



C E N S I S

AIBE-INDEX OBSERVATORY

2ND INSTANT SURVEY 2021

**Recovery and resilience under the lens of foreign
investors**

AUTUMN 2021

november 2021

Summary

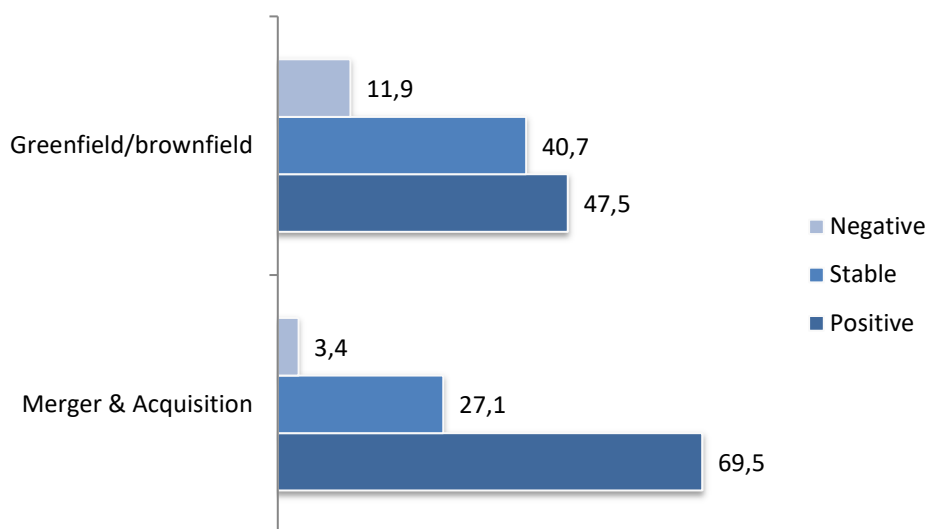
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1. OUTLOOK FOR FOREIGN INVESTMENT IN ITALY

From the responses of the AIBE Panel, interviewed in October and early November, the confirmation of a positive sentiment towards Italy and the potential for attracting foreign investments emerges.

Projected over the three-year period 2022-2024, the positive expectations concern in particular the type of investment aimed at mergers and acquisitions, with 69.5% of the responses outlining a promising scenario (Fig. 1). Only 3.4% of the Panel appears pessimistic, while 27.1% foresees a sort of continuity with respect to the years immediately preceding the three-year period.

Fig. 1 - Outlook 2022-2024 on foreign investments in Italy, by type of investment (% val.)

