ITALY
2025-2026 SCENARIO

THE CURSE OF WEAK GROWTH IN AN UNCERTAIN WORLD

January 2025

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GROUP ECONOMIC RESEARCH

ITALY, THE CURSE OF WEAK GROWTH IN AN UNCERTAIN WORLD

Scenario highlights

- **Inflation stabilizes**
- **Employment grows again at the end of the year**
- **Consumption rebounds**
- **Business confidence remains low**
- **Investment declines**
- **First signs of difficulties in the construction sector**

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

2025 is expected to be the third consecutive year of weak growth since the strong post-Covid recovery. Although the effects of the inflationary shock are starting to dissipate, with inflation under control, a more expansionary monetary policy and an upturn in household consumption, headwinds are likely to continue to penalise activity, with GDP expected to rise by only 0.6% after 0.5% in 2024. With domestic demand strengthening, the uncertain international environment continues to undermine confidence.

The war in Ukraine and tensions in the Middle East continue to fuel geopolitical pressures, while the US tariff policy, with increased import taxes also affecting Europe, will impact global trade flows. In Italy, exports remain fragile, affected by high energy costs and sluggish demand in key sectors such as metals and automotive, which should continue to impact an industrial cycle that is just showing signs of stabilisation. At the same time, investments, although benefiting from monetary easing, will remain held back by still high interest rates, altered demand prospects and a construction sector that will have to cope with the setback of the Superbonus.

Despite these constraints, public finances are beginning to consolidate, with a projected deficit of 3.3% of GDP, underpinned by budgetary discipline in line with the new European rules.

THE INTERNATIONAL ENVIRONMENT

A RISKY WORLD

At the beginning of 2025, the international environment continues to form a complex matrix between the persistence of certain shocks (war in Ukraine, escalation in the Middle East) and the emergence of new challenges. Donald Trump's new presidency is in itself a paradigm shift with the return of trade constraints. With a likely increase in customs duties on European products, which could reach 6% on average, and a tax on Chinese imports, which could reach 40%, the risk of a slowdown in global trade is growing. In the US, this protectionist policy, combined with projected inflation of 2.5% by the end of 2025, will limit the Federal Reserve's room for manoeuvre, which will keep rates close to 5% throughout the year. US growth is expected to slow to 1.9% in 2025, penalised by the effects of tariff policy on household purchasing power, before stabilising at 2.2% in 2026, driven by an expansive fiscal policy.

In Europe, the ECB will begin a gradual easing of its monetary policy from mid-2025, bringing its key rate down to around 2.5% (2.25% for the deposit rate). This change would be more in line with the modest growth in the eurozone, expected at 1.0% in 2025, still dragged down by the lacklustre performance of the German economy. Activity will gradually accelerate in 2026 to 1.2%, mainly driven by higher household consumption and a fall in inflation to 2.0%.

The energy market is expected to remain stable, with oil prices fluctuating between $75 and $85 per barrel until 2026, thanks to production cuts maintained by OPEC+ and moderate demand growth. However, the gas market in Europe faces risks related to the cessation of Russian gas imports and the end of certain transit agreements. These energy tensions could increase costs for countries such as Italy, which are heavily dependent on LNG.

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International background assumptions

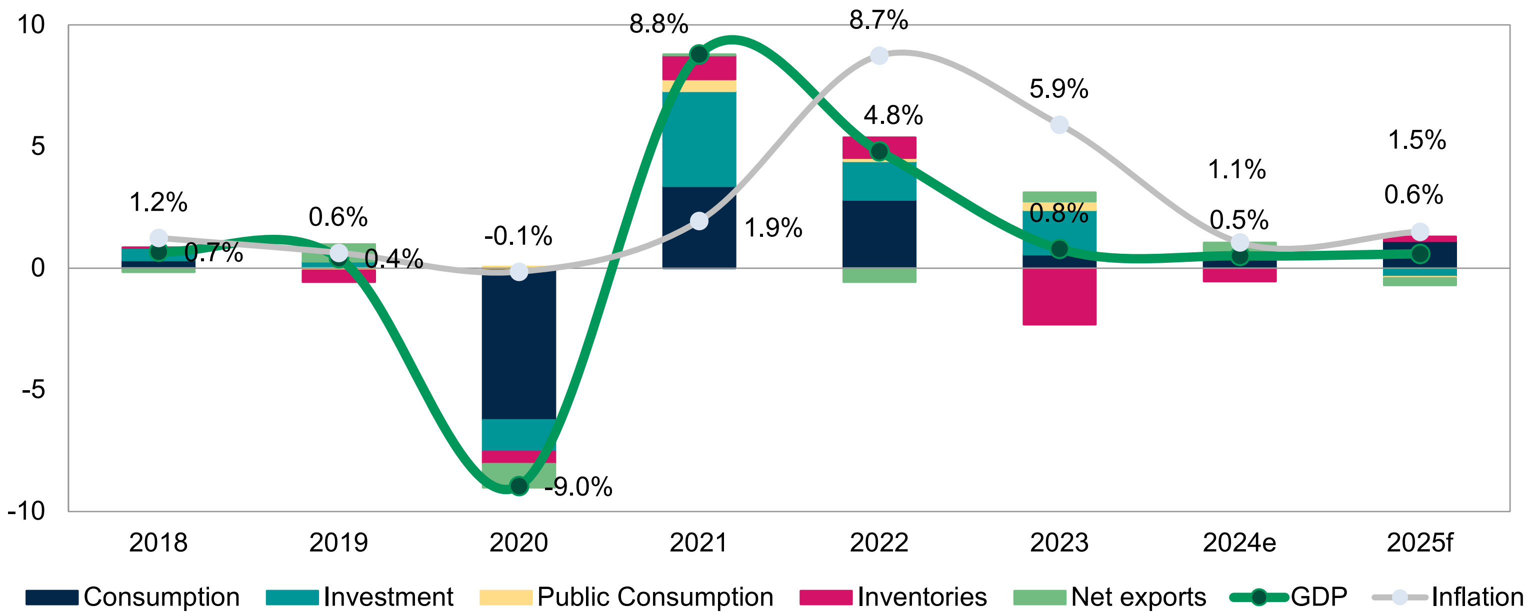
	2023	2024	2025	2026	2023				2024				2025				2026			
					T1	T2	T3	T4	T1	T2	T3	T4	T1	T2	T3	T4	T1	T2	T3	T4
World GDP (y/y, q/q, %)	3,3	3,0	2,8	2,9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
United States GDP (y/y, q/q, annualised, %)	2,9	2,7	1,9	2,2	2,8	2,5	4,4	3,2	1,6	3,0	3,1	2,2	1,9	1,4	1,2	1,8	2,5	2,5	2,4	2,4
Eurozone GDP (y/y, q/q, %)	0,4	0,7	1,0	1,2	0,5	0,1	0,0	0,0	0,3	0,2	0,4	0,0	0,3	0,3	0,3	0,3	0,3	0,3	0,3	0,3
China GDP (y/y, q/q, %)	5,2	4,8	4,2	3,9	1,8	0,7	1,5	1,3	1,5	0,5	0,9	1,1	1,1	1,0	1,0	1,0	0,9	0,8	0,9	0,9
ECB deposit rate (end of period, %)	4,00	3,00	2,25	2,25	3,00	3,50	4,00	4,00	4,00	3,75	3,50	3,00	2,50	2,25	2,25	2,25	2,25	2,25	2,25	2,25
Federal Reserve funds rate (end of period, %)	5,50	4,50	4,00	4,00	5,00	5,50	5,50	5,50	5,50	5,50	5,00	4,50	4,00	4,00	4,00	4,00	4,00	4,00	4,00	4,00
Exchange rate (average, EUR/USD)	1,08	1,08	1,05	1,09	1,07	1,09	1,09	1,08	1,09	1,08	1,10	1,07	1,05	1,04	1,05	1,07	1,07	1,08	1,09	1,10
Brent (average, USD/barrel)	82,2	79,9	78,3	79,3	82,2	77,9	85,9	83,0	81,9	85,0	78,9	74,0	75,0	80,0	80,0	78,0	75,0	80,0	80,0	82,0

THE INTERNATIONAL ENVIRONMENT

A RISKY WORLD

In Italy, economic growth will remain weak in 2025, with a projected GDP of +0.6%. The contribution of domestic demand is expected to reach +0.7 percentage point (pp), mainly supported by a recovery in household consumption (+2.0%), while investment will fall by 1.6%, affected by less favourable financing conditions and persistent weakness in manufacturing. Net exports are expected to slightly impact growth (-0.3pp), due to weak German demand and margin pressure in exposed sectors such as automotive and metallurgy. Inflation is expected to remain under control at +1.5%, while the unemployment rate will continue to fall to 6.3%, reflecting a stabilisation of the labour market.

Growth outlook



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

LATEST ECONOMIC TRENDS

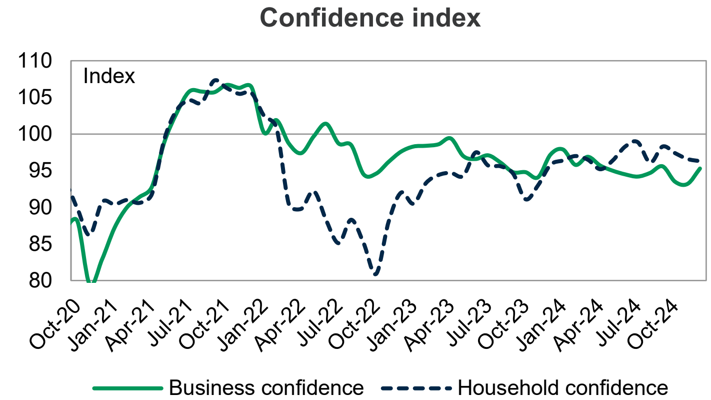
After a half-year of sluggish growth, GDP stagnated quarter-on-quarter and grew only 0.4% year-on-year, leaving a 0.5% gain for the year. The trends observed in the second quarter are continuing. On the supply side, industry, already in negative territory, posted a further fall, while services continue to boost growth. The resilience of services is partly explained by an upturn in consumption, which rose by 1.4%, driven by consumption of services, which increased by 2%. With consumption picking up, investment fell in Q3, dragged down by a drop in productive investment. The rise in consumption seems to go hand in hand with a pick-up in imports during the quarter, which increased by 1.2%. Exports, already down for two quarters, fell by 0.9% in Q3. In the face of this further fall, the contribution of net exports to growth is negative by 0.7 percentage points. Changes in inventories made a positive contribution to growth.

