



CENSIS

AIBE-INDEX OBSERVATORY
Annual monitoring of Italy's appeal overseas
2019

Rome, April 2019

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1. PREAMBLE

This fourth edition of the analysis of Italy's appeal to foreign investors once again outlines the views of the AIBE *panel*, an observation from an original perspective of Italy's performance over the past year.

The method used - which has remained unchanged over the years - is based on the administration of a two-part questionnaire:

- a first part, containing the same questions as previous surveys, aimed at comparing over time the structural factors that have a bearing on performance;
- a second part, which changes over the course of time, aimed at capturing the shorter-term changes in context that can affect performance.

The first part centres on the factors of attractiveness and relevance with reference to the expectations of foreign investors, from both a general perspective and in relation to the situation in Italy. The recurring part of the questionnaire relates to:

- 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.

The summary of information and opinions collected in this part of the questionnaire serves to construct the composite index of Italy's appeal (AIBE Index 2019).

The second part, supplementing the quantitative analysis, centres on the following themes this year:

- investment trends on the part of foreign multinationals in 2018;
- the possible impact of the 2019-2021 "Budget Law" on Italy's appeal to foreign investors;
- the European elections in May 2019 and the potential uncertainty they may create in Italy during 2019;

- the events that might adversely affect the Italian economy and its growth potential during 2019.

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

- the re-presentation of the final considerations contained in the 2018 Report, in order to reconstruct and better focus the contents of the 2019 analyses (chapter 2);
- the monitoring and compilation of the 2019 Composite Index, produced using the "structural" part of the questionnaire (chapter 3);
- constraints, opportunities and impacts of the Italian and international contexts on the lever of foreign investments (chapter 4);
- the conclusions for 2019 (chapter 5).

2. THE FOLLOW-UP TO 2018

The 2018 survey, carried out during the months of the electoral campaign and thus without knowing the results of the general elections in Italy, recorded a sort of uneasy expectation, however there was a willingness to believe in the continuity of the reform path undertaken in recent years by national governments. At the same time, the Panel's opinions contained warnings about a global context more exposed to uncertainty and to potentially new and disruptive factors.

Among the various comments, there were those who "unsurprisingly" expressed "expectations that were anything but positive about the effects of this important vote for our country". At the same time a period of relative uncertainty was taken for granted regarding the continuity of government action (65.9% of the Panel were of this opinion), while almost a third of opinions (31.7%) - rightly, with the benefit of hindsight - indicated the risk of great uncertainty due to long settling-in times for the new government.

External events, which would have a negative impact on the situation in Italy and were most likely to occur, included: the slowdown of the global economy (indicated by 50% of respondents) and the European Central Bank's abandonment of quantitative easing (38% of those interviewed). In third place was the fear of a continuing appreciation of the Euro over other international currencies, indicated by 28.6% of those interviewed.

The final summary of the Report stressed in particular:

- greater confidence in Italy compared with twelve months previously: the relative index went from 40.3 in 2017 to 43.3, but on a scale from 0 to 100, the result of 2018 (and previous results) did not appear to be particularly positive in absolute terms;
- 31% of Panel members considered Italy in 2018 to be more attractive than in the previous year, a result that was in line with the increase in the composite index and the rise in position among the ten countries considered in surveys over the past three years;
- the survey once again stressed, just like in previous years, the critical factors for Italy, namely the tax burden, bureaucracy, the slowness of civil justice; according to the Panel, these factors were the main

aspects by which the decisions to invest in a foreign country would be shaped, and on which Italy would be called upon to act.

Today - in light of the opinions gathered in the latest survey - efforts to continue actions commenced in the past appear to have been stifled, while there has been a rise in non-positive views regarding the country in general and its ability to attract investments in particular. Even so, due to the way it is compiled, the AIBE index has actually changed little compared with 2018.

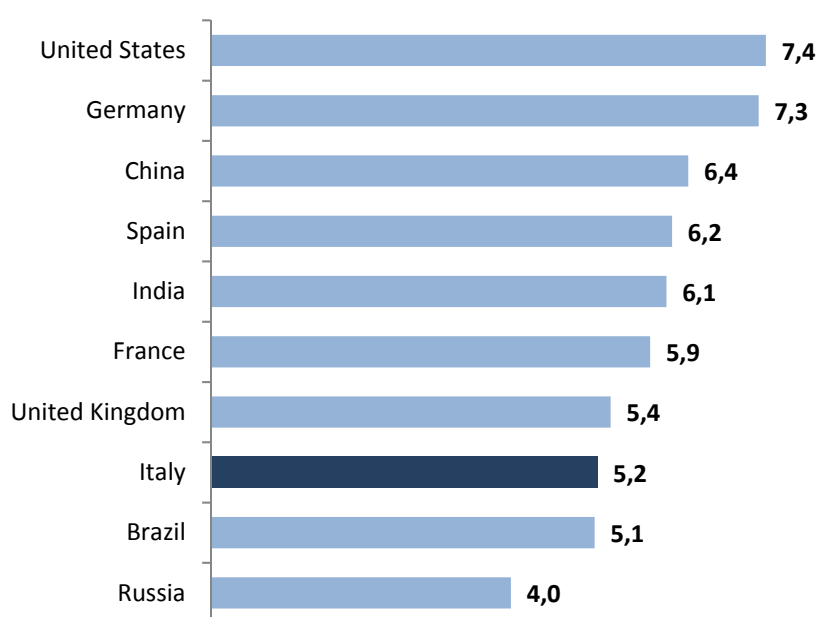
We need however to read between the lines to discover what the Panel is actually suggesting with its answers. What transpires forces us to reflect seriously on the resilience of the Italian system and on what is causing a further departure from the path of growth in Italy.

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

For several years there have been three countries at the top of the rankings regarding the most attractive countries for investments. The AIBE Panel of 2019 put the United States top, followed by Germany (first in 2018) and then China (fig. 1).

Italy stayed in the same place as last year (eighth), again ahead of Brazil and Russia. Spain, France and India have leapfrogged over Great Britain, which has fallen from fourth to seventh place, a sign of the negative perception triggered by its difficulty in exiting the European Union.