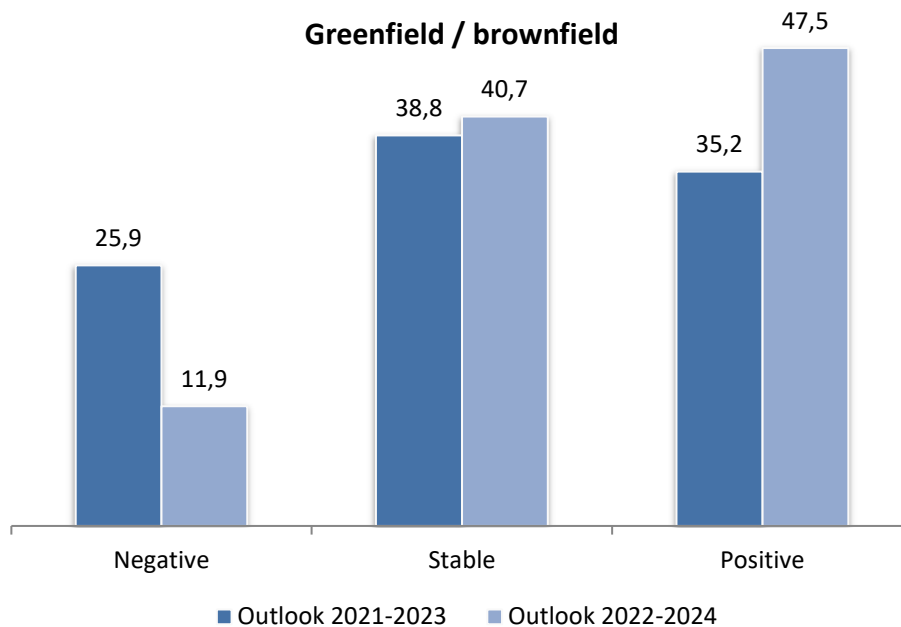


Source: AIBE-Censis survey, 2021

The tendency to bet on an encouraging scenario in the case of new investments appears to be more contained (establishment of new factories or conversion of existing ones). The percentage of those who choose the positive option does not exceed half of the answers, although it is just under 50% (47.5%). Slightly lower is the share of those who expect a stable trend of these investments (40.7%), while the area of "skepticism" on "greenfield / brownfield" investments in the coming years is 11.9%.

The comparison between the opinions expressed by the Panel at the time of the first Survey of this year (April-May) and the current ones, signals a consolidation of the forecast favorable to the expansion of greenfield or brownfield investments, with an increase of more than seven points in the share. And, conversely, a contraction - from 25.9% in May to the current 11.9% - of those who foresee a negative trend (Fig. 2).

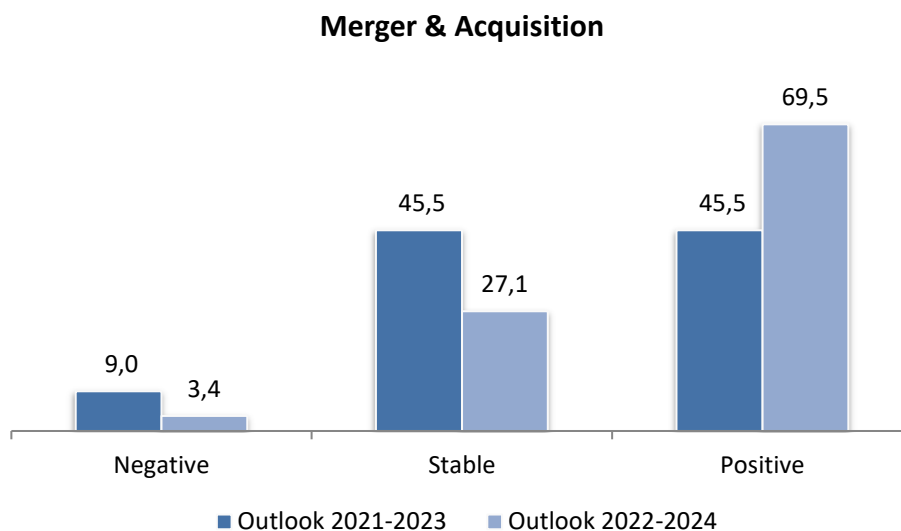
Fig. 2 - Greenfield / brownfield investments: comparison of outlook 2021-2023 and 2022-2024 in the spring and autumn surveys (% val.)



Source: AIBE-Censis survey, 2021

The gap between those who foreshadowed a growth in investments in mergers and acquisitions in the period 2021-2023 in the spring and those who today formulate their own positive forecasts for the period 2022-2024 are even more pronounced: the share of "optimists", over the six months, it extended to 69.5% of the Panel, with over twenty-two points more than in the previous survey (Fig. 3).

Fig. 3 - Merger & Acquisition Investments: comparison of outlook 2021-2023 and 2022-2024 in the spring and autumn surveys (% val.)



