ITALY 2024-2025 SCENARIO

SLUGGISH GROWTH:
A RETURN TO THE PAST?

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GROUP ECONOMIC RESEARCH

ITALY 2024-2025: A RETURN TO THE PAST?

Scenario highlights

- Inflation stabilised in the first half
- Employment continued to grow at the start of the year
- Disposable income increased in the first half
- Business confidence remains low
- Investment is declining
- The first difficulties in construction are appearing

	2022	2023	2024	2025
GDP **y/y, %**	4,1	1,0	0,8	0,8
Domestic demand contribution to GDP, pps	4,9	2,0	0,6	0,5
Private consumption y/y, %	4,9	1,2	0,0	1,3
Investment y/y, %	8,9	4,9	2,8	-0,6
Stockbuilding contribution to GDP, pps	-0,2	-1,2	-1,1	0,2
Net exports contribution to GDP, pps	-0,5	0,2	1,3	0,1
Inflation y/y, %	8,7	5,9	1,1	1,5
Unemployment rate %	8,1	7,7	6,9	7,0
Fiscal balance % of GDP	-8,6	-7,4	-3,8	-3,3

In a still uncertain context, Italy's performance, compared to other countries in the Eurozone, appears rather positive. With a GDP increase of 0.2% in the second quarter compared to the previous quarter, the Italian economy is growing at the same pace as the French economy, despite a less favourable carryover (+0.6% in 2024), and is performing better than Germany, where GDP decreased by 0.1% over the quarter. However, in the third quarter of 2024, several signs of a slowdown persist. The labour market may provide some support, with the unemployment rate stabilised at 6.2%, but consumption and investment prospects are expected to remain weak.

Household consumption growth, after a slowdown in the second quarter, is expected to maintain a modest pace in the third quarter. Spending on goods, particularly durable goods, could stagnate, while services are expected to continue growing moderately. Household caution, which contributes to a high savings rate, could limit the recovery of consumption, despite a slight increase in expected real wages.

Regarding investment, the outlook looks set to remain uncertain. The end of the *Superbonus* incentives is expected to weigh on residential construction, while industrial investment, although supported by measures such as the Transition Plan 5.0, could be affected by ongoing economic uncertainty. Lastly, exports look set to continue suffering from sluggish international demand, particularly in the intermediate goods and automotive sectors.

In 2025, although the decrease in rates may provide some support to growth, the positive effects of monetary easing will be partially offset by the expected correction in the construction sector. In this context, activity is expected to continue growing at a moderate pace over the forecast horizon, with 0.8% anticipated for 2024 and 2025.

ITALY 2024-2025: A RETURN TO THE PAST?

A STILL UNFAVOURABLE INTERNATIONAL CONTEXT

With the US elections and risks of an escalation in the Middle East, the international context remains marked by significant uncertainties, both geopolitically and economically. Although the second quarter was better than expected, signs of a slowdown in the global economy are beginning to emerge. In the US, despite a slowdown in activity that is less pronounced than anticipated, with consumption still robust, signs of weakness in the labour market are on the increase. This has led the Federal Reserve to begin a first step in monetary easing, with a 50 basis point cut in interest rates in September.

In China, the economy continues to face challenges related to the real estate sector and a sluggish domestic market. The government is attempting to offset these weaknesses with extraordinary measures, but growth remains moderate, with a forecast of 4.7% for 2024. Exports are expected to continue supporting the economy, despite a growing risk of protectionism.

In the energy market, oil prices have been particularly volatile, pulled between declining demand, especially in China, and an increase in supply due to a rise in Iranian production. To stabilise this volatility and offset the anticipated decline in demand, OPEC+ is expected to keep oil prices between \$80 and \$90 per barrel. The average price of oil is projected to be \$78 per barrel in the third quarter of 2024, with an expected increase to \$81 in 2025. Meanwhile, the European gas market remained stable due to high stock levels and moderate consumption, although supply risks could emerge starting in 2025, particularly for countries like Italy that are heavily dependent on LNG.

International background assumptions

	2022	2023	2024	2025	2024				2025			
					T1	T2	T3	T4	T1	T2	T3	T4
World GDP y/y, q/q, %	3,5	3,3	3,0	2,7	-	-	-	-	-	-	-	-
United States GDP y/y, q/q, %	1,9	2,5	2,5	1,3	1,6	3,0	1,7	0,5	0,8	1,4	1,7	2,0
Eurozone GDP y/y, q/q, %	3,4	0,5	0,8	1,3	0,3	0,2	0,4	0,3	0,3	0,4	0,3	0,4
China GDP y/y, q/q, %	3,0	5,2	4,7	4,2	1,5	0,7	0,4	0,4	0,3	0,4	0,3	0,3
ECB refinancing rate end of period, %	2,00	4,00	3,25	2,50	4,00	3,75	3,50	3,25	3,00	2,75	2,50	2,50
Federal Reserve funds rate end of period, %	4,50	5,50	5,00	3,50	5,50	5,50	5,00	5,00	4,50	4,00	3,50	3,50
Exchange rate average, EUR/USD	1,05	1,08	1,07	1,10	1,09	1,08	1,10	1,05	1,07	1,09	1,10	1,12
Brent average, USD/barrel	99,1	82,3	84,2	88,0	81,9	85,0	78,9	87,0	85,0	87,0	90,0	90,0

ITALY 2024-2025: A RETURN TO THE PAST?

A STILL UNFAVOURABLE INTERNATIONAL CONTEXT

Growth remains weak in the Eurozone, with GDP projected at just 0.8% in 2024. It is held back by persistently weak household consumption and a struggling industrial sector, particularly in Germany. In response to this widespread slowdown and better-controlled inflation, the ECB has initiated a process of monetary easing. Following the rate cuts initiated in June and September, the ECB is expected to continue at a pace of 25 basis points per quarter, aiming for a deposit rate of 2.50% by September 2025.

In Italy, growth is expected to stabilise at 0.8% in 2024 and 2025. In a context still favourable to households, characterised by low inflation (1.1% in 2025), consumption is expected to regain momentum starting in 2025 (+1.2%). This recovery, which may be partly due to carryover effects, would not, however, reflect a true improvement in purchasing power. Meanwhile, investment would be primarily supported by the public component, financed by resources from the recovery plan. At the same time, the climate of uncertainty is expected to continue weighing on productive investment, while the decline already observed in the construction sector may intensify. The decrease in interest rates would nevertheless foster more favourable financing conditions for businesses, while the budgetary adjustments, outside the recovery plan, stemming from the excessive deficit procedure should limit the contribution of fiscal policy to economic activity.

Although this scenario may seem pessimistic, it remains nonetheless subject to downside risks. Indeed, the impact of the withdrawal of the *Superbonus*, not only on the construction sector but also on other sectors of activity, is difficult to measure. Lastly, in a climate still characterised by uncertainty, expectations could remain downward-oriented, with households continuing to prioritise precautionary savings and the rebuilding of their real cash reserves, regardless of the improvement in their financial situation. A prolonged climate of distrust among households, as well as a more abrupt turnaround in the labour market, could also hinder the recovery momentum of consumption.

RECENT ECONOMIC TRENDS

CONFIDENCE IS DECLINING, BUT THE LABOUR MARKET IS HOLDING FIRM

The Italian economic situation in the third quarter of 2024 remains characterised by a certain sluggishness, particularly among businesses, despite some signs of improvement. The consumer confidence index rose slightly in September, increasing from 96.1 to 98.3, affecting all components: current climate, personal situation and future expectations. However, this increase seems more indicative of an adjustment after several months of decline rather than a genuine resurgence of optimism regarding the economic situation.

On the labour market, the unemployment rate fell to 6.2% in August, with a notable decrease in the number of unemployed (-2.8%). However, this improvement is accompanied by a 0.4% increase in the number of inactive individuals, indicating a withdrawal from the market in certain categories. Employment has slightly increased (+0.2%), mainly among young people and men, while women and those aged 35-49 have seen their employment decline, illustrating the persistent fragility of the employment dynamic.

Retail trade experienced a decline in August, with sales falling by 0.5% by value and 0.4% by volume compared to the previous month. On a year-on-year basis, results are mixed: large-scale retail increased by 3%, while small-scale retail fell by 0.9% and non-store sales decreased by 2%. After an increase in July, online sales fell by 4.7% in August compared to the previous year.

Among businesses, the confidence index rose slightly in September, increasing from 94.7 to 95.7, although sectoral divergences persist. The manufacturing sector continues to face difficulties, with the PMI index declining from 49.4 to 48.3, indicating a more pronounced contraction. The confidence index in this sector has decreased to 86.7. The weakness of new orders, both domestic and international, has exacerbated the decline in production, prompting some companies to reduce their inventories. Despite these difficulties, hiring has been maintained.