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



Source: AIBE-Censis Survey 2019

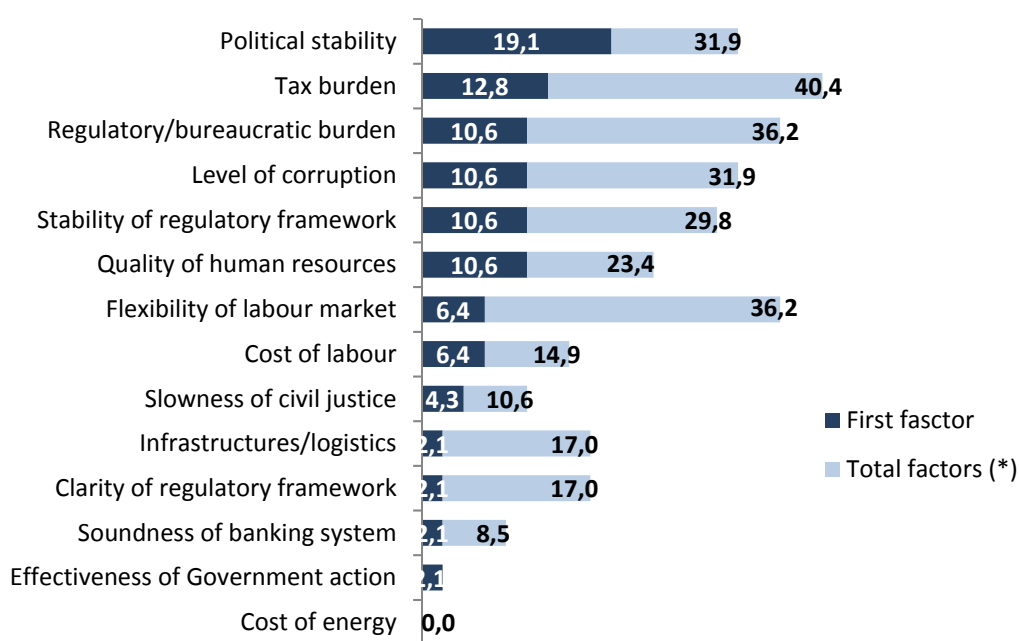
The propensity to invest in a country is dictated by the presence or absence of some contextual factors and by the incidence of institutional phenomena and conditions. This year the Panel gave priority to political stability (19.1% of respondents indicated this as a priority, fig. 2) and to the tax burden,

indicated by 12.8% as the primary factor and by 40.4% as one of the first three main elements to be taken into consideration.

10.6% of the Panel instead focused on other aspects, such as the regulatory and bureaucratic burden, corruption, the stability of the regulatory framework and the quality of human resources. The flexibility of the labour market deserves a special mention, being indicated by 36.2% of the respondents as one of the top three elements to be considered.

Respondents gave less importance to the cost of energy, the effectiveness of government action and the soundness of the banking system.

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



(*) Up to 3 priority factors could be given

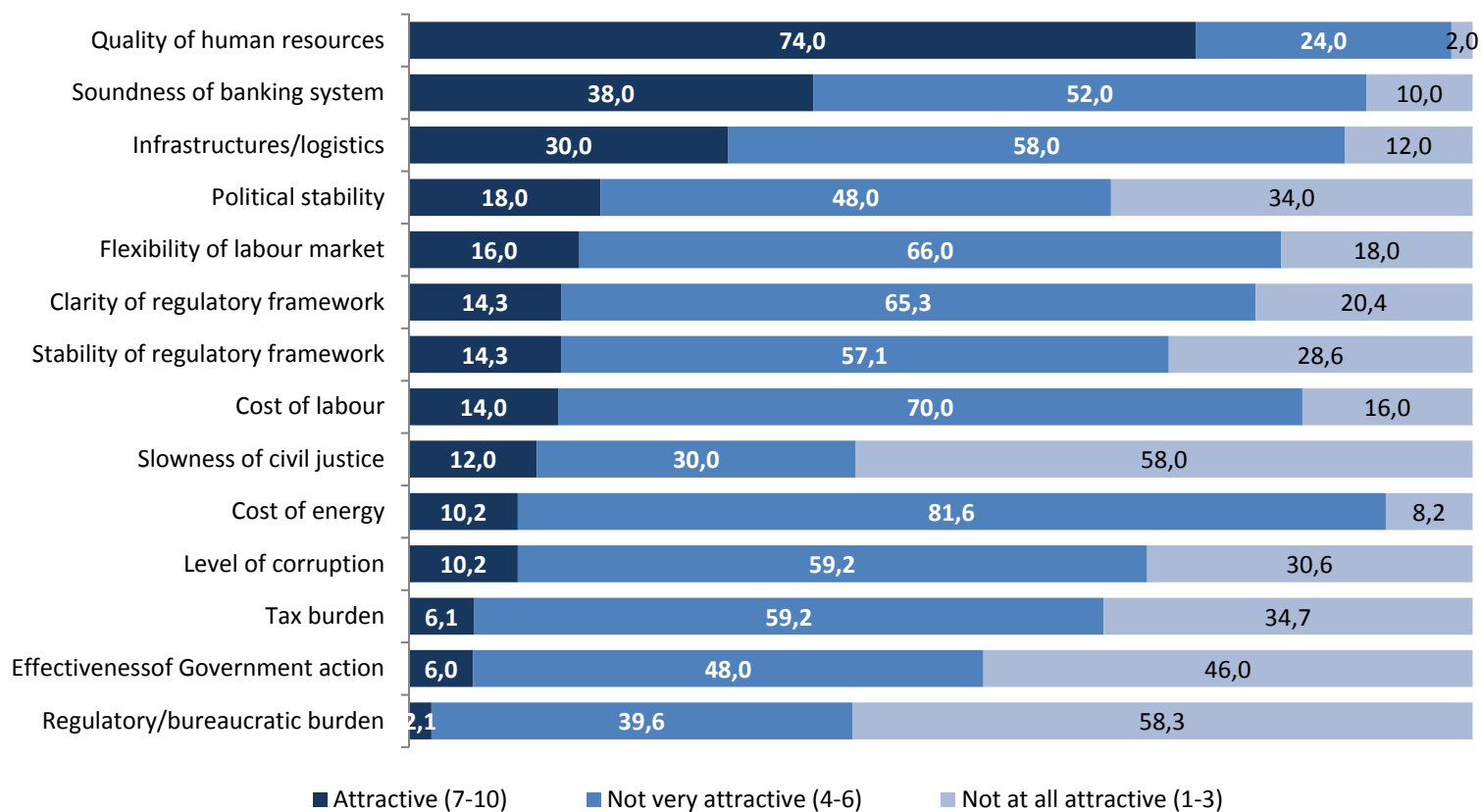
Source: AIBE-Censis Survey 2019

Moving on from the general propensity to invest to that of investing in Italy, the responses collected give a faithful representation of the "gap" that separates Italy's political and economic set-up from the global culture, about

which Panel members are agreed, continuing to perceive the country as "eccentric" in respect of that culture.

The first three factors for which Italy appears to be attractive for a foreign investor are, in order: the quality of human resources (74%, fig. 3), the soundness of the banking system (down to 38%), infrastructures and logistics (30%). On the flipside, the three factors for which Italy is not at all attractive are: the regulatory and bureaucratic burden (58.3%), the slowness of civil justice (58%) and the effectiveness of government action (46%).

