



C E N S I S

AIBE-INDEX OBSERVATORY

Spring instant survey

2021

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1. LOOKING AT THE AIBE PANEL ON THE NEXT MONTHS AND ON THE LONG-TERM PERSPECTIVES

Already in 2020, just to cope with an extraordinary situation, the studies carried out by Censis on foreign investments in the context of the collaboration with the Italian Association of Foreign Banks, required a closer relationship with the AIBE Panel to "capture" direct views and perceptions of Italy during the most uncertain phase of the pandemic.

To do this, it was decided to prepare two surveys - in spring and autumn - submitting to the Panel topics and issues connected with the management of the pandemic and with the prospects for recovery after the lockdown.

From the first survey of 2020, "a cold and rational assessment of the effects of the pandemic on the Italian economy by the AIBE Panel was obtained, free from excessive alarmism, but far from offering easy reassurance" and emphasized, in particular:

- the finding of a physiological level of capital outflows from the country, pending a recovery within the year, so as not to support the hypothesis of massive divestments;
- the change in the conditions of access to the capital of Italian companies, given the reduction in capitalization, but in any case 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 enter the restart and recovery phase.

The second survey revealed an overall positive assessment, despite the uncertainties of the second wave of the pandemic, from the trend of the AIBE Index on the attractiveness of the Italian system (built on the basis of the weighted processing of the Panel's responses). The Index for 2020 stood at 44.4, with an increase of one and a half points compared to 2019 and also higher than the value of 2018 (43.3) and 2017 (40.3).

In addition to this, the Panel pointed out that measures such as the blocking of layoffs and the extension of measures to integrate workers' income would in reality only delay the inevitable effects of the economic and production crisis. And, as far as the PNRR was concerned, the need to

give priority to digitization, innovation and competitiveness programs of the Italian production system, and secondly to the strengthening of human capital through investments in education, training, research and culture, was emphasized.

For 2021, it was decided to confirm the choice of the double survey at the AIBE Panel with a questionnaire in spring and autumn, always with the aim of catching the perceptions and opinions of foreign investors during the evolution of the country's economic, political and social context.

In the first spring survey - the results of which are presented in this report - the issues addressed concerned: the outlook for foreign direct investments in Italy in the coming years; the countries with the greatest resilience; the long-term consequences of the crisis linked to Covid and phenomena such as deglobalization, the risks associated with the increase in public debt and inflation, the condition of the banking system, the potential for trade conflict between the major economic areas of the world. Finally, the Panel was asked to comment on Italy's ability to implement the Next Generation EU and to complete it by 2026.

On the basis of the results obtained, it can already be anticipated that some of the topics discussed here may be the subject of a verification and an in-depth analysis during the next autumn survey.



2. FOREIGN INVESTMENTS, RECOVERY PROGRAMS AND ECONOMIC CONSEQUENCES OF THE PANDEMIC

The first instant survey of 2021 was carried out in April with a questionnaire submitted to the AIBE Panel, composed of top managers of financial institutions and companies, multinational companies, professional consultancy structures and economic journalists. The area of origin, the headquarters of the organizations and the people who contributed to the survey concern, in a fairly homogeneous way, to European and non-European countries.

In this round, the focus of the survey was:

- the prospects for foreign investments in Italy for the period 2021-2023;
- the resilience of the main countries with advanced and emerging economies;
- the more or less probable consequences that will accompany the post-Covid phase (deglobalization, increase in public debt, US-China-European Union trade war, inflation, risks of a new financial crisis);
- the degree of confidence in the feasibility of the Recovery and Resilience Plan developed by Italy and evaluated by the European Commission.

Taking note, however, of a context still strongly influenced by the great breakage decreed by the worldwide spread of the pandemic, the transversal reading of the considerations on the issues addressed in the survey highlights that the chances of a quick recovery are still to be demonstrated, not only for with regard to Italy, but also when the reflection shifts to the international context.

According to the Panel, the prospects for foreign investment in Italy for the period 2021-2023 remain mostly stable, considering the decline in investment flows from abroad that had already occurred in 2019 after a few years of substantial growth, and the situation probably not positive of 2020.

