PROMETEIA BRIEF

ITALY IN THE GLOBAL ECONOMY

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prometeia

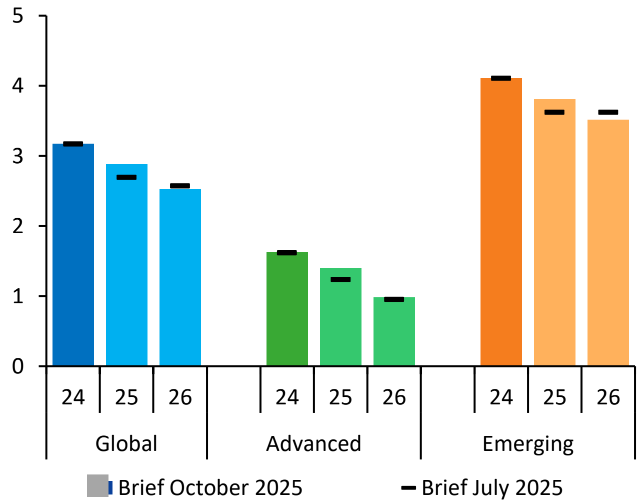
A less uncertain but still weak global economy

- The conclusion of bilateral trade agreements has reduced some uncertainty on US tariff policies. Now, changes to US tariffs compared to 2024 include: +50pp tariffs on steel, aluminium and copper (excluding Canada and Mexico), +25pp tariffs on automotive products (with many exceptions, including EU), +30pp tariffs on Chinese goods, and different increases on EU goods (including pharmaceuticals and semiconductors), generally capped at a 15% tariff rate.
- GDP data for Q2-2025 show that while the euro area has suffered the most, posting a 0.1% growth, the US (0.8% qoq) and China (1.1%) have so far proven resilient to the trade turmoil. However, ultimately, higher tariffs will lead to more trade disruptions and, after growing 2.9% in 2025, we forecast global trade to decelerate sharply in 2026 to 1.4%.
- Weak global demand is putting downward pressure on commodity prices, especially oil, whose abundant supply is buffering against the risk of spikes related to the still complex geopolitical landscape. These factors, along with the effective nominal depreciation of the dollar, will benefit the global inflation outlook, allowing central banks to be more decisive about normalizing their monetary policies, especially those in emerging economies with foreign debt held in dollars.
- Better-than-expected results for the US and China, lead us to upward revise global GDP growth forecasts for 2025 (2.9% vs 2.7% in the July Brief), but slightly downward those for 2026 (2.5%) when the effects of the trade disruptions will become more pronounced.

Italy's growth at a crossroads: some apparent resilience

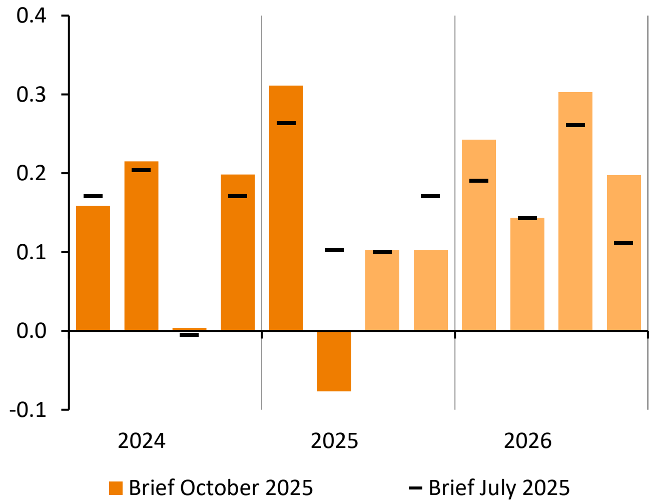
- Despite the tariffs imposed by the US, Italy's GDP growth is forecast at 0.5% in 2025 and 0.7% in 2026, broadly in line with our previous estimates.
- Following a 0.3% qoq increase in Q1-2025, in Q2-2025, GDP fell by −0.1% qoq. The first quarter growth was supported by domestic demand excluding inventories (+0.4pp) and by foreign demand (+0.1pp); the decline in Q2 mainly reflects the sharp drop in exports coupled with a weak household consumption.
- Its high exposure to the US market makes Italy more vulnerable than other European countries to the tariff shock. The baseline scenario estimates a cumulative GDP loss of around 0.4pp by 2027 due to the US tariffs. These negative external effects are being partly cushioned by higher defence spending in Europe and the roll-out of Germany's infrastructure investment plan, which is supporting aggregate demand.
- The government's updated outlook confirms deficit-to-GDP targets of 2.8% in 2026 and 2.3% in 2028. Improved public finances will provide scope for new measures, including higher military spending, with a limited net impact of 0.1% of GDP in 2026 and 0.2% in 2027 and 2028.
- The National Accounts figures for Italy are revised every September. The revised figures have not been incorporated into this Brief's forecast, but they would not change the overall outlook.

