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Economic Outlook

Wars, tariffs, uncertainty: growth at risk

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Summary

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1. The global economic environment was characterized by great uncertainty even before the outbreak of the war in Iran on February 28, 2026, which subsequently spread to neighboring countries. This uncertainty was primarily due to the U.S. tariffs introduced in 2025, which had already been generating significant adjustments in trade flows across economies.

Against this evolving backdrop, the conflict in the Middle East has further increased uncertainty and is expected to exert additional negative effects on economic activity. The baseline assumption of the CSC forecast for 2026–2027, which models all **international exogenous variables** (Table A), is that the conflict in Iran will not extend beyond March. However, given the high degree of volatility in the global environment, two alternative scenarios are also considered, assuming a longer conflict (4 and 10 months) with more adverse consequences for both the Italian and global economy.

Regarding oil, the baseline scenario assumes that the global supply abundance expected before the war remains the underlying trend. It is, in fact assumed that, while the conflict temporarily constrains oil supply - due to the closure of the Strait of Hormuz - production will return to near pre-conflict levels once the war ends in March. The main impact of the conflict would be higher oil prices: Brent is projected to average USD 78 per barrel in 2026 (up from USD 69 in 2025), before declining to USD 65 in 2027. Compared with the October scenario, this implies an upward revision of USD 16 for 2026. Similarly, gas prices are expected to reflect temporary upward pressure before reverting to underlying bearish fundamentals after the end of the conflict. European prices are projected to rise to EUR 41/MWh on average in 2026 (from 36 in 2025), before declining towards EUR 30 in 2027. For 2026, this represents an upward revision of EUR 9/MWh.

In the CSC baseline scenario, global goods trade is expected to grow modestly in 2026 (+1.8%), albeit at higher rhythms than projected in the Autumn 2025 report. The increasing negative impact of U.S. tariffs is expected to be at least partially offset by the ongoing reconfiguration of trade flows, particularly in Asia, while the Gulf conflict would have a limited impact given its assumed short duration. Trade is projected to accelerate in 2027 (+2.5%), broadly in line with global GDP growth, which is expected to remain subdued amid persistent geopolitical tensions and elevated uncertainty.

U.S. GDP growth is projected at +2.2% in 2026, slightly above the 2025 outcome, before easing to +2.0% in 2027. Growth is driven primarily by resilient household consumption habits and, to a lesser extent, by the contribution of investments. However, net exports contribution is highly uncertain due to continuous changes in tariff policies, while public expenditure is subject to the risks of potential further government shutdowns. Over time, the United States has become a net exporter of both oil and gas (although it continues to import certain grades of oil). As a result, it is not vulnerable to supply shortages or adverse effects on its trade balance, even though it is still affected by rising energy prices. However, these increases are more moderate than those recorded in Europe because in the United States gas prices are set regionally rather than globally and the benchmark used for the oil price is the WTI's which is significantly deviating from that of Brent and is now 15-20 dollars a barrel lower.

The war in Iran has a significant impact on the growth prospects of emerging economies. The extent of the slowdown is driven by various factors: the destruction of productive capacity in certain economies, including Iran, which is the 12th-largest emerging economy in terms of its share of global GDP; rising gas and oil prices, to

which China and India are most exposed; supply difficulties, due to reduced production capacity in the Gulf countries and the inability to transport goods - including non-energy goods - through the Strait of Hormuz. The impacts are heterogeneous across countries, partly because rising hydrocarbon prices are beneficial for exporting countries far from the Gulf, such as Russia and Nigeria. Overall, the CSC baseline scenario assumes that growth in emerging markets will slow to 4.1% in 2026 (from 4.4% last year) and then rebound to 4.3% in 2027.

For the Eurozone, the CSC baseline scenario assumes GDP growth slowing to 1.1% in 2026, down from +1.5% in 2025, due to the negative evolution of the global geopolitical scenario. This will be followed by a recovery to 1.3% in 2027. Eurozone growth is higher than that of the three major economies (Germany, France, Italy), thanks to the strong contribution of the Spanish economy and some smaller countries. Looking ahead, the region's performance will depend heavily on Germany, which is trying to recover thanks to enormous fiscal stimulus plans. Among the components of domestic demand, consumption is the most stable element, while investment remains the one with the least clear trend. Net exports already reflect the negative impact of tariffs in late 2025.

Until February, financial markets were signaling that interest rates in the Eurozone would stay stable this year and next, rather than continuing the downward trend as was the case six months ago. After the outbreak of war in Iran, however, interest rate futures rose again, suggesting a shift in ECB policy. The CSC baseline scenario incorporates these indications and assumes a rate hike of 0.25 in the Eurozone by December 2026,

Table A

The international exogenous variables of the forecast

(Percentage changes)

	2025	2026	2027
World trade	4,4	1,8	2,5
GDP - United States	2,1	2,2	2,0
GDP – Eurozone	1,5	1,1	1,3
GDP – Emerging countries	4,4	4,1	4,3
Oil price[1]	69	78	65
Gas price (Europe)	36	41	30
Dollar/euro exchange rate[2]	1,13	1,16	1,16
Effective FED rate[3]	4,21	3,36	3,12
ECB deposit rate[3]	2,26	2,15	2,25

Nota: [1]Brent, dollars per barrel; [2] levels; [3] % values..

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

followed by a period of stability in 2027. This means there will be no monetary stimulus to domestic demand in the European economy. The risks are high: depending on the duration of the conflict and its impact on prices, the ECB could raise rates further.

2. According to the CSC baseline scenario, **growth in Italy** in 2026 will be +0.5%, 0.2 percentage points lower than projected last October (Table B). This downward revision reflects the effects of the war that broke out in the Middle East at the end of February 2026, assumed, in the baseline scenario, to last until the end of the first quarter. Italian GDP is, instead, expected to stagnate if the conflict extends into the second quarter (alternative scenario B), or even contract if the conflict lasts until the 4th quarter (alternative scenario C). The baseline scenario, therefore, implies significant downside risks that have a non-negligible probability, also because the underlying assumptions are to be considered rather optimistic. In 2027, the Italian economy is expected to recover only moderately (+0.6%) in the baseline scenario, growing at a very subdued pace. Growth will continue to be driven by household consumption and investment and will be also favored by a slight positive contribution from net exports, sustained by the improvement in the terms of trade expected next year.

In addition to the downside risks associated with the war in Iran, there are other risks linked to the implementation of the PNRR, a possible further depreciation of the dollar, the persistence of high uncertainty, and the possibility that even the Fed's rate cut may be smaller than expected.

At the end of 2025, Italy's data were better than expected: the statistical inertia with which GDP entered 2026 (+0.3%) was sustained by consumption and especially investment, while net exports made a negative contribution to growth. In the first two months of the year, before the war, economic activity indicators pointed to moderate strengthening.

The surge in energy commodity prices is affecting the Italian economy primarily through rising inflation, as will become evident from the April data. In the CSC baseline scenario, inflation is expected to rise significantly over the course of 2026 from the lows at the beginning of the year, peaking near +3.0%. On average, it will settle at +2.5% (from +1.5% in 2025), an upward revision of +0.7 points compared to the estimate included in the October scenario. In 2027, however, inflation is expected to slowly return to more moderate levels as the change in energy prices is gradually absorbed: on average, it is expected to be +2.2%.