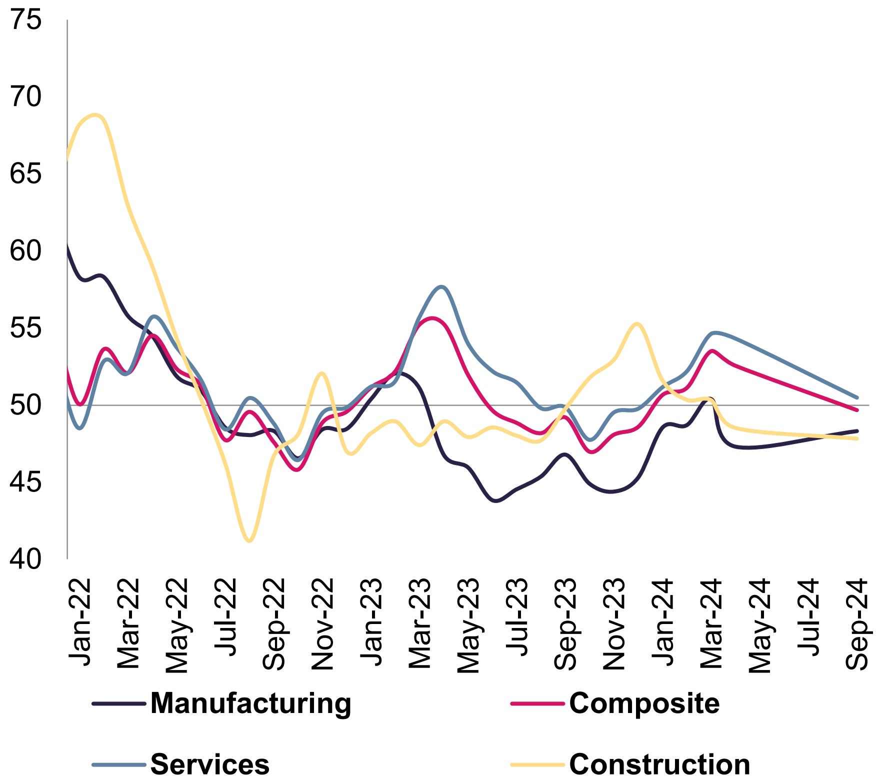
In contrast, the services sector shows modest growth, with a PMI of 50.5 in September. The confidence index has significantly improved, rising from 98.0 to 100.6, reflecting a recovery in business activity volume and an improvement in order books.

In construction, confidence has deteriorated, falling from 103.3 to 101.9, with less optimistic prospects for employment and order books.

RECENT ECONOMIC TRENDS

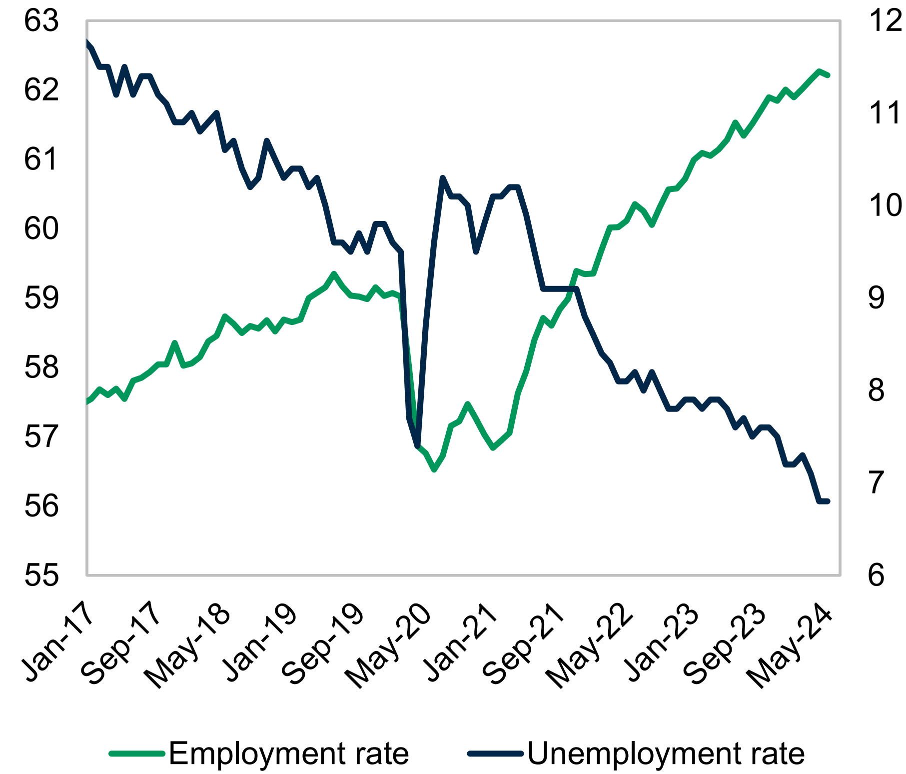
CONFIDENCE IS DECLINING, BUT THE LABOUR MARKET IS HOLDING FIRM

PMI confidence indicator



Sources: PMI, Crédit Agricole S.A./ECO

Labour market



Sources: Istat, Crédit Agricole S.A/ECO

HOUSEHOLDS

CONSUMPTION STILL FLAT

Consumption: the glaring absentee of 2024

Household consumption in Italy slowed in the second quarter of 2024, recording a modest increase of 0.2%. Spending on goods declined for the first time after three consecutive quarters of growth, falling by 0.7%, largely due to a decrease in non-durable goods (-1.4%). However, durable goods (+0.5%) and semi-durable goods (+0.6%) demonstrated resilience. At the same time, services increased by 1.3% after two quarters of decline, although this did not offset the reduced appetite for purchasing goods. This trend reflects a persistent caution among households, despite a 1% increase in real disposable income in the second quarter. The household savings rate reached 12.9%, an increase of 0.6 points compared to the previous quarter, indicating continued caution among households.

Wages still strong

In Italy, national collective labour agreements (CCNL), although typically valid for three years, often have their duration extended due to longer negotiations. This has delayed the necessary wage adjustments during economic shocks, particularly during the inflationary phase of 2021-2022. Since the beginning of 2024, several new agreements have been signed, particularly in the services sector, where some agreements had expired over two years previously. These new agreements, combined with expected increases in ongoing contracts and automatic adjustment mechanisms in certain manufacturing sectors, resulted in a 3.8% increase in negotiated wages in the non-agricultural private sector in the first half of 2024, compared to 2.2% in 2023. However, in real terms, wages remain on average 8% lower than the levels of 2021. The distribution of these losses varies by sector, with a more pronounced decline in private services compared to industry, which has been relatively less affected by this loss of purchasing power in negotiated wages.

In the coming quarters, wage increases will continue to be determined by contracts already signed, particularly in the sectors of retail, financial services, hospitality and professional businesses, which account for approximately 75% of the anticipated increases.

Weak inflation: a return to the past

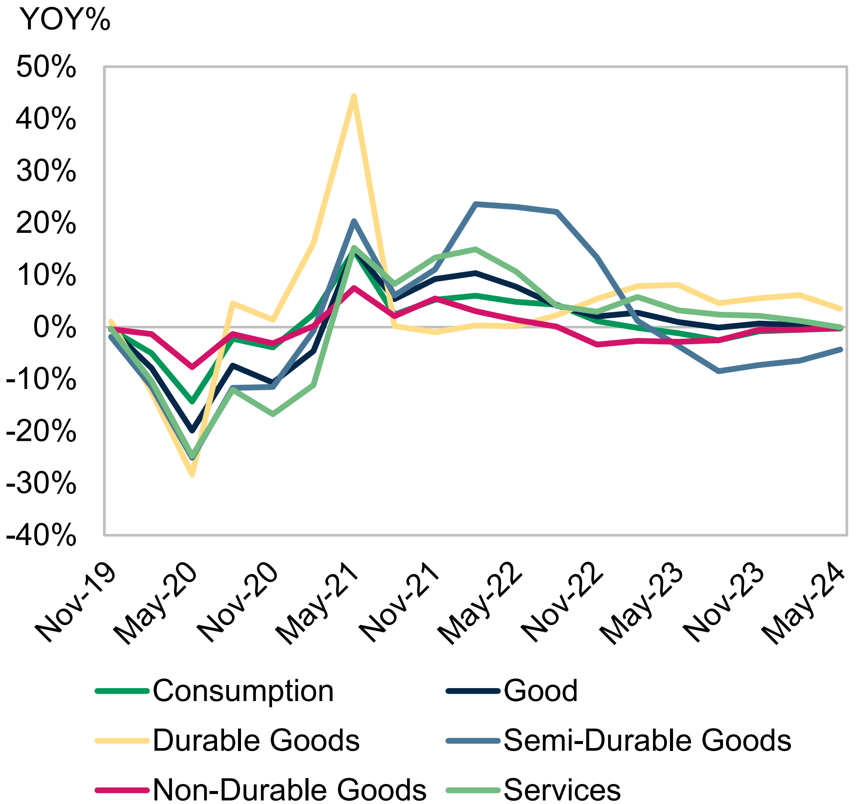
After a slight rebound during the summer, inflation in Italy has slowed again, reaching 0.7% in September 2024, down from 1.1% the previous month. This slowdown is primarily due to the decrease in energy prices, both regulated and unregulated.

