Global Macroeconomic Monthly Review

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Key Issues and Table of Contents

Leumi Global Economic Forecast, As of December 2023

	2020	2021	2022	2023E	2024F
GDP – Real Growth Rate					
World	*-2.8%*	*6.3%*	*3.4%*	*2.8%*	*3.0%*
USA	*-2.8%*	*5.9%*	*2.1%*	*2.3%*	*1.0%*
UK	*-11.0%*	*7.6%*	*4.0%*	*0.5%*	*0.4%*
Japan	*-4.3%*	*2.1%*	*1.1%*	*1.3%*	*1.0%*
Eurozone	*-6.1%*	*5.4%*	*3.5%*	*0.5%*	*0.7%*
South East Asia (ex. Japan)	*-3.4%*	*3.8%*	*5.2%*	*4.3%*	*4.7%*
China	*2.2%*	*8.5%*	*3.0%*	*5.2%*	*4.5%*
India	*-5.8%*	*9.1%*	*6.8%*	*7.0%*	*6.2%*
Latin America	*-6.8%*	*7.0%*	*4.0%*	*1.7%*	*1.6%*
Israel	*-1.5%*	*9.3%*	*6.5%*	*2.4%*	*1.0%*
Trade Volume, Growth (%)					
Global	*-7.8%*	*10.6%*	*5.1%*	*2.4%*	*3.5%*
Interest rates, Year End					
US Fed	*0.1%*	*0.1%*	*4.3%*	*5.25-5.75%*	*4.00-4.50%*
Bank of England	*0.1%*	*0.1%*	*3.5%*	*5.00-5.50%*	*4.25-4.75%*
Bank of Japan-Policy Rate	*-0.1%*	*-0.1%*	*-0.1%*	*-0.1%*	*0.00%*
ECB-Main Refi	*0.0%*	*0.0%*	*0.0%*	*2.5%*	*4.25-4.75%*
Israel	*0.1%*	*0.1%*	*3.25%*	*4.75%*	*3.50-4.00%*

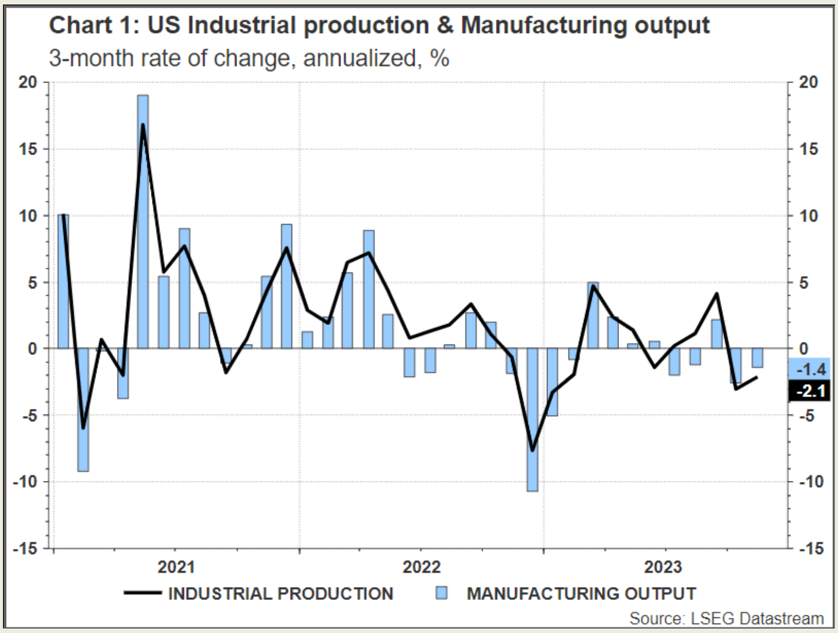
United States

Economic activity: the US economy's growth rate in the third quarter of 2023 was revised upward, yet it appears the growth rate slowed in the fourth quarter. The relative cooling in the labor market is expected to continue in the coming months. Housing prices continued to climb in September, and the relatively sharp drop in mortgage interest rates in November-December is expected to support further gains in housing prices in the coming months. The US government budget deficit widened in October-November 2023.

