Investment and competitiveness in Italy – Meeting between the EIB and the Italian Ministry of Economy and Finance

Rome, 13 February 2018

On 13 February 2018 at the Ministry of Economy and Finance in Rome the European Investment Bank (EIB)'s annual report on investment in Europe (EIB Investment Report) and the EIB's Investment Survey 2017 – Italy Overview were presented. Italian Finance Minister Pier Carlo Padoan, EIB and EIF Vice-President Dario Scannapieco, and General Manager of the Bank of Italy Salvatore Rossi spoke at the event. Debora Revoltella, Director of the Economics Department at the EIB, presented the results of the two reports. The panel attending the meeting included leading representatives of Italy's economic sector, Innocenzo Cipolletta (Chairman of the Board, Fondo Italiano d'Investimento), Marcella Panucci (Director General, Confindustria), Gianfranco Torriero (Deputy General Manager, Associazione Bancaria Italiana) and Andrea Sironi (Chairman, Borsa Italiana). Please find enclosed herewith the programme of the event.

Investment in Italy fell during the years of recession due to multiple factors: a decline in demand, continued underutilisation of extensive production capacity, tensions regarding financing terms, structural factors, and uncertainties about the development of the domestic and global economy. We are currently seeing a revival of investment, although it still remains below pre-crisis levels and is not uniform across all economic sectors and company types. What is holding back businesses from spending? What are the most effective means and instruments for supporting investment? The EIB Investment Report examines these issues and aims to stir debate on the causes of this slowdown, the role of the financial system and the possibility of government intervention to speed up investment by comparing the situation in Europe with that of other countries. The EIB's Investment Survey 2017 – Italy Overview explores the productive system and seeks to understand its strategies, constraints and opportunities. Below are extracts from speeches made at the event.

Pier Carlo Padoan, Italy's Minister of Economy and Finance, thanked the EIB for its continued financing of the economy, noting in particular the Bank's Juncker Plan and EFSI activity which has so far generated investment volume totalling EUR 36bn in Italy. The Minister also paid tribute to the EIB's substantial contribution to knowledge sharing through the Bank's report on investment in Italy.

With regard to investment and competitiveness in Italy, the Minister pointed out that following years of recession, investment had started to recover although it is still hampered by certain economic constraints that are holding back spending. The Minister also noted that the revival of investment is being driven by both the public and private sectors. In the private sector, depreciation policies have considerably boosted the recovery. Public investment, on the other hand, suffers from budgetary constraints, procedural inefficiencies and poor planning according to Mr Padoan.

The Minister stated that the revival of investment "will help to push domestic growth to levels distinctly above those experienced at the beginning of the millennium. The economy is accelerating – I am seeing structural recovery phenomena that are ahead of trend, thanks in part to investments promoted by international institutions such as the EIB."

Lastly, Minister Padoan noted that to revitalise public investment in Italy a dedicated fund "launched via a series of Prime Minister's decrees designed to finance various sectoral initiatives" had been created. He added that the 2017 budget law provided for an allocation of around EUR 47bn for this fund until 2032, broken down as follows: EUR 1.9bn for 2017, EUR 3.15bn for 2018, EUR 3.5bn for 2019 and EUR 3bn for each year from 2020 until 2032. Under the 2018 budget law the fund was refinanced to the tune of over EUR 83bn of public investment until 2033. These funds also provide for appropriations to autonomous regions and local administrations.

Salvatore Rossi, General Manager of the Bank of Italy, remarked that one of the most positive aspects of the current global economic climate is the stepping-up of investment in advanced economies. Mr Rossi added that the deep and lengthy negative phase of the economic cycle following the global financial crisis had been caused, first and foremost, by the decline in investment by companies, which were anxious and dispirited.

The current macroeconomic data are reassuring in Italy too. By way of example Mr Rossi stated that the Bank of Italy had recently raised its 2018 forecasts for gross fixed investment to nearly 4.5% and for investment in machinery to 6.5%. He cited various positive indicators, including confidence in the prospects of international and domestic demand. He added that the recovery of aggregate demand is also affecting demand for investment and pointed out that the “accelerator” mechanism had started moving again. Mr Rossi also noted that exceptionally low interest rates, which were a consequence of a resiliently accommodating monetary policy, had reduced the cost of capital use. He emphasised the positive impact of the stimulatory measures provided for in the National Industry 4.0 Plan and of hyper-depreciation, which had substantially boosted companies’ investment spending, particularly small firms with high innovation intensity.

