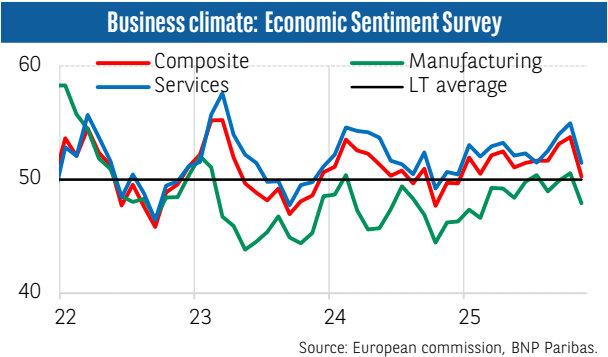
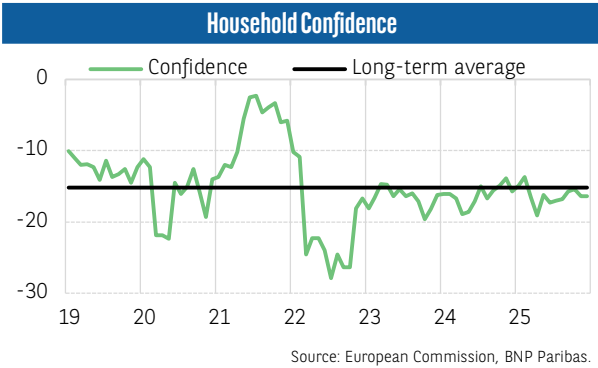


Italy: Moderate acceleration in growth



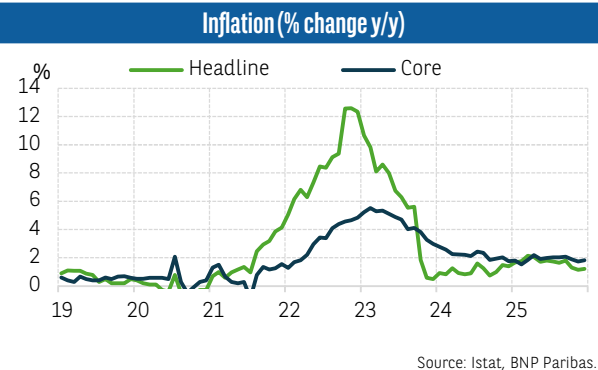
Despite the slowdown in December 2025, the business climate remains favourable. In Q4, the PMI reached its highest average level of the year (52.4), driven by a strong improvement in activity in the services sector (53.5; +1.4 points q/q). This momentum is expected to continue in Q1 2026, supported by the Winter Olympics to be held in Italy. On the manufacturing side, the climate remained gloomy on average in Q4 (49.5; -0.2 points q/q) due to a sharp contraction in production in December (46.8; -3.5 points m/m) and a continued decline in hiring.



Household confidence remained stable over the last two months of the year (-16.4), but it is still 1 point below its long-term average. Italian households anticipate a rise in prices in 2026, which slightly worsens their expectations about the economic situation. Although declining, major purchase intentions over the next 12 months remain high by historical standards.



Positive developments. The unemployment rate reached a historic low (-0.1 pp to 5.7% in November; -0.5 pp y/y). At the same time, the number of people in employment remains at its highest level (24.2 million; +0.7% y/y), driven by an increase in the number of permanent contracts and self-employment. Hourly wage growth (2.7% y/y on average between October and November) remains above inflation, which has helped to support household purchasing power in 2025.



Inflation slowed significantly in Q4 (+1.2% y/y on average; -0.5 pp compared to Q3) and remains below the Eurozone average (+2.2%). Core inflation is following the same trend (1.8% y/y on average), driven by a slight decline in service prices (+2.7% on average, compared to +3.0% in Q3). Consumer prices are expected to continue to fall in Q1 2026 due to the ongoing slowdown in producer prices (0.0% y/y in October-November; -1 pp compared to Q3).

GDP growth q/q: actual, carry-over and forecasts										
ACTUAL	OBSERVED			FORECAST (q/q)			ANNUAL FORECASTS (y/y)			
Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	2024 (observed)	2025	2026	2027
0.2	0.3	-0.1	0.1	0.2	0.3	0.3	0.5	0.6	1.0	0.9

Source: Refinitiv, BNP Paribas

In Q4, GDP growth would accelerate moderately (+0.2% q/q), after two difficult quarters. Growth is expected to continue to rebound in 2026 (+0.3% q/q each quarter), supported by an increase in investment linked to the latest disbursements of the European NextGenerationEU funds, as well as by gains in households' purchasing power (cuts to income tax for middle-income households).

Lucie Barette (Completed on 21 January 2026)