Italian household consumption will slow to +0.7% in real terms in 2026 and will maintain the same moderate pace in 2027, despite a weaker start to the year. This slowdown follows better-than-expected growth in 2025 (+1.1%). In addition to the loss of purchasing power due to rising inflation, household spending will be held back for much of 2026 by a further increase in the propensity to save, driven by the surge in uncertainty exacerbated by the outbreak of war in Iran. Conversely, lower inflation, less uncertainty, and lower savings are expected to boost household demand next year.

Real disposable income of total households in Italy, adjusted for inflation and taxes, rose sharply in 2025: +3.1% year-on-year in the third quarter, 6.1% above the 2019 level. This did not translate into a corresponding increase in consumption, which rose by only 0.8% year-over-year in the fourth quarter of 2025. There are two reasons for this. Uncertainty has risen sharply, to levels higher than those seen during the pandemic, and this typically

leads to an increase in household savings rates. Total income grew largely because financial income rose significantly; this income is received primarily by wealthier households, which have greater financial wealth and a lower propensity to consume. Consequently, the share of income saved also increased due to a "composition effect" among households. It should be remembered that low-income families have been the main beneficiaries of public interventions to support purchasing power.

After two years of decline, Italian exports of goods and services returned to growth in 2025 (+1.2%), exceeding expectations, which were impacted by US tariffs and geopolitical uncertainty. Net exports, however, were significantly negative. In the first half of 2026, trade will suffer the chain reaction effects from the conflict in Iran: slowing global demand, declining confidence, a surge in energy prices and transportation costs, increases in the prices of raw materials and other supplies from abroad. In the CSC baseline scenario, Italian export growth will slow to 0.6% in 2026. It is expected to rebound to 1.8% in 2027, at slow rhythms compared to those recorded before the pandemic. The contribution of net exports to GDP growth will remain negative in 2026 and will turn slightly positive only in 2027.

Regarding fixed investments, the outlook for the two-year period 2026-2027 remains positive, but with annual growth rates expected to decline to +2.3% and +1.3%, following the strong performance recorded in 2025 (+3.5%). The expected moderation in investment growth reflects two factors. First, high geopolitical uncertainty, which is causing companies to be cautious about launching new investment projects and is also leading to higher energy commodity prices and a marginal rise in interest rates in Europe. Second, the contributions of public policies incentivizing investment (especially in machinery) and those sustaining infrastructure development are both expected to gradually decline over the two-year forecast period.

In recent years, differently from the past, Italy has been characterized by relative political stability. This stability is linked to the duration of the government in office, but also to the commitment of successive governments since the pre-pandemic period to maintain sound public budget policy, respecting the parameters of the Stability and Growth Pact and proceeding with determination to implement the National Recovery and Resilience Plan (NRRP). These elements have allowed the country to be perceived positively by financial markets and rating agencies, which are improving their assessments of Italy, increasing confidence in the country. This is leading to a decline in yields on Italian government bonds and, consequently, to a reduction in the public sector's interest payments, lower borrowing costs for businesses, amounting to between 0.5 and 1.4 billion euros and improved stock market performance: +28.4% in December 2025 compared to December 2024, outpacing Germany and the U.S. It is important, even in the coming years, to ensure stable governments and to maintain a shared determination across political parties on certain crucial aspects of government action.

On the supply side, Italian industrial activity showed signs of recovery in the final months of 2025, with value added increasing by 0.3% year on year. Manufacturing activity benefited from increased investment in plant and machinery, but was held back by uncertainty in the international environment and by trade barriers. Moreover, although consumption of goods increased, on the foreign front, imports of goods rose more than exports. There was greater heterogeneity across industrial sectors compared to the widespread decline of 2024: the number of growing sectors rose from 4 to 10, but

the decline in some sectors, such as automotive and textiles and apparel, remained significant. The war in Iran, in addition to weakening demand, is set to further increase production costs and risks dampening the signs of recovery shown by indicators at the beginning of 2026.

After the strong expansion of recent years, employment growth in Italy is showing signs of slowing down. In 2026, under the CSC baseline scenario, full-time equivalent employment (FTEs) is expected to remain broadly stable (+0.3% on average over the year, due to carry-over effects). Against a backdrop of slightly stronger GDP growth but still high uncertainty, the increase in labor input will occur only along the intensive margin: hours worked per capita are projected to rise by 0.3%, while the number of persons employed will increase by 0.1%. In 2027, a moderate acceleration in economic growth, together with a gradual easing of uncertainty, will support a recovery in employment growth along the extensive margin: employment will increase by 0.3% and FTEs by 0.3%, with hours worked per employee remaining stable.

The developments in labour input will support a moderate recovery in productivity, projected to increase by 0.3% on average per year over the two-year period. In the CSC baseline projections, labour productivity in industry is expected to continue rising in 2026–2027, albeit at a very subdued pace, as labour input expands more slowly than value added. . In construction, the gap between labour input and value added, which began narrowing in 2024, is expected to shrink further, though it will remain positive. In services, labour input is projected to grow in line with value added, keeping productivity mostly flat.

The strong and prolonged expansion of employment in recent years has progressively reduced the unemployment rate, which fell to a historical low of 5.1% in January 2026. The unemployment rate is projected to rise to 5.8% in 2026 and to remain at that level in 2027.

The growth of gross per capita earnings across the entire Italian economy accelerated to +2.8% in 2024 (from +1.8% in 2023) and to +2.6% in 2025, at current prices. This pace is expected to be largely maintained, on average, over the forecast period, with +2.3% in 2026 and +2.7% in 2027. In real terms, however, wage growth remains very weak: the expected increase in inflation in 2026, linked to the new conflict in the Middle East and its effects on energy and imported goods prices, will significantly curb the rise in wage purchasing power. Real wages are therefore projected to remain virtually flat in 2026 (+0.1%), before increasing moderately in 2027 (+0.6%).

The public deficit will fall below 3.0% of GDP, to 2.8% in 2026 and 2.7% in 2027, allowing Italy to exit the excessive deficit procedure. Fiscal policy is expected to remain moderately restrictive, while implementation of the National Recovery and Resilience Plan (NRRP) will continue. Public debt will rise to 138.7% of GDP in 2026, mainly due to stock-flow adjustments still related to construction tax credits, before decreasing to 138.0% in 2027 as the impact of these credits on the debt is sharply reduced.

3. An important driver of Italian economic growth in the coming years could come from an increase in **national defense spending** as established in the June 2025 agreement within NATO: from the current level of 1.5% of GDP, defense spending is expected to rise to 3.5% over the ten-year period 2025–2035.

Table B

The CSC forecast for Italy

(Under current legislation, percentage changes, baseline scenario)

	2025	2026	2027
Gross domestic product	0,5	0,5	0,6
Household consumption	1,1	0,7	0,7
Public consumption	0,6	0,1	-0,5
Gross fixed capital formation	3,5	2,3	1,3
Exports of goods and services	1,2	0,6	1,8
Imports of goods and services	3,6	1,7	1,4
Total employment (FTE)	1,3	0,3	0,3
Total employment (headcount)	0,8	0,1	0,3
Consumer price index	1,5	2,5	2,2
Per-capita wages	2,6	2,3	2,7
General Government net borrowing[1]	3,1	2,8	2,7

[1] As a % of GDP.

FTE = Full-time equivalent units.

