



**CENSIS**



**AIBE-INDEX OBSERVATORY**

**Annual monitoring of Italy's appeal overseas**

**2017**

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## 1. PREAMBLE

This year too the AIBE Panel – made up of leading figures from foreign corporations, banks and financial institutions present in Italy, and correspondents of leading foreign newspapers – has been called upon to pass judgement on Italy’s ability to attract foreign investments. They have been given a structured questionnaire to gauge, according to their views:

- Italy’s position among the world’s ten largest economies;
- the factors that have a positive or negative bearing on investors’ decision making,
- Italy’s appeal factors and the factors Italy should focus on to improve its degree of attractiveness;
- the degree of appeal compared with the situation a year ago.

For this edition too, these data have been processed to construct the composite index measuring Italy’s appeal (AIBE Index 2017).

But in addition to the “translation” in quantitative and synthetic terms of the views expressed by the Panel, findings were analysed in relation to some topics of relevance to the survey, namely:

- the presence or absence of an effective strategy to make Italy more attractive, identifying priority areas;
- the selection of the most attractive production sectors and the most convenient ways for foreign investors to make investments in Italy,
- the impact of some events in 2016 that have affected trends in Italy and internationally (in particular the Industry 4.0 framework, the referendum on constitutional changes, held in December 2016, the UK’s decision to exit the European Union, Trump’s election as US president).

The analysis conducted on the answers given by Panel members resulted in the identification of those factors on which to concentrate resources and efforts in order to make Italy grow again.

This text gives the results of the qualitative analysis. It is divided into the following sections:

- the review of conclusions reached in the previous report and the current state of confidence and uncertainty at both domestic and international level ("*follow up*", chap. 2);
- the monitoring of Italy's "appeal" (including the composite Index) and strategies to increase Italy's appeal (chap. 3);
- events and factors of change at a domestic and international level and potential impacts on foreign investments (chap. 4),
- the conclusions for 2017 and the near future (chap. 5).

## 2. THE 2016 FOLLOW-UP

The analyses presented in the previous report highlighted some points which, by re-presenting them this year, can provide us with an idea of trends regarding Italy's appeal now and moving into the future.

The previous edition stressed:

- a general improvement in the way Italy is perceived by non-Italian experts, seen, among other things, by the growth in the AIBE Index compared with 2014 (from 33.2 to 47.8 on a scale of 1 to 100);
- the impact of major government-led actions, including media initiatives (e.g. the *Invest in Italy* roadshow), which demonstrated a concrete commitment to make a positive break from the past;
- a climate of greater confidence towards Italy, generated by the success of major events such as Expo 2015 and new legislation concerning the labour market (the *Jobs act*, tax relief);
- a clear convergence of appraisals regarding the role that the public sector – i.e. administrative sector in contact with foreign operators – can and must play to reduce the *misalignment* – as identified in the analysis – between what is globally offered by the system and the demand from those evaluating possible returns on investments.
- the great uncertainty hanging over the global economy, quickly reshaping opportunities for economic growth, creating new spaces for profitability and re-assessing the competitive edge factors of different countries.

One year and a few months on, the general picture has changed considerably, including international events – such as “Brexit”, or Trump's rise to the White House, both analysed in this edition – creating an unusual situation that could not have been foreseen at the beginning of 2016.

Studying political and economic trends remains key to understanding Italy's performance in relation to its ability to attract foreign investments.

In short, and in a non-exhaustive manner, the new situation that has come to form can be outlined by referring to the latest publications of the Bank of Italy (*Economic bulletin 2/2017*), the Italian Government (*Economic and*

*Finance Document, April 2017*) and the OECD (*Interim Economic Outlook, 7 March 2017*). These documents show up:

- a firming up of the global recovery, with GDP going up by an estimated 3.3% this year, compared with 3.0% in 2016. For 2018 growth will be an estimated 3.6%. The Chinese economy will grow by an estimated 6.5% in 2017, and by 6.3% in 2018, more modest than in past years, while growth in the United States will accelerate (2.4% in 2017, 2.8% in 2018). India's growth will remain above 7%;
- forecasts of expanding global trade in 2017, compared with modest growth in 2016 (around 2%);
- an imbalance between the Economic Policy Uncertainty Index (EPU Index) and uncertainty in the financial markets (VIX index and VSTOXX index). The former is worsening, the latter is falling, with values below those posted before the 2008 financial crisis.

Forecasts for Italy for 2017, in light of 2016 events, show:

- a modest growth of 0.9% in 2016, which is expected to be slightly higher in 2017, yet still a long way from satisfactory values comparable with leading advanced countries (1.1% according to the Economics Ministry, 1.0% according to the OECD);
- a growth in the willingness to invest (a gap of 14 percentage points compared with 2016 between firms anticipating a growth in investment spending and those who foresee a drop), with relevant rises in 2016, compared with the previous year, in the automotive sector (+27.3%), while the 1.1% growth in the construction sector was positive for the first time since 2007);
- positive trends for Italian exports in 2016 (+2.4%), bringing the current account trade surplus to 2.6% of GDP.

Looking at the international context, although Italian performance has been positive, it does not appear to have reached a level of maturity and impetus such as to allow the country to fully recover from and leave behind the Long Recession, especially compared with the performance of other countries and economic areas.

It might be concluded that views both inside and outside the country betray a certain disillusionment after, a brief period of moderate optimism.

