



C E N S I S

AIBE-INDEX OBSERVATORY
Annual monitoring of Italy's appeal overseas
2018

**Produced in concert with the Italian Ministry of Foreign Affairs and
International Cooperation and the Ministry of Economic Development**

Rome, May 2018

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1. PREAMBLE

This edition of the analysis of Italy's appeal to foreign investors - the third carried out by Censis - is another useful tool for monitoring an important driver of an economy as open and integrated as Italy's. The opinions of a panel of managers, decision-makers and experts from foreign organisations have again been used to paint a picture of our country "from the outside", its limitations and its potential for economic performance.

A questionnaire was distributed to the Panel, divided into two parts - the first part with the same questions as previous years, allowing for comparisons of structural factors having a bearing on performance, and a second part that changes each year, more alert to the changing and short-term elements that may affect foreign investment trends in Italy, all going to develop a wide-ranging study on the following *items*:

- 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 that Italy should focus on to improve its degree of attractiveness;
- Italy's appeal compared with the situation in previous years.

These data have been processed to construct the composite index measuring Italy's appeal (AIBE Index 2018).

To supplement the "quantitative" component of the analysis, the Panel's opinions were then collected on the following points:

- 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 effects on attractiveness for foreign investors of measures to support innovation in the Industry Plan 4.0, a very important event such as this year's general elections, the potential impact of factors of uncertainty such as the slowdown of the global economy, the rise in oil prices and the euro's appreciation over other currencies.

To give an account of all the information gathered, the text is divided into the following chapters:

- the re-presentation of the final considerations contained in the 2017 Report, in order to reconstruct and home in on the contents of the 2018 analyses (chapter 2);
- the monitoring and establishment of the 2018 Composite Index, produced using the "structural" part of the questionnaire (chapter 3);
- constraints, opportunities and impacts of the Italian and international contexts on foreign investments (chapter 4);
- the conclusions for 2018 (chapter 5).

2. THE FOLLOW UP TO 2017

The 2017 Research Report ended with some concise considerations and some suggestions that emerged directly and indirectly from Panel responses. In particular, the report concluded:

- *"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's reading of the Italian reality situation highlighted that:

- *"(the majority of the Panel indicated) domestic demand and household consumption as the main levers on which to intervene. Importance was also attached to "Made in Italy" brands and to the boost that might derive from a further growth in exports".*

A year later, however, it is possible to state that the *sentiment* that emerged throughout the year grew more positive. The recovery was also reflected in the increase in flows of foreign direct investments to our country in 2017. This can also be traced to a climate of greater (political) stability, as perceived by foreign observers.

The slight increase in *appeal* is partly confirmed by assessments published in recent months by the main international agencies analysing the economic performance of different countries.

In order to provide a suitable picture of the degree of *appeal* emerging from the use of these analyses and the potential effects that these tools have on public opinion and on the views of experts, at the beginning of this year Censis, working in collaboration with Intesa San Paolo, presented Ranking Italia, a portal offering comparisons of the most popular assessment indicators on subjects such as competitiveness, economic and financial stability, quality of life, social progress (www.rankingitalia.it).

A brief conclusion from this *analysis shows*:

- a loss of positions in the World Bank's *Doing Business 2017* (50th out of 190 countries, compared with 45th out of 189 countries in 2016), followed by a recovery of 4 positions so far in 2018;
- another loss of positions in the *World Competitiveness Index* of the International Institute for Management Development (IMD), in which Italy moved from 35th position out of 61 countries in 2016 to 44th position out of 63 countries in 2017;
- a slight recovery of positions in the *AT Kearney FDI Index* between 2016 and 2017 (from 16th to 13th position, over 25 countries) and the *Global Competitiveness Index* of the World Economic Forum (one position higher in the ranking between the two years).

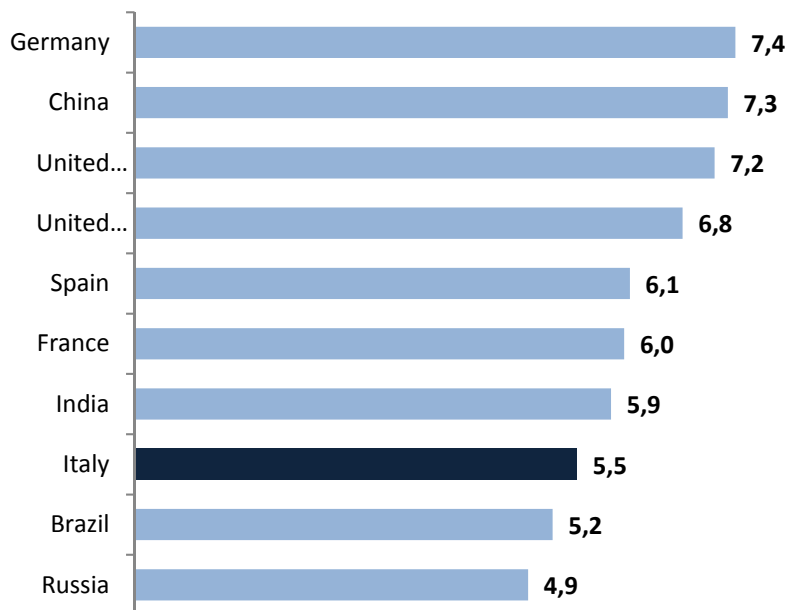
This sort of uncertainty, or difficulty in gauging the Italian situation, arises from the different methods adopted for the indexes considered, but also objectively mirrors the transitional phase that Italy is going through after the lengthy crisis of past years. This also confirms the importance of constructing an index on Italy's attractiveness in terms of foreign investments that is comparable with other analysis tools and can provide added value to the interpretation of the Italian situation.

3. MONITORING OF ITALY'S APPEAL AROUND THE WORLD: CONVENIENCE AND THE COMPOSITE INDEX

Just as in past years the first element considered in our in-depth analysis of results is the appeal *ranking* (an “overall” evaluation on a scale of 1-10) of different countries from the point of view of foreign investors (fig.1).

Of the ten countries appraised by interviewees, first place went to Germany (second last year), with a score of 7.4, followed by China (first last year) and the United States, with average scores above 7, and United Kingdom in fourth place (6.8).

Fig. 1 - The most attractive countries for a foreign investor (average values between 1 and 10, 10 = very attractive)



Source: AIBE-Censis Survey 2018

Scores above 6 were obtained by Spain and France. The final four places of this ranking are, in order, India (5.9), Italy (5.5, up on last year's 4.5, when it came bottom of the ranking), Brazil and Russia.

The analysis then gathered opinions and information on critical factors considered by investors when steering foreign investment decisions and programmes (fig.2).

The factor that emerged this year as the most important, obtaining the highest number of indications, was the tax burden, which obtained 65.1% of indications, and was picked out as the most significant element by 30.2% of interviewees.

Second place went to the regulatory/bureaucratic burden, with 51.2% of indications (the most significant element for 25.6% of the sample).