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

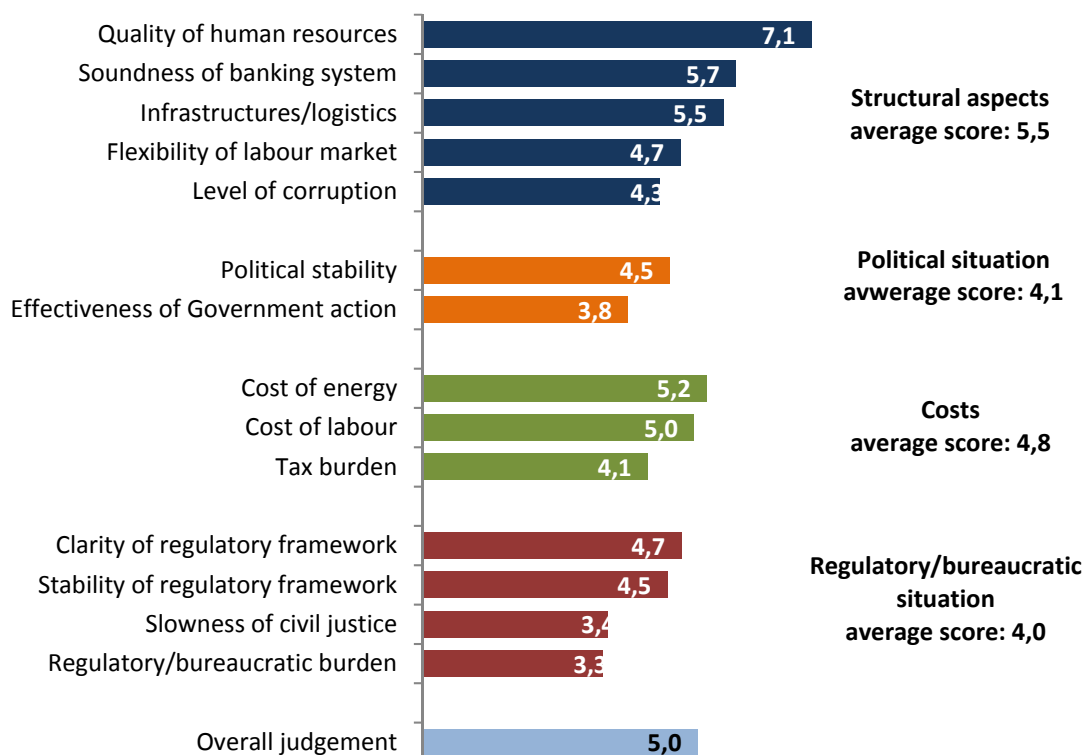


Source: AIBE-Censis Survey 2019

By grouping together the analysed factors by type and score assigned (1: not at all attractive, 10: very attractive), it is seen that structural aspects achieve the highest score (average score: 5.5, fig. 4)

On the other hand, cost categories such as labour costs, energy costs and taxes (average score: 4.8) do not appear to have a very negative impact, while the role played by the public administration and government action appears to be more of a problem. The most critical factors are once again, for the fourth consecutive year, the efficiency of civil justice and the regulatory and bureaucratic burden (with average scores of 3.4 and 3.3 respectively).

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 2019

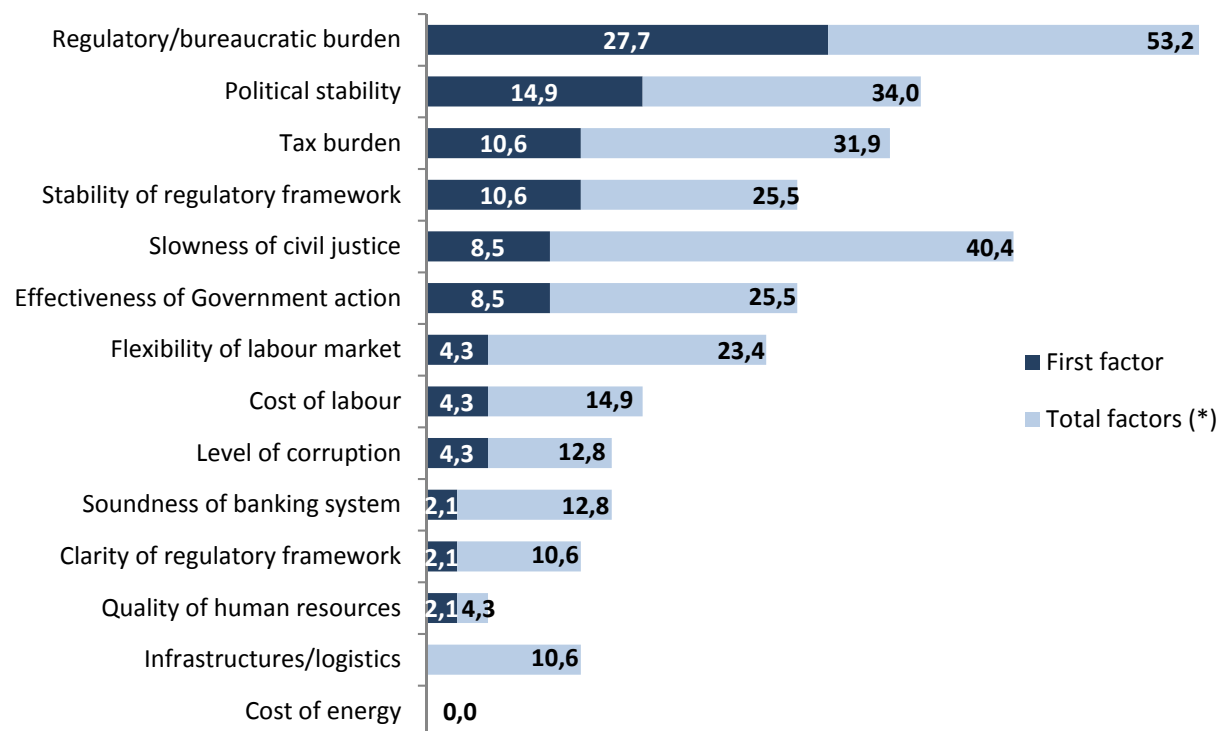
The regulatory and bureaucratic burdens are reported by the Panel as the first factor on which to act in order to raise Italy's appeal to investors.

27.7% of the first answers focus on this element, but more than half of the Panel indicate this as one of the three priority factors (53.2%, fig. 5). The slowness of civil justice, thought by 8.5% to be a priority factor, was nevertheless chosen by 40.4% of the total as one of the main critical elements that adversely affect Italy's *appeal* to investors.

The coherence between factors that shape countries' investment choices and the priorities for Italy to become more attractive unequivocally shows that more needs to be done in the areas of bureaucracy, political stability, civil justice and the tax burden (fig. 6). At the same time, a parallel reading of the types of intervention, seen from the investor side on the one hand and as factors of attractiveness for Italy on the other, makes it possible to understand the existing gap between these two perspectives.

