

**PROMETEIA  
BRIEF**

**ITALY  
IN THE GLOBAL  
ECONOMY**

*May 2026  
No. 26/4*



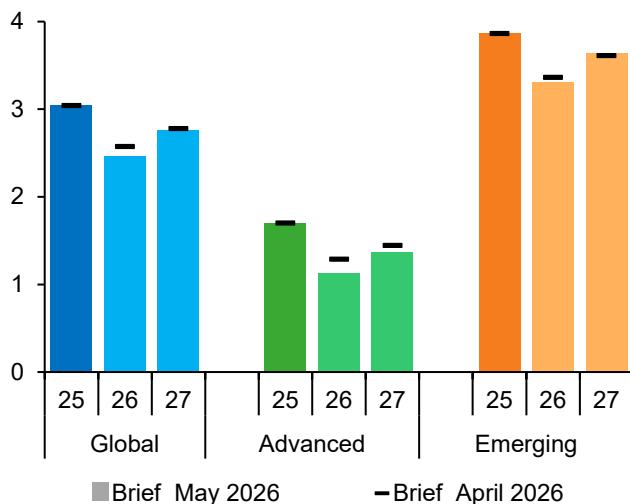
## Resilience, front-loading and increasing risks

- » Q1-2026 saw stronger than expected growth in China and across Asia, and slightly weaker than expected in the US and the Euro Area. The escalation of the Middle East crisis and the resulting higher energy prices led us to revise downward global GDP growth for the rest of the year, and by 0.1pp overall in 2026 (Chart 1).
- » In the first months of 2026, global trade was robust, driven primarily by Asian demand - overwhelmingly from China - which was significantly stronger than among the advanced economies. However, import growth appears to be heavily concentrated on specific sectors, notably AI-related products and energy commodities, and this is resulting in highly uneven demand patterns across different world regions.
- » PMI indicators for the manufacturing sector, would seem to point to a marked recovery in all the major advanced economies. However, this improvement is being driven chiefly by new orders that appear largely to be associated with inventory accumulation ahead of likely higher prices and reduced product availability as short-term consequences of the conflict in Iran.
- » In general, energy commodity prices have surged dramatically. While the price of natural gas has declined slightly, oil prices have been volatile, fluctuating around the USD100 per barrel threshold. Even were tensions to de-escalate by the end of June, market rebalancing – and, therefore, a meaningful decline in prices - is expected to proceed only gradually.

## Italy: slightly positive recent data and but deteriorating prospects

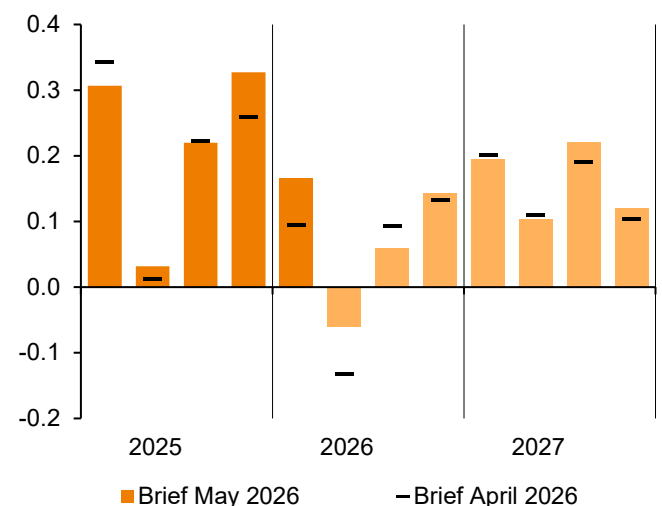
- » Compared to the projections in the previous Brief, Italy's GDP growth for 2026 has been revised up from 0.4% to 0.5%. This revision reflects stronger-than-expected growth in Q1-2026, at 0.2% qoq based on the flash estimate, compared to 0.1% in the April Brief (Chart 2).
- » The quarter profile for the subsequent quarters of 2026 is almost unchanged and incorporates a marginal contraction in GDP in Q2, resulting from the effects of higher inflation and greater uncertainty about household and business decisions.
- » We expect the NRRP to continue supporting investment in 2026 and to remain the main domestic policy buffer, which will significantly mitigate the negative impact of external headwinds.
- » Despite the US Supreme Court ruling, uncertainty surrounding tariffs remains elevated and is expected to continue weighing on the price competitiveness of exports to the United States.
- » Headline inflation is increasing, driven mainly by energy, and, due to the pass-through of higher energy prices along the supply chain, it is expected to continue to be high in Q2 and Q3.
- » Fiscal policy continues to be constrained by the need to reduce the high debt-to-GDP ratio and maintain investor confidence. Given the limited fiscal space, we do not anticipate materially more expansive support measures to counteract the increase in energy costs than those already implemented.

