



**C E N S I S**

**The international positioning of Italy, reforms and  
foreign investments in order to manage the crisis**

***INSTANT SURVEY 2022***

***Panel AIBE – AUTUMN 2022***

**November 2022**

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## 1. UNCERTAINTY DOMINATES THE WORLD ECONOMY AGAIN

The year 2022 can be remembered as the year of “great uncertainty”.

After a 2021 that had partially moderated the fears of the global pandemic and had brought back to normal the growth prospects in a large part of the world economy, the Russian-Ukrainian war, unleashed at the beginning of this year, has in fact “frozen” the positive expectations developed during the 2021. More specifically, the war amplified the difficulties in the supply chains and in the availability of raw materials between the last months of 2021 and the short period before the start of the conflict. Furthermore, it has forced western economies to impose economic sanctions that had a strong impact on international trade and it has also conditioned the energy market by increasing oil and gas prices, provoking an inflationary process with far-reaching effects on consumption and international trade.

The most recent data of the International Monetary Fund bring the change in world trade to 2.5% in 2023, after having recorded a rise of 10.1% in 2021 and of 4.3% in 2022 (tab. 1).

**Tab. 1 – The slowdown of the global trade and the effects on exports and imports for advanced and emerging economies. 2021-2023** *(percent change compared to the previous year)*

Indicators	2021	2022	2023
World trade	10.1	4.3	2.5
Export			
Advanced economies	8.7	4.2	2.5
Emerging countries	11.8	3.3	2.9
Import			
Advanced economies	9.5	6.0	2.0
Emerging countries	11.8	2.4	2.0

Source: Censis' calculations on IMF data

In advanced economies, exports are still expected to grow in 2023, even though the increase is much lower than that recorded in 2021 (+8.7%) and than that is expected for this year (+3.2%).

Similarly, the growth of exports in the emerging countries goes from +11.8% in 2021 to +2.9% in 2023.

As a consequence, there is a reduced growth both worldwide and in the main economies. In the first case, the International Monetary Fund brings the change in world GDP to 2.7% in 2023, that of advanced economies to 1.1% and that of the emerging economies to 3.7%. Among these, China should grow by 4.4% (it was 8.1% in 2021, but still recovering in 2023 compared to 2022), India by 6.1% (-0.7% in 2023 compared to 2022, tab. 2).

**Tab. 2 – Growth risks stalling: the change in GDP in advanced and emerging economies. 2021-2023** *(percent change compared to the previous year)*

Economic areas	2021	2022	2023
<b>World</b>	6.0	3.2	2.7
<b>Advanced economies</b>	5.2	2.4	1.1
<b>United States</b>	5.7	1.6	1.0
<b>Euro Area</b>	5.2	3.1	0.5
<b>Germany</b>	2.6	1.5	-0.3
<b>France</b>	6.8	2.5	0.7
<b>Italy</b>	6.6	3.2	-0.2
<b>United Kingdom</b>	7.4	3.6	0.3
<b>Emerging countries</b>	6.6	3.7	3.7
<b>China</b>	8.1	3.2	4.4
<b>India</b>	8.7	6.8	6.1

Source: Censis' calculations on IMF data

The situation of the western world is more critical: in the Euro Area, the fear of recession is present once again, with Germany and Italy which could experience a reduction in 2023 of -0.2% and -0.3% respectively in the gross domestic product achieved in 2022.

With regards to Italy, the latest forecast data, subsequent to those published by the Fund, record a growth, even if contained but still positive, for 2023 (+0.6% in the Update of the 2022 Economic and Finance Document; +0.3% according to the macroeconomic forecasts of the Bank of Italy).

This does not mean that the real factor of the current uncertainty lies behind the data relating to the evolution of inflation and its persistence over the next year.

On a global level, the Monetary Fund expects an increase of 6.5% on price level for 2023, contained among the advanced economy countries, more sustained in the so-called “emerging” countries (8.1%).