In Q4, economic indicators seem to point to a slight downturn on the household side, with the consumer confidence index falling for the third month in a row. The latter fell to 96.3 in December, compared with 96.6 a month earlier, dragged down by a deterioration in expectations on the general economic environment (96.1 vs. 97.8) but also by households' perception of their personal situation (93.3 vs. 93.8). At the same time, retail sales also fell in November by -0.4% in value and -0.6% in volume, driven by the drop in non-food sales (-0.7% in value and volume). Over the past three months, however, sales growth remained positive, with +0.6% in value and +0.3% in volume. On a year-on-year basis, sales in volume fell by -0.2%. Food goods fell by -0.2% in volume, while non-food goods posted a similar fall (-0.2%). Among non-food goods, perfumery & personal care products posted the greatest gains (+4.1%), while information technology (-2.8%) and travel goods (-2.7%) saw significant falls. By distribution channel, only large retailers increased (+3.8% in value compared to November 2023). Conversely, small stores (-0.9%), non-store sales (-3.9%) and e-commerce (-3.3%) fell.

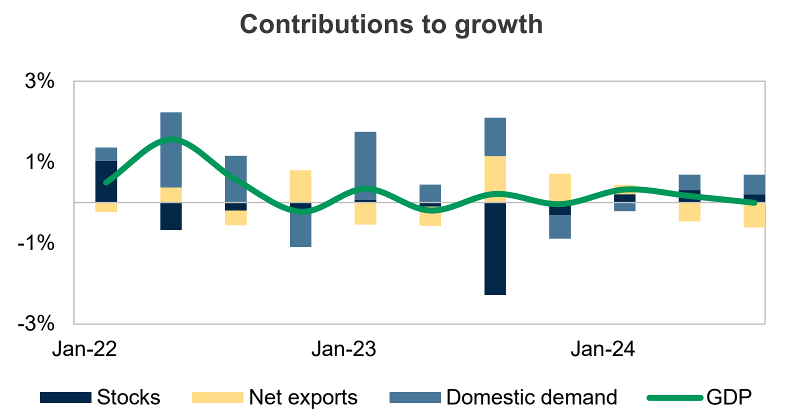
However, households continue to benefit from favourable consumption conditions. Inflation remained stable in December at 1.3% year-on-year. The slight acceleration in energy prices was largely offset by the slowdown in the prices of goods, but also of services, particularly in hotels and restaurants. Core inflation also fell from 1.9% to 1.8% compared to the previous month. The upturn in energy prices is also visible in the Industrial Production Price Index, where the monthly increase in November reached 1.2% at the national level and +1.8% on the domestic market. Excluding energy prices, the increase in producer prices on the domestic market remained stable. The trend is still down year-on-year, given the high levels reached in the previous year.

LATEST ECONOMIC TRENDS

Despite a slight increase in producer prices, the good news was confirmed on the industrial production side, with the index rising for the second month in a row. The latter gained +0.3% over one month, i.e. a slight acceleration compared to the +0.1% observed in October. This slight upturn was driven by the recovery of all major industrial sectors, with the exception of capital goods (-0.6%). This was partly the case for consumer goods and intermediate goods, which rose by +0.9% and +0.3% respectively. Forward-looking production increases in the manufacturing industry also suggest that this trend could continue in the months ahead. However, this optimism should be tempered: the manufacturing confidence index continues to deteriorate overall, and the proportion of companies reporting production and export constraints related to expectations of higher costs and prices increased in the fourth quarter. It is therefore more likely that the services will continue to drive activity in the coming months, as the latter continue to drive the improvements in confidence indices.



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



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

HOUSEHOLDS

CONSUMPTION: SERVICES DRIVE GROWTH, BUT CAUTION PERSISTS

After a 2024 marked by stagnation in consumption, under the effect of strong inflationary pressure, the third quarter of 2024 finally showed an expected rebound, with an increase of 1.3% compared to the previous quarter. This recovery is mainly due to service spending (+2%), driven by the dynamism of tourism and leisure. Conversely, spending on goods showed more modest growth (+0.5%), masking disparities: while non-durable goods recovered, durable goods stagnated and semi-durable goods fell. This rebound reflects a gradual easing of inflation and less pressure on purchasing power.

Revenues: room for manoeuvre still limited

. After several months of caution, the upturn in consumer spending also led to a slight drop in the household savings rate, which fell from 10% in Q2 to 9.2% in Q3. This recourse to savings is also explained by a slowdown in disposable income in real terms, which grew by only 0.4% quarter-on-quarter, compared with an average of 1.2% in the first half of the year. Low inflationary pressures also led to a moderation in nominal income growth, which rose by only 0.6% over the quarter. Household income should also benefit, in 2025, from support measures for families included in the Finance Act (see public finances), in particular the reduction of taxes on low- and middle-income households, as well as measures dedicated to households with children.

Inflation: a partial easing of price pressures

In line with the trend that began in the first half of the year, inflation continued to moderate in H2, but at a level slightly higher than that observed over the first six months, rising from 0.8% to 1.1% in H2. Behind this slight rise in inflation is an acceleration in prices of regulated goods, which rose by 9.8% over the half year, offset by the fall in inflation across all other components. Over the year, inflation stood at 1% in 2024, after reaching 5.7% in 2023. Harmonised inflation, which stood at 1.1% in 2024, remains well below the European average of 2.4% and represents the lowest rate among the major countries in the zone.

Core inflation has also fallen from an average of 5.1% last year to 2% this year, while inflation excluding energy has stabilised at 2.1% (+5.3% in 2023). Several trends were underway over the year: the fall in energy prices was the main factor behind the slowdown in inflation. Mainly concentrated in the first half of the year, energy prices fell by 10% over the year, driven by the fall in unregulated prices (-11%), while prices of regulated products stabilised after the sharp falls in 2023. The slowdown in energy prices also seems to have had an impact on other categories of goods, with a sharp slowdown in food prices over the year, from nearly 10% to 2.3% on average in 2024.

Goods remain the category that suffered the sharpest slowdown in 2024, with a fall in prices over the year of 0.6%, while the drop in services was later, with inflation falling below 3% only at the end of the year. Inflation should continue to stabilise in early 2025. Fluctuations in energy prices, particularly gas prices following the end of certain Russian deliveries, should nonetheless push energy prices upwards, without approaching the increases seen in 2022. This trend, offset by the continued slowdown in services, should nevertheless lead to a slight rise in inflation to 1.7% in 2025.

HOUSEHOLDS

CONSUMPTION: SERVICES DRIVE GROWTH, BUT CAUTION PERSISTS

Wages: contrasting support across sectors

At the same time, the slowdown in inflation should lead to wage moderation in the coming months. For the moment, nominal wages continued to rise in Q3 2024, buoyed by contractual renewals in industry (+4.6%) and private services (+4.1%). Collective agreements, which are still awaiting renegotiations (30%), could nevertheless benefit from less advantageous conditions, given the fact that negotiations are indexed to inflation. Despite the wage growth observed over the last two years, wages are still nearly 8% below the levels observed in 2021 in real terms.

Employment: a positive but fragile dynamic

However, the labour market continues on a positive trajectory, despite some signs of a slowdown at the end of the year. Over the past eleven months, the number of people employed has increased by 1.7%, while the labour force has decreased by 0.4%. The number of people looking for work fell by 15% over the period, falling below the 1.5 million unemployed mark. The drop in the number of unemployed is also visible in the unemployment rate, which has fallen below 6% since October. The employment rate stabilised at 62.4%, driven by an increase in permanent jobs (+3.6%) and the self-employed (+2.6%).

However, this momentum is starting to falter. In addition to the drop in employment in November, the shift in the labour market was already evident in the hours worked, which fell by -0.9% over the last quarter. The sectors that seem to be weakened by the slowdown in activity are, unsurprisingly, industry, where activity remains under pressure.

2025 outlook: consolidation in sight, subject to conditions

In this context, Italian household consumption is expected to accelerate at a rate of +2% in 2025, after growth limited to +0.7% in 2024. This acceleration, which is partly explained by carry over effect, would also reflect a gradual stabilisation of income and controlled inflation (1.7%), providing a more favourable environment for household spending. Leisure, tourism and restaurant services are expected to remain the main drivers of consumption.

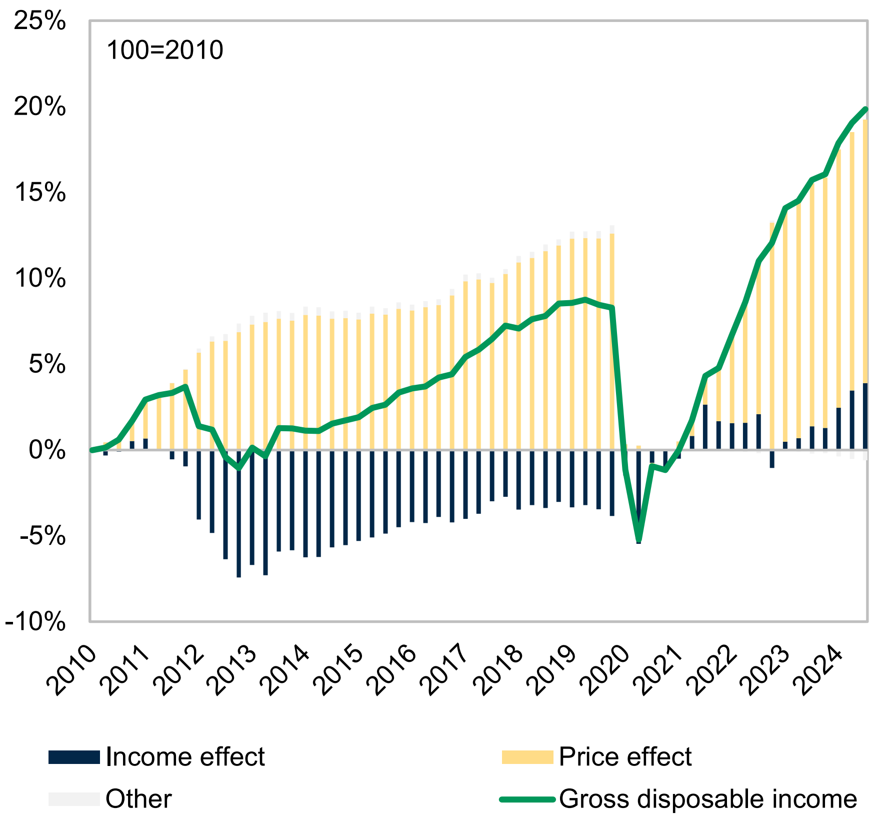
However, there are several downside risks. The differences between real and nominal wages after the inflationary episode continue to paint a picture of a household situation that remains fragile after this shock. In addition, caution in a still very uncertain environment could curb discretionary spending, particularly in durable goods, where households often prefer to save or postpone purchases.