Service prices have also slowed to 2.8%, particularly in the leisure, culture, personal care and transport sectors. This decline has, however, been partially offset by a slight increase in food prices, both unprocessed and processed.

HOUSEHOLDS

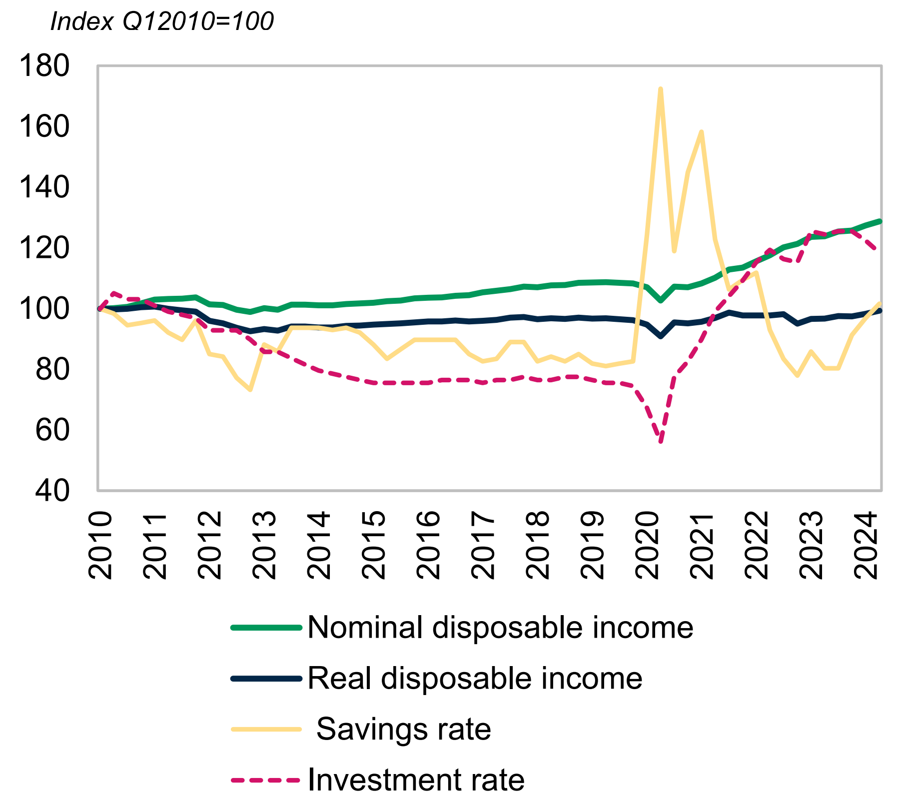
CONSUMPTION: THE GLARING ABSENTEE OF 2024

Year-on-year trend in consumption since the pandemic



Sources: Istat, Crédit Agricole S.A/ECO

Change in household accounts since 2010



Sources: Istat, Crédit Agricole S.A/ECO

HOUSEHOLDS

CONSUMPTION: THE GLARING ABSENTEE OF 2024

Core inflation (excluding energy and unprocessed food) has stabilised at 1.8%, marking a gradual return to more moderate price levels following the significant inflationary pressures of recent years. The reduced price rigidity in services, along with the narrowing gap between the prices of goods and services, signals a gradual normalisation of prices in Italy. Despite this easing of inflationary pressures, the slight increase in food prices indicates that certain tensions remain in some sectors, though much more moderate than before.

Over the entire year, inflation shows a genuine slowdown following 5.9% in 2023; it is expected to be around 1.1% in 2024. In 2025, inflation looks set to increase only slightly, to 1.5%, marking the end of the phase of energy price normalisation. At the same time, core inflation may slow significantly, dropping from 2.6% in 2024 to 1.6% in 2025, due to the combined effect of a slowdown in goods prices, from 1.2% in 2024 to 0.2% in 2025, and a shift in dynamics in services, with inflation at 2.5% in 2025, compared to 3.4% in 2024.

The labour market: the new normal*?*

The Italian labour market maintained positive momentum in the second quarter of 2024, with a 0.4% increase in employment. The unemployment rate fell to 6.3%, lower than the Eurozone figure, confirming a degree of employment stability. However, signs of a slowdown in activity are beginning to emerge. Although wages have risen, hours worked per employee have continued to decline in sectors such as industry, reflecting a drop in demand and insufficient productivity gains.

This situation is exacerbated by the decline in the job vacancy rate, reflecting a slowdown in new job offers, particularly in industry and services. The activity rate, which had rapidly increased between 2021 and 2023, has stabilised, or even declined on a monthly basis, partly due to reduced attractiveness of the labour market for a segment of the inactive population.

The employment outlook survey conducted in September also shows a clear divergence between sectors: services exhibit positive employment prospects, while industry is experiencing a marked slowdown. These trends suggest that, although employment remains stable for now, wage pressures combined with declining demand could lead to more significant adjustments in the coming months.

In this context, although less strong, employment growth is expected to continue in the second half of 2024, with the effects of the slowdown in industry, as well as in construction, impacting the unemployment rate only from the second quarter of 2025. The latter is expected to rise, increasing from an average of 6.8% to 7%. Despite this increase, the unemployment level remains well below the pre-Covid level, confirming a new paradigm on the Italian labour market.

HOUSEHOLDS

CONSUMPTION: THE GLARING ABSENTEE OF 2024

Still weak consumption expected in Q3

The outlook for the third quarter of 2024 remains modest regarding consumption. Although spending on services slightly increased during the summer, purchases of goods, particularly durable goods, are expected to continue stagnating. The Confcommercio survey indicates a slight increase in consumption indicators for July and August, but this is not enough to offset the decline in other sectors.

At the same time, car registrations have declined over the last three months after an increase in the second quarter, suggesting weakening demand for durable goods. In contrast, the dynamic in electronic payments has shown signs of improvement compared to the previous quarter, reflecting some resilience in current spending.

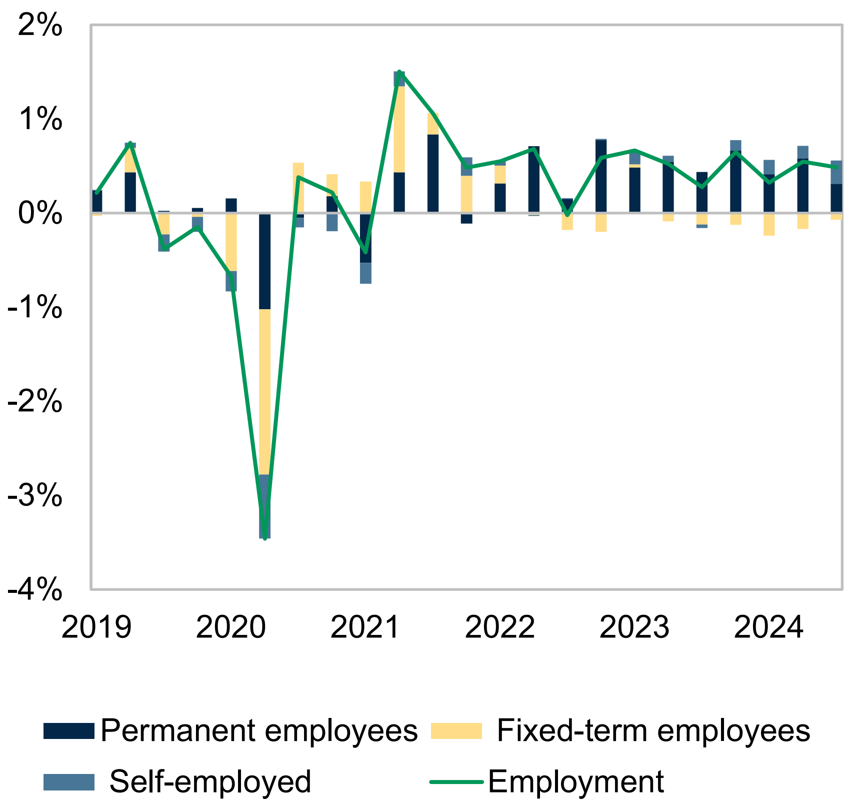
Consumer confidence has indeed improved, but it remains too fragile to stimulate a significant recovery in spending. Despite some positive signs, households continue to prioritise saving in the face of economic uncertainties. According to a survey by the Bank of Italy conducted between August and September, nearly half of households expect to stabilise their spending over the next 12 months, around 40% anticipate an increase and just 10% expect a reduction. This caution is nevertheless likely to dampen domestic consumption for the remainder of the year, thereby limiting the prospects for economic recovery.

The weak growth in consumption during the first half of the year, however, is failing to offset the negative carryover from the end of 2023. Thus, despite a positive consumption growth rate for the entire year, the increase in consumption is likely to remain flat in 2024. In 2025, consumer spending looks set to increase by 1.3%. A more controlled inflation rate and the end of the rebuilding of both precautionary savings and real cash holdings will indeed support a slight recovery in consumer spending from the beginning of 2025.

