ENERGY, GREEN DEAL AND TARIFFS: CHALLENGES FOR THE ITALIAN AND EUROPEAN ECONOMIES

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INTRODUCTION AND SUMMARY

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An Increasingly Fragmented Global Scenario

In the 2025-2026 biennium, global GDP growth is expected to remain largely stable at around +2.7% per year, close to the pre-pandemic average (+2.8% per year in 2012-2019). This reflects a slowdown in the U.S. economy (weakened by tariffs), steady growth in emerging countries and a slightly improving but still weak trend in the Eurozone. Global trade in goods returned to modest expansion in 2024 (+1.8%), but its pace of growth has been revised downward for the current year (+2.0%, from the previously expected +2.8%), because uncertainty is primarily restraining foreign trade. Trade growth is, however, expected to gradually pick up again next year (+2.5%), still at a slower pace than GDP growth (Table A).

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

	2024	2025	2026
World trade	1.8	2.0	2.5
GDP - United States	2.8	2.1	1.9
GDP - Eurozone	0.7	0.8	1.0
GDP - Emerging markets	4.2	4.4	4.5
Oil price[1]	81	75	67
Gas price (Europe)	34	46	41
Dollar/euro exchange rate[2]	1.08	1.08	1.08
FED effective rate[3]	5.14	4.15	3.75
ECB deposit rate[3]	3.73	2.48	2.00

[1] Brent, dollars per barrel; [2] levels; [3] % values.
Source: Centro Studi Confindustria elaborations based on Refinitiv, IMF and CPB data.

The reconfiguration of global trade among economic blocs continues: U.S.-China trade decreased by 14% in 2023-2024 compared to the previous two years; EU-China trade declined by 7.0%, while EU-U.S. trade increased significantly. China has also reduced trade with the rest of the world, while the U.S. has significantly increased it. The gap between the two main recipients of foreign direct investment is widening: for the second consecutive year, China has seen a decline in foreign capital inflows (-29%), while the United States remains the top destination for foreign investments. Meanwhile, Europe continues to lose attractiveness.

U.S. growth has been revised upwards to +2.1% in 2025 (from +1.5%) due to the better-than-expected performance in 2024, which has provided a greater positive carryover into the current year. Last year, the American economy was driven by household consumption, while investments lost momentum. At the beginning of 2025, the upward momentum in wages seems to have slowed, inflation expectations have risen and consumer confidence has declined, signaling a possible drop in consumption. U.S. economic growth is expected to slow until the third quarter of 2025 to, then, regain momentum towards the end of the year and into 2026 as interest rates decline.

Inflation, on the rise, remains above target (+3.0% annually as of January) and in line with expectations. The FED has cut interest rates by one percentage point so far, reaching the 4.25-4.50% range. Over the next two years, rates are expected to decrease by another percentage point, following a more gradual

pace of reduction than anticipated six months ago. This will slightly widen the positive differential with ECB rates in 2025, exerting pressure to strengthen the dollar against the euro. U.S. import tariffs and the persistent growth gap favoring the American economy further contribute to this trend.

Eurozone GDP is expected to grow by 0.8% in 2025 and 1.0% in 2026, after expanding by 0.7% in 2024. Monetary tightening and still-high inflation will continue to weigh on growth this year, although their impact is expected to gradually subside, paving the way for a modest recovery. So far, monetary easing has amounted to -1.50 percentage points, yet inflation remains above 2.0% (+2.4% in February, up from +1.7% in September), as do one-year inflation expectations. Markets anticipate an additional half-point rate cut this year, reaching the neutral rate (2.0%), while the ECB expects inflation to fall below 2.0% next year.

Despite Spain's strong economic performance (+3.2%), mainly driven by real estate and tourism, no robust growth is expected in the Eurozone due to several structural constraints. First and foremost, Germany's crisis does not appear to be merely cyclical. It was the country most dependent on Russian gas (even more so than Italy) and had the highest share of energy-intensive sectors in total value added, making it more vulnerable to rising energy costs. It also has the strongest economic ties with Eastern Europe, which has been significantly affected by the war in Ukraine and is the most exposed European country to China in terms of exports (6.3% for Germany vs. 2.6% for Italy). Until the pandemic, Germany maintained large trade surpluses with China, which is unlikely to continue as China reduces imports from Western countries for geopolitical reasons and becomes more self-sufficient in manufacturing. Furthermore, Germany is the most specialized European country in the automotive sector (which accounted for 20.6% of its manufacturing output before the crisis), which is precisely the sector most affected by the crisis. However, public investments in defense and infrastructure could support recovery in the short and medium term.

