Business Insights from Italy

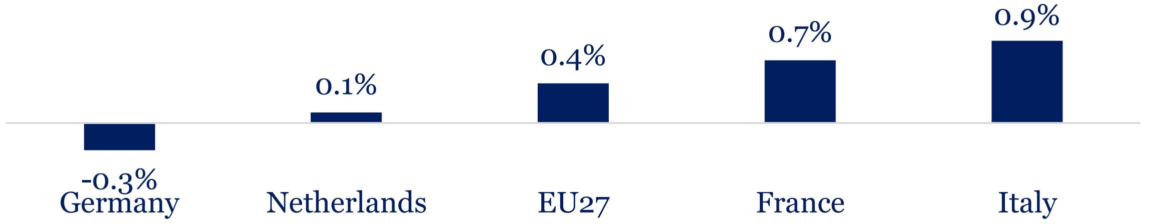
A Letter to International Investors

Business Insights from Italy is a confidential publication by **The European House - Ambrosetti**, produced in collaboration with leading Italian institutions. The publication provides updates on the Italian macroeconomic scenario, on Italy's industrial sectors and on policies directed to foreign investors.

In this edition:

Italy's Macroeconomic Outlook

In 2023, Italy's economy outperformed that of other major European countries. Its growth rate was **more than double** the EU average.



2023 GDP growth rate

Two key factors underpin this positive performance: a 1.2% increase in **domestic consumption** – an indicator that highlights the solid spending power of Italian families and the overall resilience to the inflationary crisis – and **export**, which reached a historic high of €567 billion in 2022.

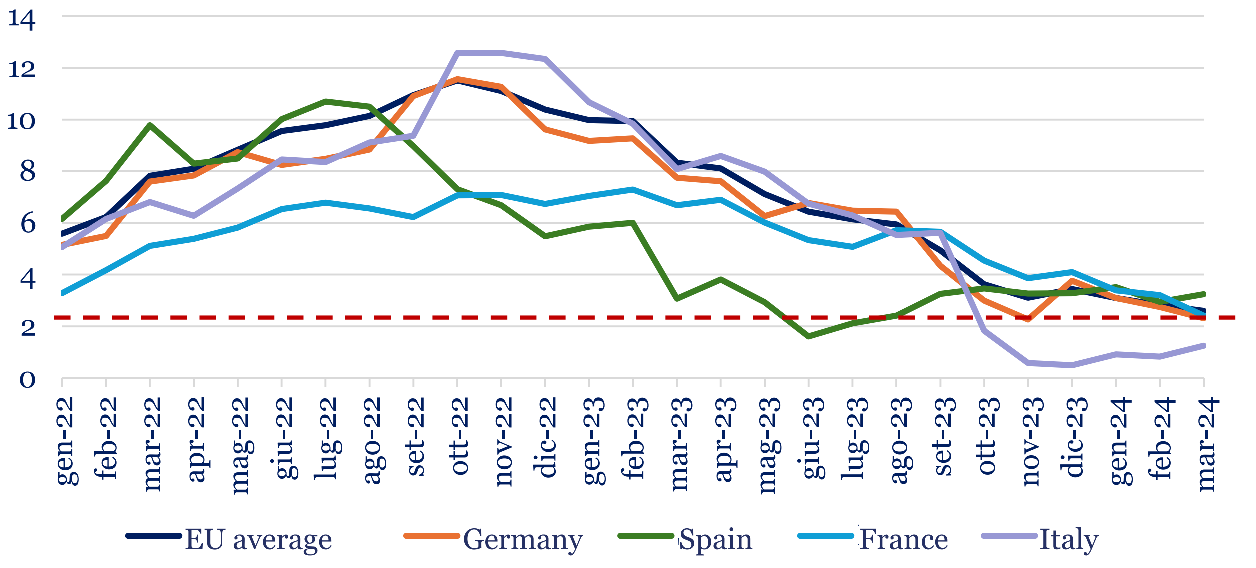
Over the last five years, Italy has increased exports to traditionally less-attended markets: Italy's exports have witnessed a positive average annual growth rate in Africa (+ 2.9%), South America (+6.3%) and South-East Asia (2.4%). In 2023, 35% of Italy's exports went to non-EU countries, up from 33.4% in 2022.

