AIBE Index

Observatory on Italy's Attractiveness to Foreign Investors

Autumn 2024 Report

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Contents

Introduction and Summary Considerations

The Autumn Report from the joint analysis by Aibe and Censis places particular emphasis on the current international economic environment and the growth outlook for the coming months. Furthermore, it includes the annual assessment of country attractiveness, measured through the Aibe Super Index, which has been updated this year with a revised set of indicators used in its calculation.

The underlying message that can be drawn from the data on global GDP and that of the major economies is a form of "decoupling" between global growth – projected at 3.2% this year and next – and the trends observed in the main economies, both in the West and the East.

The major players in the current economic landscape, the United States and China, appear to be experiencing a form of retrenchment. In the case of the United States, uncertainty looms over what will unfold after November 5th. For China, the limitations of a model that has heavily relied on labour competitiveness and the advantages of domestic manufacturing are beginning to surface. This is particularly evident in light of trade retaliations, especially towards the US, and the strengthening of trade relations within regional blocs. These factors have led to phenomena such as reshoring or relocation to other countries.

The European Union is experiencing modest growth, heavily influenced by the performance of the German economy, which in recent quarters has posted multiple negative GDP variations, edging it toward a potential recession.

Although Draghi clearly articulated in his plan the path toward restoring competitiveness and capitalizing on the significant tangible and intangible assets at its disposal—foremost among them a social model unparalleled by other economic regions—it appears that, to date, the Union lacks a cohesive leadership capable of advancing economic and political integration. The absence of such progress risks consigning the Union to a gradual decline.

Italy is experiencing a gradual slowdown in growth, partly due to the degree of uncertainty on the international stage, fuelled by political tensions affecting various regions of the world, and partly due to the limited fiscal space to implement measures capable of stimulating growth. This is constrained by a public debt level of 134% of GDP, despite the investment and reform potential offered by the National Recovery and Resilience Plan (NRRP).

An unequivocal indicator of the unfavourable climate is the inflow of foreign investments, which in the first half of this year recorded a 73% decrease compared to the same period in 2023.

From this perspective, the rankings of the most advanced countries, as determined by the Aibe Super Index, not only place Italy in ninth position out of 18 countries analysed in terms of foreign investment attractiveness, but also highlight the need for improvement in several areas. These include increasing labour force participation among the working-age population, fostering innovation, enhancing both social and economic well-being, and expanding the adoption of information and communication technologies.

Future editions of the Index will be tasked with evaluating progress in these areas, assessing the advancements achieved towards these objectives.

1. Navigating a Sea of Uncertainty: The Global Growth (and Debt) Outlook

The most recent forecasts (recorded by the Bank of Italy, the OECD, and the International Monetary Fund) project a 3.2% increase in global GDP for this year and an additional 3.2% for 2025 (tab.1).

The guarantee of overall growth conceals some negative signals emerging from the leading countries in global trade.

If the United States fails to improve its result, going from 2.9% in 2023 to 2.8% in 2024, Japan, looks set to remain in the 1% limbo (0.3% in 2024 and 1.1% in 2025).

Tab. 1 – The Slowdown of Northern Economies. GDP Performance in 2023 and Forecasts for 2024 and 2025. *(var. %)*

	2023	Growth projections	
		2024	2025
World	3,3	3,2	3,2
United States	2,9	2,6	2,2
China	5,2	4,8	4,5
India	8,2	7,0	6,5
Japan	1,7	0,3	1,1
Brasil	2,9	3,0	2,2
United Kingdom	0,3	1,1	1,5

Source: International Monetary Fund

China appears far from the growth records of previous years, though it expects to close 2024 with a 4,8% increase (in 2023, GDP grew by 5.2%), while Brazil seems to have found a path of stability, starting in 2023 with a 2.9% increase, and confirmed by forecasts that remain just below 3% for the next year.

India leads the way, with growth expected to remain around 6.7-6.8% for both 2024 and 2025, though this represents a full percentage point decrease from the 7.8% recorded in 2023.

However, alongside the data on current and future growth, the International Monetary Fund, in its latest October Fiscal Monitor, highlighted the urgent need to curb public debt in order to reduce uncertainty and the potential for crises that a high level of debt entails.

According to the IMF, global public debt could reach $100 trillion by the end of the year, amounting to 93% of global GDP. Forecasts for the end of the decade confirm a growing trend that could see debt reaching the level of GDP, with 100% by 2030.

