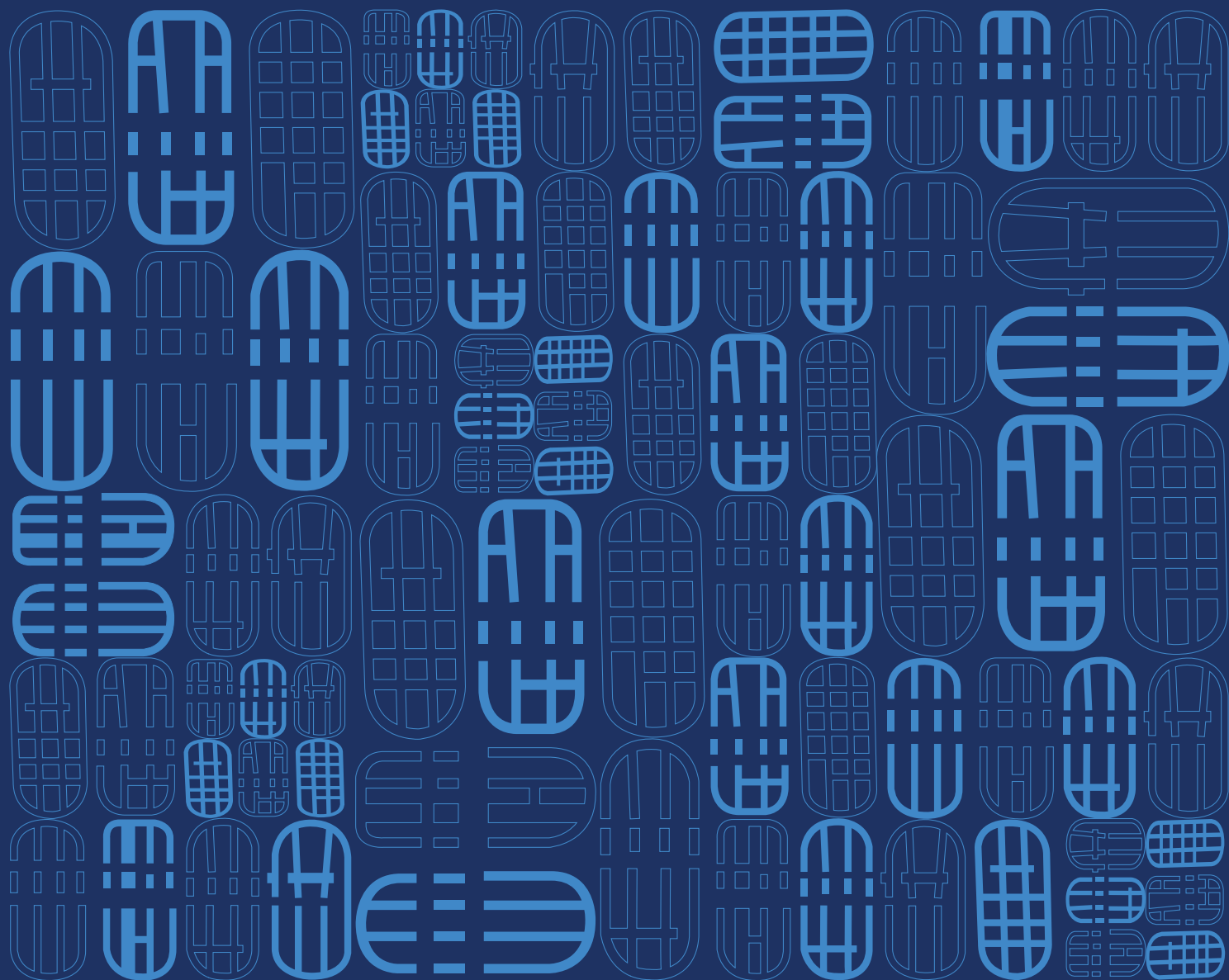


INVESTMENTS TO MOVE ITALY FORWARD

ITALIAN ECONOMIC OUTLOOK
AUTUMN 2025



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INTRODUCTION AND SUMMARY

Alessandro Fontana
Chief Economist of Confindustria

1. The global environment has weakened: rising tariff and non-tariff barriers are weighing on trade prospects. Obstacles to free international trade stem not only from U.S. trade policy but concern most other countries as well. In the first eight months of 2025, protectionist measures introduced worldwide reached record highs. Global trade accelerated in the first quarter of 2025 due to the so-called *frontloading* of sales to the United States – i.e. shipments brought forward in anticipation of tariffs introduced in April on almost all imports – but then declined sharply in the second quarter. According to the CSC scenario, world trade is projected to grow by +2.8% in 2025, before slowing to +1.2% in 2026. Compared with the April report, growth for the current year has been revised upwards due to the mechanical impact of *frontloading*, but the outlook for next year has been revised significantly downwards. Moreover, downside risks remain substantial, particularly if economic and political tensions between major global blocs intensify.

