearly 1.5 percentage points below their level a year earlier. In construction, producer prices accelerated both for buildings and for roads, though quarter-on-quarter growth was driven mainly by higher labour costs and general expenses. By contrast, service producer prices slowed in the third quarter of 2025 (to 2.3 percent from 3.4 in the second), particularly in rental and travel agency services, business support services, and information and communication services.

Expectations of consumers and firms remain oriented towards stability. In 2025, the share of firms surveyed by Istat expecting unchanged selling prices remained very high (on average 85 percent). The Bank of Italy's survey on expectations also recorded moderate price growth expectations in the third quarter. Consistent with this, the PMI survey of purchasing managers pointed in December to weaker demand and milder cost pressures, allowing for a modest easing of selling prices. Consumers surveyed by Istat remain optimistic regarding price developments: the share expecting price stability reached 41.8 percent in the third quarter, while the proportion anticipating a rebound in inflation continued to decline, including at the beginning of 2026.

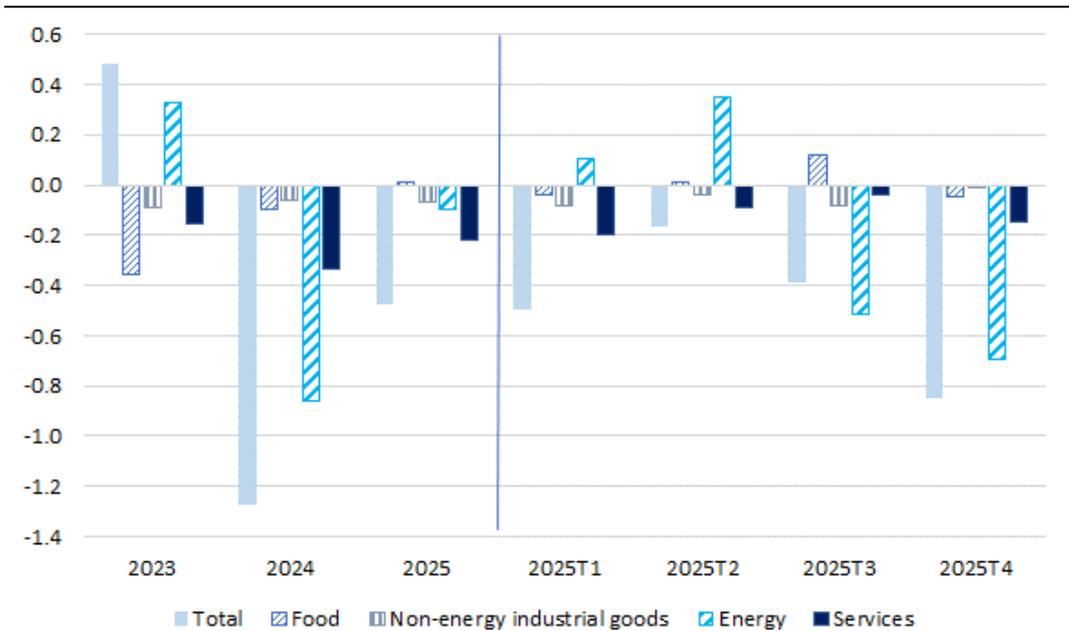
Figure 14 – Harmonised Index of Consumer Prices (HICP), contributions of components and core component (1)
(year-on-year percentage changes and contributions to growth)



Source: calculations based on Eurostat data.

(1) The chart shows the contributions to growth of the sectoral components of the harmonised general consumer price index, as well as the change in the core component. The sum of the contributions may not correspond to the trend in the total index, as it is linked and calculated at a higher level of detail.