Another factor weighing on Eurozone growth is **high energy prices**. In February 2025, gas prices rose to €50 per MWh on average (€42 in March), marking a sharp increase from the low of €26 in February 2024. More significantly, gas remains four times more expensive in Europe than in the U.S. Recent price fluctuations seem to be largely driven by developments in the Ukraine-Russia conflict. Rising gas costs have also pushed electricity prices higher, especially in Italy (€150 per MWh in February) compared to Germany (€128), France (€123), and Spain (€108).

Furthermore, over the past 10-15 years, Europe has progressively lost **competitiveness** compared to the United States and China. Since 2007, the EU has recorded an average annual GDP growth of +1.6%, compared to +4.2% in the U.S. and +10.1% in China (at current prices). The accumulated growth gap between the EU and the U.S. has exceeded 70 percentage points of GDP since 2007. This divergence is primary due to stagnating labor productivity, which has nearly come to a halt in Europe (+0.2% average annual growth in 2019-2023), while it has continued to grow at an average rate of 1.5% per year since the 1980s in the U.S.

Europe's low productivity stems from lower investment (particularly "productive" investment, that is, net of construction investment) compared to China and the United States: on average, EU investments fall short by approximately 1.1 percentage points of GDP per year compared to the US. Looking at R&D **investments**, from 2000 to today, the accumulated gap with the United States amounts to over 17 percentage points of GDP. The low investment levels are partly due to the general under-sizing and low capitalization of European companies compared to the other two major economic blocs. Among the world's top ten publicly traded companies, six are American, and three are Chinese. The highest-ranked European company is only 25th. The weak dynamism of

financial capital in the EU hampers business growth and investment. Consider that, in 2024, the US stock market was about three times the size of the European one, accounting for 227% of GDP compared to 81% in the EU.

The failure to complete the **European single market** and the lack of harmonization of certain regulations are among the main causes of these delays, as they create obstacles to the exchange of goods and services within the EU. According to IMF estimates, these factors can increase production costs by 44% for manufactured goods and by 110% for services. In the US, the burden of these trade barriers between states is about 13%. If the EU were able to reduce these barriers to US levels, productivity would increase by 6.7%.

Regulatory proliferation is another factor slowing down the European economy. The high costs imposed on European businesses reduce the EU's attractiveness as a place to do business. For instance, a recent study found that compliance with the GDPR (which regulates how companies handle personal data) led to an average decrease of 8% in profits and 2% in sales. The Draghi Report highlighted that between 2019 and 2024, the EU approved approximately 13,000 legislative acts, more than twice as many as the U.S.

Finally, **the energy challenge** is a crucial issue to address. Over the past thirty years, global energy consumption has doubled, while Europe's share has dropped from 17% to 9%. On the supply side, fossil fuels still account for over 80% of global energy needs, just as they did in the past. China, through coal, now contributes 60% of global emissions and will not reach carbon neutrality before 2060, with coal use expected to halve only by 2040. The US will phase out gas slowly to protect economic growth. For Europe, decarbonization must proceed with a balanced approach, considering security, economic growth and environmental sustainability. The Italian economy, in particular, is already among the most sustainable in Europe and the world. Over the past 15 years, the manufacturing sector has recorded a significant 40% reduction in emissions intensity. The policies implemented at the European level so far have solely prioritized sustainability but have severely jeopardized both European growth and security. This is why several mechanisms, such as the ETS and CBAM, need to be revised, as they impose significant competitive disadvantages on European companies.

Growth expectations for **emerging economies** remain high: +4.4% this year (up from +4.2% in 2024) and +4.5% in 2026, further increasing their share of global GDP. The "BRICS+" group of ten countries is expected to reach 38.0% of global GDP by 2025. China continues to grow at a rate close to +5.0% per year, but domestic demand remains weak; in December 2024, industrial production outpaced retail sales, and the unemployment rate rose again. Inflation remains low (0.7% this year), leading to expansionary fiscal and monetary policies. India, growing steadily at +6.5% per year, could benefit from a shift in trade flows away from China due to US tariffs.