The expansion of exports, coupled with the decrease in the import of energy products (which resulted in a 0.5% decline in the total value of imports), led to a **trade surplus** of EUR 34.4 billion.

Alongside these encouraging data, Italy's robust recovery is underpinned by a solid **labour market** dynamics.

In 2023, 481.000 new jobs were created (+2.1%), with labour force reaching the record of 23.7 million employees. The expansion of employment follows a notable decline in the unemployment rate (-0.4%, down to 7.7%), as well as in the inactivity rate (-1.1%, down to 33.3%).

In a nutshell, Italy is witnessing a period of sustained economic growth alongside a significant recovery in the labour market.



Inflation rate

Furthermore, Italy is also making remarkable progress in **reducing inflationary pressure**.

The recent price dynamic shifts away from the inflation peak recorded in 2023. Italy was among the first countries to return to the European Central Bank's inflation target, set at 2%.

The 2024 forecast is even more optimistic, with projections made in December 2023 suggesting a 1.9% inflation rate.

Further data gathered in the first few months of 2024 has resulted in a downward revision to 1.3%, primarily thanks to a decline in energy prices.

The average increase in wages is expected to be around 3.5% per year over the 2024-2026 period.

Lower inflation and **higher wages** will provide a further boost to domestic demand and, consequently, to economic growth.

Highlight

Contrary to popular belief, **Italian manufacturing labour productivity** is almost **on par with that of Germany**.

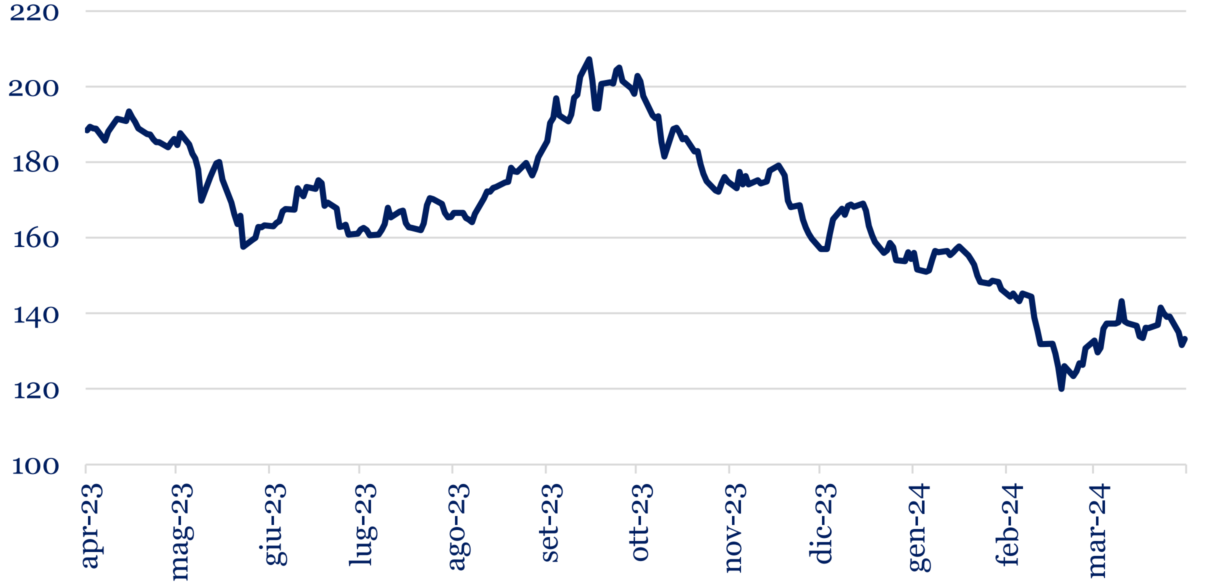
In 2023, Eurostat's manufacturing labor productivity index (100 in 2015 as reference year), yielded a score of 107.1 in Italy and 107.7 in Germany.

