Associazione Italiana Banche Estere

CENSIS

SECOND INSTANT SURVEY 2020

The effects of Covid 19 on Foreign Investment in Italy

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1. FOREWORD: RECOVERY EXPECTATIONS AND SECOND WAVE

In the spring of this year, during the “lockdown”, we started the first round of the AIBE Panel to get direct indications on the impact of the pandemic for Italy and its ability to attract foreign investments.

Among the various considerations, some observations of great interest emerged from the survey, and, in particular:

- the finding of an after all physiological level of capital outflows from the country, pending a recovery within the year, so as not to support the hypothesis of massive disinvestments;
- the change in the conditions of access to the capital of italian companies, given the reduction in capitalization, but in the face of levels of profitability, guaranteed by the leading sectors of made in italy;
- the central role of the tools deployed by the European Union - the Commission and the European Central Bank - to push the restart and recovery phase.

Six months later, in the midst of the "second wave", the health and economic situation reached, compared to expectations, a worrying scale, in line with the less optimistic forecasts.

Today Italy has exceeded one million infections and the whole territory is subjected to restrictive measures, with particularly high degrees of limitation in six regions and an autonomous province. As we write, the hypothesis of a total lockdown, extended to all regions, is being strengthened. At the same time, the signals coming from the Italian economy, beyond temporary rebounds, remain conditioned by measures such as the blocking of dismissals for companies, the massive use of redundancy fund, and by phenomena such as the further reduction of private demand, the difficult recovery of many sectors, the ineffectiveness of measures that are objectively biased towards the logic of bonuses and compensations.

In spring, the challenge of "taking time", through the provision of direct transfers (to families, businesses, professionals, self-employed) pending the end of the contagion, is now being repeated in the same way; but in the meantime, the time horizon for a hypothetical exit from the contagion is already in the winter months, if not beyond.

And the pace of the "time of hope" now chooses to follow the moment when the vaccine will be available and can be massively distributed.

Therefore, the uncertain phase made it more than appropriate to choose to involve the participants in the AIBE Panel six months later.

This was done by partly resuming the themes of the survey made in the spring and, at the same time, re-establishing the current analysis with the in-depth path on foreign investments in Italy, proposed in the past four editions of the collaboration between AIBE and Censis.

In this second survey, there is no lack of analysis of the factors that guide - or condition - investment decisions in Italy, as well as the trend of the AIBE Index of Attractiveness for our country, also assessed by the Panel in this difficult year.

And, alongside the reconstruction of the forecast growth framework for the current year and for the next few years - referring both to Italy and to the other economic areas - it was decided to know the opinions of the Panel on investment flows, on the final effects of the measures implemented by the Italian government in recent months, on the perception of the role of the state in the Italian economy, in light of the emergency measures to support businesses.

Finally, an attempt was made to suggest the framework of priorities that Italy should follow in the preparation of the National Recovery and Resilience Plan, giving a contribution by the Panel to identifying the most effective choices in the use of financial resources, planned and allocated by the European Union.