In the case of greenfield or brownfield investments, 38.8% of respondents converge on an outlook of continuity with respect to the past, while 25.9%



foreshadow a negative trend (table 1). Just over a third of the members of the Panel is inclined to draw a positive scenario (35.2%).

In the case of mergers and acquisitions, the prospects for stability are assumed by 45.5% of the Panel; 9% of respondents are less convinced of this trend, while a positive outlook is indicated by the remaining 45.5% of the indications.

Tab. 1 - **Outlook for foreign direct investment in Italy in the three-year period 2021-2023 (%)**

Outlook 2021-2023				
Direct investments	Positive	Stable	Negative	Total
- Greenfield/brownfield	35,2	38,8	25,9	100,0
- Merger & Acquisition	45,5	45,5	9,0	100,0

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Secondly, the Panel was asked to order the ten countries in the world's biggest economic importance in a ranking that reflects the probability of recovery after the 2020 crisis.

The Panel has placed China tops the list, followed by the United States and Germany, (tab. 2). In the middle of the ranking we find, in the order Great Britain, Japan and France, while at the end of the ranking are positioned India and Brazil.

For these last two countries, the position reflects the current difficult management of the pandemic which is still having serious consequences on the population and which, given its size, risks getting out of hand, extending the phase of uncertainty in an unpredictable way.

Italy occupies the eighth position, behind all the other major European partners: the Panel is even inclined to assign to Russia a greater resilience than our country.

Tab. 2 - Question: **"Which are, in your opinion, the countries that will have the greatest probability and capacity to recover after the crisis?"** (Ranking from 1st to 10th place, in order of probability and resilience)

Rank	Country
1°	Cina
2°	United States
3°	Germany
4°	United Kingdom
5°	Japan
6°	France
7°	Russia
8°	Italy
9°	India
10°	Brasil

AIBE-Censis, 2021

Among the ten countries subjected to the opinions of the Panel, only China has managed to contain - in time and space - the spread of the virus and recover from the economic effects of the lockdown.

To date, with 15% of the population vaccinated, a total number of infections that stops at less than 100 thousand and a total number of deaths around 4,500, the Eastern giant marks a + 18.3% growth in GDP in the first quarter of 2021 compared to the same quarter of 2020 (i.e. in full explosion of the pandemic). The other quarters of 2020 have seen grow the value of the product, albeit with growth rates below expectations.

The decisive policy of restriction, concentrated in about three months, has led the country to anticipate the recovery compared to the rest of the world. Western economies - less likely to adopt the constraints of the

Chinese model - continue to face repeated waves of contagion, which only a rapid and extensive vaccination campaign will be able to stop.

The United States has carried out a mass vaccination that currently has exceeded 70% of the population, with over 230 million doses administered and is a candidate to be the second major economy to resume the upward phase of the cycle in a stable manner after the crisis of the second quarter of 2020 (with a fall in GDP of more than 30%) and the upward revisions of the last few months which led to + 6.4% in the first quarter of 2021, compared to the previous quarter.

In Europe, the UK has managed to vaccinate 71% of the population, but Germany, France and Italy show a population vaccine coverage rate that is still around 30%.

The close dependence of the resilience on the effectiveness of vaccination campaigns is, in essence, the real crucial factor at a global level for the coming months.

But not only. To obtain an assessment of the overall prospects for a restart, the Panel was asked to comment on the possible consequences of the crisis in the long term.

Among the concerns, the tendency of countries to seek greater self-sufficiency and independence in the production of certain goods and services prevails (very or quite probable according to 91.1% of the answers), followed by the difficulties that countries will encounter in managing of a public debt after the strong pressure on spending imposed by the need to fight the crisis (very or quite probable for 82.1%, table 3).

The degree of probability assigned to the risks of a trade war between the major economic areas of the world (USA, China, and the European Union) is also high, while the Panel, at the same time, is sensitive to the danger of a reduction in economic freedom. , corollary of a progressive re-centering in the supervision of strategic networks and productions, aimed at containing the system vulnerability exposed by the health and economic emergency (73.2%).

In the alternative, a still high degree of probability is assigned to the item relating to the high inflation induced by the deficit spending policies which states have been forced to counter the impact of the pandemic on the economy (23.2% very likely, 48.2% quite likely).