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



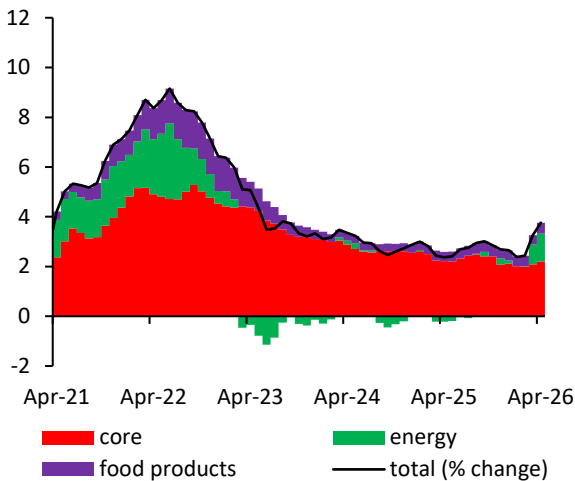
Source: Prometeia's forecast on IMF, World Bank, Eurostat, National Statistical Offices data.

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



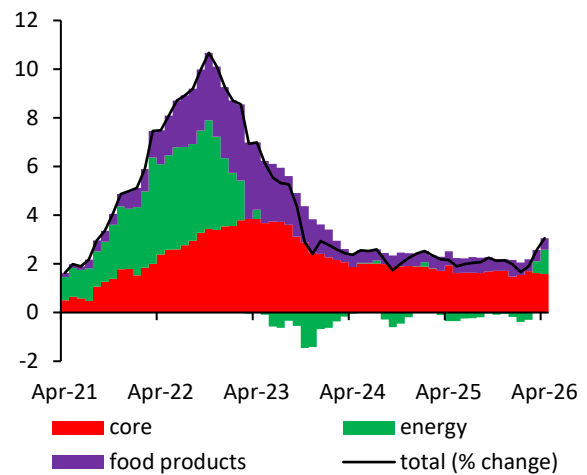
Source: Prometeia's forecast on Istat data.

**Chart 3** USA: CPI and contributions of main items  
% yoy and percentage points



Source: Prometeia's calculations on Bureau of Labor Statistics data.

**Chart 4** EMU: HICP and contributions of main items  
% yoy and percentage points



Source: Prometeia's calculations on Eurostat data.

**Global Scenario.** The continuing Strait of Hormuz crisis is causing increasing inflationary pressures, uncertainty and shortages of selected products in the global economy. It is also undermining global growth prospects and compounding the already evident weakness in domestic demand dynamics.

**The US economy continues to expand, but private consumption is weakening.** In Q1, GDP increased by 0.5% qoq, but this was lower than expected. Therefore, although we expect a continued decelerating growth profile, this will be at lower levels, with GDP growth forecast to be 1.8% for both 2026 and 2027. This revision reflects a less favourable composition of demand: household consumption is losing momentum, residential investment is continuing to decline, and the investment rebound is focused on AI-related equipment, semiconductors, and digital infrastructure. However, their contribution to GDP growth is counterbalanced by the high import content of these products, which, while supporting world trade, weighs on US net exports. Since we expect inflation to persist at high levels (3.8% yoy in April compared to 3.3% in March), combined with import-price pressures and a cooling labour market, we remain cautious about private consumption. Although the recently released payroll data are positive, they are being more than offset by stagnating real earnings and downward trend in employment (according to household survey).