Despite these uncertainties, the consolidation of consumption in 2025 could be based on a robust labour market and targeted government measures to support the most vulnerable households. It would provide a stronger driver of domestic demand, strengthening its role as a growth driver.

HOUSEHOLDS

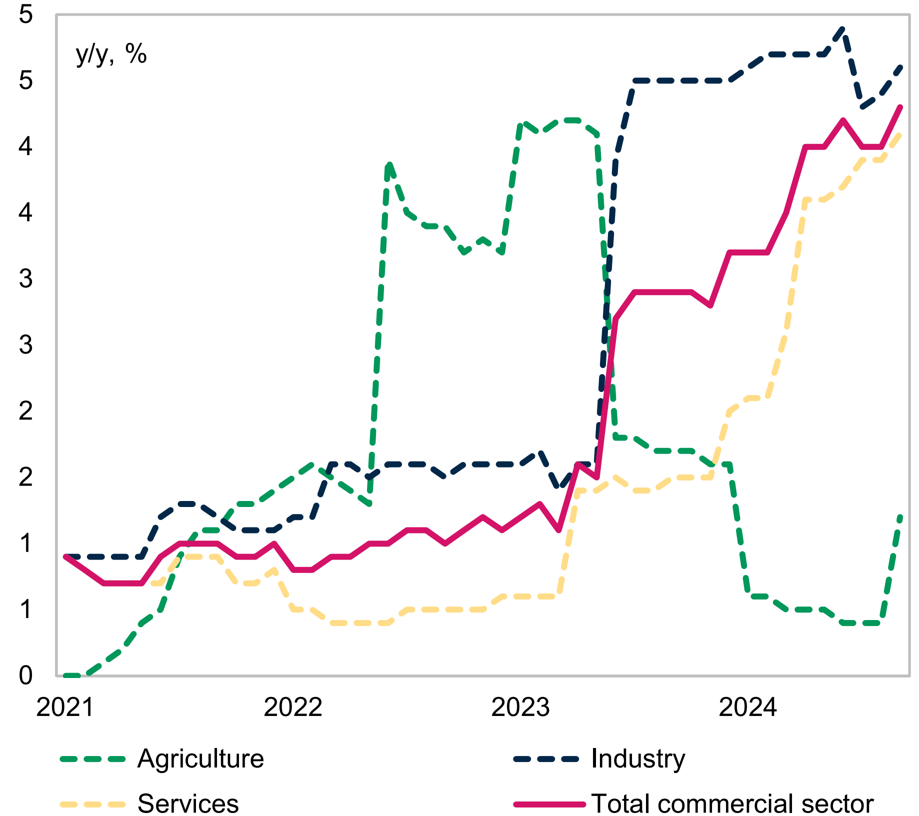
CONSUMPTION: SERVICES DRIVE GROWTH, BUT CAUTION PERSISTS

Disposable income from 2010



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

Contractual wages trends



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

CORPORATES

AFTER THE RISE IN RATES, INVESTMENT IS STALLING

After a record cycle, 2024 was not a good year for investment. Unfavourable monetary conditions and the slowdown in industry are beginning to leave their mark on the results delivered by the national accounts. In Q3 2024, the overall trend in investment was negative for the third consecutive quarter, weighed down by investment in machinery and equipment, which fell by 3.9%. In addition, investment in transport goods continued to decline, falling by 6.0% in four consecutive quarters. This decline was only partially offset by the construction sector, which, despite the decline in residential construction (-1.1%), benefited from the positive effects of the stimulus plan. Since the start of the year, GFCF has fallen by almost 2.6% compared with its level at the end of 2023. The most affected sectors remain machinery and equipment, which lost nearly 7% of their level over the same comparison period, while the withdrawal of the Superbonus reduced housing investment by 4.7%.

Over the year, it was productive investment that posted the worst carry over at -4.5%, while construction investment remained positive for the year, at +2.7%. For 2025, the carry over for GFCF as a whole is negative at -0.7%, while that for productive investment is -2.7%.

Industrial production: a downward cycle that weighs on margins

The fall in productive investment is not simply due to more unfavourable credit conditions, but also to a downward trend in industrial demand. In the first eleven months of 2024, Italian industrial production fell by 3.1% compared to the previous year. All major industry groups were affected. Capital goods production fell by 3.2%, followed by intermediate goods (-3.2%) and consumer goods (-3%). The most vulnerable sectors, such as textiles and automotive (-10.4%), remain in great difficulty, while the food industries (+3.7%) and repair activities (+5.3%) showed signs of resilience. However, October data showed signs of stabilisation, marking a pause in the downward trend that began in early 2023.

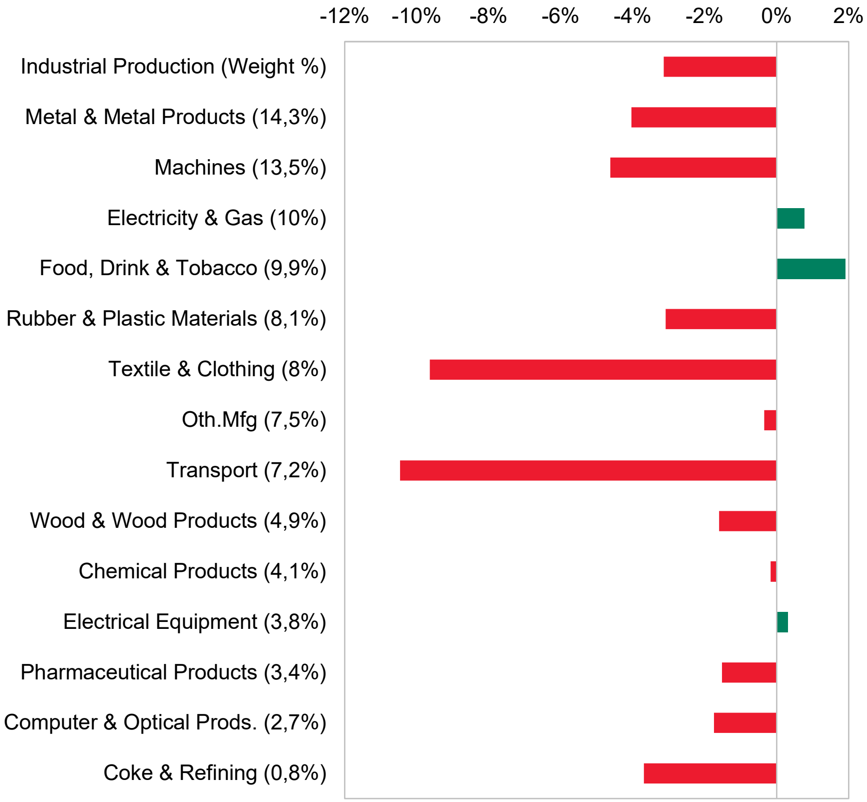
The fall in industrial production is also reflected in the national accounts, with a 1.3% drop in industrial added value in the strict sense in Q3, marking the third consecutive quarter of decline. Faced with a struggling industry, growth remains mainly driven by services, particularly trade, tourism and restaurants, which continued to recover. However, the other service sectors posted negative performances; this is the case for scientific activities, which have been falling for two quarters.

In this context, pressure on corporate margins intensified in 2024, with an average fall in the margin rate of non-financial companies of 1.4 points since the beginning of the year, reaching a historically low level of 42.4% in Q3. This deterioration is explained by the increase in unit labour costs (ULCs), which rose by 5.6% in the first half of the year, and by the inability of many companies to pass on these increases to their sales prices in the face of weak domestic and foreign demand.

CORPORATES

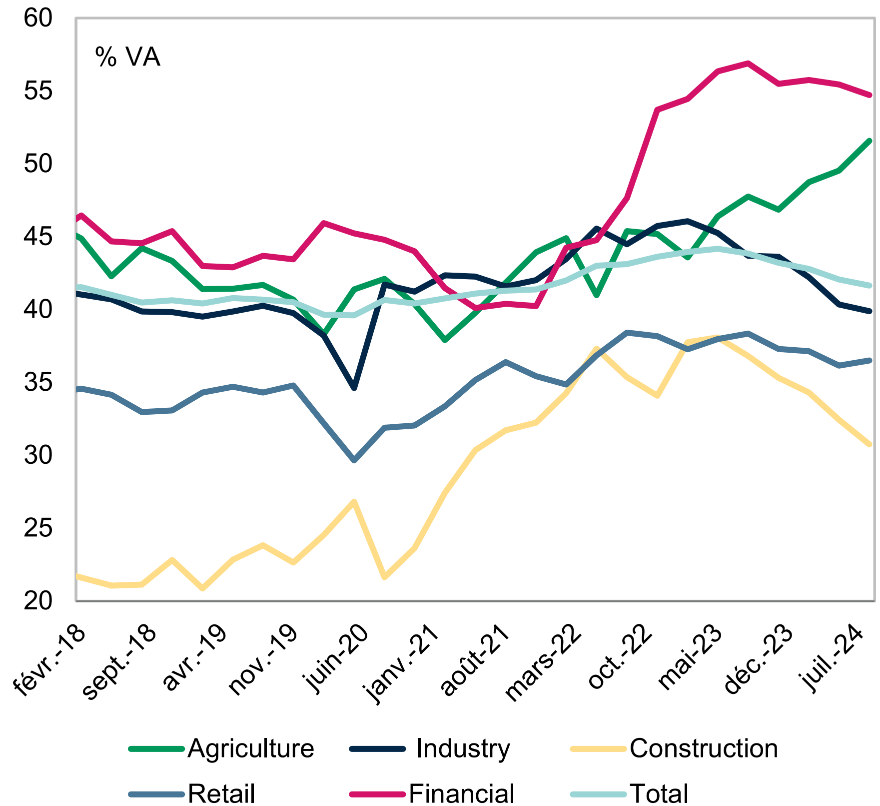
AFTER THE RISE IN RATES, INVESTMENT IS STALLING