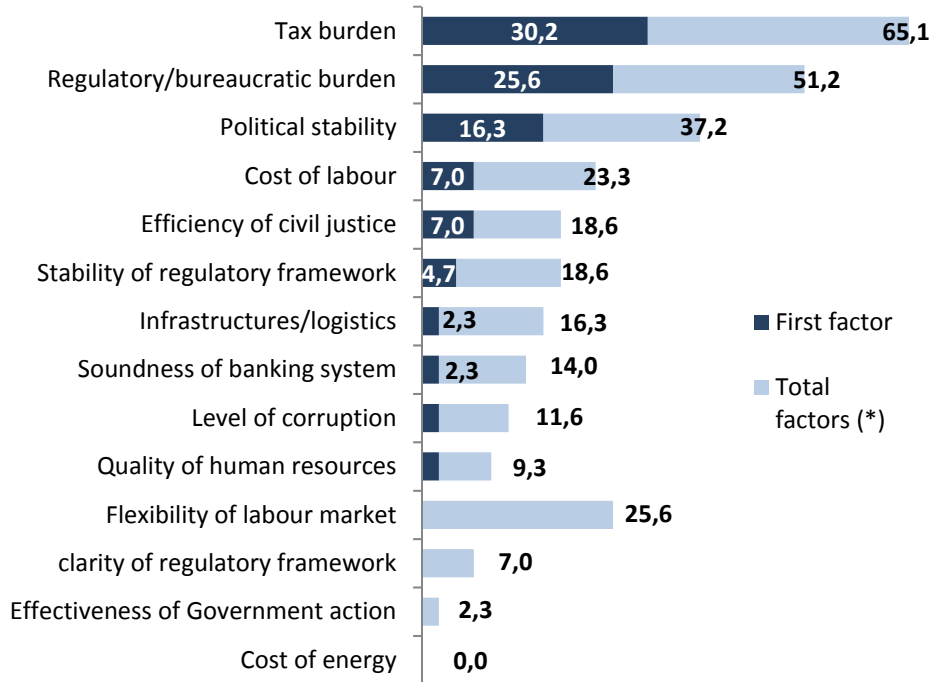
Third place went to political stability, with 37.2% of all indications and chosen by 16.3% of respondents as being the most significant element. This factor was in top place last year.

Labour costs, the slowness of the civil justice system, the stability of the regulatory framework and the logistics and infrastructures system are in the next positions in this ranking.

At the bottom of the ranking is the soundness of the banking system, the clarity of the regulatory framework, the level of corruption and the quality of human resources, based on the percentages of respondents assigning top priority to these factors.

It is interesting to note the distribution of indications for the factor “flexibility of the labour market”: although it was not indicated by anyone as a priority factor, it obtained a significant percentage of responses in general (25.6%), stressing the importance attached to variables relating to the characteristics and conditions of the labour market.

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

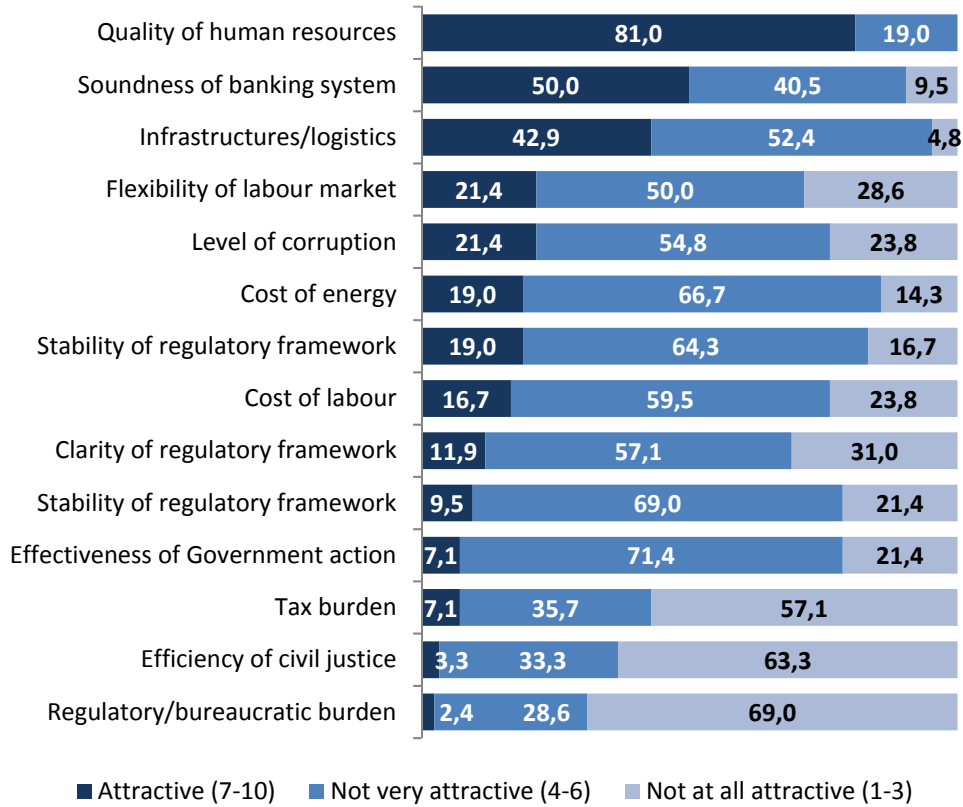


(*) Up to 3 priority factors could be given
 Source: AIBE-Censis Survey 2018

Looking specifically at opinions on critical factors for success in Italy, this year’s findings confirm those of previous years in stressing the importance of the quality of human resources (82% of responses assigned a score of between 7 and 10, in a scale of 1-10, fig. 3), well ahead of all other aspects proposed to interviewees.

In second place, a full 31 points behind top position, was the soundness of the banking system (with 50% of scores between 7 and 10).

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



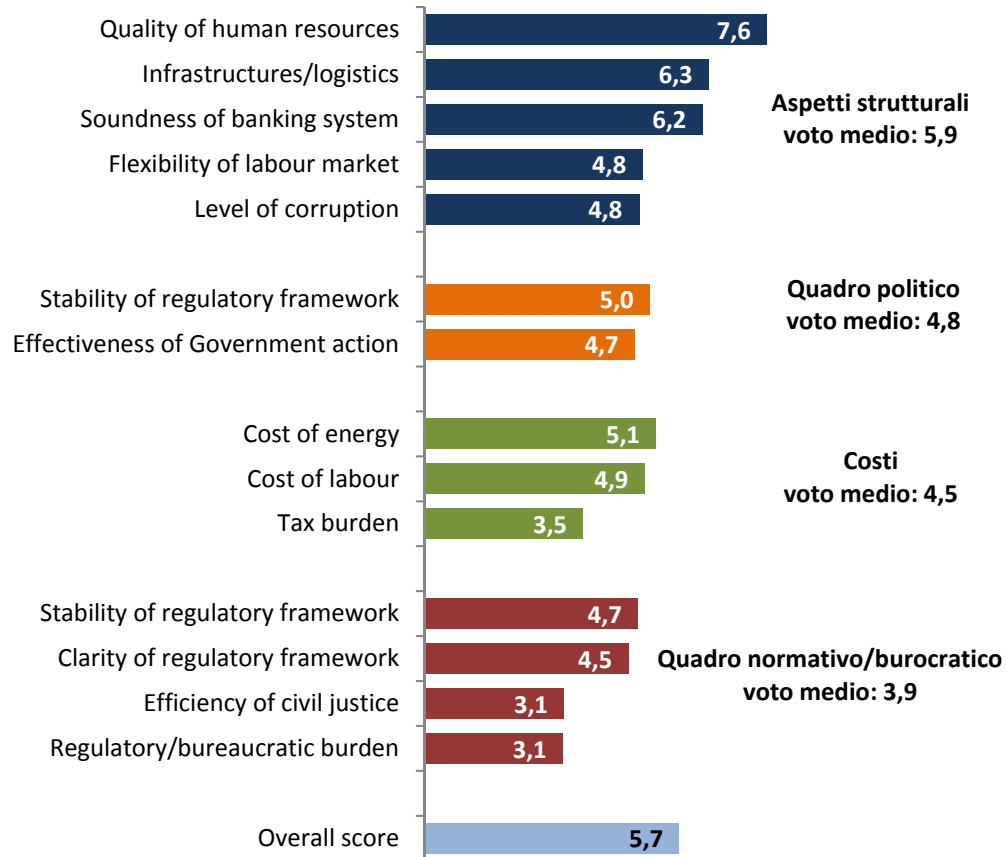
Source: AIBE-Censis Survey 2018

In terms of criticalities (factors obtaining the highest percentages of scores between 1 and 3) and at the bottom of the attractiveness ranking, all those elements relating to the efficiency and cost of the administrative system, such as the tax burden, the inefficiency of civil justice and the regulatory/bureaucratic burden, are placed.