This discrepancy appears to be particularly evident regarding the quality of human resources and the fiscal and bureaucratic burdens. These results confirm that although Italy boasts important *assets* (human resources, banking system, infrastructures), it does not speak the same language as the investor, who when making decisions looks elsewhere and does not pay much attention to aspects that in his opinion are secondary when allocating investment resources (fig. 7).

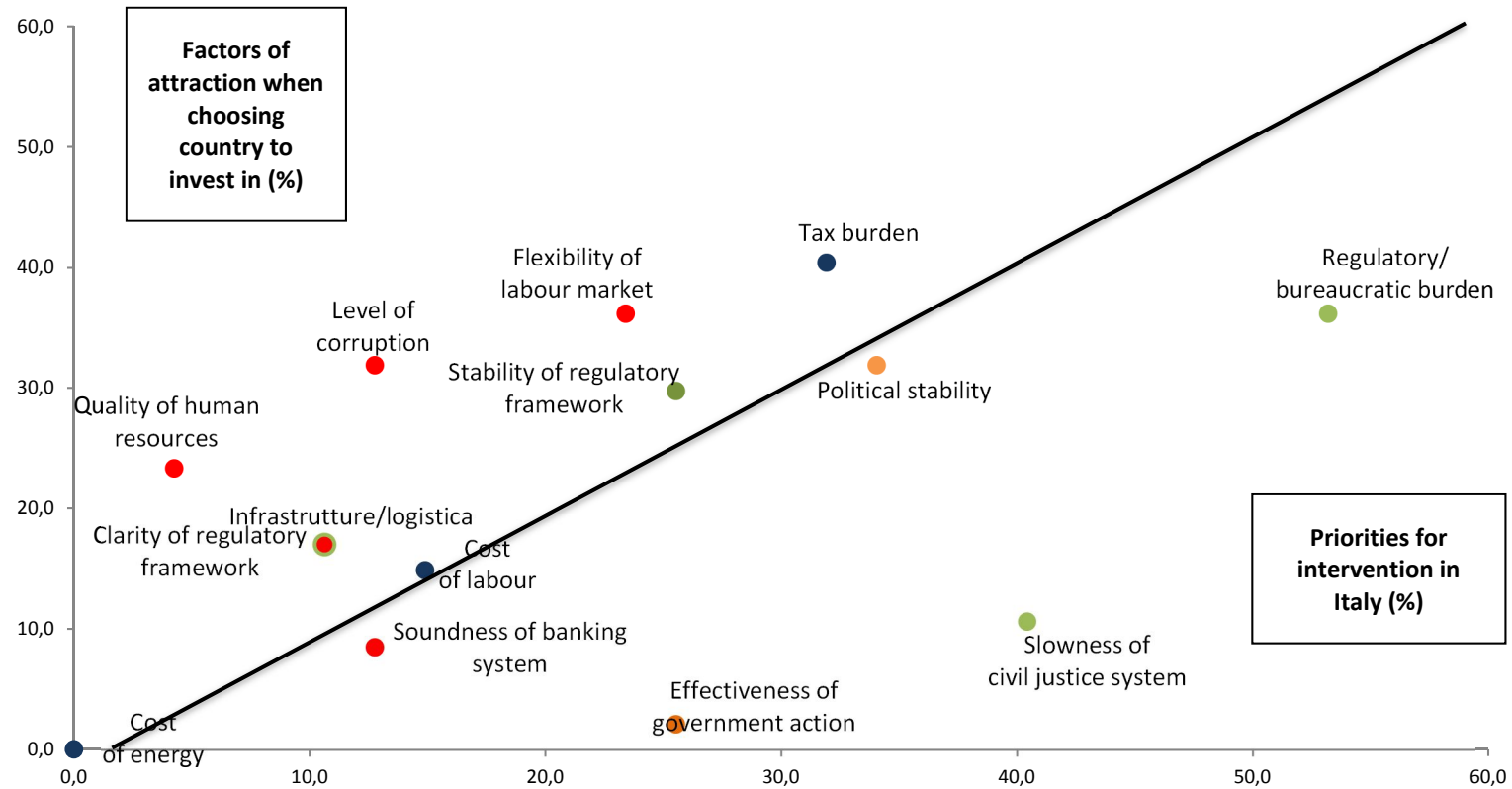
Fig. 5 - Factors on which Italy must work to improve its ability to attract foreign investments(% val.)