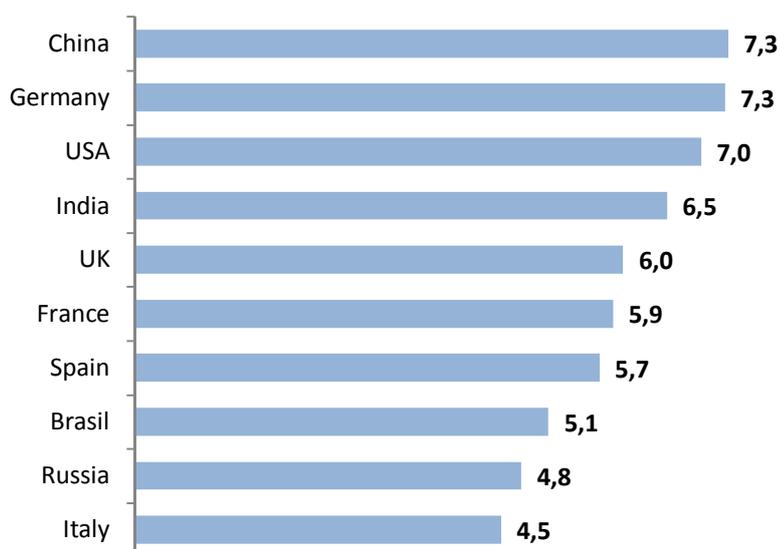
The analyses and considerations emerging from this year's monitoring of Italy's appeal around the world – described in the chapters below – reflect to an extent this not wholly positive mood.



### 3. MONITORING OF ITALY'S APPEAL AROUND THE WORLD: CHOOSING THE "CONVENIENCE FRAMEWORK"

We might start monitoring Italy's appeal by singling out those countries that are in turn most appealing to investors. Out of ten selected countries, China and Germany are the most attractive (average values above 7 on a scale of 1 to 10, with 10 being the highest level of appeal), followed by the United States (7.0) and India (6.5, fig. 1).

**Fig. 1 – The most attractive countries for foreign investors (average values)**



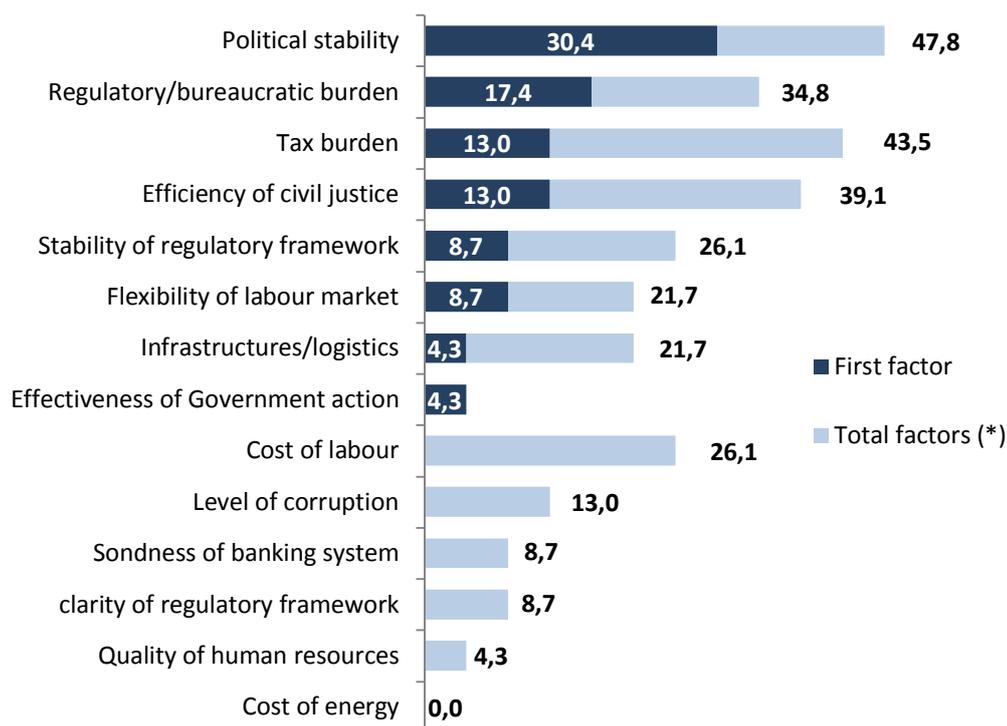
Source: AIBE-Censis Survey 2017

These countries are followed by United Kingdom (6.0), France (5.9) and Spain (5.7). The bottom places in this table are occupied by Brazil, Russia and Italy, which comes in last, with an average value of 4.5.

The Panel was then asked to give the main factors that an investor takes into consideration when choosing a country to invest in. Taking all answers into account, political stability came first, and was considered the first

factor selected (47.8% of all answers, with 30.4% of answers giving it as the most relevant factor, fig. 2).

**Fig. 2 – Factors considered by a foreign investor when deciding which country to invest in (% val.)**



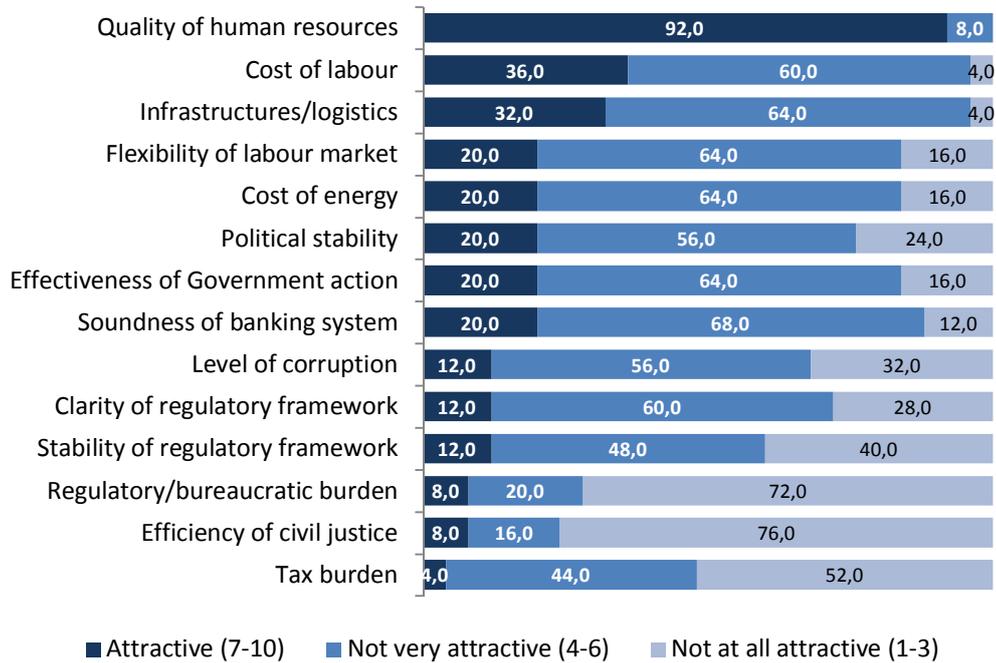
(\*) Up to 3 priority factors could be given  
Source: AIBE-Censis Survey 2017

The tax burden, legislative and bureaucratic difficulties and the time needed to administer civil justice take up the following places, in terms of both global relevance and specific relevance (legislative and bureaucratic difficulties were picked out as the most important factor in 17.4% of cases).