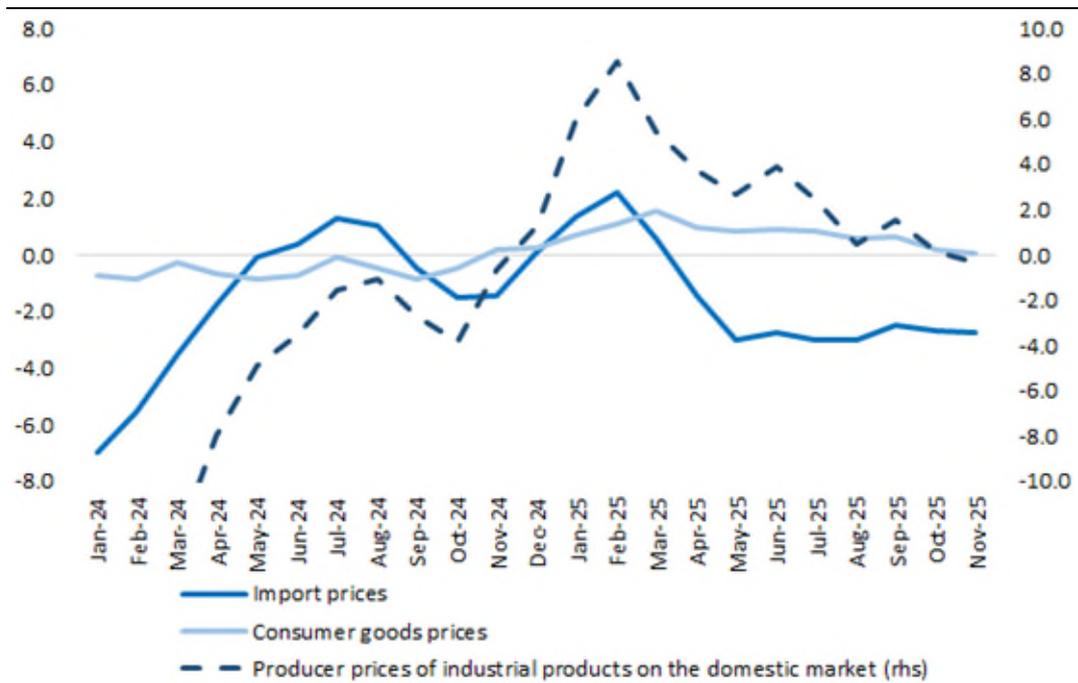
Figure 15 – Inflation differentials between Italy and the euro area (1)
(differences in percentage points)



Source: calculations based on Eurostat data.

(1) Differences between Italy and the euro area in terms of total harmonised inflation and the contributions of its components.

Figure 16 – Consumer, import and producer prices in industry
(percentage changes)



Source: Istat.

Macroeconomic forecasts for the Italian economy

In this Note, the UPB updates its projections for the Italian economy over the 2025–27 period, originally formulated last October in the context of the endorsement of the macroeconomic framework of the Draft Budgetary Plan (DPFP). The scenario incorporates updated assumptions on exogenous variables, reflecting recent developments and the latest cyclical information concerning both the international and domestic economy.

Economic activity in 2025–27

The estimate for 2025 incorporates information on GDP growth in the last quarter (0.3 percent according to Istat’s preliminary estimate); on this basis economic activity is projected to have increased by 0.5 percent in annual terms (Table 2), lower than indicated by quarterly figures (0.7 percent, as discussed in the section on the Italian economy). For 2026, GDP growth is projected to be slightly above half a percentage point (0.7 percent), driven primarily by domestic demand components. In 2027, GDP growth is expected to remain at 0.7 percent, assuming a gradual improvement in the international economic environment. The projections assume full implementation of investment programmes under the NRRP (National Recovery and Resilience Plan), whose impact on demand and output variables is significant and represents a key driver of Italy’s economic development over the forecast horizon. On the international front, it is assumed that geopolitical tensions will gradually ease.

The GDP projections presented in this Report fall within the range of forecasts produced by other institutions, particularly the most recent ones (Table 3). As regards the GDP deflator — the most relevant price variable for public finance — it is expected to stabilise over the forecast horizon at just below 2 percent, broadly in line with the average of other forecasters. When comparing projections, it should be considered that assumptions regarding international exogenous variables — especially energy prices and trade — as well as public finance estimates, differ across institutions.

Table 2 – Italian economic forecasts (1)

	2024	2025	2026	2027
INTERNATIONAL EXOGENOUS VARIABLES				
World trade	3.3	4.4	1.8	2.2
Oil price (Brent, dollars per barrel)	80.6	69.1	63.4	62.8
Dollar/Euro exchange rate	1.08	1.13	1.18	1.19
Natural gas price (TTF, euro/MWh)	34.4	36.4	30.3	25.8
ITALIAN SCENARIO				
GDP	0.7	0.5	0.7	0.7
Imports of goods and services	-0.4	2.9	1.7	2.5
Final domestic consumption	0.6	0.5	0.7	0.8
- Household consumption and non-profit institutions	0.5	0.6	0.9	1.1
- General government expenditure	1.0	0.3	0.4	-0.1
Investments	0.5	2.8	1.2	1.6
Exports of goods and services	0.0	1.4	1.2	1.8
CONTRIBUTIONS TO GDP GROWTH				
Net exports	0.1	-0.4	-0.1	-0.2
Inventories	0.0	0.0	0.0	0.0
Domestic demand net of inventories	0.6	1.0	0.8	0.9
PRICES AND NOMINAL GROWTH				
Import deflator	-1.7	-0.5	-0.6	0.2
Export deflator	0.1	0.9	1.1	1.5
Consumption deflator	1.5	1.6	1.7	1.5
GDP deflator	2.0	1.9	1.8	2.0
Nominal GDP	2.7	2.4	2.5	2.7
LABOUR MARKET				
Labour cost per employee	2.8	3.0	2.9	2.8
Employment (FTEs)	2.2	1.1	0.7	0.6
Unemployment rate	6.6	6.1	6.0	5.8