Looking at the distribution of the average scores for single factors, grouped by thematic area (Figure 4), it can be seen that Italy is appreciated above all for its "structural" elements (human resources, infrastructures, banking system) which together receive an average score of 5.9 out of 10.

In second place with an overall score of 4.8 is the political framework.

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 2018

Moving down towards the bottom of the ranking we find variables grouped under the heading “costs” (with an average score of 4.5) and in bottom place those relating to the regulatory and bureaucratic framework, obtaining an overall score of 3.9, emerging as a very weak element.

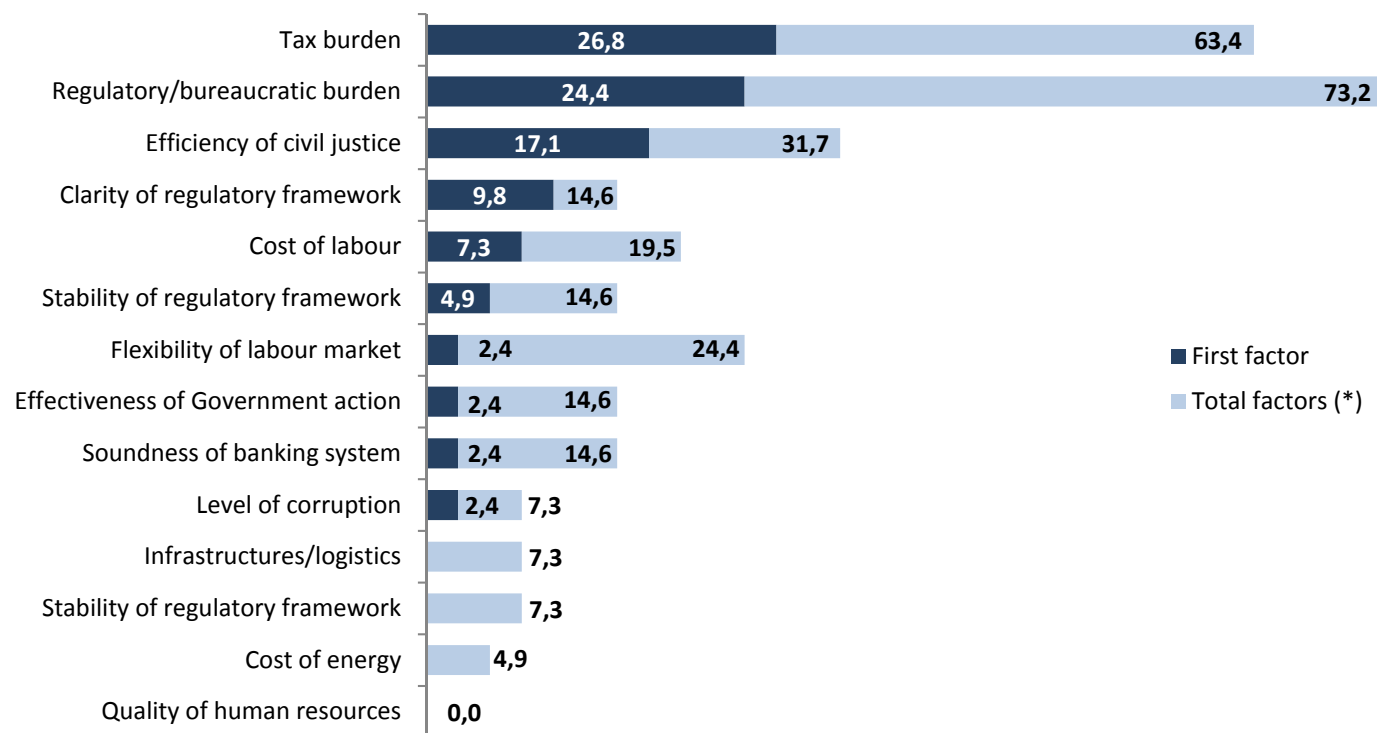
The overall judgement, based on all the responses given, was slightly higher than the previous year, yet remained below 6 (5.7, compared with 5.1 in 2017).

Figure 5 shows the results on responses to priorities for action for Italy according to foreign investors.

In keeping with results already obtained, action priorities refer in particular to the functioning and cost of the regulatory-bureaucratic system.

The tax burden, regulatory-bureaucratic burden and civil justice delays occupy the top three places of the ranking of action priorities, based on what interviewees placed as the most pressing action required.

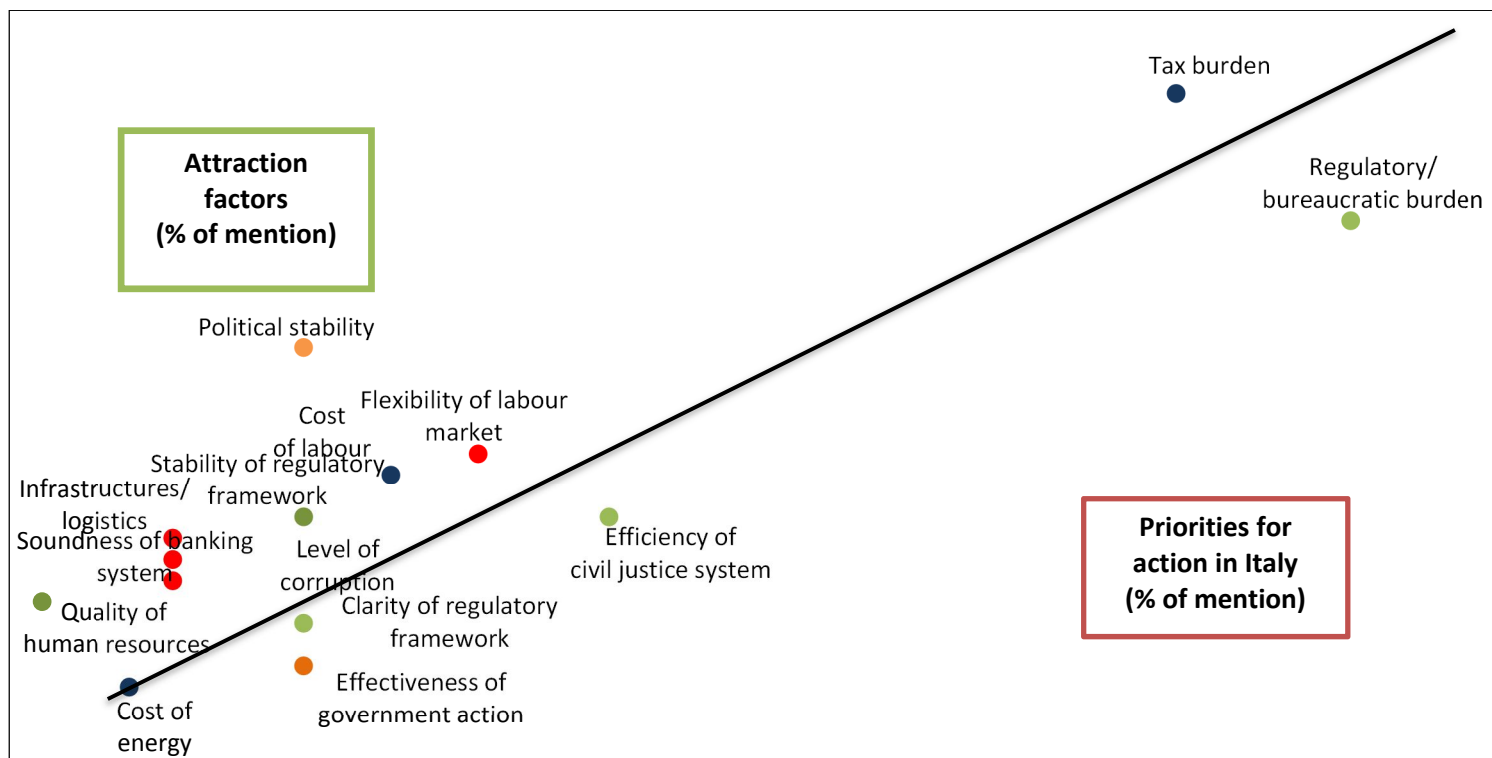
Figure 6 shows the degree of importance attached to different factors by investors compared with the priorities for action in Italy, showing once again **the urgency and importance of fiscal, regulatory and bureaucratic aspects**, occupying the top places among global evaluation criteria and considered as veritable weaknesses of Italy's system.

