

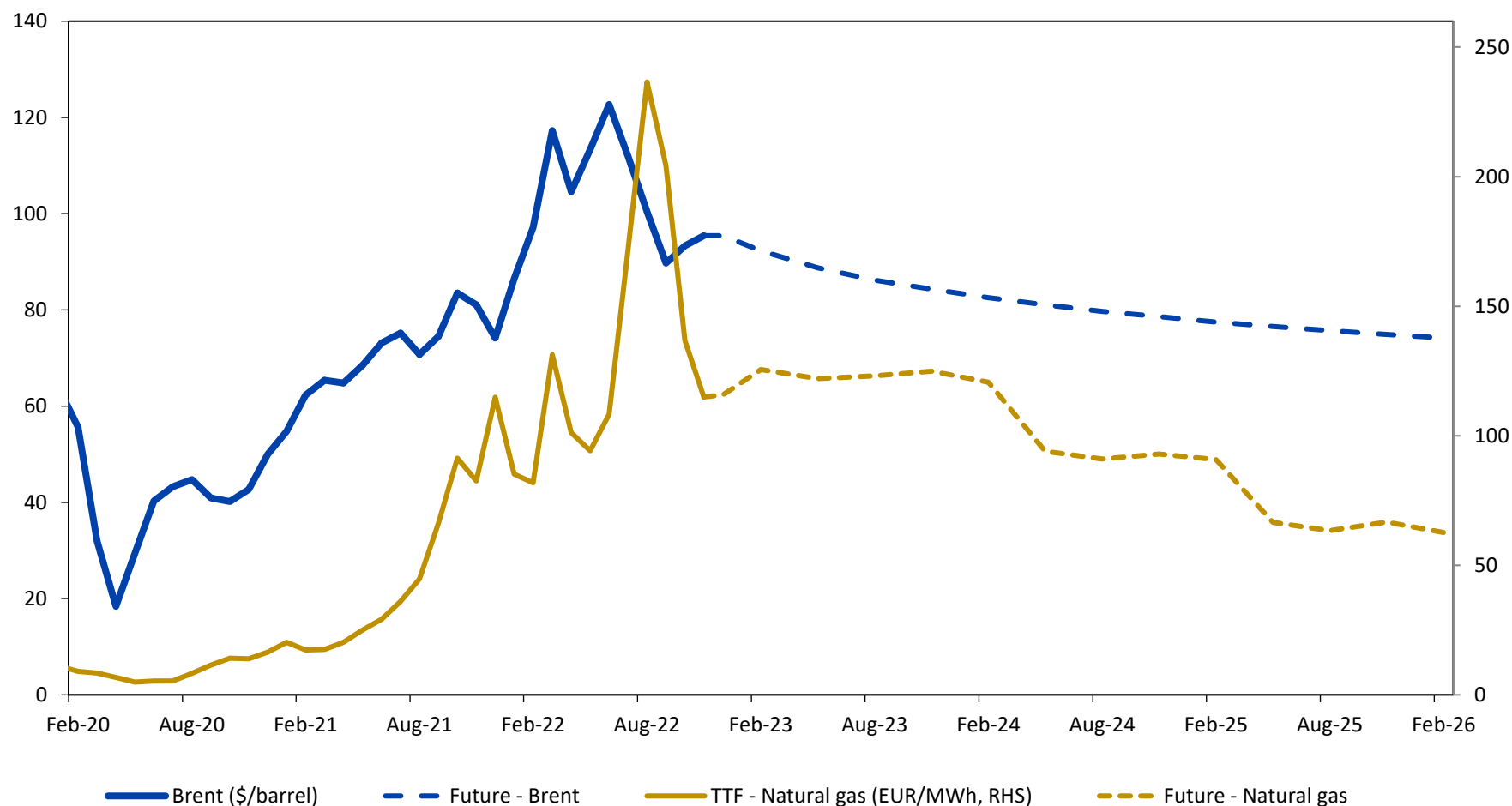
ITALY

16 November 2022

National Economic Outlook

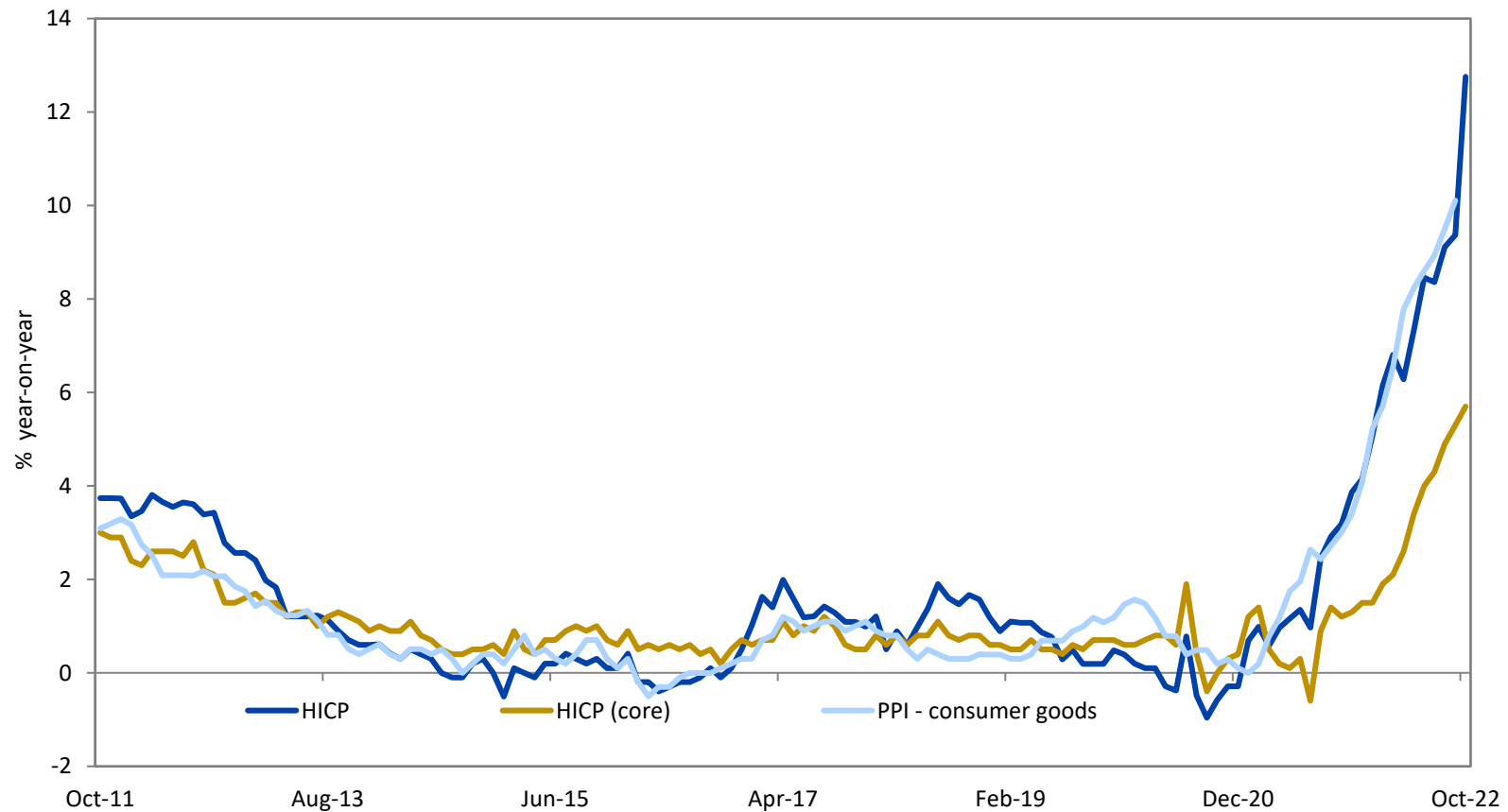


Sharp rise in energy prices, Ukraine war: a challenging environment



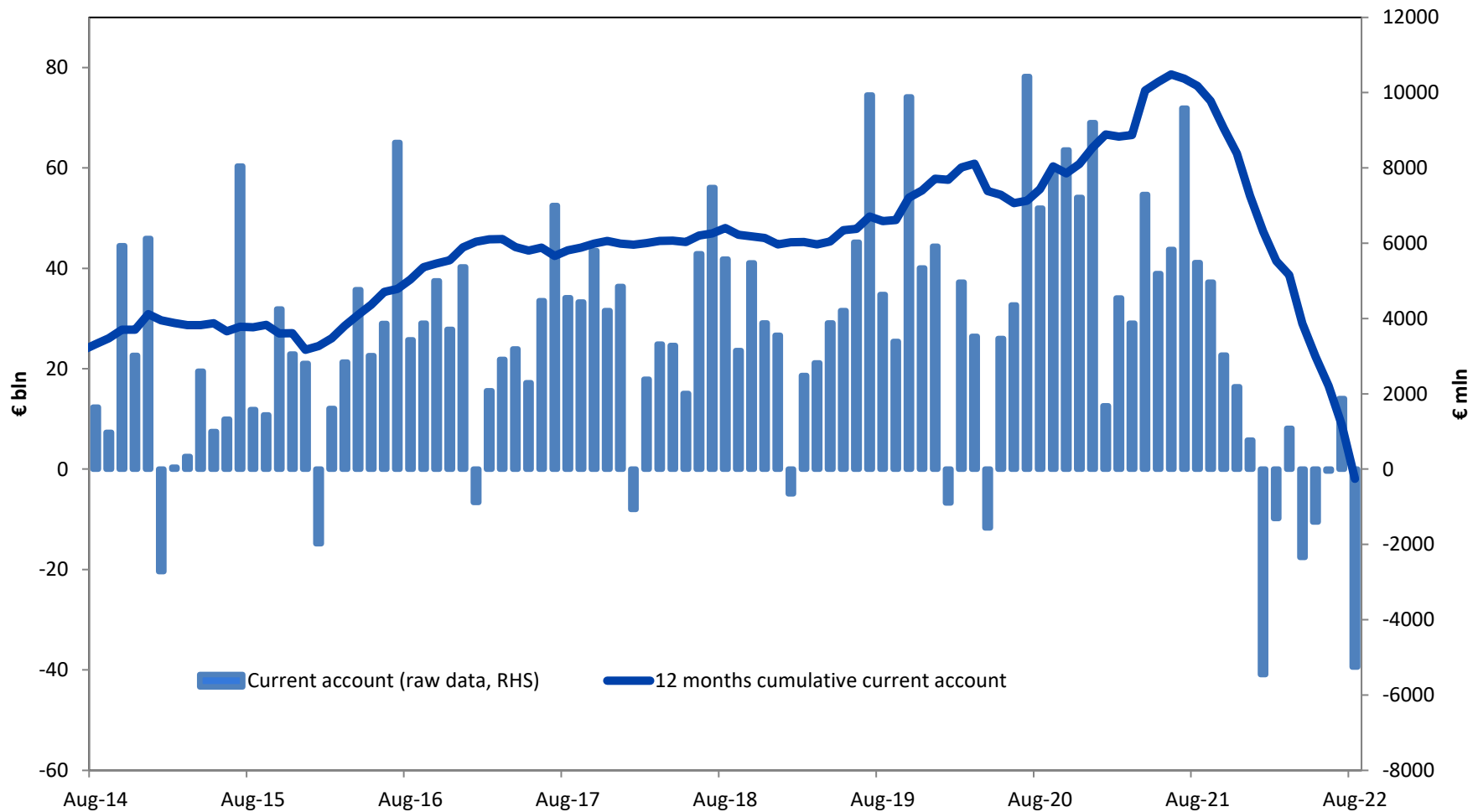