Industrial production trend
From Jan.-Nov. 24 / Jan.-Nov. 23



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

Margin rate by sectors



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

CORPORATES

AFTER THE RISE IN RATES, INVESTMENT IS STALLING

Investment: 2025, a difficult year

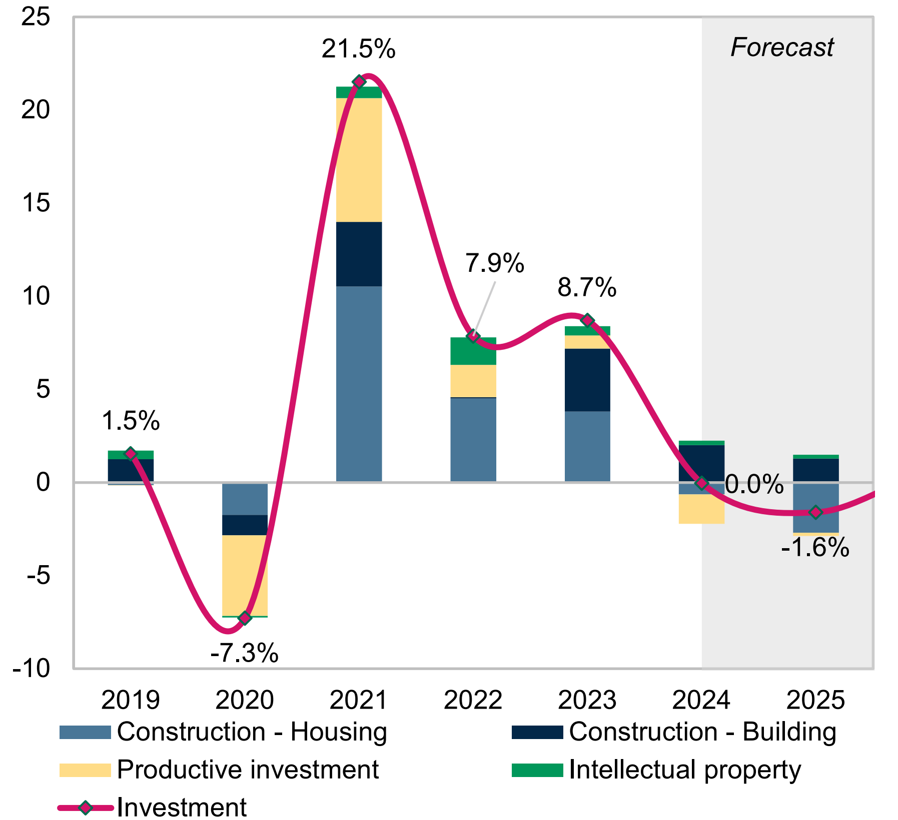
Investments by Italian companies in 2024 and 2025 are marked by contrasting dynamics between the productive sectors and construction. While total investment stagnated in 2024 (+0.0%), it is expected to fall in 2025 (-1.6%) under the effect of persistent pressures on the economy.

The fall in productive investment, estimated at -4.7% in 2024 and -0.6% in 2025, reflects the prolonged impact of the slowdown in industrial production on companies' investment decisions. This dynamic comes against a backdrop of weak external demand, particularly in intermediate and capital goods, and increased pressure on corporate margins.

High interest rates also continue to weigh heavily on investment decisions. The increased cost of credit has particularly impacted capital-intensive sectors, reducing companies' ability to renew their equipment or launch new projects, especially as 2023 seems to mark the end of a cycle of production capacity renewal that began in 2021. Demand for corporate loans, down since 2023, remained weak in the first three quarters of 2024.

In the construction sector, forecasts show divergent trends: after an expected increase of 2.7% in 2024, linked in part to public projects buoyed by the National Recovery and Resilience Plan (PNRR), investment is expected to fall by 2.7% in 2025. The depletion of the effects of measures such as the Superbonus has already impacted the residential sector, worsening the cash constraints of specialised companies. However, public infrastructure projects should offset some of this fall by supporting investments in buildings and public works.

Investment outlook



Sources: Istat, forecast Crédit Agricole S.A./ECO

INTERNATIONAL TRADE

EXPORTS: THE MISSING PIECE

In 2024, Italian trade flows evolved in an overall economic context marked by weak international demand and persistent geopolitical tensions. Italian exports contracted by 0.9% in volume in Q3, after -1.2% in Q2, marking the third consecutive quarter of decline since the start of the year.

In the first eleven months of the year, exports in value decreased slightly (-0.7%), indicating a contraction in export volumes that was greater than that in average unit prices. The trend in exports was affected by the fall in sales to EU countries, which fell by 2.1% from January to November 2024 compared to the same period a year earlier. Sales to Germany, which account for 11% of total exports in value, fell by 5.1%. For their part, those heading to France fell by 2.3%. However, the fall in exports to the EU was partially offset by growth in exports outside the European Union. Important markets for Italian products, such as China (3.1% of sales) and the US (10.7%), also saw a drop in sales, which fell by -21% and -3.6% respectively.

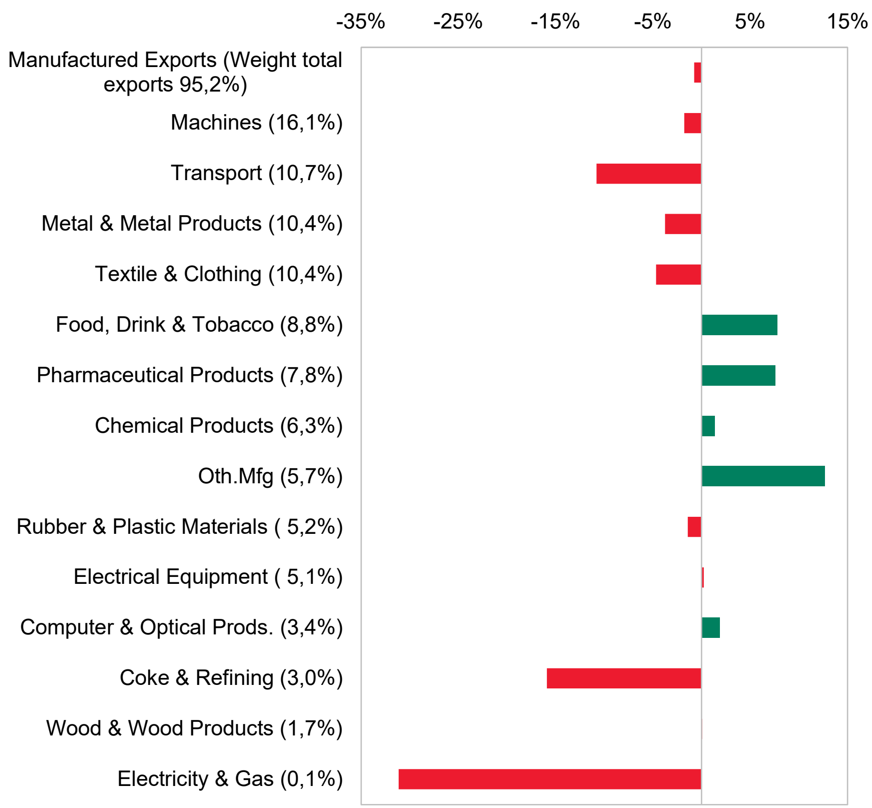
However, the fall in Italian exports during the first eleven months of the year seems to be concentrated only on a defined number of sectors also identified as vulnerable in view of changes in industrial production. These included textiles and clothing, which lost -4.7% over the last eleven months, as well as metals and metal products (-3.8%), machinery (-1.8%) and means of transport, which fell the most (-10%). Vehicle sales seem to be particularly affected, with a 16% fall. In total, these sectors account for nearly 47% of total exports. At the same time, sales of agri-food products as well as those of the chemical, pharmaceutical and other manufacturing industries are increasing.

On the import side, the dynamic remains on the downside overall, despite a slight recovery over the last two quarters. The overall import growth for 2024 remains negative at -2.2%. Economic indicators for external accounts also show a sharp drop in imports in value over the first eleven months of 2024 (-4.4%). The fall in imports continues to be driven by lower energy purchases, which are also benefiting from lower gas prices and are reflected in a reduction in flows from North African countries and OPEC. Capital goods volumes have also fallen sharply over the last eleven months, despite an increase in unit values.

INTERNATIONAL TRADE

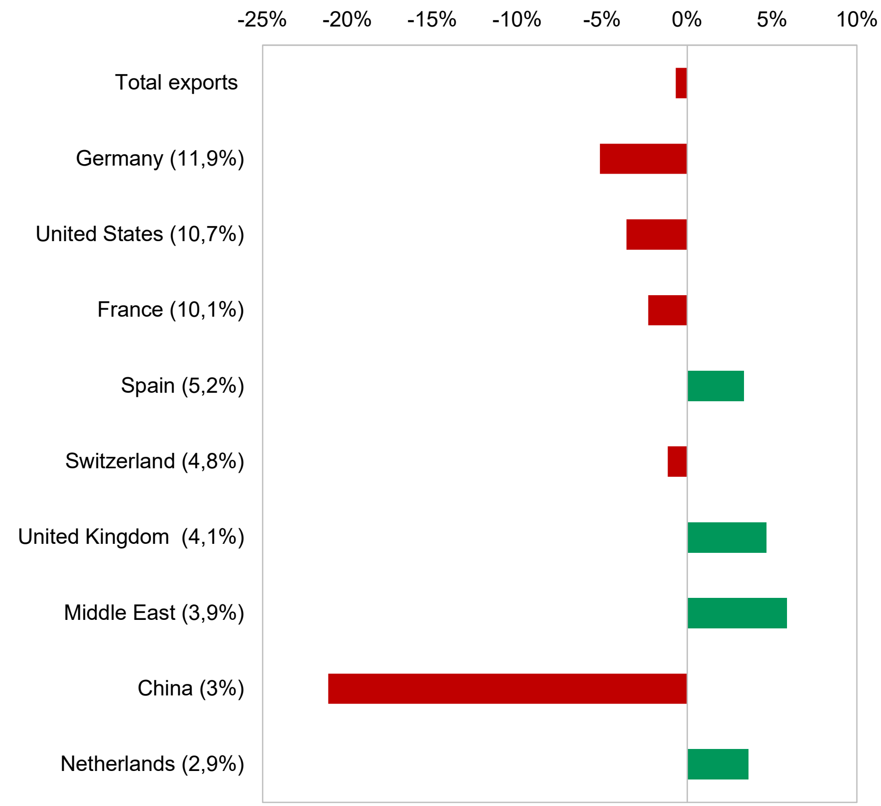
EXPORTS: THE MISSING PIECE

Trend in exports of goods by sector
Jan.-Nov. 24 / Jan.-Nov. 23



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

Trend in exports of goods by partner
Jan.-Nov. 24 / Jan.-Nov. 23



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

INTERNATIONAL TRADE

ITALY'S COMPETITIVENESS UNDER SEVERE STRAIN

Italian exports reached a record level of €630 billion in 2023, despite a slowdown in global trade. However, the 2024 data suggests that this feat will not be repeated in 2024, with a total of €568 billion over the first eleven months of the year, compared with €577 billion last year, even though international flows are picking up. The erosion of competitiveness, linked in particular to energy costs as well as high exposure to some ailing sectors, is catching up with the Italian export sector.

