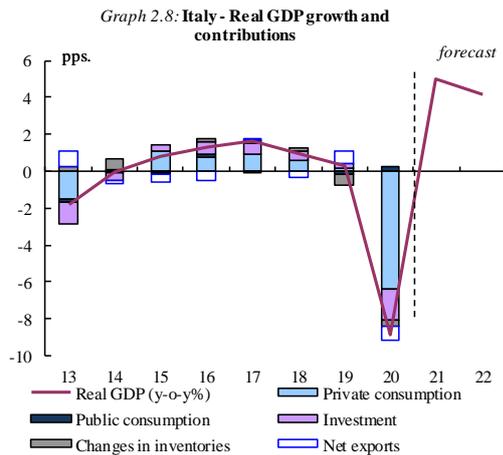


2.8. ITALY

Economic activity proved more resilient than expected and increased slightly in the first quarter of this year, despite stringent containment measures. Performance data from the manufacturing sector and business and consumer surveys suggest that real GDP growth gained further momentum in the second quarter and should strengthen markedly in the second half of the year. On an annual basis, real GDP growth is expected to reach 5.0% in 2021 and 4.2% in 2022. The forecast for 2021 is significantly higher than in spring. This is due to the sizeable upward revision to GDP in the first quarter and the stronger-than-expected response of economic activity to the easing of mobility and business restrictions.



The improving health situation that allowed most restrictions to ease significantly by June lays the groundwork for a solid and sustained expansion over the forecast period. Public and private investment, supported by firms' decreasing uncertainty about their demand outlook and the implementation of the Recovery and Resilience Plan, is set to remain the leading growth driver. Private consumption is expected to rebound sizeably, helped by improving labour market prospects and the gradual unwinding of accumulated savings. A dynamic external environment should benefit goods exports but the return of tourist revenues is likely to be more gradual.

HICP inflation turned positive at the beginning of the year and increasing oil prices are set to raise consumer prices by 1.4% in 2021, before inflation falls back to 1.2% in 2022. Firms' weaker pricing power and the still substantial degree of slack in the labour market should limit the potential for second-round effects and prevent temporary price pressures from becoming entrenched.