Source: Refinitiv Datastream

Headline inflation up sharply, core index picking up too



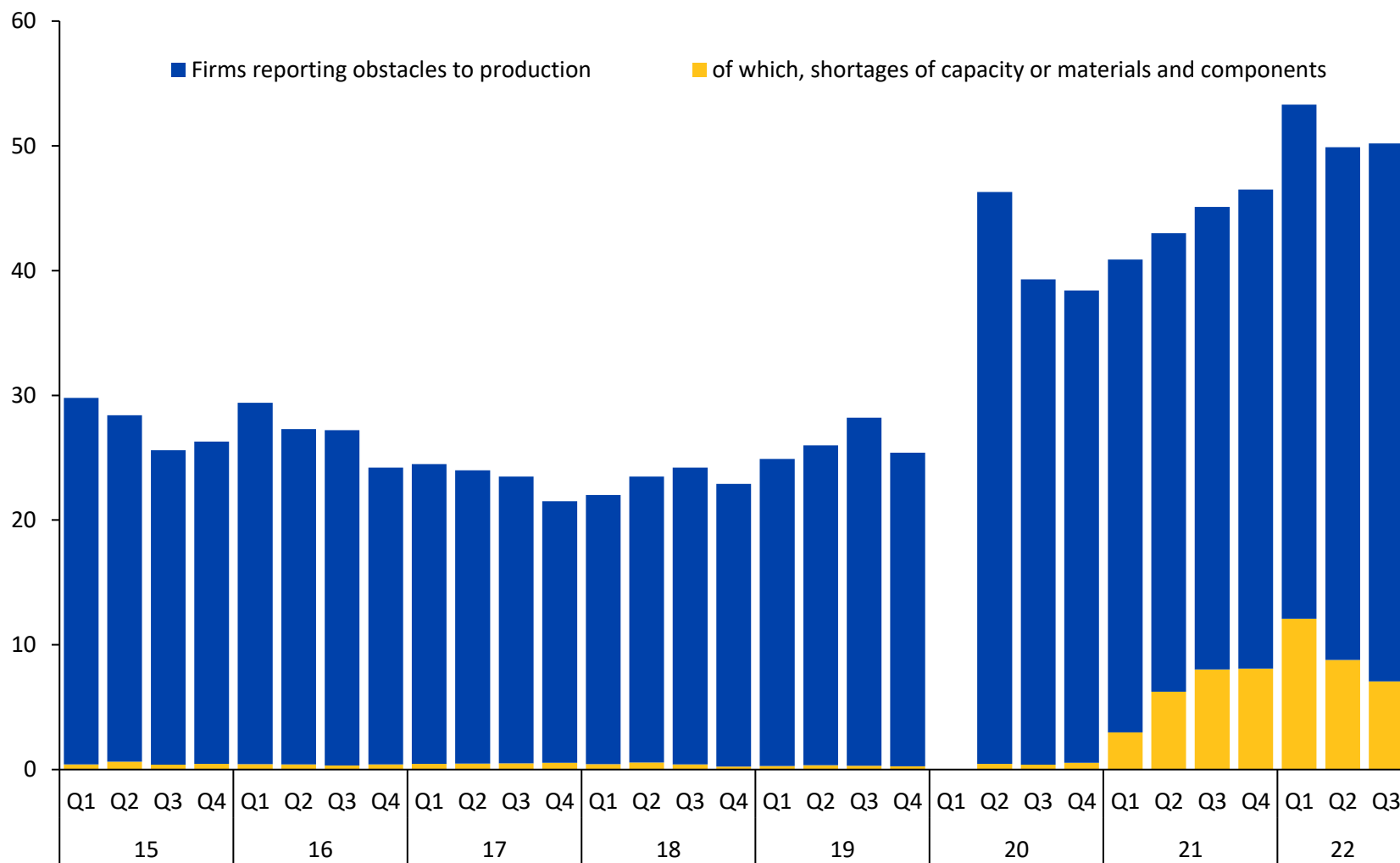
Source: ISTAT

Terms-of-trade shock drives current account into deficit



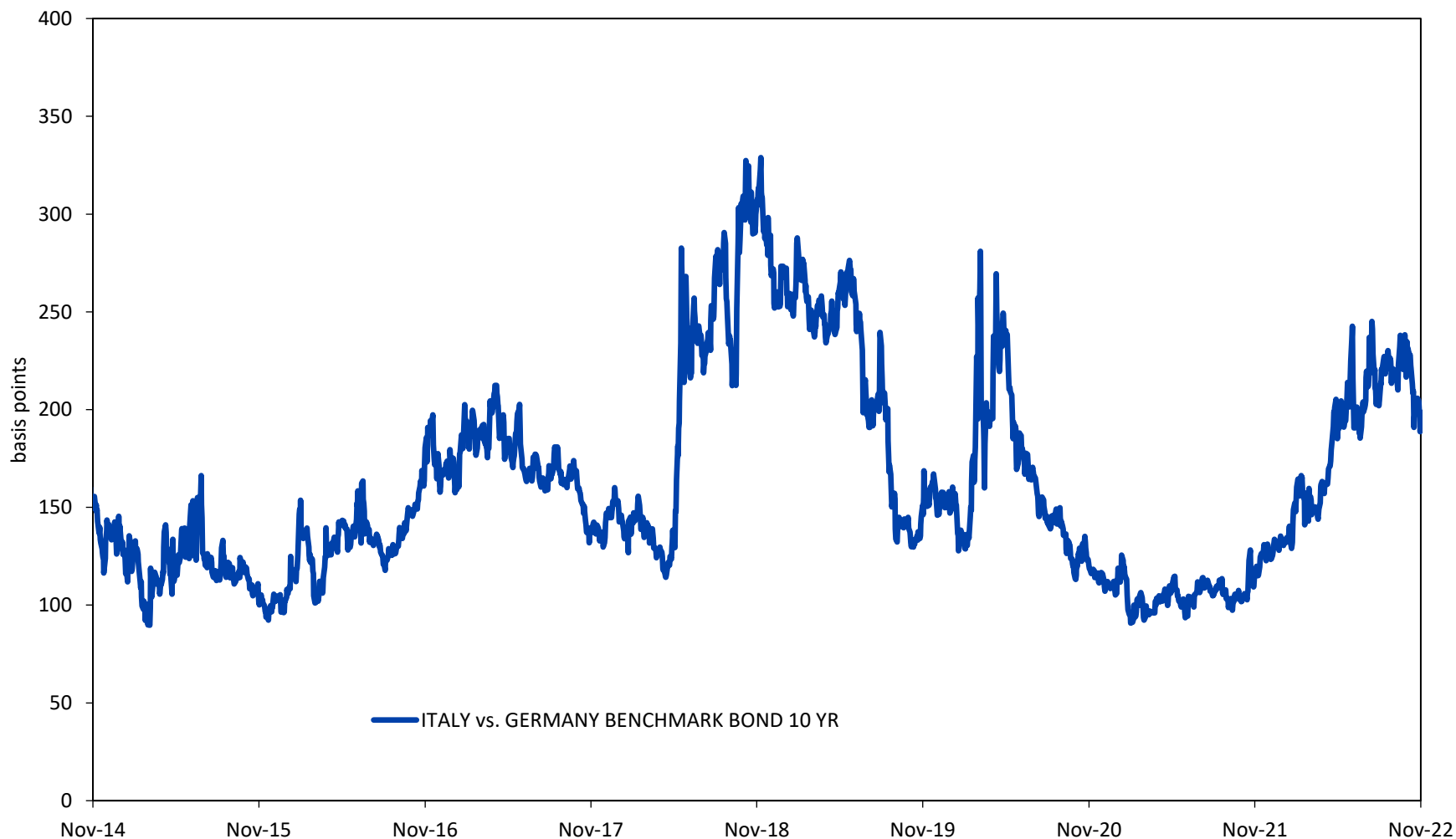