Furthermore, the risks inherent in some major financial markets should not be underestimated.

In August, as noted by the Bank of Italy in its latest Bulletin, financial market tensions rose sharply following the release of U.S. macroeconomic data that fell short of expectations.

This resulted in a stock market crash that spread to various exchanges around the world. In the United States, the impact was particularly severe for the shares of the seven largest technology companies, which account for approximately 30% of the country's stock market capitalization—a level of concentration that exposes the market to high levels of volatility and uncertainty.

2. Europe and Italy Confronting the New Global Competitive Landscape

In the Eurozone, GDP growth forecasts stand at 0.8% for 2024 and do not exceed 1.2% for 2025 (tab.2).

Among the major European countries, Germany stands out for “zero growth” in 2024 and a modest recovery in 2025, with GDP growing, although below one percentage point.

Tab. 2 – Low Growth in Europe. GDP Performance in 2023 and Forecasts for 2024 and 2025. (*var. %)*

	2023	Growth projections	
		2024	2025
France	0,9	1,1	1,1
Germany	-0,3	0,0	0,8
Spain	2,7	2,9	2,1
Italy	0,7	0,7	0,8
Eurozone	0,4	0,8	1,2

(1): Bank of Italy; (2): OECD
Source: Bank of Italy, OECD, Eurostat.

Only Spain would appear to show a greater capacity to increase the gross domestic product, confirmed by the Fund's estimates for 2024 and 2025, reported in the October Outlook, which outline a positive picture for next year (+2.9%) and a maintenance above 2% for 2025.

France presents values in line in the three-year period 2023-2025: for all three years growth is around 1%.

Of particular interest is the inflation data also published by the Bank of Italy. The level of the harmonized index of consumer prices in the Euro Area was 1.8% in September compared to the same month of the previous year. The same value is found in Germany, while in France it is three tenths of a point lower and in Spain only one tenth of a point lower. In Italy, however, it stopped below one percentage point (0.8%).

In summary, it can be said that all countries and the Euro Area have reached the target inflation rate, prompting the ECB to decide in October on the third interest rate cut by 25 basis points.

The message conveyed by the Central Bank affirms the end of the high inflation phase that was set in motion by the energy crisis and the pressures on international commodity prices in recent years. However, it could also be interpreted as an intervention aimed at preventing the risk of European economies entering a recessionary phase.

In reality, the European situation is cause for concern, especially when reflecting on the level of competition in cutting-edge areas of innovation, such as artificial intelligence.

In this domain, China and the United States have been competing for leadership for years, while Europe seems to confine itself to the role of a mere buyer of solutions developed and produced elsewhere.

In Italy, similar to the European context, several indicators do not provide grounds for genuine optimism. The reduction in labour demand, the decline in labour market participation, a business confidence climate that is far from positive and aligned with sharply declining order levels, and the consistent downturn in industrial production over recent months, as well as the negative trend in exports, all highlight the need for intervention to prevent stagnation.

But the possibility of restarting growth is affected by the values of three indicators: the level of public debt, which today stands at 2,868 billion euros (134.8% of GDP), net debt, which the Government expects to be 3.8% of GDP for 2024 (7.2% in 2023), and interest expenditure, close to 80 billion euros (3.7% of GDP).

Furthermore, incoming foreign investment flows recorded a reduction of 61.6% in the first half of this year compared to the same half of 2023, going from 22 billion euros to the current 8 billion (table 3).

The data on investment flows from abroad is an important signal for understanding the state of health of an economy.

The 2023 financial statement indicated an inflow of capital equal to 38.9 billion euros, more than 10 billion higher than the outgoing investment flows.

In the first half of 2024, the negative balance is close to 3 billion euros.

Tab. 3 – Foreign Direct Investment Inflows, Outflows, and Balances in Italy,2023-2024 *(absolute values in millions, var. %)*

Foreign Direct Investments	2023	First half 2023	First half 2024	Percentage change first half 2023 - first half 2024
Net Inbound FDI	38.890	21.760	8.359	-61,6
Net Outbound FDI	28.267	17.78	11.324	-33,7
Balance	10.624	4.683	-2.966	

Source: Censis processing on Bank of Italy data

3. The Aibe Super Index 2024

The Aibe Super Index 2024 places Germany in first position among the 18 G20 countries examined to determine the level of attractiveness of various nations. Canada ranks second, followed by South Korea in third place, then Australia, the United States, and France (fig.1). Italy is ranked ninth, after Japan and ahead of China.

