



**C E N S I S**

## **FIRST INSTANT SURVEY 2020**

### **The effects of Covid 19 on foreign investment in Italy**

**May 2020**

## 1. ECONOMIC SCENARIOS AND IMPACTS

According to estimates by the International Monetary Fund, published in the April World Economic Outlook, the World Product, after a rather limited growth in 2019 (2.9%), will suffer, due to Covid 19 and lockdown measures, an overall fall by 3%, followed by a 5.8% rebound in 2021.

The more advanced areas will bear a drop in product which will reach 6.1% this year, while the recovery in 2021 will stop at 4.5%. Emerging and developing countries will contain the negative impact in the order of one percentage point; the recovery for 2021 is instead estimated at over six percentage points.

Among advanced economies, the collapse of Eurozone activities in 2020 could mean a 7.5% reduction in output, while for the United States the reduction would not exceed six percentage points. In both areas, the recovery for 2021 would be around + 4.7%.

For Asia, the situation appears less dramatic: alongside still positive growth in 2020 (+ 1.0%), despite Covid, the product is estimated to increase by 8.5% in 2021, with an improve of over seven points.

The International Monetary Fund forecasts for Italy's gross domestic product report a reduction of 9.1% in 2020, a value higher than the collapse of the product in the aftermath of the financial crisis of 2009.

From a sectoral perspective, Istat (Central Institute of Statistics in Italy) observed, between March 2019 and March 2020, a drop in turnover of the Italian manufacturing sector equal to 25.1%. The sector's average figure is accompanied by a specific reduction which reached 40.2% for oil activities, 45.7% for transport, 43.1% for textiles and clothing and 32,6 for machinery.

Companies in the food industry and in the pharmaceutical sector, on the other hand, recorded a positive change in turnover (3.1% and 9.9% respectively)

## 2. FOREIGN INVESTMENTS, POLICIES AND RECOVERY TOOLS

The quick consultation of the AIBE Panel, carried out in early May, firstly concerned the impact of the pandemic on investment flows into and out of Italy. 38.8% of the responses focus on the belief that what can happen will be limited to a moderate outflow of capital pending a reopening of activities during 2020 (table 1).

Following this, around a third of the responses (32.7%) believe that the moderate flow of resources towards those sectors for which the pandemic has caused an increase in demand is credible: the pharmaceutical-medical supply chain and the food supply chain above all.

**Table 1 - "In your opinion, on the side of foreign investment in Italy, the Covid 19 emergency is leading to ..."** (val.%)

	%
A strong outflow of capital from Italy which reflects a lack of confidence in Italy's ability to recover its productive strength in the medium term	38,8
A moderate outflow of capital mainly focused in the sectors most exposed to the measures of restriction of production activities (automotive, hotels, logistics and transport, fashion system, real estate)	32,7
A moderate outflow of capital pending a recovery of production activities in a short time (within the current year)	16,3
A moderate inflow of capital towards the sectors for which the Covid 19 emergency has produced a strong increase in demand (e.g. pharmaceuticals, medical devices, food delivery)	12,2
Total	100,0

AIBE-Censis, 2020

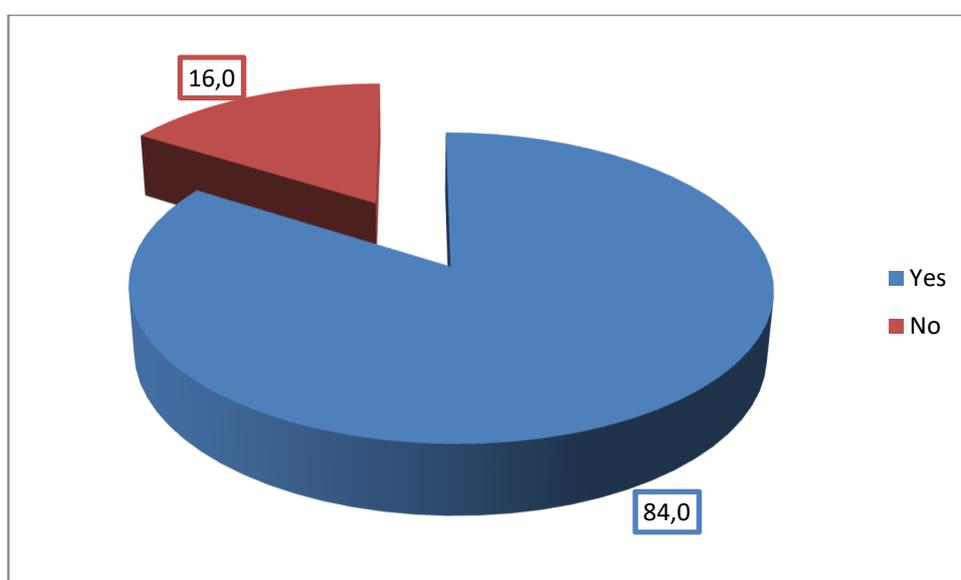
In general, the area of mistrust over the stability of the Italian economic system and the possibility of medium-term recovery of its productive strength is limited to 16.3% of the responses. A lower share (12.2%)



considers a capital outflow trend likely, especially in the context of the activities most severely affected by the lockdown.

As for the possibility of a sort of "shopping" for Italian companies at this stage, also favored by a greater weakness on the capitalization side, 84% of the responses believe that the hypothesis of the extension of control of companies Italians by foreign subjects is likely and therefore considers this situation profitable especially in areas of election of made in Italy, as a large part of manufacturing, agri-food, fashion (graph 1).