Mr Rossi noted that, in spite of all this, companies’ investment as a percentage of GDP was below that of the years prior to the financial crisis and investment in construction was some distance short of the performances produced before the Great Recession. Mr Rossi also pinpointed the further polarisation of Italy’s productive system caused by the crisis, with many firms able to compete on the international markets and pave the way for exports and investments while, at the other end of the spectrum, many firms, especially small firms, had exited the market or had huge debts without exiting the market for various reasons including inefficiencies and obstacles in terms of insolvency regimes. Mr Rossi noted that the survival of such firms falsely protects jobs because it prevents healthier and more productive jobs from being created in the best firms whose development is being stifled by too much competition from businesses being kept alive artificially not by the market but due to regulatory deficiencies or faults in the functioning of the judicial machinery.

Mr Rossi concluded by stating that when factors of production are trapped in unproductive firms, the level of allocative efficiency of the entire economy is lower. Referring to the results of the EIB report, Mr Rossi noted that 10-20% of companies had declared that they had invested “too little” over the previous three years. To tap this potential, Mr Rossi continued that “economic policy must help to remove the obstacles to capital accumulation, especially for the benefit of young, innovative businesses with substantial expansion capacity. This is the only way Italy can catch up with the train of economic development with its relentless technological innovation and competitive, growing businesses – in the final analysis a dynamic society that is keen to progress."

EIB and EIF Vice-President **Dario Scannapieco** introduced two EIB studies: the annual report on investment in Europe (EIB Investment Report), and the Investment Survey 2017 – Italy Overview. He highlighted the fact that this year, in addition to the two main reports, a study of 555 local authorities' investment decisions examining the methods and level of public investment in infrastructure had also been produced.

Mr Scannapieco thanked the participants from the various institutions, in particular Minister Padoan for the support that the EIB has received from the Ministry of Economy and Finance over the years, starting with the informal ECOFIN meeting of October 2014 when the Italian Presidency launched a programme mapping potential projects for financing across the European Union, an exercise that served to swiftly kick-start the EU's Investment Plan for Europe, the Juncker Plan. Mr Scannapieco also noted that the joint commitment of the Ministry and the Bank had served to forge proposals and initiatives to support investment and consolidate growth and competitiveness in Italy, with excellent results in recent years.

Mr Scannapieco then presented the key points of the EIB studies, emphasising that the EIBIS (EIB Investment Survey) on the investment decisions of more than 12 500 firms of all sizes in the 28 EU Member States had gathered detailed information about investments made, future investment decisions, financing sources and the challenges that firms need to address.

Vice-President Scannapieco added that while the information and data contained in the two studies gave positive signals about the progress of economic fundamentals, the situation – especially comparing Italy with the rest of Europe – did not leave much scope for self-congratulation. Italian firms have begun to invest again, albeit they are still lagging behind businesses in Europe's most dynamic countries. The reason for this is the extent and duration of the financial crisis in Italy. Mr Scannapieco highlighted the positive impact of the regulatory measures contained in the National Industry 4.0 Plan, e.g. the measures concerning hyper and super-depreciation, the new Sabatini Law and the initiatives contained in the recent Stability Laws to support infrastructure investment. However, the Vice-President pointed out that in Italy there lingered a general climate of uncertainty and regulatory rigidity of individual productive sectors. As far as local authorities, in particular, are concerned, budgetary constraints, limited planning capacity and the implementation of infrastructure investments remain areas of concern. Mr Scannapieco concluded by expressing the hope that the EIB's analysis would contribute to policymakers' debate as to what should be done to speed up the recovery and boost Italy's competitiveness.

Debora Revoltella, Director of the Economics Department of the EIB, noted that the Bank's studies pointed to a brighter outlook, albeit with certain issues requiring close attention. She presented four key points: firstly, there has been a revival of investment in Italy, albeit this had begun after the rest of Europe. Secondly, this recovery has benefited from active policies in support of investment, such as the hyper and super-depreciation measures under the National Industry 4.0 Plan and new appropriations in support of infrastructure investment under the Budget Law for 2017-2018. Third, although most businesses are again focused on competitive revival strategies, the sector continues to suffer from uncertainty and rigidity, sometimes regulatory in nature, which is slowing down the economy more than in other European countries. Fourth, the new infrastructure appropriations are a good start, although there is obviously still a gap in terms of the capacity to generate new, high-quality projects both at central and at local level.