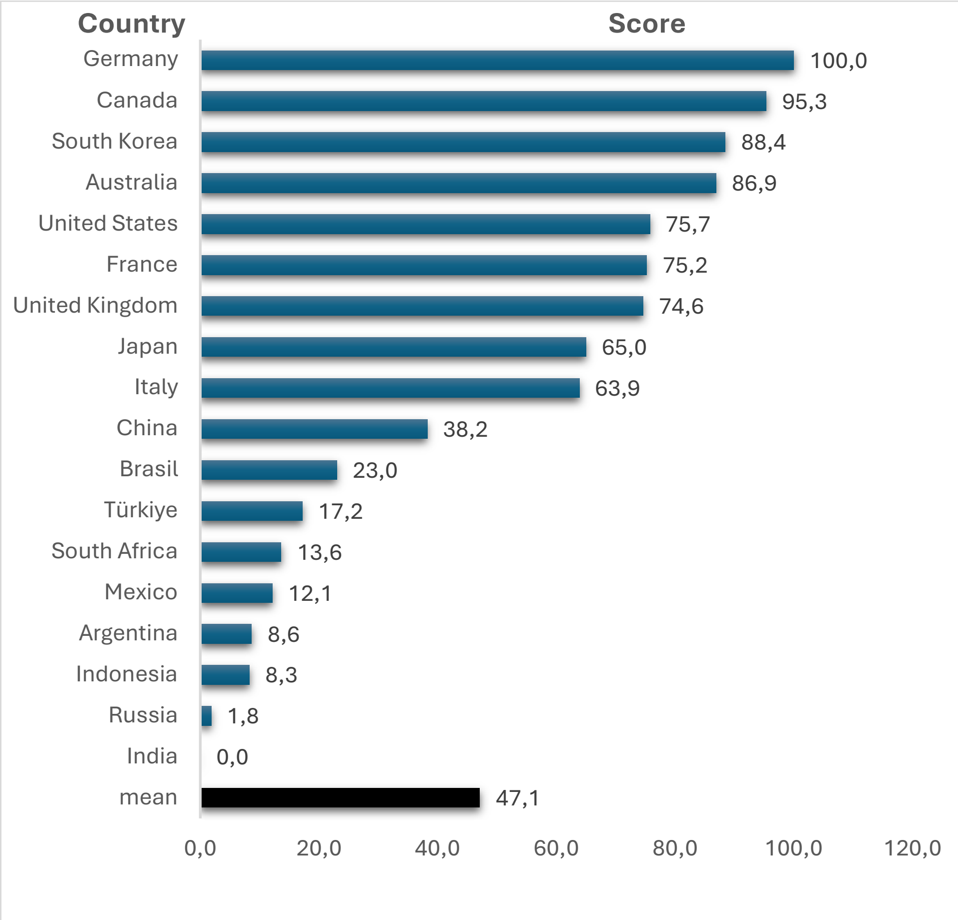
The ranking is the result of a synthesis of thirteen indicators, ranging from GDP per capita to the export share of GDP, from the level of corruption to logistics performance. The sources used include international institutions such as the World Bank and the International Monetary Fund, as well as organizations that have gained global recognition for their expertise in measuring specific phenomena and conducting cross-country comparisons.

In the rankings of individual indicators, Italy is positioned among the lowest for the working-age population share (16th place), as well as in innovation, the creation of conditions supporting social well-being (10th place), and digital adoption (10th place, see Table 4). However, Italy receives reasonable recognition for its foreign trade performance, with an export-to-GDP ratio that secures it the fourth place among the 18 countries. At the top of the rankings in this category are Germany, South Korea, and Mexico, respectively.

Regarding Germany, which serves as a benchmark for the level of attractiveness, despite having a relatively low share of foreign investments in relation to GDP, it surpasses all other countries due to its low level of corruption, focus on environmental sustainability, logistics performance, digital adoption, and the rule of law.

Focusing again on the indicator for foreign investments, Argentina, despite being ranked fourth from last in the overall standings, secures the first position. Brazil follows in second place, while Canada holds third, followed by Australia, Mexico, and Indonesia. Essentially, this highlights how a significant portion of so-called emerging economies rely on foreign investments as one of the fundamental drivers for building their gross domestic product.