- The US GDP data for the third quarter of 2023 were revised upward. According to the revision, the US economy increased at a 5.2% annualized rate in the third quarter, compared to a rate of 4.9% as originally reported. From an analysis of the GDP components, households increased expenditures by a rate of 3.6% in annualized terms in the third quarter, while consumer expenditures account for 70% of economic activity. In addition, business investments, the second largest component of the economy, increased by a relatively high rate of 2.4%, this compared to 0.8% in the initial release. Inventories increased and contributed to the rise in GDP. Profits at non-financial businesses increased, indicating that higher labor costs are not substantially weighing on earnings. Continued growth, and in particular with a growth composition that includes a large component of rising consumption, at the expense of, among other things, savings, coupled with a large component of rising real investments, which require financing, is expected to lead to a situation in which the level of long-term interest rates (bond yields) remains relatively high.
- The moderate increase in real consumption, with an additional decline in the core inflation of private consumption expenditures, which is reflected in the PCE index, will strengthen the market expectations that a series of interest rate cuts by the Fed is already on the horizon. Real private consumption increased 0.2% in November, after October's figure was revised downward to 0.1%. This indicates that following the strong annual increase of 3.6% in consumption in the third quarter, growth of this component will slow to an annualized rate of 2.0%-2.5% in the fourth quarter.
- In November, the number of new jobs increased by 199,000, more than in October (150,000), although less than that registered in September (262,000). It seems the number of new jobs in the fourth quarter will be low relative to the third quarter, a development that serves as an additional sign that economic activity, which demonstrated strength in the third quarter, is expected to moderate in the fourth quarter. At the same time, we note there was indeed a decline registered in the November unemployment rate to 3.7%, compared to 3.9% in October; however, the rate is still high compared to the average level in the first half of 2023. The annual rate of increase in wages remained unchanged compared to October at a level of 4.0%, the lowest rate since mid-2011. This trend is expected to continue in the coming months, ultimately leading to a decline in the rate of increase in wages to below 4%. In total, the relative cooling in the labor market is expected to continue, which is likely to create the conditions for an initial interest rate cut at a relatively early stage in the first half of 2024.
- Industrial production increased in November by a moderate rate of 0.2% (m/m), following a sharp decline in October that stemmed from worker union strikes in the automobile industry,

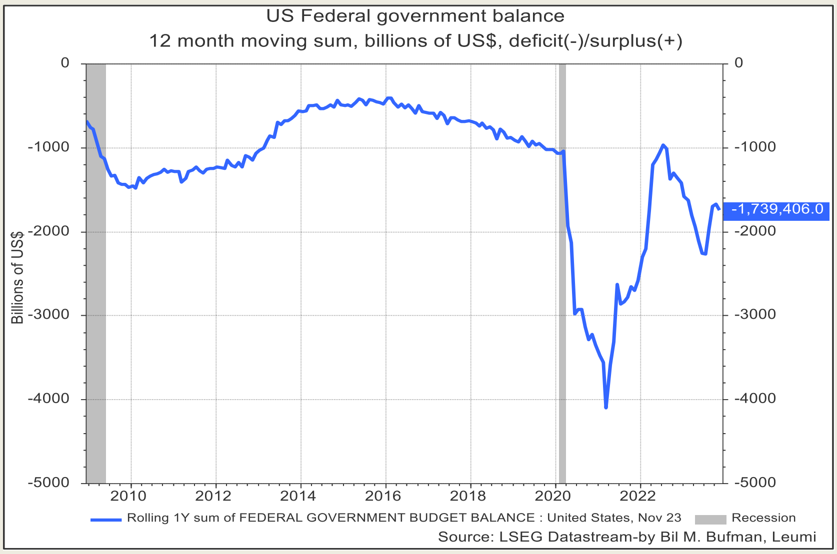
which have already been resolved, and two months of near-standstill that preceded this (see Chart 1). The annual rate of change in US industrial production has been in negative territory for four consecutive months (August-November). At the same time, manufacturing output is characterized by a similar trend, as in November there was an increase of 0.3% (m/m). Business confidence remained unchanged in November, while the purchasing managers survey, the ISM index, indicates an increase in new orders and greater expectations for output prices in November. This comes even though the indices remained below 50 points, and the expectations for changes in employment weakened in November. Taking into consideration the global backdrop that continues to weaken, US industrial production is expected to remain relatively weak. This slowdown in manufacturing, alongside the economic recession in Europe, is expected to reduce local demand for goods in the US. The developments in the American economy are expected to continue to weigh on the ability of the US business sector to increase its aggregate profitability.