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

The CSC has developed six alternative scenarios to estimate its impact on GDP growth. Scenario 1: The spending increase is split between current expenditure and investment, in line with the current composition (approximately 60% and 40%). In scenario 2, a cumulative improvement in productivity across the economy of 0.45% is added. In scenario 3, the spending increase is concentrated on investment. Scenario 4 adds the assumption of an increase in productivity to scenario 3. Scenario 5 incorporates, in addition to what is included in scenario 4, an increase in domestic production and, therefore, a reduction in imports. Conversely, scenario 6 adds an increase in imports to scenario 1. The latter is the "worst" in terms of GDP stimulus, scenario 5 is the "best," while scenario 1 represents the "central" case, with no additional assumptions.

If the increase in spending is implemented by focusing on investment (Scenario 5), positive spillovers on the entire economy's productivity are generated and the rise in imports is contained. In this case, the impact on the Italian economy is significantly positive: +3.0% cumulatively, compared to a scenario in the absence of the Defense Plan, higher than the +1.5% of the central scenario (1) and the +0.9% of the adverse scenario (6). Despite the increase in public spending, the impact on the deficit-to-GDP ratio is modest even in the worst-case scenario, close to zero in the central scenario, and becomes favorable in the more positive scenarios. This reflects the strong expansion in nominal GDP, employment, and tax revenues. The fiscal multiplier varies markedly across scenarios, ranging from a low of 0.8 in the most adverse case (Scenario 6), to 1.5 in the "central" scenario (1), up to a high of 2.0 in the most favorable scenario (5).

Meeting the requirement set out in the NATO agreement could act as an important catalyst for the country's innovation and growth.

4. Young people, an increasingly scarce resource for the Italian economy. In 2025, the share of youth (aged 15–34) in the total population stands at 20.6%, down sharply from 25% in 2005. By 2070, according to Istat projections, it is expected to decline further to 18.6%. In light of demographic decline, the share of the working-age population is also set to shrink significantly, with a loss of 5 million units as early as 2040.

Compared with their European peers, young Italians are less employed, especially in the younger age groups (15–24). In 2024, only one in five young people was employed (19.7%), compared with more than one in three on average in the euro area and more than half in Germany (51.2%). However, Italy's relative position improves in the 25–29 age group and even more so among those aged 30–34. The low employment rate among the youngest partly reflects longer educational paths, but it is also the result of persistent regional disparities, although in recent years the South has shown signs of recovery.

Young Italians' difficulties in finding employment persist even after they complete their education. In 2024, among 20-34 year-olds with a high school or university degree, only 67.6% of them in Italy were working within three years of completing their education, compared to the Eurozone average of 81.0% and 90.4% in Germany. Education pays off (in terms of employment opportunities and wages), but less so than elsewhere, despite Italy having a relatively low share of young people with tertiary education (30%, 10 points less than Germany and 20 points less than France). This outcome is closely linked to the international mobility of highly educated young people. Over the past five years (2019–2023), more than 190,000 young Italians have left the country and approximately half of them held a university degree. One-tenth of young Italian graduates have moved abroad, with particularly high rates among engineers and computer scientists, professions where companies report growing shortages. International labor mobility can foster knowledge exchange, the diffusion of technologies, and the creation of economic ties across countries. However, to strengthen national human capital, it is important to encourage the return of young talents and to attract them from abroad. In this regard, the preferential tax regimes introduced in recent years, including in Italy, move in that direction.

In recent years, Italian public policies aimed at youth employment have largely focused on labour demand incentives. Hiring subsidies and bonuses primarily reduce labour costs for firms, but have limited impact on the structural factors underlying low youth employability. In particular, without effective policies to better align the skills provided by the education system with those demanded by the labour market, skills mismatches will continue to act as a major constraint on the full integration of young people into employment.

A comprehensive, long-term strategy is needed, based on structural measures that address the root causes of young people's employment difficulties, including:

1. Reforming and strengthening education and training programs;
2. Facilitating earlier entry into the labour market during the course of education;;
3. Targeted incentives to support the income of young workers;

4. Active labour market policies and welfare support measures.

A coherent policy framework aimed at enhancing and retaining human capital would effectively act as an industrial policy lever, helping to strengthen the innovative capacity of the production system and to support the country's long-term economic growth..

5. Italian foreign trade has proven resilient to repeated and unpredictable shocks. Italy's external trade is currently facing a paradigm shift: the decoupling between the two largest economies, the United States and China, the introduction of tariffs and other barriers to entry into the U.S. market (the main non-EU destination for Italian exports) and the pressure stemming from China's overcapacity (the largest non-EU supplier), with rising volumes and falling prices.

What are the initial indications of the Sino-US double shock on Italian trade dynamics in 2025? What are the medium-term prospects?

In 2025, trade with the United States and purchases from China were driven by a limited number of products, especially in the pharmaceutical sector. The negative impact of US tariffs, however, is already visible in many manufacturing sectors. The critical issues with Chinese supplies, however, are concentrated in specific sectors, such as electric cars and clothing.

The outlook is challenging. The new and highly uncertain U.S. tariff framework is further penalizing a wide range of Italian products. At the same time, Chinese overproduction continues to expand beyond mature sectors into medium- and high-technology sectors.

On the positive side, internationally active Italian firms have demonstrated a strong ability to redirect their overseas purchases and sales, mitigating supply risks and seizing opportunities in new export destinations. Strengthening trade agreements with strategic partners, Mercosur, India, Mexico and Indonesia, will be key to promoting diversification towards more dynamic markets.

Regarding **Italy's trade with the United States**, in 2025 imports from the U.S. increased by 35.9% in value, exceeding €35 billion, while exports approached €70 billion (+7.2%). The acceleration in exports was driven by the unpredictability of U.S. tariff policies, particularly in sectors at risk of higher tariffs: for example, the pharmaceutical sector saw a 100% jump in purchases and a 54% increase in sales in the U.S.

Excluding pharmaceuticals and other transport equipment (notably high-value shipbuilding orders), Italian exports to the U.S. actually declined in 2025, reflecting the impact of tariffs (-5.7% annually). By the end of 2025, double-digit losses were recorded in several sectors, including food and beverages, paper and printing, metals and metal products (affected by 50% tariffs on steel, aluminum and copper), electrical equipment and furniture. The impact is expected to intensify in the medium and long term as US buyers become more able to find alternative suppliers, although this decline is less pronounced for high-quality products such as Italian ones. Under the tariffs envisaged in the EU–U.S. bilateral agreement, losses for Italian exports could exceed €16 billion.

Further uncertainty arose following the U.S. Supreme Court's ruling on February 20, 2026, which declared the reciprocal tariffs introduced in 2025 unlawful, paving the way for importers to file claims for refunds of tariffs already paid, which the Administration will be required to reimburse. New erga omnes tariffs were then introduced as of February 24, amounting to an additional 10% on top of MFN (most-favored-nation)

rates, with a maximum duration of 150 days, subject to extension. Prior to the Supreme Court ruling, the overall "effective" U.S. import tariff stood at 15.2%; with the 10% tariffs, it has declined to 11.5%. In the event of an increase to 15%, it would rise to 13.2%.