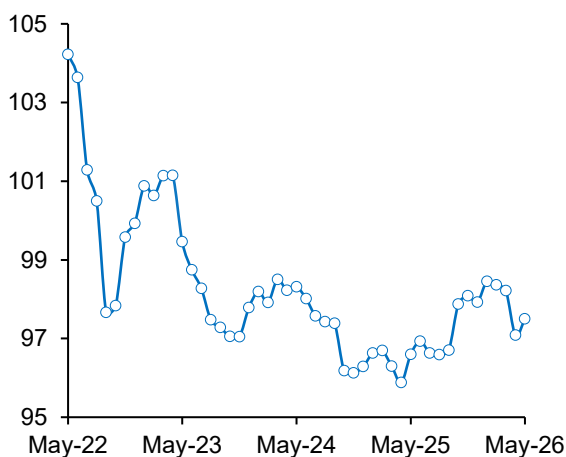
**In the euro area, inflation has once again emerged as the main obstacle to a fragile recovery.** Q1-2026 growth was lower than expected, due, mainly, to the negative contribution from Ireland (-2%) and France. However, better-than-expected results for Germany, Italy and Spain contributed to a rebalancing of euro area growth. The visible improvement before the attack on Iran, was built on disinflation, household purchasing power recovery and expectations of an easing in financial conditions. However, this situation changed with the energy shock. Higher oil and gas prices feed directly

into headline inflation (3.1% yoy in April), weighing on household real incomes and squeezing firms' margins, as the euro area remains more exposed than the US to imported energy costs. We expect modest growth in Q2 and Q3, supported by defence spending (see InFocus), the NRRP and the German infrastructure plan. However, there is limited fiscal space to buffer households from inflation and to support private consumption.

**The key monetary policy message is 'higher for longer'.** In the euro area, above target inflation is pushing the ECB to tighten its monetary policies and we expect a rise of 25bp before the summer. In the US, positive growth, resilient payrolls and persistent inflation have led to a delay of the first 25bp Fed cut, to September 2027 driven by weak labour market rather than decreasing inflation.

**In China, yoy growth in Q1-2026 was 5%, beyond expectations.** It was accompanied by a marked expansion of both exports and imports rising strongly. Exports have provided significant support for industrial activity, although domestic demand continues to display structural weaknesses. Retail sales have been affected adversely by the gradual phasing-out of government-funded trade-in incentives across several sectors, most notably automotive, which is further highlighting reduced household propensity to consume. Investment growth continues to be concentrated in the high-technology industries and public infrastructure projects, especially railways, while the broader investment cycle continues to be weighed down by the persistent weakness of the real estate sector. Inflationary pressures are very low, with only sporadic signs of price accelerations, confirming the overall fragility of the macroeconomic environment. The stronger-than-expected performance in Q1 has led us to upward revise our average growth forecast for 2026. So far, the exposure to the Iranian crisis does not appear to be having a material negative impact, due, largely, to ample raw material inventories.

**Chart 5** Weekly Economic Indicator Prometeia  
Index 2020=100, monthly average of weekly data



Source: Prometeia's calculations.

### Early 2026 data were better than expected.

According to preliminary Istat estimates, real GDP increased by 0.2% qoq and by 0.7% yoy. The April 2026 Brief projected GDP growth in Q1-2026, albeit at a more modest rate (0.1% qoq). The quarterly increase is a reflection, mainly, of the positive contribution of net exports, which was partly offset by the negative contribution of domestic demand. More detailed data will be available at the end of May.