Source: Bank of Italy

Share of firms reporting shortages relatively high, though declining



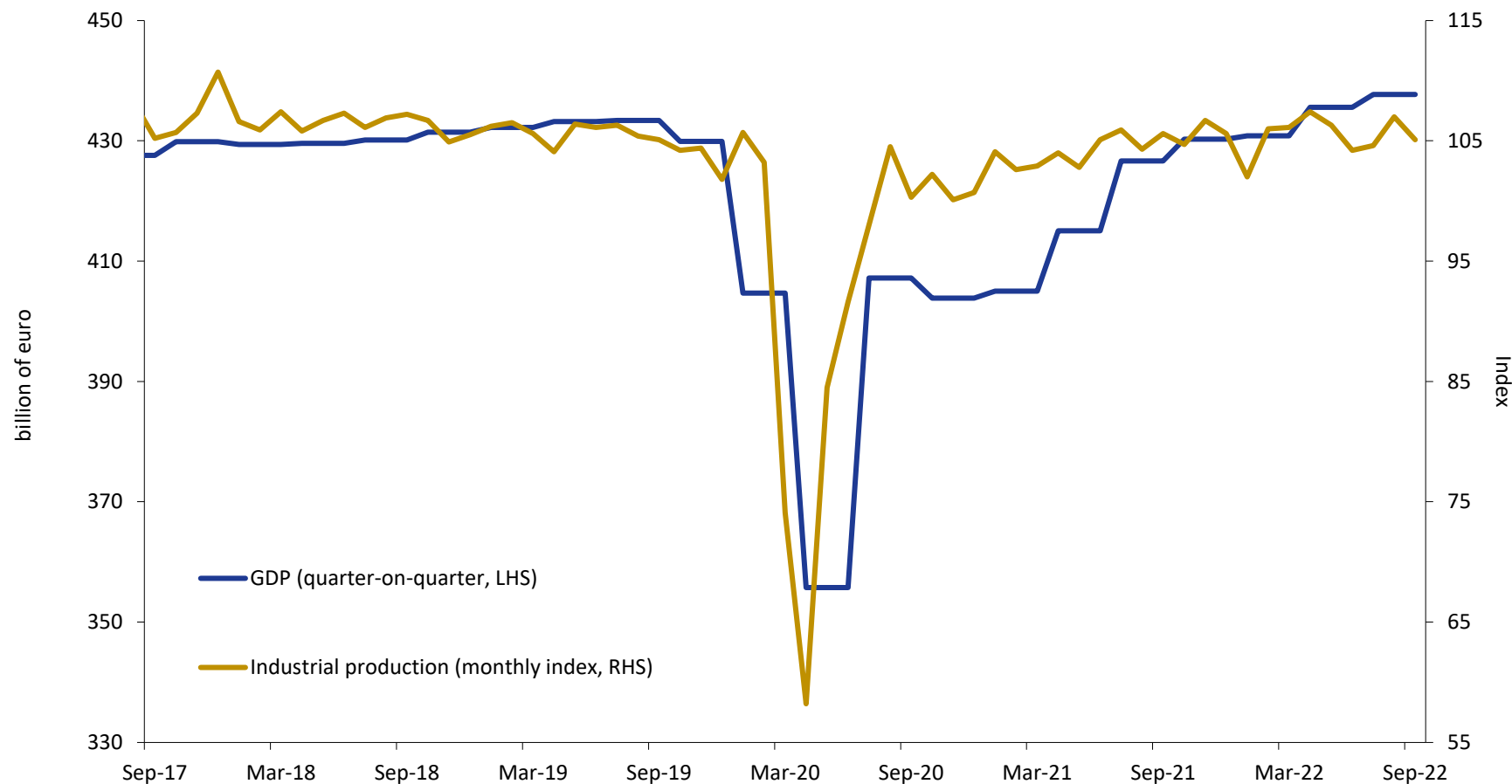
Source: ISTAT

Sovereign spread tightening but still high



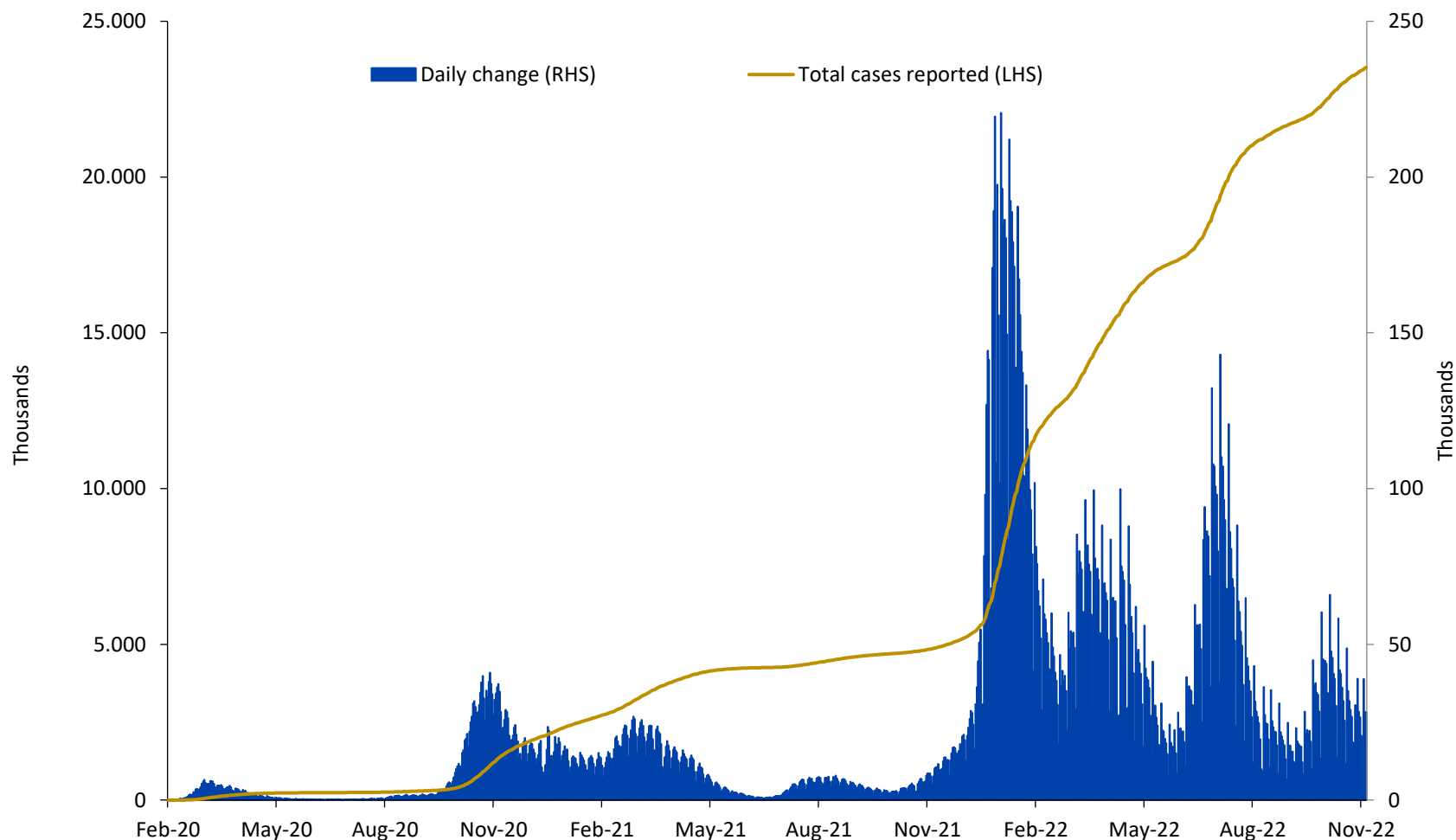