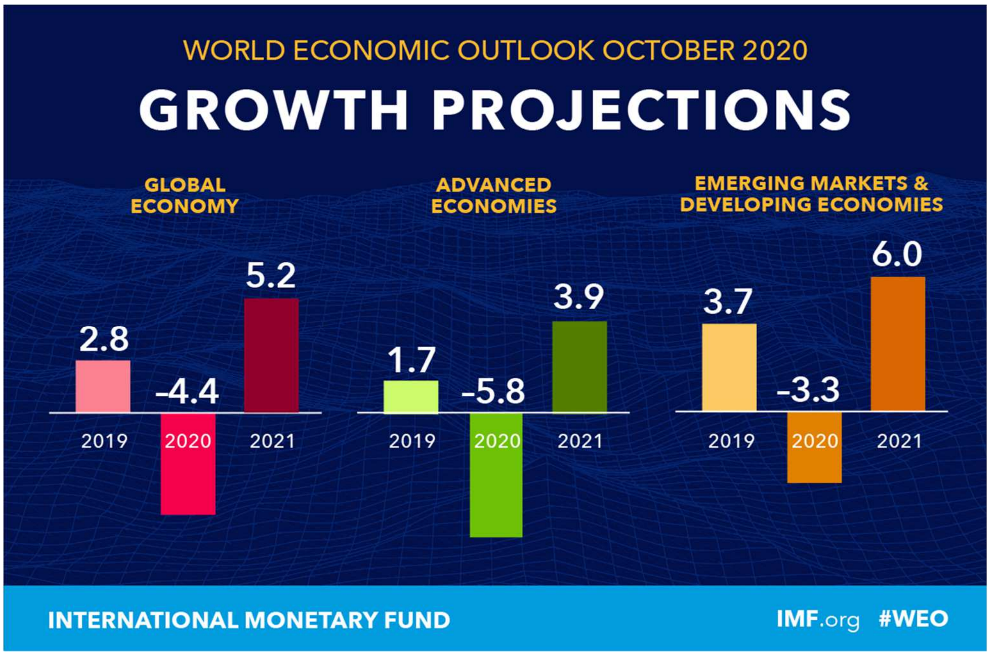
2. THE ECONOMIC OUTLOOK

The prolongation of the health emergency, the repercussions on an economic level, the extension of the regulatory technical times are fueling the uncertainty of the medium-term scenarios at all levels.

National, european and international financial institutions and agencies continue to modify, correct and reverse the growth estimates for 2020 and 2021. The exercise is not easy, given the continuous evolution of the contagion phenomenon and its effects .

In October, the International Monetary Fund published the autumn outlook, indicating the fall in GDP worldwide at 4.4 percentage points and the rebound for 2021 at 5.5 points (Fig. 1). The recovery in 2021 by emerging countries is strong (+ 6.0%), also in the face of a more contained reduction in output in 2020 (-3.3%) compared to advanced economies (-5.8%).

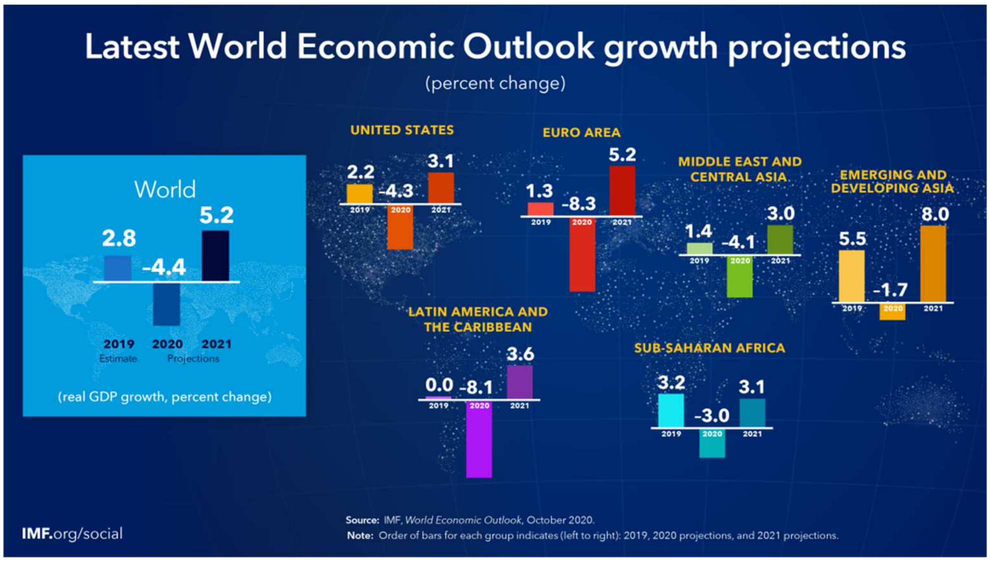
Fig. 1 - The forecasts of the International Monetary Fund in the October outlook, global level, advanced economies, emerging markets and economies. 2019-2021 *(% var.)*



In detail of the economic areas, a more severe impact of the crisis is observed during this year for the countries of Latin America (-8.1%), while in the Asian area a recovery is expected for 2021 around eight points and, therefore, with a "rebound" compared to 2020 of almost 10 percentage points (Fig. 2).

