

## A BETTER-THAN-EXPECTED SCENARIO

In 2023, Italian real GDP rose by almost 1%. The recovery of the economy was broad-based. Private consumption rose by 1.2% in 2023, benefitting from the further improvement in labour market conditions. In 2023, investment continued to be the main driver of the Italian recovery. Expenditures on machinery and ICT equipment were 20% higher than in 2019, with some first positive effects on Italian potential growth. The growth in investment since the post-pandemic period has increased the number of firms using technologies relying more effectively on digital transformation to boost productivity.

### AN INVESTMENT DRIVEN RECOVERY

After declining by 0.2% in Q2, the Italian economy slightly recovered in H2 2023, growing by 0.2% both in Q3 and in Q4. In Q4 2023, real GDP was 4.2% higher than in Q4 2019, outperforming other main Eurozone economies.

In 2023, GDP rose by almost 1%. Change in inventories subtracted 1.3% from the overall growth, while net exports contribution was positive (0.3%), as imports declined while exports slightly increased. According to trade balance data, the value of Italian goods exports remained unchanged at EUR 626 billion. Exports in EU countries declined, suffering from the disappointing development of sales in Germany, while those in the United States rose by almost 3.5%.

The recovery of the Italian economy was widespread across all sectors. In 2023, services value added rose by 1.6%, adding 1.2 ppt to the overall growth, and that of construction increased by almost 4%. Although decelerating, manufacturing value added continued to grow (+0.2% in 2023), while production strongly declined (-2.5%).

Although sharply falling in Q4 (-1.4% q/q), private consumption rose by 1.2% in 2023. Labour market conditions further improved. The employment rate rose to 61.5%, the highest in the last twenty years. Purchasing power of households benefitted from both the recovery of nominal income and the decline of inflation. Despite the persisting uncertainty surrounding the overall scenario, consumer confidence improved, rising above long-term average.

In 2023, investment continued to be the main driver of Italian growth. Gross fixed capital formation rose by almost 5%, adding 1 ppt to real GDP growth. With respect to 2019, investment is up by more than 25%, while that in construction increased by almost 40%, benefitting from public incentives to improve energy efficiency of buildings. Expenditures on machinery and ICT equipment were 20% higher than in 2019, with some first positive effects on Italian potential growth, which rose from slightly above 0.5% (pre-pandemic IMF forecasts) to almost 1%.

### THE SIZE OF ITALIAN FIRMS INCREASES

In Italy, the post-pandemic recovery went hand in hand with changes in the structure and strategic orientations of the business ecosystem. According to the second wave of the Istat "Permanent business census", a process of re-composition of resources emerged in favour of larger (and more productive) units between 2019 and 2022: medium and large enterprises recorded an increase in number and staff, compared to a limited increase (mostly contractions, actually) for the micro and small ones. In the industrial sector, the number of micro-firms decreased by about 7,000 units (-4.5%), in the market services sector by 9,000 (-1.1%), while in construction and personal services their number rose by about 390,000 (+10.3% and +31.7%, respectively).

#### GROWTH & INFLATION

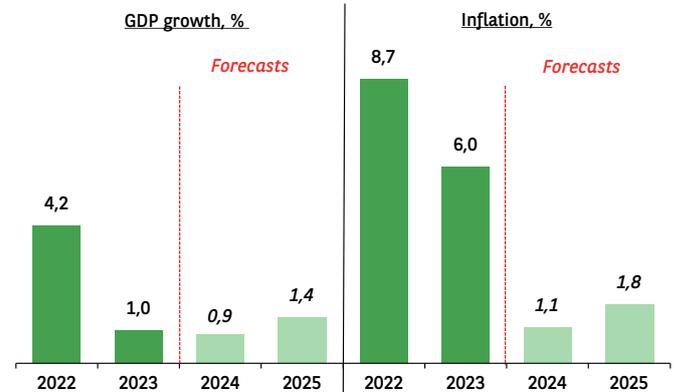


CHART 1

SOURCE: BNP PARIBAS GLOBAL MARKETS

The increase in employment observed in the three-year period is largely explained by the medium and large units, which account for 66.4% of the approximately 660,000 total additional employees. All firm size classes, except for the medium-sized ones operating in personal services activities, recorded an increase in value added (which was however also affected by the trend of inflation).

The result of these movements was an increase in the average firms' size, widespread across most sectors. Moreover, the growth in investment in digitalization seen in Italian companies since the post-pandemic period, has led to an increase in the number of firms kept and able to invest in technologies relying more effectively on digital transformation to increase productivity. Their number went up from 2.6% to 7% of total firms with more than 10 employees, while their weight in terms of employees increased from 16.2% to 22.2%.

**Paolo Ciocca**

[paolo.ciocca@bnpparibas.com](mailto:paolo.ciocca@bnpparibas.com)

**Simona Costagli**

[simona.costagli@bnpparibas.com](mailto:simona.costagli@bnpparibas.com)