Source: Refinitiv

Real GDP kept growing through to Q3, surpassing the 2019 average



Source: ISTAT and MEF calculations

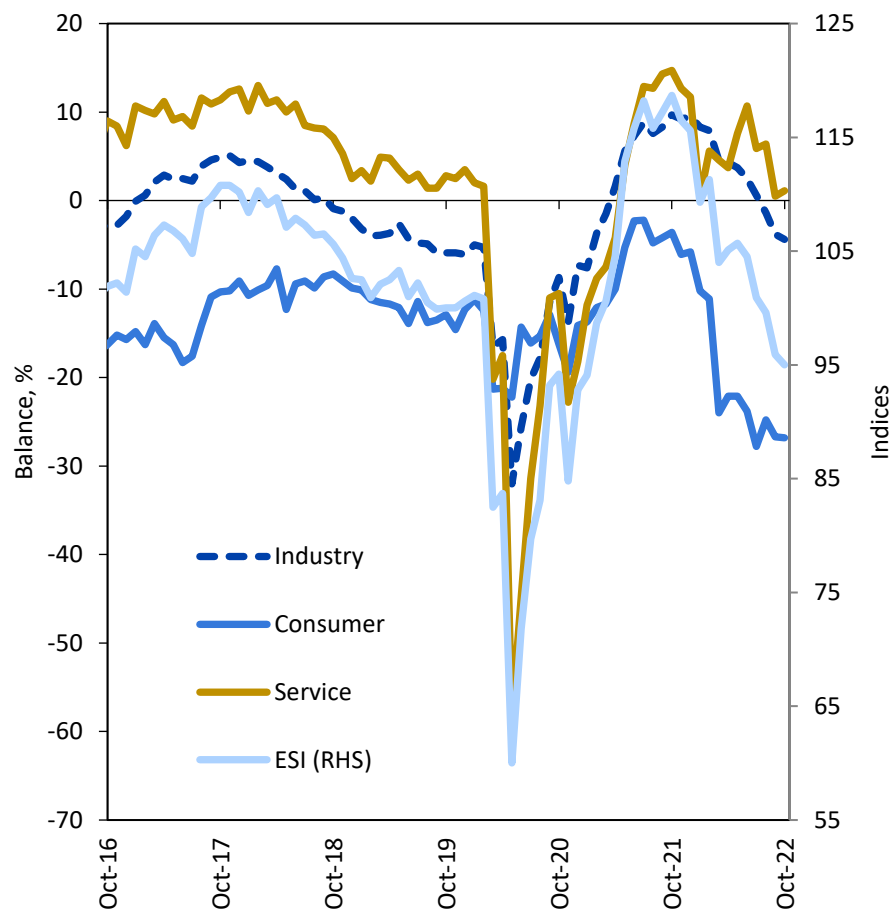
New waves of Covid-19 infections overcome without major restrictions