Of less relevance for the Panel of experts were aspects regarding the soundness of the banking system, the clarity of the regulatory framework, the quality of human resources and energy costs, which all attracted less than 10% of all answers.

Moving on to Italy in particular, the Panel considered Italy to be attractive with regard to the quality of human resources (with 92% of all answers receiving a mark from 7 to 10, 10 being the most relevant, fig. 3).

**Fig. 3 – Factors for which Italy is attractive to a foreign investor, by aspect analysed (% val.)**



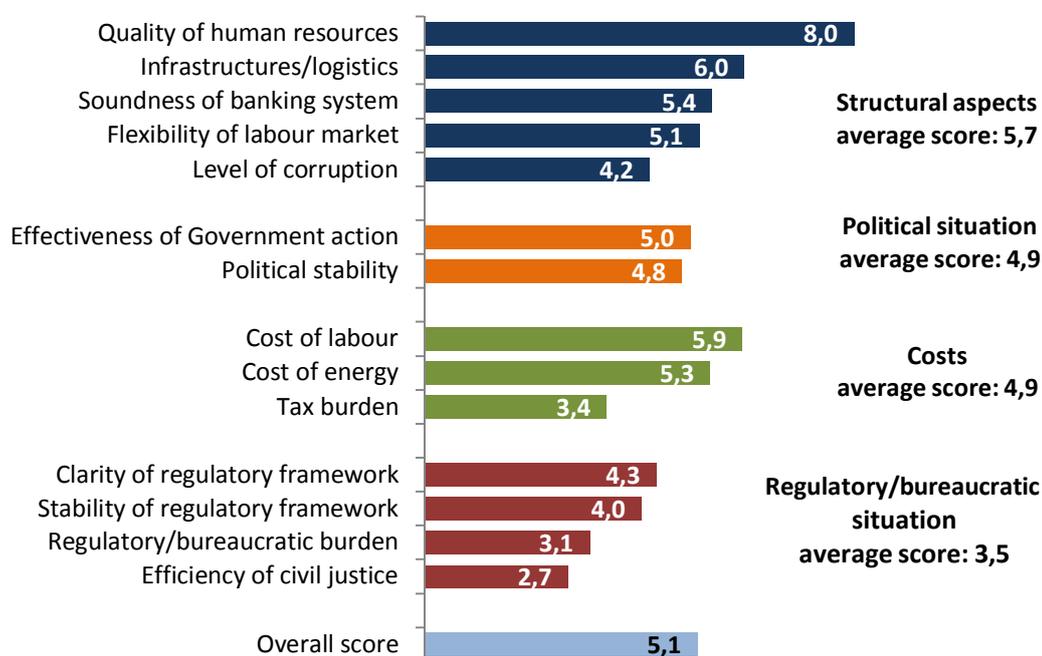
(\*) % of scores; 1= not attractive at all; 10= very attractive  
 Source: AIBE-Censis Survey 2017

The cost of labour, infrastructures and logistics were the other aspects considered by the Panel to be relevant in terms of Italy’s appeal. Conversely, less consideration was given as appeal factors to the stability and clarity of the regulatory framework, the efficiency of civil justice and taxation (deemed to be “not attractive at all” in over 70% of answers).

If one wished to give a more synthetic view of the perception of Italy as seen from overseas, the structural aspects of the country (human resources, infrastructures, banking system) are appreciated more, receiving

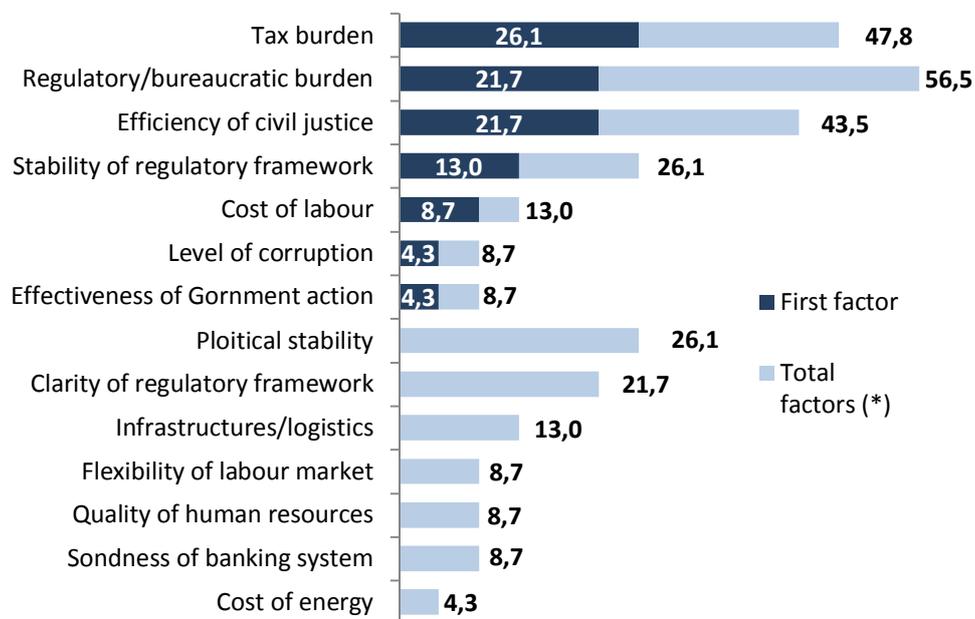
an average score of 5.7 out of 10 (fig. 4), followed by the political situation and costs (4.9), while aspects relating to the public administration were more “off-putting” for potential foreign investors in Italy (3.5). The average score was in any case 5.1.