However, the peak of inflation should be limited to 2022, the year in which the strong increases in the oil price and raw materials recorded in 2021 were transmitted to the whole economy (+65.9% and +26.3% respectively, tab. 3), although the characteristics of this inflation allow a partial reabsorption of the general price level during the 2023.

**Tab. 3 – The rise in oil price and raw materials: the effects on inflation. 2021-2023** (percent change compared to the previous year)

Indicators	2021	2022	2023
Oil price	65.9	41.4	-12.9
Raw materials	26.3	7.3	-6.2
Global inflation	4.7	8.8	6.5
Advanced economies	3.1	7.2	4.4
Emerging countries	5.9	9.9	8.1

Source: Censis' calculations on IMF data

In this context dominated by uncertainty, the Association of the Foreign Banks in Italy has considered it appropriate to collect the opinions of its representatives of the international financial community, selecting three areas of particular interest for the evolution of the Italian economy, and in particular:

- the present and future positioning of Italy in the changing geopolitical conditions caused by the current energy crisis and, mostly, by the Russian-Ukrainian war;
- the most appropriate strategies that Italy can and must adopt in order to limit the impact of the crisis;
- the most effective actions to ensure that foreign investments can continue to consolidate and contribute to the future growth of Italy.

For each of these three points, the representatives were asked to express the degree of agreement on specific items that suggest alternative scenarios, also asking to indicate, for the strategies and actions to be adopted, the order of priority and, therefore, the degree of importance of each item.

The starting of a new legislature with the appointment of the new government represents an opportunity to establish a qualified dialogue on some of the most important issues that affect the return to growth for Italy and that guide the perception of the international financial community towards our economy.



## **2. THE POSITIONING OF ITALY IN THE CONTEXT OF THE NEW GEOPOLITICAL CONDITIONS**

Among the many effects that the war in Ukraine has producing, there is also a reflection on the security' degree of energy supplies, on the possibility of easily accessing raw materials, on the availability of supplies necessary for production processes.

The issue of dependence by other countries – and the ways to avoid or contain this dependence – has taken over, overshadowing the benefits of free exchanges in the world trade. The term “de-globalization” has begun to circulate insistently, as well as the spread of initiatives of “relocation” and proposals aimed at strengthening economic relations between “friend shoring” countries.

Italy is a strongly export-oriented country and in recent years it has not only consolidated trade relations with the main European countries (traditional outlet of Italian products and place of origin of many imported goods, products and services), but it has also progressively extended the destination area of its own products to North America and to the rest of the world.

Nevertheless, Italy is also a country highly dependent on foreign countries for energy supplies. Consequently, the situation of the war has highlighted, for Italy, the risks that could arise from a reduction in the levels of trade on a world level and from a “regionalization” of trade. At the same time, the war has emphasized the importance, for Italy, of belonging to a strong and integrated area such as the European Union.

Starting from these premises, the first area of reflection submitted to the Panel of representatives concerned the positioning of Italy in the context of the new geopolitical conditions caused by the ongoing war.

Most of the respondents agree on strengthening the role that Italy can play in the framework of the European Union, favouring joint initiatives with the other European countries (71.2% is “much agree” while 18.6% is “quite agree”, tab. 4).

**Tab. 4 – The positioning of Italy in the context of the new geopolitical conditions determined by the Russian-Ukrainian war (percent value)**

<i>Positioning</i>	<b>Much agree</b>	<b>Quite agree</b>	<b>Disagree</b>	<b>Disagree at all</b>	<b>Total</b>
Italy is a founding country of European Union and therefore must consolidate its role, working with other European countries to strengthen European Union	71.2	18.6	8.5	1.7	100.0
Italy is a manufacturing country and therefore must develop all the initiatives to facilitate free international trade	49.2	37.3	10.2	3.4	100.0
Italy is an independent country and therefore must consolidate its role in Mediterranean area, favouring economic and political relations, that can strengthen its leadership in the area	30.5	37.3	23.7	8.5	100.0

Source: AIBE-Censis survey, 2022



Instead, the orientation towards the freely acting in the international context is more blended. On this point, 49.2% and 37.3% of respondents declared themselves “much agree” or “quite agree” with the possibility of developing initiatives in favour of a wider participation in world trade, especially in manufacturing products.