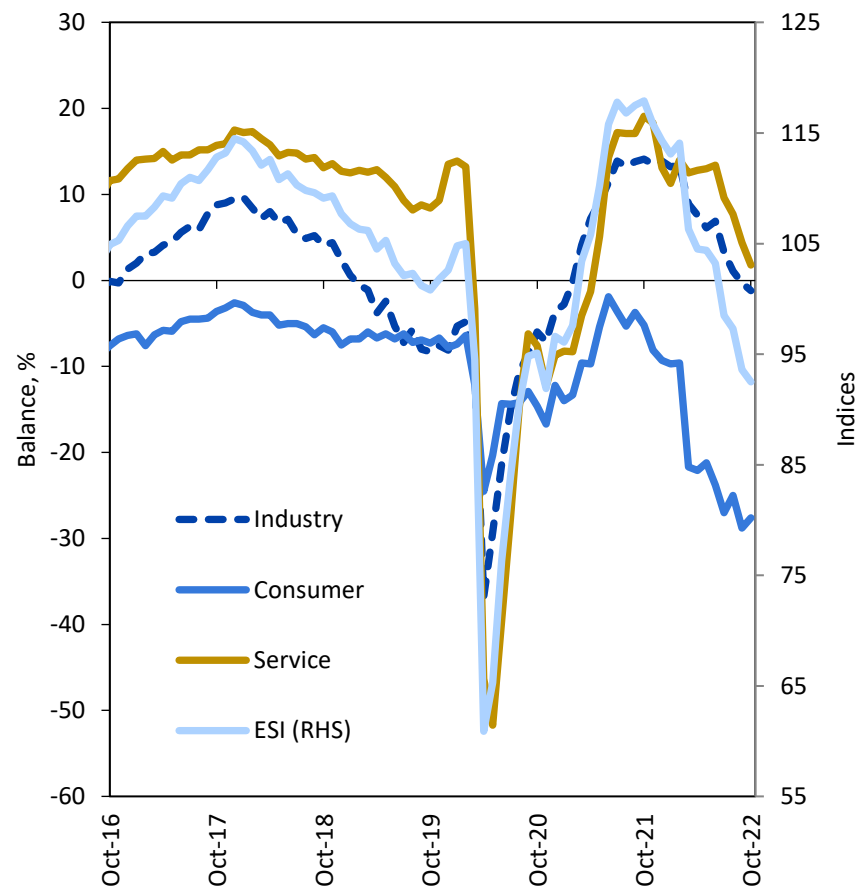
Source: Refinitiv

Economic sentiment worsening

Italy

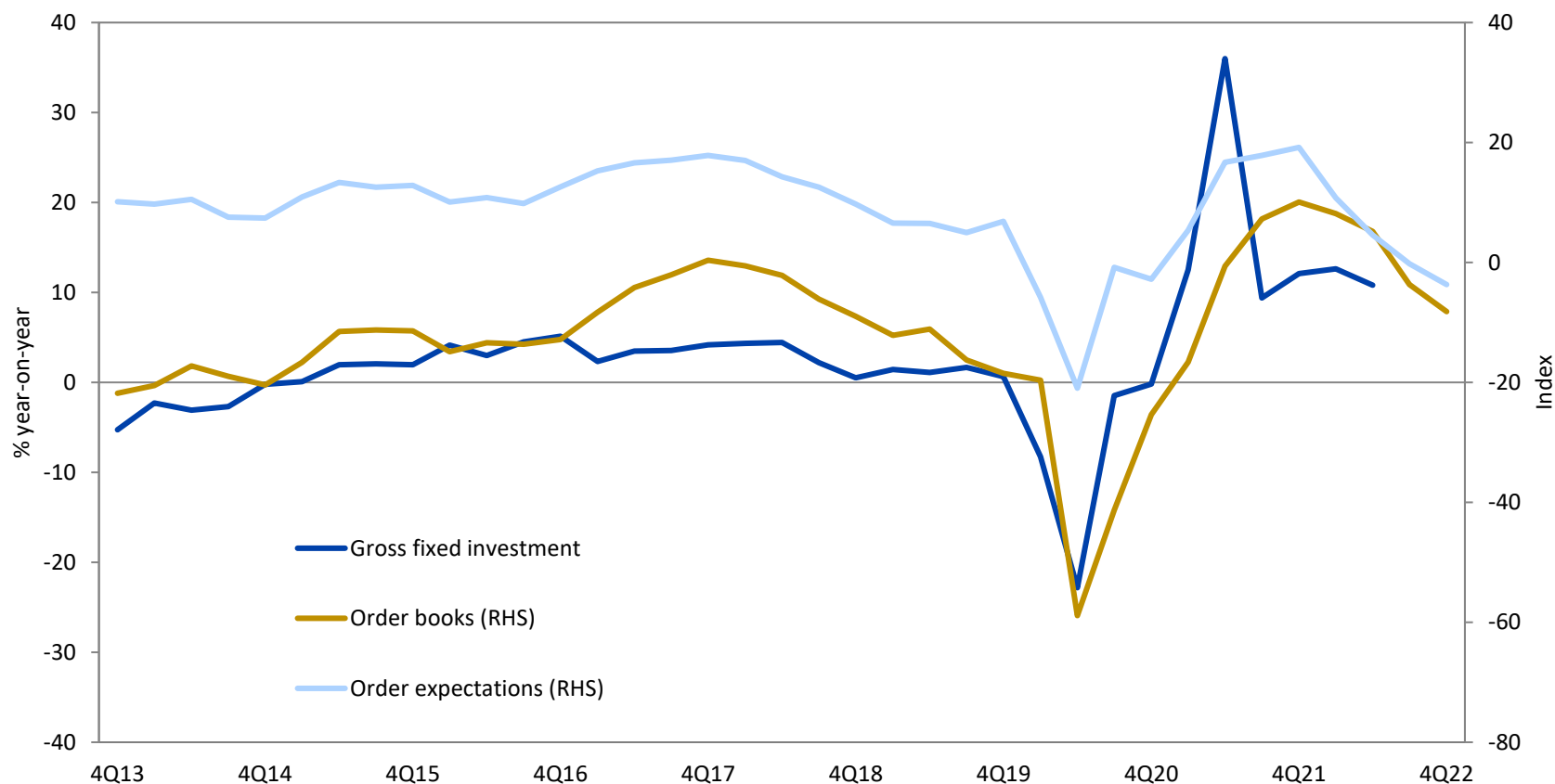


Euro area



Source: European Commission

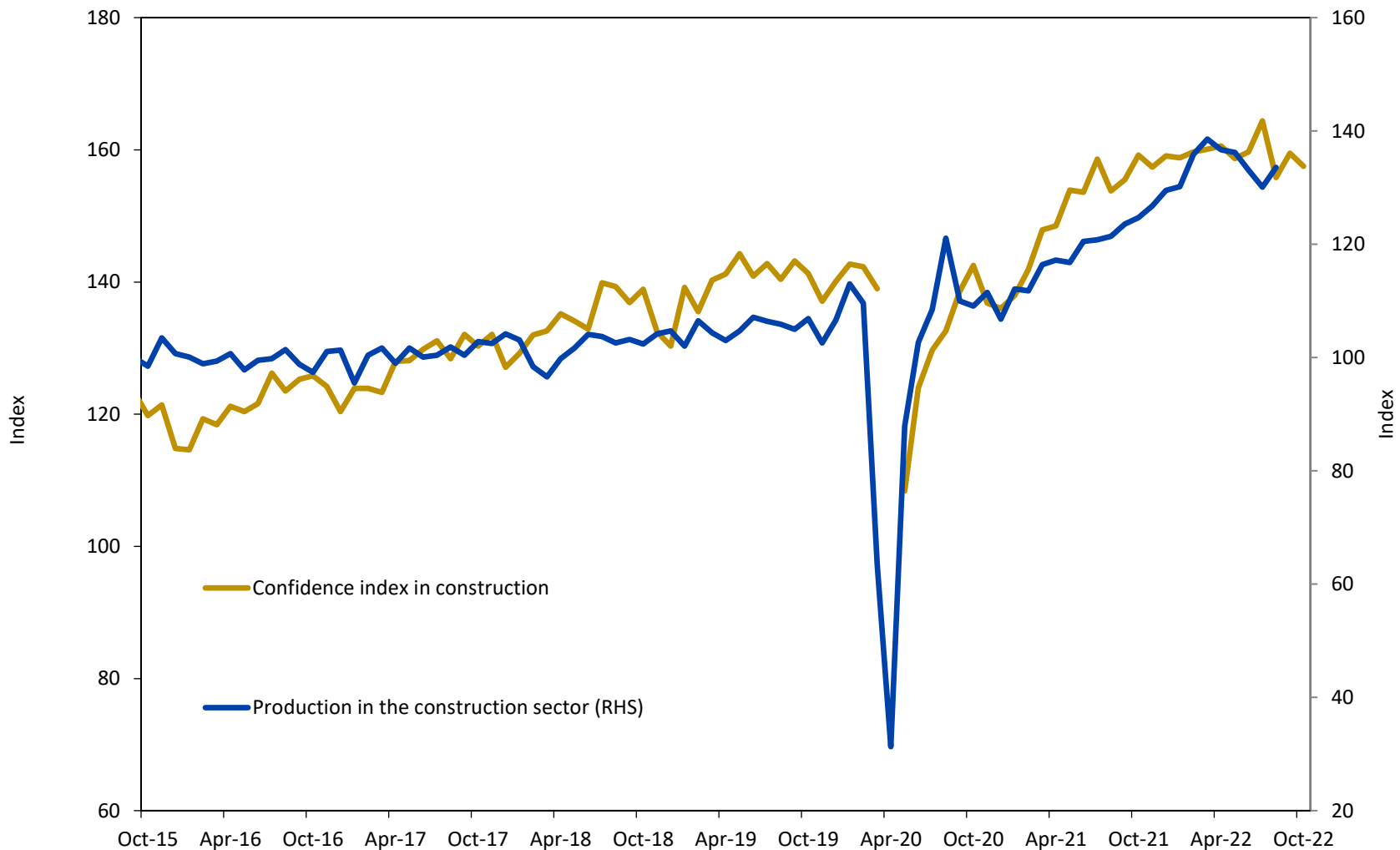
Investment growth slowed in Q2, as orders of capital goods weakened