Table A
International exogenous variables of the forecast
(percentage changes)

	2024	2025	2026
 World trade	2,5	2,8	1,2
 GDP - United States	2,8	1,7	1,6
 GDP - Eurozone	0,9	1,2	1,1
 GDP - Emerging markets	4,3	4,1	4,2
 Oil price ¹	81	67	62
 Gas price (Europe)	34	37	32
 Dollar/euro exchange rate ²	1,08	1,13	1,17
 FED effective rate ³	5,14	4,21	3,46
 ECB deposit rate ³	3,73	2,26	2,00

¹ Brent, dollars per barrel; ² levels; ³ % values.

Source: Centro Studi Confindustria elaborations based on Refinitiv, IMF and CPB data.

A further drag on global growth comes from persistently high **uncertainty**. The global economic policy uncertainty index peaked in April 2025, declined during the summer, but remains at levels similar to those recorded in 2020 during the pandemic. The main source of uncertainty comes from the U.S. trade policy itself. Despite agreements reached with major trading partners – which have helped clarify the new tariff framework with the world's largest importer – the risk of further changes remains, as does the absence of agreements with some countries. This uncertain environment increases financial market volatility, discourages investment decisions – particularly international ones – and prompts firms to rethink global supply chains.

The **U.S. economy** is the one most affected by the imposition of tariffs. Leading indicators continue to point to weakness in the second half of the year. Monetary policy has become slightly less restrictive, but the recent cut in policy rates will support investment only after several quarters. Moreover, inflation expectations point to possible price acceleration, jeopardising further rate cuts and a stronger rebound in consumption. Overall, the U.S. economy is expected to grow at a much more moderate pace than in 2024, regaining some momentum only towards the end of 2026. In the CSC scenario, GDP growth is projected to slow to +1.7% in 2025 and +1.6% in 2026, from +2.8% in 2024.

These projections have been revised downwards despite a stronger-than-expected rebound in the second quarter of 2025, following a contraction early in the year – a volatility attributable to the introduction of tariffs.

Despite the deterioration of the international environment caused by protectionist policies, **emerging economies** will continue to record robust growth, averaging +4.1% in 2025 and +4.2% in 2026, figures, however, lower than the CSC April forecasts. This reflects a reconfiguration of trade and investment increasingly oriented towards Asia, driven mainly by China (which continues to expand at around +5.0%) and India (which records the highest growth among the top 20 emerging economies). Russia, hit by Western sanctions but supported by stronger economic ties with Beijing, is expected to stabilize at more moderate but still positive growth rates. Overall, inflation continues to decline in emerging economies, exchange rates in many countries remain under pressure, trade balances are deteriorating and fiscal policies remain expansionary.

U.S. tariffs on the rest of the world are reshaping the geography of global trade, particularly with Europe. The new transatlantic trade regime has now become clearly defined: tariffs have been eliminated on EU purchases of U.S. industrial products; a 15% tariff applies to most U.S. imports from the EU (including cars, non-generic pharmaceuticals and semiconductors); U.S. tariffs are zero or near-zero on other European products in strategic sectors (such as aircraft, generic medicines and certain natural resources); 50% tariffs on steel and aluminum remain in place. The agreement includes European commitments whose outcomes are uncertain, involving national authorities and private companies: purchases of U.S. energy goods, AI chips and military equipment as well as direct investment in strategic sectors. These tariffs, together with a stronger euro (partly driven by the tariffs themselves), significantly reduce the price competitiveness of European goods in the United States – particularly relative to U.S. domestic production – as well as in the rest of the world. Following pre-tariff *frontloading*, U.S. imports from the EU fell by –8.7% year-on-year in June–July, while those from China fell by –39.9%, broadly in line with tariff revenues by country of origin (as a percentage of import values). In the longer term, there is a strong incentive to relocate some production to the U.S. market; the risk for European industry is the loss of vital parts of its production base.