The two Western economies examined - the United States and the Euro Area - show non-aligned performances, with a greater capacity for the United States to absorb the shock in the two-year period 2020-2021.

Fig. 2 - The forecasts of the International Monetary Fund in the October outlook for economic areas. 2019-2021 *(% var.)*



The International Monetary Fund estimates a reduction in 2020 GDP of over 8% for the Euro Area and a return to growth in 2021 at a rate of 5.2%.

These data do not differ much from those compiled by the ECB experts. According to the team's assessments, the Euro Area will suffer an 8% reduction in GDP, while the partial recovery in 2021 will amount to 5 points (tab. 1). Only in 2022 will it be possible to make up for the product share lost in 2020 (+3.2%).

Looking at the other variables, the ECB Experts report an alert regarding the labor market in the Euro Area, in which the unemployment rate in 2022 will still remain higher than in the period before the crisis and the employment level will not succeed, in the medium term, to recover the losses (+ 0.1% in 2021, + 1.3% in 2022, against the decrease of 2.3% in 2020).

Tab. 1 - Euro Area Forecasts, assessments by ECB Experts. September 2020 (val.% and var.%)

	September 2020 (var.%)			
	2019	2020	2021	2022
Real GDP	1,3	-8,0	5,0	3,2
Private consumption	1,3	-8,0	5,9	3,4
Public spending	1,8	1,7	1,7	1,0
Gross fixed investments	5,0	-12,3	6,3	6,1
Exports	2,5	-13,7	7,4	4,5
Imports	3,9	-11,7	7,0	5,0
Employment	1,2	-2,3	0,1	1,3
Unemployment rate	7,6	8,5	9,5	8,8
Public debt (% GDP)	84,0	100,7	100,0	98,9
Deficit (% GDP)	2,7	2,0	2,6	2,6

ECB

The forecasts relating to investments and trade are more positive: in the first case, the fall of 12.3% this year should be offset by two consecutive years of growth with rates of over six percentage points; in the second case, the performance of supply and demand on world markets would find almost complete compensation, compared to 2020, in the following two years.

The Italian situation is more difficult than in the rest of the Euro Area.

From the forecasts on gross domestic product, stated by various institutions and agencies, first of all arises a greater severity of the impact of the crisis: International Monetary Fund and the OECD foresee a double-digit reduction (respectively -10.6% and -10.5%, tab. 2).

But even the European Commission, in its most recent Gdp estimate, stops at just one tenth below the 10% threshold.

Of the same opinion Consensus Economics (-9.9% in 2020), which for 2021, indicates a growth of 5.3% and for 2022 an increase of 2.8%, two tenths of a point higher than that indicated by the Monetary Fund and four tenths more than reported by the Commission and the Bank of Italy.

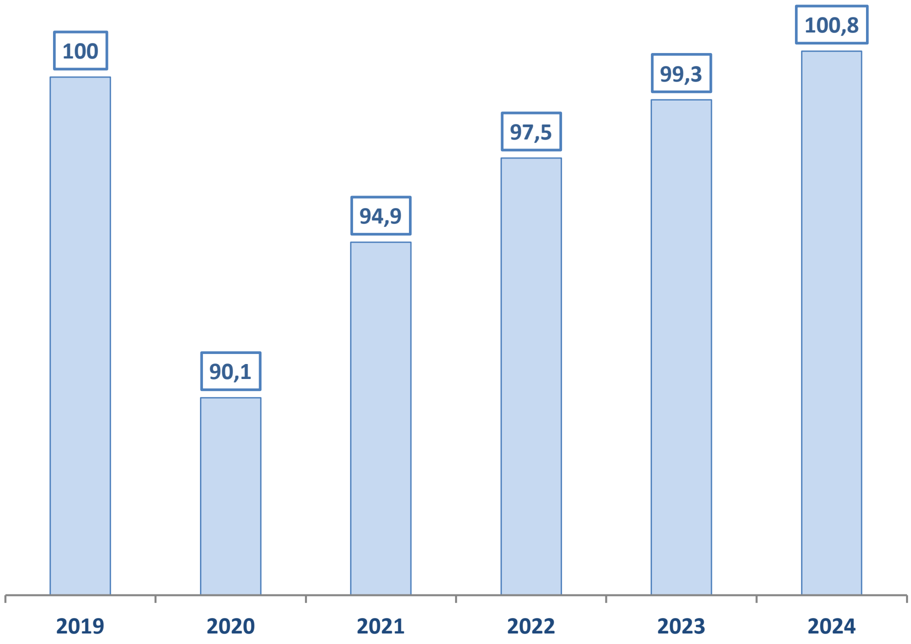
Consensus Economics also foresees a full recovery of GDP for Italy, to the levels of 2019, only in 2024 (Fig. 3). After last year's GDP value is 100, it will essentially take at least four years to be able to return to the situation prior to this year's health emergency.