**Fig. 4 – Types of factors for which Italy is attractive to a foreign investor, by aspect analysed** (average scores, 1= not attractive at all; 10= very attractive)



Source: AIBE-Censis Survey 2017

The Panel’s perceptions were used to identify priorities for political initiatives to improve Italy’s “convenience framework”. In this case too the areas of taxation-bureaucracy and civil justice were seen as requiring the most urgent action (fig. 5).

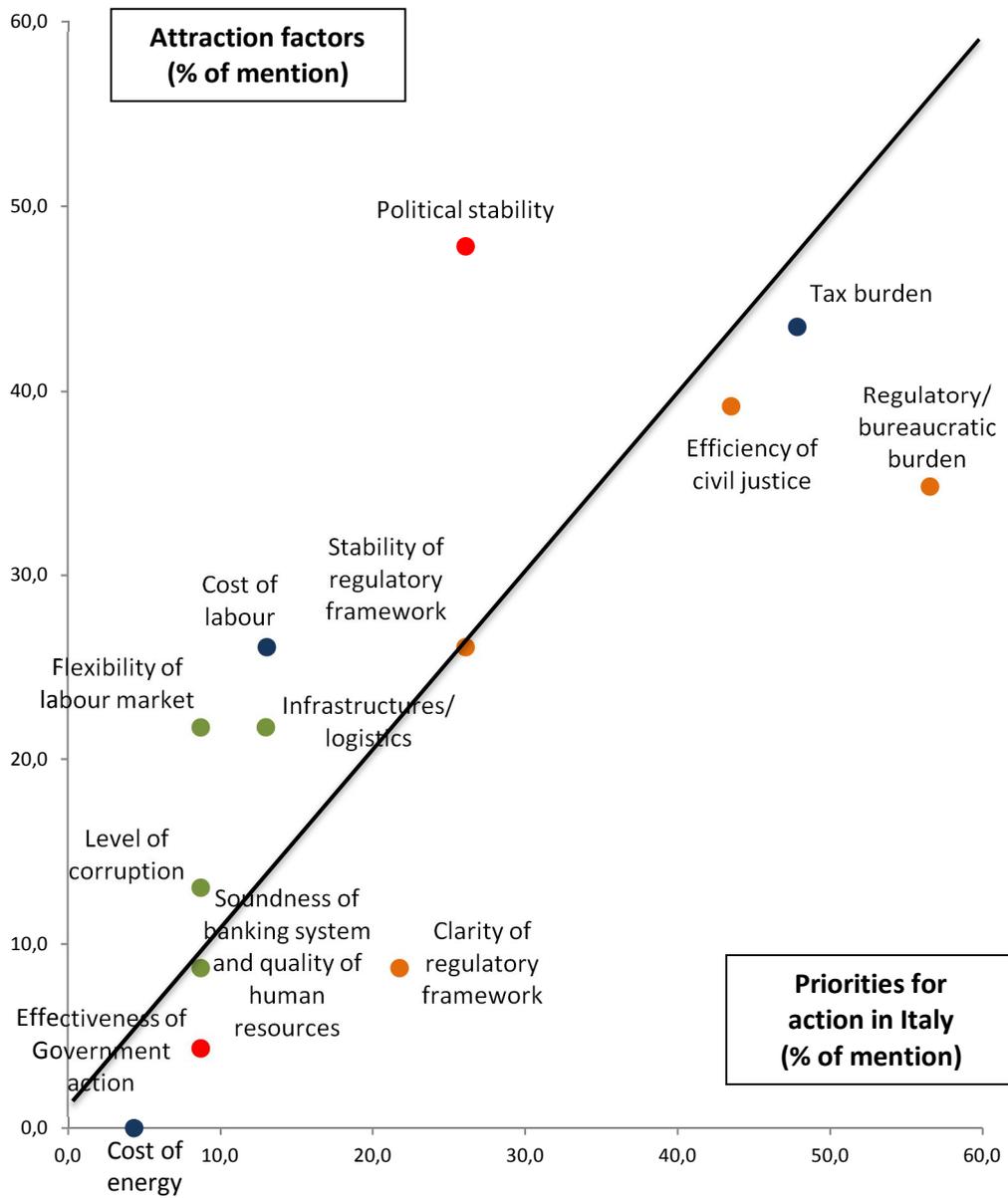
**Fig. 5 – Priorities for action for Italy to raise its appeal for foreign investments (% val.)**

(\*)Up to 3 priority factors could be given

Source: AIBE-Censis Survey 2017

Putting together the factors that shape the decisions of investors and the priorities for action for Italy, a “narrow gateway” emerges through which Italy must pass if investors’ expectations are to be met by political action to raise the quality of the country as a destination for investments (fig. 6).

