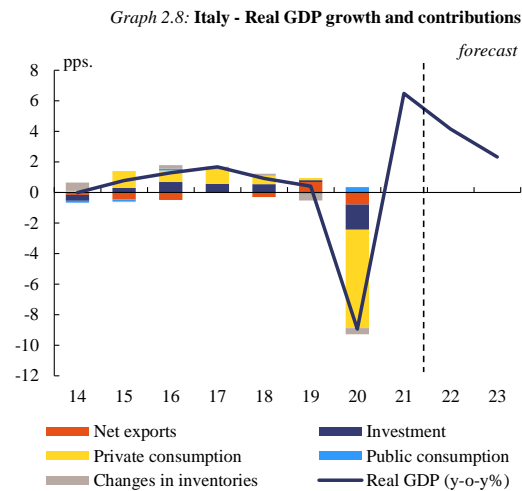


2.8. ITALY

The Italian economy grew by 6.5% in 2021 and had recovered most of the pandemic-incurred output losses by year-end. However, the short-term outlook is clouded by protracted supply disruptions and sharply rising energy prices. Eroding purchasing power and softening consumer confidence are expected to dent real GDP growth in the near term, especially consumer services. While COVID infections surged in the first weeks of 2022, high vaccination rates are likely to prevent a significant tightening of containment measures and real output from contracting in the early months of this year. Assuming that the current wave is steep but short-lived, economic activity is projected to regain momentum in the second quarter of 2022 and continue on its expansion path in the second half of the year.



Consumer spending, helped by improving labour market conditions and waning uncertainty related to the pandemic, is projected to support growth, with the household savings rate gradually returning to pre-crisis levels. Following the sharp rebound in 2021, growth of investment spending is set to moderate over 2022 and 2023 but still to expand solidly, driven by measures laid out in Italy's Recovery and Resilience Plan. The external environment is expected to remain supportive, extending the strong performance of goods exports of the previous year. Services are set to increasingly contribute to export growth, driven by the gradual recovery of receipts from international tourism. Overall, real GDP growth is expected to average 4.1% in 2022 and 2.3% in 2023.

Driven by energy prices, HICP inflation increased significantly in the second half of 2021 and averaged 1.9% over the whole year. Energy prices are expected to peak in the first quarter of 2022 and are set to remain at elevated levels throughout the year, with higher energy costs likely to further push up food prices. Wage pressure is set to increase only gradually, as most labour contracts in the manufacturing sector have recently been renewed and labour market slack continues to persist. Inflation is set to rise to 3.8% this year, before falling back to 1.6% in 2023.