Also the third item receives a certain degree of consensus, although more limited than the previous ones: 30.5% and 37.3% of the respondent are “much agree” and “quite agree” with the hypothesis of greater integration with the Mediterranean countries.

The responses to this last item underline, in any case, the importance of the role of economic leader that Italy can assume in relation to areas with a high potential for future growth.



### 3. THE STRATEGIES TO MITIGATE THE IMPACT OF THE CRISIS

The critical conditions that have arisen since the pandemic, and now due to the war, are particularly complex for Italy. The high public debt and the degree of dependence on foreign energy supply reduce the room for manoeuvre to be used in order to contain the effects of the crisis.

For this reason, the Panel of representatives was asked to indicate the most urgent strategy or, at least, the most appropriate one for govern this phase.

The majority of the Panel particularly agreed on these issues:

- the priority of the reformation of the public administration, justice, taxation and competition ("much agree" for the 71.2% of the Panel);
- the need to facilitate administrative and bureaucratic procedures for making investments aimed at the energy transition ("much agree" for the 64.4% of the Panel);
- the effort in implementing the Next Generation EU even involving private funds in common developing projects ("much agree" for the 50.8% of the Panel, tab. 5).

Below 50% of the responses relating to the "much agree" modality, it is possible to find the other two items concerning:

- the transfers to companies and households to allow them to fully operate ("much agree" for the 42.4% of the Panel);
- the containment of public debt (control of pension expenditures, spending review) in order to create funds for reducing the tax burden and administrative costs on companies ("much agree" for the 40.7% of the Panel).

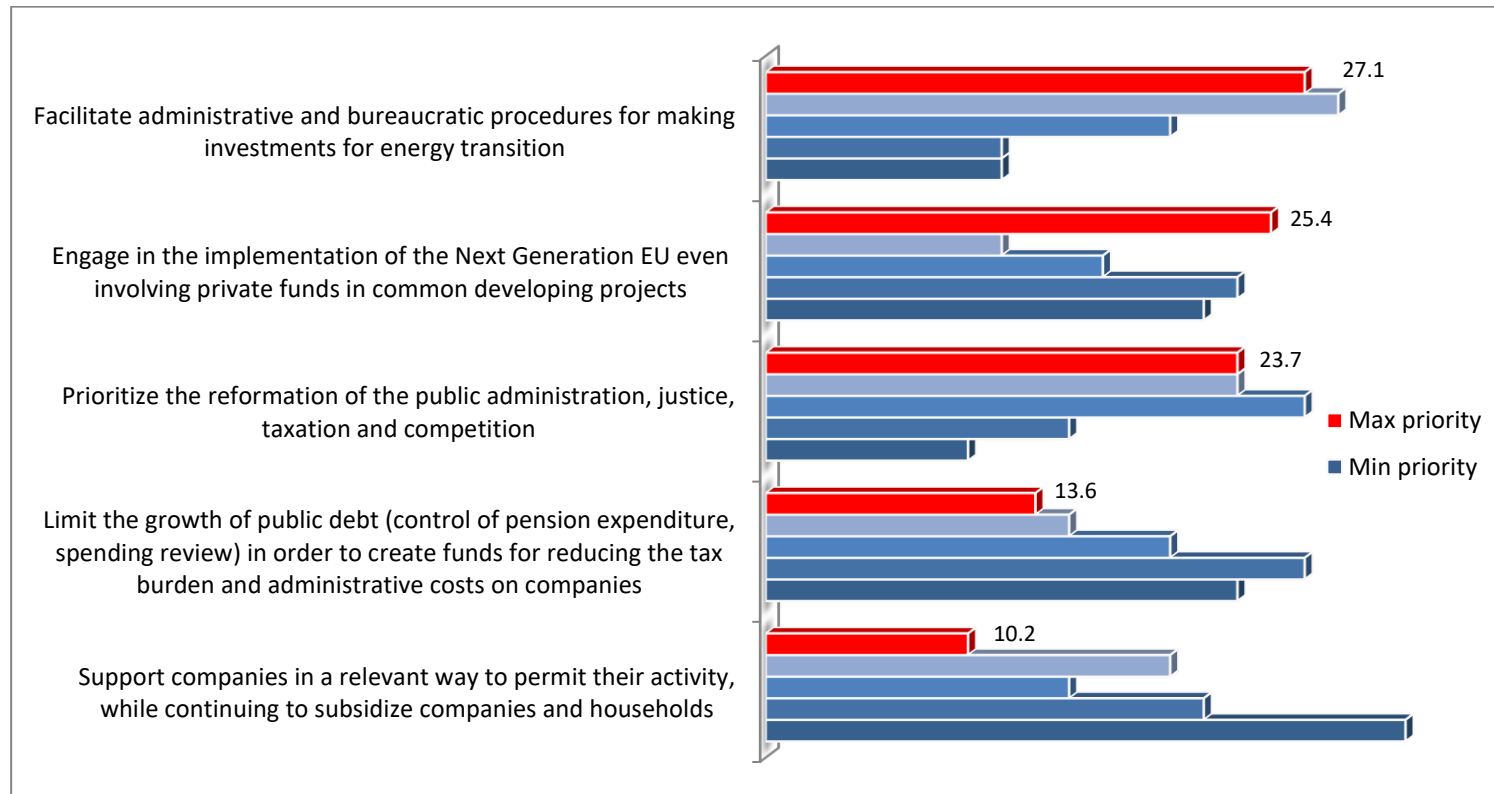
The degree of highest priority is assigned by the Panel to initiatives aimed at reforming public administration, justice, taxation and competition. Following, there is the need to reduce bureaucratic constraints that could make difficult the energy transition (fig. 1).