Chart 1 **World: real GDP**
% change



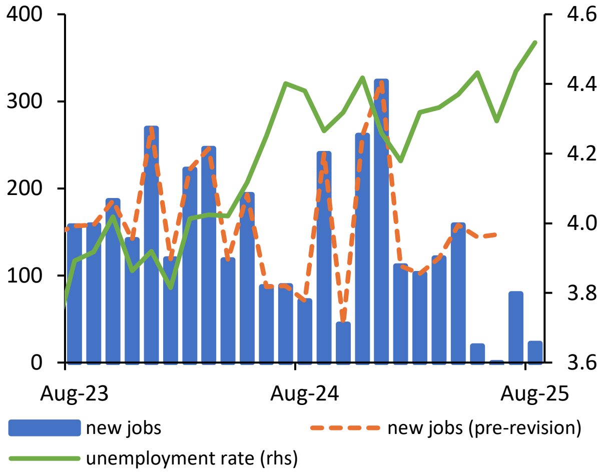
Source: Prometeia's forecast on IMF, World Bank, Eurostat, National Statistical Offices data.

Chart 2 **Italy: real GDP**
% change qoq



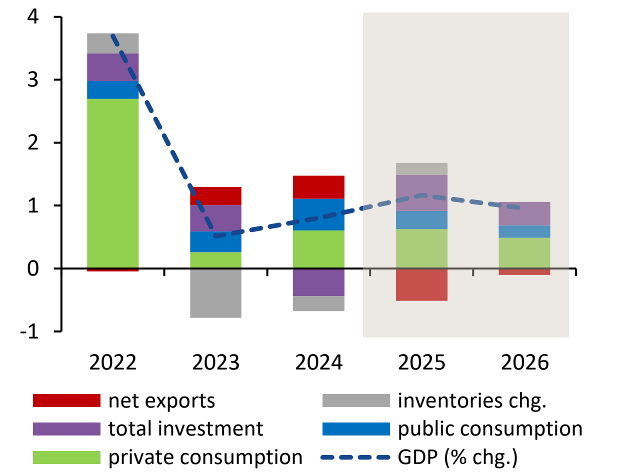
Source: Prometeia's forecast on Istat data.

Chart 3 US: New jobs (establishment survey) and unemployment rate - *thousand units, %*



Source: Bureau of Labor Statistics.

Chart 4 EMU: GDP and contributions of main components
% changes yoy, % points



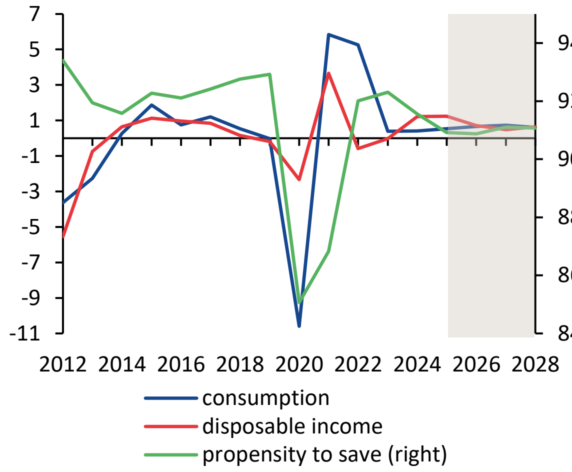
Source: Prometeia's forecasts on Eurostat and National Statistical Offices data.