(1) Percentage changes, except for contributions to GDP growth (percentage points), the unemployment rate (percentage), the exchange rate and the price of oil (levels). Due to rounding of growth rates to the first decimal place, the sum of changes in volume and their corresponding deflators may not coincide with the nominal dynamics.

Table 3 – Recent forecasts for Italy's GDP and GDP deflator
(annual percentage changes)

		GDP			GDP Deflator		
		2025	2026	2027	2025	2026	2027
REF-Ricerche	28-Jan	0.5	0.7	0.9	2.0	2.3	1.8
International Monetary Fund	19-Jan	0.5	0.7	0.7			
Oxford Economics ⁽¹⁾	14-Jan	0.6	0.6	0.8	1.9	1.3	1.2
Consensus Economics ^{(1) (2) (3)}	12-Jan						
- average		0.6	0.7	0.8	1.7	1.4	1.8
- min		0.5	0.4	0.6	1.5	0.7	1.2
- max		0.7	0.9	1.2	1.9	2.1	2.1
Bank of Italy ⁽²⁾	19-Dec	0.5	0.7	0.8	1.7	1.4	1.6
Prometeia ⁽¹⁾	15-Dec	0.6	0.7	0.6	1.9	2.1	2.2
Istat	5-Dec	0.5	0.8		2	1.8	
OECD	2-Dec	0.5	0.6	0.7	2.0	2.0	2.0
European Commission	17-Nov	0.4	0.8	0.8	2.2	1.8	1.9
MEF DPB 2026	2-Oct	0.5	0.7	0.8	2.3	2.1	1.7

(1) GDP data adjusted for working days. – (2) Consumer price index instead of the GDP deflator. – (3) The Consensus Economics forecast for 2025 refers to the release issued in December 2025, as it is the most recent available.

Forecasts for expenditure components

In 2026–27, economic activity is expected to be driven by domestic demand, with an almost neutral contribution from inventories and a negative contribution from net foreign demand. Household consumption is estimated to have increased by 0.6 percent in 2025, continuing the recovery from the 2020 contraction. Consumption is projected to grow by around 1 percent in both 2026 and 2027, supported by a recovery in purchasing power (1.5 percent on average per year). The saving rate is expected to continue rising, exceeding 12 percent of disposable income — about two percentage points above pre-pandemic levels.

Following the slowdown in 2024, when total investment was broadly unchanged, capital accumulation is estimated to have resumed sustained growth in 2025 (2.8 percent) and to decelerate in 2026 (1.2 percent). In 2027, investment in machinery and equipment is projected to strengthen (2.2 percent), while construction investment is expected to grow at a more moderate pace (1.0 percent). Demand for both components would benefit from NRRP implementation, a less restrictive monetary policy stance, and the assumption of a gradual reduction in uncertainty related to geopolitical tensions.

In 2027, the ratio of total investment to GDP is expected to remain slightly above 22 percent, while the share of public investment in total investment would rise above 16 percent — about four percentage points higher than in the year preceding the pandemic.

Exports are estimated to have grown by 1.4 percent in 2025, still below the growth rate of world trade (estimated at 4.4 percent despite the protectionist policies by the US Administration). The stronger growth in imports (2.9 percent) reflects the increased domestic demand — particularly investment — as well as the appreciation of the euro.

Over 2026–27, exports are projected to remain weak, with a gradual loss of foreign market shares. Import growth is expected to be more robust, implying a negative net external contribution to GDP growth throughout the forecast horizon.

Labour market and inflation forecasts

Employment, measured in terms of full-time equivalent (FTEs), grew faster than GDP in 2025, continuing the trend observed since the post-pandemic period. In 2026–27, employment growth is expected to moderate, aligning more closely with GDP growth (around 0.6 percent on average), so that employment elasticity with respect to output would approach unity.