Graph 1 – *“Could the reduction in capitalization be an opportunity to extend control over Made in Italy companies (manufacturing, agri-food, etc.) and sectors with greater profitability in the Italian economic system?”* (val.%)



AIBE-Censis, 2020

The second part of the survey focused on the response capacity of the various countries to the spread of the contagion. The highest concentration of the Panel indications concerned Germany (93.2% of the Panel members), followed by South Korea (79.5%) and China (50.0%, graph 2).

Japan is more detached, indicated by 20.5% of respondents, while Spain and the United Kingdom were perceived by the Panel as the most ineffective. The ranking of countries ranked first in the ranking is slightly

different. In this case South Korea exceeds Germany by indications from the Panel (50% for the Asian country, against 27.3% for Germany (graph 3).

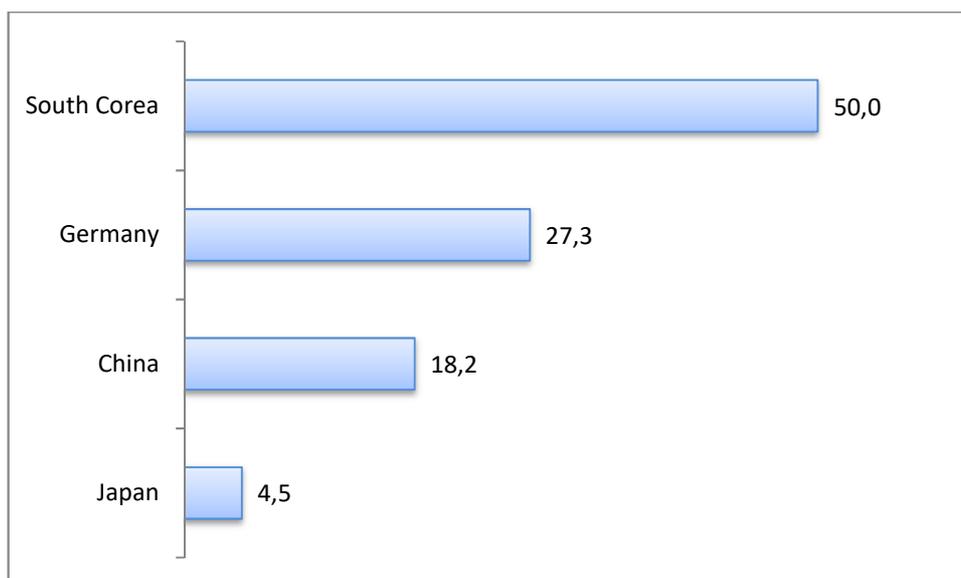
Graph 2 – *“In your opinion, which of the following countries has so far fielded the overall strategy and the most effective measures to counter the economic and social impact of Covid 19 and safeguard the capacity of firms?”* (val.%)



(\*): three possible answers

AIBE-Censis, 2020

Graph 3 – “In your opinion, which of the following countries has so far fielded the overall strategy and the most effective measures to counter the economic and social impact of Covid 19 and safeguard the capacity of firms?” - First country indicated, in order, by the AIBE Panel (val.%)



AIBE-Censis, 2020

As part of the policies implemented by the European Union for emergencies, 58% of the Panel members consider Eurobonds useful, but also indicates the need for this tool to be supported by other devices (table 2). The rest of the Panel responses are distributed equally across the other three items (14.0% for each).

From a transversal reading of the responses, an opening to the use of the tool emerges, while the area of exclusion a priori of the Eurobonds remains rather limited.

A fair degree of confidence to support the recovery phase in Europe is instead assigned to the MES (European Stability Mechanism). 34.7% of the responses consider the use of the ESM useful, while about a third of the Panel draws attention to the potential for intervention that is conferred on the European Investment Bank (table 3).

Table 2 – *“In Europe, the discussion is on the need to issue, for the first time, EU bonds to share the debt in order to support the phase of “economy recovery”. Italy, Spain and France are favorable; other Northern European countries (including Germany and the Netherlands) do not. Do you consider it a necessary tool?”* (val.%)

	%
No, there are other tools that can be used	14,0
Not necessary, but desirable	14,0
They are useful but together with other tools	58,0
Yes, absolutely necessary to allow the most vulnerable countries not to further increase the debt	14,0
<b>Total</b>	<b>100,0</b>

AIBE-Censis, 2020

Table 3 – *“What would be, in your opinion, other tools to support the recovery phase?”* (val.%)

	%
EMS (European Stability Mechanism)	34,7
Greater ECB intervention in the purchase of public debt securities (QE)	24,5
Elimination of part of the debt held by the ECB	10,2
Greater intervention by the European Investment Bank (EIB)	30,6
<b>Total</b>	<b>100,0</b>

AIBE-Censis, 2020



### 3. KEY FINDINGS

- Despite the strong exposure of Italy to contagion and the severe configuration of the lockdown decided for the economy, the Panel as a whole avoids drastic judgments and evaluations on the possibility of recovery of Italy considers physiological an outflow of capital from the country, and it is waiting for a recovery within the year (38.8%).
- The Panel confirms the change in the conditions of access to the capital of Italian companies, given the reduction in capitalization, but in the face of profitability levels guaranteed by the leading Made in Italy sectors (84%).
- The Panel does not indicate Italy among the most effective countries in contrasting the spread of contagion and in limiting the economic impact, but relies on the tools that the European Union is putting in place to overcome in a shared way all the difficulties that they occur in the restart and recovery phase (yes to Eurobonds but together with other tools for 58% of the Panel);
- The Panel trusts in the "extraordinary application of conventional instruments" to support the recovery (utility of the ESM for 34.7%), noting however the role of investments and that of the European Investment Bank called to manage this fundamental tool of recovery (30, 6%).