In this already complex scenario, the **tariffs** announced by the US add further uncertainty. The "America First" trade policy of Trump's second administration is more aggressive and unpredictable than the approach taken during his first term. It will be crucial to initiate negotiations with the US to reconcile mutual interests. However, it is even more essential to rapidly increase Europe's attractiveness to prevent capital outflows towards the US, something that is already taking place and will be accelerated by the tariffs. The impact of tariffs on specific Italian and European production sectors is difficult to determine, as it will depend on multiple factors, including tariff rates and duration, price elasticity of demand and individual countries' exposure to the US. We are facing a further reconfiguration of bilateral trade and a revision of global supply chains. According to IMF estimates, a potential across-the-board 10% increase in US tariffs would reduce global GDP by -0.8%, with an uneven impact across regions: more severe in the US, less so in the Eurozone. For Italy, exports of

goods to the US amounted to 65 billion euros in 2024, accounting for over 10% of total exports. Between 2019 and 2023, the increase in exports to the US contributed 4.5 percentage points to the overall 30% cumulative growth in Italian exports. At a sectoral level, the most exposed Italian industrial sectors are beverages, pharmaceuticals, motor vehicles and other transport equipment.

Due to repeated tariff announcements, **economic and political uncertainty** indices reached record highs at the beginning of 2025, negatively impacting investment decisions and severely disrupting global supply chains. Since 2022, over 3,400 protectionist measures have been enacted worldwide each year, almost 3,000 more than those implemented before 2020. A potential **escalation of protectionism**, driven by retaliatory tariffs among major global economies, would undermine the very structure of international trade and production, with profound repercussions on global GDP. The CSC forecast scenario incorporates only the uncertainty surge caused by tariff announcements, assuming it will persist through the first half of 2025. If prolonged, it would significantly hinder growth by negatively affecting both domestic and international investment decisions. Moreover, it does not account for the potential effects of additional tariffs and retaliatory measures.

Italy's Growth to Regain Momentum Only in 2026

In 2024, the Italian economy expanded by +0.7% year-on-year, with broad-based contributions from various components: household consumption (+0.2%), gross fixed investments (+0.1%), collective consumption (+0.2%), and net exports (+0.4%), which offset inventory depletion. In the first quarter of 2025, short-term indicators suggest that the economy's expansion continues but at a rather modest pace. Italian GDP is expected to grow by +0.6% in 2025, nearly in line with 2024. However, growth is projected to accelerate to +1.0% in 2026. The downward revision of -0.3 percentage points for 2025 is largely attributable to the weakness observed in the second half of 2024 and the deterioration of the macroeconomic outlook, in which opposing forces interact (Table B).

Table B
The CSC forecast for Italy
(Under current legislation, percentage changes)

	2024	2025	2026
Gross domestic product	0.7	0.6	1.0
Household consumption	0.4	0.8	1.0
Public consumption	1.1	0.8	0.3
Gross fixed capital formation	0.5	-0.8	0.9
Exports of goods and services	0.4	1.3	1.8
Imports of goods and services	-0.7	1.2	1.9
Employment (FTEs)	2.2	0.5	0.7
Employment (headcount)	1.5	0.6	0.8
Consumer price index	1.0	1.8	2.0
Per capita wages (nominal per FTE)	2.9	3.6	3.1
Government net borrowing[1]	3.4	3.2	2.8

[1] Percent of GDP.
FTEs = full-time equivalent units.
Source: Centro Studi Confindustria elaborations and estimates based on Istat data.

On the positive side, the ongoing **reduction of interest rates** by the ECB will bring monetary policy to a neutral level by the end of 2025.

Second, the recovery of **households' total real disposable income** will be driven by a gradual increase in per capita wages, a solid contribution from non-labor incomes, rising total employment and low inflation, although the effects of the latter two factors will moderate in 2025 and 2026. In addition, as uncertainty diminishes, the household saving rate is expected to decline from late 2025 into 2026, further supporting consumption growth through sustained income gains.

Third, **the implementation of the National Recovery and Resilience Plan (NRRP).** Between 2025 and 2026, planned resources amount to approximately €130 billion. Even if only half of these funds (€65 billion) are actually spent, they will still provide significant support to GDP, particularly through construction investments, which have been slowing due to the phase-out of residential building incentives. However, little impact is expected on investments in machinery and equipment, as the Transition 5.0 Plan proved ineffective in 2024 and is unlikely to drive substantial growth in 2025.

On the negative side, two factors weigh on the outlook. Firstly, the renewed **increase in energy prices**, which, while not reaching the peaks of 2022, threatens the competitiveness of Italian firms and reduces real household income.

