AIBE-CENSIS REPORT

OBSERVATORY ON THE ATTRACTIVENESS OF ITALY TO FOREIGN INVESTORS

The results of the survey with the AIBE Panel

Autumn 2023

Rome, November 2023

Index

1. PREMISE: THE EXPECTATIONS OF THE PANEL AIBE ON THE ACTION OF GOVERNMENT

The Aibe-Censis Report of last autumn, published shortly after the settlement of the new government in Italy, reported, among other things, some indications that emerged from the reflections released by the AIBE Panel. In particular, the Report paused on the context of those months, characterized by "a partial exit from the health emergency, from a strong geopolitical uncertainty due to the ongoing war between Russia and Ukraine, from the start of a phase of inflation, generated mainly by high energy costs".

If the first factor could be considered tendentially exceeded, the other two factors - according to the Panel - would have brought a considerable degree of instability both within individual economies, and in financial and material flows worldwide.

There are three considerations highlighted by the Panel in the autumn of last year and that were the basis of a possible interlocution with the government:

- “The international financial community looks to Italy, relying on the resilience of the country’s fundamental assets, such as institutional strength, opportunities for growth and recovery even in front of an unexpected crisis, the importance of the country both in terms of international trade and in terms of political and economic relations with other countries.
- All the importance that foreign investments assume for the stability of the Italian economy emerges, for the opportunities for growth of the Italian productive system, for the value of the exchanges that they allow, for the support they offer in spreading innovation and strengthening the competitive capacity of enterprises.
- Some choices at government level will facilitate the recovery path of Italy and may favour the positive assessment by international operators of the opportunities that Italy presents as a destination for productive investments".

As a result of these considerations, the Panel indicated some objectives that the new government - strong of a wide electoral legitimacy - should have pursued:

1. Prioritise Italy’s efforts in support of the European institutions and in collaboration with the other countries of the Union, pursuing greater

internal integration and working to ensure that the Union can continue to act as a world leader, both in the economic field and in that of international relations.

2. Strengthen the initiatives already in place (reported in the PNRR under the objectives of Next Generation EU) to improve the efficiency of public administration, facilitate the completion of reforms (justice, tax, competition) support investments that ensure the energy transition.
3. Implement a clear and decisive plan of legislative simplification, giving, at the same time, stability, and continuity to the rules, reorganizing the instruments of incentives to production, facilitating the entry of foreign capital in medium and small Italian companies.

European commitment, public administration reform and legislative simplification are, in essence, the main areas on which the Panel expected a strong initiative from the new government.

But 2023 immediately came with a series of events that raised the level of global criticality, already quite high in 2022. To the persistence of the conflict between Russia and Ukraine, to the high interest rates, to the untaxed inflation, was added, in October, the brutal aggression of Hamas against Israel and the harsh reaction of the latter, raising tension in the Middle East and creating the risk of the extension of the conflict in that area.

This has led to a reduction in global and local economic growth expectations.

The International Monetary Fund brought global GDP estimates to 2.9% in 2024 and 3.2% in 2025. For the single currency area, estimates of the increase in gross domestic product stop at 1.2% and 1.8% respectively over the two-year period (Tab. 1). For Italy, growth expectations, however, do not exceed 0.7% in 2024 and 1% in the following year, but more recent estimates report even lower values, predicting the risk of technical recession for the country in the coming quarters.

The general picture that emerges from the analysis of the Fund recalls a progressive slowdown in inflation in the next two years, equally worldwide (5.8% in 2024, 4.6% in 2025), European (from 3.3% in 2024 to 2.2% in the following year), and national (2.6% and 2.2% respectively). From an interest rate perspective, central bank action (Fed and ECB) still seems prudent, with reference rate values well above the 4% threshold in Europe and 5% in the US.

Tav. 1 - GDP and inflation forecasts (2024-2025) and interest rate developments 2022-2023

GDP	According to the latest IMF estimates, in 2024 world GDP will grow by 2.9%, by 1.2% in the euro area and by 0.7% in Italy. In 2025, world GDP will grow by 3.2%, by 1.8% in the euro area and by 1.0% in Italy.
Inflation	According to the latest IMF estimates, the world will experience inflation of 5.8% in 2024, the euro area of 3.3% and Italy of 2.6%. In 2025, inflation is expected to slow, with global growth of 4.6%, in the euro area of 2.2% and in Italy of 2.2%.
Interest rate developments (ECB and FED)	In 2022, the ECB's interest rate rose from 0% to 2.50%. In 2023, it increased further from 2.50% to 4.50% (September). The FED brought key interest rates in the range between 5.25% and 5.50% to July 2023.