(*) Up to 3 priority factors could be given

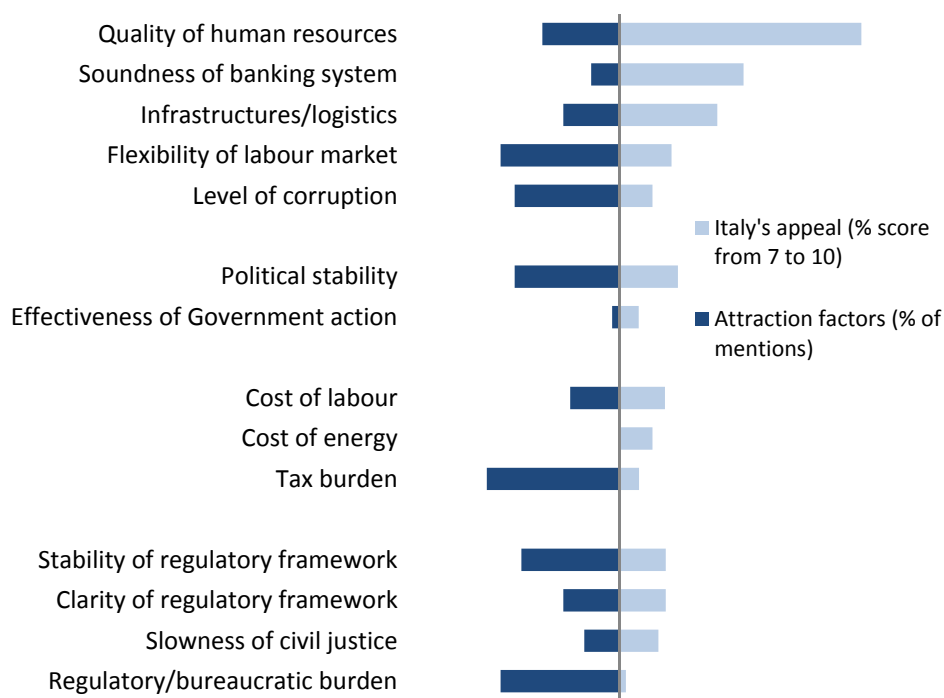
Source: AIBE-Censis Survey 2019

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 2019

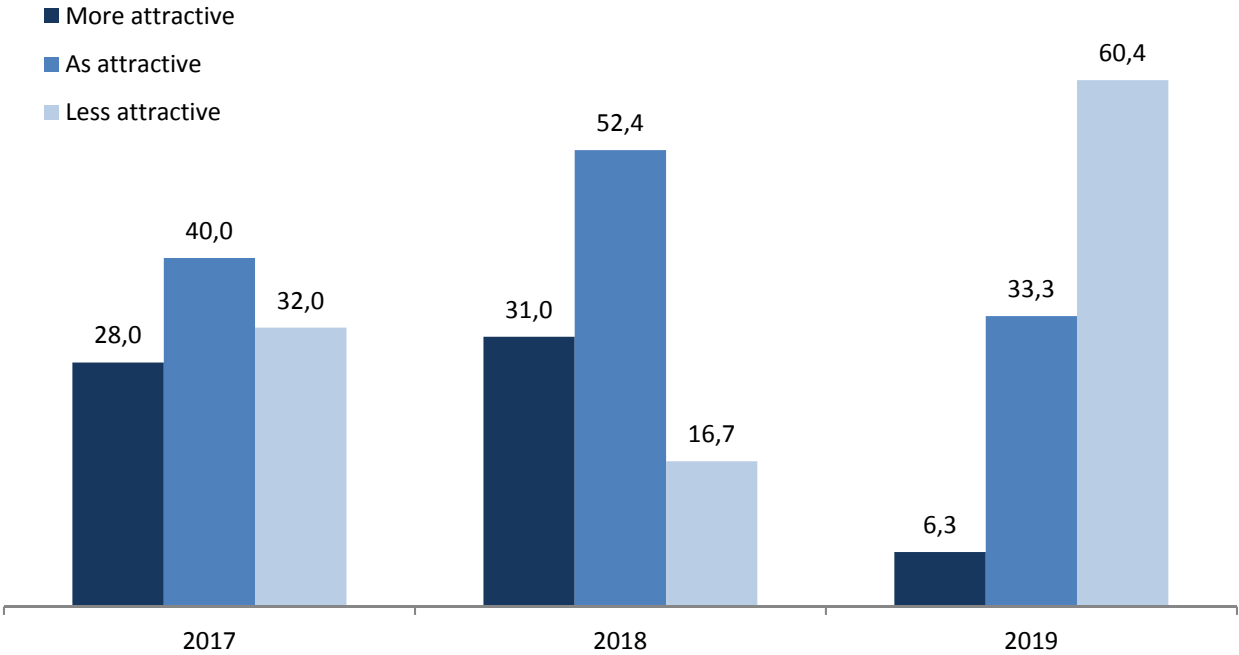
Fig. 7 - The “misalignment” effect between factors considered by a foreign investor when deciding which country to invest in (on left) and Italy’s attractiveness factors (on right, % val.)



Source: AIBE-Censis Survey 2018

A general external perception of Italy can be gauged in two results from the survey. The first - referring to the perception about global quality - can be seen in Figure 8: in 2019 60.4% of the Panel believed Italy to be less appealing compared with 2018, when this answer was given by just 16.7% of respondents. Only 6.3% saw an improvement in the degree of attractiveness, about a fifth of that recorded in 2018 and much lower than that measured in 2017 (28%).

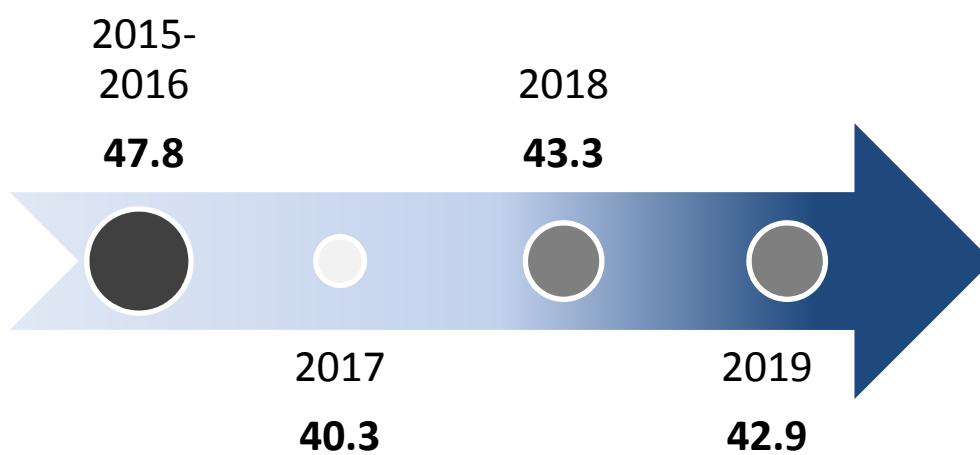
Fig. 8 - Italy in the eyes of foreign investors, compared with twelve months previously. 2017-2019 (% val.)



Source: AIBE-Censis Survey 2019

The other composite result - the most important "product" of the AIBE analysis on attractiveness, based on quantitative assessments - is the 2019 index (42.9), which was down on the 2018 figure, and lower than that recorded in 2015-2016, when the value of this indicator had risen to 47.8 (fig. 9).

Fig. 9 – AIBE Index – Composite index measuring Italy’s appeal to foreign investors (2015-16, 2019)



Source: AIBE-Censis Survey 2019

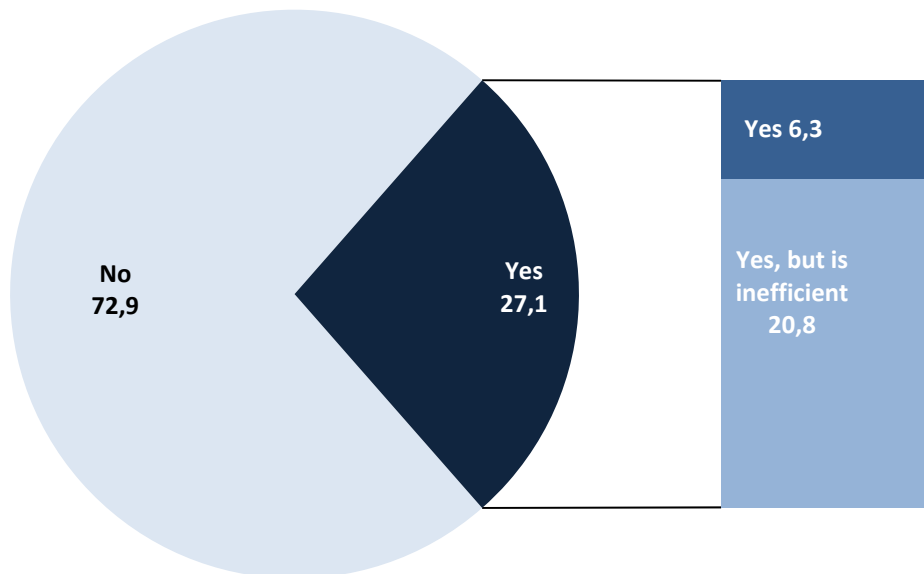
4. STRATEGIES, KEY SECTORS AND CRITICAL FACTORS OF THE DOMESTIC AND INTERNATIONAL CONTEXTS

The second part of the questionnaire used for the *survey* is basically designed to bring out shorter-term aspects in order to build a reference framework for current trends relating to attractiveness.