The impact is heterogeneous by country and product: countries that had higher tariffs before the ruling stand to gain: Brazil, China (from 36.9% to 26.9%), and India (from 22.3% to 13.9%). By contrast, countries that had negotiated lower tariffs, such as the EU, experience a relative disadvantage (from 11.7% to 10.5% with 10% tariffs, and to 12.5% in the event of a 15% increase). Italy is the most adversely affected European country under the new tariff regime: prior to the ruling, its "effective" tariff stood at 13.6%, below the global average; afterwards, it will rise to 12.6% with 10% tariffs and to 15.3% if tariffs increase to 15%, exceeding the global average. A total of 2,246 Italian products exported to the U.S. (14% of total exports) face tariffs higher than those envisaged under the EU–U.S. agreement when the additional rate was set at 10%; this figure will rise to 4,065 products (31% of exports) if tariffs increase to 15%. By comparison, the corresponding shares are below 10% for France and Germany with 10% tariffs and below 20% with 15% tariffs.

With regard to **trade with China**, the increase in Italian imports from China in 2025 (+16.4% in value, over €60 billion) was driven by: 1) pharmaceutical products (almost +1000%, +€7 billion). The pharmaceutical supply chain is highly interconnected between Italy, China and the United States. The rise in imports from China is concentrated in hormones and, to a lesser extent, hormone-based and steroid-based medicines. The increase in exports to the United States is driven by immunological products (hormone-based) as well as by the same category of hormone- and steroid-based medicines; 2) motor vehicles (+63%, +€1 billion). These are sectors in which China's market share has expanded significantly in recent years: between 2019 and 2025, the Chinese share of both pharmaceuticals and automobiles increased by 20 percentage points with respect to total sectoral imports from non-EU countries. Excluding these two segments, imports from China remained broadly stable in 2025, at levels below the peak recorded at the end of 2022.

The penetration of Chinese products in Italy is concentrated in medium- and high-technology sectors, areas where competition is primarily driven by quality and innovation, and in strategic sectors. Imports from China are shifting toward higher value-added products, with higher average unit prices (pharmaceuticals, automotive, chemicals, machinery, electrical appliances, and other means of transport). The share of medium- to high-technology products in China's total exports surged from 28% in 2019 to 42% in 2024, while the corresponding share of Eurozone exports remained broadly stable at around 41%. Over the same period, the United States was able to gain market shares in high-tech and oil and gas sectors.

Imports from China are also increasing in sectors where average unit values have declined, notably in mature manufacturing sectors such as textiles, apparel and leather, as well as in capital-intensive sectors like metals. Chinese overproduction (due to still-weak domestic demand, substantial subsidies and reduced demand from the United States) is contributing to a rise in China's exports worldwide, particularly towards Southeast Asia. Subsidies on certain products in China are a key driver of this export expansion. According to the IMF, subsidies accounted for approximately one-sixth of China's export growth between 2009 and 2022. Moreover, subsidies to

upstream sectors also make downstream industries more competitive. For example, steel subsidies increased Chinese automotive exports by 3.5%..

EU countervailing duties on China over the past 15 years have been concentrated in sectors with a strong presence of state-owned enterprises or intensive public support (such as steel, aluminum, energy technologies and green transition products). However, they have not always delivered the expected outcomes. In some cases, European production capacity is insufficient to meet domestic demand, making it difficult to reduce import dependence even in the presence of tariffs (for example, lithium-ion batteries). In other cases, Chinese products remain competitive despite the tariffs, thanks to economies of scale, vertically integrated production chains and support from national industrial policy (as in the case of electric vehicles).

In order to compete with China, it is essential to build on the strengths of the European production system (rather than relying primarily on price-based trade policies), namely product quality, innovation, and specialization in higher-end market segments. Accordingly, a central priority is an industrial policy aimed at strengthening the technological capabilities, quality, and competitive positioning of European firms in high-tech sectors; making effective use of trade defense instruments and managing, at the EU level, the risks associated with the supply of critical inputs, which are often geographically concentrated and characterized by persistent trade deficits.

Italian trade is increasingly oriented toward **diversification**: exports have shown greater resilience to shocks, thanks to a faster geographic reallocation of trade flows achieved by Italian firms. Imports underwent a reallocation of around 12% per year in 2022–2023 and have stabilized at approximately 9% over the past two years, well above the pace observed in Germany. On the export side, roughly 8% of Italian products change destination each year, compared with 6% for German exports.

On the import side, pharmaceuticals, petroleum, and metallurgy drove the recomposition of Italy's trade in 2025. In Germany, the main contributors were chemicals, computer–electronics–optics and motor vehicles.

On the export side, pharmaceuticals, machinery and equipment made the largest contribution to the reconfiguration of Italy's trade, while in Germany this was mainly driven by motor vehicles, machinery, and other transport equipment.

Regarding destination markets, in 2025 Italian exporters increased sales of some products and decreased them for others: almost equally in the U.S., Germany, and Switzerland. Market shares predominantly increased in France and Spain, while they decreased in Turkey. On the import side, the increase in market shares from China was particularly significant, followed to a lesser extent by the US. It is essential to focus on trade agreements with partners such as Mercosur, India, and Mexico to foster diversification in dynamic markets.

Introduction: the war in Iran

02

The war in Iran: the main destabilizing factor

The Italian, European, and global economic outlook is currently being strongly affected by the war which began on February 28 between the United States and Israel on one side and Iran on the other, which began on February 28.

This is because Iran is not a country like any other: it is one of the world's leading oil producers and a strategic partner of Russia, to which it supplies weapons, and China, to which it supplies oil. It is the main military power in the Middle East, with armed forces roughly 3.6 times larger than Israel's, and it is a major producer of military equipment (as well as an exporter, particularly to Russia since the 2022 conflict in Ukraine). Moreover, Iran finances, trains, and arms Shiite-aligned resistance groups such as Hamas, Hezbollah, and the Houthis.

Objectives of the United States and Israel in the war

By waging this war, the United States and Israel aim to: 1) dismantle Iran's nuclear capabilities; 2) eliminate the military threat to Israel, as well as to other Middle Eastern countries that perceive Iran as a destabilizing force; 3) bring about regime change, in order to prevent renewed destabilization in the region.

Some stylized facts

- Following the attacks by the United States and Israel, Iran retaliated by striking U.S. bases and military targets across all Persian Gulf countries: Saudi Arabia, Bahrain, the United Arab Emirates, Kuwait, Oman, Qatar, and Iraq.

  Taken together, these eight Persian Gulf countries were producing 24.5 million barrels per day (mb/d) of crude oil prior to the war, a figure that rises to 29.8 mb/d when other extracted petroleum liquids are included. Overall, their oil output accounted for 28% of global production (106.3 mb/d), of which, at the beginning of 2026, Iran produced 3.3 mb/d, Saudi Arabia 9.9, Iraq 4.3, the United Arab Emirates 3.5, and Kuwait 2.6.

- The Strait of Hormuz, which is a crucial crossing point for global energy supplies, has remained essentially closed for one month. Its recent reopening, following a two-week truce, does not eliminate the risk of a renewed escalation of the conflict (Graph A).

  Prior to the conflict (2024 data), around 20% of global oil supply and 2.7% of global natural gas consumption transited by sea through the Strait of Hormuz. The disruption of this key international shipping route poses significant risks to crude oil availability.

- How long could the world withstand a closure of the Strait of Hormuz? Assuming an 80% decline in transit flows compared to pre-war levels, which appear consistent with the latest data for March, global supply would shrink by around 16 mb/d.

  To mitigate this shortfall, four types of "buffers" are available:

  Global excess production: prior to the conflict, global oil production consistently and significantly exceeded global demand. On average in 2025, the production surplus stood at +2.7 mb/d, which allowed for a significant buildup of commercial

inventories. However, only part of this excess production originates from countries outside the Gulf.