Trade normalization has driven US GDP growth in Q2-2025. Following the front-loading purchases in Q1, in anticipation of the tariff hikes, in Q2 imports fell by 8.5% qoq, which contributed to the 0.9% qoq increased GDP growth in Q2. Exports have remained weak, but growth in household consumption has accelerated. Both headline (2.9%) and core (3.1%) CPI inflation increased in August, along with increased producer prices, fed by the pass-through of higher import costs, which have kept market and household expectations above the Fed's target. Data revisions have revealed weaknesses in the labor market: between May and August new jobs averaged 26,000 per month, compared to the 122,000 additional units on average in January-April, and in August the unemployment rate reached 4.5% (Chart 3). Data providing evidence of a cooling labor market are more of a concern and we expect the Fed to pursue a gradual reduction of policy rates, to bring the Fed funds to within the 2.75%-3% range by mid-2026. Our outlook envisages decelerating US GDP growth, with an upward revision in 2025 (1.8%, 1.6% in the July Brief) and 2026 (1.1%, 0.9% in the July Brief), due, respectively, to a stronger Q2 rebound and a higher carry-over from 2025. Nevertheless, higher tariffs and a weaker dollar are likely to exert upward pressures on domestic inflation, which will erode real household income and consumption and increase the costs of imported goods for firms, in turn, curbing investment.

Euro area growth is experiencing trade tensions. In Q2-2025, the boost derived from US front-loading faded, which had a negative effect on net exports (-0.2pp) and limited GDP growth to 0.1% qoq. External headwinds were felt the most in Germany (-0.3% GDP qoq) and Italy (-0.1%), while stronger domestic demand allowed Spain (+0.7%) and France (+0.3%) to continue to expand. Although qualitative indicators suggest some moderate improvement in Q3, we are confirming GDP growth at 1.2% for 2025, on the back of a stronger than expected first half, driven largely by Ireland. Starting in 2026, growth should consolidate, based on private consumption and gradually improving household purchasing power (Chart 4). This recovery will be helped by reductions to inflation, projected to 2.1% in 2025 and 1.9% in 2026, as a result of softer global energy prices and a stronger euro. We expect investment to strengthen, thanks to Germany's infrastructure plan and higher European spending on defense. However, there will be a negative effect on trade of the higher US tariffs, and we expect net exports to subtract around 0.3pp from growth in 2025-2026. Lower projected GDP growth in 2026 (0.9%) reflects Ireland's exceptional performance in 2025; if Ireland is excluded, the euro area shows a gradual upward trend, rising from 0.7% in 2024 to 0.9% in 2026.

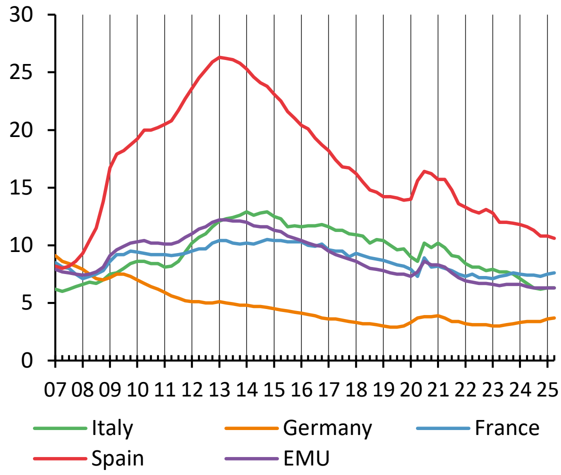
In China, economic activity is expected to decelerate. In Q2-2025, China's GDP growth came in at 5.2% yoy, on the back of robust consumption and positive, albeit declining, net exports. Trade agreements settled average US tariffs on Chinese goods at roughly 50%, resulting in a drop in shipments to the US (-30% in August), offset, in part, by higher exports to other Asian countries and the EU. Despite consumption boosting policies, weak retail sales data suggest persisting negative wealth and confidence effects from the real estate crisis, which also is dragging down residential investments. Buoyant GDP growth in the first half of 2025 should allow achievement of the 5% target but will be followed by a deceleration (4.3% in 2026), due mainly to weaker global demand and lack of additional economic policy support.