Fig. 1 – Aibe Super Index 2024 scores



Tab. 4 - Ranking of the Individual Indicators Contributing to the Development of the AIBE Super Index

	Proportion of Working-Age Population (*% aged 15-64*)	GDP per Capita in *USD PPP*	Foreign Direct Investments (*% of GDP*)	Exports of Goods and Services (*% of GDP*)	GII: global innovation index	Corruption Perception Index	Legatum Prosperity Index	Logistic Performance Index	Network readiness index	Enviromental Performance Index	GSMA Mobile Connectivity Index	The Fragile States Index (FSI)	Rule of Law Index
Fonte	OECD	International Monetary Fund	World Bank	World Bank	World Intellectual Property Organization	Transparency International	Legatum Institute	World Bank	Portulans Institute	Yale Columbia University	GSMA	Fund for peace	World Justice Project
Year	2022	2022	2023	2023	2023	2023	2023	2023	2023	2024	2023	2024	2023
Germany	15	2	14	1	3	1	1	1	3	1	4	3	1
Canada	10	4	3	5	8	2	3	2	5	6	6	1	2
South Korea	1	7	11	2	4	8	9	5	2	10	8	6	6
Australia	12	3	4	10	9	3	4	7	7	4	1	2	3
United States	11	1	8	18	1	7	6	5	1	8	2	9	8
France	17	5	15	7	5	5	8	3	8	3	5	4	7
United Kingdom	14	6	18	9	2	5	2	7	4	2	3	7	5
Japan	18	9	13	14	7	4	5	3	6	5	7	5	4
Italy	**16**	**8**	**7**	**4**	**10**	**9**	**10**	**7**	**10**	**7**	**9**	**8**	**9**
China	3	14	16	15	6	10	7	7	9	16	10	11	15
Brasil	2	15	2	16	13	14	13	14	12	9	12	16	14
Türkiye	5	10	9	8	11	15	17	12	13	15	13	18	18
South Africa	9	16	10	6	16	11	15	7	18	14	16	14	10
Mexico	7	13	5	3	15	17	14	16	17	13	14	13	17
Argentina	13	12	1	17	18	13	11	17	16	11	17	10	11
Indonesia	4	17	6	13	17	15	12	15	14	17	15	12	12
Russia	8	11	17	11	14	18	16	18	11	12	11	17	16
India	6	18	12	12	12	12	18	12	15	18	18	15	13

Sources: Censis processing on various data sources

Methodological Appendix for the Aibe Super Index

The construction of the composite indicator employed a synthesis method designed for measuring multidimensional phenomena, developed by Matteo Mazziotta and Adriano Pareto (Istat), commonly referred to as the "penalty method for coefficient of variation."

The criterion used standardizes the initial indicators, eliminating both their units of measurement and variability. It applies an arithmetic mean as the aggregation function, adjusted by a penalty coefficient, which depends on the variability of the indicators for each unit in relation to their average value. Removing variability allows for penalizing the scores of units that, despite having the same arithmetic mean, display a greater imbalance between the values of the indicators.

The final "Super Index AIBE" was developed based on socio-economic indicators sourced from the most authoritative international sources. Some of these are hard data, such as GDP, derived from actual measurements, while others are soft data, drawn from surveys, such as *the Corruption Perception Index* and the *Legatum Prosperity Index*. The resulting index is simple to calculate and easily interpretable and comparable over time.

Below are the indicators used, listed according to their sources and reference years:

Indicators	**Sources**	**Years**
Proportion of Working-Age Population (*% aged 15-64*)	Oecd	2022
GDP per Capita in *USD PPP*	IMF	2022
Foreign Direct Investments (% *of GDP*)	World Bank	2023
Exports of Goods and Services (% *of GDP*)	World Bank	2023
Global Innovation Index	Wipo	2023

Corruption Perception Index	Transparency International	2023
Legatum Prosperity Index	Legatum Institute	2023
Logistic Performance Index	World Bank	2023
Network Readiness Index	Portulans Institute	2023
Environmental Performance Index	Yale e Columbia Universities	2024
Mobile Connectivity Index	Gsma	2023
Fragile States Index	Fund for peace	2024
Rule of Law Index	World Justice Project	2023