HOUSEHOLDS

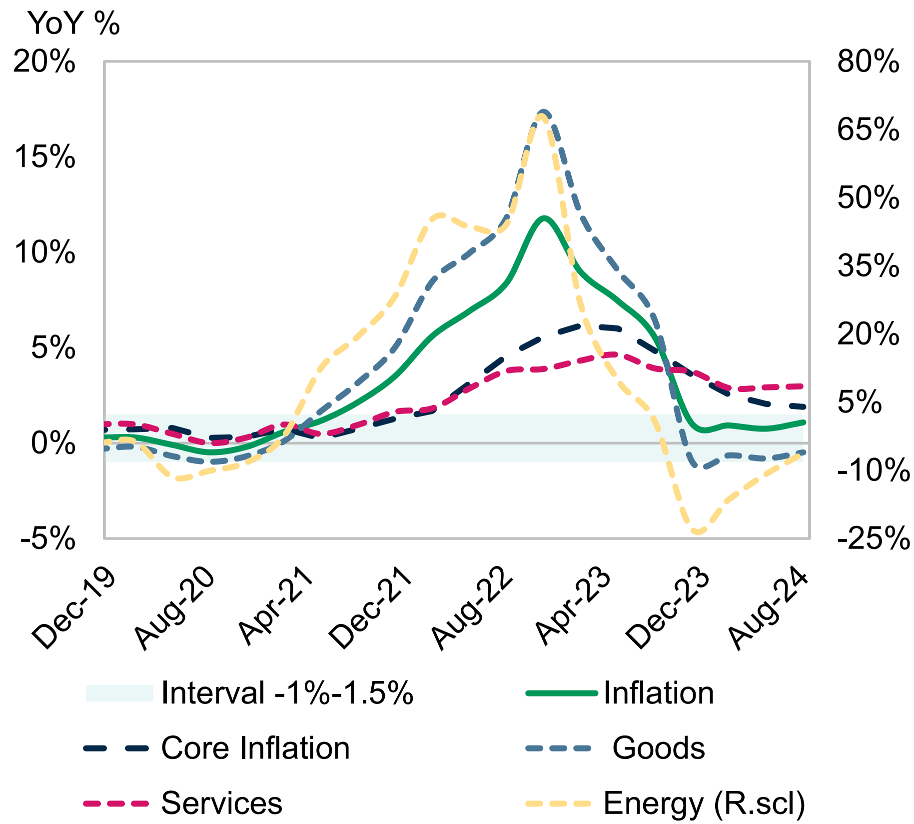
CONSUMPTION: THE GLARING ABSENTEE OF 2024

Change in employment since 2019



Sources: Istat, Crédit Agricole S.A/ECO

Recent trend in inflation



Sources: Istat, Crédit Agricole S.A/ECO

BUSINESSES

INVESTMENT: THE NEW WEAK LINK

Industry: the big test

The Italian industrial sector is experiencing a challenging phase, marked by a continued contraction in production. In the second quarter of 2024, added value in industry fell by 1%, continuing a downward trend that has been under way for several quarters. This decline is primarily due to the poor performance of intermediate goods and durable consumer goods, whose production volumes have significantly decreased.

In August 2024, industrial production showed signs of stabilisation with a slight increase of 0.1% compared to July. However, this recovery masks significant divergences between sectors: consumer goods increased by 2.8%, while the energy sector rose by 2.3%. In contrast, investment and intermediate goods declined by 2.5% and 2.8%, respectively, reflecting lacklustre international demand and an uncertain industrial outlook.

Manufacturing companies, particularly in the textiles, machine tools and automotive sectors, continue to experience significant reductions in production, with some structures recording declines of up to 10%. The sectors most exposed to international demand, such as intermediate goods, remain particularly vulnerable to fluctuations in the global economy, notably due to the weakness of the manufacturing cycle in Germany.

Margins are compressing

Industrial producer prices increased by 0.7% in August 2024 compared to the previous month, primarily due to rising energy prices. However, on a year-over-year basis they have decreased by 0.8%, indicating ongoing pressure on companies to adjust their costs. On the domestic market, prices increased by 1.2%, but this rise remains insufficient to absorb the increase in costs, particularly in energy-intensive sectors and those reliant on raw materials. In contrast, prices of intermediate goods fell by 1.5%, exacerbating margin compression in several already weakened industrial sectors.

Labour costs have also impacted margins. Unit labour costs in the non-agricultural private sector accelerated in the second quarter of 2024, driven by rising wages. Although this increase was partially offset by a slight improvement in productivity, it has put additional pressure on companies' margins. The combination of rising labour, energy and raw material costs is further complicating the preservation of profitability.

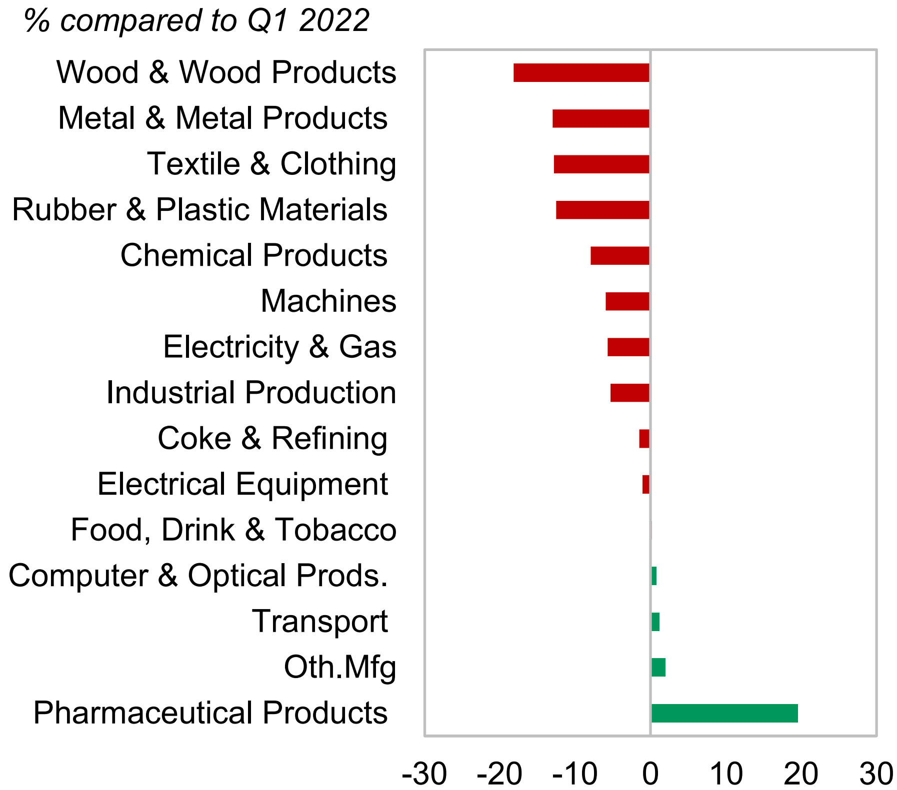
In the face of these constraints, the margin rate of non-financial companies fell by 1.2 points, reaching 42.6%. The persistent weakness of domestic demand has not been enough to counterbalance these pressures on production costs. The prolonged slowdown in industrial production, particularly pronounced in intermediate goods and durable consumer goods, has weighed on company performance. Revenue in the industrial sector thus fell by 0.6% month-on-month in July, illustrating the difficulties faced in maintaining sufficient profitability levels.

This weakening of activity has also affected the investment rate of non-financial companies, which fell to 22.2% in the second quarter, down from 22.7% in the previous quarter. This decline reflects companies' caution in the face of an uncertain economic environment, as well as their difficulty in absorbing rising production costs without further eroding their margins.