Headcount employment is expected to follow a similar pattern and to grow more strongly than labour supply, which is projected to increase by less than half a percentage point on average over the forecasting horizon. These developments would support a stabilisation

of the unemployment rate at around 6.0 percent. The employment rate (15–64 years) is projected to continue rising, driven mainly by the decline in the working-age population, surpassing 63 percent by the end of the forecast period. The participation rate is also expected to rise to around 68 percent.

Inflation, measured by the household consumption deflator, is estimated at 1.6 percent in 2025 and is projected to remain broadly stable over 2026–27. Lower energy commodity prices and the appreciation of the euro are expected to dampen price dynamics. The scenario does not incorporate potential upward effects on energy costs stemming from the introduction of the new EU Emissions Trading System (ETS2), which — consistent with the European Council proposal — is assumed to be postponed to 2028.

Growth in nominal hourly wages (National Accounts measure) is expected to remain broadly stable over 2026–27 and to exceed consumer price growth. The recovery in household purchasing power, observed since 2023, is projected to continue at a moderate pace; however, by the end of the forecast horizon, real wages are still expected to remain more than two percentage points below their 2021 level.

The GDP deflator, projected to grow by 1.9 percent on average over the forecast horizon, exceeds the private consumption deflator owing to an improvement in the terms of trade. On the supply side, nearly two-thirds of GDP deflator growth would be driven by labour costs, with the remainder attributable to corporate profit margins, which are expected to increase slightly over the projection horizon.

Main revisions compared with the October forecasts

Compared with the macroeconomic framework formulated by the PBO last October in the context of the endorsement of the 2025 Public Finance Planning Document (DPFP), growth estimates have been revised upward for the current year and marginally downward for the following year.

For 2026, the stronger GDP increase (by three-tenths of a percentage point) reflects not only a more favourable statistical carry-over from 2025, but also improved real purchasing power and more favourable projections for external demand relative to the October scenario. By contrast, the slight downward revision to GDP growth in 2027 reflects less favourable assumptions regarding international trade and the further appreciation of the euro against the US dollar. Regarding price variables, the growth rate of the private consumption deflator has been revised downward by about two-tenths of a percentage point on average over the two-year period, mainly owing to the assumption of lower euro-denominated oil and natural gas prices. The GDP deflator has, by contrast, been broadly confirmed on average over the forecast horizon. As a result, nominal GDP growth has been revised upward for the current year (by three-tenths of a percentage point), while remaining unchanged for next year.

Risks to the outlook for Italy

The Italian economy is exposed to multiple risks, predominantly tilted to the downside over the medium term and largely attributable to external or environmental factors, and therefore mostly exogenous to domestic dynamics.

The international environment remains the main source of uncertainty: ongoing conflicts and fluctuating trade restrictions continue to weigh on economic activity and destabilise expectations. In Europe, the cyclical outlook remains uncertain, particularly for exporting industrial firms; additional impulses to demand are expected from defence and infrastructure spending in Germany, although the German business cycle remains weak. On the financial front, equity asset prices remain elevated, volatility indices are relatively contained, and central banks are approaching the end of the monetary easing cycle. Abrupt changes in risk appetite could quickly spill over to the Italian economy, which continues to be characterised by high public debt. Global warming continues to generate extreme weather events, including those that have recently affected Southern Italy. The increasing frequency and intensity of such phenomena imply that further events cannot be ruled out within the forecast horizon. Particularly severe episodes, or those affecting areas with a high concentration of productive activity, could have non-negligible repercussions for the overall national economy.

Box – Assumptions underlying the forecast

The scenario refers to the two-year period 2026–27 and is based on updated international exogenous variables, derived from technical assumptions applied to market quotations available as of 26 January. In particular, the following assumptions are made: 1) a slowdown in world trade in goods and services in 2026 (to 1.8 percent, from 4.4 percent in 2025), followed by a moderate recovery in 2027 (2.2 percent); 2) the absence of tensions in monetary and credit conditions, with the short-term interest rate in the euro area projected at 2.0 percent this year (from 2.1 percent in 2025), declining slightly to 1.9 percent in 2027; 3) an appreciation of the euro against the US dollar, to 1.19 on average over 2026–27 (from 1.13 in 2025), in line with market forward exchange rates; 4) a decline in the price of crude oil to \$63.4 per barrel, followed — on the basis of futures market quotations — by a marginal decrease in 2027; (5) a decrease in euro-denominated gas prices to €30.3/MWh this year, followed by a further decline to around €26/MWh in 2027. The public finance framework incorporates the measures included in the 2026 budget law and the full implementation of projects financed under the NRRP.