Chart 1



- The monthly increase in housing prices continued also in September, this in continuation of the trend that started in February, yet with a slowdown in the pace. The rate of new and existing home sales indicates a slight weakness in demand for housing over recent months, against the backdrop of, among other things, the continuing burden of financing costs until recently. However, it is important to note that 30-year mortgage interest rates, which were trending upwards until the end of October, started to decline sharply, from a peak level of 7.80% to a level of 6.70% in the beginning of the second half of December. This development, which occurred in parallel to a downward trend in the interest rate environment of various durations, supports a recovery in housing demand in the coming months, which is likely to support an increase in housing prices.

Chart 2



- The US federal budget deficit increased 26% in November 2023 compared to the parallel period in the preceding year, an increase that was above market forecasts. The US federal deficit until now for the 2024 fiscal year, which started in October 2023, has increased 13% to US$381bn, compared to US$336bn in the parallel period in the preceding year. The rise in the deficit occurred despite an increase in federal government revenues in the first two months of fiscal year 2024 (October-November 2023), and thus reflects a substantial increase in expenditures. Federal expenditures increased to US$589bn in November, or 18% greater compared to that in the parallel period of the preceding year (in the months October-November, expenditures equaled US$1,060bn compared to US$907bn in the parallel period in the preceding year).
- Interest payments on US government debt contributed substantially to the rise in the deficit. This increase started in March 2022, back when the Fed started to hike interest rates. Interest rate payments on the debt in November amounted to US$80bn; this sum is greater than the expenditure on defense consumption in the same month, and equal to the cumulative defense expenditures in the first two months of fiscal year 2024. Alongside the rise in the deficit, there has been a substantial increase over the last few months in the US government debt, to a much larger extent than the deficit. The federal debt has risen from US$31.5tn at the end of May 2023 to US$33.9tn at the end of November 2023, this is to say, a US$2.4tn increase in US government debt, which represents a significant development. The budget deficit is expected to remain at a high level throughout 2024, at approximately 6% of GDP, which is equivalent to US$1.7tn (Chart 2). A deficit of such significant scale can be a factor that limits the possibility for a decline in yields in the American government bond market, with an emphasis on the longer durations.
- Looking ahead, the data indicate that the US economy is experiencing a “soft landing”, and it appears the economy continued to grow in the fourth quarter of 2023 as well, with a slowdown in the pace. In our estimation, the GDP of the US will register 2.3% growth for all of 2023, while in 2024 a lower growth rate of 1.0% is expected.

Inflation and monetary policy: in its December interest rate decision, the Fed left the federal funds rate unchanged at a range of 5.25%-5.50%. In our estimation, against the backdrop of the moderation in inflation, with an emphasis on the PCE index, the Fed is likely to start lowering its federal funds rate as soon as March 2024. The annual rate of the PCE core price index, as well as of the overall PCE index, fell in November.