Fig. 5 - Factors on which Italy must work to improve its ability to attract foreign investments (% val.)

(*) Up to 3 priority factors could be given

Source: AIBE-Censis Survey 2018

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 2018

A further pointer is given by the contents of figure 7, which compares the scores on the importance attached to different criteria considered by investors with the attractiveness values for Italy assigned by the same investors.

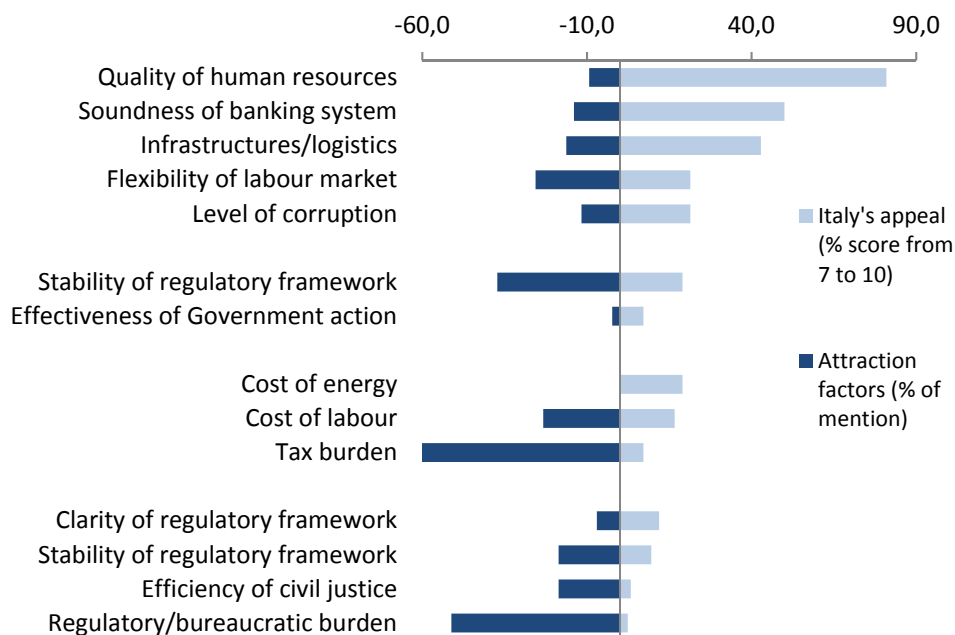
Like in previous years, there is a significant divergence on these two fronts.

There are indeed many factors for which Italy scores poorly in areas that are highly influential in investors' decision-making processes.

The biggest negative divergence is to be found in the factors “tax burden” and “regulatory-bureaucratic burden”, which again prove to be the areas in which Italy needs to improve in order to enhance its image among foreign investors.

Moreover, the real strength attributed to Italy, that of the quality of its human resources, does not appear to be an essential criterion when deciding on investments in general.

Fig. 7 - The “misalignment” effect between factors considered by a foreign investor when deciding which country to invest in (on left) and Italy’s appeal factors (on right, % val. %)



Source: AIBE-Censis Survey 2018

If one considers the global opinions on Italy's appeal (fig. 8), Italy's score has in any case gone up slightly compared with the 2017 survey.

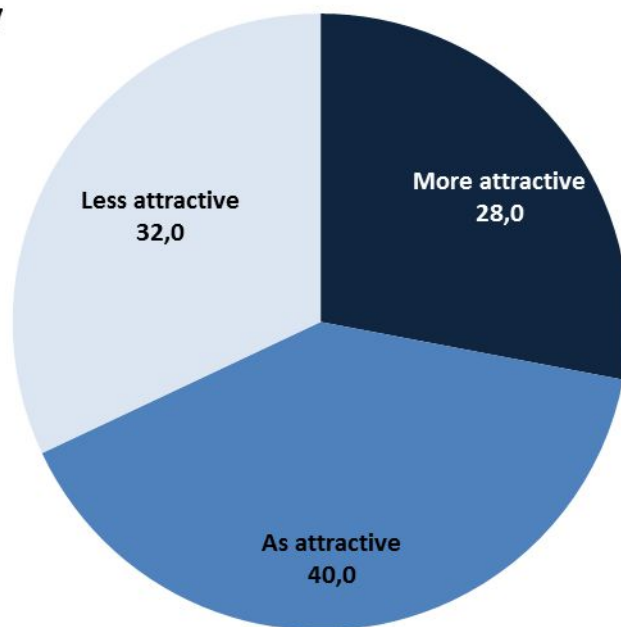
There was a 3 per cent point increase (from 28 to 31%) in the share of those believing Italy to be more attractive to foreign investors compared with the previous year, with a parallel fall of over 15 percentage points in those holding it to be less attractive (from 32 to 16.7%). There was also a rise (from 40 to 52.4%) in the share of those not perceiving any significant change.

Figure 9 gives a summary of appraisals resulting in the **AIBE Index** and its trend over time, confirming the points that emerged from views expressed in the previous question.

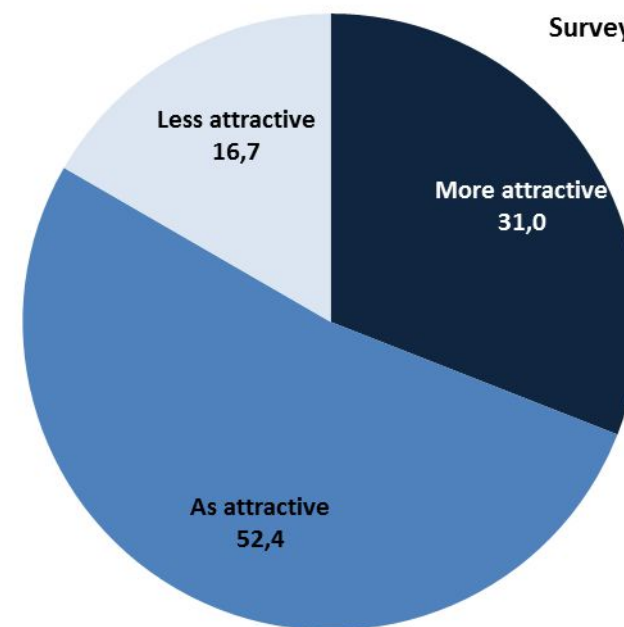
The attractiveness index for Italy (calculated on a scale of 1-100) was 43.3 this year, three points up on the 2017 figure, but still below the levels recorded in the 2015 and 2016 surveys.