Spare production capacity: within OPEC, this amounts to 3.6 mb/d, 3.3 mb/d of which is, however, located in Saudi Arabia, as well as in Iraq, the United Arab Emirates, and Kuwait. Thus, only 0.3 mb/d of additional production from other OPEC countries can be considered immediately available.

Pipelines capable of bypassing the Strait of Hormuz: in Saudi Arabia, the East-West Pipeline can transport 5 million barrels per day, recently expanded to 7 million barrels per day, of oil overland from the Persian Gulf to the Red Sea. Another smaller pipeline, with a capacity of approximately 1.8 million barrels per day, is the United Arab Emirates pipeline, which can transport crude oil from Abu Dhabi to Fujairah in the Gulf of Oman, outside the Strait of Hormuz.

The transport capacity bypassing Hormuz is therefore 8.8 mb/d, although the Fujairah terminal and the oil tankers docking there have been attacked by Iran[1] in recent days. Therefore, it is reasonable to assume that, once these emergency pipelines were activated, the actual oil loss from the Gulf would be reduced.

Strategic reserves amount to 415 million barrels in the United States (a typical oil tanker carries an average of 2 million barrels), 1,406 million barrels in European countries and 280 million barrels in other member countries of the International Energy Agency (IEA), for a total of 2,101 million barrels. China has also accumulated strategic oil reserves, although outside the IEA system.

Overall, therefore, the loss of 16 mb/d resulting from the closure of the Strait of Hormuz could be reduced to between 6 and 7 mb/d by accounting for only a portion of pre-war excess production (20%), the increase in production capacity in other OPEC countries (0.3 mb/d) and the use of oil pipelines at maximum capacity.

Global oil demand will decline as prices rise, but the price required to offset the supply shortfall could still be very high, given the rigidity of demand.

Available reserves could offset the 6–7 million barrels per day lost due to the closure of the Strait of Hormuz for about eleven months. However, even the mere inoperability of the United Arab Emirates pipeline would be enough to increase the shortfall and shorten the duration of the reserves.

It is clear that once reserves are depleted, with supply constrained (the loss amounts to about 6% of global consumption), prices would need to rise to levels sufficient to curb demand. However, such levels could be high enough to significantly alter consumer behavior—for instance, discouraging car use and changing other daily habits. This implies prices well above $150 per barrel, with the potential to trigger a global economic downturn.

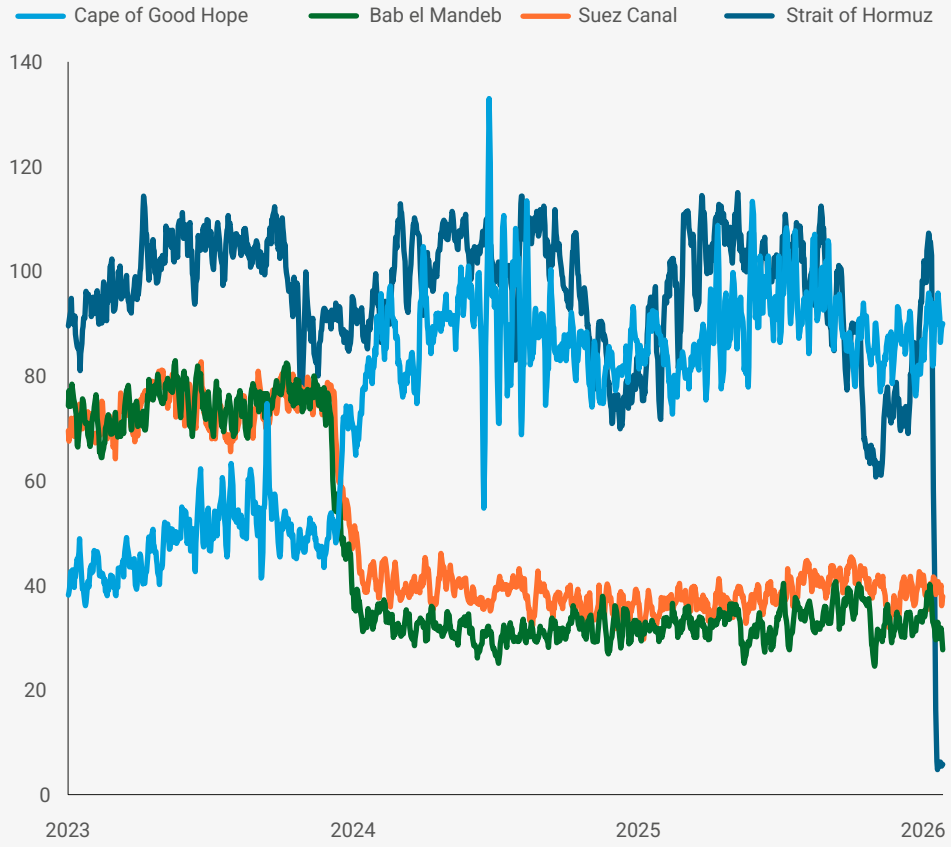
- Oil prices have increased by around 15% per week on average (50% in the first three weeks), already reaching critical levels. Gas prices have risen by nearly

1 A further pipeline, expected to reopen shortly (following the agreement between the Iraqi authorities and those of the Kurdistan Region), is the one connecting Kirkuk in Iraq to Ceyhan in Turkey; however, with a capacity of only 250 thousand barrels per day, its impact on global supply is negligible..

Chart A

Blockade of the Strait of Hormuz

(Weekly averages based on daily data, number of vessels transiting *chokepoints*)



Source: elaborations by Centro Studi Confindustria based on IMFPortWatch data.

25% per week (90% in the first three weeks), but remain below 2022 levels.

The major global oil crises of the past have all had their epicenter in the same region: the 1973 Yom Kippur War between Israel and its neighboring Arab countries; the 1979 Islamic Revolution, which brought Khomeini to power, followed by the eight-year Iran-Iraq War; the first Gulf War of 1990, which followed Iraq's occupation of Kuwait and lasted about seven months; the second Gulf War of 2003, with the occupation of Iraq by a U.S.-led coalition and the ousting of Saddam Hussein (after about a month). In past conflicts, Brent crude prices rose from $16 to $42 per barrel between 1979 and 1980 (+156%) and tripled over two years with the outbreak of the Iran–Iraq War; from $17 to $36 in 1990–1991 (+107%); and from $24 to $33 in 2003 (+34.7%), which was the conflict in which large-scale military operations lasted the shortest time.

- In order to curb the rise in oil prices, IEA member countries released 412 million barrels from their strategic reserves on March 11. At the same time, the United States suspended sanctions on oil purchases from Russia for one month. This will allow Russia to sell its crude oil at market prices, rather than at a discount as it has done since the sanctions were imposed.
- The gap between the WTI (West Texas Intermediate) price, used primarily to price oil produced in North and South America, and the Brent price, used to price oil in Europe (including Russia), Africa, and the Middle East, is widening. Typically, the difference between the two is minimal and stable over time. The price of WTI averaged $52 in December 2025 and rose to $95 on March 19, a gap of -$20 compared to Brent (from -$4 in 2025). This implies that price increases have been

stronger in regions, such as Europe, which use Brent as a benchmark. With regard to gas, prices vary significantly across the various world regions, as they are still partly linked to local pipeline supplies, despite the strong growth of liquefied natural gas (LNG) in recent years. In Europe, prices are consistently higher than in the United States (in March, they were approximately five times the American price).