More critically, the new wave of **tariffs** announced by the Trump administration represents a major risk, particularly for Italy, as the U.S. is its second-largest destination market for Italian goods. According to Confindustria's Research Center, the reintroduction of a 25% tariff on steel and aluminum is estimated to reduce exports of these goods to the U.S. by around 5%, with a minimal macroeconomic impact (-0.02% of total Italian goods exports). However, a further escalation of protectionist measures, marked by a persistent rather than temporary surge in uncertainty (+80% compared to 2024), the introduction of 25% tariffs on all U.S. imports (including those from Europe), 60% on U.S. imports from China, and EU retaliatory tariffs on U.S. consumer goods, would have a cumulative negative impact on Italian GDP of -0.4% in 2025 and -0.6% in 2026.

On the supply side, Italy's GDP growth over the next two years will be driven by the services sector, with industry contributing positively only from 2026, while construction is expected to contract. Already in 2024, total value added was primarily supported by the services sector and, to a lesser extent, by **construction**, more than offsetting the decline in public administration and industry. Residential construction will be more heavily affected by the reduction of incentives, whereas non-residential construction should benefit from NRRP funds and less burdensome bank financing. Industrial value added is expected to recover only in 2026 (+1.0%) following another weak year in 2025 (-0.1%). The recovery will be driven by the rebound in goods exports, the easing of monetary tightening in the Eurozone and rising real disposable income, which will support domestic goods consumption. Industrial production gradually slowed its decline throughout 2024, recording a -0.4% in the fourth quarter, while leading indicators confirm that a gradual stabilization is underway.

The industrial crisis is not limited to Italy (-8.2% in production from mid-2022 to the end of 2024); it is a widespread phenomenon characterized by strong sectoral heterogeneity. The automotive sector is the hardest hit across all European countries, while declines have also been significant in fashion and metalworking. When excluding these sectors, manufacturing output in Italy declined moderately in 2024 (-1.5%), while it fell more sharply in Germany (-2.6%) and increased in Spain (+1.6%). Additional contributing factors include the crisis in Germany, as in the rest of the Eurozone, weak demand across the Eurozone after years of high inflation and high interest rates, households' preference for services over goods, which contributed to the weakness in industrial demand, the high cost of energy in Europe, and especially in Italy. Some of these issues may be solved in the short-to-medium term (such as the preference for services

and weak European demand), while others (energy costs, the German crisis, automotive and fashion sector challenges) are likely to persist longer. It should be noted that in Italy, the industrial crisis is a production crisis, much less so a value-added (-3.5% in the same period), investment, and export crisis, and certainly not an employment crisis, as employment has actually increased, even in the hardest-hit sectors. Possible explanations for this anomaly include a reduction in intermediate goods inventories, a shift within manufacturing towards higher value-added sectors and an improvement in production quality. Upcoming data releases will provide further clarity on this matter.

On the demand side, GDP growth in 2025 will be primarily driven by consumption and, to a lesser extent, by net exports. Only gross fixed investments will provide a negative contribution to growth (-0.2%). In 2026, consumption will continue to be the main driver, supported by a rebound in investment, while the contribution from net exports will be nearly neutral.

Household **consumption** grew modestly in 2024 (+0.4%), supported by rising real disposable income but constrained by an increased saving rate (averaging 9.4% over the first three quarters, well above long-term levels) due to the high level of uncertainty regarding the international situation, which is expected to subside in the second half of 2025. Consumption is, therefore, expected to accelerate this year (+0.8%) and next (+1.0%), supported by steadily increasing real income, lower interest rates and greater credit availability. Meanwhile, the divergence between the consumption of goods and services appears to have ended.

Investments are expected to decline by -0.8% this year (in line with the negative trend observed in the second half of 2024) before recovering in 2026 (+0.9%), remaining largely stagnant over the biennium. This weakness is driven by: 1) the lagged effects of restrictive monetary policy; 2) the industrial crisis; 3) the heightened international uncertainty due to tariffs and geopolitical tensions; 4) the waning of fiscal incentives, which had been an important stimulus for unlocking investments in recent years (Superbonus and Transition 4.0).

Non-residential building investment continued to grow in 2024 (+9.6%), sustained by NRRP funds. Without these funds (€13 billion), growth in non-residential buildings would have been around +3.0%. Based on the planned PNRR resources (€21.8 billion in 2025 and €22.8 billion in 2026) and assuming an absorption rate similar to 2024 (82%), investments in buildings are expected to grow at a strong pace this year and next (+7.5% and +4.9%), whereas residential investments will remain subdued due to the waning out of the incentives. Finally, spending on plants and machinery declined throughout 2024, initially due to firms postponing investment decisions in anticipation of the Transition 5.0 incentives and later because the measure lost its appeal due to a series of operational difficulties.

