

Italy



Outlook

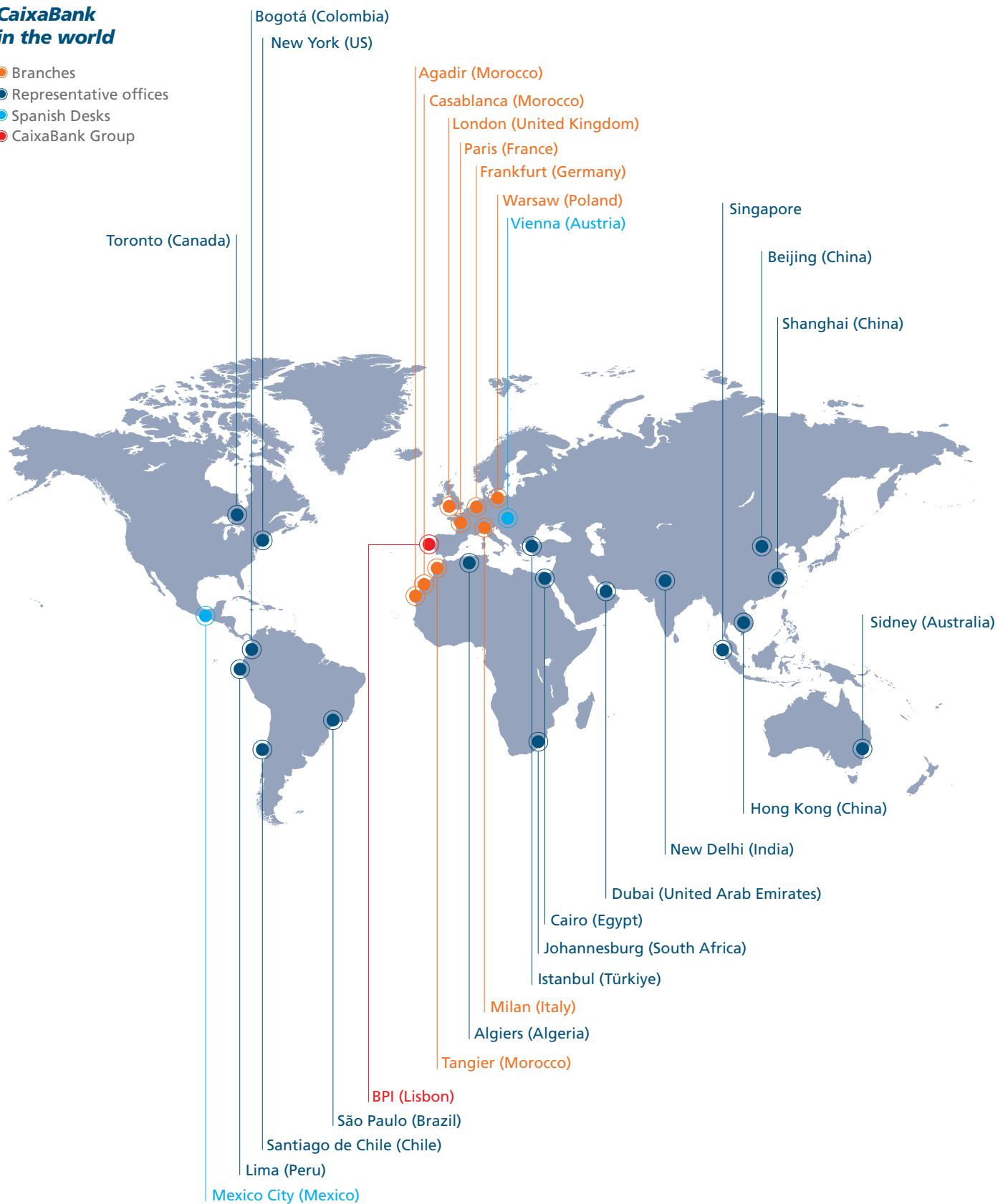
	Average 13-17	2018	2019	2020	2021	2022	2023	Forecast	
								2024	2025
GDP growth (%)	0.4	0.8	0.5	-9.1	8.3	4.1	1.0	0.8	1.5
CPI inflation (%)*	0.6	1.2	0.6	-0.2	1.9	8.7	5.9	1.5	2.0
Fiscal balance (% of GDP)	-2.6	-2.2	-1.5	-9.4	-8.7	-8.6	-7.4	-4.4	-4.7
Primary fiscal balance (% of GDP)	1.6	1.5	1.9	-5.9	-5.2	-4.3	-3.6	-0.5	-0.5
Public debt (% of GDP)	132.0	134.5	134.2	155.0	147.1	140.5	137.3	138.6	141.7
Reference rate (<i>repo</i>) (%)	0.2	0.0	0.0	0.0	0.0	0.6	3.8	4.0	2.8
Current balance (% of GDP)	2.0	2.6	3.4	3.8	2.4	-1.6	0.5	1.8	1.2

Note: * Annual average. CaixaBank Research forecast for GDP, CPI and interest rates; other variables, AMECO.
Source: CaixaBank Research, based on data from AMECO, Oxford Economics and the ECB (via Refinitiv).

- **Italy's economy delivered another surprise at the start of the year.** GDP grew by 0.3% quarter-on-quarter in Q1 2024, largely fuelled by buoyant foreign demand, which offset sluggish household spending and a decline in industrial inventories. As with the other major euro area economies, the start of a strong and sustained recovery still seems a long way off, and we foresee a slight loss of momentum in Q2, before recovering to a rate of around 0.3% quarter-on-quarter in the second half of the year, which would put growth for 2024 at 0.8%.
- Italy has emerged as the euro area's big positive surprise in recent years. In Q1 2024, GDP was more than 4 pp higher than its pre-COVID level, the best performer among the region's four major economies. These figures were **driven by construction** (it has grown by almost 36% since Q4 2019) **which has benefited greatly from the Superbonus**, a tax rebate and exemption programme for the construction sector that was approved in 2020 and will remain in place until 31 December 2025. The rate of this subsidy for construction costs is gradually being reduced: during 2020-2022, it amounted to 110%; in 2023, 90%; in 2024, 70%; and in 2025, 65%. As this **subsidy is reduced**, the construction sector will lose momentum, although it will continue to be buoyed by the completion of all the projects that have been started under this scheme. In fact, business confidence in the sector was still at near-record highs in March. Construction will therefore continue to make a positive contribution to growth, although it will decline.
- However, the **Superbonus has also placed significant pressure on the public accounts over the last three years**. Indeed, the government itself estimates that these subsidies had amounted to more than 200 billion euros by April 2024, i.e. over 10.0% of annual GDP. This cost is the reason why the public deficit will reach 7.4% of GDP in 2023, almost 2 pp above the government's forecast. Over the coming years, the government expects to see a correction of the fiscal deficit which, although somewhat more optimistic than the European Commission's forecast, is fairly realistic. Despite this projected reduction in the fiscal deficit over the next few years, debt ratios will continue to rise and could reach almost 142% of GDP by 2025. However, the commitment shown by the government to meet the fiscal targets that were reintroduced by Brussels explains the healthy Italian risk premia, which have been declining since last October and are currently trading at around 130 bp, a three-year low.

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