

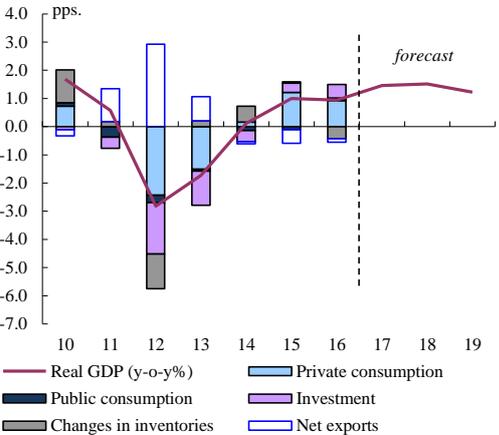
2.12. ITALY: RECOVERY PICKS UP SLIGHTLY

Italy’s economy continues to benefit from the global cyclical upswing and stronger domestic demand. In the first three quarters of 2017, real output grew by an average of 0.4% (q-o-q). Survey indicators and short-term business statistics suggest that the economy maintained its growth momentum at the turn of the year. Favourable economic conditions will carry over into 2018, before tailwinds are expected to abate in line with the gradual withdrawal of policy stimulus. Although Italy’s recovery is set to become more self-sustained, its growth prospects remain moderate, given the Italian economy’s limited growth potential. Domestic downside risks largely relate to the still fragile state of the Italian banking sector, while there is an upside risk that the recovery could strengthen more than envisaged, at least in the near term. The projections are based on the no-policy-change assumption that Italy continues to implement already adopted growth-friendly reforms and pursues prudent fiscal policies.

Real GDP growth in 2017 is estimated at 1.5% in 2017, the same as it was in the autumn forecast. Overall, domestic demand remained the main engine of growth as household consumption was supported by rising employment and consumer confidence. In addition, investment growth was bolstered by favourable financing conditions and tax credits but was also associated with a marked pick-up in exports of goods and services.

The external environment is projected to remain supportive and signs that wage growth was slowly accelerating in the second half of 2017 bode well for consumer spending in the near future. In 2018, real GDP is forecast to expand by 1.5%, led by exports and investment. Private consumption is expected to support growth at a moderate but stable rate, underpinned by rising wages in both the private and the public sector, and employment growth. With the output gap closed and the economy gradually returning to more moderate long-term growth rates, real GDP growth is predicted to slow to 1.2% in 2019.

Graph 2.12: Italy - Real GDP growth and contributions



Headline annual HICP inflation averaged 1.3% in 2017, as services prices rose less quickly in the final quarter of the year. The upward pressure on consumer prices in 2018 due to rising oil prices should be broadly offset by base effects associated with unprocessed foods and services. Annual HICP inflation is expected to increase to 1.5% by 2019. Core inflation slowed down in line with prices for services in the last quarter of 2017 but is set to pick up gradually on the back of moderate wage growth and the recovery of profit margins.