Chart 5 **Consumption, disposable income** *(% variations)* **and propensity to save** *(%)*



Source: Prometeia's calculations on Istat data.

Chart 6 **Unemployment rate**
%, latest data Q2-2025



Source: Eurostat.

Italy's GDP declined in Q2-2025 (-0.1% qoq). The positive contribution from domestic demand and inventories was more than offset by the negative contribution from the foreign component. The improved domestic demand was driven exclusively by investment, which grew across all components. This includes continued growth in construction investment, driven mostly by the implementation of the NRRP (National Recovery and Resilience Plan). However, consumption expenditure has remained stable. The foreign component showed a decline in exports and a growth in imports.

In July, industrial production grew by 0.4% mom. This would seem to confirm signs of more stable industrial activity in 2025. Following two years of decline, in the first half of 2025 there are signs of a moderate, though still limited recovery, which, in some sectors, looks more like a halt to the decline than a real reversal. Prometeia's industrial production forecasting models estimate stabilisation in August and growth in September. On average, industrial activity is expected to continue to expand (0.1%) in Q3-2025, a slower pace compared to Q2.

High export volatility in the first half of the year: the increase in Q1 due to frontloading was followed by negative growth in Q2. Assuming the measures defined in the July-August agreement are implemented, we estimate the average tariff on Italian exports to the US to have risen to around 16% from the 2.2% before the entry of the Trump administration. For the two years 2025 and 2026, we forecast average export growth of slightly above 0.5%, compared with an increase in potential demand of 1.8%. This gap reflects the loss in market shares caused by the introduction of US tariffs and the strengthening of the euro against the dollar.

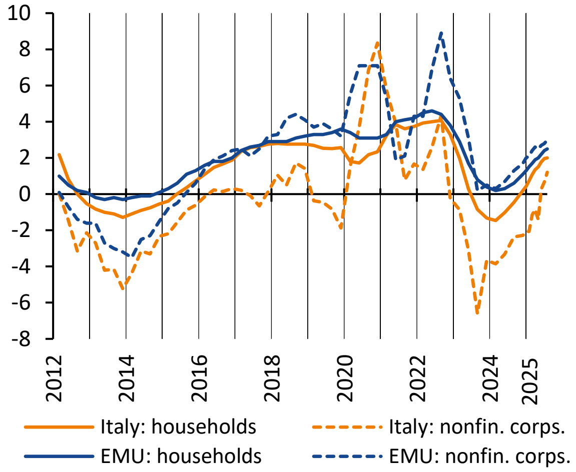
Household consumption remains weak. After the post-pandemic rebound, Italian consumption has stagnated (Chart 5), held back by high housing investment and weaker confidence amid US tariff uncertainty. Services are flat, non-durables barely increased, durables rebounded, and semi-durables fell. Some tourism spending shifted abroad, while persistent price pressures weigh on demand. Overall, consumption is unlikely to support growth in the near term.

Signs of a weakening labour market. The labour market remains resilient, with unemployment at a historic low of 6.0% in August (Chart 6). However, jobs growth is slowing (−0.2% in August), with much employment growth so far supported by the NRRP. As the NRRP winds down, we expect a decline, particularly in construction and professional services jobs. However, total employment should continue to grow, but at a slower pace than economic activity, allowing productivity to rise thanks to ongoing technological investment in both the private and public sectors.

Slower wage dynamics. Wage growth is losing momentum, averaging 3.5% in the first half of 2025, but slowing to 2.7% yoy in June. Despite several new agreements, wage growth in Italy remains weaker than in other European countries and is still failing to recover past inflation.

Inflation remains anchored. In September, consumer inflation stood at 1.6%, unchanged from August and below both the EMU average and the ECB target. The energy component has helped to contain price growth with oil and gas prices remaining subdued despite geopolitical tensions. However, fresh food prices have risen sharply (+4.8% yoy), reflecting adverse weather and

Chart 7 **Loans to households and non-financial corporations** *- % changes yoy, latest data August 2025*



Source: Prometeia's calculations on Bank of Italy and ECB data.

supply disruptions. Core inflation has remained steady at 2.1% and, together with the recent slowdown in wage growth, this suggests that inflationary pressures will continue to be limited.