**Tab. 5 – The strategies to mitigate the impact of the crisis, considered the debt constraints and energy dependence (percent value)**

<i>Strategies</i>	<b>Much agree</b>	<b>Quite agree</b>	<b>Disagree</b>	<b>Disagree at all</b>	<b>Total</b>
Prioritize the reformation of the public administration, justice, taxation and competition	71.2	22.0	6.8	0.0	100.0
Facilitate administrative and bureaucratic procedures for making investments for energy transition	64.4	33.9	1.7	0.0	100.0
Engage in the implementation of the Next Generation EU even involving private funds in common developing projects	50.8	42.4	6.8	0.0	100.0
Support companies in a relevant way to permit their activity, while continuing to subsidize companies and households	42.4	44.1	13.6	0.0	100.0
Limit the growth of public debt (control of pension expenditure, spending review) in order to create funds for reducing the tax burden and administrative costs on companies	40.7	54.2	5.1	0.0	100.0

Source: AIBE-Censis survey, 2022

**Fig. 1 – Degree of priority assigned by the AIBE Panel to strategies to mitigate the impact of the crisis, considered the debt constraints and energy dependence (percent value)**



Source: AIBE-Censis survey, 2022

#### 4. THE FLOW OF FOREIGN DIRECT INVESTMENTS

The third area of reflection submitted to the Panel concerns foreign direct investments in Italy and the initiatives that can be taken to increase flows, especially considering the importance they play for the Italian economy.

The consistency of foreign investments in Italy reached, at the end of 2021, 549 billion euros, which, compared with the GDP of the same year, represent the 30.8%.

Furthermore, after 2020, the incoming foreign direct investments has once again recovered (+8.5 billion euros), partially offsetting the reduction in stocks recorded in the year of the Covid-19 pandemic (-24 billion euros).

The majority of the Panel (66.1%) agree in taking initiatives aimed at increasing foreign investment flows if focused on (tab. 6):

- the simplification of laws, their drafting and the related implementation processes, ensuring continuity of the rules over time;
- the reorganization of the incentive tools in order to facilitate the entry of foreign capital in medium and small companies that are competitive on international market and are oriented toward technological innovation.