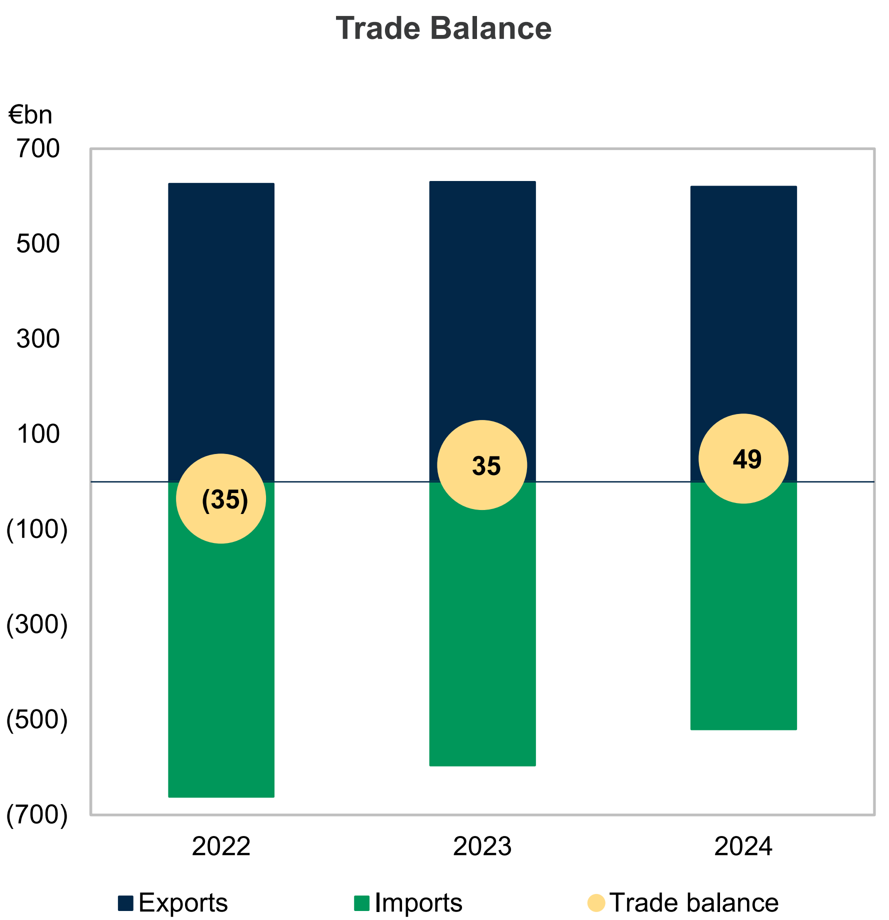
Indeed, the war in Ukraine forced the country, heavily dependent on Russian gas, to redefine its energy mix. Accelerated diversification into liquefied natural gas (LNG) and other alternative suppliers has strengthened its energy resilience, but at structurally higher costs. These costs have particularly affected energy-intensive industries such as metallurgy and chemicals, also weighing on the competitiveness of key partner markets such as Germany, and weakening the entire European production chain of these sectors.

While some sectors of traditional specialisation, such as agri-food and pharmaceuticals, maintained their dynamism thanks to robust demand in the EU, others, such as automotive and metallurgy, suffered from these increases in production costs. The rise in unit labour costs, due to wage catch-up in the face of inflation, also weighed in part on the competitiveness of companies, particularly in labour-intensive manufacturing sectors.

In this context, the US tariff policy envisaged by the new US president represents a new major challenge for Italian exporters. On the one hand, the United States, which accounts for 10% of Italian exports, is one of its main trading partners. Any tariff change could therefore have a significant direct impact. On the other hand, these measures could indirectly affect Italy by slowing global trade as a whole. These constraints, combined with structural challenges, are expected to continue to impact the country's external accounts, resulting in a negative contribution for the second year in a row.

INTERNATIONAL TRADE

ITALY'S COMPETITIVENESS UNDER SEVERE STRAIN



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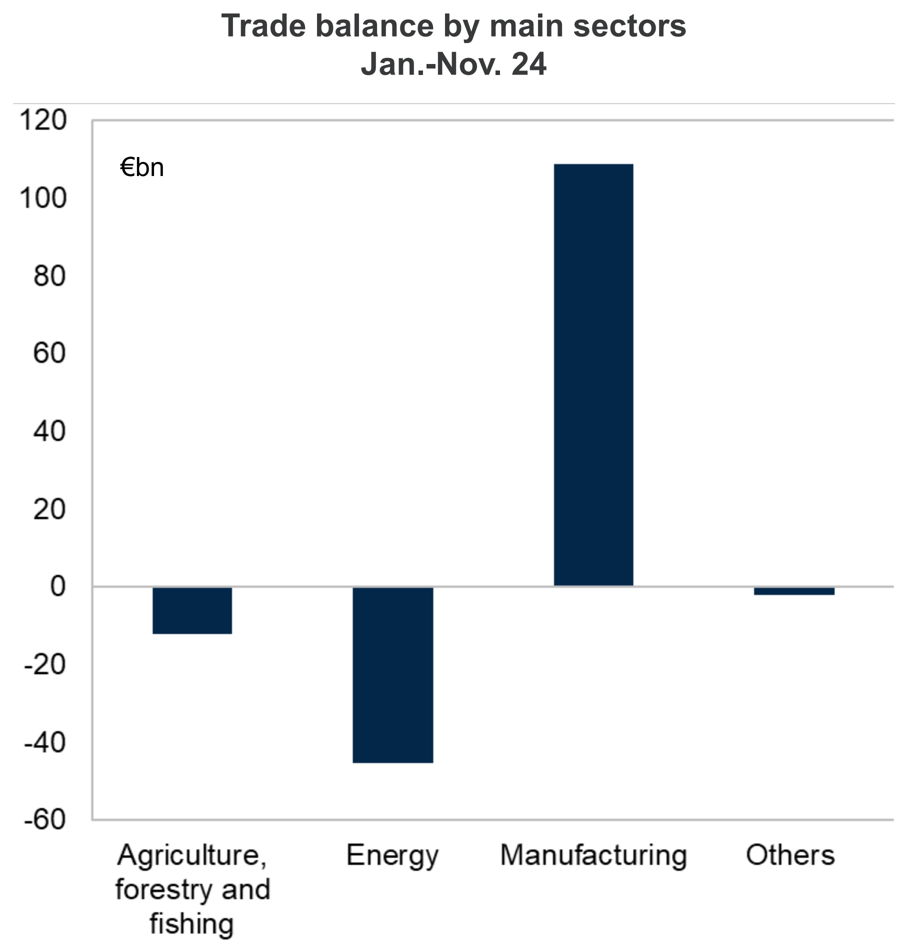

Sources: Istat, Crédit Agricole S.A./ECO

PUBLIC FINANCES

A TRAJECTORY UNDER CONTROL: DEFICIT, DEBT AND EUROPEAN DISCIPLINE

In September, the government presented its medium-term fiscal plan, which outlines the trajectory of public finances, as well as that of debt to 2030. The latter, which is fully in line with the framework imposed by the Excessive Deficit Procedure (EDP) triggered by the European Council in April 2024, has been validated by the European authorities. The main objective of the Italian budget strategy is to bring the public deficit below the threshold of 3% of GDP by 2026, while initiating a gradual reduction in public debt, which, due to the Superbonus, will peak at 137.8% of GDP in 2026. To achieve these targets, the government has committed to capping growth in net primary spending at 1.6% per year.

Thus, the public deficit is projected at 3.3% of GDP in 2025, before falling to 2.8% in 2026, the date scheduled for withdrawal from the EDP. This trajectory is based on a gradual improvement in the primary balance, from a deficit of 0.5% in 2024 to a surplus of 0.55% in 2026, meeting the structural adjustment requirements of the European Commission. Furthermore, Italy will have to begin an annual reduction in its public debt starting in 2027, at the rate of one percentage point of GDP per year, in accordance with the new European rules. Public debt, estimated at 137.8% of GDP in 2026, will begin a gradual fall from 2027 to 134.9% in 2029.

However, absorbing the rise in long-term rates observed over the past two years is likely to be a challenge, with a debt-servicing burden of 3.9% of GDP expected to increase over the next three years.

The budget choices of the 2025 Finance Act: sharing the meagre cake

The 2025 Finance Act thus marks the first step in the medium-term budget plan, with the aim of reducing the public deficit to 3.3% of GDP after 3.8% in 2024, while limiting growth in net primary spending to 1.6% per year, in accordance with the new European rules. Based on an assumption of moderate real GDP growth of 1.2% and projected inflation of 1.8%, this €30 billion fiscal adjustment remains a difficult exercise, between fiscal balance and economic stimulus, in a context marked by political and economic tensions.

Faced with a budget that remains limited, the flagship measures revolve around three areas. In line with the 2024 measures, support for households, with the continuation of the reform of payroll costs, is maintained for employees up to €40,000. Mobilising €8 billion and benefiting 3 million workers, it is one of the main measures of the budget. Families should also benefit from the introduction of a childbirth bonus of €1,000 per child, up to €3,000 per year for the lowest-income households, as well as the extension of parental leave to three months, paid at 80%. The IRES (corporate income tax) for companies that invest in the capital goods of the 4.0 and 5.0 transition (0.4% of the total) meeting strict criteria (investments, hiring, absence of Cassa integrazione (redundancy fund)), would be reduced to 20%. This measure, although it concerns a limited number of players, aims to generate €11 billion in investments over two years. Finally, in terms of infrastructure, the Ponte sullo Stretto, a €1.4 billion project by 2032, aims to connect Sicily and Calabria, symbolising a modernisation of transport, although its economic relevance is divided.