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

Survey 2017

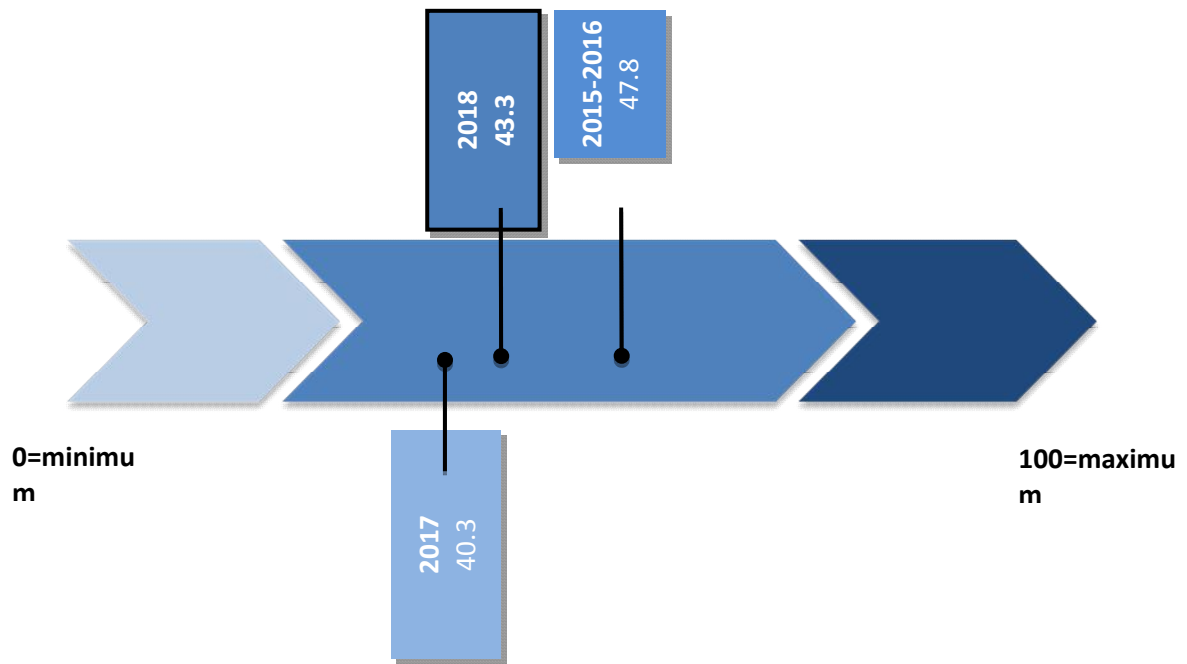


Survey 2018



Source: AIBE-Censis Survey 2017 and 2018

Fig. 9 – AIBE Index – Composite index measuring Italy’s appeal to foreign investors (2015-16, 2017, 2018)



Source: AIBE-Censis Survey 2015-2016, 2017, 2018

4. STRATEGIES, KEY SECTORS AND CRITICAL FACTORS

In addition to appraisals of Italy's attractiveness and relative positioning, just as in previous years the study has taken into consideration some more general elements and qualitative aspects that can have a potential bearing on Italy's image and its future prospects.

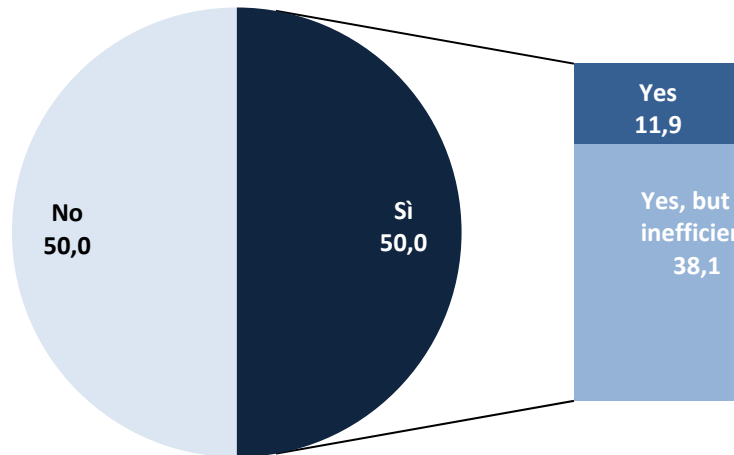
Opinions were firstly sought regarding the existence and the effectiveness of a general strategy to grow and support Italy's attractiveness to foreign investors (Figure 10).

The replies received generally pointed to a lack of effectiveness, or even an unsubstantial strategy. Around 50% of interviewees did not perceive a global strategy to be in place, while 38% of the total thought that even though they believed there was a strategy, they considered it to be inefficient.

The next question focused on the policies and strategies that Italy should base their actions on in order to enhance their attractiveness to international investors (fig. 11).

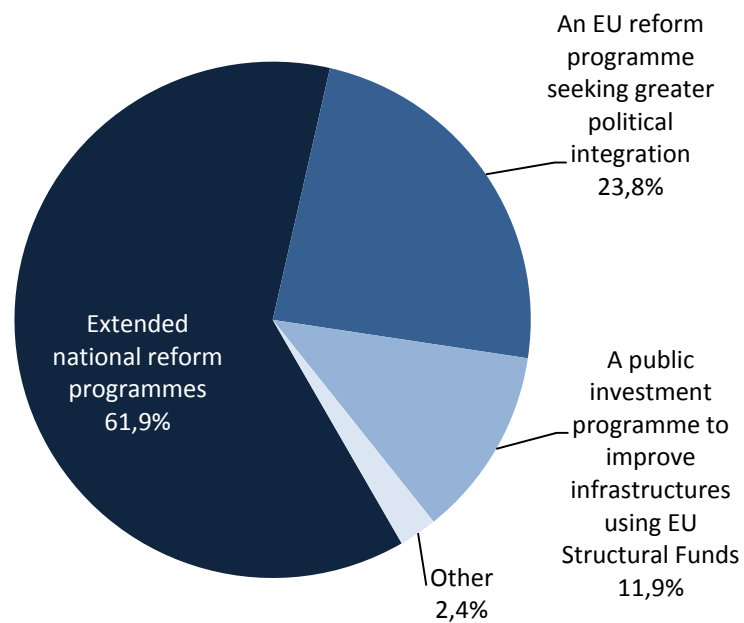
Like in the previous year, national structural reforms were seen as being important, attracting 61.9% of indications, while greater political integration within the European Union was indicated by 24% of interviewees, a figure that has grown considerably (compared with 12% last year). The percentage of respondents stressing the importance of a programme of structural investments, supported by the use of European funding, remained at the same level as last year (11.9%).

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



Source: AIBE-Censis Survey 2018

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



Source: AIBE-Censis Survey 2018

Looking at the components and sectors of Italy's economic system that are most attractive to foreign investors (Figure 12), the importance of the traditional Made in Italy sectors was confirmed, first and foremost Fashion (83.7% of indications), followed by the Agrifood sector (72%). These two sectors (alongside precision engineering and machine tools) are two of Italy's areas of excellence in terms of export performance. These two sectors are backed up by tourism and the hotel sector, which attracted 60.5% of the respondents' indications.

In the ranking of most attractive sectors the next places are occupied by engineering (27.9% of indications), pharmaceuticals (16.3%) and ICT (14%).

More foreign investors' Italian-related strategies and interests were gleaned from the answers to questions on key factors of the 200 main Merge&Acquisition operations recently carried out in Italy (Figure 13).