At the aggregate level, in 2023 the GDP per person employed was EUR 74,123 in Italy and EUR 74,731 in Germany.

Market expectations remains positive in the initial months of 2024.

This was demonstrated by the **narrowing spread** between Italian and German government bonds, which reflects the stability of public accounts.

With an **overall decrease in risk perception**, the spread has narrowed gradually, stabilizing at 130 basis points.



BTP/Bund spread (basis points)

In the past year, Italian households have also reduced the amount of liquidity deposited in current and saving accounts by EUR 61 billion.

Concurrently, they have augmented their **investments in stocks and bonds** by EUR 144 billion. Moreover, over the past year, the **financial wealth** of Italians increased by approximately EUR 80 billion, reaching a total value of EUR 5,216 billion, roughly two times Italy's public debt.

Growth expectations for 2024 are influenced by tensions affecting all markets in developed countries. The slowdown in global trade, precipitated by the contraction of the Chinese market and the prevailing uncertainty along major trade routes, will likely influence performance in the near future.

However, the prospective deceleration of the **Chinese economy**, which would result in diminished export sales to China, would **represent a relatively low-risk factor for Italy** in comparison to other European countries.

Indeed, the Italian trade network is more heterogeneous and larger than those of France and Germany, and than the European average in general.

China represents only 2.7% of Italy's total exports, compared to 4.0% of France's, 4.5% of Europe's and 6.8% of Germany's. Consequently, a contraction of the Chinese market would affect Italy less than other European countries.

The European House Ambrosetti

Italy's National Recovery and Resilience Plan

In 2021, the European Commission launched **Next Generation EU**, the most ambitious industrial policy plan ever launched by the European Union. With a total budget of EUR 806.9 billion, it aims to empower the green transition by promoting renewable energy and sustainable mobility, to accelerate digital transformation, to strengthen infrastructure and social services, and to support inclusive growth, research and development.

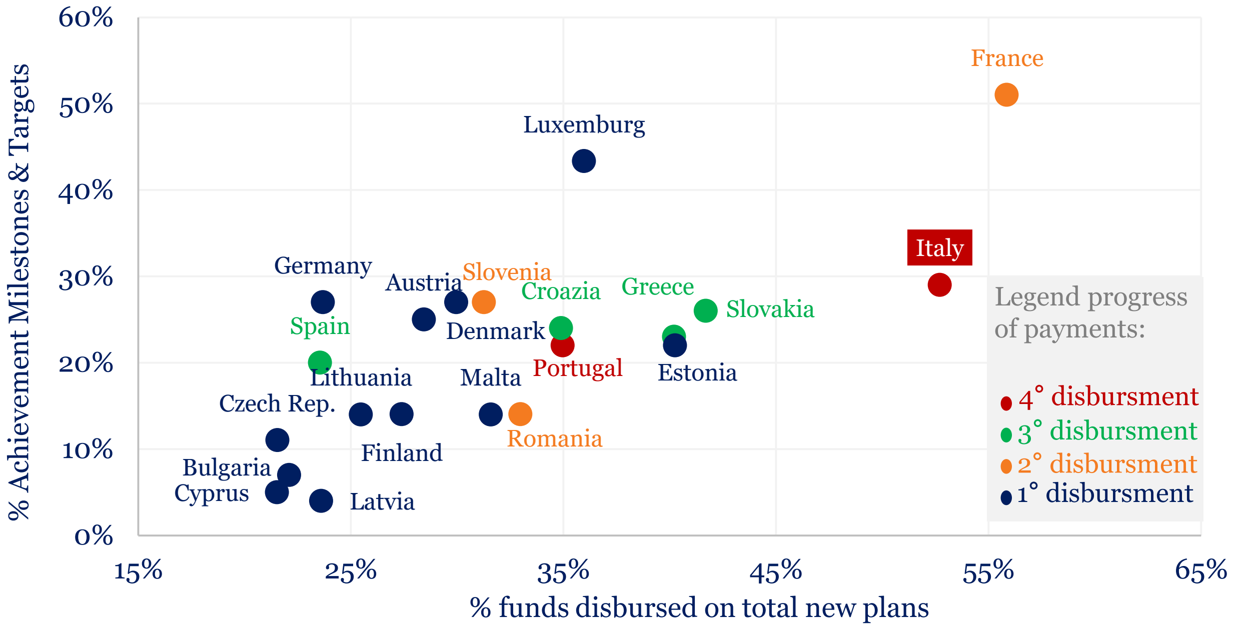
In summary, Next Generation EU has the ambitious goal of radically transforming the European economic environment.