Source: ISTAT

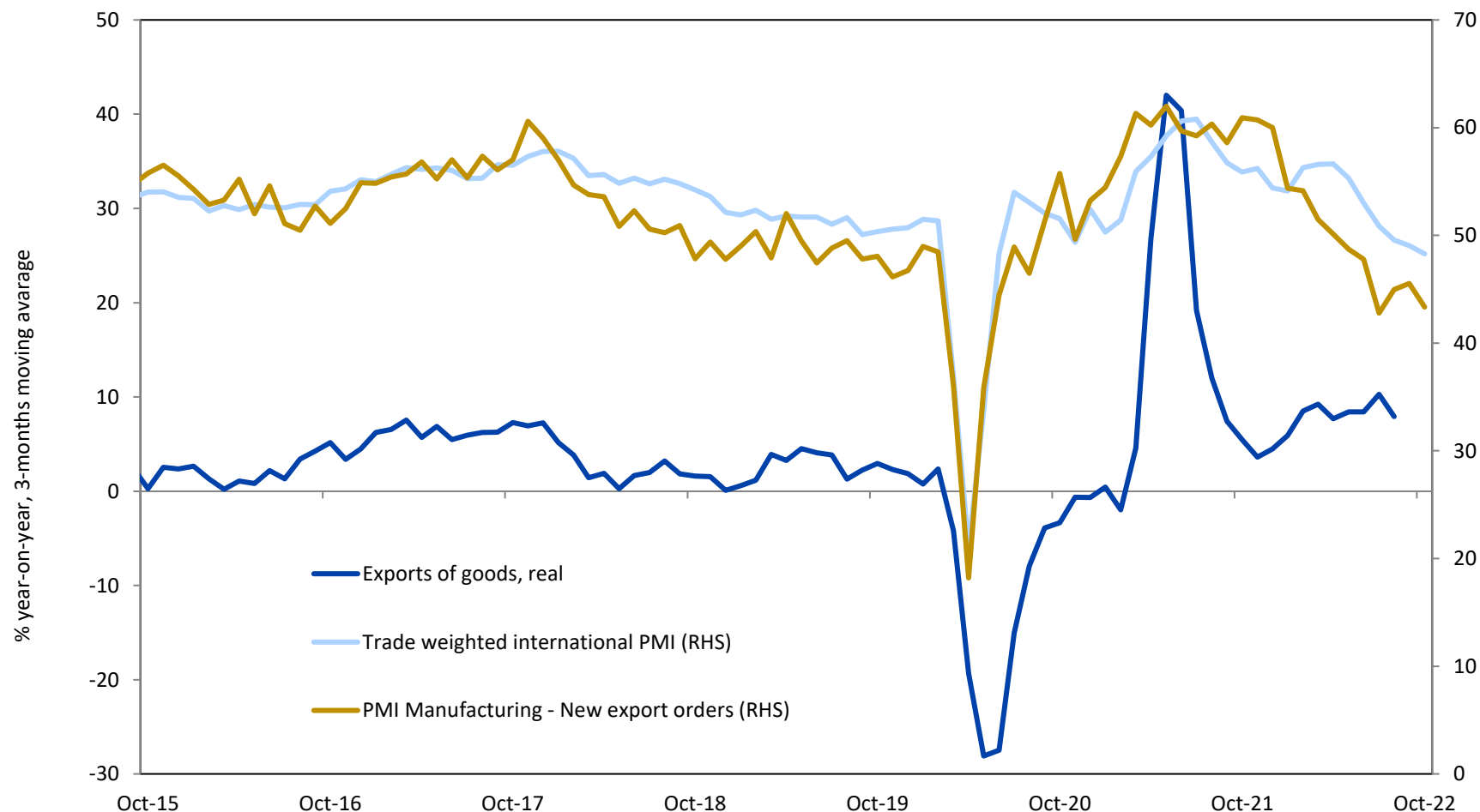
Note: Order books and order expectations data refer to October 2022.

Construction activity eases, but firms still relatively upbeat



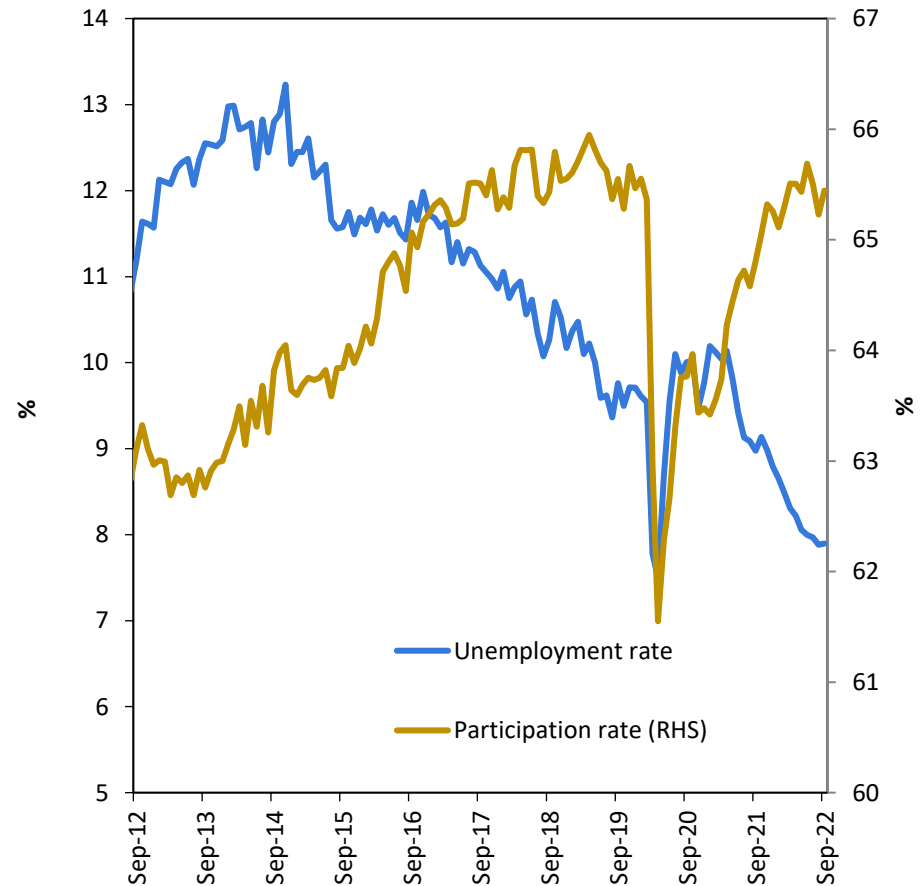
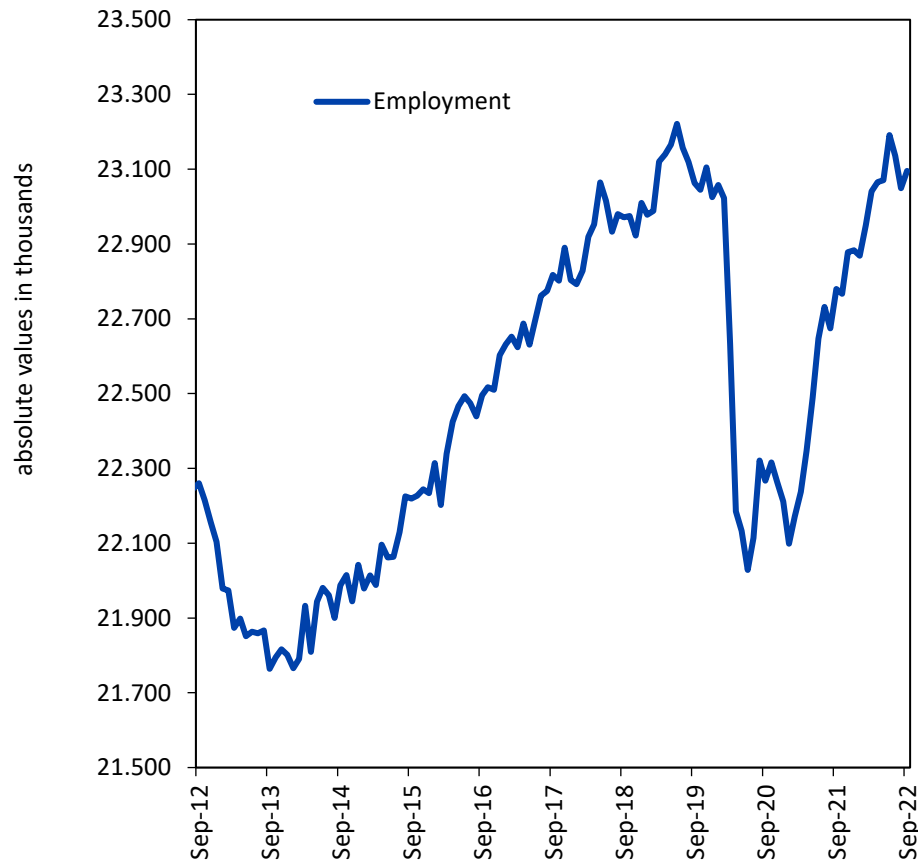
Source: ISTAT