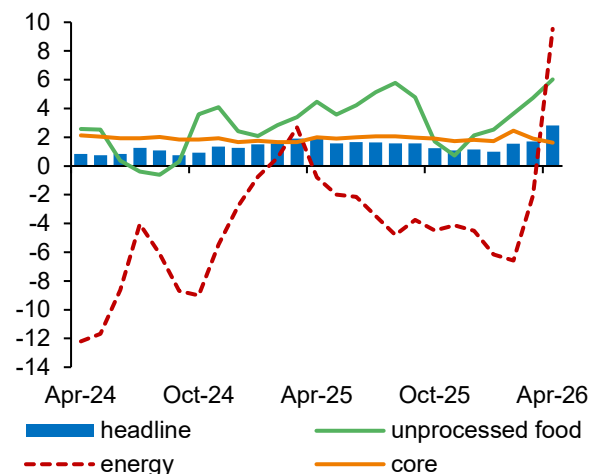
**In Q1, positive export data.** Foreign trade data suggest that the positive contribution of net exports to Q1 GDP growth was driven by stronger growth in goods exports compared to imports. Ship sales combined with pharmaceuticals, have supported annual export growth to the US; in current prices, this was 1.3% - a sharp slowdown from the 7.2% growth recorded in 2025.

**The industry contribution to Q1-2026 growth was moderately negative.** Output declined by -0.2% qoq, due to a contraction in January followed by two consecutive increases in February and March that were both driven by capital goods production. The acceleration in production in March, to 0.7% mom from 0.2% in February, may reflect the unwinding of order backlogs.

**Higher energy prices can be expected to have negative effects in Q2-2026.** The first signs of the effects of the Iran war are visible in the deterioration in household confidence since early March and, to a lesser extent, the decline in business confidence. The costs of this shock are, again, likely to be borne by households. According to our weekly indicator, we expect only a marginal reduction of GDP growth, to -0.1% qoq (Chart 5).

**Inflation has increased and is expected to increase further in Q2-2026.** In April 2026, consumer price inflation measured by the NIC index, rose to 2.8%, up sharply from 1.7% in March, and the harmonized IPCA index increased to 2.9% yoy. This was a significant acceleration, driven by the sharp reversal in unregulated and regulated energy prices, which moved from negative to positive growth rates of -9.9% and

**Chart 6** Headline inflation and its components  
%



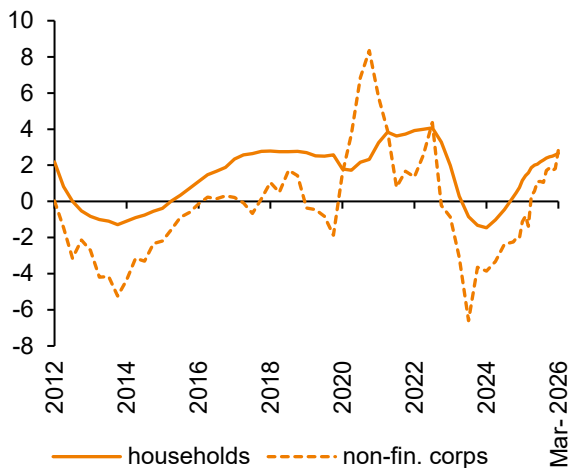
Source: Prometeia's calculations on Istat data.

5.7% respectively, and by a further rise in unprocessed food prices to 6% (Chart 6). At the same time, core inflation, that is, inflation excluding energy and unprocessed food, decreased due to a slowdown in inflation in the services sector from 2.8% to 2.4%. This means that the rise in energy prices has yet to be transmitted down the supply chain. However, producer price indexes have also accelerated, from negative growth, to 5.4% in March 2026. Looking ahead, we expect core inflation to accelerate as consumer prices increase due to higher energy prices passing through the value chain, implying average CPI inflation of 3% in 2026. Further, CPI inflation in 2027 was revised up to 1.8% due to higher expected import and food prices towards the end of 2026.

**Cooling labour market, as employment and participation decrease.** In March 2026, employment stood at 24,124,000, down by 12,000 compared to February and 30,000 when compared to March 2025. The unemployment rate has fallen to 5.2%, although, since the unemployment rate is being driven mainly by an increase in the inactivity rate, this figure should be interpreted with caution. That is, part of the decline in unemployment is a result not of higher employment, but of decreased labor force participation.