In terms of priorities assigned by the Panel, the need for regulatory simplification emerges from all the measures taken into consideration and, following this, there is the urgency of a reorganization of incentives for productive establishment (fig. 2).

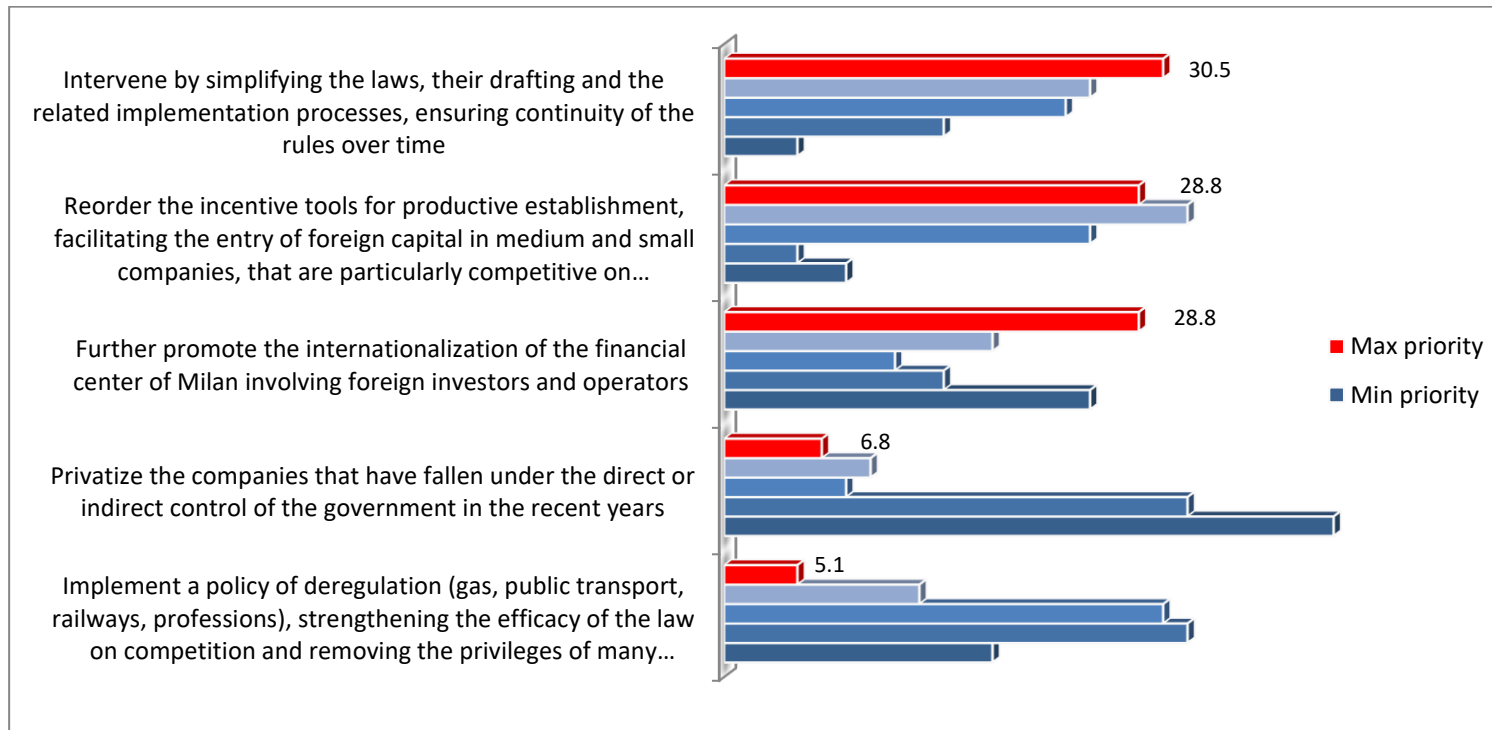
Also the possible action that promotes the internationalization of the financial center of Milan is considered very relevant (“much agree” for the 52.5% of the Panel) while the implementation of a policy of deregulation on specific sectors (such as gas, public transport, railways, professions) record lowest values (25.4% “much agree”, 59.3% “quite agree”).