- Traffic through the Suez Canal remains largely stable, but well below the levels recorded in 2023 before the Houthi attacks. Since the beginning of 2024, the Suez Canal—and, consequently, the Bab el-Mandeb Strait—have halved their shipping traffic compared to the 2023 average. Currently, transit volumes remain at 2024 average levels, at 47% for the Suez Canal and 55% for the Bab el-Mandeb Strait compared to the 2023 averages before the Houthi attacks began. This situation has led to a sharp increase (+80%) in the use of the alternative route that circumnavigates Africa via the Cape of Good Hope, which is longer and more expensive in terms of transportation.
- Freight rates are rising, but not sharply. Shipping costs have risen due to the war, but not as sharply as in early 2024 following Houthi attacks on merchant ships passing through the Bab el-Mandeb Strait in the Red Sea: the Baltic Dry Index, which tracks non-containerized commodities, rose by an average of 15.9% in the first nineteen days of March compared to January; the Drewry World Container Index, the indicator for containerized freight transport, rose by 13.2% over the past month; the increase was more pronounced on the Shanghai-Rotterdam (+17.5%) and Shanghai-New York (+19%) routes.
- Italy imports significant amounts of gas and oil from Gulf countries. In terms of oil, Italy imports heavily from Iraq and Saudi Arabia, less from Kuwait and other Gulf countries, for a total of 16.6% of Italy's crude oil imports (2024 data). In terms

Table A

Where does Italy's gas come from

(2025 data, % shares of gas volumes in bcm)

Algeria	pipeline + LNG tanker	40,0
Azerbaijian	pipeline	16,3
USA	by LNG tanker	15,1
Northern Europe	pipeline	14,0
Qatar	by LNG tanker	8,3
Other countries	pipeline + LNG tanker	3,4
Libya	pipeline	1,6
Russia	pipeline	1,3
Total imports		100,0

Source: elaborations by Centro Studi Confindustria based on Mase data.

of gas, in 2025, flows from Qatar (LNG by ship) accounted for 8.3% of Italy's total gas imports, to which must be added a further 16.3% (by land) from Azerbaijan, which borders Iran to the north but is not located on the Persian Gulf. Italy's main gas supply, in fact, comes from Algeria (32.8%), with a significant share coming from the U.S. (15.1%).

- Italy's trade with the Gulf countries has increased in recent years. Two sectors account for 86% of Italy's imports, which totaled 9.1 billion euros in 2025: mineral fuels and related refined products, worth 7.6 billion euros, followed by base metals, worth approximately 1.5 billion euros. Italian exports to the eight Gulf countries amounted to 21.8 billion in 2025 and have increased by 76% since 2019, more than double the growth recorded for for total extra-EU exports (+33%). Italian sales to the United Arab Emirates and Saudi Arabia account for nearly three-quarters of total exports to the Gulf countries. The top five sectors account for more than half of these exports: machinery for 6 billion, other manufactured goods for 2 billion; electrical equipment, pharmaceuticals and base metals, each for 1.3 billion. (Table B).
- The major Asian economies are heavily dependent on energy supplies from the Persian Gulf countries. Over 42% of China's oil purchases (crude oil and petroleum products) and 24% of its natural gas purchases come from the Gulf area (UNCTAD data, 2024). India's share of imports from the Gulf is similar for oil (43%) and much higher for gas (78%). Oil dependence is even greater for the advanced Asian countries: Japan (84% for oil - almost all of it for crude oil -; 10% for gas) and South Korea (67% for oil, 31% for gas). Japan relies on the Gulf for 84% of its oil (almost

Table B
Italy Highly Exposed to Gulf Economies

Italy's trade with the Gulf countries	Export	Import	Balance	Export	Import	Export	Import
	(in millions of euro, 2025)			2025/2019 % change		% share with respect to non-EU27	
United Arab Emirates	9.477	1.352	8.125	105,8	49,1	3,0	0,5
Saudi Arabia	6.315	3.988	2.328	92,8	4,8	2,0	1,6
Kuwait	1.851	264	1.587	82,6	377,0	0,6	0,1
Iran	447	132	315	-45,8	-13,6	0,1	0,1
Oman	477	249	229	-1,3	132,8	0,2	0,1
Bahrain	289	403	-114	8,6	228,9	0,1	0,2
Iraq	960	1.317	-357	74,8	-72,2	0,3	0,5
Qatar	2.004	2.839	-835	44,8	111,3	0,6	1,1
Gulf Countries	21.820	10.543	11.277	75,9	-6,1	7,0	4,1
Non-UE27 Countries	313.015	256.768	56.247	33,3	40,6		

Note: data sorted in descending order by trade balance.
Source: elaborations by Centro Studi Confindustria based on Eurostat data.

entirely crude oil) and 10% of its gas and South Korea for 67% of its oil and 31% of its gas.

- The global uncertainty indicator, measured by the World Uncertainty Index (IMF), recorded a slight increase in February compared to January (+4.9%), but is expected to rise further in March. The daily indicator of economic policy uncertainty in the United States followed this trend, rising by more than 18.5% in the first fifteen days of March compared to the February average. It is important to note that these increases are occurring in a context in which the overall level of uncertainty was already high, even higher than that recorded during the pandemic.
- Economies are much less dependent on oil than they were in past decades. Oil intensity, measured as "barrels of oil per euro of GDP," has in fact more than halved in the last 45 years (0.66 in Italy in 2024 from 1.60 in 1980). Similar numbers also apply to other European countries; oil intensity in the USA remains slightly higher (0.89 in 2024) than in Europe, but even there it is declining compared to the years of previous global oil crises. For this reason, almost all analysts agree that the economic impact of the war in Iran will be less than that recorded in past oil crises.
- After three weeks of war, markets are betting on a short and not overly destructive war (oil futures indicate oil prices for December will be essentially the same as in February). This is because markets are pricing in the US and Israeli governments' awareness of the potential consequences of a prolonged global oil and gas shortage. However, a prolonged war or any other form of instability in the region could radically change market perceptions and the impact could be very negative.
- In recent days, the energy infrastructure (of oil and gas) of Iran and, in response, of other Gulf countries have also been affected by warfare. Some have suspended operations, others are damaged. Iraq's experience, post-second Gulf War, suggests that restoring damaged facilities to full operation requires medium to long-term timeframes. It took then from 6 to 18 months to repair some major damaged infrastructure, but it took nearly ten years to return to full production capacity and stabilization of the sector (also due to attacks and sabotage).
- American and Israeli bombings have destroyed military targets and eliminated some of the country's leaders, but have not changed the leadership. Despite American and Israeli attacks and bombings, the Iranian regime still has the capacity to strike targets in other Gulf countries..

Key variables underlying the economic impacts of the conflict

1. The duration of the war. This is the key variable, as the conflict will keep global uncertainty extremely high. Furthermore, it keeps the risks of destruction of refineries and energy infrastructure very high and makes it difficult to reopen the Strait of Hormuz to allow the passage of oil tankers and other cargo ships. The longer the war and the closure of the Strait of Hormuz persist, the harder it will be to guarantee global oil and gas supplies. This implies a gradual increase in their prices. A prolonged conflict makes international transport increasingly costly, in parallel with rising oil prices, and disrupts trade with countries directly involved in the war, with inevitable spillovers on exporting economies. Moreover, countries in the Arabian Peninsula, particularly Qatar and the United Arab Emirates, have taken on a crucial role as hubs in international transport, especially between Europe and

Asia, as well as in the global financial system. A prolonged war would put this role at risk, with repercussions at the global level.