Source: Censis elaboration on IMF, ECB, Federal Reserve, Bank of Italy data

Starting from the picture just drawn, the survey Autumn AIBE has submitted to the Panel some questions that can be mainly traced to two specific areas:

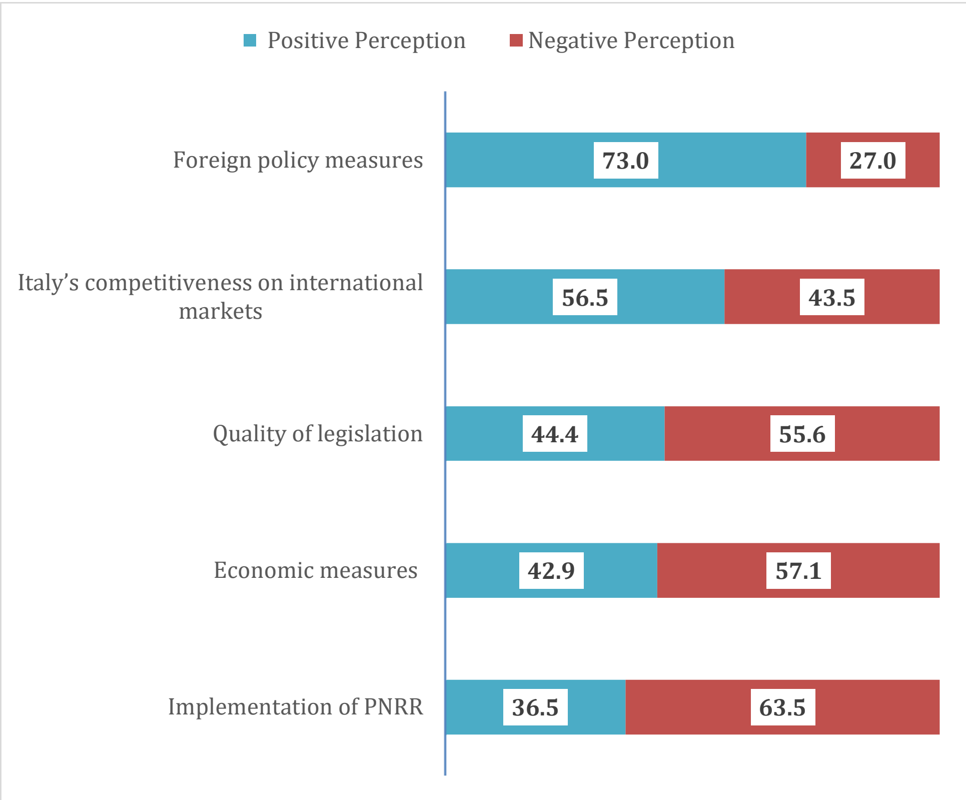
- The first concerns the precise assessment of several government actions carried out in recent months and the assessment of certain measures against the markets and the freedom of economic operators (taxation of extra profits, use of *golden* power, regulation by law of prices).
- The second concerns the impact on Italian public debt of the current level of interest rates and the revision assumptions of the Stability and Growth Pact under discussion in recent months.

On both fronts it is possible to observe how the expectations expressed by the Panel a year ago have had a positive response from the current government.

2. CONTROVERSIAL RESULTS AFTER ONE YEAR

The Panel's assessment of the first twelve months of government is basically positive if we consider foreign policy initiatives and those dedicated to maintaining the competitiveness of Italian products on international markets. In the first case the appreciation can be traced back to 73.0% of the members of the Panel, while in the second case, the percentage of positive perceptions, although lower than the previous one, is placed to 56.5% (fig. 1).

