

Italy



Outlook

									Forecast
	Average 11-15	2016	2017	2018	2019	2020	2021	2022	2023
GDP growth (%)	-0.7	1.4	1.7	0.8	0.5	-9.1	6.7	3.9	0.5
CPI inflation (%)*	1.6	-0.1	1.3	1.2	0.6	-0.2	1.9	8.7	5.9
Fiscal balance (% of GDP)	-3.0	-2.4	-2.4	-2.2	-1.5	-9.5	-7.3	-5.6(e)	-4.9
Primary fiscal balance (% of GDP)	1.7	1.5	1.4	1.5	1.9	-6.0	-3.6	-2.1	-0.8
Public debt (% of GDP)	125.8	134.8	134.2	134.4	134.1	155.0	150.3	145.4(e)	142.7
Reference rate (%)*	0.6	0.1	0.0	0.0	0.0	0.0	0.0	0.6	3.7
Current balance (% of GDP)	0.3	2.6	2.7	2.6	3.4	3.8	3.0	-0.5(e)	-0.2

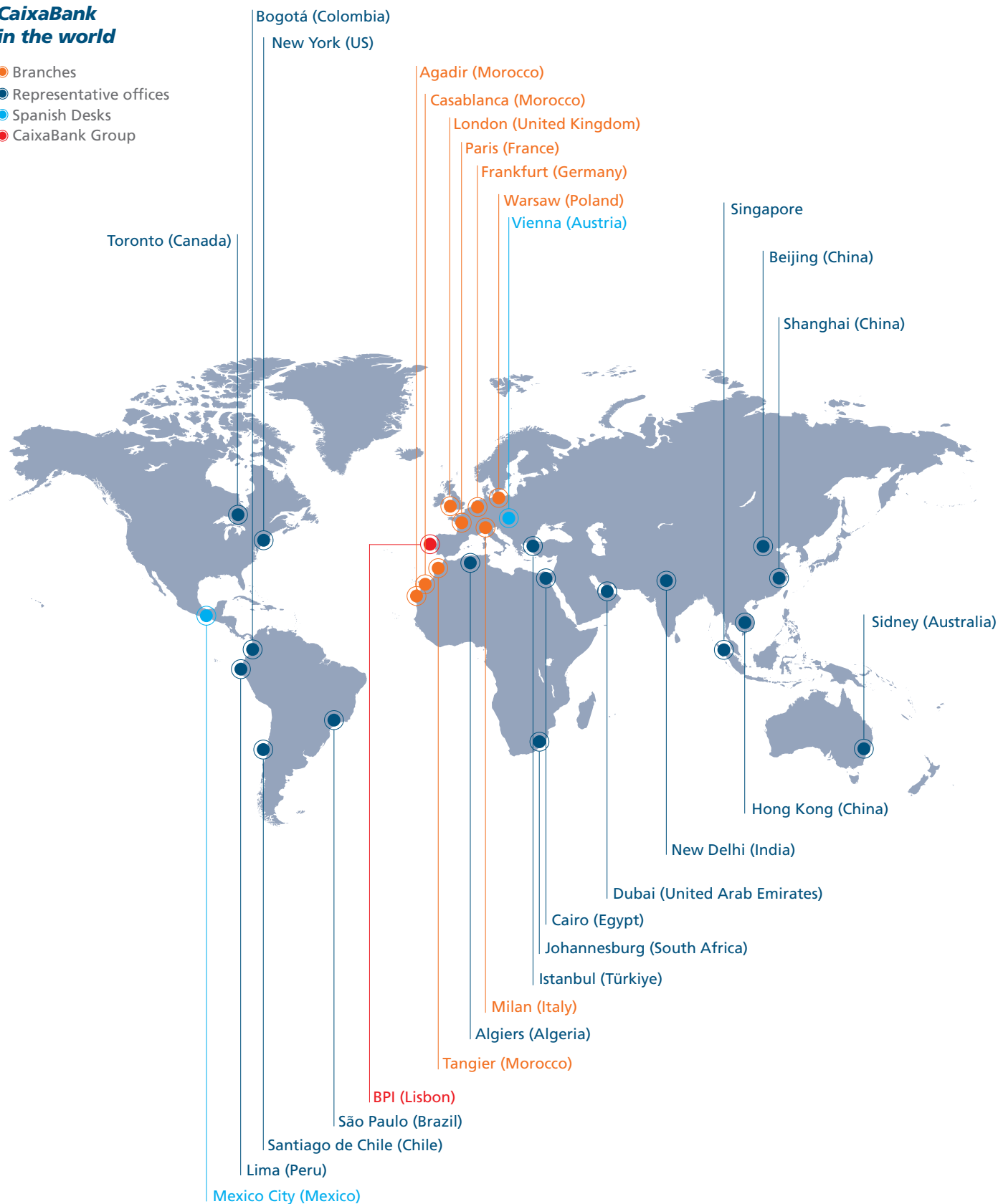
Notes: * Annual average. (e): estimate. CaixaBank Research forecast for GDP, CPI and interest rates.

Source: CaixaBank Research, based on data from AMECO, Oxford Economics, the ECB (via Refinitiv) and the Italian government.

- **Italy's GDP grew by 3.9% in 2022**, higher than the average percentage in the euro area (3.4%) and significantly above that of its main European partners, Germany and France, which grew by 1.9% and 2.6% respectively in the same period. However, despite the good overall yearly figures, its economy shrank by 0.1% quarter-on-quarter in Q4 2022.
- One of the key factors in the Italian economy's strong performance has been the high level of gas reserves it has managed to maintain for much of the year. In January, the percentage of reserves stood at 78% (compared to an average of 67% for the same month over the last five years) thanks to a warmer-than-usual winter and the flow of natural gas imports from Algeria, which significantly reduced the risk of any energy rationing occurring in the winter. This factor has had a positive effect on the indicators for aggregate supply and demand, while the recovery of the business confidence and climate indicators are reducing the prospects of a deep and prolonged recession in Italy.
- **Looking ahead to 2023, the outlook is relatively positive**, although GDP may fall again in Q1 2023. However, we are confident that economic activity will start along a gradual path towards recovery from Q2, which will allow the country to grow by a yearly average of around 0.5%. In turn, inflation may peak in Q1 2023 and then start to follow a downward path to around 4.0% at the end of the year.
- Consequently, it is possible that steps may be taken to start to return to normal tax conditions. Giorgia Meloni's government has drafted a budgetary plan for 2023, which largely continues along the same lines as the guidelines set by her predecessor, Mario Draghi. Almost two thirds of the budget consists of measures to refinance the fiscal deficit that was incurred to compensate businesses and households for the sharp rise in inflation. Additionally, the government is proposing a fiscal deficit target of around 4.9% of GDP in 2023 and to continue reducing it to 3.0% in 2025. Such a trend in the public accounts would enable a modest reduction in debt ratios from above 145% of GDP in 2022 to around 140% in 2025.
- The commitment to fiscal discipline shown thus far by the Meloni government, far removed from its populist discourse and confrontational approach to Brussels, has allowed **the country to reduce its risk premium vs Germany**, from the peak it reached in October last year, to standing at around 180 bp in January, a baseline at which we believe the differential could remain, for at least the first half of 2023.

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