Accelerating growth in loans. Italy's positive credit growth is consolidating, with an annual increase of 1.4% in August (compared to euro area average of 2.8%). Between January and August, loans to households and non-financial corporations recorded positive cumulative flows, supported by higher financing needs linked to the strong capital goods investment trend, solid performance in the real estate market and a gradual decline in interest rates which has reduced the cost of credit. In 2025, loans are expected to grow by 1.9% and 0.7% yoy respectively.

As NRRP funding is gradually phased out, the credit cycle is expected to strengthen, with non-financial corporations again financing investment, thereby increasing demand for bank credit.

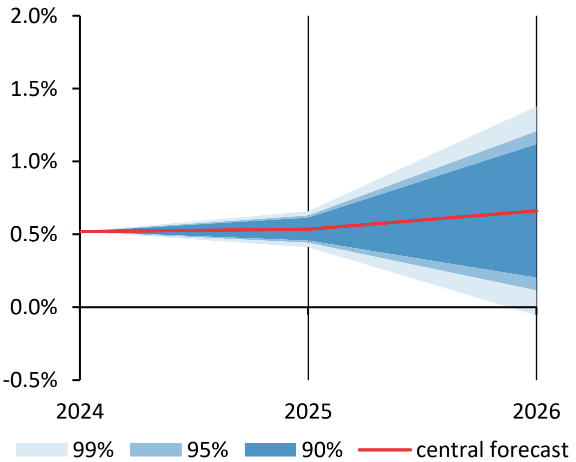
Public finance has continued to consolidate. Despite the deterioration expected due to the accrual of Superbonus tax credits, cash borrowing requirements up to September are in line with 2024. The trend is more favourable than previously projected, supported by lower interest expenditure and, primarily, higher tax revenues, which continue to growth at a rate higher than GDP, reflecting improved tax compliance.

The conditions favouring government bond issuance persist. The impact of the Bund rate increase has been mitigated by a narrowing of the yield spread, which, in August and September, stabilized at 84bps — the lowest level since the sovereign debt crisis. At the same time, the average yield from bond issuance declined from 3.4% in 2024 to 2.8% in September. Foreign investors continue to make substantial net purchases, absorbing over 90% of total net issuance, and some rating agencies have upgraded their Italian debt assessments.

The deficit-to-GDP ratio is projected to fall to 3.1% in 2025 and 2.8% in 2026, in line with recently revised government targets. This trend implies a mildly restrictive fiscal stance, with economic growth supported by public investment under the NRRP programmes, peaking in 2026. The tax relief included for middle-income households does not translate into a reduction in overall tax pressure.

Risks to the projection

Chart 8 **Italy: Prometeia's forecast of annual GDP growth -** *central value and the uncertainty based on past forecasting errors*



Source: Prometeia's calculation on Istat data.

- The persistent geopolitical tensions in the Middle East imply that energy price shocks, a possible worsening of the currently benign inflation outlook and a slowdown in the on-going monetary policy normalization process cannot be ruled out.
- The fiscal consolidation difficulties experienced by France and Germany's slower than expected implementation of its infrastructure plan might have a negative effect on euro area economic growth.
- While productivity gains related to adoption of AI technology may take some time to materialize, the high concentration of financial investment in the AI sector that, currently, is boosting stock exchanges, could expose financial markets and the business cycle to abrupt downturns if expectations of high returns are not met.

With less than 12 months to expiry of the NRRP (National Recovery and Resilience Plan), and 31 August 2026 as the deadline for providing evidence of achievement of the planned Milestones and Targets (M&T), completion of the NRRP and ensuring its long-term effectiveness continue to be challenging.