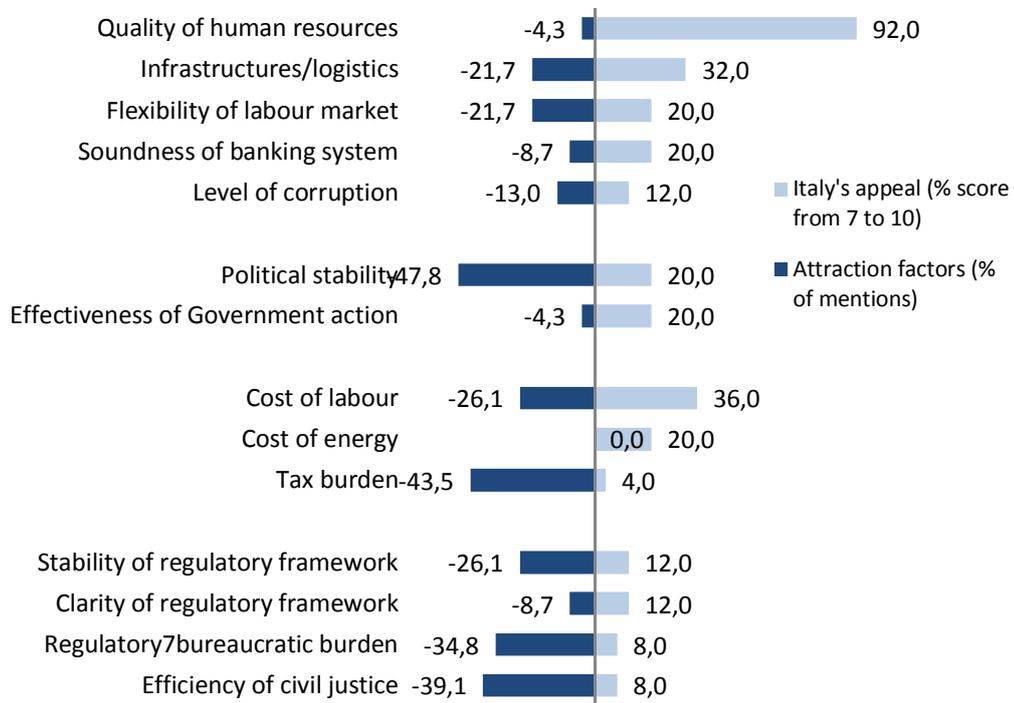
**Fig. 6 – Coherence between factors on which investors base their decision on countries to invest in and priorities for action for Italy (% val.)**



Source: AIBE-Censis Survey 2017

The previous edition of the report stated that there was a sort of “misalignment” regarding the above areas. This problem has been borne out in this edition, with needs not met by actions perceived to be definitive (fig. 7).

**Fig. 7 - "Misalignment" between factors considered by a foreign investor when deciding which country to invest in and Italy's appeal factors (% val.)**



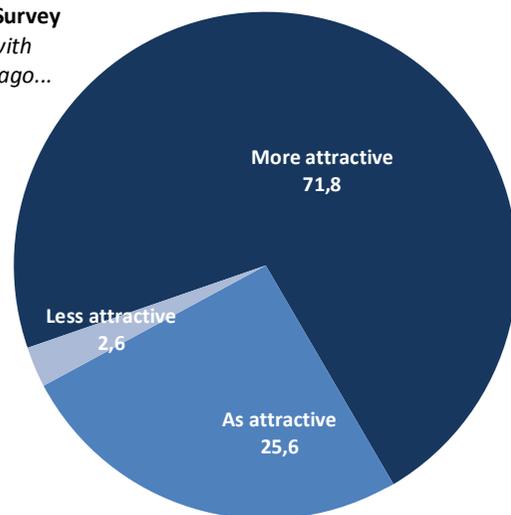
Source: AIBE-Censis Survey 2017

In short, the Panel believes that Italy's appeal has dipped over the past year.

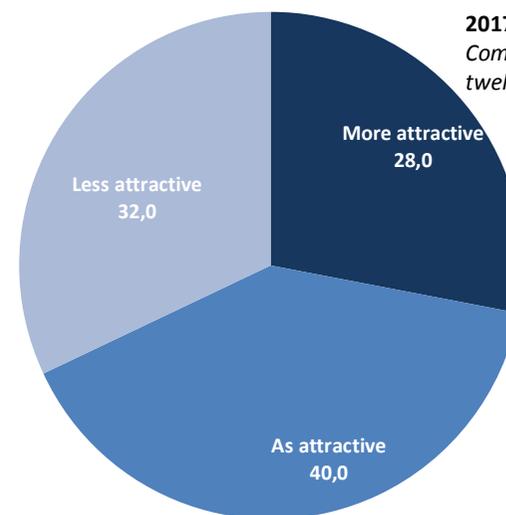
In the survey conducted between 2015 and 2016 the percentage of Panel members who considered Italy to be more attractive compared with six months previously was 71.8%. Today this percentage has fallen to 28%, while there has been a rise in the percentage of those who do not see significant differences compared with the past (40%) and those who have observed a drop in attractiveness (32%, fig. 8).

**Fig. 8 – Italy is, in the eyes of foreign investors: (% val.)**

**2015-2016 Survey**  
*Compared with  
six months ago...*



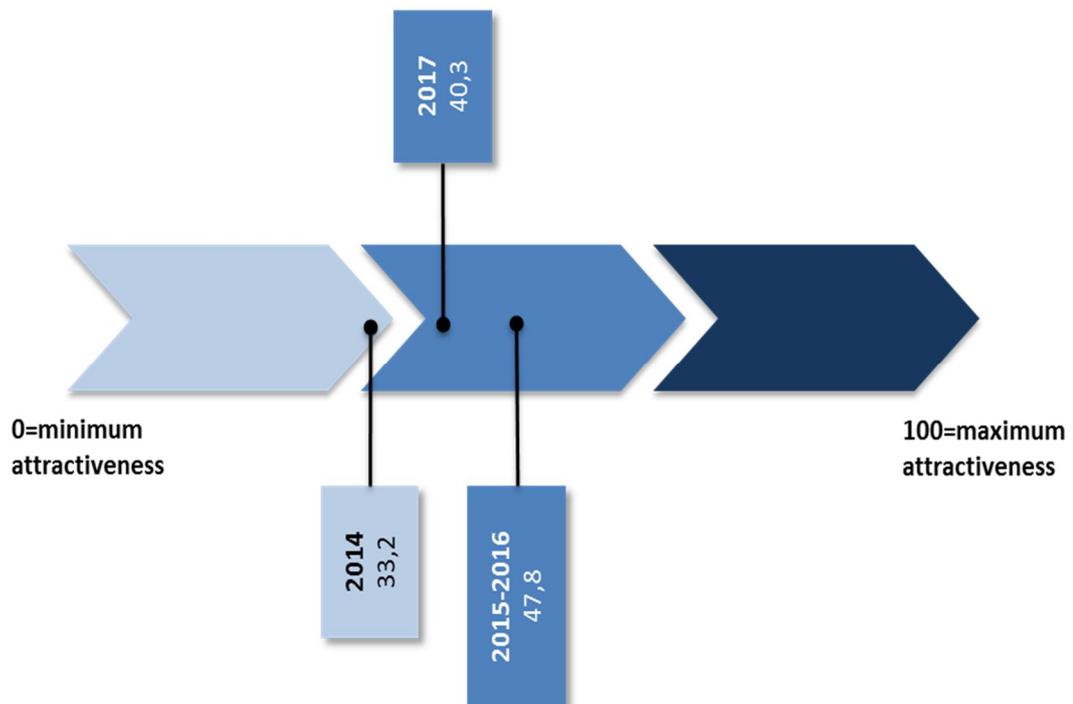
**2017 Survey**  
*Compared with  
twelve months ago...*