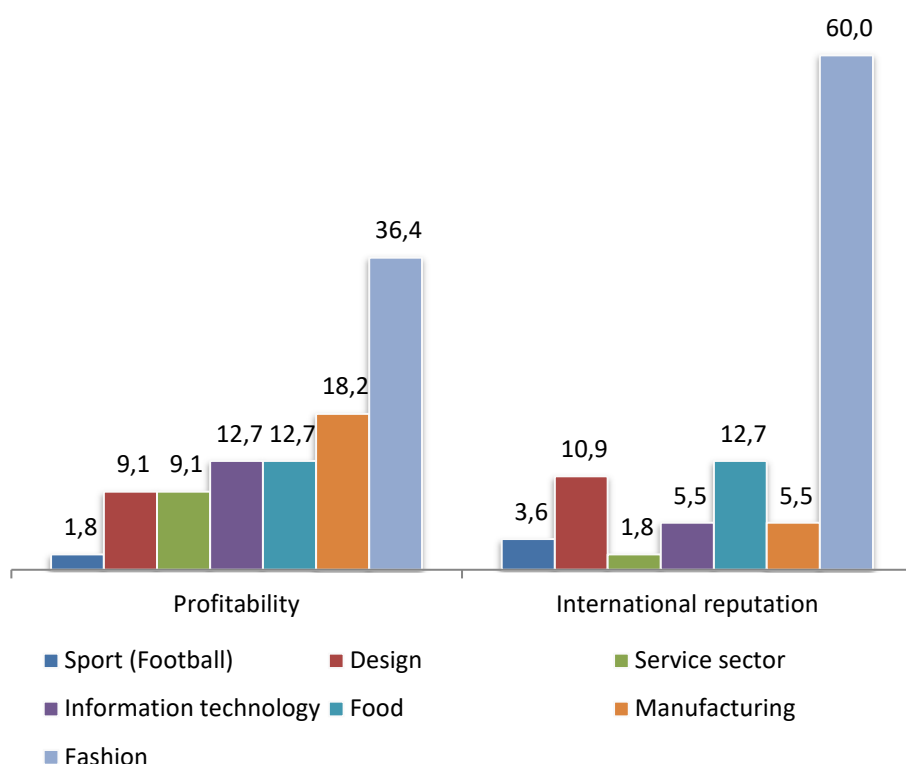
Source: AIBE-Censis survey, 2021

In the case of acquisitions, the Panel then expressed its opinion on the degree of attractiveness of the various production sectors in relation to profitability and international prestige.

Considering the first choice of the Panel out of three possible answers, the Fashion sector prevails, around which 36.4% of the indications are concentrated, if we look at profitability, and 60.0% of the answers if the evaluation takes into account consideration of international prestige (Fig. 4).

From this last point of view, the evaluations expressed indicate in the Food and Design the sectors that have, after Fashion, the highest international prestige (respectively 12.7% and 10.9%), while in terms of profitability, if Fashion is excluded, it is the manufacturing sector that receives the greatest consensus (18.2%), followed by Food and Information Technology (both with a 12.7% response rate).

Fig. 4 - The most attractive sectors in Italy in terms of profitability and international prestige, in the event of an acquisition (val.%) (*)



(*): first sector in order of indication

Source: AIBE-Censis survey, 2021

Considering the complex of possible answers - and therefore a maximum of three for each panel member - the order of attractiveness based on the potential for economic return still envisages Fashion in first place, followed by Food and Design with percentages that amount to starting from 60.0% (fig. 5).

From the perspective of international prestige, in addition to the three sectors mentioned and the manufacturing sector, a certain degree of attractiveness is also attributed to Italian sport (in particular to Football) according to what emerges from 16.5% of the answers.

Alongside the type of investments and their possible destinations, the Survey then broadened the horizon of the assessment in order to identify the drivers of foreign investment in Italy for the near future.

Out of seven factors brought to the attention of the Panel, the rapid start of the Recovery Plan is indicated in first place, followed, in second place, by the implementation of reforms such as those dedicated to the Public Administration and Justice (Tab. 1).

The third factor in order of importance is the stability of the government.

Among the other factor:

- the creation of public-private partnerships to make investments in the field of infrastructure;
- the release of layoffs, a factor that has some positive effects of the pandemic on employment, even if it delayed the adaptation initiatives of enterprises to the changed economic and productive situation.