Each EU Member State was entitled to a quota of loans and grants, proportionally to the size of the country. Each Member State was at liberty to decide the amount of loans they would take.

Italy made the strategic decision to leverage this opportunity by requesting the maximum amount available (**EUR 191.6 billion**) and is currently implementing the EU's most ambitious plan: the so called **PNNR/NRRP** (National Recovery and Resilience Plan).

New fundings are made available only when targets are met. Only Italy and Portugal have received the fourth disbursement from the European Commission thus far, while Italy's fifth disbursement (EUR 11 billion) has already been approved.

Italy is at a very successful point, having already **met 30% of the Plan's 2026 targets**. Only France and Luxembourg have achieved a greater number of targets. However, their own plans have no large infrastructure investments, thus resulting in shorter deadlines.



Comparison of the achievement of Milestones & Targets and the percentage of funds disbursed out of the total of new plans

In 2023, in light of the evolving geopolitical context, the European Commission invited Member States to revise and improve their National Plans.

This resulted in the introduction of a new instrument, **REPowerEU**, which was specifically designed to finance the energy transition and reduce the use of fossil fuels.

Italy therefore implemented a substantial revision of its previously approved plan, which led to an increase in the financial endowment from EUR 191.6 billion to EUR **194.4 billion**. The revision introduced a new investment chapter, dedicated to REPowerEU, and rationalised some projects and investments.

The Pillars of PNRR (billions of euro)		*The goals of PNRR*
P1: Digitalisation, innovation, competitiveness, culture and tourism	41.4	Transforming public administration by reducing time and costs; creating ultra-fast networks to cover the whole country; promoting digital transition and the adoption of innovative technologies and digital skills in the private sector
P2: Green revolution and ecological transition	55.5	Strengthen the network of separate waste collection and material treatment and recycling plants; simplify renewable energy procedures; reinforce investments in smart grids
P3: Infrastructure for sustainable mobility	23.7	Create a modern and accessible railway network by implementing high-speed trains on the Salerno-Reggio Calabria, Naples-Bari, Palermo-Catania routes and the extension of the Turin-Venice high-speed line to Padua
P4: Education and Research	30.1	Building modern, innovation-oriented schools equipped with ultra-fast networks; supporting researchers in skills development, particularly in the field of digital technologies and ecological transition
P5: Inclusion and cohesion	16.9	Develop active labour policies and strengthen employment centres; reduce situations of marginalisation and social degradation by upgrading public areas
P6: Health	15.6	Improve hospital infrastructure and make proximity care more widespread throughout the territory
P7: RePowerEU	11.2	Improving national and cross-border electricity interconnections and facilitating the installation of 5G equipment in electricity stations

During 2023, the **number of projects** financed under the various PNRR initiatives grew to approximately **230,000**, a 33% increase over the previous year. In the past 12 months alone, over 60,000 new projects have been initiated.