**Growth in bank lending accelerated in March, despite deteriorating prospects.** Loans to households have increased by 2.7% yoy (Chart 7), with mortgage lending continuing to expand robustly at 3.5% yoy, supported by a positive real estate market cycle and broadly unchanged credit standards. Meanwhile, the annual rate of growth of loans to non-financial corporations has risen to 2.9%, likely driven by firms seeking to pre-empt higher prices and cost of credit, in line with The Bank Lending Survey, which points to expectations of stricter lending criteria, due, in part, to the likely increase in interest rates. Looking ahead, the high level of uncertainty in the international landscape is hindering investment decisions and leading to weaker demand for corporate financing. Consequently, we expect credit growth to slow in 2026.

**Chart 7** Loans to households and non-financial corporations % changes yoy



Source: Prometeia's calculations on Bank of Italy.

**Updated government forecasts in the Economic and Financial Document presented on 22 April.** The latest forecasts assume that tensions will ease in the second

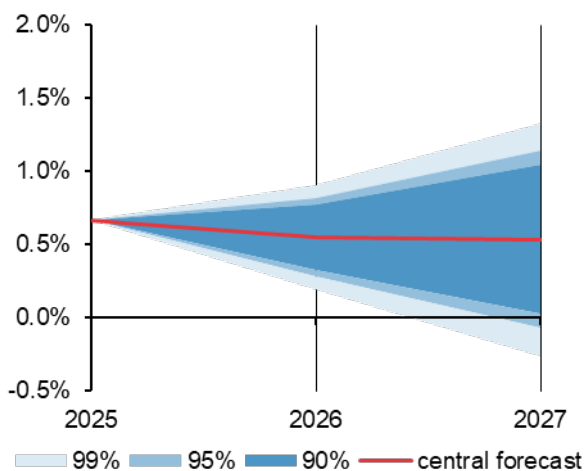
half of the year. Compared to last October's forecasts, GDP growth has been revised downwards (by a total of 0.4pps for 2026-28) across the entire forecasting period and the deficit has been revised upwards (by 0.5pps of GDP for 2026-28). However, the deficit-to-GDP ratio will remain below the 3% threshold and will continue to fall to 2.9% in 2026, 2.8% in 2027 and 2.1% in 2029. In 2026, the debt-to-GDP ratio will rise to 138.6%, before a slow decrease in subsequent years.

**Our forecast budget deficit is in line with the government's forecast for 2026, but is slightly higher in 2027,** due to lower GDP growth.

**To date, measures worth around €1 billion have been introduced to mitigate the impact of rising energy prices.** These measures primarily entail reducing fuel excise duties and providing support for road transport and fishery companies to mitigate their increased costs. These measures are being funded by spending cuts and additional VAT revenues. Should conditions worsen, then, even if this were to result in a higher deficit, the government has not ruled out more substantial funding measures. However, these would have to be coordinated with the EU.

## 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 prolonged disruption to traffic through the Strait of Hormuz is increasing the risk of product shortages - extending beyond energy commodities to key upstream inputs across multiple supply chains including fertilizers, chemical raw materials and fuels - with the potential to trigger production disruptions and significant price increases.
- » Rising energy costs could slow the rate of growth in the AI sector. This growth is reflected in equity market valuations, and any slowdown could have repercussions for both financial markets and real investment activity.
- » The fragility of the geopolitical context is increasing. Tensions between China and the US remain elevated, reflecting unresolved tariff disputes, the broader repercussions of the conflict with Iran and mounting pressure around Taiwan. The key risk is that these fronts become increasingly interconnected, which would amplify the economic and geopolitical consequences.
- » Prolonged geopolitical tensions and war-related pressures on energy markets could weaken Italian growth, raise public debt, and increase debt-servicing costs via wider sovereign spreads.