There is also a tendency for the Panel to consider integration with European partners on strategic sectors more relevant, also by strengthening the privileged relationships with France and Germany, rather than following the path of trade agreements with China.

Tab. 1 - The factors that could push foreign direct investments in Italy in the coming months, improving the country's appeal. Ranking

Ranking	Push factors
1st	Quick start of the public investment plan (foreseen by the Italian National Recovery and Resilience Plan and financed by the Next Generation EU)
2nd	Implementation of the reforms undertaken (eg Public Administration, Justice)
3rd	Stability of Government
4th	Greater integration with European partners, in particular with France and Germany, on strategic sectors
5th	Creation of public-private partnerships for the realization of investments in infrastructures
6th	Definitive release of layoffs, even for the sectors most affected by the crisis
7th	Development of trade agreements with China

Source: AIBE-Censis survey, 2021

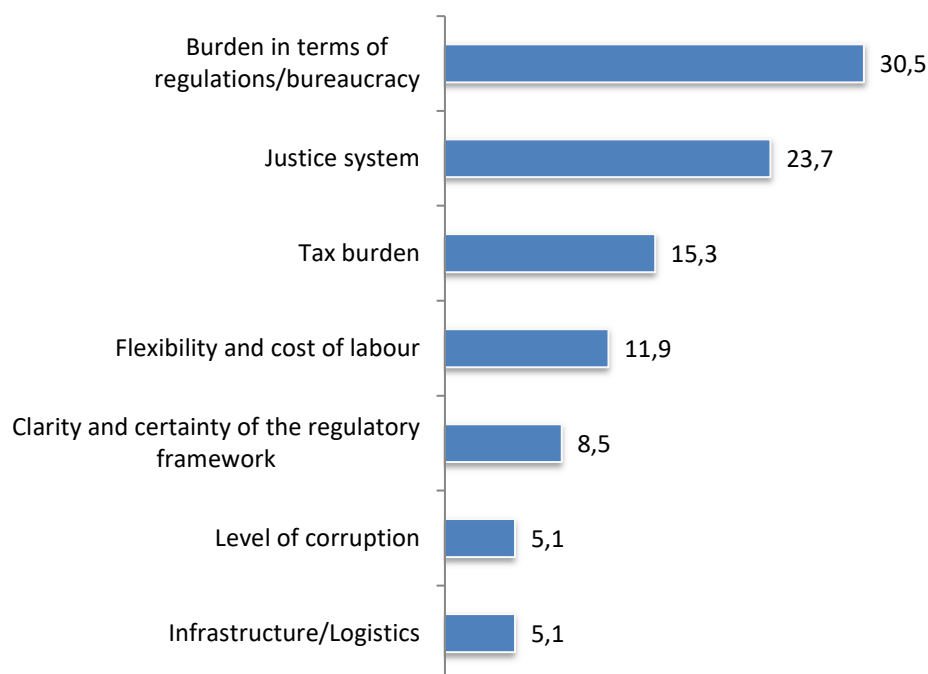
2. THE PRIORITY OF REFORMS

Alongside the contextual factors - economic and political - that could improve Italy's appeal for investors, it remains central to analyze the factors that structurally represent elements of weakness at the system level and which should be the subject of specific interventions. Especially in this phase of rethinking of the growth model and redefinition of the possible trajectories along which to direct the recovery after the pandemic.

The Panel, as in the previous editions of the Survey, insists on intervening on the cost, visible and invisible, that companies are forced to pay due to an inefficient regulatory and bureaucratic system.

30.5% of the responses once again indicate this element as the most critical with regard to the attractiveness of investments (Fig. 5).

Fig. 5 - Factors on which Italy should act as a priority to improve its ability to attract foreign investments (% val.) (*)



(*): first factor in order of indication

Source: AIBE-Censis survey, 2021

In second place is the Justice, with 23.7% of the answers, while the third is the tax burden, with a percentage of 15.3% of the total. Work flexibility and certainty of the regulatory framework are considered the most critical factors by a panel share that is around 10% in both cases. The persistence of the “corruption” factor and the quality of the infrastructures and logistics are less relevant (both at 5.1%).