BUSINESSES

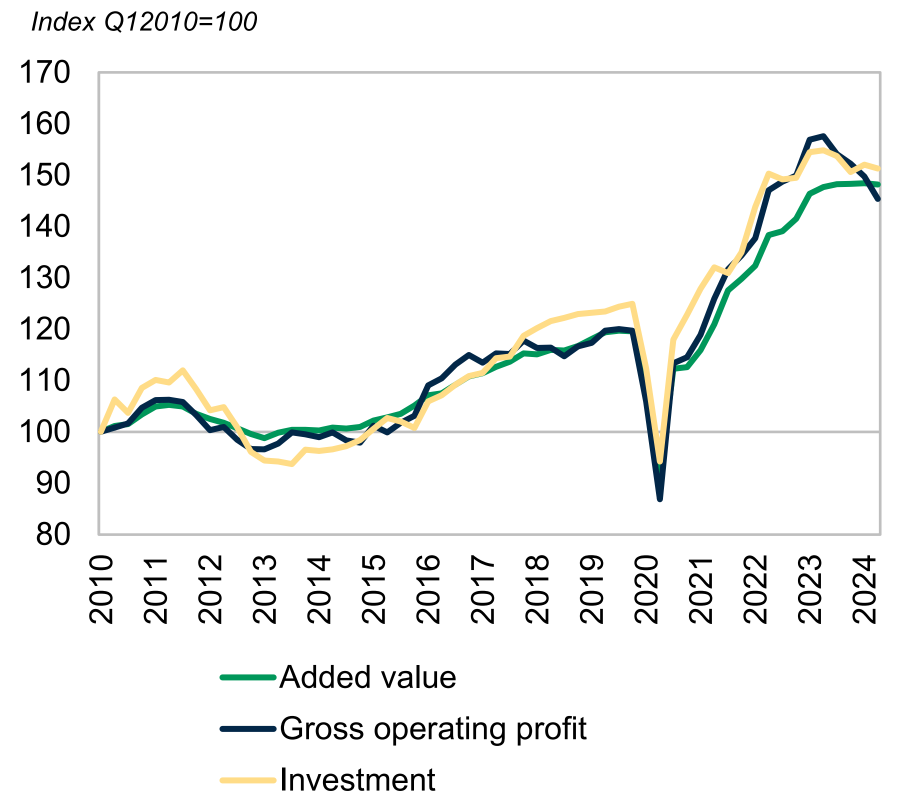
INVESTMENT: THE NEW WEAK LINK

Change in industrial production by sector since the start of the war in Ukraine



Sources: Istat, Crédit Agricole S.A/ECO

Financial situation of businesses



Sources: Istat, Crédit Agricole S.A/ECO

INVESTMENT: THE NEW WEAK LINK

Investment is slowing

Investment in Italy showed signs of weakness in the second quarter of 2024, recording a decline of 0.1%, primarily due to a 2.0% drop in the residential construction sector. This decline reflects the initial effects of the end of the *Superbonus*. In contrast, investments in non-residential buildings and infrastructure increased by 0.7%, supported by projects funded through the recovery plan.

Despite still unfavourable financing conditions and moderate demand, the machinery and equipment segment grew 0.9%, primarily benefiting from industry support measures under the Transition Plan 5.0. This programme, in addition to the Transition Plan 4.0, is part of the strategy aimed at supporting the digital and energy transformation of Italian companies. With a budget of €12.7 billion for the 2024-2025 period, this plan includes an allocation of €6.3 billion specifically dedicated to the dual digital and energy transition, in line with the objectives of the "REPowerEU" plan. The Transition Plan 5.0 specifically targets the modernisation of production processes and the reduction of companies' energy footprint.

Investments in intellectual property, also supported by these measures, increased by 0.6%, although their pace has slowed compared to previous quarters. Furthermore, investments in means of transportation increased by 1.4%, benefiting from a resurgence in demand in certain sectors.

Despite these positive signals in certain segments, economic uncertainty, combined with the anticipated decline in the housing sector, continues to weigh on overall investment. Our scenario partially incorporates this correction, with a projected decline of 9.3% in housing construction investment expected in 2025. This decline may only be partially offset by growth in the construction segment. Consequently, construction investment is expected to decrease by 3% in 2025. Despite the recovery in productive investment, the impact of construction would be reflected in gross fixed capital formation (GFCF) in 2025, at -0.6%. However, the risk of a more pronounced correction in the housing segment cannot be ruled out, as it is difficult to determine the actual size of overcapacities given the strong growth in the sector over the past three years (+75% compared to Q4 2019).

INTERNATIONAL TRADE

EXPORTS STILL STRUGGLING: AN UNFAVOURABLE CONTEXT?

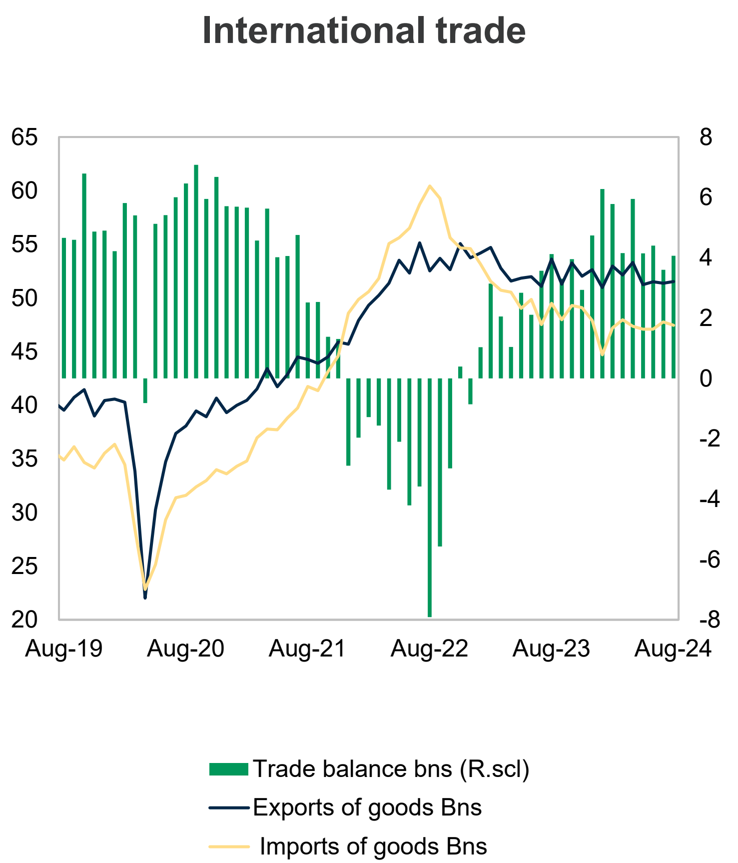
After stagnating at the start of 2024, Italian exports by volume fell 1.2% in the second quarter, impacted by a decline in goods sales, which was not offset by the growth in services. The machinery and automotive sectors have particularly suffered. This weakness in exports is also due to reduced demand from certain trading partners, both in Europe and internationally. The downward trend continued in July (-0.5%) and August for non-EU countries, with a significant year-on-year decline of -7.4%, exacerbated by a base effect related to exceptional shipbuilding sales to the US in 2023.

However, the situation is less concerning over the first seven months of 2024. Exports stagnated, supported by certain robust sectors such as agri-food (+8.9%) and pharmaceutical products (+3.9%). Conversely, industries more exposed to the rise in energy costs, such as metallurgy (-6.3%), the automotive sector (-8.5%) and clothing (-8.5%), continue to show signs of weakness. In geographical terms, this relative stagnation is due to a contraction in sales to the EU (-1.6%), partially offset by a rise in exports to non-EU markets (+1.8%).

External balances still satisfactory thanks to moderate imports

The negative effect of weak exports on the Italian economy is offset by moderate imports, which appear to be persisting. In the second quarter of 2024, imports rose slightly by 0.5% compared to the previous quarter. This is due to still-moderate domestic demand and a slowdown in the industrial cycle. Consequently, Italy has managed to limit its purchases, both of capital goods and energy, helping to stabilise the energy trade deficit.

The Italian balance of trade remained in surplus in the second quarter. Although the surplus in non-energy goods decreased, this was offset by the stabilisation in the energy deficit. This surplus looks set to continue in the third quarter, as reflected by the trade surplus of €6.743 billion recorded in July 2024, an increase compared to the €6.1 billion in July 2023.



Sources: Istat, Crédit Agricole S.A/ECO

PUBLIC FINANCES

THE RULES OF THE GAME ARE CHANGING

New European rules and their effect on public finances

In 2024, Italy began adjusting its public finances in accordance with the new rules of the Stability and Growth Pact. These reforms require a gradual reduction in the deficit and debt, while also introducing more flexibility in budgetary adjustments. Subject to an excessive deficit procedure (EDP) initiated in 2023, Italy is due to unveil a multi-year plan aimed at reducing its deficit to below 3% of GDP by 2026. In connection with this, the country has drawn up a budgetary plan for the 2025-2029 period, including expenditure reduction commitments and investments in accordance with European recommendations.

A new addition to European budgetary rules is the introduction of net expenditure as a control variable. These are defined as primary expenditures (i.e. excluding interest) minus cyclical components linked to changes in unemployment, spending related to EU programmes fully financed by European funds, national spending related to the co-financing of European programmes, temporary or isolated budgetary measures and discretionary changes in terms of revenue. Under the new rules, Italy has therefore committed to limiting growth in these expenditures to a rate below that of nominal GDP, which translates to an average increase of 1.5% in nominal terms, corresponding to an ex-ante improvement in the structural primary balance of 0.6 percentage points of GDP. In the long term, the targeted goal is a structural primary balance of 3.3% of GDP in 2031.

Debt is stagnating but deficit is in decline

In this context, the government has also undertaken a gradual reduction in deficit through to 2026, to under the 3% barrier. Following several years of deficits significantly above 7% on average, the end of *Superbonus* subsidies and more efficient inflows should enable Italy's public deficit to fall to 3.8% of GDP in 2024. The public deficit trajectory will follow a downward slope over the next three years to reach the set target of 2.8% in 2026, the year planned for exiting the excessive deficit procedure.