Ms Revoltella remarked that overall the investment dynamics in Italy reflect the experiences of other European countries, albeit they had begun a couple of years before Italy. In general, investment is on the up in Italy, chiefly driven by investment in intangibles and plant and machinery whereas it is still weak in the residential property, other construction and public works sectors. The volatility of other construction and public works sectors reflects the general weakness of the infrastructure sector, which follows the dynamics of public spending, as observed in 21 of the 28 EU Member States, where capital expenditure has fallen while current expenditure has increased despite a drop in interest expenditure. This has happened both at central level and, to an even greater extent, at the level of local authorities. Ms Revoltella explained that the EIB survey clearly showed the emergence of an investment gap in around 47% of Italy's local and regional authorities compared to a figure of 34% in Europe as a whole. The main stumbling blocks include budgetary limits and obstacles slowing down the generation and approval of projects.

Ms Revoltella then examined the investment dynamics of businesses and emphasised that the outlook is positive. The percentage of companies investing in Italy is only just below the European average and in 2017 more businesses expected to increase their investments compared to the previous year. The revival of investment appears to be mainly driven by large corporates. Most of the Italian firms interviewed, however, are focusing on strategies designed to make themselves more competitive. In general, Italian firms seem satisfied with the quality of their plant and machinery and investments in innovation. On the other hand, the survey revealed that some firms are struggling to cope with market pressures. Specifically, 13-14% of the firms interviewed have no investment plan for the next three years – particularly small, less profitable firms that are being more impacted by declining demand. Among the impediments to investment emerging from the survey are uncertainty and regulatory rigidity whilst access to financing, although less of a handicap than the two mentioned, remains a major obstacle in Italy, much more so than in the rest of Europe.

Ms Revoltella concluded that “the revival of investment is on track notwithstanding the fact that infrastructure and the competitiveness of firms remain areas of concern. Although active investment policies are a step in the right direction, continued attention needs to be paid to curbing uncertainty and regulatory rigidity. Meanwhile, in the public sector greater capacity for generating high-quality projects is also required.”

A panel discussion followed these presentations featuring representatives of Confindustria (Marcella Panucci), Fondo Italiano d’Investimento (Innocenzo Cipolletta), Associazione Bancaria Italiana (Gianfranco Torriero) and Borsa Italiana (Andrea Sironi).

Marcella Panucci, Director General of Confindustria, remarked that the EIB report was very reassuring because, apart from indicating a return to investment, it also presented a side to Italian firms that is often overlooked – their appetite for innovation. Drawing on the results of the EIB’s studies, Ms Panucci noted that 20% of leading firms and around 15-20% of firms in general were lagging behind and highlighted the positive impact of tax measures and the National Industry 3.0 and 4.0 Plans in supporting investment by Italian firms. Ms Panucci confirmed that she was in favour of the mixture of tax measures and administrative reforms to stimulate growth in the most innovative firms. She added that such measures, combined with support for less developed regions – such as accelerators for southern Italy (e.g. a tax credit for the south) – are facilitating a return to growth and investment.

However, Confindustria is still concerned about possible future scenarios given the level of political and regulatory uncertainty. Ms Panucci pointed out that Confindustria therefore advocates continuity in both regulatory and tax policy since the revival of investment in machinery will also support the construction sector as an increase in production capacity also requires the buildings that will house the new machinery to be extended. On this point, Ms Panucci explained that the growth finance provided by the Government is a positive aspect underpinning these existing dynamics and mentioned other initiatives such as Borsa Italiana’s Elite programme, which she described as being very useful in creating a culture of sound governance in small firms. Public-private partnerships help to generate forms of patient private equity that enable companies to grow in terms of quality. Lastly, Ms Panucci noted that

Italy is changing and is now conscious of the need to overcome size constraints, for which it must adopt a medium-term planning strategy.

Commending the EIB report, **Innocenzo Cipolletta**, Chairman of the Board of Directors of Fondo Italiano d'Investimento, validated its results and recommendations and expressed the view that with this improved situation there was huge potential for change. He also remarked that at a time of political uncertainty, the EIB represented a success story for Europe, with a strong and positive role to play in the Italian economy.

On the subject of investment in Italy, in view of the positive investment and economic growth data Mr Cipolletta stressed the importance of not neglecting the stock of investments which in his view needed to be built up. To this end, he felt that continuity was important to avoid creating any additional uncertainty. In general, alternative instruments are needed to increase the choice of financing available and enhance financial stability, especially in situations of uncertainty.

In this sense, according to Mr Cipolletta there is a problem with the approach adopted by firms in Italy: Italian firms are suspicious of equity whereas in Great Britain, for example, there is a different attitude while French and German companies have adopted direct and consistent policies in support of equity financing. In Italy, noted Mr Cipolletta, Fondo Italiano has provided EUR 1bn worth of financing – a huge sum certainly but it must be compared with the same amount that is invested each year in France. Mr Cipolletta concluded from this that continuity should not just concern financial instruments per se, but also continue trying to bring about change in the approach adopted by firms. In his view, alternative finance can certainly work towards achieving this, e.g. by encouraging firms to open up to external stakeholders.