Tab. 2 - Forecasts on Italy's GDP for 2020 and 2021, according to some *international institutions (% change over the previous year)*

	2020	2021	2022
European Commission (november)	-9,9	4,8	2,4
Bank of Italy (july)	-9,5	4,8	2,4
IMF (october)	-10,6	5,2	2,6
OECD (september)	-10,5	5,4	n.d.
Consensus Economics (october)	-9,9	5,3	2,8

Bank of Italy

Fig. 3 – Italy: the recovery of 2019 GDP only in 2024. Index numbers, 2019 = 100. Years 2019-2024



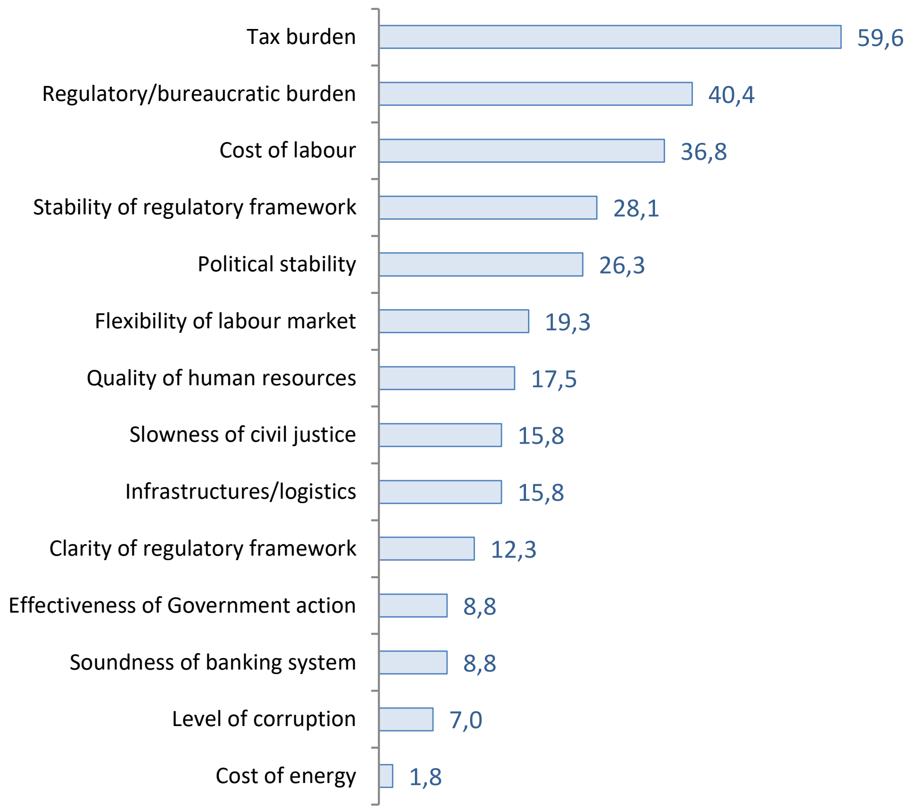
Consensus Economics

3. FOREIGN INVESTORS BET ON THE *NEW NORMAL*

After the consultation in May of this year, for the second round of surveys, the usual analysis of the factors that guide foreign investors in investment decisions was re-proposed to the AIBE Panel; this was followed by an in-depth study on the impact of the health emergency.

In general, among the factors that guide the choices of a foreign investor, the main attention is attributed to the tax burden (59.6% of the answers) and, secondly, to the regulatory and bureaucratic burden (40,4%) and labor costs (36.8%, Figure 4).