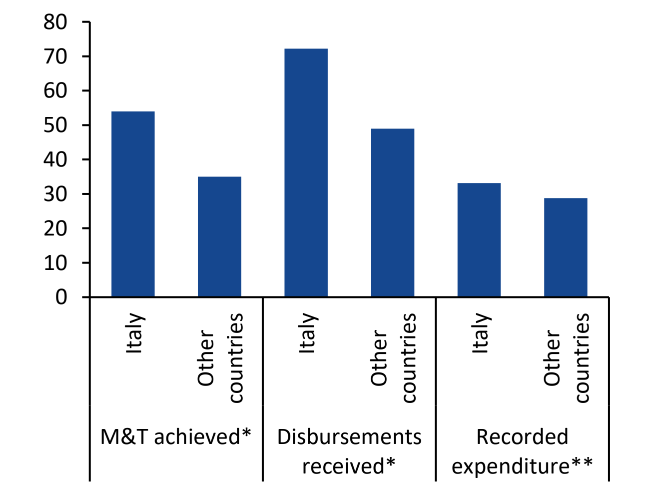
On 26 September 2025, the NRRP Steering Committee approved the latest proposal for an extraordinary revision to the Plan, which, in view of the Plan's imminent conclusion, is considered crucial for redefining the implementation (or conversion of resources) of the most critical measures. The NRRP procedural timetable provides for submission to the Italian Parliament and subsequent approval by the European Commission and ECOFIN by 13 November 2025.

The available data on disbursements received and the fulfilment of related M&T provide an overview of progress so far and confirm that the timeline agreed at the European level is being fully respected. Italy submitted its request for the 8th instalment on 30 June and received the 7th instalment of €18.3 billion in August, bringing the total received to €140.4 billion (72.2% of the amount allocated). From a total 614 M&T, 334 M&T (54.4%) have been completed.

In an international comparison, Italy stands out for a higher rate of progress, in all indicators, than that recorded by other countries (Chart A). It has been particularly successful in terms of disbursements received compared to the total amount allocated (72.2% versus 49% on average of other countries). Among the major EU countries, France is ranked first for share of disbursements obtained and M&T achieved. However, it should be noted that, compared to Italy, its plan was much less ambitious (Chart B) and aimed at implementation to be more concentrated in the early years of the Plan. Spain is the only country with resources comparable to Italy (€163 billion). So far, payments received by Spain amount to only €71.4 billion (43.8% of the total), corresponding to the first five instalments, significantly short of the timeline setting June 2025 as the deadline for the 10th and 11th requests.

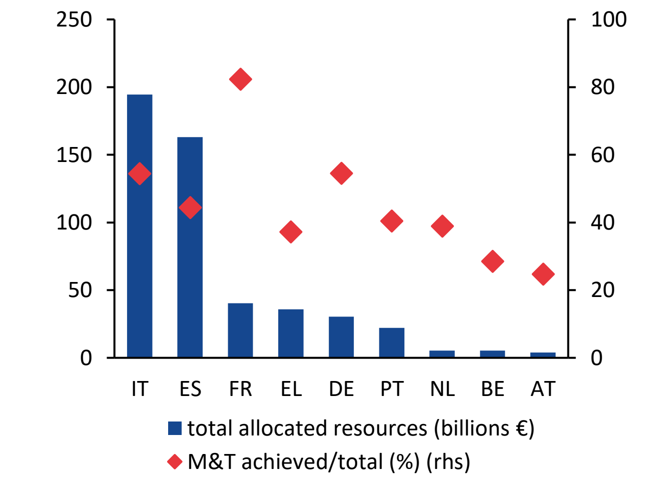
Closer scrutiny of the data for Italy suggests that expenditure will exceed €100 billion in 2025 (Chart C). The data entered in ReGis at the end of May, amount to approximately €74.3 billion, indicating an acceleration in average monthly expenditure between March and May to approximately €3 billion, compared to €2 billion in the previous period. Even without assuming any further acceleration, the projection for the remaining months of the year would imply additional expenditure of over €20 billion. It is well known that the difficulties related to complying with the requirements of and the inconsistencies in the expenditure reports submitted by the implementing bodies (conditions recognized by the

Chart A Italy in international comparison
% of total



** until September 2025.*
*** until the end of 2024.*
Source: Eurostat and RRF Scoreboard.

Chart B Major EU countries: resources allocated and M&T achieved - *billions of euros and % values*



Source: RRF Scoreboard.