Goods exports performing well despite declining PMIs



Source: MEF calculation based on ISTAT and MARKIT data

Unemployment rate declines to 10-year low, as employment stalls



Source: ISTAT

Recovery and Resilience Plan: on track in terms of instalments



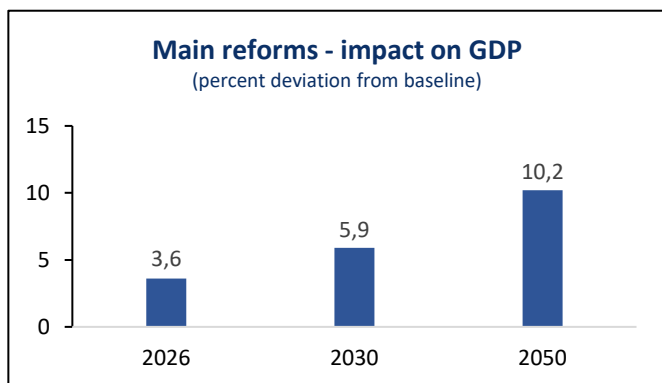
Macroeconomic impact of Recovery and Resilience Plan

MAIN REFORMS

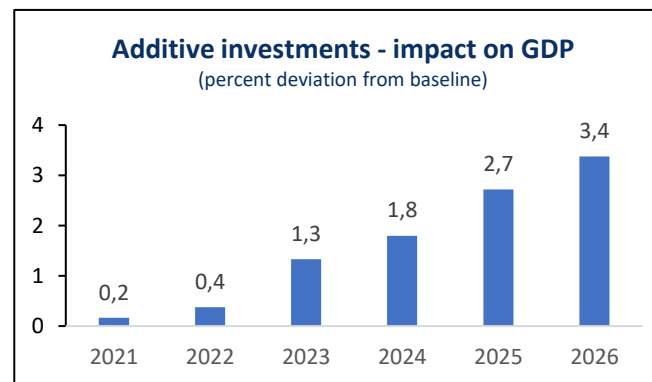
- ✓ **Public administration**
- ✓ **Justice**
- ✓ **Competition and public procurement**
- ✓ **Education and research**
- ✓ **Active labour market policies**

ADDITIVE INVESTMENTS

Source of financing (€/bln)	
RRF	124.5
React-EU	13.9
National funds	46.2
Total	184.7



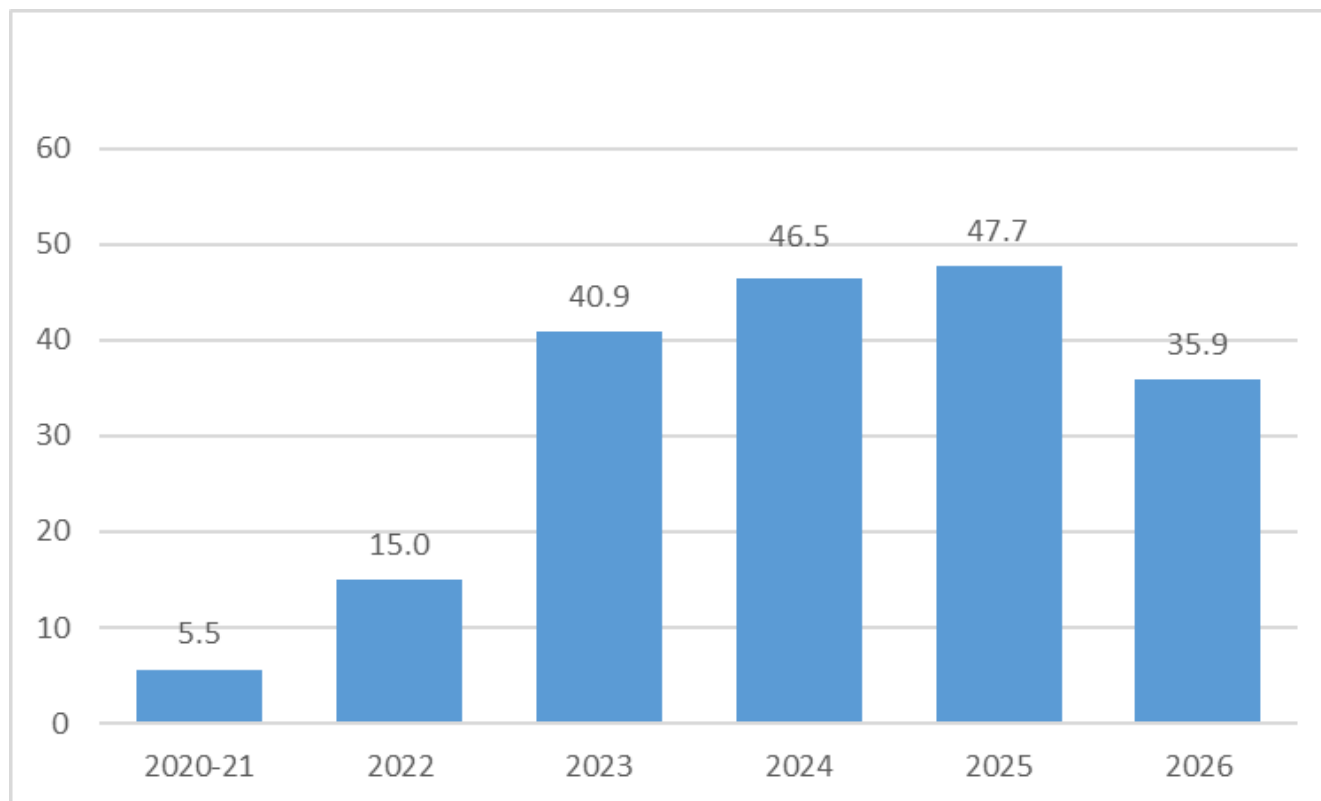
Note: Simulations based on the RRP Milestones and Targets.
MEF elaboration.