2. Europe's economy is suffering from a weaker global environment: **euro area** GDP growth remains below that of the United States, reaching +1.2% in 2025 and +1.1% in 2026. The 2025 figure, although representing an acceleration compared with +0.9% in 2024, is largely explained by the strong expansion recorded in the first quarter, inflated by the exceptional Irish data. Across the area, investment has so far been highly volatile, while consumption has been more stable although sluggish. Net exports benefited from the *frontloading* effect early in the year, but subsequently suffered a negative rebound in the spring. This fluctuating pattern has also characterized European industry, which has shown positive signals mainly in response to U.S. demand in the early months of 2025, in anticipation of tariff increases. Structural difficulties, such as the energy cost disadvantage relative to the United States, remain unresolved. Looking ahead, leading indicators do not point to a strong rebound in European economic activity. Future performance will depend on the recovery of investment, which has yet to show a clear direction but could benefit in 2026 from lower interest rates and the thrust coming from growing sectors such as defense.

Developments in Europe's largest economy will be crucial for the overall recovery. After two years of mild recession in 2023–24, **Germany's** GDP was largely flat in the first half of 2025. In particular, the decline in the second quarter was not solely due to the *frontloading* effect on exports and imports, since investment also fell again. The German economy has therefore not yet emerged

from the crisis, but thanks to the positive effects of recent reforms it is expected to strengthen progressively and begin growing from 2026, with rates above +1.0%. The government has approved a constitutional amendment to the “debt brake” and launched a wide-ranging structural reform program to facilitate infrastructure investment and defense spending. A €500 billion fund has also been created for a period of 12 years, excluded from the debt limit, to improve strategic infrastructure such as railways, roads and hospitals. During the summer, signs of a recovery, although slow, began to emerge in a number of indicators, including industrial production. The consolidation of these signs will depend on the government’s ability to implement the massive investment plan effectively.

Meanwhile, the European Central Bank has completed its cycle of **interest rate cuts**: in September 2025, it kept rates unchanged at 2.00% after a rapid sequence of eight cuts of 25 basis points each between June 2024 and June 2025, from a peak of 4.00%. In total, monetary easing in the euro area amounted to –2.00 percentage points. The ECB can count on stable inflation in recent months, close to the +2.0% target, and inflation expectations in the area which have also remained stable, although the outlook still presents significant risks, particularly concerning commodity prices. Monetary policy, thanks to the rate cuts, is no longer restrictive and financing conditions in the banking sector have become more favourable. Overall, the official ECB documents convey the message that, in the absence of further shocks, the monetary policy adjustment is sufficient for the time being. Financial market expectations are consistent with stable rates over the forecast horizon. Accordingly, the CSC scenario assumes no further rate cuts, although there is still a chance the ECB could resume easing in the coming months to support Europe’s weak growth.

The outlook for **energy costs** is partly positive. Brent oil prices are on a slight downward trend, albeit with significant fluctuations linked to developments in the wars in Ukraine and the Middle East. Recent values are in line with historical equilibrium levels for the global market (\$60–70 per barrel), marking the end of the long adjustment phase in the physical market that began after 2022. The CSC baseline adopts a cautious assumption that the average Brent price will fall to \$67 in 2025 (from \$81 in 2024) and \$62 in 2026. European gas prices have also declined, albeit less sharply, reaching €32/MWh in August 2025 compared with a peak of €50 in February. Fears of supply shortages remain moderate and markets now expect prices to remain close to current levels. However, European gas prices remain well above pre-pandemic levels (€14 in 2019) due to the transition begun in 2022, and now completed, towards more expensive LNG and towards politically unstable alternative suppliers to Russia. Moreover, the European price remains about three times higher than in the United States, where *shale* gas extraction has kept prices low.

For Europe, the conclusion of new **trade agreements** is an essential tool to counteract the fragmentation of global trade. The EU–Mercosur free trade agreement has been finalized and awaits political ratification. The agreement represents an asymmetric tariff liberalization: the EU grants limited access to South American agricultural goods, subject to food safety standards, while obtaining broad market access in industrial and services sectors. Mercosur – particularly Brazil and Argentina – also plays a crucial role as a supplier of critical raw materials for Europe’s digital and energy transitions. The free trade area to be created will encompass over 700 million people and generate about one-fifth of global GDP: roughly 40% larger than the USMCA (United States, Mexico and Canada) in terms of population, though about 10% smaller in terms of GDP. This will foster a significant expansion of EU exports and strengthen existing production links. Thus, European market shares in Mercosur countries – where the EU has recently been overtaken by China as the leading trading partner – are expected to recover. Germany and Italy are cur-

rently the two largest European suppliers to the Mercosur area, particularly of capital goods. These two countries are the European economies that will benefit most from tariff reductions, given their specialization in sectors where the reduction in tariff rates will be most significant.