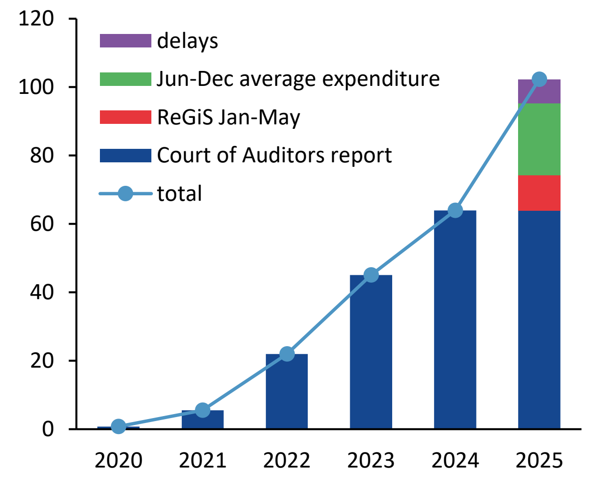
Court of Auditors)[1] cause a misalignment between the expenditure recorded and what has actually been completed. We estimate that this misalignment has led to an overall delay in recording of the order of €8 billion. This would suggest that our estimate of actual expenditure realised since the start of the program to the end of 2025 is around €102 billion.

The contribution made by the NRRP to public works is confirmed by the available indicators: the rate of change in the national accounts of public investment for the first half of 2025, shows a yoy increase of 8.2%. The priority infrastructure monitoring report[2] indicates that all the programmes in the NRRP have been started (and 95% are underway), and Public Administration Database (OpenBDAP) expenditure data for the first half of 2025 show a double-digit acceleration. This is even after the big rebound in 2024 and is confirmed by the economic indicators for construction.

The positivity related to what has been achieved so far, does not reduce the uncertainties surrounding overall implementation of the NRRP, given that over €90 billion in expenditure will have to be realized after 2025. However, it should be noted that spending can continue into 2027. The 2026 deadline for the NRRP objectives, as set out in the regulations, can be combined with expenditure realized beyond that date. As confirmed in the Public Finance Document published by the government in April, approximately €17 billion in expenditure relating to certain measures related to the M&T achieved by 2026, will be postponed beyond 2026, allowing some €15 billion in expenditure to flow into financial vehicles with a 2026 deadline for identifying beneficiaries, but not for expenditure (€8.5 billion of this amount has already been implemented and the remainder is expected to be implemented according to the revised Plan).

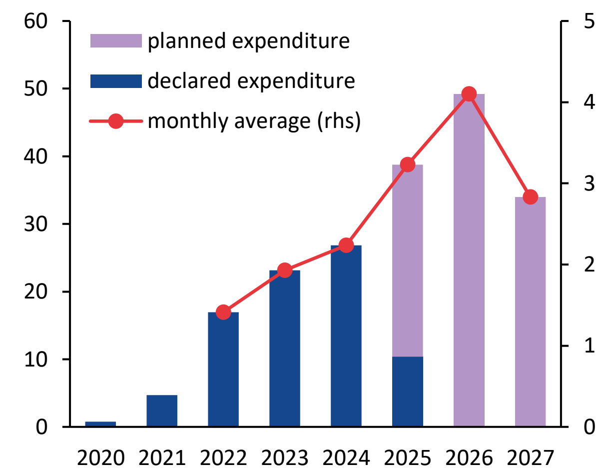
Based on the above and our assumptions, expenditure postponed to 2027 will amount to approximately €30 billion (Chart D). In the absence of detailed information on the most critical projects, it can be assumed that the extraordinary revision to the Plan will allow redevelopment of these interventions, based on measures that comply with the European Commission guidelines, that is, reinforcement of successful interventions and identification of appropriate vehicles to transfer unused resources, in line with the announced revisions to the Transition 5.0 programme, for example.

Chart C Cumulative expenditure to date and hypothesis for 2025 - *billions of euros*



Source: Prometeia's calculations on Italian Court of Auditors, ReGiS and Ministry of Economy data.

Chart D Average monthly annual expenditure: Prometeia's hypothesis- *billions of euro*



Source: Prometeia's calculations on Italian Court of Auditors, ReGiS and Ministry of Economy data.