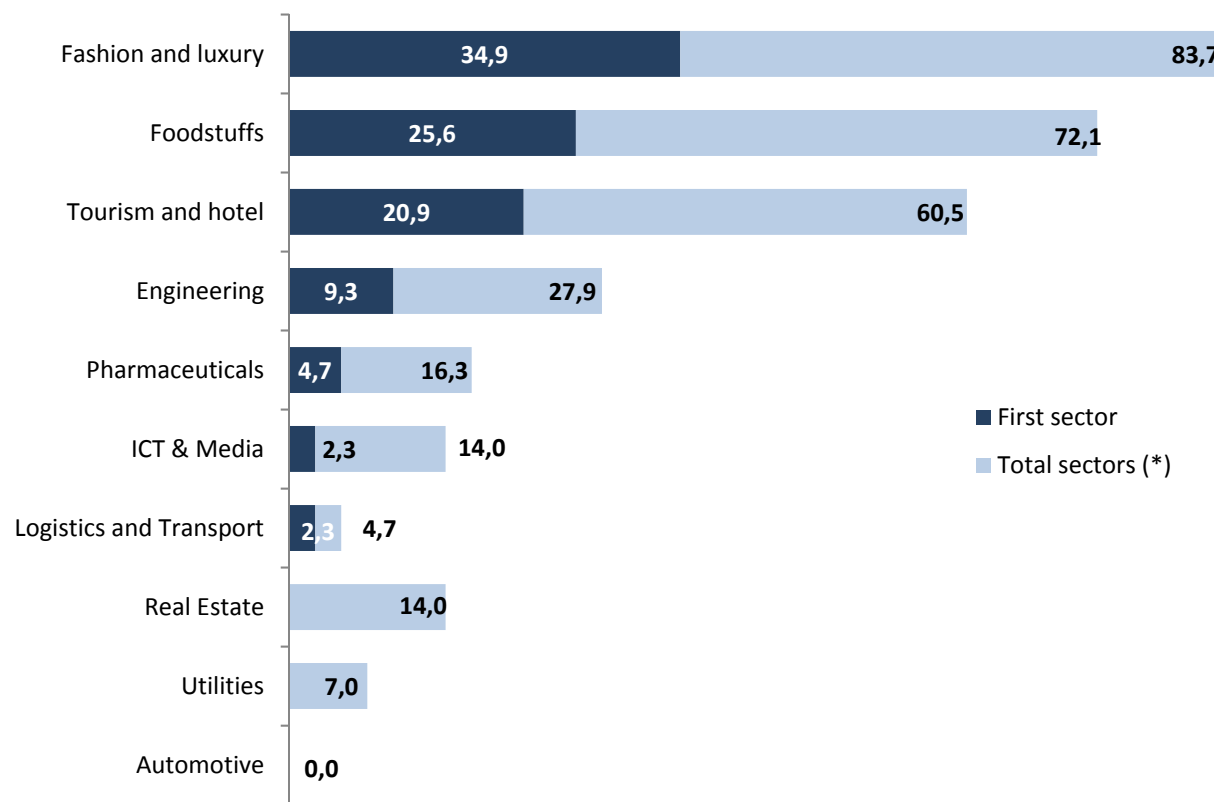
The biggest factor, in line with the results from the previous question, is the prestige of Made in Italy brands, gathering 95% of positive opinions (scores of 6-10 on a scale of 1-10), with an average value of 8.3.

The creativity, innovation and flexibility of some production sectors attracted particularly high scores, as well as the quality of products and services provided (both having positive indications in excess of 90%, with average scores of 7.5 and 7.7 respectively).

Other strengths highlighted include the managerial and commercial capabilities of human resources in companies affected by merger and acquisition operations, which obtained an average score of 6.9.

Less crucial elements, just as in previous years, include a favourable socio-cultural environment for foreign investments, corporate governance models, the availability of low-cost labour, legislative and government the labour market initiatives, obtaining average scores of between 4.9 and 5.3.

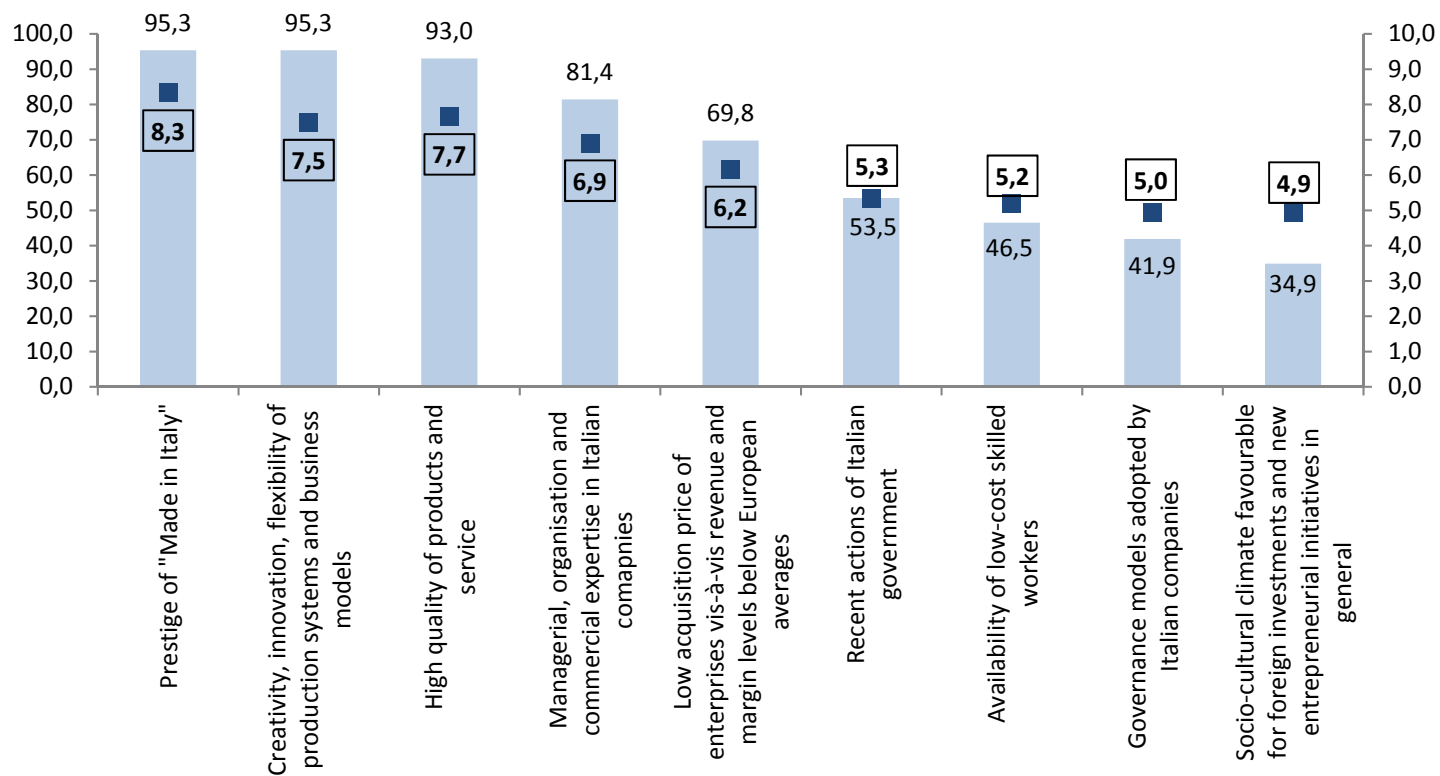
Fig. 12 – Most attractive production sectors in Italy (%val.)