3. Penalized by the challenging global and European environment, **Italy's GDP growth** will remain modest over the forecast horizon (Table B). According to the CSC scenario, GDP is expected to increase by only 0.5% in 2025, 0.1 percentage points lower than the April forecast. Growth is projected to pick up slightly to 0.7% in 2026, returning to the same rhythm of expansion recorded in 2024. The annual pace of growth is heavily constrained by the contraction in the second quarter of 2025, when Italian GDP declined by 0.1% due to a fall in exports. Weak GDP growth in both 2025 and 2026 will be driven mainly by investment and, to a lesser extent, by household consumption, while net exports will make a negative contribution.

Table B
The CSC forecast for Italy

(Under current legislation,
percentage changes)

	2024	2025	2026
€ Gross domestic product	0,7	0,5	0,7
Household consumption	0,6	0,5	0,7
Public consumption	1,0	0,3	0,6
Gross fixed capital formation	0,5	3,0	1,9
Exports of goods and services	0,0	0,2	0,1
Imports of goods and services	-0,4	2,1	1,7
Employment (FTEs)	2,2	0,9	0,5
Total employment (headcount)	1,5	1,0	0,6
Consumer price index	1,0	1,8	1,8
Nominal wages per FTE	2,9	3,2	2,7
Government net borrowing ¹	3,4	3,1	2,6

¹ Percent of GDP.

FTEs = full-time equivalent work units.

Source: Centro Studi Confindustria elaborations and estimates based on Istat and Bank of Italy's data.

The weakest component of demand in Italy is **exports**. In the CSC scenario, growth in exports of goods and services – already very weak in 2023–24 – is expected to be close to zero in 2025–26; exports of goods, in particular, are projected to decline. Imports, on the other hand, are expected to increase, resulting in a strongly negative contribution from net exports to GDP growth. The export profile has been significantly revised downwards compared with the April report, due to the surge in U.S. tariff barriers on European products and worsening global geopolitical tensions. Italian goods exports are also losing ground relative to global trade, as demand in Europe – the main destination for Italian products – remains weak and the strong euro undermines the competitiveness of products from the euro area. The outlook remains unfavourable, as European industrial activity is expected to recover only gradually and protectionist and geopolitical headwinds appear persistent. A positive factor could be the ratification of the EU–Mercosur agreement, which would open up significant new markets and partially offset the barriers in the U.S. market.

Conversely, the most robust component of domestic demand in Italy is **fixed investment**. After slowing in 2024 (+0.5%), investment growth regained

strength between the end of last year and the first half of 2025. It is expected to remain on an expansionary path in the second half of the year (+3.0% annual average growth in 2025) before slowing in 2026 (+1.9%). In addition to benefiting from a monetary policy stance that is no longer restrictive – although its effects will be more muted next year – investment has been effectively stimulated by fiscal incentives. Residential construction investment, which declined in 2024 but is recovering this year, is supported by the *Ecobonus* and *Renovation Bonus*, albeit in less generous forms than in the past. Investment in machinery, equipment and intangible assets is being supported by *Transition 4.0* and, following the latest simplifications, also by *Transition 5.0*. The NRRP is driving investment in non-residential buildings, although this support will weaken in 2026 when the program ends in mid-year.

Household consumption in Italy slowed in the first half of 2025, particularly for goods, while spending on services increased at a moderate pace. In the CSC forecast, consumption is expected to grow only modestly in the coming quarters, rising by 0.5% on average in 2025 and 0.7% in 2026. The main reason for this weak dynamic is the high propensity to save, driven by heightened uncertainty, which this year is dampening the positive effect of rising household income. For next year, the modest decline projected in the saving rate will leave some room for consumption to expand. Households are therefore showing structurally more cautious consumption and saving behaviour, given the elevated risks in the outlook and the lasting impact of past price increases, with the price level remaining permanently higher. Another structural change in Italian household behaviour is the high propensity to invest in home renovation, which has fallen only slightly from the peaks reached during the *Superbonus* period. Several factors explain this trend: households have become more familiar with tax deduction instruments; in an uncertain environment, housing has become even more of a “safe haven” asset and renovations help preserve real estate wealth; finally, the boom in short-term rentals, especially for tourism in major cities, is encouraging investment in renovating second homes.