But the theme of reforms, as a transversal dimension and a precondition for achieving the objectives set by the six Missions of the Recovery Plan, represents the cornerstone around which it will be possible to overcoming the country's structural weaknesses.

From this perspective, the Panel was asked to express the degree of confidence in the implementation of the reforms as part of the Italian Recovery and Resilience Plan.

In the first place, the sense of mistrust towards the justice reform is striking.

In fact, the most negative evaluations converge on this aspect, with 51.7% of the Panel considering the probability of seeing the reform to be low. 10.3% have no confidence in overcoming problems which have conditioned collective living in an advanced country like Italy (fig. 6).

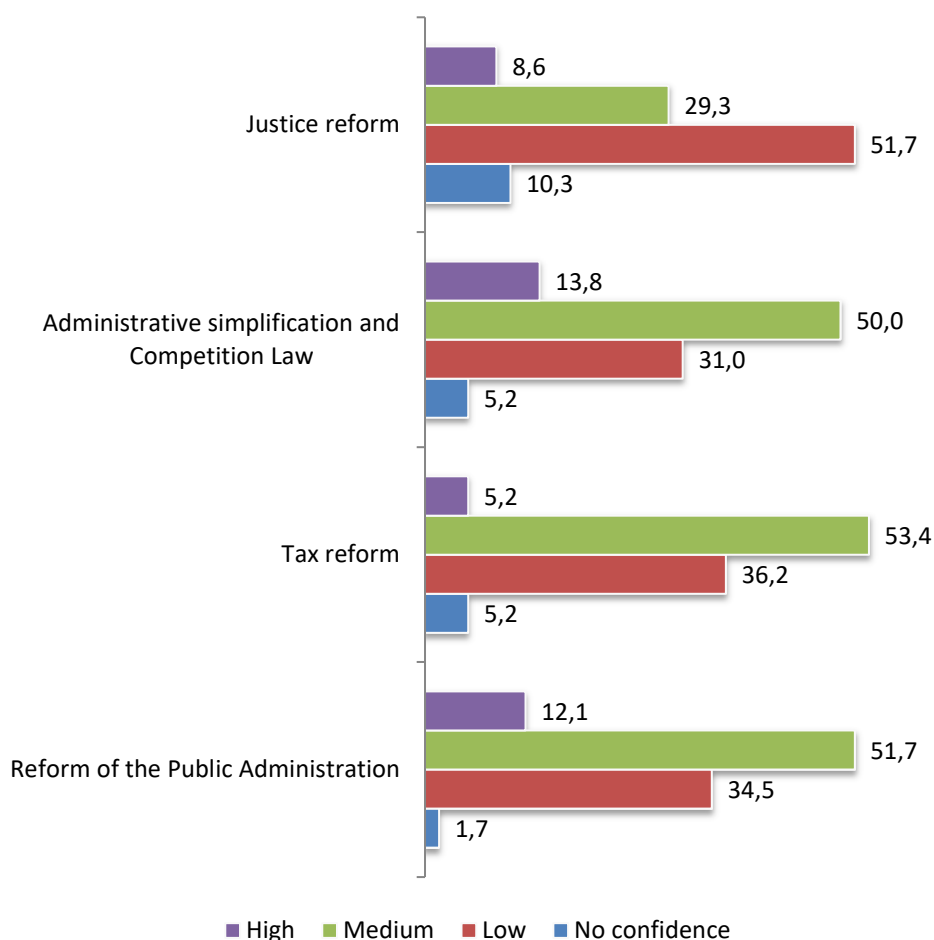
Alongside the justice reform, the Recovery Plan has also allocated important resources to the public administration, the tax system, simplification and to the competition. On these three areas, the Panel seems to expect a greater probability of success.

As regards the reform of the public administration, the degree of confidence in the implementation is high for 12.1% of the answers, alongside the average degree in 51.7% of the total answers.