(*) Up to 3 priority sectors could be given

Source: AIBE-Censis Survey 2018

Fig. 13 - Key factors for the completion of over 200 M&A operations carried out in Italy by foreign operators in 2017(% val. and average values) (*)



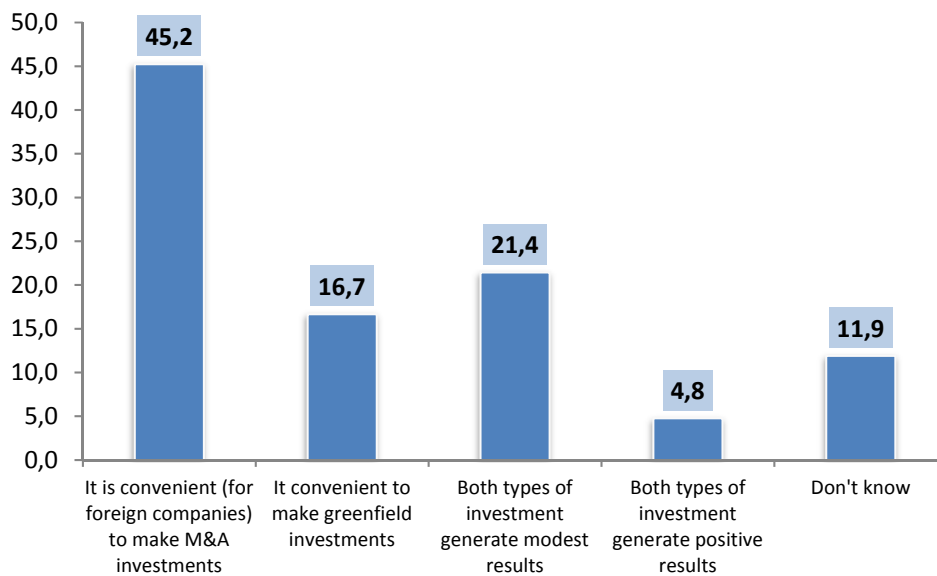
(*) % of those giving a score from 6 to 10, where 10= very key (left axis).

The points represent average scores (right axis)

Source: AIBE-Censis Survey 2018

Of the various types of investment, merger and acquisition operations are deemed to be most convenient, obtaining 45% of the Panel's responses. Fewer responses were received for *greenfield* investments (16.7%), while a little over one fifth of respondents viewed both types of investment as not very effective (Figure 14).

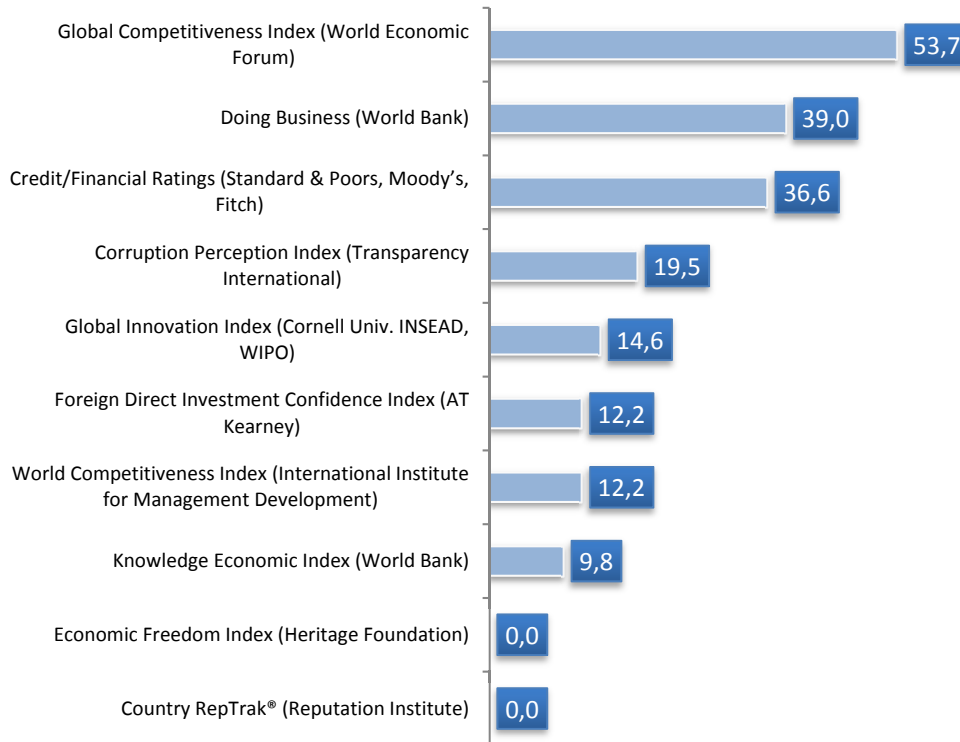
Fig. 14 - Opinions on different types of investment in Italy and relative convenience (%val.)



Source: AIBE-Censis Survey 2018

Another aspect considered this year concerns the importance attached by foreign investors to indicators drawn up at a global level by different rating agencies. The biggest influence is attributed by respondents to the *Global Competitiveness Index*, elaborated by the World Economic Forum (53.7% of the Panel's responses, Fig. 15), followed by the World Bank's *Doing Business*(39.0%) and by *Credit/Financial Ratings*(Standard & Poors, Moody's, Fitch, 36.6%).

Fig. 15 - Opinions on the most influential economic appraisal indicators for the decisions of foreign investors (%val.)



Source: AIBE-Censis Survey 2018

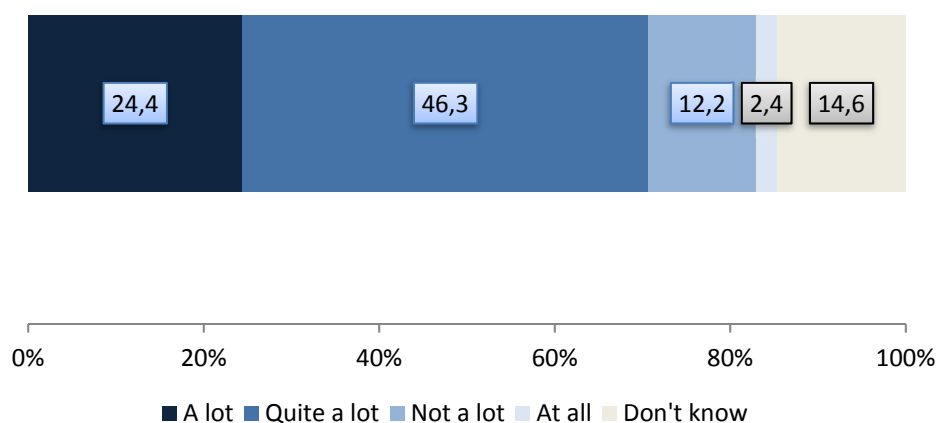
This year too investors were asked about the effects of the Industry Plan 4.0, commenced by the government in 2016 and fully applied during the course of 2017.

Last year interviewees had expressed a generally positive opinion about the effects of this Plan in terms of appeal for foreign investors (8% considered it to be very important, 52% important).

This year the positive views grew further.

The percentage of respondents that consider the Industry Plan 4.0 to be a very positive contribution to Italy's appeal to foreign investors rose to 24.4% which, adding this percentage to those that consider it to be quite important (46.3%), results in 70.7% of the sample having a positive opinion about the effects of these measures (compared with 60% last year).

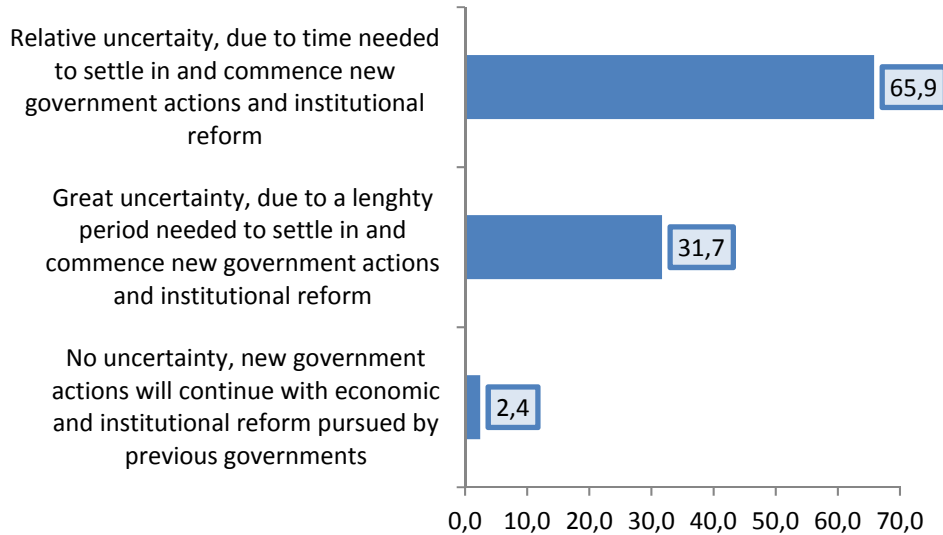
Fig. 16 – To what extent can the Industry Plan 4.0 help to raise Italy’s attractiveness to foreign investors? (% val.)