4. On the supply side, **Italian industry**, after a solid rebound in production in the first quarter of 2025, slowed again in the second. These mildly positive results follow the sharp decline in output recorded in 2023–24, which brought industrial production below pre-pandemic levels. In 2025, the heightened uncertainty is also affecting short-term indicators, which present mixed signals, including a marginal increase in domestic orders from manufacturing firms and a return of the PMI (Purchasing Managers Index) to expansionary territory. Signs of a slow and partial recovery are also emerging from the automotive sector, a key segment of Italian manufacturing, which has shown an upward reversal in production since the beginning of 2025, although this is still insufficient to make up for the steep decline of the previous two years. In the CSC scenario, industry, measured in terms of value added, is expected to recover in 2025 (+1.1%) but to slow down next year (+0.4%), as the effects of investment incentives fade and the positive impact of lower interest rates diminishes.

In the first half of 2025, total value added in Italy grew mainly due to the strong performance of the **construction sector**. Residential construction, which had been severely affected in 2024 by the reduction of fiscal incentives, recorded an upward reversal between the end of last year and the first half of 2025. Non-residential construction has been expanding strongly for two years and is expected to continue benefiting from NRRP funding and less costly bank financing. The overall value added of the construction sector is expected to improve further in the second half of the year, growing by an average of +3.1% in 2025, before slowing to +1.4% in 2026.

The **private services sector** instead remained virtually stagnant in the first half of 2025. The most recent short-term indicators, referring to the third quarter, do not yet point to a significant recovery, although tourist arrivals in Italy

increased by +4.6% year-on-year in July and business confidence in the services sector strengthened. As a result, the value added of services is expected to grow only modestly in the second half of 2025 and early 2026, before gaining momentum in the second half of next year. This acceleration will be supported by reduced uncertainty and, therefore, by a lower propensity to save, the lagged effects of higher real disposable income and more favourable consumer credit conditions. In the CSC scenario, the sector's value added is projected to grow only marginally in 2025 but more robustly in 2026 (+0.6%).

In 2025, **employment** continues to grow faster than GDP (+0.9% in terms of full-time equivalent units, largely already achieved by the second quarter) but is expected to slow in 2026 (+0.5%), enabling an initial recovery in labour productivity. In industry, excluding construction, following a period of “employment without growth” during the energy crisis and up to the first half of 2025, labour productivity remains significantly compressed (-4.7% in value added per hour worked in the second quarter of 2025 compared with the fourth quarter of 2019). According to the CSC's forecasts, the modest recovery in industrial activity expected in the second half of the year will be accompanied by relative stability in labour input, which will grow more slowly than value added in 2026 as well. The construction sector, in sharp contrast to the industrial sector, continues to show substantial gains in labour productivity compared with pre-pandemic levels, which are expected to remain high over the forecast horizon. The prolonged and broad-based post-pandemic employment recovery has reduced the **unemployment rate** from 10.2% in April 2021 to 5.9% in July 2025, the lowest since 2007. The unemployment rate is expected to average 6.0% in 2025 and 5.8% in 2026.

The growth of actual per capita **wages** in the Italian economy accelerated to +2.9% in 2024 (from +1.8% in 2023) and reached +3.1% in the first half of 2025, a pace that is expected to continue on average this year (+3.2%) and to decelerate only slightly next year (+2.7%). Thanks to wage growth remaining above inflation, the gradual recovery of real wages will continue, with a cumulative increase of +2.3% over 2025–26. The recovery began in 2023, driven by the private sector, where real wages per FTE in the second quarter of 2025 had regained almost 40% of the substantial loss of purchasing power caused by the energy crisis (-5.3% compared with the first quarter of 2021, from a minimum of -8.5% in the fourth quarter of 2022). In the public sector, which accounts for about a quarter of the total wage bill, real per capita wages declined even more sharply during the price surge of 2022 and in spring 2025 remained 9.4 percentage points below their pre-crisis level.

Inflation in Italy has remained relatively stable, as falling energy prices have offset rising food prices. Looking ahead, it is expected to remain close to current levels, averaging +1.8% in both 2025 and 2026, broadly in line with the recent trend in core inflation. This favourable scenario is based on continued declines in European energy prices – albeit from still high levels – and on a stable exchange rate implying an appreciation of the euro against the dollar. As a result of moderate output price dynamics and rising costs, corporate mark-ups in manufacturing have been eroding sharply since 2024 and are only beginning to stabilise in 2025. The inflation differential with the euro area persists: area-wide inflation is about 0.5 percentage points higher than in Italy, due to service and industrial goods prices, where euro area inflation remains structurally higher. This suggests that, from the perspective of Italian inflation, there could be scope for a deeper interest rate cut.