After a disappointing 2024 (+0.4%), the growth of Italian **exports** of goods and services will stabilize over the forecast period at slightly higher rates (+1.3% in 2025 and +1.8% in 2026), well below the pre-pandemic average (+3.3% in the 2014-2019 period).The decline in goods exports over the past two years (-1.4% in 2023 and -0.3% in 2024) has been concentrated in intermediate products due to the industrial slowdown across Europe. The only positive contribution to Italian foreign sales has come from consumer goods. Manufacturing exports in 2024 have been substantially flat (-0.1% at constant prices), as a result of a marked polarization between sectors experiencing strong growth ("other manufactured products" +16.3%, pharmaceuticals +8.4%, and food products +8.1%) and those in sharp decline ("other means of transport" -13.6%, automobiles -12.1%, and refined petroleum -11.4%).

The weakness of goods exports in 2024 stems from a decline in the EU market (-1.9%, with Germany at -5.0% and France at -2.1%), only partially offset by an

increase in non-EU markets (+1.2%). Trade with the United States (-3.6%) and especially China (-20%) has also cooled. The pace of Italian trade reconfiguration slowed in 2024 compared to the peaks reached in 2022-2023, especially on the import side (due to the completion of the structural revision of energy supply sources), yet it remains significantly higher than in the pre-pandemic years.

Imports will gradually recover, reflecting the rebound in exports, which rely significantly on imported intermediate goods, and the recovery of domestic investments. As a result, the net export contribution to GDP, which was significantly positive in 2024 (+0.4 percentage points), is expected to be nearly neutral over the forecast period (+0.1 in 2025 and zero in 2026).

Regarding **employment**, in 2025 and 2026, the growth rate of labor input, measured in terms of full-time equivalent units (FTEs), is expected to realign with economic activity (+0.5% and +0.7%, slightly below headcount employment growth), contrary to what happened in the past two years (FTEs +4.7% cumulative, GDP +1.4%). This will support an improvement in labor productivity after significant declines in previous years. In private services, the increase in average productivity is partly explained by compositional effects, with high-productivity sectors expanding (such as information and communication) and low-productivity sectors shrinking significantly (such as arts and entertainment services).

The recovery of **real per capita wages** will continue, with a cumulative increase of +2.8% over the 2025-2026 period, following a +1.5% increase in 2024 (partially offsetting the -6.9% decline in 2022-2023). In the private sector, by the fourth quarter of 2024, wages had recovered one-third of the purchasing power lost due to the energy crisis (-5.5% compared to the first quarter of 2021, from a low of -8.4% in the fourth quarter of 2022). However, in the public sector, real wages remain 9.5 percentage points below their starting level. The increase in Italy's manufacturing unit labor costs (ULC) over the past five years (+15.3%) has been slightly higher than the Eurozone average (+13.4%), particularly compared to Spain and Germany (+12.9% in both countries). This implies a loss of cost competitiveness compared to the pre-pandemic period, which only partially narrowed in 2024 relative to the Eurozone average and Germany. However, the competitiveness gap continued to widen compared to Spain, where manufacturing ULC rose by +3.0% last year, compared to +4.9% in Italy.

The dynamics of **consumer prices** in Italy have accelerated in recent months, although they remain below the +2.0% threshold: annual inflation stood at +1.6% in February 2025, up from a low of +0.7% in September 2024, driven by rising consumer energy prices (+0.6% annually, from -8.7%). In 2025, inflation is expected to be slightly above recent values averaging +1.8% (from +1.0% in 2024), while, in 2026, it is projected to reach the ECB target (+2.0% on average). This reflects higher energy prices in 2025, followed by a decline in 2026, moderate second-round effects from current price increases on core consumer prices (especially in 2026) and the stabilization of the euro against the dollar, preventing imported inflation through commodity prices. Core inflation (excluding energy and food) continues to decline: +1.5% annually in February 2025, down from +1.8% in September 2024. It is, however, expected to stabilize in late 2025 and reverse in 2026, without returning to the low levels seen before the energy crisis.

The **public deficit** is projected at -3.2% of GDP in 2025 and -2.8% in 2026, thereby creating the conditions for exiting the excessive deficit procedure in 2027. Interest expenditure is estimated at €87.0 billion in 2025 and €90.1 billion in 2026 (stable at 3.9% of GDP), with the spread expected to decline to 90 basis points by the end of 2025 and remain stable throughout 2026. The **public debt-to-GDP** ratio is projected at 137.0% in 2025, an increase of 1.7 percentage points from 2024 and is expected to rise by another 0.6 points to 137.6% in 2026, in line with the government estimates of last September.