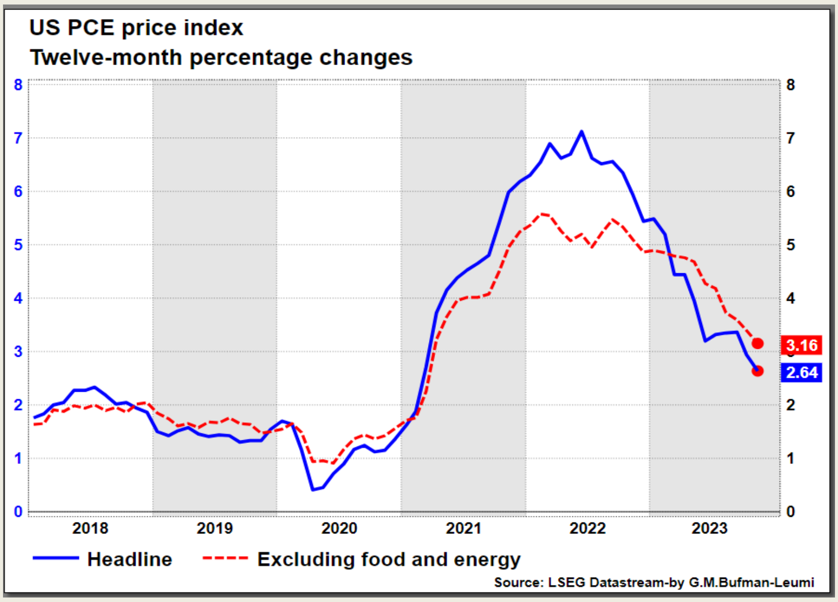
- In the December interest rate decision, the Fed, as expected, kept the federal funds rate unchanged. The Fed noted the indicators are showing that the growth in economic activity slowed recently, as did the addition in the number of jobs. Inflation declined, although not down to the target level. The US banking system is resilient and flexible. Looking ahead, the tighter financial conditions and credit terms in the economy are expected to weigh on economic activity. In addition to leaving interest rates unchanged, the Fed will continue its process of quantitative tightening.
- In addition to the publication of the interest rate decision, the latest economic assessments of the members of the Federal Open Market Committee (FOMC) were released. Estimates regarding economic growth and the unemployment rate remain at a level very similar to the previous publication (September), while anticipating a slowdown in growth in 2024 and an increase in the unemployment rate. Inflation forecasts for the years 2023-2025 have been lowered, with an expected return to price stability during 2025. Parallel to the reduction in the inflation forecasts, the latest estimates indicate an unequivocal expectation for a reduction in interest rates over the next few years, starting from as early as 2024. In the median forecast, the interest rate at year-end 2024 is expected to be 4.6%, this compared to the current interest rate of 5.33%, and a previous forecast of 5.1% for the end of 2024. According to market pricing, the chances for the first interest rate cut already in the March 2024 decision are on the rise, and the market estimates that the total interest rate reduction in 2024 will be greater than the median forecast of the Fed members. The decline in inflation will eventually justify an interest rate cut, and there is a good chance the Fed will start lowering interest rates as early as March 2024.
- Under these conditions, the slope of the yield curve has increased (actually, the degree of negative steepness has decreased), this in view of expectations for a cut in the federal funds rate. This development is having a substantial impact at the shorter end of the curve, with a more moderate impact on the longer portion of the curve, which is affected by a much wider range of macro-economic conditions that do not support a substantial drop in yields at this time.
- The general consumer price index (CPI-U) in the US increased 0.1% in November, slightly above the consensus forecast. Over the trailing 12-month period the general index increased 3.1%. The rise in the index was led by the housing component, which continued to increase in November, and offset a decline in the gasoline component. The energy component fell 2.3% during the month with a decline of 6.0% in the gasoline component, which more than offset increases in the other energy components. The food index increased 0.2% in November, following a 0.3% increase in October. The core index, which measures all items excluding food and energy, increased 0.3% in November, following a 0.2% increase in October. The rise in the core index is the result of increases in home rental prices, the owners'

equivalent rent component, medical care, and more. The core index increased 4.0% over the trailing 12-month period, as was the case in the 12-month period ending in October, this according to forecasts.