The primary balance, still in deficit at -0.5% of GDP in 2024, is expected to enter surplus territory as early as 2025 at 0.1%, reaching 2.7% by 2029. The structural balance, adjusted for cyclical and temporary effects, will follow a similar trajectory. The plan aims for an annual improvement of 0.55 percentage points of GDP starting in 2025, with the goal of achieving a structural surplus of 2.2% by 2029.

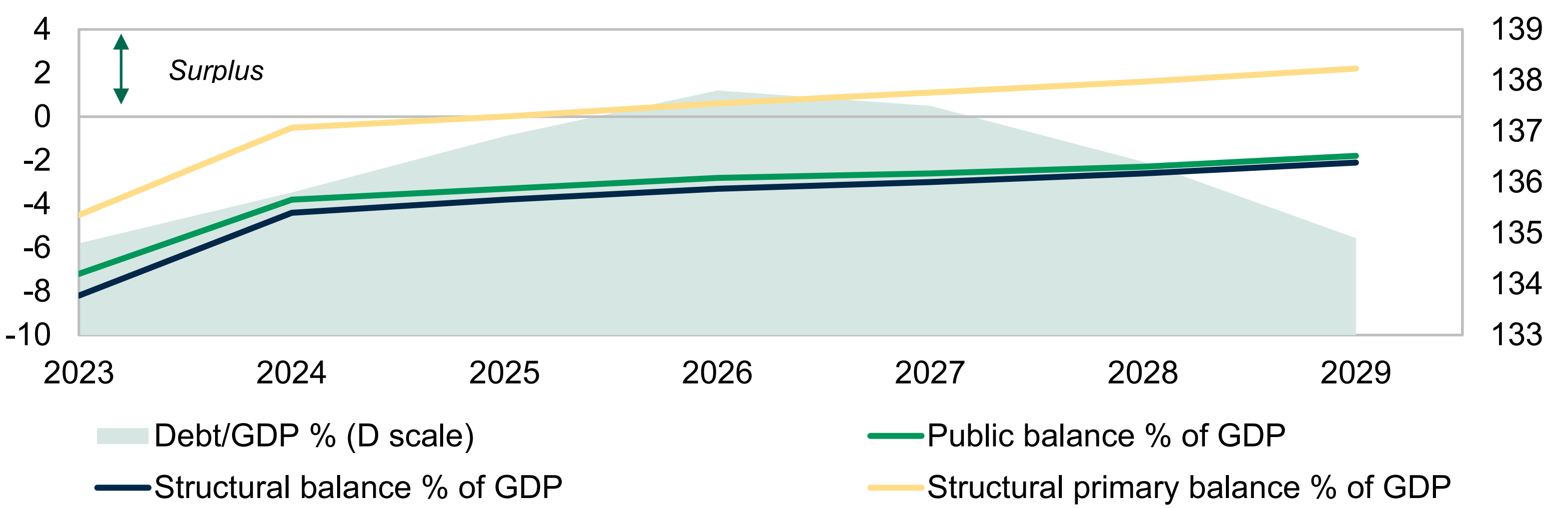
Lastly, public debt, which stands at 135.8% of GDP in 2024, could slightly increase to 137.8% in 2026, notably due to the consideration of tax offsetting for the *Superbonus*, before beginning to fall from 2027. In 2029, it is projected to be 134.9%.

PUBLIC FINANCES

THE RULES OF THE GAME ARE CHANGING

The improvement in the efficiency of tax collection, along with the control of public accounts, should enable the government to partially adhere to its trajectory. Indeed, despite significant deficits in 2022 and 2023, primarily attributed to the *Superbonus*, the withdrawal of this measure has resulted in a much better deficit estimate for 2024 than that included in the stability programme of April. The government's credibility in fulfilling its commitments is not in question, but the risk to public finances relies more on the performance of economic activity. The growth trajectory envisioned by the government for 2024, 2025 and 2026 remains much more optimistic than that of our central scenario, with average GDP growth of 1%. As such, in a less favourable growth scenario, the forecast for public debt, even considering the deficit targets set by the medium-term plan, shows a similar debt profile but with a higher debt-to-GDP ratio.

Trajectory of public finances (MT)



Sources: MEF, Crédit Agricole SA/ECO

RISKS

No recession

Recovery in industry

Consumption dynamic

Recovery in foreign demand

Recession

Severe decline in construction

Rise in bankruptcies

Deteriorated international environment

THE SCENARIO IN FIGURES

QUARTERLY SCENARIO SUMMARY TABLE

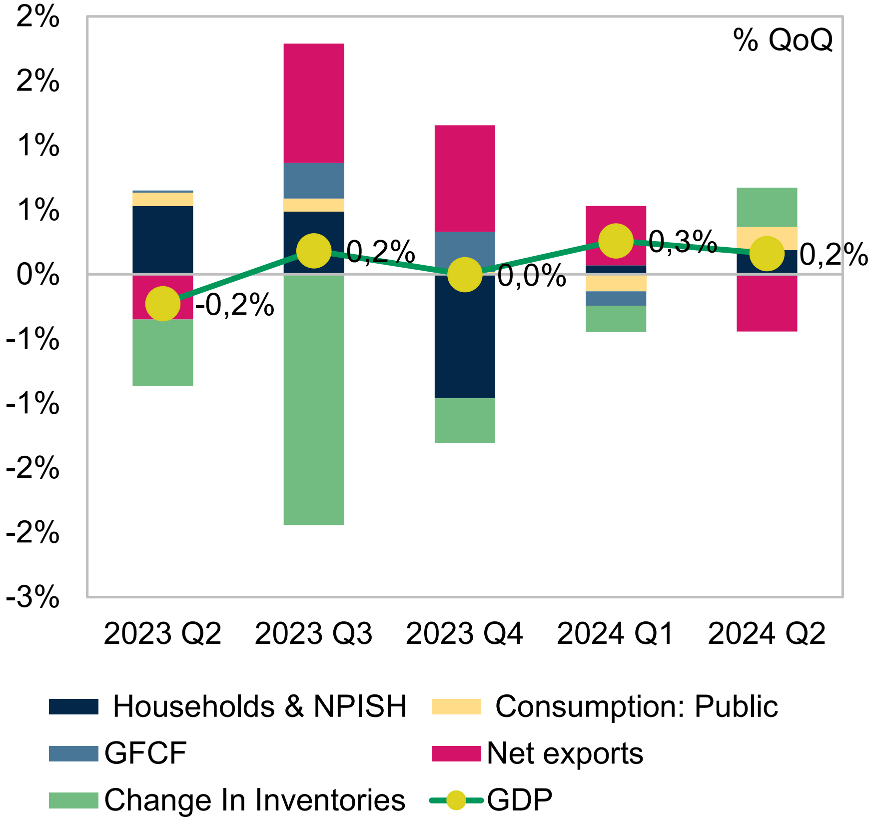
	2022	2023	2024	2025	2022				2023				2024				2025			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP y/y, q/q, %	4,1	1,0	0,8	0,8	0,2	1,4	0,4	-0,1	0,4	-0,1	0,3	0,1	0,3	0,2	0,3	0,2	0,1	0,3	0,2	0,3
Domestic demand contribution to GDP, pps	4,9	2,0	0,6	0,5	0,2	1,4	1,3	-0,7	1,1	0,1	0,8	-0,3	0,3	0,1	0,1	0,1	0,1	0,1	0,2	0,2
Private consumption y/y, q/q, %	4,9	1,2	0,0	1,3	-0,8	2,0	2,2	-1,8	0,7	0,4	0,8	-1,4	0,3	0,2	0,2	0,2	0,4	0,4	0,4	0,3
Public consumption y/y, q/q, %	1,0	1,2	-0,1	-0,6	0,4	-0,8	-0,1	1,1	1,1	-0,9	0,1	0,7	0,0	-0,5	-0,1	-0,2	-0,1	-0,1	-0,1	-0,1
Investment y/y, q/q, %	8,9	4,9	2,8	-0,6	2,8	1,5	0,4	1,1	2,1	0,2	1,3	2,0	0,4	0,3	0,0	0,0	-0,4	-0,4	-0,1	0,2
Stockbuilding contribution to GDP, pps	-0,2	-1,2	-1,1	0,2	-0,1	-0,3	-0,2	-0,9	0,2	0,2	-1,4	0,0	-0,8	0,4	0,1	0,1	-0,1	0,1	0,0	0,0
Net exports contribution to GDP, pps	-0,5	0,2	1,3	0,1	0,1	0,4	-0,7	1,5	-0,9	-0,4	0,9	0,4	0,9	-0,3	0,0	0,0	0,0	0,0	0,1	0,1
Exports y/y, q/q, %	11,0	0,5	0,4	1,9	5,7	2,6	-0,2	1,6	-1,3	-0,9	0,9	1,1	0,0	-1,5	0,6	0,5	0,6	0,6	0,7	0,7
Imports y/y, q/q, %	13,5	-0,2	-3,7	1,8	5,4	1,5	2,0	-2,8	1,4	0,4	-2,0	-0,1	-2,7	-0,6	0,5	0,5	0,5	0,5	0,6	0,6
Inflation y/y, q/q, %	8,7	5,9	1,1	1,5	6,0	7,4	8,9	12,5	9,5	7,8	5,8	1,0	1,0	0,9	1,3	1,2	1,3	1,9	1,4	1,3
Core inflation y/y, q/q, %	3,3	4,5	2,3	1,8	1,6	2,9	4,0	4,7	5,4	5,1	4,3	3,4	2,6	2,2	2,3	2,2	1,9	1,9	1,8	1,8
Unemployment rate %	8,1	7,7	6,9	7,0	8,4	8,1	8,1	7,8	7,9	7,7	7,6	7,4	7,2	7,2	7,2	7,2	7,3	7,4	7,4	7,4
Current account balance % of GDP	-1,6	0,5	2,7	3,5	-2,1	-1,7	-2,5	0,0	-1,6	-0,1	2,1	1,7	0,8	3,3	3,3	3,3	3,4	3,4	3,5	3,5
Fiscal balance % of GDP	-8,6	-7,4	-3,8	-3,3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public debt % of GDP	138,1	134,6	135,8	137,9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Sources: Istat, Crédit Agricole S.A/ECO