Fig. 4 - Factors that a foreign investor considers when deciding in which country to invest *(val.%, multiresponse)*



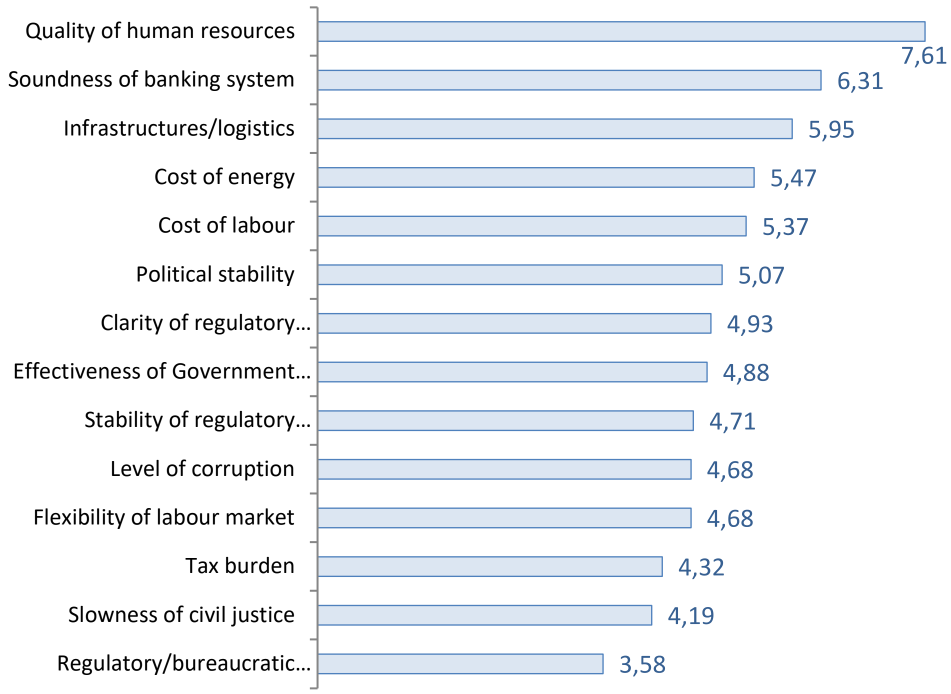
AIBE-Censis, 2020

Factors such as the certainty of the regulatory framework (28.1%) and the political stability of the country subject to the investment decisions are not far behind.

A relief of less than 10% of the Panel's responses is instead attributed to the solidity of the banking system and the effectiveness of government action (both with 8.8%) and, subsequently, to the level of corruption (7.0 %) and costs associated with energy (1.8%).

Moving from the general level of decisions that guide investments to the specific level of the factors that the Panel considers relevant for the Italian context, and attributing an average value between 1 and 10 to the most attractive factors, it emerges that in Italy what is most appreciated they are the quality of human resources (with a value of 7.61 out of 10), the solidity of the banking system (6.31) and the infrastructural and logistics networks (5.95, fig. 5).

Fig. 5 - Factors for which Italy is attractive to a foreign investor by aspect analyzed *(1 = not at all attractive and 10 = very attractive; average values)*