Fig. 1 - Perception of the Panel of the government actions carried out in the last year on specific areas *(val.%)*



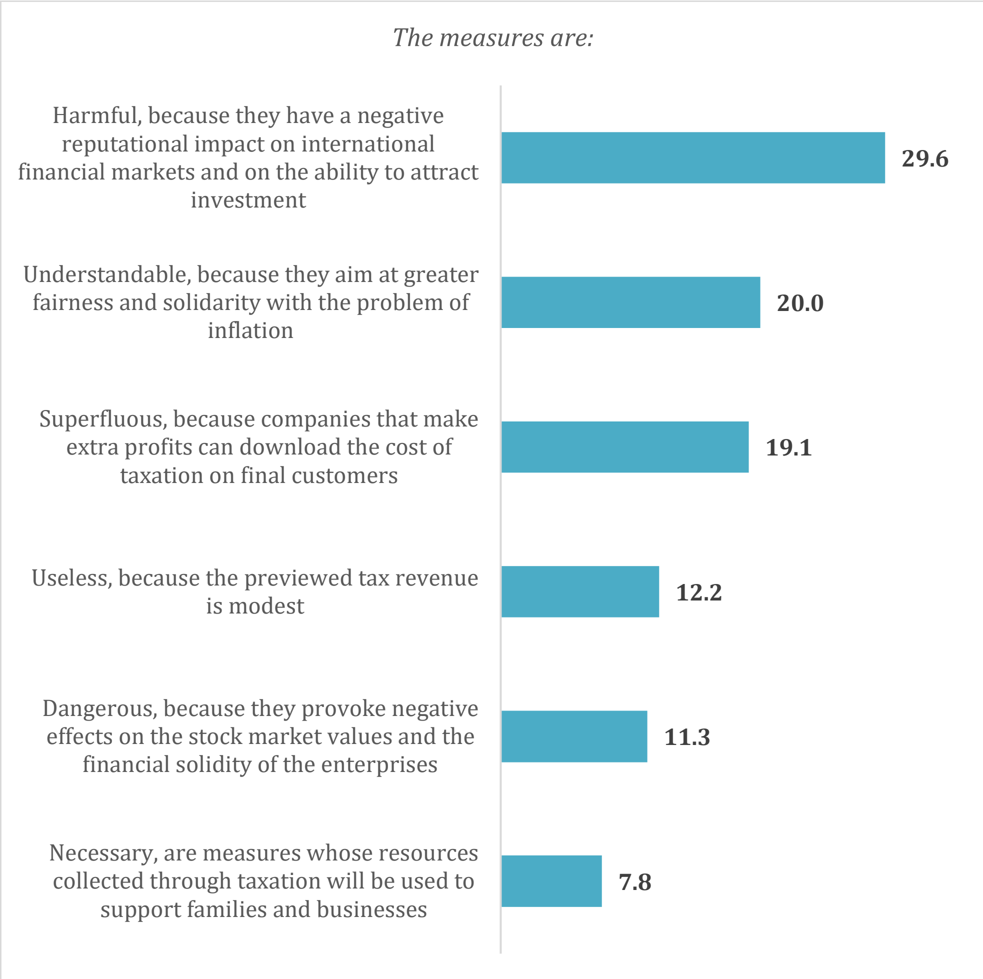
Source: Aibe-Censis survey, autumn 2023

Less wide, and lower than the threshold of 50%, the share of appreciation responses regarding the quality of legislation produced in recent months (44.4%, compared to 55.6% which expresses a negative perception); Even more reduced is the percentage of those who express a positive opinion towards the economic measures adopted by the government (42.9%) and towards the implementation of the PNRR (36.5%).

The recognition of a certain distance between what the Panel expected from the new government and what in fact took place during 2023 - especially on topics of strong interest to foreign investors such as the quality of the legislation and the investments and reforms provided for by the PNRR - it was then accompanied by a feeling of "crowding" by the Panel at the time the government decided to tax the extra profits of the banking sector, following the rise in interest rates, and the energy sector after the sharp rise in the prices of raw materials such as gas and oil.

29.6% of the Panel agree on an assessment that the measures on extra profits are harmful, especially if one looks at the negative impact on international financial markets and foreign investment leverage (Fig. 2).

Fig. 2 - Opinions of the Panel on the government's decision to tax the extra profits made by energy companies and banks *(val. %)*