The first aspect analysed in this part sought to verify whether the Panel believed Italy can now count on the existence and effectiveness of a strategy for attracting foreign investments.

The answers show that more respondents than in the past do not see the existence of a real strategy. The percentage of "sceptics" has reached 72.9% this year, while in the previous survey it was 50% (fig. 10).

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



Source: AIBE-Censis Survey 2019

Those who saw the existence of a strategy (27.1%), are distributed unevenly between those who consider this strategy to be ineffective (20.8%) and those who assign to it a certain degree of effectiveness (6.3%).

Another area about which Panel members were asked to respond is the general policies and strategies for improving attractiveness. The three alternatives in this area were identified as national reform programmes, European reform programmes and programmes focusing on infrastructures.

Just over half of respondents - 52%, but down on last year (61.9%) and even more so on 2017 (72%) - continued to push for self-reform initiatives, the Panel is more open to infrastructure investments, made possible by the availability of European funding (26%), while the reference to a common strategy with leading European partners for greater integration has the approval of 22% of the Panel (tab. 1).

Tab. 1 – To raise Italy’s attractiveness it would be preferable to... (% val.)

Extensive national reform programmes (public administration, justice, taxation, digitisation, etc.)	52.0
Reform programme of the European Union, aimed at greater political integration, in agreement with leading members of the EU (Germany, France, Spain)	22.0
Public investment programme dedicated to improving infrastructures, using EU Structural and Investment Funds in a suitable manner	26.0
Total	100.0

Source: AIBE-Censis Survey 2019

Despite the lack of recognition of a strategy for attractiveness and the "lukewarm" attitude to Italy's ability to implement reforms at a national level, indications regarding the most attractive sectors of Italy's productive system for the allocation of investments offers an interesting profile of the Panel's perception of the country.

Considerable focus - just as in the past - is placed on the fashion and luxury sector (95.8% of responses in general, 45.8% of responses indicating the sector as the first choice, fig. 11). Other favoured sectors were Tourism and Hotels, Engineering, Agribusiness and the Real Estate sector.

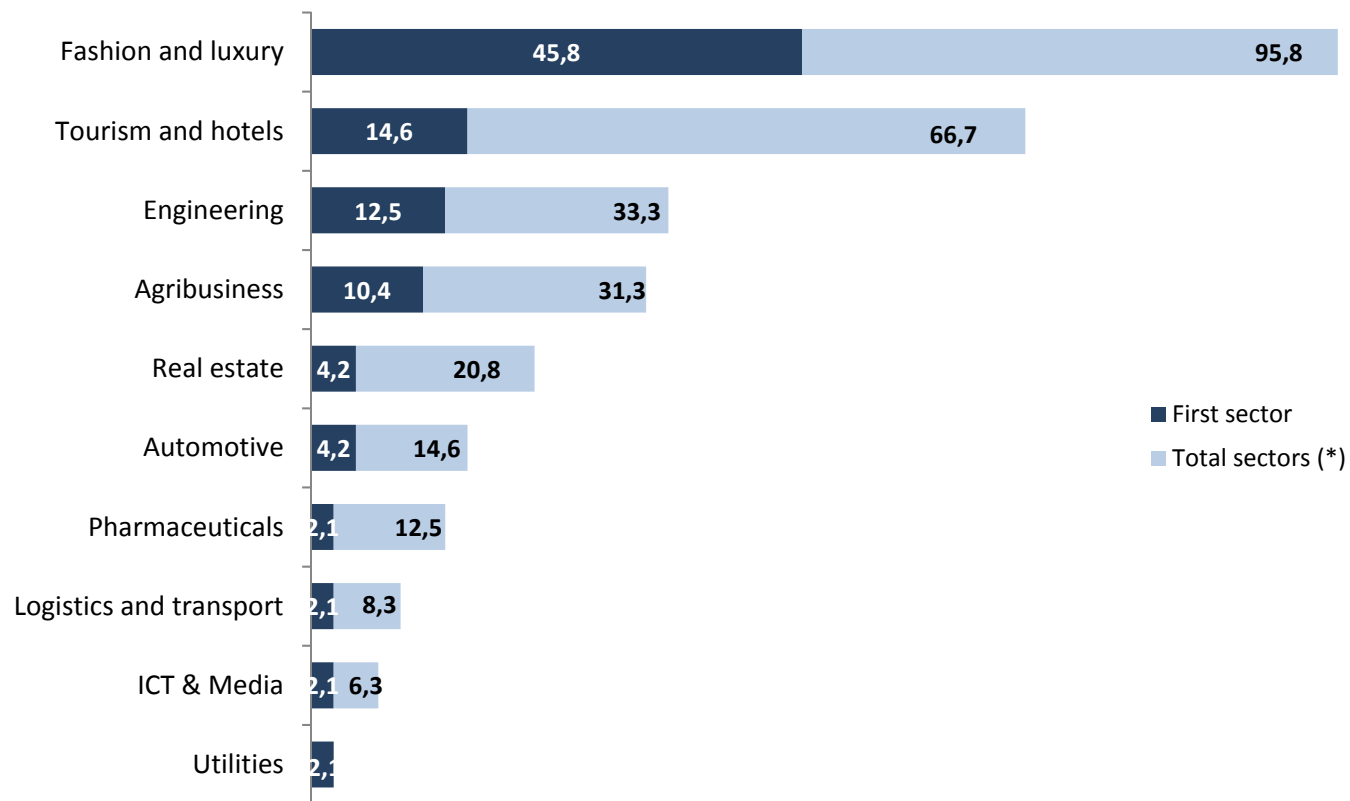
In keeping with the concentration of responses around the Fashion & Luxury sector, there is also the choice of the main factors that have guided, according to the Panel, the 200-plus takeover operations, with Italian companies acquired by foreign operators, carried out during 2018.

The prestige of "Made in Italy" and its brands, well-known all over the world, put this factor on top (answers with the highest score in 95.7% of cases, fig. 12), while recognition of the high quality of products and services offered is widely shared (91.5% of the total). Creativity, innovation and flexibility of organisational models are further qualities of the attractiveness profile for different sectors (80.9%).

On the other hand, the availability of qualified, low-cost personnel (54.3% of responses), a socio-cultural environment conducive to investments (41.3%) and governance models adopted by Italian companies appear to be less important in the ranking of the degree of relevance. This latter element obtains the lowest average score and the lowest percentage of responses (4.7 and 32.6% respectively).