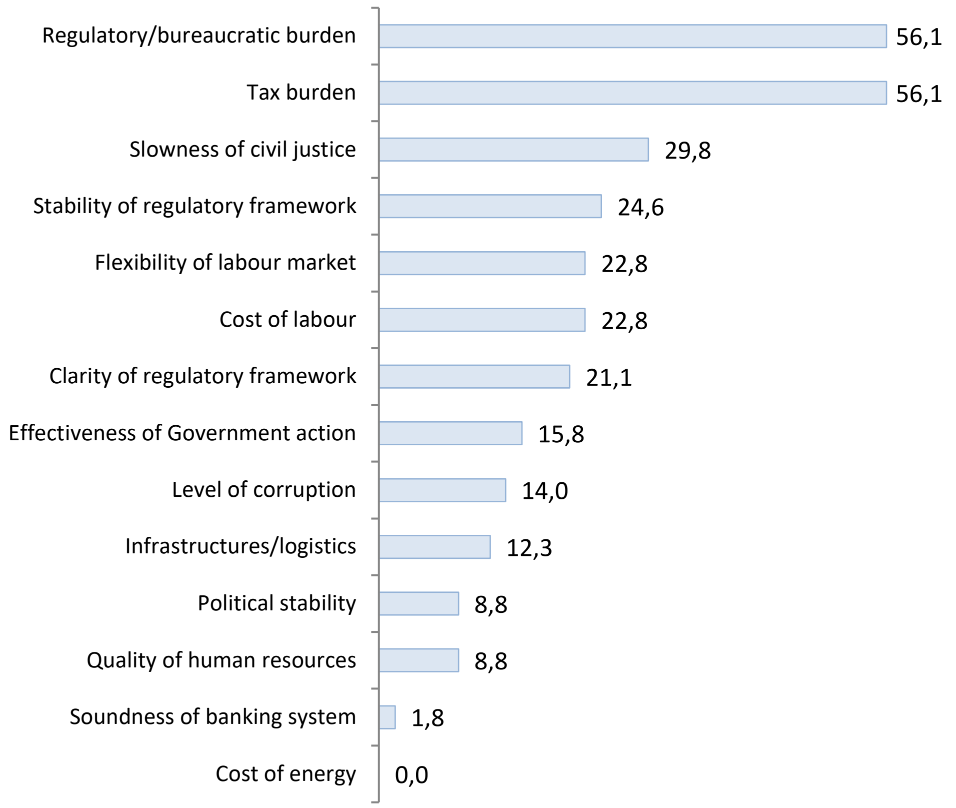
AIBE-Censis, 2020

Italy would not be attractive - again according to the Panel's opinions - especially with regard to the tax burden (4.32), the slowness of civil justice (4.19) and the regulatory and bureaucratic burden (3.58).

By relating the general factors that guide investment decisions and the factors that contribute to Italy's attractiveness, an element can be seen, confirmed by the indications of the Panel regarding the priorities for action to be put in place for Italy to improve its degree of attraction.

Alongside the consideration assigned to the tax burden and the regulatory and bureaucratic burden (the main priorities indicated by the Panel with 56.1% of the answers), the timing of civil justice is indicated (29.8%, fig. 6).

Fig. 6 - Factors on which Italy should act as a priority to improve its ability to attract foreign investments *(% val., multiresponse)*

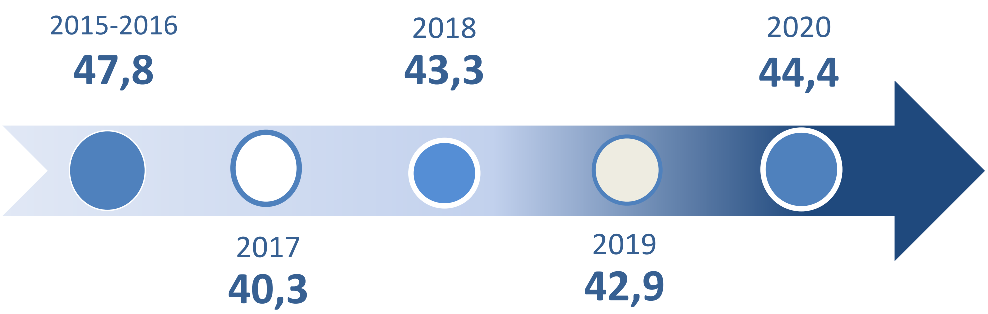


AIBE-Censis, 2020

Certainty of the regulatory framework, labor costs and flexibility of the labor market in any case collect responses of more than 20%.

With a subsequent elaboration, based on the transversal reading of the various responses of the Panel, the value of the AIBE Index was identified for this year, which reaches 44.4 against 42.9 in 2019, a figure this second only to that recorded in the period 2015-2016 (fig. 7).

Fig. 7 - AIBE Index - Synthetic Index of Attractiveness of the Italian system, 2015-2020



AIBE-Censis, 2020

Going into the details of the effects of the pandemic on investment decisions affecting Italy, 50.0% of the responses of the Panel foreshadow a moderate outflow of capital in the short-medium term, according to a precautionary logic and pending a clearer evaluation of the effects of the Second Wave currently underway (table 5)

For 23.2% of the responses, one could instead expect a moderate inflow of capital, especially towards those production sectors that have experienced strong domestic demand as a result of the pandemic, such as pharmaceuticals, medical devices, food distribution.