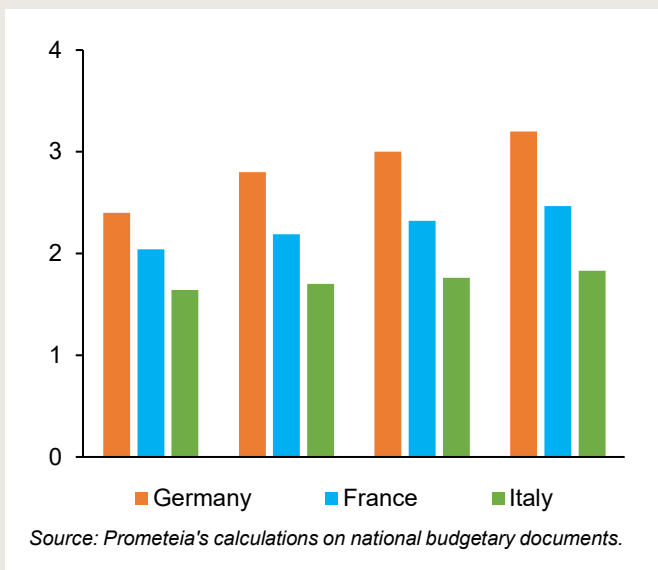
In February, the Readiness 2030 or ReArm Europe plan, was finalised. The plan was promoted by the European Commission in March 2025 and is aimed at increasing military expenditure across the EU. It involves mobilization of €800 billion over the four years 2025 to 2028: €150 billion will take the form of loans to Member States that request support through Security Action for Europe (SAFE) instrument, while €650 billion will be financed by individual countries.

To support this expenditure of national resources on defence, the EU has temporarily introduced flexibility under the National Escape Clause, which can be activated at the request of Member States, including those already subject to the excessive deficit procedure. For the period 2025–2028, the National Escape Clause allows deviations from expenditure or corrective paths, of up to 1.5pp of GDP per year. This flexibility is limited to military expenditure increases and remains conditional on compliance with the requirements of the Stability and Growth Pact, especially medium-term fiscal sustainability. To date, all European countries have announced their intended defence-spending targets. Starting in Q2-2026, the first tranches of SAFE loans should be disbursed to those countries that requested them.

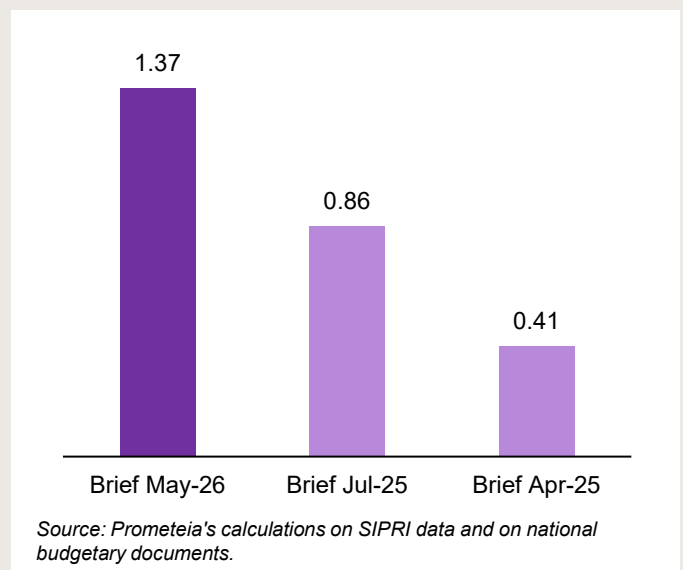
Our scenario is based on the most recent information on defence expenditure as a share of GDP for the countries considered.<sup>1</sup> Based on the targets announced by individual countries, in most cases we have distributed the difference compared to 2025 levels, evenly over the years up to 2028. The exceptions are Germany, France and Italy where we use the defence-spending commitments reported in official national government documents (Chart A). For those countries relying on SAFE funding, we are assuming that European loans will contribute to the increased defence expenditure with no effect on national targets. Thus, these loans will partially finance the planned increase, without changing the programmed spending profile.

This implies an additional increase in defence expenditure of a cumulative 1.37pp of EU27 GDP by 2028, equal to around 0.35pp of GDP per year (Chart B). This additional impulse will further support European growth since its impact will be reinforced by contractual eligibility criteria, which require that no more than 35% of the relevant investment and component expenditure should originate from countries outside the bloc composed by the EU, Iceland, Liechtenstein, Norway and Ukraine. For nations accessing SAFE funds, we assume these loans act as partial financing, reducing the requirement for national funding while leaving the overall spending trajectory unchanged.