2. The share of oil and gas production capacity that will be destroyed. Even if the war were to be of limited duration, lasting no more than four weeks, but a large number of refineries and oil extraction facilities were be destroyed, given the medium- to long-term timeframe required to restore them, there would still be a shortage of oil and gas supply worldwide. In this case, the effects would be limited to the availability of energy commodities and their prices. However, the global macroeconomic impacts would still be very significant.

3. The outcome of the war. The desirable outcome of the war would be to ensure a certain stability for Iran and the entire region. However, even if the war were to end quickly and oil and gas production capacity were to remain largely intact, if the current Iranian regime remained in power, it is highly likely that severe instability would persist throughout the region, not just in Iran. On the other hand, regime change, as the experience in Iraq has demonstrated, does not necessarily lead to greater stability, at least in the medium term. Instability would ultimately heighten the risks associated with shipping through the Strait of Hormuz as well as the risk of sabotage at oil facilities. It could also undermine the central role played at the international level by Qatar, the United Arab Emirates, and Saudi Arabia.

The transmission channels to the economy

1. The war increases uncertainty, which was already at very high levels, above those observed during the pandemic. This negatively affects the decisions of firms and households, weighing on both consumption and investment.

2. One of the most significant effects is the increase in energy prices, given the importance of oil and gas production of the countries involved. This shock, if short-lived, may remain temporary and lead to a direct increase in inflation, which would then subside once prices declined. However, if the price increase is prolonged, inflation will also rise due to second-round effects which occur when increases in energy prices are passed through to other goods and services, thereby pushing up core inflation as well. Higher inflation reduces real disposable income and, consequently, household demand. Higher energy costs lead to higher production costs for businesses and reduce the competitiveness of goods, especially in economies where energy prices rise more sharply.

3. Rising oil and gas prices are also driving up international transportation costs, which add to rising energy costs, contributing to higher production costs and slowing exports of goods. For the time being, however, these increases remain relatively contained.

4. Supply constraints. The closure of the Strait of Hormuz and the damage to some refineries and energy infrastructure, as noted, would, if prolonged, lead to a global shortage of oil and gas. These supply constraints would have uneven effects across countries. Economies that are more dependent on oil and gas from the Persian Gulf will face greater difficulties in replacing these supplies and, over time, may experience reduced availability, with significant negative impacts on production capacity. China, along with other advanced Asian economies (Japan and South Korea), would be among the most affected in this respect. Since China's production

is roughly equivalent to the combined output of Europe and the United States, and Chinese supplies are essential for both regions, the risk of disruptions to the supply of intermediate goods and raw materials in Europe and the US is high, especially if global shortages of oil and gas intensify (due to a prolonged closure of the Strait of Hormuz and/or damage to oil and gas production facilities). The risk of production disruptions in Europe due to supply constraints is therefore concrete in the medium to long term..

5. Through exports to the Gulf countries. The impact of the war on exports to the Gulf countries could be negligible if the war were short and ended with greater stability in the region. The longer the war persists - and the higher the level of instability in the region - the more difficult it will be for the Gulf countries' foreign demand to be maintained and satisfied.

Three alternative scenarios on the conflict: the hypotheses

To assess the magnitude of the downside risks to economic growth in the current context, triggered by the war in Iran, the Centro Studi Confindustria has identified three alternative scenarios. One serves as the baseline scenario in the April report, while the other two reflect a deterioration in the international environment and, consequently, a more adverse impact on the Italian economy. The assumptions that differentiate the scenarios concern three main aspects:

1. Duration of the war in Iran. The baseline scenario (A) assumes a conflict limited to March 2026; scenario B assumes the war will continue until June 2026 (thus lasting four months); scenario C assumes it will continue throughout 2026 (thus lasting ten months). In all three scenarios, it is assumed that the Strait of Hormuz will remain largely closed during the conflict (i.e. transit volumes will fall by at least 80% compared to before the war), but will steadily reopen once the war ends.
2. Share of oil and gas production capacity destroyed in Gulf countries. In the baseline scenario, it is assumed that production capacity will remain adequate to support global supply. In the other two scenarios, where the conflict is prolonged, it is assumed that the destruction of additional facilities in neighboring countries gradually declines to zero, due to the progressive weakening of Iran's offensive capabilities.
3. Outcome of the war. In all three scenarios, it is assumed that the end of the conflict ensures stability in Iran and across the Gulf region. This implies a low risk of sabotage and attacks and that trade flows to and from Gulf countries can return to pre-war levels. Any lasting geopolitical reorientation of trade between Asia and Europe as a consequence of the conflict is therefore ruled out.

The rise of consumer prices in Italy

Energy accounts for 10.7% of the Italian consumer price basket, 4.7% of which is transport fuels (gasoline, diesel) and 6.0% is household energy (electricity, gas). Therefore, in Italy, for every 10% increase in the prices of gasoline and other energy products (due to the surge in international commodities), inflation rises by slightly more than +1.0%, typically within one month of the shock.

In the baseline scenario, the increase in oil and gas prices combined, expressed in euros, is assumed to be +12% in 2026 compared to 2025. However, in scenario B it reaches

Table C

International Exogenous Variables of the Forecast

(% changes)

	Baseline A			Scenario B			Scenario C		
	2025	2026	2027	2025	2026	2027	2025	2026	2027
World trade	4,4	1,8	2,5	4,4	0,9	2,0	4,4	0,0	1,0
GDP – United States	2,1	2,2	2,0	2,1	2,0	2,0	2,1	1,8	1,9
GDP – Euro area	1,5	1,1	1,3	1,5	0,6	0,8	1,5	0,4	0,6
GDP – Emerging economies	4,4	4,1	4,3	4,4	3,8	4,2	4,4	3,4	4,3
Oil price[1]	69	78	65	69	110	90	69	140	115
Gas price (TTF)	36	41	30	36	60	40	36	100	60
ECB policy rate[2]	2,26	2,15	2,25	2,26	2,4	3,0	2,26	2,9	4,0

Note: [1]Brent crude, US dollars per barrel; [2]Percent values

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

60% and in scenario C it rises to as much as +133%. Mechanically, and considering only the direct impact on consumer energy prices, this would imply a potential increase of over +13 percentage points in inflation in the worst-case scenario compared with 2025 (+6 points in scenario B). By comparison, in 2021–2022 Italian inflation rose from around zero to +12%, i.e. an increase of 12 percentage points from trough to peak on a monthly basis.

To this direct impact must be added second-round effects, namely increases in the prices of non-energy goods and services that incorporate the increase in energy costs, which, based on past experience, in Italy tend to materialize within about six months from the initial shock.

Conversely, the reduction in demand caused by such shock tends to dampen domestic prices, thereby mitigating the overall increase in the price index relative to the exogenous shock originating from commodity markets. Possible mitigation measures affecting actual energy bills (as implemented, for example, during the 2022 energy shock) should also be taken into account, along with the smoothing effects introduced by the regulatory authority on administered energy prices.