Less likely the option of a sharp outflow related to uncertainty in global demand (17.9%) and one associated with the leverage of the EU resources made available to counter the economic impact and relaunch the country (8.9 %).

Tab. 5 - Question: **"In your opinion, on the side of foreign investments in Italy, the Covid 19 emergency may involve ..." (% val.)**

Item	%
A moderate outflow of capital pending the effects of the Second Wave of the spread of the virus in Italy (within the current year and early months of 2021)	50,0
A moderate inflow of capital to sectors for which the Covid 19 emergency has produced a sharp increase in domestic demand (eg: pharmaceuticals, medical devices, food distribution	23,2
A strong outflow of capital from Italy due to the strong uncertainties in world demand and the recovery times of the major advanced countries	17,9
A strong inflow of capital, thanks to the huge resources made available for Italy by the Recovery Fund and other European Union financing instruments	8,9
Total	100,0

AIBE-Censis, 2020

Another aspect taken into consideration in the autumn survey is given by the judgment on the action taken by the Italian government to counter the effects of the pandemic.

The Panel's assessment, regarding the contents of the various law decrees that have followed one another in recent months, highlights above all the fact that measures such as the blocking of dismissals and the extension of the measures to integrate workers' income, have only delayed the inevitable effects of the economic and production crisis (37.0%, tab. 6).

Tab. 6 - Question: **"In your opinion, the set of measures implemented by the Italian Government in these months of crisis (Decrees “Cura Italia”, “Rilancio”, “Agosto”, etc.) have a final effect mainly achieved? (val.%)**

Item	%
They only delayed the real effects of the economic and production crisis, which will explode once the period of suspension of layoffs and extension of the redundancy fund is over	37,3
They have reduced the liquidity crisis of companies, avoiding the end of activities	23,7
They just paid cash transfers to households (bonus), without solving the social problems caused by the crisis and wasting a huge amount of resources	22,0
They have reduced the risks of social unrest by compensating for the income reductions suffered by many families	16,9
Total	100,0

AIBE-Censis, 2020

On the other hand, 23.7% of the responses recognized the importance of measures aimed at preventing the closure of businesses due to the liquidity crisis resulting from the fall in demand and the restrictions imposed by the containment of the contagion.

A share of more than one fifth of the answers indicates the effect of dispersion of resources according to a logic of pure monetary transfer, without obtaining results to counter the growing social unease; rather, 16.9% recognized the government and its measures as having a positive effect against the risks of social tension.

Another topic addressed in the autumn survey highlighted the possible drift of extension of the presence of the state in the Italian economy.

This drift would be hidden above all behind the support measures for businesses and, in particular, for those operating in strategic sectors such as infrastructures, transport and networks.

39.0% of the Panel does not consider this situation exceptional, which is actually also characterizing the action of other governments and, moreover, does not fear a fall in the appeal of Italy as a destination country for foreign investments (tab. 7).

The 30.5% of the Panel thinks differently but does not associate this drift of intervention in the economy with a prejudice in the degree of attractiveness, given the provisional nature of the measures.

The percentages of those who emphasize the need for such interventions are lower (15,3%). Another 15.3% of the answers stated instead that these measures will affect the recovery and the economic role of multinationals in Italy.

Tab. 7 – Question: "**The set of measures, to support businesses and strategic sectors (infrastructure, transport, Alitalia, fiber optics, etc.), implemented by the Italian government in these months of crisis have extended the presence of the state in the country's economy. Do you think this undermines Italy's appeal as a country of destination for foreign investments?**" *(val.%)*

Item	%
No, other countries, faced with the economic emergency, have also adopted similar measures without putting at risk the attractiveness of foreign investments	39,0
Yes, but these are in any case temporary measures and do not put at risk the attractiveness of foreign investments in the medium to long term	30,5
No, these are necessary measures to strengthen the production system and infrastructural networks	15,3
Yes, and this will affect Italy's resilience and the role of foreign multinationals in creating gross domestic product	15,3
Total	100,0

AIBE-Censis, 2020

Finally, referring to the still not fully defined contents of the Italian Recovery and Resilience Plan, the Panel supports the need to give priority to digitization, innovation and competitiveness programs of the Italian production system and then, to the strengthening of human capital through investments in education, training, research and culture (tab. 8).