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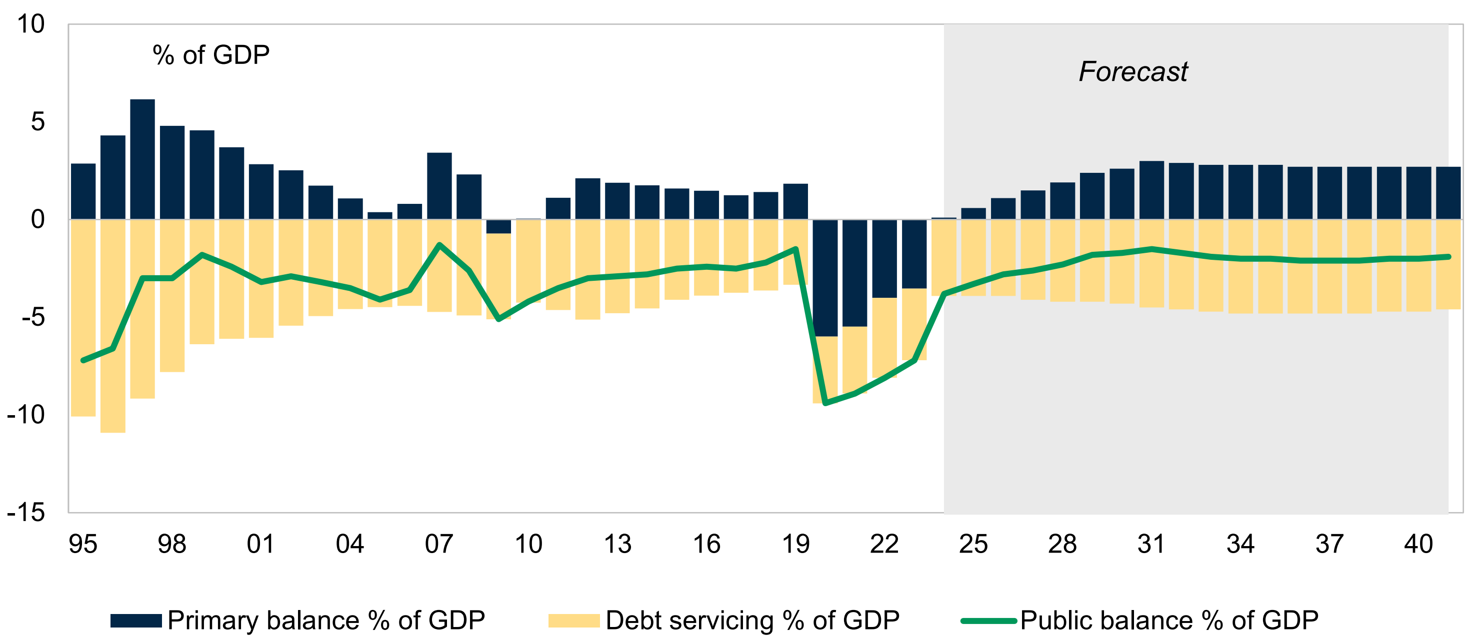
However, these budget choices have not escaped serious criticism. The opposition denounces a legislative process limited to one reading per chamber, hampering the examination of the 800 amendments tabled. Within the majority, tensions are emerging: some are calling for an extension of flat-tax or tax breaks for the middle class, while others are calling for increased support for sectors in crisis, particularly manufacturing.

Public finance long terme forecast



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

RISKS

No recession

Positive effect loosening of monetary policy on investment

Dynamic consumption

Exports Market share maintained

Recession

Severe downturn in construction

Increase in insolvencies

Aggressive US tariff policy

QUARTERLY SCENARIO SUMMARY TABLE

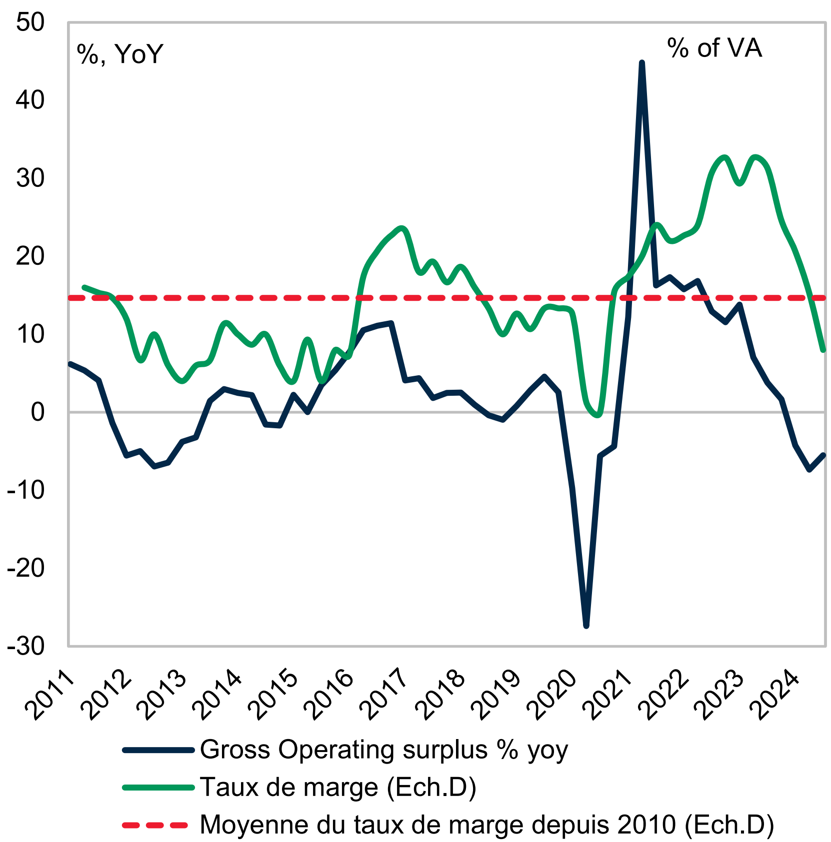
	2022	2023	2024	2025	2022				2023				2024				2025			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP y/y, q/q, %	4,8	0,8	0,5	0,6	0,5	1,6	0,6	-0,2	0,3	-0,2	0,2	0,0	0,3	0,2	0,0	0,1	0,1	0,3	0,2	0,3
Domestic demand contribution to GDP, pps	4,5	2,7	0,5	0,7	0,3	1,9	1,2	-0,9	1,7	0,4	0,9	-0,6	-0,2	0,4	0,5	0,0	0,1	0,1	0,2	0,2
Private consumption y/y, q/q, %	5,0	1,0	0,7	2,0	-0,4	2,8	2,1	-2,3	0,4	0,9	0,9	-1,7	0,2	0,6	1,4	0,2	0,4	0,4	0,4	0,3
Public consumption y/y, q/q, %	0,6	1,9	0,5	-0,3	-0,2	0,2	-0,4	1,0	0,6	0,5	0,4	0,3	-0,6	0,9	-0,2	-0,2	-0,1	-0,1	-0,1	-0,1
Investment y/y, q/q, %	7,9	8,7	0,0	-1,6	2,9	1,3	0,2	1,3	6,3	-0,6	1,8	1,5	-0,9	-0,4	-1,2	-0,3	-0,4	-0,4	-0,1	0,2
Stockbuilding contribution to GDP, pps	0,8	-2,3	-0,5	0,2	0,4	-0,7	-0,2	-0,2	-0,8	-0,2	-1,9	-0,2	0,3	0,2	0,1	0,1	-0,1	0,1	0,0	0,0
Net exports contribution to GDP, pps	-0,6	0,4	0,6	-0,3	-0,2	0,4	-0,4	0,8	-0,5	-0,5	1,2	0,7	0,2	-0,5	-0,6	0,0	0,0	0,0	0,1	0,1
Exports y/y, q/q, %	10,5	1,1	-0,1	1,2	4,0	3,1	0,4	0,3	-0,2	-1,0	1,2	1,3	-0,2	-1,2	-0,9	0,5	0,6	0,6	0,7	0,7
Imports y/y, q/q, %	13,8	0,0	-2,1	2,4	5,2	2,1	1,7	-2,4	1,6	0,5	-2,6	-1,1	-1,0	0,3	1,2	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	6,5	6,3	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	-1,7	0,0	1,6	2,4	-2,0	-1,6	-2,7	-0,7	-1,7	-0,3	1,1	0,8	0,3	1,6	2,3	2,3	2,4	2,4	2,4	2,5
Fiscal balance % of GDP	-8,1	-7,2	-3,8	-3,3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public debt % of GDP	138,1	134,6	134,8	136,0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Sources: Crédit Agricole SA/ECO

THE SCENARIO IN PICTURES

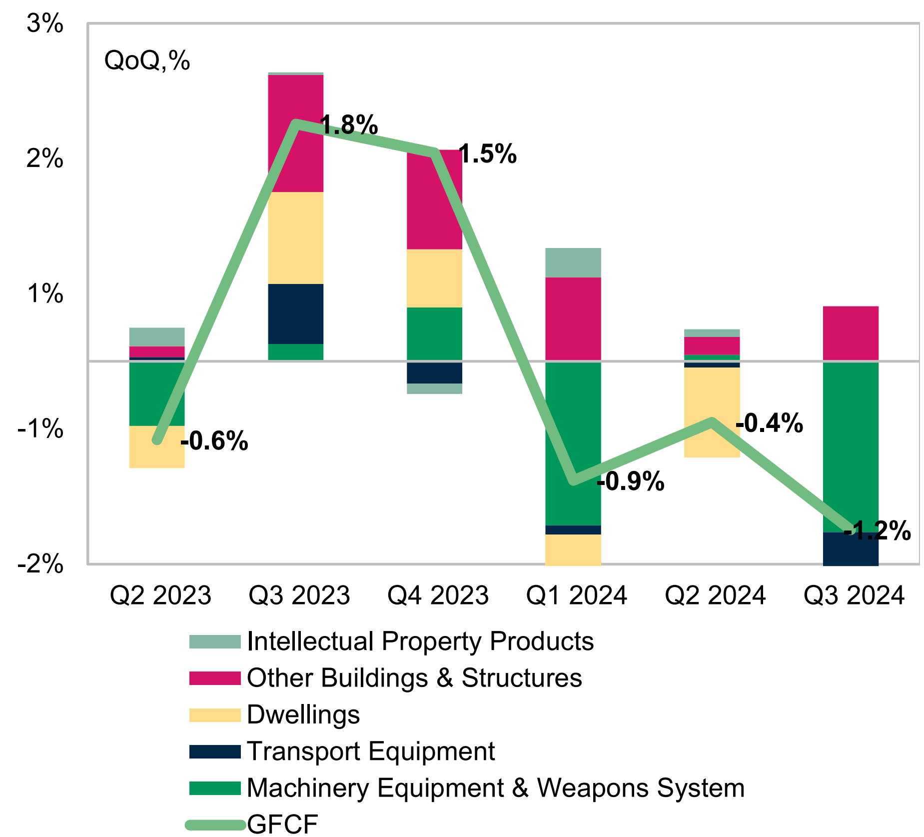
MARGINS ARE WEAK AND INVESTMENT IS AT A STANDSTILL