The rise in interest rates

In the two worst-case scenarios, the ECB is forced by the surge in inflation in Europe to raise rates more significantly than the quarter-point increase incorporated in the baseline. This move had not been considered before the war in Iran. In scenario B, Eurozone rates rise by 1.0 percentage point in 2026, while in scenario C they rise by 2.0 percentage points, effectively reversing the monetary easing implemented by Frankfurt between 2024 and 2025. Such increases would once again tighten credit conditions in Italy for both firms and households, thereby dampening investment and consumption. The impact of monetary tightening would be fully transmitted to the economy with a lag of several months. Therefore, the negative effect on investment would be felt not only in 2026 but also in 2027.

Eurozone: growth threatened by a prolonged conflict

IAs a net importer of oil and gas, the Eurozone is particularly vulnerable to rising energy costs.

It is important to remember the significant heterogeneity across countries in their exposure to oil and gas shocks: among the four largest economies, Italy is the most exposed based on its energy mix, followed by Germany, while France is less exposed due to its high share of nuclear energy. The CSC scenarios take this into account, alongside the surge in energy prices and therefore estimate a greater impact of the shock on the Italian economy than on the Eurozone as a whole in all three scenarios.

In the intermediate scenario, for the Eurozone, the repercussions would extend to both the current year and 2027. A moderate increase in interest rates would significantly discourage investment and industrial activity. In this context, growth in the Area would slow to +0.6% in 2026 and +0.8% in 2027.

In the pessimistic scenario, even more pronounced inflationary pressures would emerge, leading to a sharper rate hike. This would have a stronger impact on domestic demand: investment would be held back by higher borrowing costs, while consumption would be affected by the loss of purchasing power. Under this scenario, growth would weaken further, settling at +0.4% in 2026 and +0.6% in 2027.

Aggregate growth in emerging markets slows down, with differentiated impacts

Growth in emerging economies is set to slow to +3.8% in 2026 under scenario B and to +3.4% under scenario C. This deterioration reflects worsening external conditions and becomes more severe the longer the conflict persists, with widespread but uneven effects across emerging markets. Hydrocarbon exporters (e.g. Russia and Nigeria) could benefit from higher prices, but the positive contribution would be insufficient to offset the slowdown in major importers, particularly China and India.

In particular, three main transmission channels are at play for emerging economies. The first is the deterioration in the terms of trade for oil and gas importers, leading to higher energy bills. The second is imported inflation, transmitted through energy prices, freight rates and insurance costs. The third is the financial channel, with rising risk premia and a potential decline in investment. The prolonged blockade of the Strait of Hormuz could also hinder trade flows, with likely repercussions for the more trade-oriented emerging economies (China, India, and ASEAN countries).

When comparing scenarios, the outlook worsens under scenario C, though less proportionally with respect to the duration of the shock. Economic adjustment, through diversification of energy supplies and the reconfiguration of trade chains would help partially mitigate the effects over time of a protracted war. Nonetheless, uncertainty remains high, also due to potential geopolitical developments and changes in the intensity of the conflict, including regime changes or substantial damage to extractive infrastructure which are not incorporated into the scenario assumptions and could make some of the ongoing changes more persistent, if not structural.

Global Trade

Under the two adverse scenarios characterized by a longer-lasting conflict and a worsening of the international economic outlook, global trade slows significantly in 2026. Growth declines by about one percentage point in scenario B (with the conflict lasting four months) compared with the baseline, and falls to zero in scenario C

(with the war ending in December). In the following year as well, global trade growth remains below the baseline in both scenarios, reaching +2.0% in scenario B and +1.0% in scenario C.

The differing patterns in global trade growth are driven by a combination of factors, some with immediate effects and others unfolding more gradually. In particular, the sharp contraction in trade in fuels and lubricants, resulting from the disruption of the Strait of Hormuz, has an immediate impact on traded volumes, given that these commodities account for a significant share of global exports (12.4%). A progressively negative effect stems from rising transport costs (which act as a barrier to trade) and higher levels of uncertainty, both of which increase in proportion to the duration of the conflict. According to CSC estimates, a 10% increase in uncertainty could reduce global trade by around 0.5% in the following quarter.

Results of the CSC Simulations for Italy

According to simulations carried out with the CSC econometric model, the Italian economy would be significantly affected by a longer duration of the conflict (Table D).

In scenario B, Italian GDP in 2026 would remain flat compared with 2025, implying a loss of approximately 0.5 percentage points relative to the baseline and effectively pushing the economy into stagnation. In 2027, growth would remain modest (+0.3%), well below that projected in the baseline scenario. The deterioration in the scenario would spread across the main components of both domestic and external demand. In particular, relative to the baseline, in 2026, consumption growth would be more subdued and uncertain and investment would weaken, dropping markedly (by around -0.1% compared with a +2.3% in the baseline). Above all, a sharp decline in exports, from growth of over +0.6% in the baseline to a contraction of around -0.7%, would occur. Negative effects would also be felt in the labour market, with employment essentially stagnating.

In scenario C, the impact of the war would be markedly more severe. Italian GDP would contract by 0.7% in 2026, implying a loss of more than 1.3 percentage points relative to the baseline scenario. In 2027, growth would remain slightly negative (-0.1%), effectively prolonging the recessionary phase. The deterioration would broadly affect all major components of demand: investment would decline (-0.8% in 2026); consumption would also turn negative; exports would contract sharply (-1.6% in 2026) and employment would weaken in response to the slowdown in economic activity.

Applying the increases in energy commodity prices to the production cost structure of Italian firms relative to the period immediately preceding the succession of recent global shocks (the pandemic, the energy and inflation shock, the geopolitical tensions) and taking into account both the direct and indirect transmission channels of energy shocks[2], Italian manufacturing in 2025 still faced higher energy costs than its European peers, with the share of energy costs in total costs about 25% higher than six years earlier. With the new energy shock stemming from the current conflict, under scenario

[2] For details on the estimation methodology, see Felici S., Puccioni C., Rapacciuolo C., Romano L., "L'impatto della corsa dei prezzi dell'energia sui costi di produzione: settori a confronto tra Italia, Francia e Germania", CSC Note no. 2-2022.

Table D
Simulation of Alternative Scenarios
(% changes)

	Baseline A			Scenario B			Scenario C		
	2025	2026	2027	2025	2026	2027	2025	2026	2027
Gross domestic product	0,5	0,5	0,6	0,5	0,0	0,1	0,5	-0,7	-0,1
Household consumption	1,1	0,7	0,7	1,1	0,1	0,3	1,1	-0,4	0,0
Gross fixed investment	3,5	2,3	1,3	3,5	-0,1	0,8	3,5	-0,8	0,3
Exports of goods and services	1,2	0,6	1,8	1,2	-0,7	0,5	1,2	-1,6	0,4
Imports of goods and services	3,6	1,7	1,4	3,6	-0,8	1,0	3,6	-0,7	0,8
Total employment (FTE)	1,3	0,3	0,3	1,3	0,1	0,1	1,3	-0,5	-0,1
Consumer prices	1,5	2,5	2,2	1,5	4,3	2,9	1,5	5,9	3,3

Note: FTE = Full-time equivalent units.

Source: elaborations by Centro Studi Confindustria based on Istat data.

B, Italian manufacturing firms would face an additional €7 billion per year in energy costs compared with the previous year, with the share of energy costs in total costs rising by 1 percentage point relative to 2025, from 4.9% to 5.9% in 2026. In the worst-case scenario (C), firms would face an additional €21 billion in costs and the share would increase by 2.7 percentage points (from 4.9% to 7.6%).

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