Note: Simulations based on the updated RRP investment timeline.
MEF elaboration.

Spending of RRF funds more back-loaded than in original projections

Updated official projection of NRRP expenditure (RRF resources)



Source: Ministry of Economy and Finance - Update of Economic and Financial Document, September 2022.

Stability Program's Update (Nov. 22) and planned fiscal measures

In the Stability Program Update approved by the Council of ministers on 4 November, the Government revised the baseline budget deficit projections for 2022-2025, to take on board the stronger performance of the economy in 2022 and higher inflation expectations for 2022 and 2023.

Baseline 2022-2023 deficit projections fall below the updated policy scenario targets of 5.6% of GDP for 2022 and 4.5% of GDP for 2023 (3.9 % in the Stability Program issued in April).

This indicates a margin of 0.5% of GDP in 2022 and creates about a 1.1% of GDP budget space for 2023 to refinance existing policies and energy price-mitigation measures and fund new policies.

Cuts in excise duties and VAT on fuels have been recently prolonged until 18 November. Further extensions are planned until year-end, inclusive those of tax credits in favor of energy-intensive and gas-intensive companies.

Policy priorities for 2023 include the extension of targeted energy-price-mitigation measures for the first months and the funding of measures in the field of pensions and taxation, inclusive of a partial implementation of the flat tax and a revision of existing tax allowances.

The budget is partly funded via the use of proceeds from the two-way compensation mechanism on electricity price produced by plants from renewable energies and expenditure cuts for Ministries.

Official macroeconomic forecast

Official macroeconomic forecast – Stability Program update (4 November 2022)

Policy Scenario					
(% change yoy)	2021	2022	2023	2024	2025
Real GDP	6.7	3.7	0.6	1.9	1.3
<i>Domestic demand net of inventories</i>	<i>6.3</i>	<i>4.1</i>	<i>0.7</i>	<i>1.9</i>	<i>1.3</i>
<i>Inventories</i>	<i>0.3</i>	<i>0.4</i>	<i>0.0</i>	<i>0.1</i>	<i>0.0</i>
<i>Net export</i>	<i>0.1</i>	<i>-0.8</i>	<i>-0.1</i>	<i>-0.1</i>	<i>0.1</i>
Nominal GDP	7.3	6.8	4.8	4.7	3.4
GDP deflator	0.5	3.0	4.1	2.7	2.0
Compensation per employee	0.7	3.2	2.9	2.1	2.0
Productivity (on GDP)	-0.8	-0.8	0.3	0.7	0.4
Unit labour cost (on GDP)	1.5	4.0	2.6	1.5	1.6
Employment (FTE)	7.6	4.5	0.3	1.3	0.9
Unemployment rate	9.5	8.1	7.9	7.6	7.4
Current account balance	3.1	-0.5	-0.2	0.0	0.7

Source: ISTAT and Government projections for 2022-2025 (Update to the Economic and Financial Document 2022)

Budgetary projections

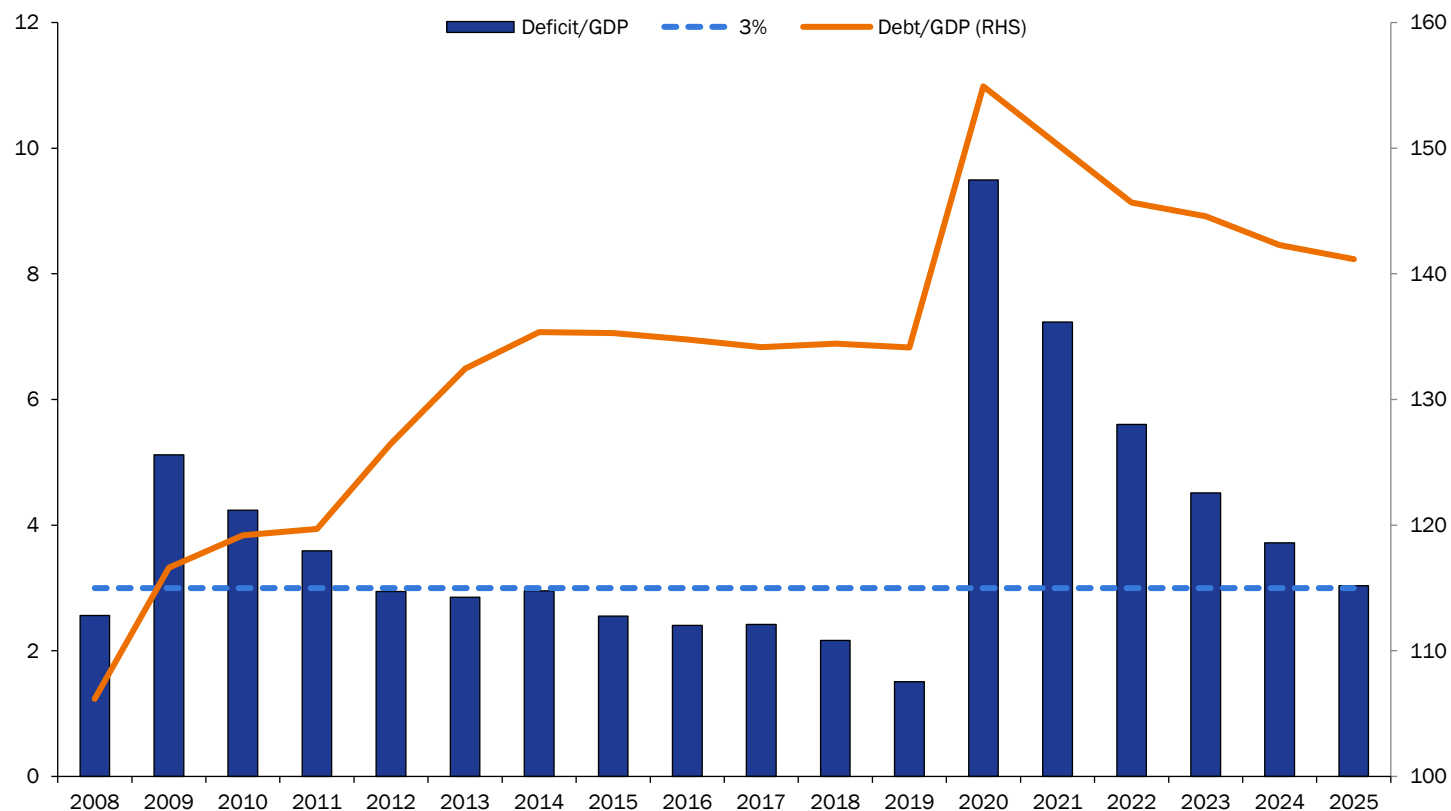
ACTUAL DATA AND POLICY SCENARIO OBJECTIVES

Policy scenario						
<i>percent of GDP</i>	2020	2021	2022	2023	2024	2025
General government balance	-9.5	-7.2	-5.6	-4.5	-3.7	-3.0
General government primary balance	-6.0	-3.7	-1.5	-0.4	0.2	1.1
Interest expenditure	3.5	3.6	4.1	4.1	3.9	4.1
Public debt (1)	154.9	150.3	145.7	144.6	142.3	141.2

(1) Gross of financial support to Eurozone countries.

Source: For 2020 and 2021, ISTAT estimates of 23 September 2022. Government policy scenario projections for 2022-2025 (Stability Program's Update of November 2022).

Budget deficit and debt ratios set to decline in 2022-2025



Source: ISTAT and Bank of Italy for 2008-2021; Government policy scenario projections for 2022-2025 (Stability Program's Update of November 2022).



Thank you for your attention!

Find out more on the official website:
dt.mef.gov.it