Simplification and tax reform also convince more than half of the Panel: in the first case, the high degree of confidence - which reaches 13.8% of the votes - is joined by 50% of the answers which are placed on the average level.

In the second case, the average degree of confidence concerns 53.4% of the responses and the high degree of 5.2%.

Fig. 6 - Degree of confidence in the effective implementation of reforms of fundamental importance for the future of Italy (% val.)



Source: AIBE-Censis survey, 2021

In summary, by aggregating the "high" and "medium" judgments on the confidence in the implementation of the reforms, on the one hand, and considering the sum of the "low" and "zero" judgments as substantial "distrust" in the outcomes of the reforms, Justice is the only area on which the Panel is less reliant (62.0%), while for the other areas the negative expectations stop at around 40% (41.4% for the tax reform) or slightly below (36.2% for simplification and public administration, Tab. 2).

Tab. 2 - Mistrust and confidence in the effective implementation of the reforms in Italy. Sum of "high-medium" and "low-zero" levels (% val.)

Cross-cutting reforms of the Recovery Plan	Distrust	Confidence
Justice reform	62,0	38,0
Simplification and competition	36,2	63,8
Tax reform	41,4	58,6
Reform of the Public Administration	36,2	63,8

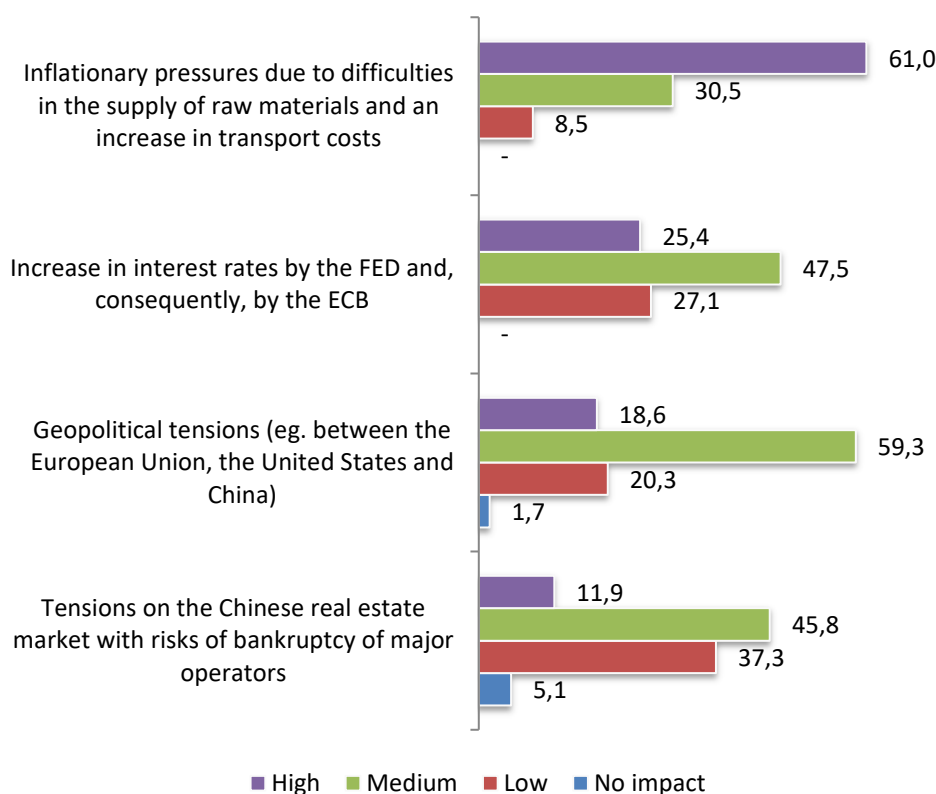
Source: AIBE-Censis survey, 2021

3. THE GLOBAL SCENARIO AND THE CRITICAL FACTORS

Ultimately, the Panel was asked to indicate the level of impact on the global economic recovery by some events that could affect the return to normal in recent months.