Credit conditions have improved with annual growth in **bank lending** to Italian firms turning positive again in recent months (+0.7% in July 2025). This is due to the ECB's rapid rate-cutting cycle, completed in June 2025, which has led to an easing of credit supply conditions in the form of lower borrowing costs for firms. The cost of credit has fully incorporated the rate cuts, with the rate on

new loans falling to 3.50% from a peak of 5.59% in November 2023 – a total decline of more than 2.0 percentage points. Lower rates have also supported a recovery in credit demand, particularly for financing fixed investment. Over the forecast horizon, interest rates are expected to remain at their current, “neutral” levels – not elevated as in 2024, but not low by historical standards. As a result, some firms may continue to face difficulties due to high debt servicing costs, although the annual growth rate of corporate lending is expected to strengthen, supporting investment.

In the CSC scenario, the **public deficit** will decline below the EU threshold of 3.0% of GDP in 2026, creating the conditions for exiting the excessive deficit procedure. Public debt, however, will continue to rise, due to interest payments and the additional accounting effects of the Superbonus.

5. The anemic GDP growth expected this year and next makes it necessary for **Italy to act**, using the most effective policy levers available, including unlocking financial wealth currently parked in unproductive bank deposits. In addition to the highly positive impact of the NRRP, which is still under way but set to conclude in the early months of next year, a fiscal policy package that wisely continues to support productive investment is needed. Investment is essential to revitalise the country’s growth and incentives can play an effective role in stimulating it, even in the Mezzogiorno, as seen in recent years.

The **implementation of the NRRP**, which includes public investment, reforms and incentives, will have a significant positive impact on GDP growth over the forecast period: between 2025 and 2026, planned resources amount to around €130 billion. The CSC scenario assumes that half of these resources, around €65 billion, will be spent; this includes around €11 billion, or half of the unspent 2024 resources, which will be carried over to 2026. According to a CSC simulation, the positive effect of the NRRP on GDP is estimated at +0.8% in 2025 and +0.6% in 2026, compared with the change in the baseline scenario (+1.4% cumulative over the two years). This means that, in the absence of the NRRP, Italy’s GDP growth would be –0.3% in 2025 and +0.1% in 2026 (–0.2 percent over the two years): there would be no growth, but a mild recession.

Ex-post evaluation analyses show that **fiscal incentives for investment** have contributed to the recent surge in investment in machinery and equipment in Italy. However, this recovery is not yet sufficient to restore the net capital stock to pre-2008 financial crisis levels. Investment in high-tech and digital tangible and intangible assets is essential, given the significant gap that Italy still faces in advanced technologies. The propensity to invest in these assets has increased in Italy, but remains lower than in other advanced economies. Most of the fiscal incentives for investment will expire at the end of 2025: it is crucial to design new incentives potentially capable of making Italy take the necessary leap forward. According to CSC calculations, the incentives provided by the *Transition 4.0* plan and paid out between 2020 and 2022 have significantly increased the investment rate: they more than doubled the investment rate for micro-enterprises, nearly doubled it for small firms, increased it by 35–45% for medium-sized firms and by 20–25% for large companies. The tax credit for tangible 4.0 assets cost €20.3 billion but recovered nearly half of that amount (48.6%) through additional investment-driven revenue. Considering all major tax incentives for capital goods (excluding means of transportation) and intellectual property products (not only those included in the 4.0 plan), 23.5% of the €74.6 billion spent between 2016 and 2024 was recovered.

Financial wealth held by Italian households could also play a crucial role in accelerating investment. This wealth has grown rapidly and reached extremely high levels – over €6,000 billion in 2024 – fueled primarily by high savings in recent years. In particular, household bank deposits in Italy have reached over €1,500 billion, about a quarter of the total. Mobilizing even a small share

of total household wealth could unlock substantial resources to finance new productive investment in the country: for example, shifting just 1.0% of bank deposits to bonds and shares issued by Italian companies could finance €15 billion in new investment. Well-designed policy measures are needed to encourage households and large financial intermediaries – such as pension funds, insurance companies and mutual funds – to direct resources towards instruments issued by Italian firms. These resources could also be used to finance infrastructure of national interest, as well as investment in healthcare and education, thereby creating a more favourable environment for growth.