The interest shown by the number of M&As in 2018 in Italy is consistent, net of the percentage of non-answers, corresponding to 41.2% (tab. 2), with the Panel's indications regarding the types of investments that should be deployed: a third of respondents agree on the choice of acquisition operations for productive activities already in place in Italy, since this type develops managerial experience in Italy and the potential of already known products.

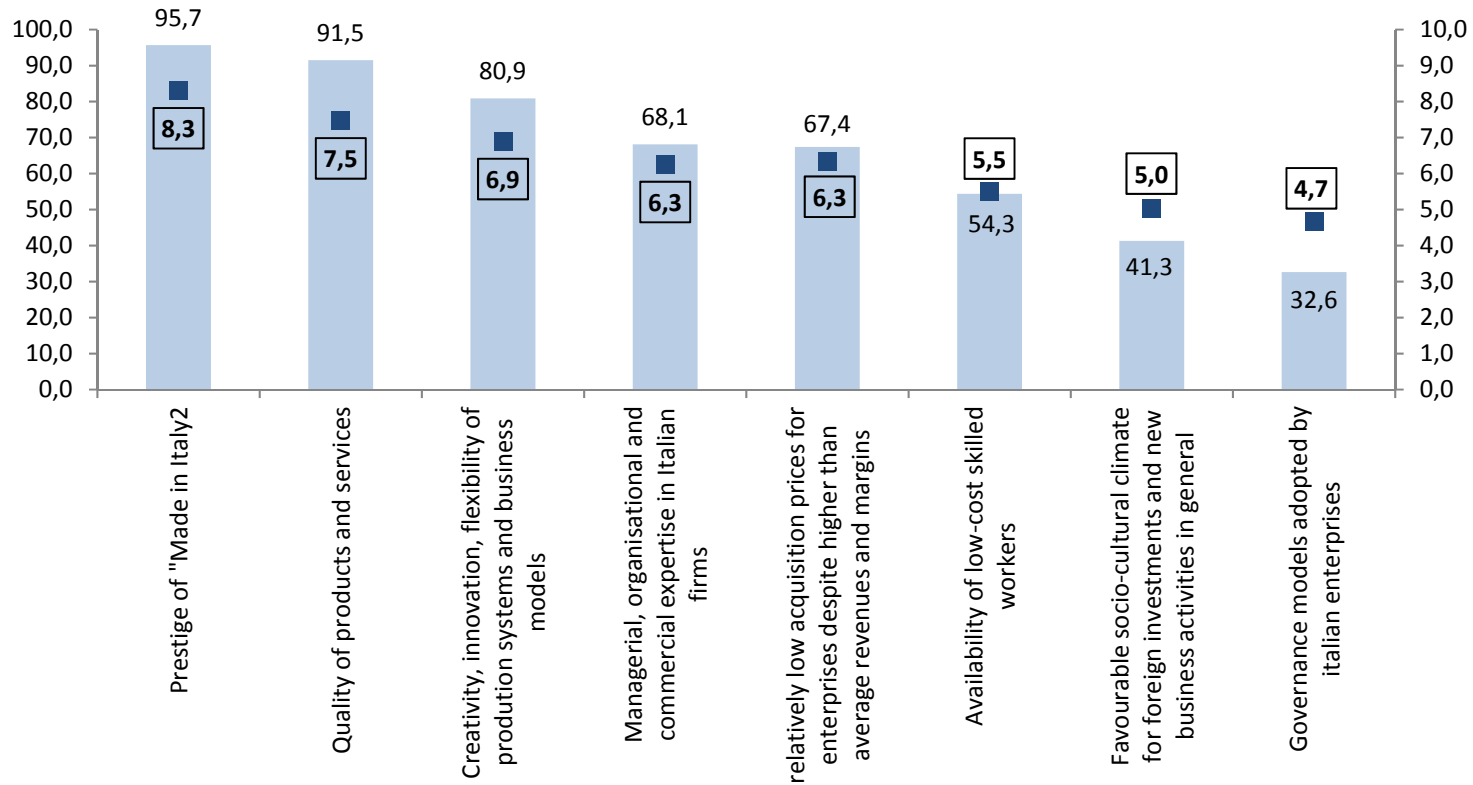
Fig. 11 – Most attractive production sectors in Italy (% val.)



(*) Up to 3 priority sectors could be given

Source: AIBE-Censis Survey 2019

Fig. 12 - Factors deemed to be crucial for the completion of over 200 M&A operations carried out in Italy by foreign operators in 2018
 (% val. and average values) (*)



(*) % of respondents giving a score from 6 to 10, where 10= very crucial (left axis).
 The points represent average scores (right axis)

Source: AIBE-Censis Survey 2019

The percentage of those who find it convenient to focus on *greenfield* initiatives (new plants, production facilities, establishment of foreign branches), which would allow investors to enhance their presence in a large market such as Italy, is more moderate, at 11.8%.

Following these indications, only 12% of the Panel sense a continuity of the positive investment trends posted in recent years, particularly evident in 2016 (tab. 3). In this case too there is a large percentage of non-responses, but apart from this fact, the most significant indication comes from 34% of respondents pointing out that in 2018 the positive trend was weaker.

Tab. 2 - Opinions on different types of investment in Italy and relative convenience (% val.)

It is convenient for foreign companies to carry out acquisitions, through share ownership, of pre-existing productive activities, since in Italy they develop managerial experience and the potential of ready-made, well-known products in markets (M&A)	33.3
It is convenient to focus on initiatives for new factories, production facilities or the establishment of foreign branches, since in Italy you are allowed to develop your presence in an advanced nation and a large market (<i>greenfield</i> investments)	11.8
Both types of investments produce modest results in Italy	9.8
Both types of investments produce positive results in Italy	3.1
No answer	41.2
Total	100.0

Source: AIBE-Censis Survey 2019

The opinions of the Panel regarding the potential attractiveness of Italy's economic and productive system in the domestic and international context are an essential complement for reconstructing a certain reference framework for external perception of Italy in recent months.

