Italy

Outlook

								Forecast	
	Average 12-16	2017	2018	2019	2020	2021	2022	2023	2024
GDP growth (%)	-0,5	1,7	0,8	0,5	-9,0	7,0	3,8	1,1	1,0
CPI inflation (%)*	1,0	1,3	1,2	0,6	-0,2	1,9	8,7	6,3	2,5
Fiscal balance (% of GDP)	-2,7	-2,4	-2,2	-1,5	-9,7	-9,0	-8,0	-4,9	-3,3
Primary fiscal balance (% of GDP)	1,8	1,4	1,5	1,9	-6,2	-5,4	-3,7	-0,3	1,4
Public debt (% of GDP)	129,7	134,2	134,4	134,1	154,9	149,8	144,7	138,6	140,2
Reference rate (%)*	0,3	0,0	0,0	0,0	0,0	0,0	0,0	3,8	4,0
Current balance (% of GDP)	1,4	2,7	2,6	3,4	3,7	3,1	-1,3	1,7	0,8

Notes: * Annual average. (e): estimate. CaixaBank Research forecast for GDP, CPI and interest rates.
Source: CaixaBank Research, based on data from AMECO, Oxford Economics, the ECB (via Refinitiv) and the Italian government.

- **Unexpected dynamism of the economy in Q1 2023**. The Italian economy surprised positively, growing by 0.5% quarter-on-quarter and 2.0% year-on-year (-0.1% and -0.5%, respectively, in Q4 2022). This favourable start of the year introduces an important positive trend to the economy's progress for this year as a whole and explains a large part of the upward revision in the growth forecast for 2023 (to 1.1%, from 0.5% previously). So far, the positive impact on activity induced by the notable improvement in the energy scenario, with gas prices almost at pre-war levels in Ukraine, has more than offset the negative effect of rising interest rates. However, the impact of higher rates would be more evident in the second half of the year and much of the first half of 2024, and introduces some downside risks to next year's growth forecasts.

- **The government confirms its prudent fiscal policy**. Georgia Meloni's government presented its new macro and financial scenario up to 2026 in April, confirming the fiscal deficit targets presented in November. Thus, it proposes a fiscal deficit of 4.5% of GDP in 2023, 3.7% in 2024, 3.0% in 2025 and 2.5% in 2026 (slightly more optimistic than those recently presented by the European Commission in its spring report). With regard to the government debt to GDP ratio, higher than expected inflation in 2022 allowed the government debt to GDP ratio to stand at 144.4%, against 145.7% forecast in November. This lower "starting point" explains why, although the speed of declines in the debt ratio is now slower than forecast in November, in 2025 public debt could stand at 141.4%, 0.3 p.p. less than announced in November. Nevertheless, these are still very high debt standards that will raise the interest payment burden to 4.2% of GDP in 2025, from the 3.7% expected this year.

- **Risk premia are behaving quite positively**. The banking problems in the US had a modest, and short-lived, impact on European risk metrics, reflecting the fact that markets consider the banking and financial system to be in a more robust position than the US, thanks to much stricter regulations implemented after the 2008 crisis. This fact, coupled with signs that Meloni's government remains committed to fiscal orthodoxy, explains why Italian risk premia have even declined so far in 2023 to around 1.9 p. p. in May, a level from which they will not deviate substantially in the coming months.

Closing date of this edition: 20 June 2023