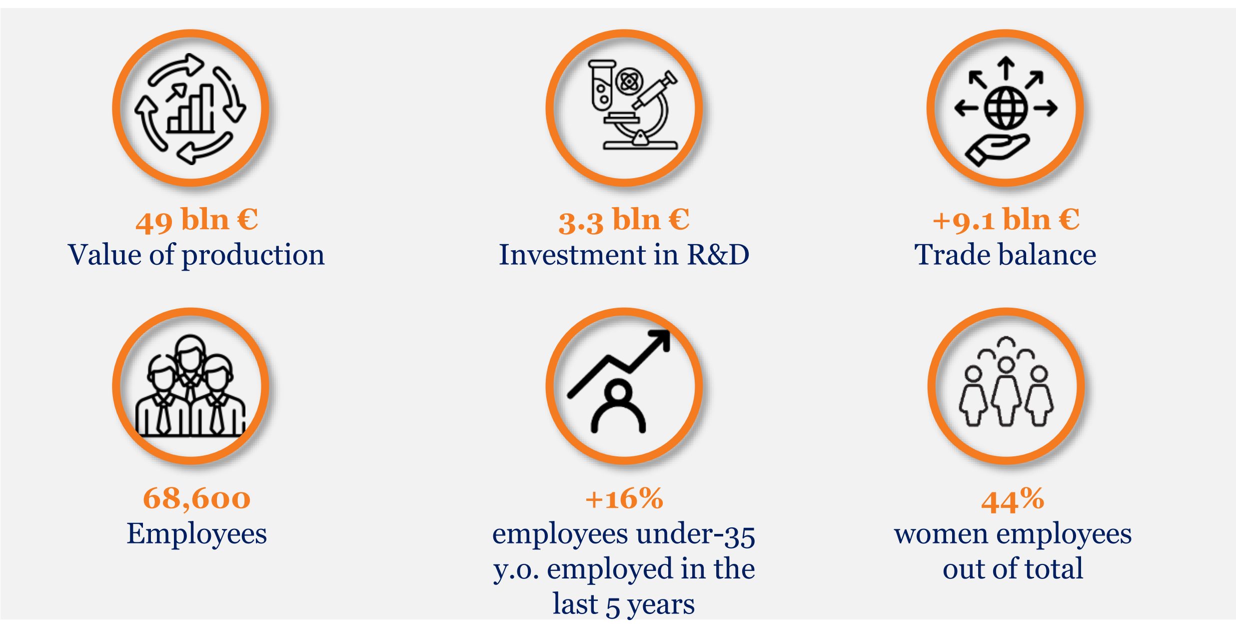
Currently, 67.2% of the financial resources have been allocated, with 118,000 tenders launched for a total amount of approximately EUR 57 billion. Of these tenders, over 68,000 have already been awarded (EUR 38.6 billion).

To conclude, the Italian PNRR is progressing as planned.

Over the next three years, it will continue to play a pivotal role in transforming Italy's economic and industrial environment.

Focus on a sector: pharmaceuticals

In this section, we examine each month a strategic sector of the Italian economy. We provide an overview of the sector's main innovations and most interesting data. In this edition, we focus on the pharmaceuticals industry.



The key figures of pharmaceuticals in Italy

The Italian pharmaceutical sector is one of the most advanced and competitive in Europe, employing 10.7% of the entire European workforce and generating **10.5% of the sector's total added value**.

Over the last decade, Italian pharmaceutical **exports have grown by 176%,** compared to an EU average of 141%.

Over the past five years, R&D investment has grown by over 20%, with notable breakthroughs in highly specialised areas such as **biotech** and **chemically synthesised drugs**, **vaccines**, **plasma-derived products**, **advanced therapies**, and **orphan drugs**.

The sector invests **17% of its added value in R&D**: a figure ten times the national average. This has resulted in several partnerships with public and private entities, with the number of such projects increasing by 95% over the past five years.