Tab. 3 - Continuity or otherwise of positive investment trends on the part of foreign multinationals during 2018 (val. %)

Yes, they continued during 2017 and 2018	12.0
Yes, but they have eased over the past year	34.0
No, 2016 results can be considered as exceptional	14.0
No answer	40.0
Total	100.0

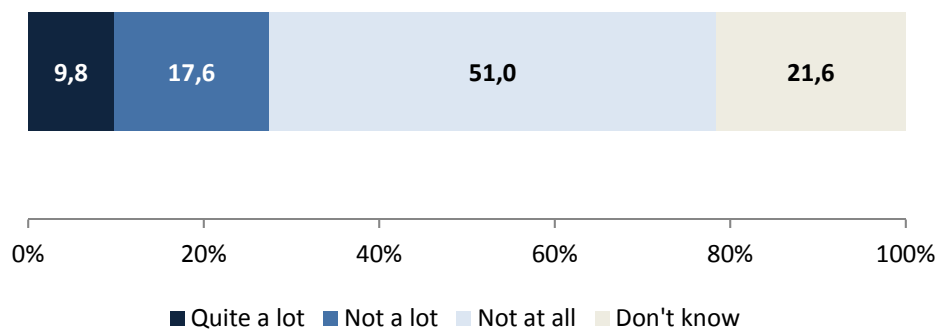
Source: AIBE-Censis Survey 2019

The Budget law, European elections and critical issues affecting the dynamics of the global economy place on three different but interconnected planes (national, European and international) the instruments and events that can affect the progress of the country's growth.

Risks and opportunities have arisen in the first few months of 2019, but expectations regarding the latest trends - from the Panel's perspective - revolve around three shared concerns:

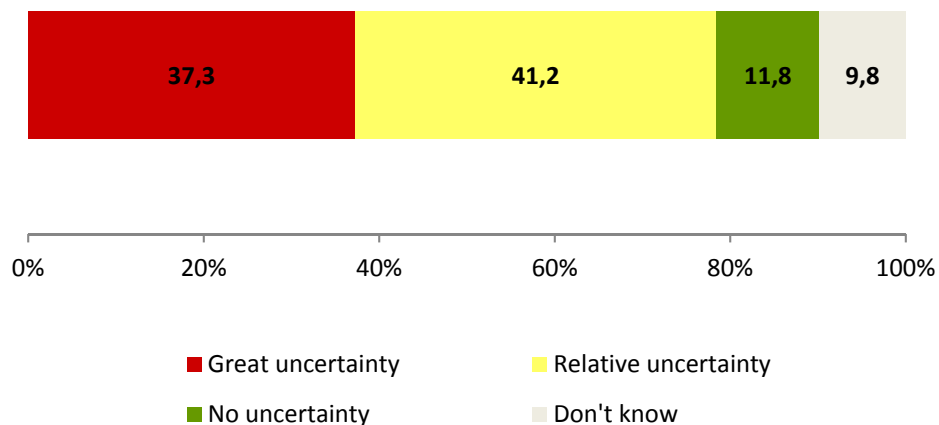
- the content of the Budget Law 2019-2021, the cornerstone of the Italian government's medium-long term vision, is not perceived as being decisive: only 9% of respondents see a positive contribution of the Law to increasing Italy's appeal to foreign investors (fig. 13), while more than half are clearly sceptical,
- on the other hand, there is a widespread feeling that the European elections could be a critical factor for investments in Italy: the area of uncertainty unites almost 80% of the answers, a sign that the next EU elections might be a watershed, capable of making a difference to the cost-effectiveness of investments from abroad (fig. 14);
- one of the events capable of adversely affecting Italy's growth is the slowdown in growth within the European Union, in particular in Germany (58.8%, tab. 4); the uncertain trends of the world economy - driven in recent years by powerful performances from China - are among the Panel's concerns (43.1%); Brexit and the trade war between the US and China likewise receive broad consensus.

Fig. 13 - Contribution of the Budget Law 2019-2021 to an increase in Italy's appeal to foreign investors (val. %)



Source: AIBE-Censis Survey 2019

Fig. 14 - Effects of the 2019 European elections on foreign investments in Italy (val.%)



Source: AIBE-Censis Survey 2019

Tab. 4 - Events that might happen in 2019 that might have a negative bearing on the Italian economy and growth potential (% val.) (*)

Slowdown in global growth and, in particular, in China	43.1
Slowdown in growth in the EU and, in particular, in Germany	58.8
Uncertainty caused by the contents of the Brexit Agreements	27.5
The continuing duties war between the US and China	25.5
The risks of a fall in stock prices on the world's main exchanges	15.7
Financial and currency tensions in more fragile emerging countries	3.9
Other	5.9

(*): More than one answer possible

Source: AIBE-Censis Survey 2019

Warnings indicated by the Panel are accompanied by suggestions on the priorities to be pursued to make Italy grow again, avoiding the risk of a new recession. Foreign investments obtained the greatest degree of consensus, with 33.3% of responses, followed by exports (centring on the Made in Italy brand), seen as another strong driving factor for growth (23.5%, tab. 5).

Another less supported indication from the Panel concerns domestic demand and household consumption: in the previous edition of the survey this item obtained more than 40% of the answers, in the present survey the share dropped to 21.6%. Only 7.8% of the Panel considered it important to act on the search for new business partners and new players in the world economy, which would make it possible to extend the framework of opportunities both in terms of trade and investments.

Tab. 5 - Priorities for Italy to grow again (val.%)

Boost domestic demand, especially household consumption (through bonuses, incentives, tax relief)	21.6
Intensify coordinated actions to attract foreign investments	33.3
Continue to focus on the <i>Made in Italy brand</i> and on export growth potential	23.5
To take advantage of the current situation of geopolitical instability by seeking agreements with new partners and new players worldwide	7.8
Other	13.7
Total	100.0

Source: AIBE-Censis Survey 2019

5. FINAL CONSIDERATIONS: FOCUSING ON FOREIGN INVESTMENTS TO RETURN TO GROWTH AND RESPOND TO THE UNCERTAINTIES OF 2019

In 2018 and the first months of 2019 there was a general deterioration in the way Italy is perceived by the AIBE Panel.

The signs of this changing vision of the country from an external perspective, compared with recent years, revolve around three main areas:

- a degree of scepticism emerges regarding the ability to continue the reform path undertaken in recent years: 72.9% of the Panel believe that Italy does not have a strategy capable of attracting foreign investments (50% in 2018), while the percentage of those wishing for a commitment to continue with extensive domestic reform programmes in areas including public administration, justice, taxation and digitisation is down on 2018 (52%, vis-à-vis 61.9%);
- critical judgements regarding the set of rules that impact on relations between businesses and the public administration remain unchanged, pointing to an absence of progress in the areas of taxation, civil justice and red tape. Compared with the past, there is more concern about political stability, which this year remains one of the priorities on which to act to improve the attractiveness of investments;
- the Panel also underlines the risks of uncertainty that can come from an external context (European and international) and that might adversely affect Italy's commitments to improving system performance. European elections, slowing growth in China and Germany and the Brexit issue have done nothing to raise Italy's growth expectations.

The most effective summary of the responses received in the 2019 survey is the reduction of the AIBE Index from 43.3 to 42.9 and, above all the 60.4% of responses considering Italy to be less attractive to foreign investors this year.

The degree of general uncertainty is therefore increasing, but in order to avoid another period of crisis for Italy, the Panel urges - more decisively than

in the past - use of the foreign investments lever which, for a production system like Italy's, has ample room for growth and new opportunities.