Tab. 3 - Question: ***"In your opinion, how likely do you consider that the following consequences of the crisis linked to Covid 19 will occur in the long term?"***(%)

Consequences of the crisis	Very likely	Somewhat likely	Unlikely	Not at all likely
Countries will seek greater self-sufficiency and independence in the production of certain goods and services (particularly in the health sector)	44.7	46.4	8.9	0.0
Raising weakness of the global banking system with the risk of another financial crisis like in 2008	16.1	42.9	39.3	1.8
Difficulties in the public debt back capacity and deficit control in many countries, with the risk of a new sovereign debt crisis like in 2013	21.4	60.7	17.9	0.0
High inflation, induced by the many deficit spending programs implemented by the countries	23.2	48.2	26.8	1.8
Raising role of the state in the economies of many countries and reduction of the level of economic freedom	17.9	55.3	21.4	5.4
Deglobalization, with negative effects on global value chains and on trade	3.6	39.3	50.0	7.1
Trade war between the US, China, the European Union for the control of global trade flows	21.4	55.4	19.6	3.6

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The instability of banking systems tend to be less reliable, such as to re-propose the scenarios of the financial crisis of 2008 (58.9% very or quite probable). Similarly they are considered the risks that can enter into a phase of "de-globalization" and the potential contraction of trade globally (3.6% very likely, 39.3% somewhat likely).



Finally, returning to Italy and drawing attention to Italy's Recovery and Resilience Plan, transmitted in these days to the European Commission, the Panel expresses an average degree of confidence on the possibility that Italy can complete the interventions, expected between now and 2026 (in 64.8% of the responses, table 4).

There is a large share of skeptics: 27.8% declare a low level of confidence, while only 7.6% of the Panel are fully confident in its final success.

On this aspect, the Panel legitimately suspends its judgment, avoiding showing an excess of confidence in the outcomes of the Plan and its implementation, also given the ambition in terms of reforms and investments that, on paper, distinguishes the Plan with the highest demand for resources in the Next Generation EU.

More appropriately, and thanks to a greater availability of information, in the next autumn and with the next survey by the AIBE Observatory, it will be possible to obtain an initial evidence of the positions expressed by the Panel.



Tab. 4 - Question: ***"What is your degree of confidence in Italy's ability to implement the Next Generation EU and complete it by 2026?"***(%)

Degree of confidence	%
High	7.4
Medium	64.8
Low	27.8
Total	100.0

AIBE-Censis, 2021

3. THE UNCERTAINTY IS NOT OVER. MAINLY FOR ITALY

The opinions collected in this spring survey, if read together and following the interpretative path offered by the Panel, outline the prospects for the coming months and highlight the factors of uncertainty that still persist worldwide.

In particular, as regards Italy, the Panel tends to emphasize the still long way to go before being able to secure the country from the various pitfalls that the pandemic has disseminated in recent months. Confirmation can be given of the not fully positive opinion formulated with respect to the forecasts on potential expected flows of foreign investments.

Furthermore, the Panel does not underestimate the strong impact that the pandemic has produced in Italy, both on a health and economic level, recognizing the strong correlations that bind the management of the infection and the potential for recovery after the fall in production in 2020.

Moreover, alongside the confinement of Italy in eighth place, out of ten, in the ranking of countries with the greatest ability to exit the crisis - with a sequence that sees China in first place, followed by the United States and Germany, while the 'Italy precedes only India and Brazil - the Panel appears unwilling to expose itself on the effectiveness of the National Plan that will have to guide the management of NGEU resources, between now and 2026.

Some consequences that the pandemic has produced weigh on future prospects, modifying the general context in which Italy and the world economy in general are now forced to move.

"Autarchic" trends, new sovereign debt crises, trade wars, inflation and a greater presence of the state in the economy are all elements that may emerge in the coming months, with the risk of undermining the restart programs underway.

But what makes Italy a "unique case" in the coming months - more than what has happened in recent years - is the size of its public debt, now close to 160% of GDP. This factor strongly influenced the country's growth level even before the 2008 crisis and, at the same time, exposed Italy's failure to

adopt reforms that were able to contain the expansion of the debt and guarantee an adequate growth prospect.

The great challenge to win for the Italian Recovery will be to cure the new troubles created by the pandemic, without yet having healed the pathologies of the past.