- The core price index of the PCE increased only 0.06% in November, while the general PCE index of prices fell 0.1%. Over the last six months core inflation increased by a rate of only 1.9% in annualized terms, even though the core inflation rate of the PCE over the trailing 12-month period remained relatively high, at a level of 3.2% (Chart 3). Thus, it appears the accelerated increase in inflation, resulting from the coronavirus crisis, has come to an end. The decline in energy prices contributed to the general PCE price index falling last month, for the first time since April 2020. It is important to take into consideration the additional slowdown that is expected in housing rental inflation in the coming months, which will be expressed in the different price indices, including the core indices. This development will help inflation to continue to decline toward the direction of the inflation target (2%).

The moderate rise in the PCE core prices in November is different from the 0.3% rise in the CPI in core terms in this month, which underscores the importance of the PCE, the variable that the Fed relies on and uses as a basis for defining the inflation target. This index, which takes into account the ongoing changes in the composition of consumption, has been on a consistent downward trend since mid-2022. This is to say, the development of PCE prices indicates that inflation is converging, and the path to reducing the Fed's interest rate is shortening.

Chart 3



The Global Economy

Industrial production in the euro bloc continued to decline in October; the annual rate of industrial production is deep within negative territory for the eighth consecutive month. The ECB kept its interest rate unchanged at its December meeting. The downward trend in inflation (annualized rate) in the euro bloc continued in November as well. The central bank of England (BOE) kept its interest rate unchanged, at 5.25%, in December.

- Industrial production in the euro bloc declined 0.7% in October (m/m), after falling 1.0% in September. This decline left the annual growth rate of euro bloc industrial production deep within negative territory for the eighth consecutive month. Thus, over the trailing 12-month period ending in October 2023 industrial production in the euro bloc contracted 6.6%, following a decline of 6.8% in the preceding month. The declines were broad across most areas of activity, led by investment goods and consumption. In addition, we note that business sector confidence declined moderately in November, and remained in negative territory for the fifth consecutive month, a development that indicates a deterioration in business sentiment in the euro bloc. The business surveys indicate that no improvement is expected in November-December, since the PMI of industrial output remained unchanged in December within the range that indicates a contraction in activity. The services sector PMI also remained within the range that indicates a contraction in activity, and even registered an additional decline. In total, economic activity in the euro bloc in the fourth quarter of this year remains weak. The weakness of the manufacturing sector is a main reason that GDP is expected to contract also in the fourth quarter, and it is reasonable to assume that it will not recover in the first half of next year.
- The European Central Bank (ECB) decided, as expected, to keep its interest rate unchanged also at its December meeting. Whereas inflation declined over recent months, down to a level of 2.4% (annualized) in November, it is expected to climb once again temporarily in the short-term. The decline in November's inflation did not stem from energy nor food inflation, but instead originated from core inflation (inflation excluding energy, alcohol, food, and tobacco prices), which fell from 4.2% to 3.6% (a sharper decline than expected). Core goods inflation dropped from 3.5% to 2.9%, and services inflation declined from 4.6% to 4.0%. According to ECB forecasts, inflation is expected to decline gradually during the coming year, before returning to the 2% target only in 2025. This represents a downward revision to the inflation forecast for the years 2023-2024, compared to the September forecasts. In addition, we note that core inflation has indeed moderated; however, domestic pricing pressures remain high, mainly due to a strong rise in labor costs.
- The interest rate hikes taken in the past by the ECB have been reflected in tighter financing conditions that reduce demand, which helps to moderate inflation. Economic growth will remain moderate in the near term. The situation may support the initiation of interest rate cuts by the ECB before mid-2024. The ECB's interest rates are the main tool for determining monetary policy, but there are also quantitative tools, such as open market purchases, and the ECB decided to act to normalize the balance sheet of the central bank. Within this framework, the redemption of the securities previously purchased under the PEPP program (Pandemic Emergency Purchase Program) will still be reinvested during the first half of 2024. However,

during the second half of next year, the ECB intends to reduce the PEPP portfolio by €7.5bn per month on average, that is to say – quantitative tightening. Later, the ECB will completely halt reinvestments under PEPP at the end of 2024.