Source: AIBE-Censis Survey 2015-2016 and 2017

The above views, taken all together, go to determine the current attractiveness index for Italy, which has gone, out of a possible range of 0 to 100, from 47.8 at the beginning of 2016 to 40.3. This figure is still higher than the value of 33.2 obtained in 2014 (the first edition of the AIBE Index). It is certainly not a positive result however, as it might represent a reverse in the general trend or a setback in the reform process needed to make the country more competitive and attract foreign investments (fig. 9).

**Fig. 9 – AIBE Index – Composite index measuring Italy’s appeal to foreign investors (2014-2017)**



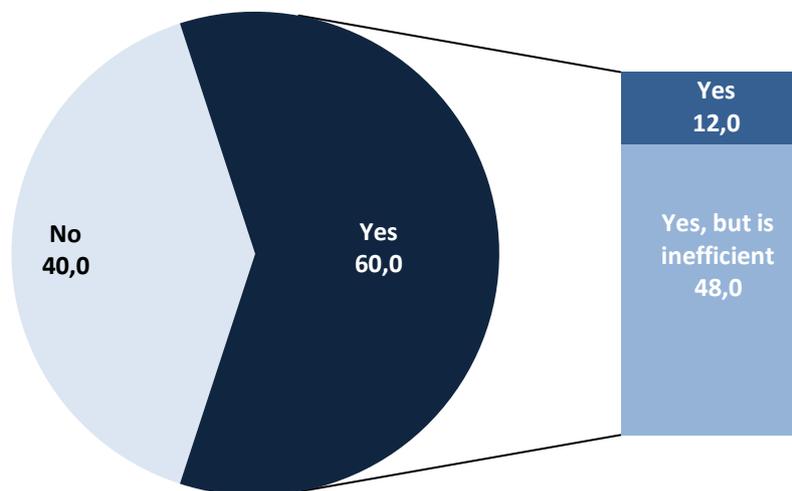
Source: AIBE-Censis Survey 2014, 2015-2016 and 2017

#### 4. INTERNATIONAL AND DOMESTIC EVENTS LIKELY TO HAVE AN IMPACT ON ITALY

In addition to structural and consolidated factors having a bearing on performance analysed in the previous chapter, Panel members attach great importance to phenomena and events that are changing the context in which Italy is moving.

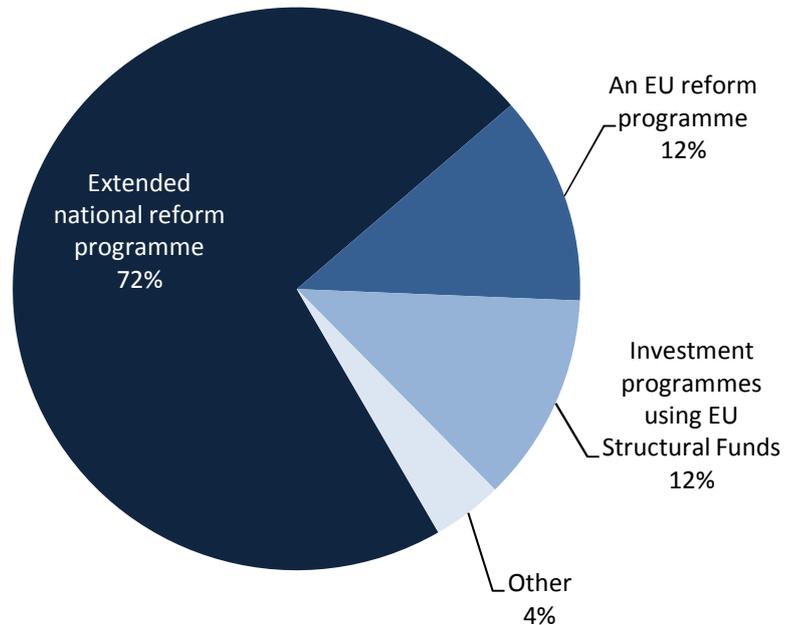
The prevailing view of Panel members is that, if there were a strategy to make the country more attractive, it appears to be objectively inefficient (48.0% of answers, plus a further 40% that denies the existence of an active strategy in this area, fig. 10) and that the only way to increase the country's level of attractiveness is by continuing on the road of large-scale reform (72.0% of respondents agree on this, fig. 11), rather than focusing on greater political integration in the European Union or using EU structural funds more effectively (around 12% in both cases). Even so, it is evident that Italy has major assets that it can rely on in order to improve its attractiveness.