Source: Aibe-Censis survey, autumn 2023

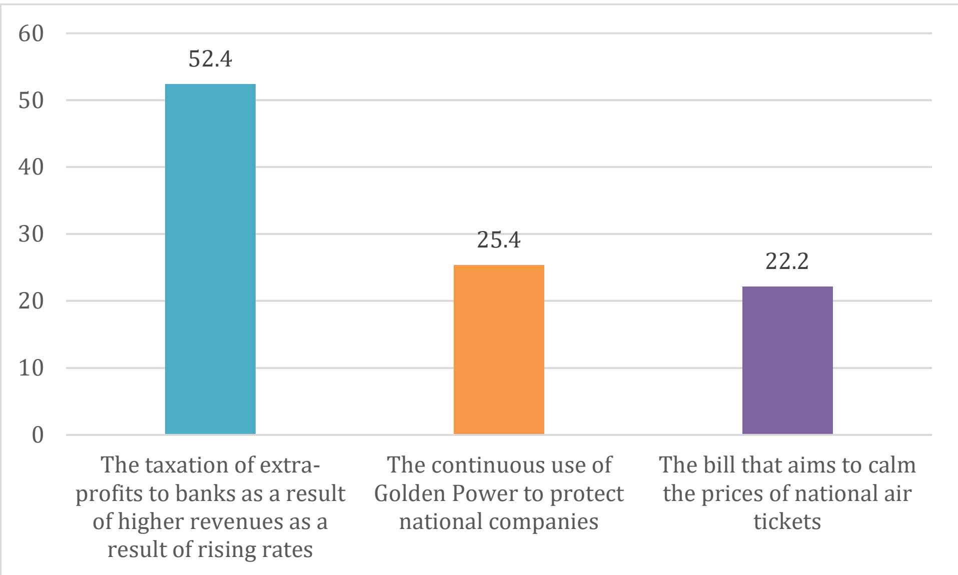
To this percentage of answers substantially negative is added a quota, pairs to 11.3%, that puts in evidence the negative consequences on the stock exchange values and the solidity financial institution of the enterprises object of the measures.

On the other hand, 20.0% of the responses represent those who consider such measures "understandable", taken at a time of increasing inflation and determined also to pursue objectives of equity and social solidarity. Those who see the need to raise resources to support families and businesses affected by the effects of inflation (7.8% of the Panel) agree in substance on the taxation of extra profits.

The quota of who considers useless or superfluous these normative participations emphasizes, instead, the possibility from part of the enterprises to circumvent the effects attended from the government, downloading on the final user the cost of the taxation (19.1%) or the modest outcome of the transaction in terms of tax revenue (12.2%).

Even more so, 52.4% consider it a real government interference to tax the higher revenues made by the banks as a result of the increase in interest rates (fig. 3).

Fig. 3 - The measures proposed by the Italian Government perceived as an interference restricting free market space *(val. %)*



Source: Aibe-Censis survey, autumn 2023

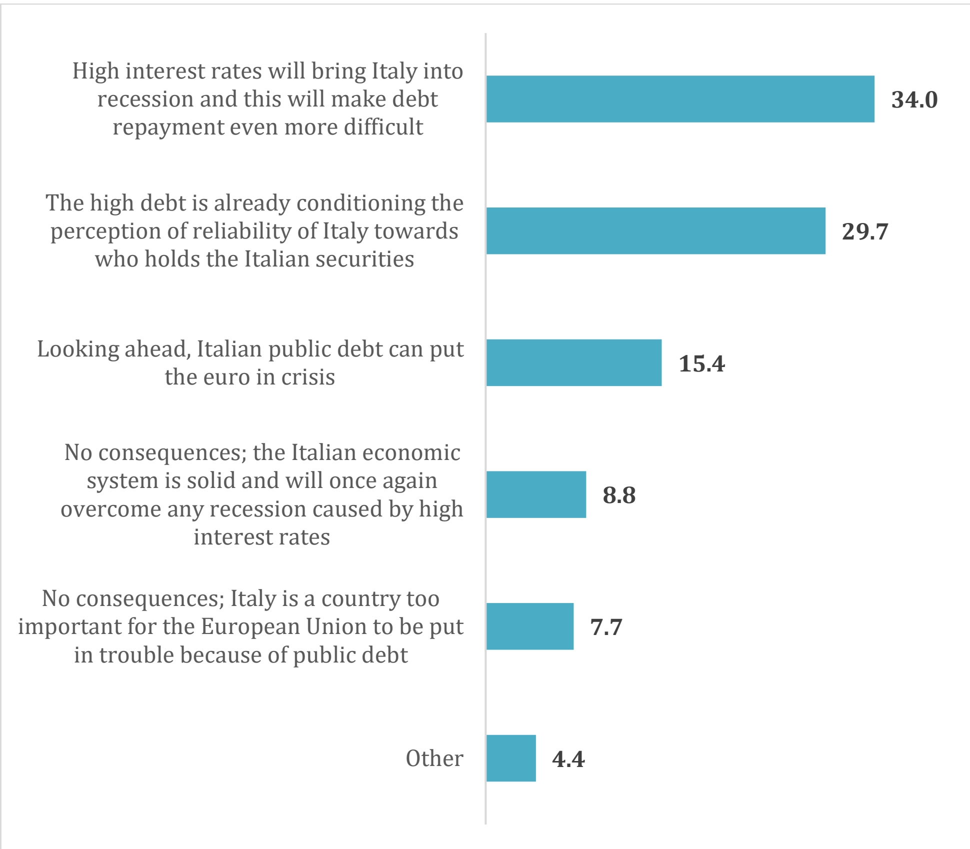
Similarly, 25.4% consider that the government’s continued recourse to the so-called *golden share as* a means of protecting national enterprises is inappropriate, while slightly smaller (22,2%) is the percentage of those who choose to report as an incorrect intervention the bill that aims to contain the prices of domestic air tickets.