- In its December meeting, the Monetary Policy Committee (MPC) of the central bank of England (BOE) kept its interest rate unchanged for the third consecutive time at 5.25%, in-line with expectations. The committee lowered the chance for a rate cut in the near-term, and the central bank's announcement maintained a hawkish stance, as some of the committee members voted for an additional rate hike. The MPC's announcement noted that "Further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures." This is to say, the message is that the MPC opposes the expectations of investors that the interest rate will be lowered already in May next year, and the Governor of the central bank of England noted "We still have a way to go." This is because the bank does not want interest rate expectations in the market to change further in favor of an early interest rate cut. Such an early move may ease financial conditions and undermine the central bank's attempts to further reduce inflation. It looks like interest rates will remain at a record high of 5.25% for longer than the market is currently pricing in regarding the interest rates of the Fed and the ECB, while maintaining the current interest rate level until the second half of 2024.
- At its December meeting, the central bank of Japan (BOJ) kept its policies unchanged, in-line with the preliminary expectations. The upper leadership of the BOJ recently began to discuss the process of exiting negative interest rates (minus 0.1%) and it is expected that the BOJ will end the short-term negative interest rate policy as early as January, and will also continue to gradually reduce the yield curve control – YCC – mechanism later in 2024. In terms of dealing with inflation, the salary issue is the main threat to meeting the inflation target, as inflation remains above the target. Annual inflation, which fell in November to 2.8% compared to 3.3% in October, is still above the 2% target. The wage data indicates an increase in wages at a rate that still supports inflationary pressures. It is expected that the BOJ will raise its inflation forecasts in the January announcement, which is expected to lead the BOJ to end its negative interest rate policy soon. Regarding the YCC mechanism, which is relevant to 10-year government yields, it is expected that concerns about the degree of financial stability will lead the BOJ to wait a few more months before fully and definitively cancelling this mechanism, which until now has only been flexible, while allowing for an increase in yields.

  In its November meeting, the central bank of Korea (BoK) kept its interest rate unchanged at 3.5%, for the seventh consecutive time. This decision was not surprising and it is reasonable to assume the interest rate will remain unchanged in the near-term. Inflation (annualized) declined in November from 3.8% to 3.3%, a level that is still above the target (2%). Inflation is expected to decline during the coming months and the economy is expected to weaken. The tight monetary policy is expected to weigh on domestic demand, while the weakening real estate sector is weighing on construction activity. Interest rate cuts are expected toward the middle of next year.

The Italian economy

The Italian economy endured the energy crisis triggered by Russia's invasion of Ukraine. However, Italian GDP has not returned to the growth trend that characterized the country before the coronavirus period. Over recent quarters economic activity in Italy has slowed. Looking ahead, economic growth is expected to slow in the coming years, and the risks to the growth forecast are biased downward. The fiscal profile is very weak, but there is a slight improvement in political stability.

- The Italian economy is a large (10th in the world) and open (exports account for 32% of GDP) economy, diversified across a variety of industries. Households maintain highly resilient balance sheets, including relatively low debt and relatively high levels of savings, coupled with a high GDP per capita (US$ 50,000 PPP) compared to countries with a similar rating. Such factors can help households in times of economic weakness. Italy is a member of the European Monetary Union, a factor that helps the country to maintain low short- and long-term interest rate levels, despite a high debt/GDP ratio. However, Italy has weak government institutions and a relatively high degree of corruption (ranked 41st in a world corruption index) and political instability. Also, a socio-economic inequality, particularly between different regions of the country. A high degree of rigidity in the labor market, which lowers the degree of competitiveness of Italy's goods and services around the world. In addition, low labor productivity and a shrinking workforce, which serve as the basis for the expected moderate growth in the future. Italy has a relatively weak fiscal profile, which includes very high government debt that weighs on the ability to implement counter-cyclical policies, and restricts financial support to encourage growth. Relatively high exposure to shocks in the energy market – due to high reliance on imports and on renewable energy production.
- **The Italian economy survived the energy crisis created by Russia's invasion of Ukraine.** Locating alternative sources for Russian gas, albeit at a more expensive price, ensured an adequate supply for the past winter, and the high prices led to a moderation in energy demand. However, the energy supply remains exposed to risks, despite the achievements made in the diversification of energy sources, and this is because Italy's dependence on energy imports is substantial. Approximately 80% of Italy's energy supply originates from imports, and the rest is produced from renewable energy sources, the production of which is exposed to climate change.
- Since the end of the coronavirus pandemic and until recently, local demand has supported economic activity, against the backdrop of fiscal support for households, a boom in the tourism sector, and a recovery in employment. Also, tax breaks provided for home renovations (in order to make them 'greener' and fortified against earthquakes) fueled private investment in residential construction. However, Italian GDP has not returned to the growth trend that characterized the country before the coronavirus. Even worse, looking over a longer term, the current GDP level is still below the peak set before the global financial crisis, during which Italy suffered a substantial shock, from which it has not yet fully recovered, according to this aspect.
- Over recent quarters economic activity in Italy has slowed. In the second quarter of 2023 GDP contracted by a rate of 0.4% (q/q). A reduction in the tax breaks mentioned above had