**Fig. 10 – Existence of a strategy for improving Italy's appeal to foreign investors (% val.)**



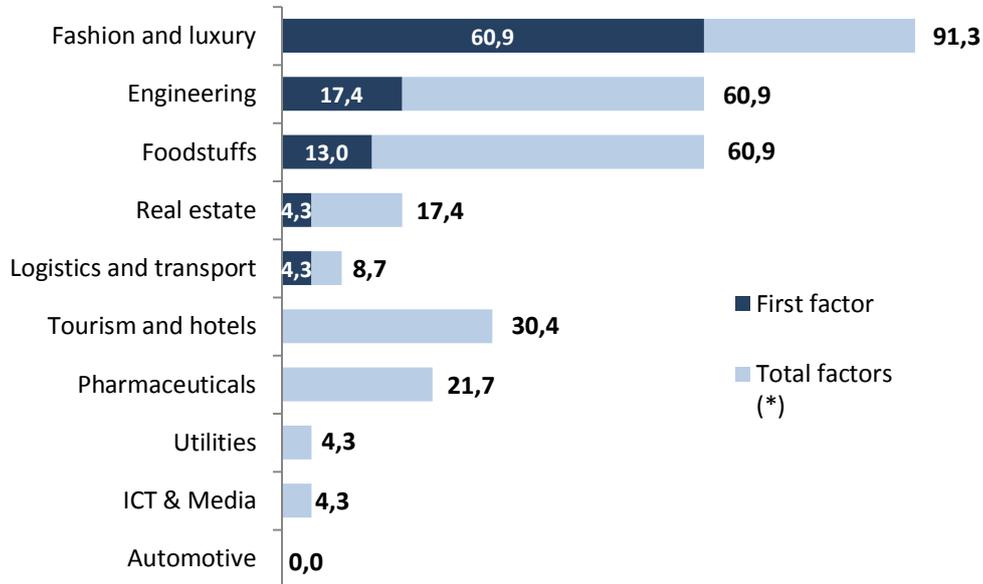
Source: AIBE-Censis Survey 2017

Fig. 11 – To raise Italy's attractiveness it would be preferable to... (% val.)



Source: AIBE-Censis Survey 2017

Looking at single sectors and areas of production, the Panel took most interest in the areas of Fashion and Luxury products, Foodstuffs and Engineering (91.3% for the first area, 60.9% for the second and third, fig. 12).

**Fig. 12 – Most attractive production sectors in Italy (% val.)**

(\*) Up to 3 priority sectors could be given

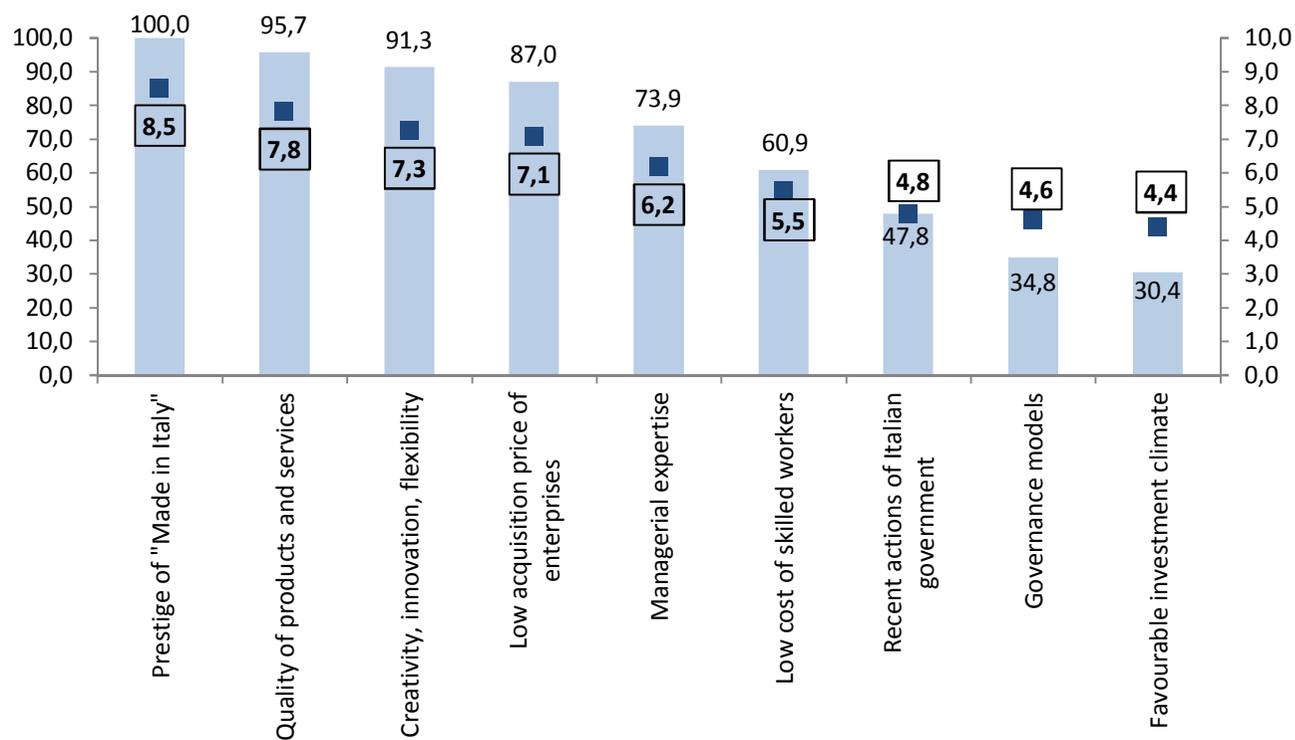
Source: AIBE-Censis Survey 2017

These sectors were followed by Tourism and hospitality (30.4%) and Pharmaceuticals (21.7%).

Again in an attempt to reconstruct the “convenience framework”, the survey sought suggestions on the most appropriate and profitable ways of investing in Italy.

56% of the Panel indicated the merger and acquisition method as the most appropriate investment method, over the *greenfield* type, a foreign production project that entails not the acquisition of controlling interests in existing businesses, but the creation of new facilities. The Panel believed, with reference to M&A operations carried out in Italy in 2016 (about 200 in total), that a key role was played by the prestige of so-called “Made in Italy” brands (with average scores above 8 on a scale of 1 to 10, and 100% of scores between 6 and 10, with 10 taken to mean “very crucial, fig. 13), followed by the high quality of products and services provided (7.83), creativity, innovation and flexibility of production systems and business models (7.26), followed by the relatively low acquisition price of businesses (7.09).

**Fig. 13 – Factors deemed to be crucial for the completion of 200 M&A operations carried out in Italy by foreign operators in 2016 (% val. and average values) (\*)**



(\*) % of those giving a score from 6 to 10, where 10= very crucial (left axis).