Foreign-owned enterprises play an important role in fostering innovation, growth and sector-wide competitiveness.

Foreign companies account for over 60% of production value. These companies have a high propensity to conduct researches into cutting-edge therapies for some of the most impactful diseases, accounting for 90% of Italy's clinical research investments.

Among of all Italian sectors, the pharmaceutical one has the largest presence of multinational companies, accounting for 49.3% of the total added value, 74.4% of exports and 50.4% of the entire workforce.

Foreign-owned companies lead in terms of productivity, with an average added value per employee of over EUR 145,000.

Thanks to its qualified **human capital**, Italy is a favourable environment for establishing new pharmaceutical and R&D activities.

In Europe, 17% of pharmacy graduates, 17% of chemistry graduates, 29% of biochemistry graduates and 10% of medical graduates complete their studies in Italy (in the last year, over 7,847 students).

In brief, Italy has a **well-developed industrial base** and **a long tradition in innovation**. Its products are exported all around the world and the country has recently attracted significant **international investments**.

In the past few months, **Eli Lilly**, **Takeda**, **Novartis**, and other multinational companies have announced new production facilities in Italy, with over **EUR 1 billion** in expected investments.

A dedicated tutor for international investors

Investors interested in Italy can rely on tailor-made services offered by the *Invest in Italy team*. The Ministry of Enterprise and Made in Italy (MIMIT) provides potential investors with a **dedicated tutor** that supports the entire investment process.

In particular, tutors:

- support investors in finding suitable greenfield and brownfield sites;
- facilitate contacts with central/local administrations to obtain the necessary authorizations and permits;
- facilitate contacts with the Italian supply chain, research centres, universities, technical colleges;
- identify the most suitable incentive schemes to support investments;
- facilitate the search for personnel through relations with regional employment centres and local employment agencies;
- follow the process of obtaining visas, authorisations and work permits for the staff of non-EU foreign investors.

The National Unit "Invest in Italy"

The Italian Government supports foreign companies and investors that invest in Italy through accelerated concierge services and facilitation of business growth strategies.

In particular, the Ministry of Enterprises and Made in Italy has set up a ***National Unit "Invest in Italy"*** in order to simplify procedures and cut red tape for investors.

For investment projects exceeding **€25 million** and with a significant impact on employment, the Unit may exercise **substitutive powers** at the request of the investor. This enables the Unit to act in the case of inertia and delay of administrations other than regions and local entities.

For investments exceeding **€1 billion**, declared by the Council of Ministers to be of national strategic interest, there is a **single authorisation procedure** and the appointment of an **Extraordinary Commissioner** of the Government, who can rely on the Unit to carry out the necessary administrative activities.

Where to find the right opportunities? *www.investinitaly.gov.it*

The Italian Government has recently launched the official www.investinitaly.gov.it website.

The platform is designed to provide foreign investors with comprehensive information on the main investment opportunities in Italy. It presents investors with detailed information on the main strategic sectors, incentives, taxation, labour law and immigration.

Moreover, it showcases more than **300 greenfield and brownfield public sites** that are immediately available for industrial and logistic projects.

USEFUL TO KNOW:

The **Ministry of Foreign Affairs and International Cooperation** and the **Italian Trade Agency (ITA)** are the first point of contact for all potential investors.

Italian Embassies and Consulates abroad, together with dedicated ITA'S FDI offices, provide information and facilitate any needed dialogue with other Italian institutions.

Please click on the following links to find updated contact details of:

- **Italy's diplomatic-consular network**: Italian Missions Abroad - Ministry of Foreign Affairs and International Cooperation;
- **ITA's FDI offices**: Invest in Italy | Italian Trade Agency (ice.it);
- **Italy's Ministry of Foreign Affairs and International Cooperation** is also available at the following email address: dgsp-03@esteri.it.