Margin rate



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

Investment quarterly growth

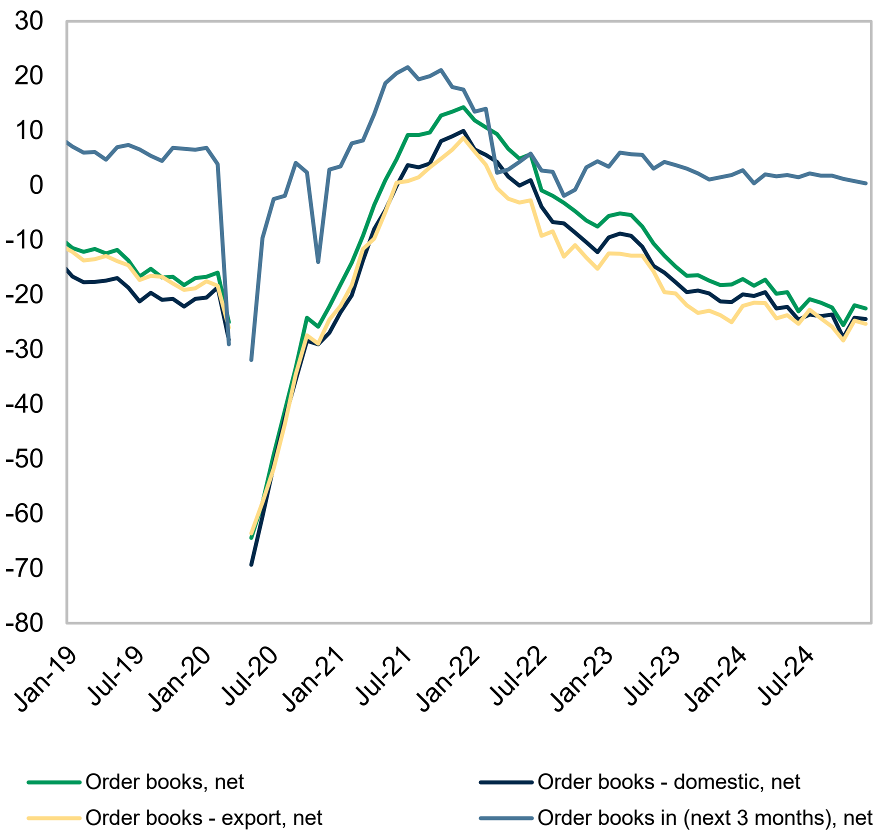


Sources: Istat, Crédit Agricole S.A./ECO

THE SCENARIO IN PICTURES

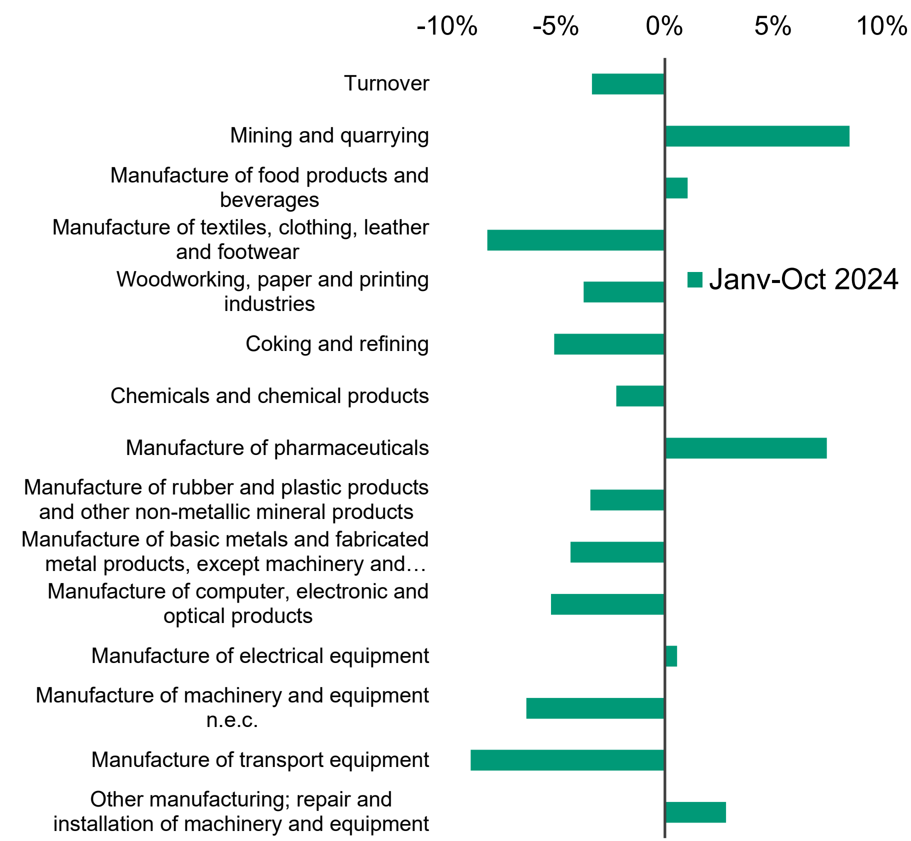
INDUSTRY STILL SUFFERING FROM LACK OF DEMAND

Order books



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

Industry turnover



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

EXPORT GOODS REMAIN MORE EXPOSED

Growth in production and exports by type of activity

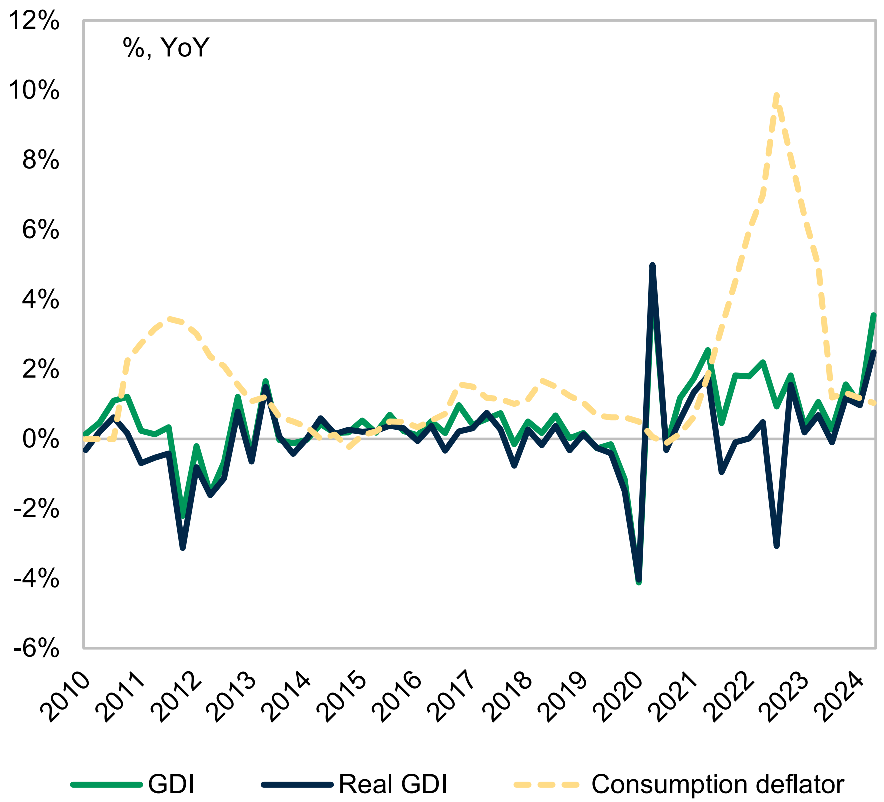
	Weight in industry	Industrial output Jan-Nov 24/ Jan-Nov 23	Weight in exports	Exports Jan-Nov 24/ Jan-Nov 23
Industry	100	-3,1%	95	-0,8%
Metallurgy	14,4	-4,0%	10,4	-3,8%
Machinery	13,6	-4,6%	16,2	-1,8%
Electricity & gas	10,1	0,8%	0,1	-31,1%
Food & beverages	10,0	1,9%	8,9	7,8%
Plastics	8,1	-3,1%	5,3	-1,4%
Textiles & clothing	8,0	-9,6%	10,4	-4,7%
Other industries	7,5	-0,3%	5,8	12,7%
Transport	7,3	-10,5%	10,8	-10,8%
Wood & paper	4,9	-1,6%	1,7	0,0%
Chemicals	4,1	-0,2%	6,4	1,3%
E. Electrical	3,9	0,3%	5,1	0,2%
Pharmaceuticals	3,5	-1,5%	7,9	7,6%
IT	2,8	-1,7%	3,5	1,9%
Coking	0,9	-3,7%	3,1	-15,9%

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

THE SCENARIO IN PICTURES

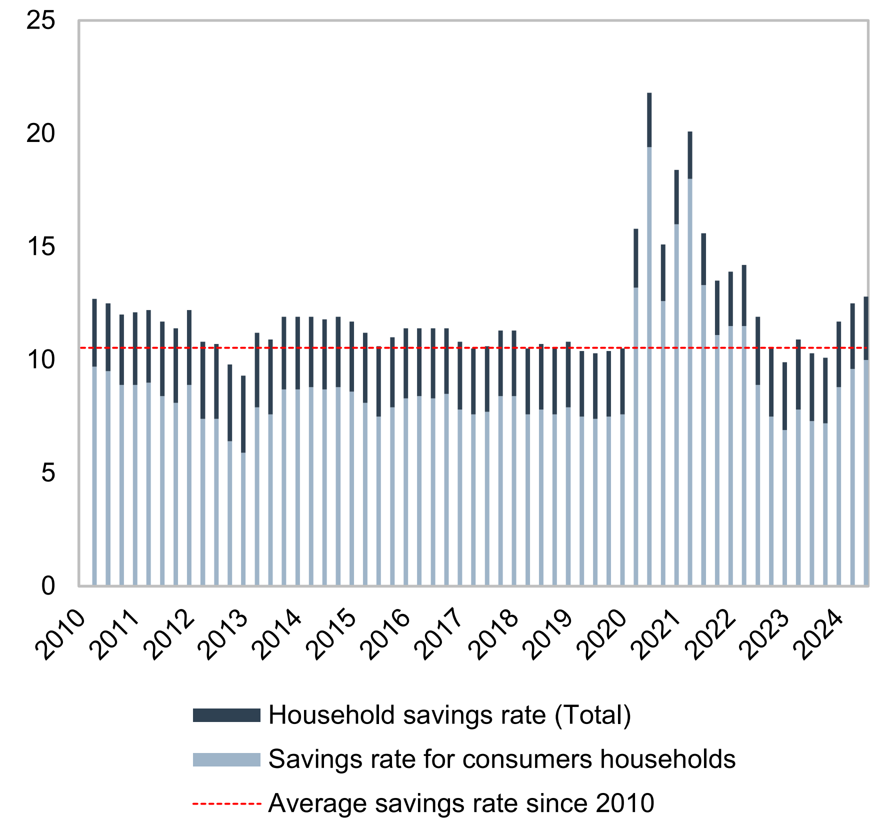
HOUSEHOLD DISPOSABLE INCOME IMPROVES AS INFLATION FALLS