**Chart A** Defence spending  
% GDP



**Chart B** UEM: additional defence spending  
cumulative expenditure 2025-2028, % GDP



<sup>1</sup> SIPRI data for 2025 are based on a definition of military expenditure that includes spending by the armed forces including peacekeeping missions, the Ministry of Defence and any militarized paramilitary forces, military space activities, as well as personnel costs including military pensions, and operational costs. The most recent Eurostat data refer to 2024 and Eurostat's definition of defence expenditure differs from SIPRI's mainly because it excludes military pensions.

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

	2025	2026	2027
World real GDP	3.0	2.5	2.7
World Trade	4.3	1.9	3.0
Manufacturing prices \$	3.8	5.3	2.9
Brent oil price (\$/bbl, level)	68.3	86.5	77.8
GDP			
- United States	2.1	1.8	1.8
- Japan	1.2	0.4	0.8
- EMU	1.5	0.6	1.0
- China	5.0	4.6	4.0
Consumer prices			
- United States	2.7	3.7	2.8
- Japan	3.1	3.0	2.3
- EMU	2.1	3.0	2.1
- China	0.5	2.5	1.8
\$/€ exchange rate (level)	1.13	1.18	1.19
£/€ exchange rate (level)	0.857	0.878	0.885

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

	2025	2026	2027
GDP*	0.7	0.5	0.5
Imports of goods fob and services	3.9	2.2	2.0
Private consumption	1.1	0.5	0.8
Government consumption	0.6	0.2	0.2
Gross fixed investment:	3.8	1.8	0.7
- machinery, equipment, other products	3.6	2.9	3.3
- construction	4.0	0.7	-1.9
Exports of goods fob and services	1.4	0.9	2.0
Domestic demand	1.3	0.9	0.5
Industrial production	-0.3	0.2	0.8
Trade balance (% of GDP)	2.3	1.4	1.6
Terms of trade	1.6	-2.0	0.8
Consumer prices	1.5	3.0	1.8
Per capita wages - manufacturing	3.7	2.8	3.0
Total employment	1.3	0.5	0.3
General government balance (% of GDP)	-3.1	-2.9	-2.9
General government debt (% of GDP)	137.1	138.2	138.2

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

**Table 3 Exchange Rates and Interest Rates**

		26 Q1	26 Q2	26 Q3	26 Q4	27 Q1	27 Q2	27 Q3	27 Q4
Exchange rates vs euro	US dollar	1.17	1.17	1.18	1.18	1.18	1.19	1.19	1.19
	Yen	183.6	185.0	186.3	186.3	186.4	186.7	186.8	187.0
3 month interest rates %	US	3.65	3.66	3.62	3.54	3.48	3.45	3.45	3.44
	Euro area	2.06	2.20	2.25	2.27	2.29	2.29	2.30	2.33
10-year government bond yields %	US	4.22	4.37	4.41	4.40	4.40	4.41	4.42	4.43
	Germany	2.86	3.04	3.08	3.09	3.13	3.17	3.23	3.29
	Italy	3.54	3.80	3.83	3.88	3.95	4.00	4.06	4.13

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

	26 Q1	26 Q2	26 Q3	26 Q4	2026	27 Q1	27 Q2	27 Q3	27 Q4	2027
United States Brief April 2026	0.7	0.3	0.3	0.4	2.1	0.4	0.6	0.7	0.5	1.9
	<b>0.5</b>	0.4	0.3	0.3	1.8	0.4	0.6	0.7	0.6	1.8
EMU Brief April 2026	0.2	0.0	0.2	0.2	0.8	0.3	0.3	0.4	0.3	1.1
	<b>0.1</b>	0.0	0.2	0.2	0.6	0.3	0.3	0.4	0.3	1.0
Italy Brief April 2026	0.1	-0.1	0.1	0.1	0.4	0.2	0.1	0.2	0.1	0.5
	<b>0.2</b>	-0.1	0.1	0.1	0.5	0.2	0.1	0.2	0.1	0.5

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based on data available up to 13<sup>th</sup> May 2026

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