**Tab. 6 – Actions for increasing the flow of foreign investments in Italy (percent value)**

<i>Actions</i>	<b>Much agree</b>	<b>Quite agree</b>	<b>Disagree</b>	<b>Disagree at all</b>	<b>Total</b>
Intervene by simplifying the laws, their drafting and the related implementation processes, ensuring continuity of the rules over time	66.1	30.5	3.4	0.0	100.0
Reorder the incentive tools for productive establishment, facilitating the entry of foreign capital in medium and small companies, that are particularly competitive on international market and oriented towards technological innovation	66.1	30.5	3.4	0.0	100.0
Further promote the internationalization of the financial center of Milan involving foreign investors and operators	52.5	44.1	3.4	0.0	100.0
Implement a policy of deregulation (gas, public transport, railways, professions), strengthening the efficacy of the law on competition and removing the privileges of many professional categories	25.4	59.3	13.6	1.7	100.0
Privatize the companies that have fallen under the direct or indirect control of the government in the recent years	15.3	45.8	35.6	3.4	100.0

Source: AIBE-Censis survey, 2022

**Fig. 2 – Degree of priority assigned by the AIBE Panel to actions for increasing the flow of foreign investments in Italy (percent value)**



Source: AIBE-Censis survey, 2022

Analysing the degree of agreement, the lowest position is taken by the item concerning the privatization of all those companies that in recent years have fallen under the direct or indirect control of the government (only 15.3% of the Panel affirm to be “much agree”).

In terms of priorities to be assigned to actions in favour of foreign investments, the greatest importance is attributed to regulatory simplification, followed by the reorganization of incentives for productive establishment and the promotion of the financial center of Milan.





## **5. THE NEW GOVERNMENT AND THE EXPECTED SIGNAL FROM THE INTERNATIONAL FINANCIAL COMMUNITY IN ITALY**

In Italy, the current context seems to be characterized by a partial exit from the health emergency, by a strong geopolitical uncertainty due to the ongoing war between Russia and Ukraine, and by the start of a phase of inflation, mainly generated by high energy costs.

While on the first side we can rely on the emergency control capacity, properly tested in the last two years, on the other two sides there are critical elements that the new government must necessarily face with responsibility and immediate responsiveness.

From this perspective, the following considerations should be highlighted:

- The international financial community looks to Italy trusting in the stability of the country's fundamental assets, such as institutional solidity, the presence of growth and recovery opportunities even in the face of an unexpected crisis phase, the importance of the country both in terms of international trade and of political and economic relations with other countries.
- It emerges the importance that foreign investments assume in terms of stability of the Italian economy, growth opportunities of the Italian production system, value of the exchanges, support in spreading innovation and in strengthening the competitive capacity of companies.
- Several government choices will be able to facilitate Italy's recovery path and may favour the positive evaluation, by international operators, of the opportunities that Italy presents as a destination for productive investments.

Starting from these considerations emerged by the discussion within AIBE, it is useful to indicate some concrete objectives that the international financial community expects to be pursued by the new government. In order to achieve these objectives, the Community present in Italy offers a full availability in collaborating.



Given the priorities indicated by the AIBE Panel, the issues that requires a specific attention are the following:

1. Privilege Italy's commitment in supporting European institutions and in collaborating with the other European countries, pursuing greater internal integration and working to ensure that the Union can continue to act as a world leader, both in the economic and in international relations field;
2. Strengthen the initiatives already in place (reported in the PNRR as part of the Next Generation EU objectives) to improve the level of efficiency of the public administration, to favour the fulfilment of reforms (justice, taxation, competition), to support investments able to guarantee the energy transition;
3. Implement a clear and decisive plan of regulatory simplification, giving, at the same time, stability and continuity to the rules, rearranging the incentive tools for productive establishment, facilitating the entry of foreign capital into medium and small Italian companies.