a central contribution to this decline. The negative momentum continued into the third quarter as GDP increased by only 0.1% (q/q). In addition, a number of preliminary indicators point to a continuation in the weakening trend that has been felt recently, among them being chain store sales and various confidence indices. Despite the weak performance seen over recent quarters, the GDP growth rate is expected to equal 0.7% for the full year, this mainly against the backdrop of an "end effect", boosted by a relatively high growth rate in the first quarter of the year.

- **Looking ahead, economic growth is expected to slow in the coming years.** In recent years growth has been supported by expansionary monetary policy, and substantial fiscal support for the business sector and households, initially due to the coronavirus, and subsequently in light of the energy crisis. The policies supported the balance sheets of households and businesses, but led to an increase in government debt, and now, since policy changes are expected, namely, the reduction in fiscal support for households and the tightening of monetary policy, growth is expected to slow. Next year, private consumption is expected to recover due to an increase in the purchasing power of households resulting from a faster increase in wages relative to inflation, which is expected to moderate, and due to the intention to cut income tax rates next year. However, on the other hand, the halt to government support to households following the spike in energy prices will weigh on consumption. The overall scope of investments in the economy is expected to have a negative contribution from investment in residential construction on the one hand, in view of the change in the tax exemption policy on renovations, and on the other hand, a positive contribution from projects in the fields of green energy and digitization that will be financed through the investment funds of the European Union. And a moderate increase in world trade is expected to support net exports. So, by the end of next year, the growth rate is expected to be similar to that of the current year.
- **The risks to the growth forecast are biased downward:** A higher-than-expected tightening in the financial conditions of Italy is possible, with this potentially resulting from a stronger-than-expected tightening of the ECB's monetary policy, or as the result of an increase in Italy's risk premium. In addition, slow progress in the materialization of the EU's compensation funds for the benefit of growth-supporting investments may be reflected in more moderate growth than predicted and hamper an improvement in labor productivity. Also, the renewal of global financial pressures may reduce the availability of financing, weigh on the expenses of households and the government, and raise concerns regarding the stability of the banking system, and the fiscal profile. Policy measures that would slow the reduction in government debt could create similar concerns as well. On the other hand, on the positive side, a higher-than-expected materialization of government investments within the framework of the EU's investment and compensation funds may lead to a higher-than-expected growth rate.
- **The fiscal profile is very weak.** The fiscal deficit (in terms of GDP) in 2023 is expected to moderate due to a decline in debt maintenance costs, in view of the effects of slowing inflation on payments of CPI-linked bonds, and also due to a relatively high nominal GDP growth rate. The decline in government expenditures associated with the energy subsidies for households,

and the increase in revenues in view of the cancellation of the tax exemption on household renovations, will also support the fiscal activity of the government in 2023. However; this support will be partially offset by planned increases in investments and in government pension expenditures (due to inflation linkages). Next year an additional step-down is expected in the fiscal deficit due to the full cancellation of support for households with respect to the energy crisis and the full cancellation of the tax exemption on home renovations.