Disposable income year-on-year



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

Italian household savings rate



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

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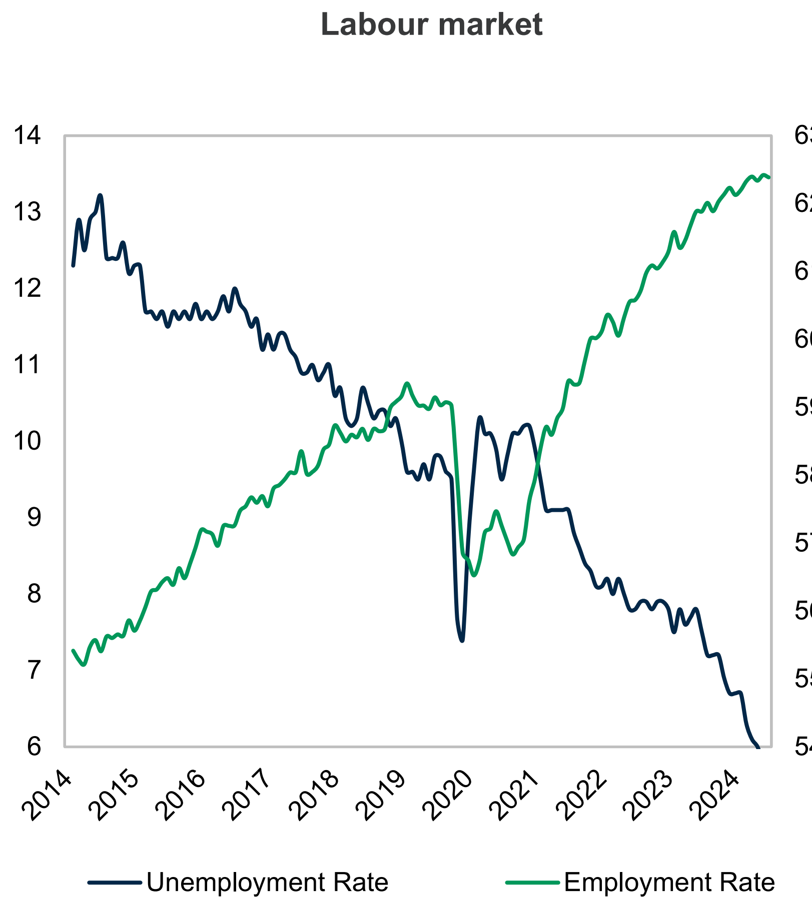
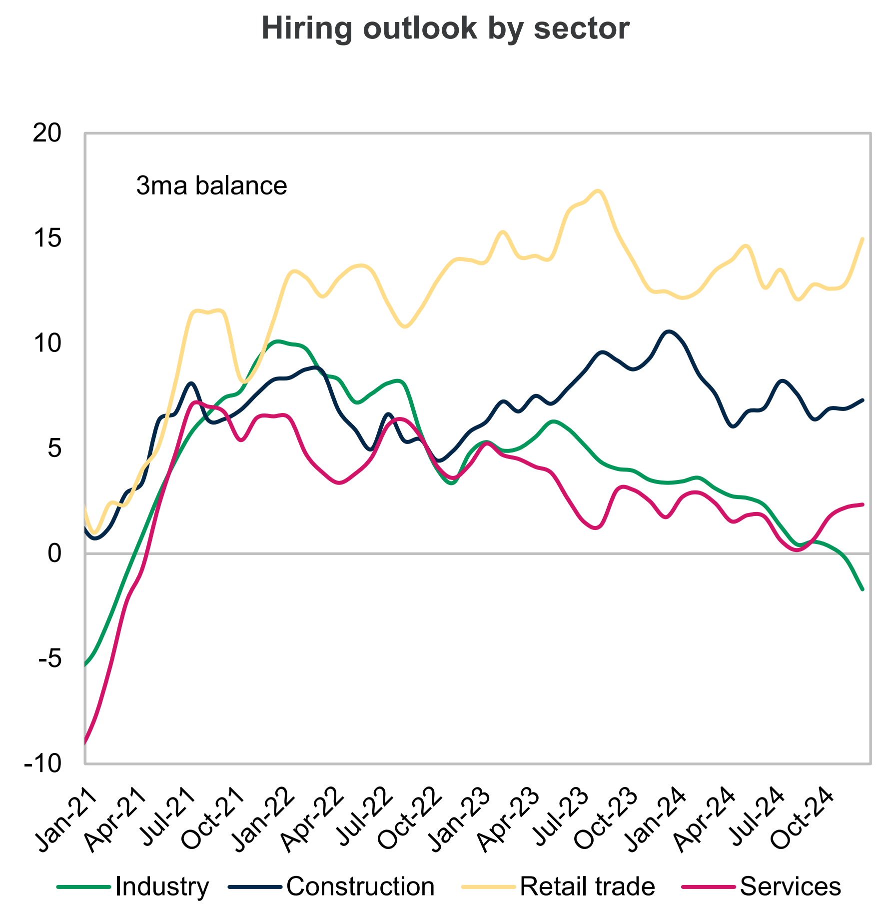
HOWEVER, THE OUTLOOK FOR THE JOB MARKET REMAINS POSITIVE



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



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

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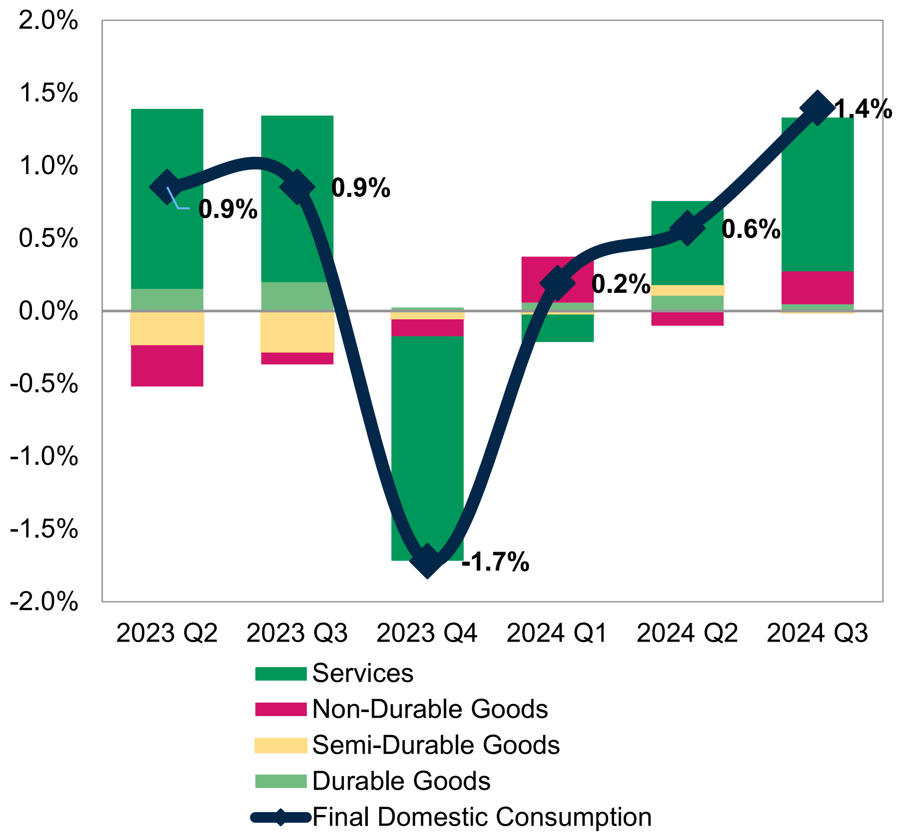
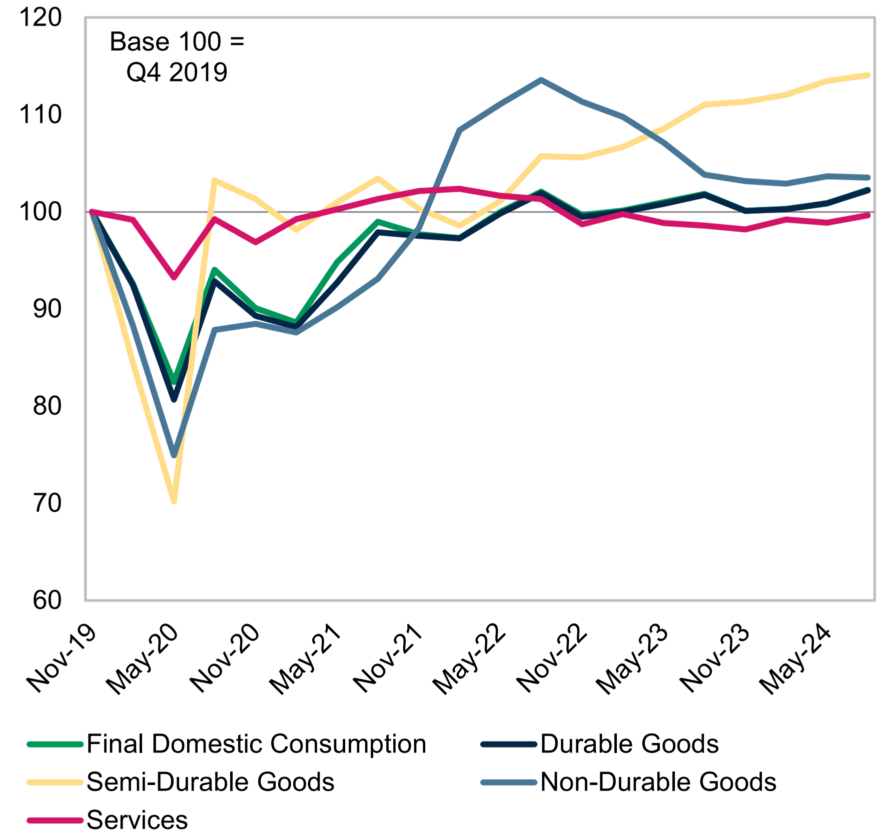
THE UPTURN IN CONSUMPTION IS A POSITIVE SIGN, BUT ONLY PARTIALLY MAKES UP FOR THE EFFECTS OF THE INFLATIONARY SHOCK

Quarterly trends in consumption



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

Consumption trends since the end of 2019



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Completed on 29 January 2025

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