CaixaBank

Italy

Outlook

	Average 11-15	2016	2017	2018	2019	2020	2021	Forecasts 2022	Forecasts 2023
GDP growth (%)	-0.7	1.4	1.7	0.8	0.5	-9.1	6.6	2.4	2.1
CPI inflation (%)*	1.6	-0.1	1.3	1.2	0.6	-0.2	1.9	6.6	1.9
Fiscal balance (% of GDP)	-3.0	-2.4	-2.4	-2.2	-1.5	-9.7	-7.2	-5.6	-3.9
Primary fiscal balance (% of GDP)	1.7	1.5	1.4	1.5	1.9	-6.1	-3.7	-2.1	-0.8
Public debt (% of GDP)	125.8	134.8	134.2	134.4	134.1	155.3	150.8	147.0	145.0
Reference rate (%)*	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.9
Current balance (% of GDP)	0.3	2.6	2.6	2.6	3.3	3.7	2.5	1.0	1.1

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

- **The Italian economy started the year by shrinking** by 0.2% quarter-on-quarter, compared to +0.6% in Q4 2021 (5.8% year-on-year versus 6.2% in Q4), feeling the impact of the bottlenecks in its manufacturing sector and the restrictions on mobility imposed to prevent the spread of the omicron variant. Just when it seemed that the pandemic's positive outlook and the early signs of improvement in bottlenecks would enable an upturn in activity from the spring onwards, the outbreak of war in Ukraine dashed these positive expectations. Along with Germany, Italy is one of the economies that has been hardest hit by the consequences of the war. Firstly, gas accounts for more than 40% of the total energy it consumes, and 40% of the gas comes from Russia. Secondly, its banking system is one of the most highly exposed in the euro area. Russian-owned assets in Italian financial institutions account for 1.5% of its GDP (in Germany, for example, they total just 0.2%).

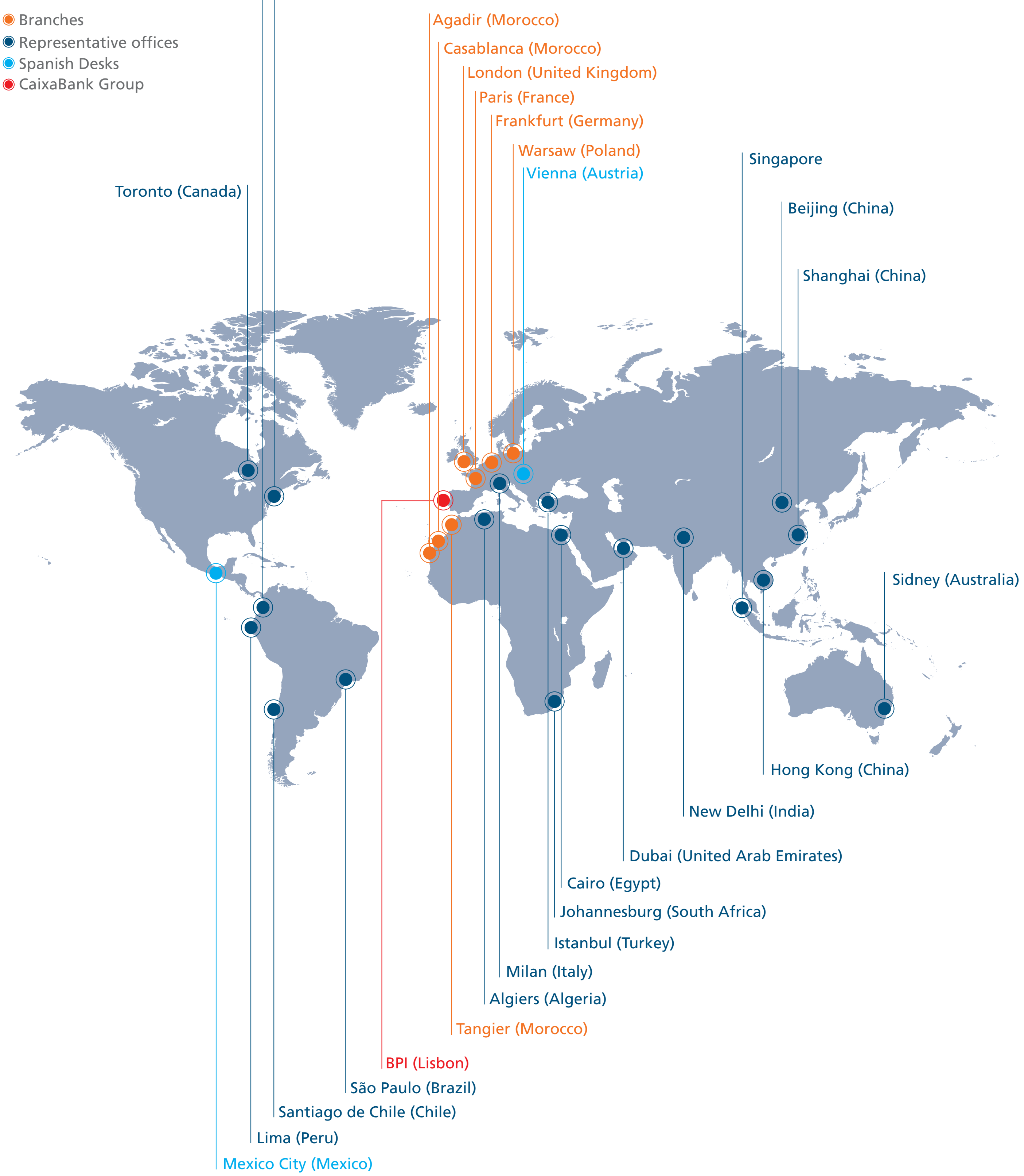
- **Meanwhile, inflation is rising strongly** and no significant correction is expected until the final quarter of the year, at least. In March, the year-on-year rate stood at 6.8%, the highest since records began. Therefore, we expect some negative impact on household consumption, with household purchasing power having declined significantly in recent months.

- **The shock caused by the war in Ukraine may also have consequences for the implementation of the reforms adopted within the Next Generation plan.** The widespread increase in production costs and worsening bottlenecks are increasing the risk of delays to some of the projects included in the recovery plan. Additionally, the current situation prompted by the military conflict may force the government to rethink its priorities for the economy, given the need to diversify energy sources. Therefore, most of the positive impact on growth brought by the implementation of the recovery plan may be felt in 2023-2024, and not this year as initially expected. Moreover, the fragile state of the public accounts following the pandemic has reduced the room for manoeuvre available for fiscal policy when implementing new support measures, if necessary. Additionally, the interest rate hike environment we envisage may increase its high debt burden more than expected.

- **Consequently, we have revised down our growth forecast for 2022 significantly, to 2.4%**. However, the current uncertainty is far greater than usual and we cannot rule out downside surprises in growth and unexpected rises in inflation.

Closing date of this edition: 12 May 2022

CaixaBank in the world



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