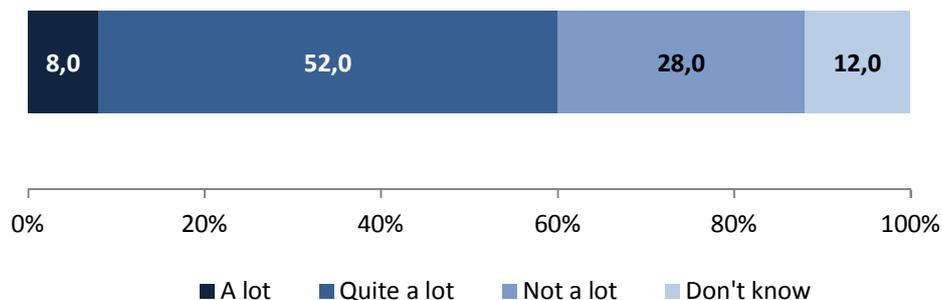
The points represent average scores (right axis)

Source: AIBE-Censis Survey 2017

Of less importance were the governance models adopted by Italian enterprises, or the socio-cultural climate being favourable for foreign investments. Neither were the actions promoted recently by the Italian Government relating to the labour market, public administration and industrial policy deemed to be crucial by the Panel (4.8 on average, with 47.8% of all answers scoring between 6 and 10), despite the fact that these reforms were designed to try and create the conditions to support business activity and facilitate enterprise.

In view of the potential importance of the Industry 4.0 Programme launched by the Government in 2016, the Panel was also asked to express a specific opinion about this instrument, which marks a break from the past for Italy after years in which a general framework for industrial policy and support for innovation had been lacking. 8% of respondents expected a very important contribution of this instrument in terms of attracting foreign investments, while 52% of the total foresaw quite an important contribution (fig. 14).

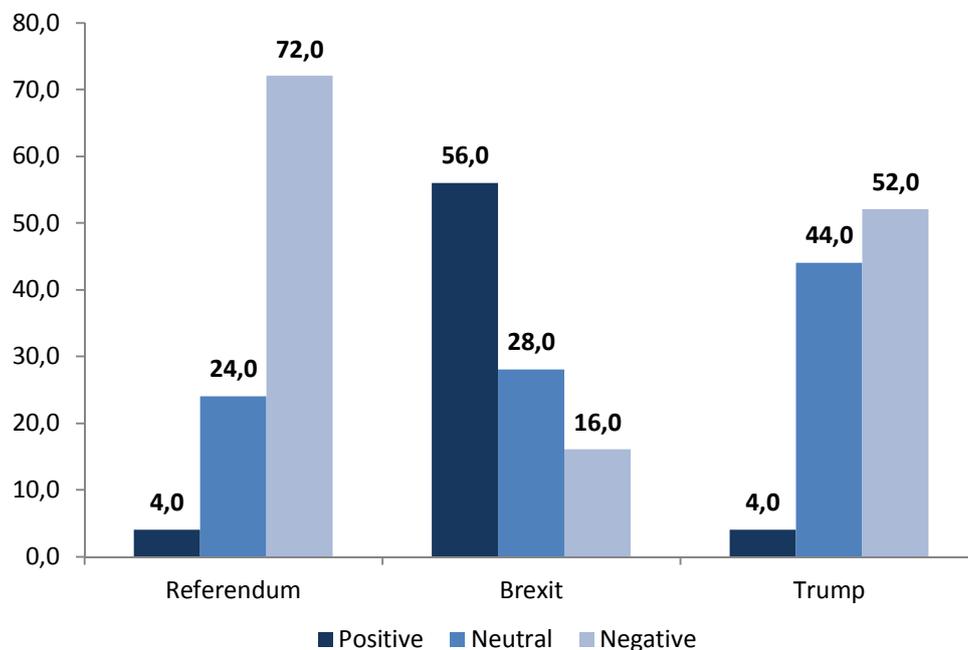
**Fig. 14 – To what extent can the Industry 4.0 Programme help to raise Italy's attractiveness to foreign investors? (% val.)**



Source: AIBE-Censis Survey 2017

Political instability and economic instability are the impact, according to the Panel, of the results of last December's constitutional referendum. The popular vote rejected proposed changes to the Constitutional Charter, which led the Government to resign. 72% of the Panel were of this opinion, while the remaining 28% believed there would be no real impact in the medium-long term, and considered the result of the referendum to be positive, in view of the contents of the reform (fig. 15).

**Fig. 15 – Impact of domestic and international events on Italy and on its ability to attract investments in the medium-long term (% val.)**



Source: AIBE-Censis Survey 2017

The decision of the United Kingdom to exit the European Union, and Donald Trump's election as president of the United States were the other events that have had a clear impact on the international political and economic scene. The Panel expressed an opinion on the possible consequences of these factors on the Italian economy and on its ability to attract investments. The answers given appeared to converge towards a positive effect with regard to the first event – so-called Brexit – and a

negative effect in the latter case, seeing in Trump's rise to the top of the American administration an element that might cause international instability, having negative effects for the Italian economy which, as we have seen, appears to be more exposed than others to uncertainty.

## 5. FINAL CONSIDERATIONS: 2017 AND SHORT-TERM PROSPECTS

The main result we can glean from this expert analysis is the sensation of a slight “cooling” of expectations regarding the Italian economy compared with last year’s report.

The fall in the attractiveness index by about seven points has objectively captured the effects, economic and otherwise, of yet another political *stop and go* that both public opinion in Italy and those looking at Italy from the outside have become used to. This sentiment becomes tangible if one looks at the weakness of Italy’s growth.

The Panel was also asked to express an opinion on how to get Italy out of the shoals of “zero” growth. The relative majority of members suggested that domestic demand and household consumption were the main drivers on which to act. Importance was also attached to “Made in Italy” brands and to the boost that might derive from further growth in exports.

Thus the priority areas in which to measure the country’s performance during the course of 2017 are the ability to respond to exogenous factors and the intent of creating conditions in the country that can raise Italy’s general level of competitiveness.

The Panel thus remains focused on the real fundamentals of the country’s productive structure, but it also appears, from the various comments and suggestions that emerged during the survey, that unless demand is boosted domestically the risk of an erosion of those assets on which the Italian economy is based may grow over time. This would further weaken growth potential, and gradually reduce the factors of profitability that still prompt foreign operators and companies to choose Italy as a destination for their investments.