3. Interest rates, public debt, and the new Stability Pact

The other area of reflection brought to the attention of the AIBE Panel concerned the main factor of uncertainty that conditions the implementation of an expansionary policy favourable to Italy's economic growth.

The high interest rates, decided by the ECB in recent months, are producing a strong increase in public debt repayment expenditure, stable above the 140% of GDP threshold and dramatically close, in absolute terms, to 3,000 billion euros. This element exposes mainly Italy, according to the Panel, to the risk of recession and, consequently, to the ulterior reduction of resources to dedicate to the increase (34.0% of the answers, Fig. 4).

Fig. 4 - Main consequences, according to the Panel, of the increase of the interest rates decided by the ECB on the Italian public debt *(val.%)*



Source: Aibe-Censis survey, autumn 2023

A consistent share of the responses leads to considering the situation of the Italian public debt already critical, even without considering rate increases (29.7%).

The most pessimistic component of the Panel fears the possibility that Italian debt may, in the future, put the single currency in crisis (15.4%), while the most optimistic - however a minority - component does not signal consequences that affect the future of the euro, considering the solidity of the Italian economic system (8.8%) and the importance that Italy has for the construction and the evolution of the European Union (7.7%).

Based on these considerations on public debt and in view of the return of the Stability and Growth Pact for the euro area countries and its possible revision, the Panel, in its largest component, does not believe that it would be appropriate for the most indebted countries to request further support for the European Union. Italy, said 34.9% of the Panel, should give priority to relaunching growth through the leverage of the many economic resources made available by the EU, pursuing greater efficiency in tax collection, and implementing a decisive fight against tax evasion (Fig. 5).

22.2% of the Panel is of different opinion, which considers that the context conditions that, before the pandemic, had led to the definition of budgetary constraints in terms of debt and deficit have now been overcome, and proposes the adoption of a different framework, consistent with the current situation. Another 19% of the responses agree to give more flexibility to Italy, warning of the risk of recession that the country could run pursuing the objectives of the Stability and Growth Pact.

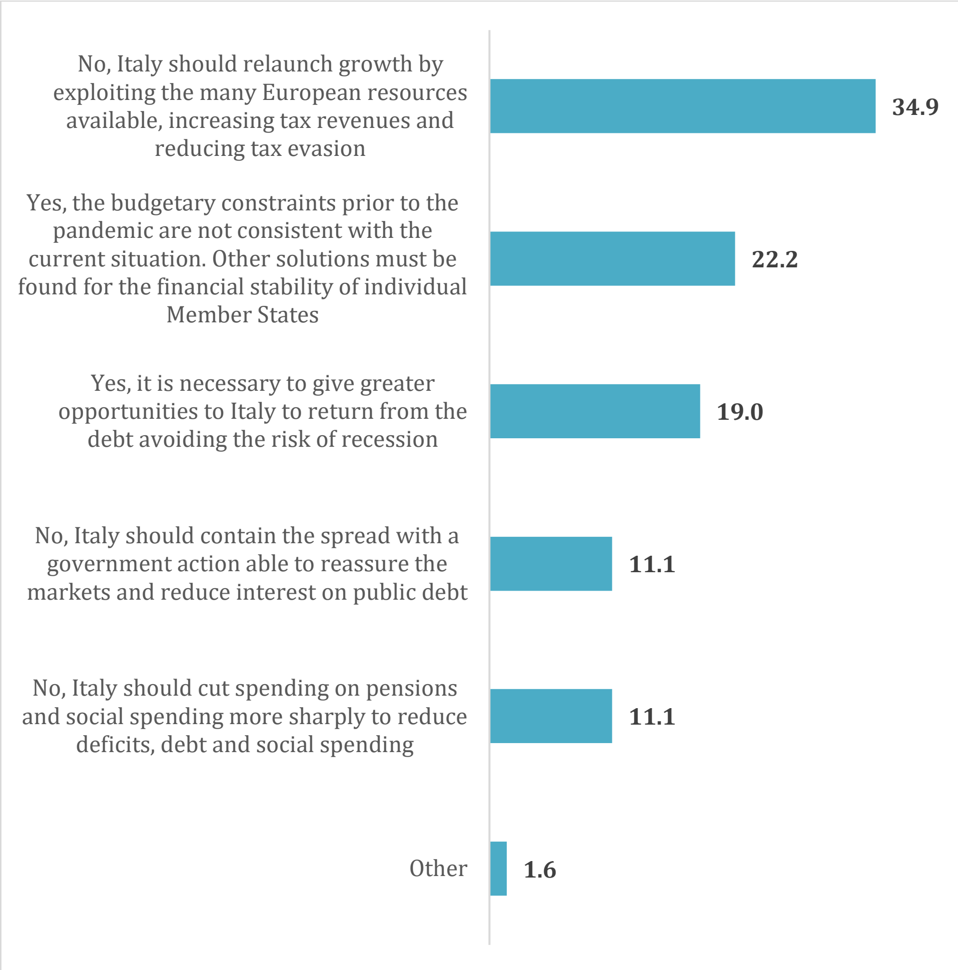
In contrast, about a fifth of the panel stresses the need to take bold action to reduce the spread and contain the impact on debt induced by interest spending (11.1%) or to attack social spending and pensions to reduce deficits and debt.