Mr Cipolletta noted that Fondo Italiano itself set a good example by acquiring stakes in small firms – even minority stakes – to help them grow and bring collective savings to them. In Italy there are many types of savings but these are invested mainly on the sovereign debt markets or in listed instruments. For instance, Mr Cipolletta suggested that a small percentage of the country's EUR 230bn worth of pension savings could be invested directly in firms.

Lastly, Mr Cipolletta hinted that the investment culture must also change in the public sector – he felt that greater transparency, project capacity and intervention were needed to unlock public investment.

Gianfranco Torriero, Deputy General Manager of Associazione Bancaria Italiana, praised EIB finance as an integrated method of financing based on existing instruments. Mr Torriero noted that the regulatory policies implemented recently had not led to increased lending to firms but, on the contrary, had had the opposite effect; however, he acknowledged the key,

positive impact of macro-aggregate conditions, particularly the cost of credit which is currently at its lowest ever level.

Mr Torriero also pointed out that the spread for Italian firms is lower than in Germany and France, adding that Italian firms can currently take advantage of substantial availability of credit. He noted that the situation had improved even further in recent times. The quality of credit was changing and improving not just on the demand side but also on the supply side thanks to longer-term, fixed-rate credit. Furthermore, in terms of the dynamic of non-performing loans, and not just the stock of loans, there had been a substantial rise in the quality of outstanding loans while the rate of non-performing loans had fallen considerably.

Andrea Sironi, Chairman of Borsa Italiana, applauded the EIB's analysis, drawing on specific results to make a few points. Borsa Italiana had also noticed that Italy was lagging two years behind other countries, with 2017 considered to be a turning point. Mr Sironi focused on the situation of Italy's SMEs, which he said were in difficulty. He stated that Borsa Italiana had a key role to play, acting both as an aggregator for financing and as an intermediary, mentioning both its ELITE programme involving 750 firms (450 Italian) and the Elite Basket Bond. In the latter operation, 10 Elite partner companies joined together to issue a bond backed by a mutual guarantee, which is certainly not cheap when compared to today's bank loans but has a maturity of 10 years.

Mr Sironi added that Borsa Italiana's market capitalisation had increased but that it still represented just 38% of GDP in Italy versus 48% in Germany and 85% of GDP in France. Mr Sironi maintained that by 2020 Borsa Italiana's market capitalisation could reach 50% of GDP, adding that "this is beneficial for systemic liquidity, governance, entrepreneurial and financial discipline and transparency." He remarked on one EIB survey result according to which just 1% of European firms had sought equity. Mr Sironi said that Italian firms' mentality and entrepreneurial culture are changing and that there is now a greater acceptance of capital from outside the family, for instance. He stated that, generally speaking, the Italian system is making the right moves to attract more inventors, and that the regulations should support greater home bias because Italy, unlike other European countries, sees many of its own institutional investors channeling more funds outside the country than at home.

In conclusion, the debate about investment and competitiveness in Italy showed that there are signs of a brighter outlook although certain issues required close attention. To consolidate the revival of investment, continuity in terms of policy is required, uncertainty must be avoided and efforts must continue to improve the operating environment. At the same time, the conditions for accessing finance had improved dramatically, the banking system was making greater efforts and there was more openness to diversifying the types of financing available to companies in support of innovation.

ANNEX

Presentation of the EIB's annual report on investment in Europe (EIB Investment Report) and the EIB's Investment Survey 2017 - Italy Overview

Programme

14:30-15:00 Registration

15:00-15:30 **Introductory speeches**

- **Pier Carlo Padoan**, Minister of Economy and Finance
- **Dario Scannapieco**, Vice-President, European Investment Bank
- **Salvatore Rossi**, Director General, Bank of Italy

15:30-17:00 **Round Table: Investment and Competitiveness in Italy**

- **Debora Revoltella**, Director of the Economics Department of the EIB – Presentation of the report

Moderator: Marco Zatterin, Vice-Director, La Stampa

Speakers:

- **Innocenzo Cipolletta**, Chairman of the Board of Directors, Fondo Italiano d'Investimento
- **Marcella Panucci**, Director General, Confindustria
- **Gianfranco Torriero**, Vice-Director General, ABI (Italian Banking Association)
- **Andrea Sironi**, Chairman, Borsa Italiana (Italian Stock Exchange)