THE SCENARIO IN PICTURES

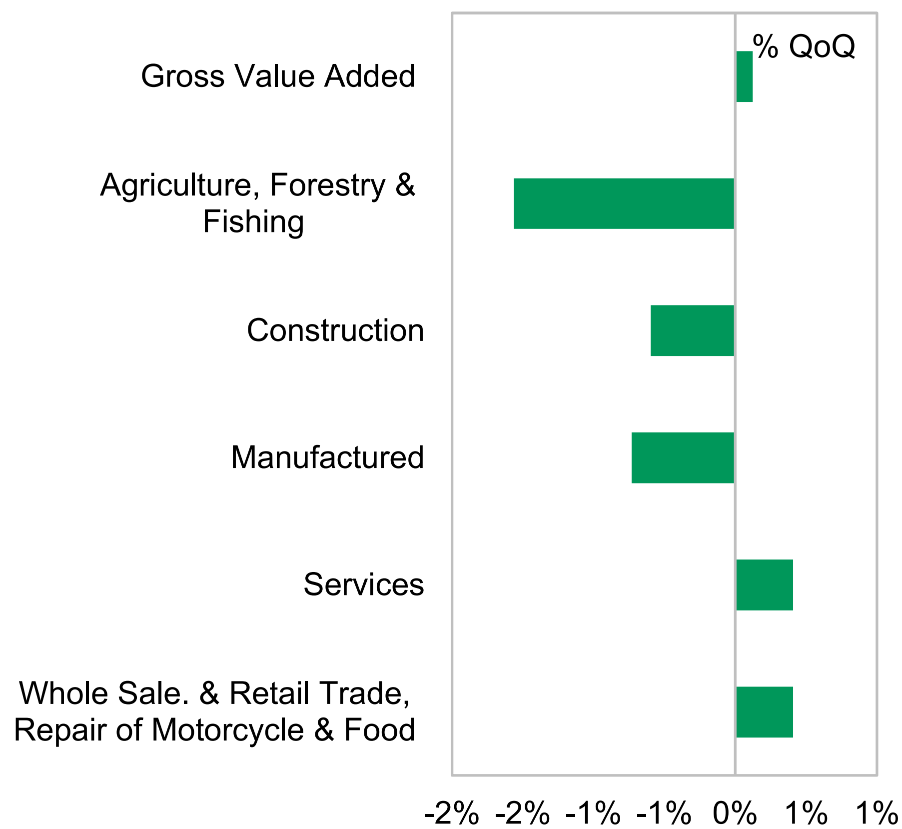
GROWTH REMAINS MODERATE

Domestic demand is holding firm...



Sources: Istat, Crédit Agricole S.A/ECO

...enabling services to stand out



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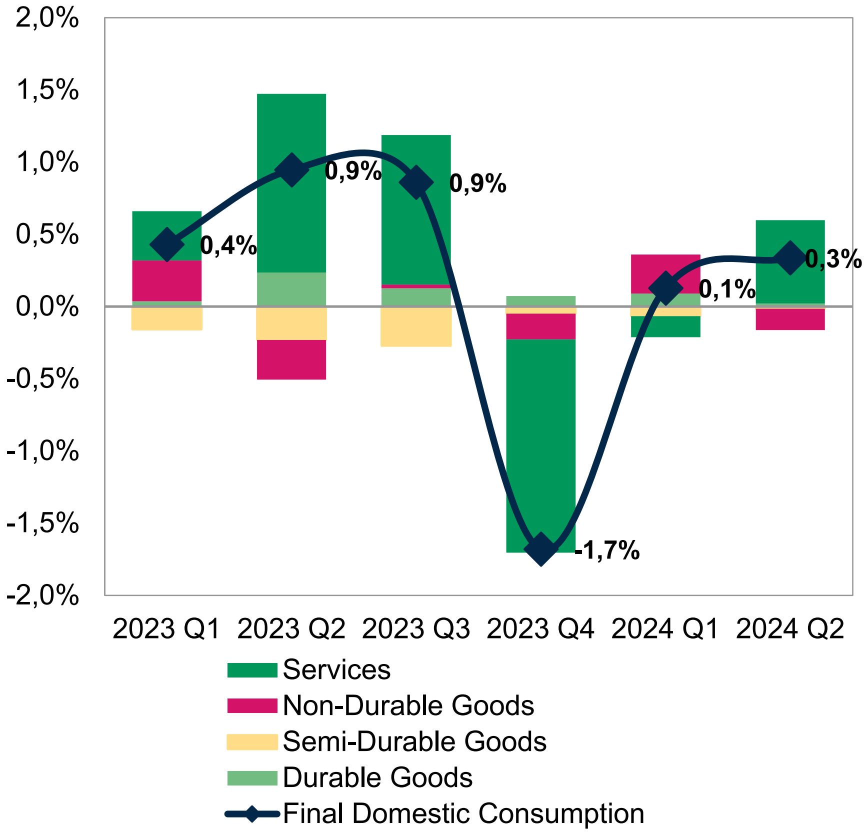
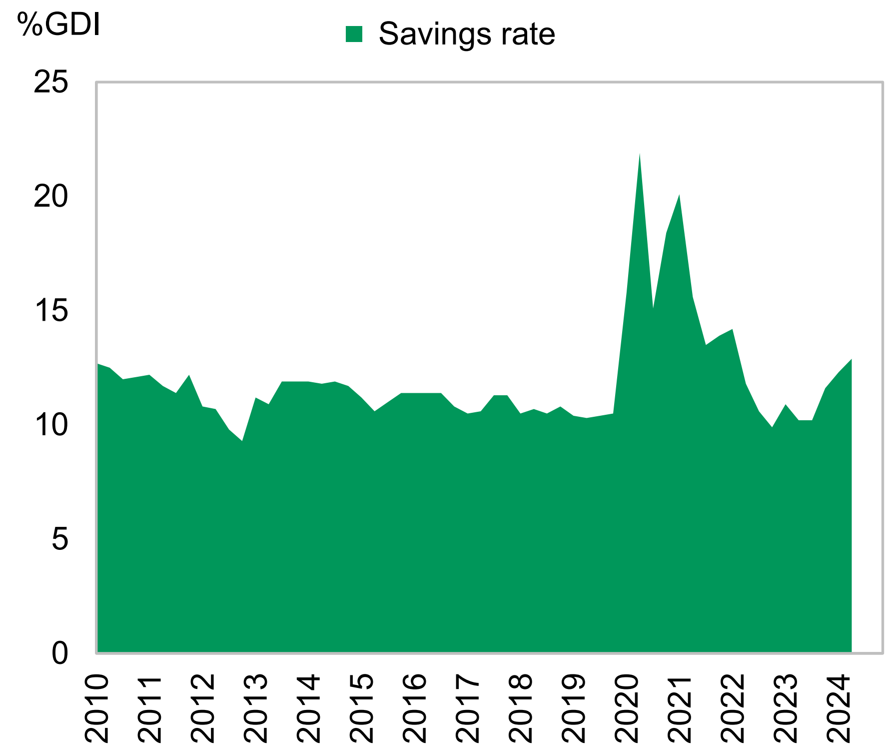
MODEST CONSUMPTION GROWTH IN Q2