Alongside this, the profile of things to do is articulated, firstly, on the ecological transition and on health and, secondly, on the improvement of the infrastructural system linked to mobility and, finally, on the need to address the issue of greater social equity, while reducing gender and territorial inequalities.

Tab. 8 – Question: ***"In your opinion, on which priorities, among those listed below, should the National Recovery and Resilience Plan for Italy necessarily focus?"*** *(In order of priority, using a scale of 1 to 6, where 1 = highest priority and 6 = lowest priority)*

Order of priority	Item
1°	Digitization. innovation and competitiveness of the production system
2°	Education, training, research and culture
3°	Green revolution and ecological transition
4°	Salute
5°	Mobility infrastructure
6°	Social, gender and territorial equity

AIBE-Censis, 2020

4. KEY FINDINGS

The second survey of the AIBE Panel, carried out six months after the first and on the basis of the experience gained in this phase, offers some additional information on the degree of attractiveness of Italy and on crisis management.

In the background, one cannot fail to place the forecast framework regarding Italy and the gross domestic product, which admit a greater severity of the impact of the crisis:

- The International Monetary Fund and the OECD foresee, for 2020, a double-digit reduction in GDP (-10.6% and -10.5% respectively);
- The European Commission stops at just one tenth below the 10% threshold. Consensus Economics (-9.9% in 2020), which for 2021, indicates a growth of 5.3% and for 2022 an increase of 2.8%, of the same opinion;
- Consensus Economics foresees a full recovery of GDP for Italy, to the levels of 2019, only in 2024.

From this perspective, the suggestions of the Panel take on particular significance, which converge mainly, and in line with past surveys, on the need to deal with those factors that not only appear disincentive in decisions to invest in Italy, but which risk heavily affecting the possibilities of recovery in the coming years:

- Tax burden (56.1% of answers), regulatory and bureaucratic burden (56.1%), slowness of civil justice (29.8%) remain at the top of the Panel's recommendations on the basis of which to intervene to improve the ability to attraction of investments;
- Certainty of the regulatory framework, labor costs and flexibility of the labor market in any case collect shares of responses exceeding 20%.

The trend of the AIBE Index of Attractiveness of the Italian System, which arises from the weighted processing of the Panel's responses, can be taken as an overall evaluation figure: this year the Index rises to 44.4, with an increase of one and a half points compared to 2019 and also higher than the values of 2018 (43.3) and 2017 (40.3).

On the specific level of crisis management and government action in recent months, the responses of the Panel point out the risk that measures such as the blocking of layoffs and the extension of the measures to integrate workers' income, could only delay the inevitable effects of the economic and production crisis (37.3% of the Panel).

At the same time, the Panel does not believe in the danger of a drift towards centralization and greater intervention by the state in the economy, as some measures to support businesses and, in particular, those operating in strategic sectors such as infrastructure, transport, networks.

39.0% of the Panel does not consider this approach exceptional, which, in reality, is also characterizing the action of other Governments.

Furthermore, the Panel is not afraid of a fall in the appeal of Italy as a country of destination for foreign investments, although it foresees a moderate outflow of capital in the short-medium term, according to a precautionary logic and pending a clearer assessment of the effects of the Second Wave (50.0% of the Panel).

Finally, looking at the coming years and the recovery programs financed with European Union resources, the Panel hopes for greater concentration on interventions that have as their objective the digitization, innovation and competitiveness of the production system.

The second priority is the strengthening of human capital through actions aimed at education, training, research and culture, while the third priority area is considered necessary to encourage the green revolution and ecological transition.

In brief, one cannot fail to emphasize a justified caution in expressing strong positions towards Italy and the final impact of the pandemic.

However, there is a certain degree of confidence in Italy as a country of destination for foreign investment, a sort of bet on the country's ability to face the "new normal", once the pandemic is defeated.