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Italian 4Q GDP growth confirmed at 0.3%; softness expected in early 2026

Italian growth was built on domestic demand in 2025 s final quarter, as expected. The war in Iran and its spillover on energy markets will likely induce a sharp deceleration in the first half of 2026, making our previous 0.8% growth forecast for the full year overly optimistic

We suspect that the first quarter of 2026 in Italy will see a deceleration in GDP growth – but not a halt

Growth was gradually accelerating by the turn of the year...

The second estimate from Istat confirmed that in the fourth quarter of 2025, Italy's seasonally and working day-adjusted GDP expanded 0.3% after an upward-revised 0.2% in the third quarter. On the year, GDP was up 0.8%. The supply side angle shows that value added posted positive quarterly gains in agriculture (+0.2%), services (0.1%) and, more markedly, in industry (+0.8%).

...on a domestic demand drive

As is always the case at the second estimate stage, the focus of today's release is on the disclosed demand breakdown. As expected, quarterly GDP growth was driven by domestic demand and gross inventories. Inventory accumulation turned out to be the main driver (+0.7% contribution), followed by gross fixed capital formation (+0.2% contribution) and private consumption (+0.1% contribution), while public consumption was growth-neutral. The 0.7% quarterly drag from net exports builds on a 1.2% contraction in exports and a 1% expansion in imports.

Slow consumption was expected – strong residential and soft infrastructural investment were not

The detailed breakdown offers both confirmations and surprises. The marginal increase in private consumption was on the cards. Notwithstanding a resilient labour market and low inflation, consumer surveys had anticipated the continuation of a prudent approach on the household side.

The breakdown of the gross fixed capital formation aggregate comes as a surprise, though, as the onus of the positive push on growth rests on the residential part of the construction component – which, in principle, is less prone to benefit from the final (official) leg of the recovery plan. The infrastructural part surprisingly contracted, signalling a pause in the rush to complete investment plans. Whether this reflects growing manpower availability constraints or the awareness that it will be possible to complete many projects even after the plan's official August deadline is more difficult to say.

Potential negative bearings of war both on demand and supply

Looking ahead, the growth profile for the Italian economy will crucially depend on developments in the war in Iran and the Middle East and its spillovers on energy markets. Given Italy’s dependence on imported energy commodities, the impact on inflation of sustainably high oil and gas prices on the demand side would be straightforward, with a potential negative bearing on household disposable income, and ultimately consumption. The supply side would not be exempt, though, particularly on the industrial front, where Italian firms already have to pay higher energy prices than most of their European peers. The Meloni government recently approved a decree meant to help households and businesses alike with energy bills. The risk is high that these measures will soon prove insufficient to provide relevant relief and that more will be needed.

With a softer start to 1H26, growth this year will likely be softer than expected

All in all, fourth quarter data confirmed that growth was gradually picking up at the end of 2025, albeit with an unbalanced pattern. We suspect that the first quarter of 2026 will already see a deceleration in GDP growth, but not a halt. What occurs in the second quarter will crucially depend on developments on the war front and its impact on inflation. The risk is high that it will also prove a soft quarter. Before the attack on Iran, we expected Italian GDP growth to average 0.8% in 2026. Chances are it will now prove lower than that.

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