Source: AIBE-Censis Survey 2018

Another question posed to the Panel related to the perception of the consequences of this year’s general elections on foreign investment trends. Not surprisingly, a large percentage of responses give rise to negative opinions on the effects of this important vote for Italy.

The Panel expects a period of relative uncertainty regarding the continuity of action of the new government (65.9%, Figure 17), while nearly one third of responses point to the risk of great uncertainty due to the length of time it will take for the new government to settle in (31.7%).

Fig. 17 - Effects of the 2018 general elections on foreign investments in Italy (% val.)

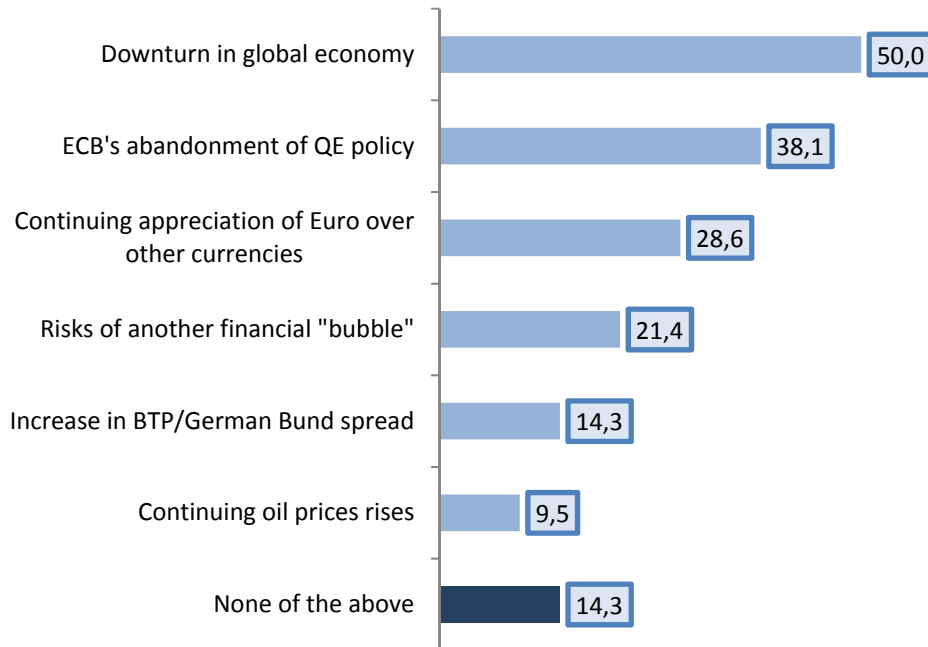
Source: AIBE-Censis Survey 2018

Moving on to globally relevant aspects, as we came to the close of the questionnaire, the Panel was asked to give its views on the possible impact of these aspects on the Italian economy.

Figure 18 shows that events having a negative influence, and that have the greatest likelihood of occurring, relate chiefly to a turndown of the global economy (indicated by 50% of interviewees) and the European Central Bank's abandonment of Quantitative Easing (38% of indications). In third place was the fear of a continuing appreciation of the Euro over other international currencies, indicated by 28.6% of those interviewed.

Just 14.3% of interviewees believe that the occurrence of at least one of these events is not significant, therefore we may state the quite widespread feeling of uncertainty regarding not only Italy but also the global economy and the European continent.

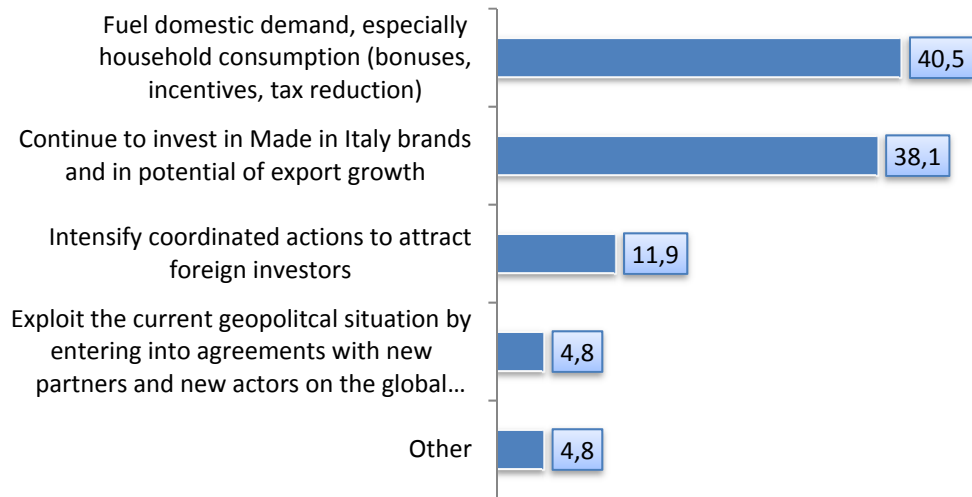
Fig. 18 - Events that might happen in 2018 that might have a negative bearing on the Italian economy and growth potential(% val.)%



Source: AIBE-Censis Survey 2018

A final question related to an overall opinion on the main priority to be pursued in order to consolidate Italian growth. Items include support for domestic demand, attracting 40.5% of responses, followed by the Made in Italy brand and the growth in exports. The Panel was more lukewarm towards the statement that it was important to intensify coordinated actions to improve the attractiveness of foreign investments (11.9%, Fig. 19).

Fig. 19 - Priorities for Italy to consolidate growth(% val.)%



Source: AIBE-Censis Survey 2018

5. FINAL CONSIDERATIONS: 2018, POSITIVE TRENDS AND UNCERTAINTIES

Those observers looking at Italy, from the point of view of a country whose tangible and intangible resources can be advantageous for the allocation of physical and financial capital, when competing with other nations, again provide us this year with a number of important pointers.

They highlight at least three elements to focus on in order to raise Italy's appeal:

- The result of the synthetic index (AIBE Index) shows a return to a greater confidence in Italy compared with a little over twelve months ago: this index has risen from 40.3 in 2017 to the current 43.3. It should be noted however that this index has a *range* from 0 to 100, thus the 2018 result (as well as previous results) is not particularly positive in absolute terms;
- 31.0% of Panel members consider Italy to be more attractive now than last year. This is in line with the increase in the composite index and the rise in positions among the ten countries considered in surveys over the past three years. The sign of Italy's (timid) opening up is crucial for the country's reputation, and is a good starting point for forging more effective ties with foreign investors;
- The survey once again stresses, as in previous years, the critical factors for Italy, namely the tax burden, bureaucracy, the slowness of civil justice, which according to the Panel are the main aspects the investment decisions of a foreign nation will be shaped by.

Of the elements of immediate relevance that are conditioning or may condition Italy's growth performance this year, the Panel points to the general elections as being critical, with the uncertainty that inevitably surrounds the changing political scenario. More generally, global economic trends and the ECB's moving away from a *Quantitative Easing* policy may potentially weaken the recovery of the economy much more than factors such as widening spreads or the risk of a financial "bubble".

In the Panel's opinion, therefore, the current year confirms the continuing failure to make the most of the *assets* that Italy ought to be exploiting in order to raise the degree of appeal for foreign investments.