Consumption is progressing cautiously…



Sources: Istat, Crédit Agricole S.A/ECO

…while savings remain high



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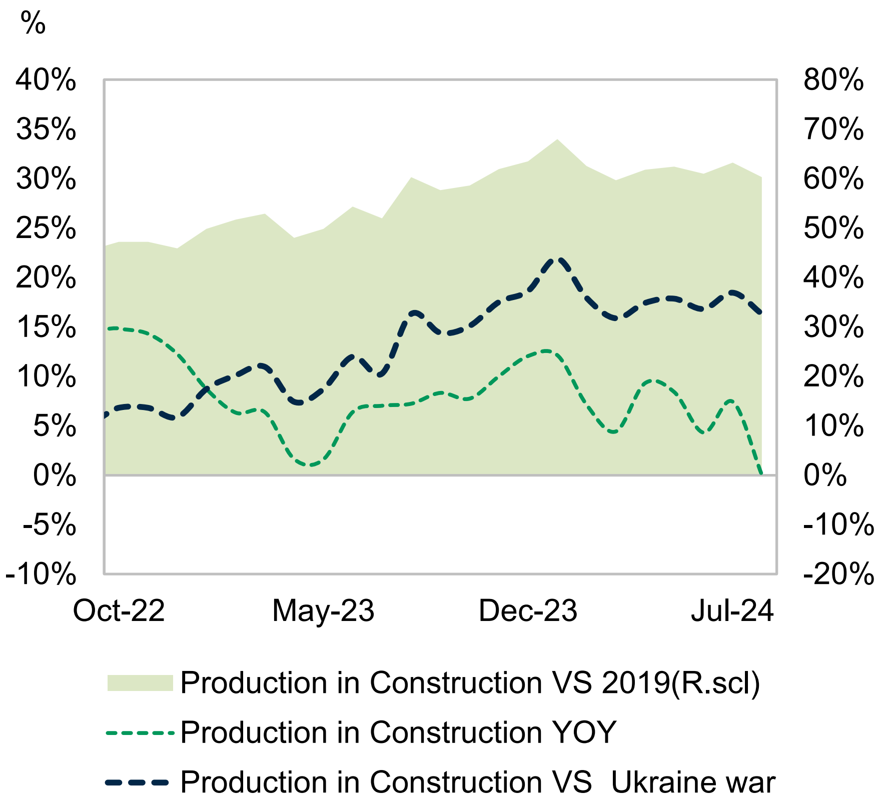
POST-*SUPERBONUS* INVESTMENT

Construction output in the red…



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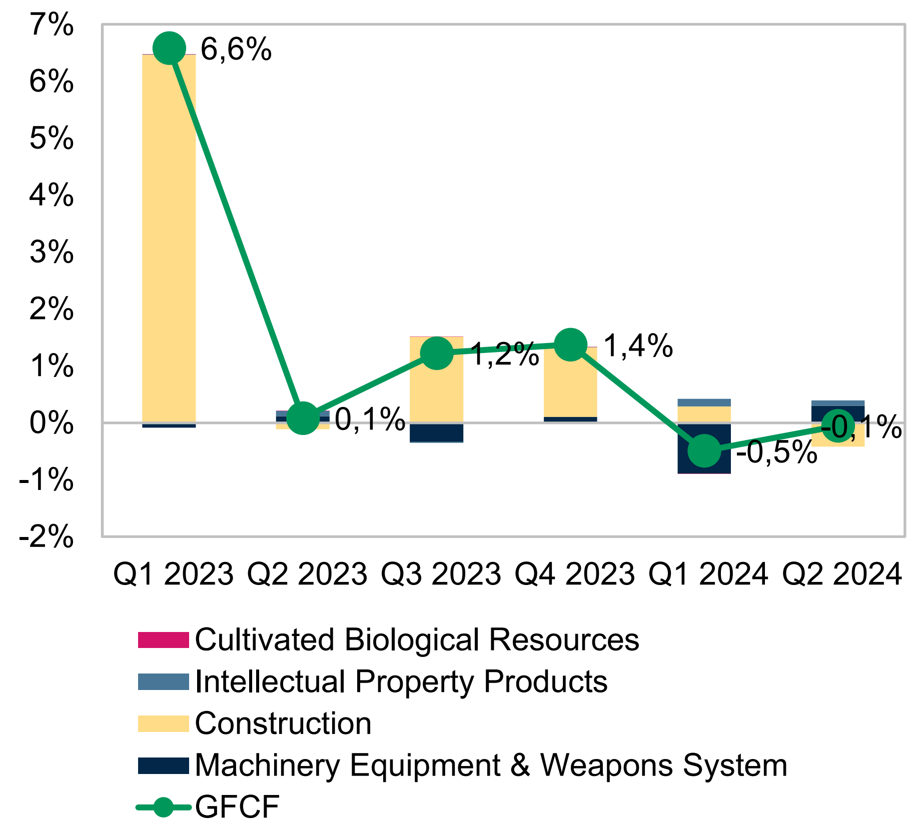
…reflected in investment



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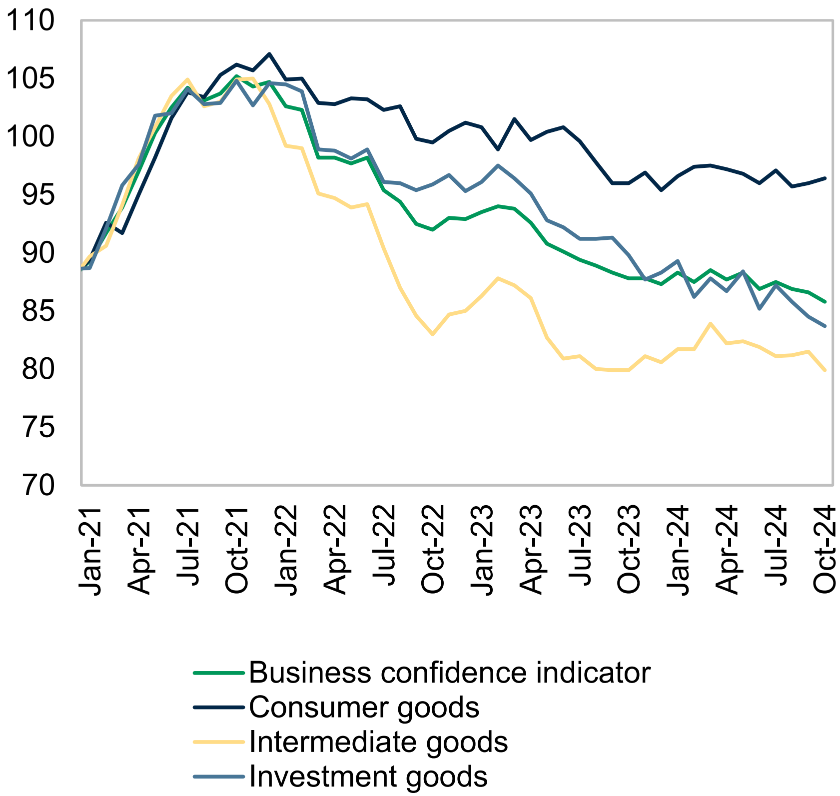
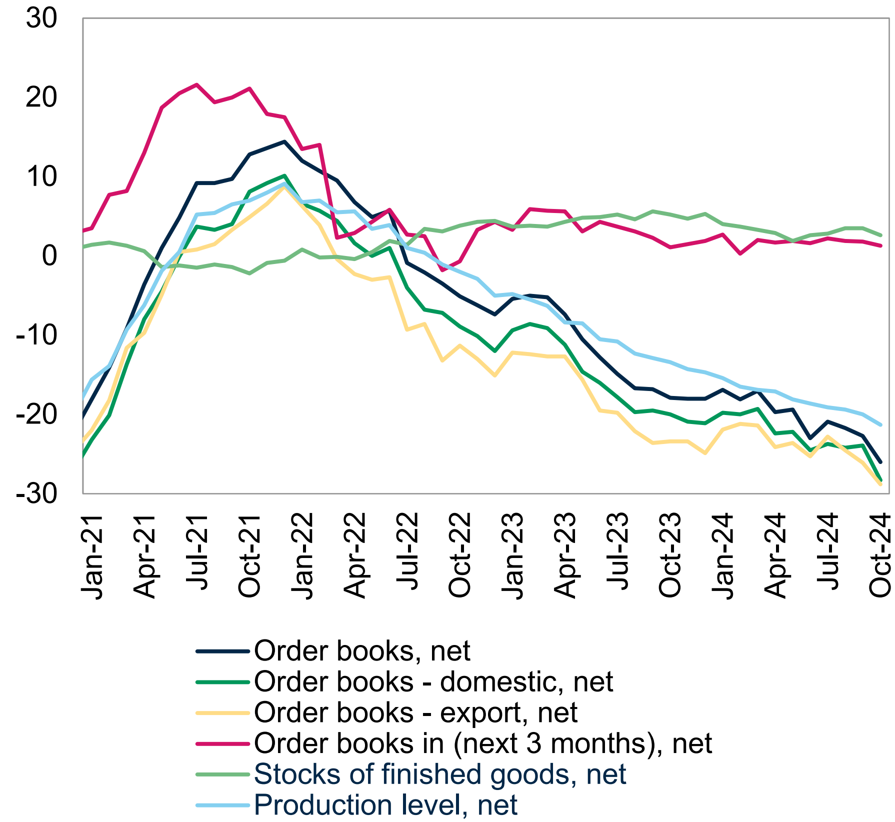
THE INDUSTRIAL SECTOR IS STILL STRUGGLING

Confidence is ebbing…



Sources: Istat, Crédit Agricole S.A/ECO

…weighed down by sluggish demand



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