1 *Court of Auditors. Stato di attuazione degli interventi di PNRR e PNC oggetto di controllo nel I semestre 2025 dalla sezione centrale di controllo sulla gestione delle Amministrazioni dello Stato. Resolution of 28 July 2025.*

2 *Chamber of Deputies. Stato di attuazione delle infrastrutture prioritarie della programmazione PNRR-PNC. Interim report. Data updated at 31 May 2025.*

Table 1 ***The world economy main indicators*** *(% change)*

	2024	2025	2026
World real GDP	3.2	2.9	2.5
World Trade	1.6	2.9	1.4
Manufacturing prices $	-0.7	2.4	3.7
Brent oil price ($/brl, level)	79.9	69.8	68.5
GDP			
- United States	2.8	1.8	1.1
- Japan	0.1	1.2	0.6
- EMU	0.8	1.2	1.0
- China	5.1	5.0	4.3
Consumer prices			
- United States	3.0	2.8	3.4
- Japan	2.7	3.1	2.0
- EMU	2.4	2.1	1.9
- China	0.5	0.4	1.7
$/€ exchange rate (level)	1.13	1.13	1.18
£/€ exchange rate (level)	0.854	0.869	0.871

Table 2 ***Italy: main indicators*** *(% change)*

	2024	2025	2026
GDP*	0.5	0.5	0.7
Imports of goods fob and services	-1.5	2.7	1.2
Private consumption	0.4	0.5	0.7
Government consumption	1.1	0.4	0.5
Gross fixed investment:	0.0	2.4	0.7
- machinery, equipment, other products	-1.0	2.9	4.3
- construction	1.0	2.0	-2.5
Exports of goods fob and services	-0.3	0.8	1.2
Domestic demand	0.2	1.1	0.6
Industrial production	-3.9	-0.1	1.4
Trade balance (% of GDP)	2.9	2.2	2.8
Terms of trade	3.0	-0.8	2.1
Consumer prices	1.0	1.6	1.7
Per capita wages - manufacturing	3.1	3.7	3.0
Total employment	2.2	1.0	0.3
General government balance (% of GDP)	-3.4	-3.1	-2.8
General government debt (% of GDP)	135.3	137.1	138.2

* Chain-linked values (reference year 2020); data adjusted for seasonal and calendar effects.

Table 3 ***Exchange Rates and Interest Rates***

		25 Q1	25 Q2	25 Q3	25 Q4	26 Q1	26 Q2	26 Q3	26 Q4
Exchange rates vs euro	US dollar	1.05	1.13	1.17	1.18	1.18	1.18	1.18	1.18
	Yen	160.5	163.8	172.0	174.0	174.2	174.3	174.4	174.5
3 month interest rates %	US	4.29	4.28	4.19	3.99	3.73	3.43	3.13	2.94
	Euro area	2.55	2.10	2.01	2.02	2.02	2.02	2.02	2.03
10-year government bond yields %	US	4.45	4.36	4.24	4.07	4.07	4.07	4.07	4.07
	Germany	2.57	2.55	2.69	2.70	2.70	2.72	2.74	2.76
	Italy	3.66	3.58	3.53	3.57	3.58	3.60	3.62	3.63

Table 4 ***Real GDP: comparison of the forecast*** *– % qoq and annual % change – in bold historical data*

		25 Q1	25 Q2	25 Q3	25 Q4	2025	26 Q1	26 Q2	26 Q3	26 Q4	2026
United States	Brief July 2025	-0.1	0.6	0.2	0.2	1.6	0.1	0.2	0.3	0.3	0.9
	Brief October 2025	-0.1	0.9	0.5	0.2	1.8	0.1	0.1	0.3	0.3	1.1
EMU	Brief July 2025	0.6	-0.1	0.2	0.3	1.2	0.2	0.3	0.4	0.3	1.1
	Brief October 2025	0.6	0.1	-0.2	0.2	1.2	0.3	0.3	0.4	0.4	1.0
Italy	Brief July 2025	0.3	0.1	0.1	0.2	0.6	0.2	0.1	0.3	0.1	0.7
	Brief October 2025	0.3	-0.1	0.1	0.1	0.5	0.2	0.1	0.3	0.2	0.7

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