Among the proposals for changes to the Stability Pact, the Italian Government has supported the elimination from the deficit calculation of the sums allocated to investments in infrastructure and for the ecological transition.

On this aspect more than half of the Panel (52.4%) agrees, which underlines the link that infrastructure investments have with the economic recovery and, at the same time, with the possibility of starting a season of effective control of the public deficit (Fig. 6).

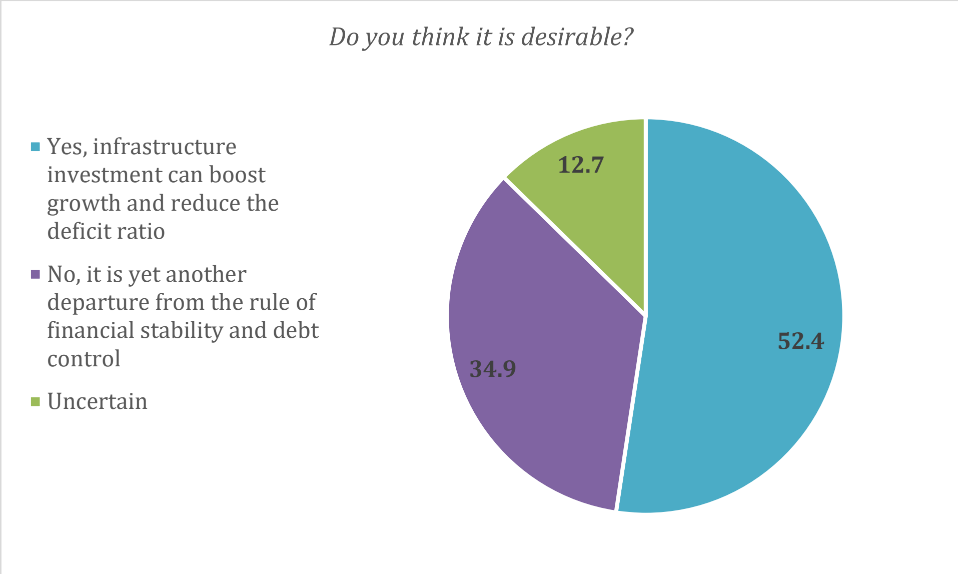
The share of those who do not agree with this proposal remains quite high (34.9%), remarking that this would be yet another derogation by Italy in embarking on a realistic path of financial stability.

Fig. 5 - Economic slowdown, recession risk and revision of EU budget constraints. Panel opinion on EU support for the most indebted states, such as Italy *(val. %)*



Source: Aibe-Censis survey, autumn 2023

Fig. 6 - 2024 will mark the return to the rules of the Stability and Growth Pact. Opinions of the Panel on the government's proposal to eliminate from the deficit calculation investments in infrastructure and for the ecological transition *(val.%)*



Source: Aibe-Censis survey, autumn 2023