- The interest rate payments of the government, as a percentage of government revenues, are expected to climb to 8.5% in 2023, reaching up to 10% in 2026, this compared to just 7% on average in 2019-2021. This is mainly the result of the rise in bond yields, against the backdrop of monetary policy tightening by the ECB. The high volatility in government bond prices, as could be argued during the period leading up to the elections, and when the government intended to impose a tax on the excess profits of the banking system, poses a risk to the government's budgetary performance, considering its relatively high financing needs. On the other hand, the relatively long duration of the debt (approximately eight years) limits the transmission from volatility in the markets to interest rate expenses.
- The risk that Italy will violate the fiscal rules of the EU, as soon as they are re-instated following their suspension over recent years due to the coronavirus, is high, and this is taking into consideration the government's assessment that the budget deficit through 2026 is expected to be greater than 3% of GDP. Therefore, steps will probably be taken against Italy within the EDP framework (excessive deficit procedure). However, the Fitch credit rating agency estimates that no sanctions will be imposed on Italy, such as the exclusion of Italy from the ECB's bond purchase program, because the agency assumes the Italian government will make budgetary adjustments to the satisfaction of the EU Commission.
- Italy's government debt, which is high compared to countries with a similar debt rating (for the sake of illustration, the median debt level of countries rated 'BBB' according to Fitch is 55% of GDP), is not expected to decrease from its high level in the coming years, and reflects the government's limited ability to support the economy in future crises and even allocate funds for investments that support growth. In addition, the Italian government provides guarantees on the debt of private sector companies to the extent of 16% of GDP, accumulated during the years of the coronavirus and the energy crisis in Europe (the bulk of these loans is expected to be repaid in 2026-2027).
- **There is a slight improvement in political stability.** Public support for the Meloni-led government has remained relatively high over time, and the number of Parliament seats held by the coalition provides the government with a greater degree of stability compared to previous governments, and creates a manageable environment for implementing economic reforms and a long-term fiscal plan. However, Meloni's government must deal with many political pressures to fulfill its election promises, as evidenced by the opposition to pension reform from among elements in the coalition, and this is expected to hamper the convergence of the government debt to a lower level.
- The Moody's credit rating agency changed its rating outlook on Italy to "Stable" in November 2023, one year after it had changed this outlook to "Negative". This move came against the backdrop of a stabilization in the expectations on economic growth, improvements in the

banking system, and the dynamics of the government debt. Thus, the agency lowered the risk that Italy will lose its investment rating in the short-term.

- Inflation is expected to moderate, yet to remain above the target (2%) until 2025. This moderation will occur against the backdrop of declining food and energy prices. Following a gradual decline during the year, resulting from the rapid transmission of the reduction in global energy prices to the local economy, inflation stood at 0.7% in November 2023, compared to 12.8% in November last year. Core inflation (3.6% in November 2023), excluding energy and food prices, is expected to decrease more moderately, given the expected increase in the growth rate of average wages (extensive renewal of multi-year contracts; and high inflation expectations) and an increase in the profit margins of businesses.
- Italy is eligible for €191.5bn (approximately 9% of GDP) in monetary grants and loans from the EU. According to an EU decision, these funds will be used for investments in the areas of green energy and digitalization. The Italian authorities encountered difficulties in reaching the criteria required to withdraw the third tranche of these funds; nonetheless, it seems that after reaching agreements with the EU, the next tranches will be received at a more rapid pace. The rate at which the investments funds are activated is extremely low – until 2022, only about 22% of the funds that were available for withdrawal have been realized. The reasons for this are: the complexity of the projects, the slowdown in economic activity, and limited administrative capacity in the EU. Despite the slow materialization of funds, it is quite possible that Italy’s eligibility period will be extended beyond the original date (2026), so that the country will not lose its allocation. Against the backdrop of the relatively low materialization of funds, it is expected the impact of these investments on growth will occur only in 2024-2025.

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