The main concerns are focused on the increases in inflation that originate from the rebound in demand for raw materials and from the consequences that are unloading along the global chains. On this aspect, the Panel expects a high impact (61.0% of the answers) or in any case medium (30.5%, fig. 7).

Fig. 7 - Events and phenomena that could negatively affect the global economic recovery; impact level (val.%)



Source: AIBE-Censis survey, 2021

The effects of the recent tensions on the Chinese real estate market could prove to be less incisive, although also in this case the sum of the judgments relating to a "high" and "medium" impact exceed 50% of the answers.

Furthermore, fears seem to characterize the expectations of the Panel regarding the tensions between the major economic players such as the European Union, the United States and China (high impact for 18.6%, average impact for 59.3%), while the indications relating to the possible increase in interest rates by the Federal Reserve and the European Central Bank appear of the same content. These events could slow down the recovery of aggregate demand in the various countries and in the various economic areas.

4. SUMMARY REMARKS

In the Spring Survey, the views of the AIBE Panel outlined a picture that took under due consideration some critical aspects and some trends, both as regards the trend of foreign investments in Italy, and for what could be the chances of recovery in a context still strongly affected by the contagion.

The Panel, in essence, expressed an opinion that was only partially positive with respect to the forecasts on the potential expected flows of foreign investments. He also stressed the close correlation between the management of the contagion and the potential for recovery, after the sharp drop in the domestic product in 2020. These assessments clearly loomed the unknown about the ability to secure the country from the pandemic.

Furthermore, the Panel suspended its judgment on the operational outcomes of the National Recovery and Resilience Plan, given that at the time of the survey there was still no complete version of the Plan and on the methods of implementation.

The main concerns, moreover, focused on the risks that would accompany in the coming years a country with a high level of public debt, that had risen dramatically due the pandemic.

But, objectively, during these six months between the two Survey, something has changed.

The success of the vaccination campaign, the return to "full capacity" of almost all economic activities during the summer months, the pragmatic and realistic approach adopted by the Government in outlining what to do, have restored a climate of confidence that has been reflected already in important economic results.

In recent months, the forecasts on gross domestic product for 2021 have gone from 4% in the spring to the current 6.1% and, in these days, the expected recovery of the product to the levels before the pandemic already indicate in the first quarter 2022 the most probable date.

There is also a clear trace of this change of scenario in the opinions expressed by the Panel, starting from the assessments on the growth potential of foreign investments:

- in the comparison between the two Survey, the Panel's share that foresees an expansion of greenfield or brownfield investments increases, with an increase of more than seven points in positive responses, thus bringing the most "confident" part of the Panel to 47.5% . Conversely, there is a contraction - from 25.9% in May to the current 11.9% - of those who foresee a negative trend;
- wider is the gap between those who in the spring expected a growth in investments in mergers and acquisitions for the period 2021-2023 and those who today formulate their own positive forecasts for the period 2022-2024: the share of the "optimists", in six months, it reached 69.5% of the Panel, with over twenty-two points more than in the previous survey.

Fashion, Manufacturing, Food and Design are the main targets, according to the Panel, of the operations that may be successful in the coming years in the context of investment flows from abroad. However, provided that they are guaranteed:

- the rapid implementation of the Recovery Plan, with all the positive conditionalities that must necessarily improve the Italian economic and production context;
- greater government stability, such as to ensure continuity in the direction of policies and reforms, with a long-term horizon;
- the concrete implementation of the reform programs envisaged by the Plan and of those, still disregarded, which should attack the visible and invisible costs borne by businesses (bureaucracy, taxation, labor costs, justice).

And speaking of reforms, focusing attention on the so-called transversal ones from the perspective of the Recovery Plan (justice, public administration, tax system, simplification and competition), it is precisely on justice that hovers the most negative evaluation by the Panel: 51.7% considered the probability of seeing the reform implemented as low; 10.3% do not believe that all the problems that have so far conditioned an advanced country like Italy can be easily overcome.

