

ITALY IN THE WORLD ECONOMY



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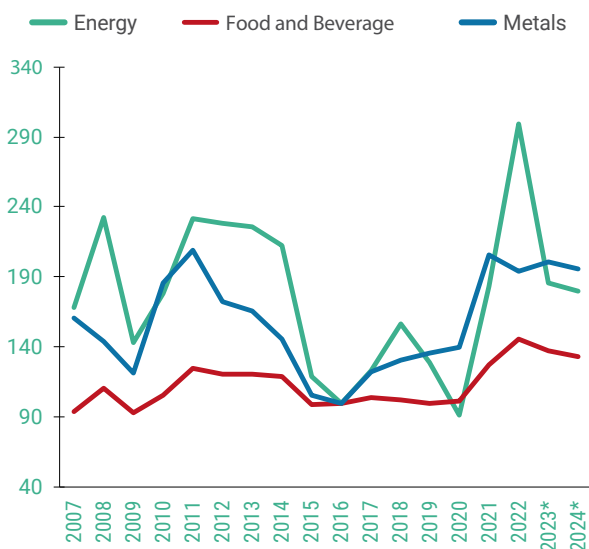
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1. THE OUTLOOK FOR THE WORLD ECONOMY

In 2022, the world economic outlook was marked by great uncertainty. High inflation forced many countries to tighten their monetary policies, which added to international geopolitical difficulties (tensions between the US and China, the war in Ukraine) with effects that will also persist in 2023. Rising commodity prices and energy costs have concurred in keeping inflation at record levels in 2022, although the outlook for 2023-2024 is for a gradual decline in prices (7% for 2023 and 4,9% in 2024, according to the IMF), thanks to the measures introduced by central banks and the reversal of trends in energy and food prices.

<Chart 1 - Commodities prices in US \$>

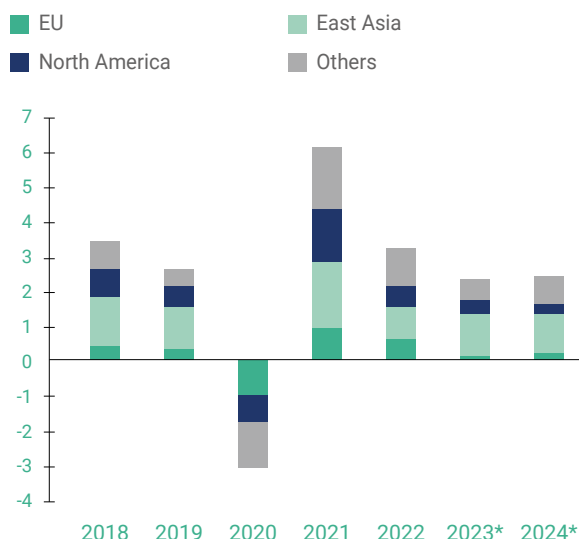
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As far as international production is concerned, the IMF, in the World Economic Outlook (WEO), estimated the global growth at 3,4 percent in 2022, with forecasts of 2,8 percent in 2023 and 3 percent in 2024. Emerging countries remained the main driver of global growth in 2022, although to a lesser extent than in the past (+4%). For advanced economies, growth stood at 2,7% in 2022 (mainly due to the slowdown in the US economy, +2,1%), with downward forecasts for 2023 (+1,3%). In contrast, the euro area grew in 2022 more than the global average (+3,5%), but the forecasts for 2023-2024 are less optimistic (+0,8% in 2023 and +1,4% in 2024).

(Source: ITA elaboration on IMF data)

<Chart 2 - Regions contributing to the world's GDP growth >



*estimates

(Source: ITA elaboration on IMF data)

East Asia, the most dynamic area during the pandemic, recorded a +4,4% growth in 2022, with an optimistic forecast of 5,3% in 2023 and 5,1% in 2024. China and India confirmed their status as the leading economies, with positive estimates also for the current year (India +5,9% in 2023, China +5,2%).

The dynamics of international trade, after the recession of 2020 due to Covid-19 and the rebound in 2021 (+10,6%), remained sustained (+5,1%) especially in advanced economies, despite the slowdown in the

Chinese economy, the consequences of the Russian-Ukrainian war, and the rise in interest rates. The IMF forecasts more moderate growth rates (respectively +2,4% and +3,5%) for 2023 and 2024.

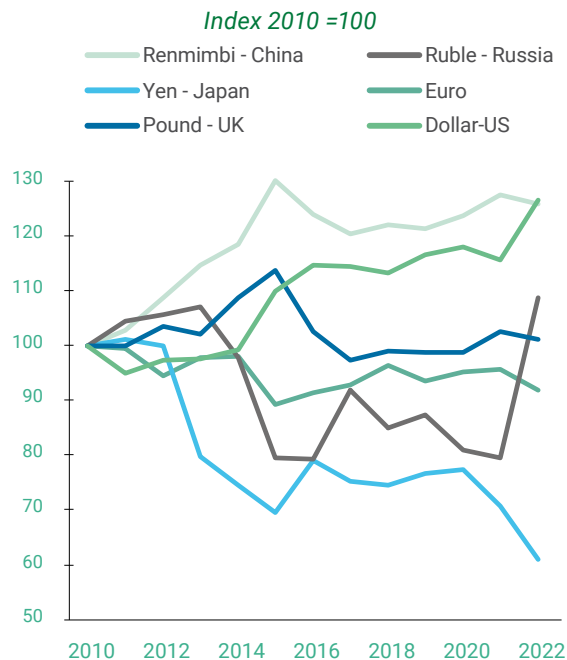
The pressure on global supply chains intensified in 2022, in conjunction with the above-mentioned shocks: if the impact of the pandemic measures on production networks was the most significant one and peaked in December 2021, a second peak was reached in April 2022 because of the Russian-Ukrainian war. During 2023, the most acute phase seems to have receded, although the uncertainties related to geopolitical developments continue to weigh heavily. Except for the 2022 trend, the growth rates of international trade have slowed down over the last fifteen years, highlighting a deceleration of the globalisation processes. There are various reasons behind the slowdown. One important factor is the decrease in foreign direct investment at global level, also expected in 2023, due *inter alia* to a lower degree of liberalisation of international trade and investments and a more restrictive, if not overtly protectionist, political stance. Finally, the lower contribution made by technological innovations to the reduction of transport and communication costs also played a role.

From an exchange rates perspective, the euro depreciated further against the dollar in 2022, continuing

the trend that already characterized 2021, losing on average 11 percent of its value compared to the previous year. In September and October 2022, the euro fell below parity, reaching its lowest point since its introduction in 2002. Factors influencing this depreciation include the worsening macroeconomic outlook in the euro area, which is more exposed to the energy crisis and the conflict in Ukraine, and the tighter monetary policy in the United States against inflation.

The depreciation of the euro had a negative impact on those European countries that predominantly import commodities, as international prices are mainly fixed in dollar. However, with the recent rises in the euro interest rates by the ECB, the euro/dollar exchange rate has returned to a more balanced level in 2023. During 2022, the euro remained more stable against major foreign currencies, appreciating against the British pound, Japanese yen and Chinese renminbi.

<Chart 3 - Nominal exchange rates>



(Source: ITA elaboration on IMF data)

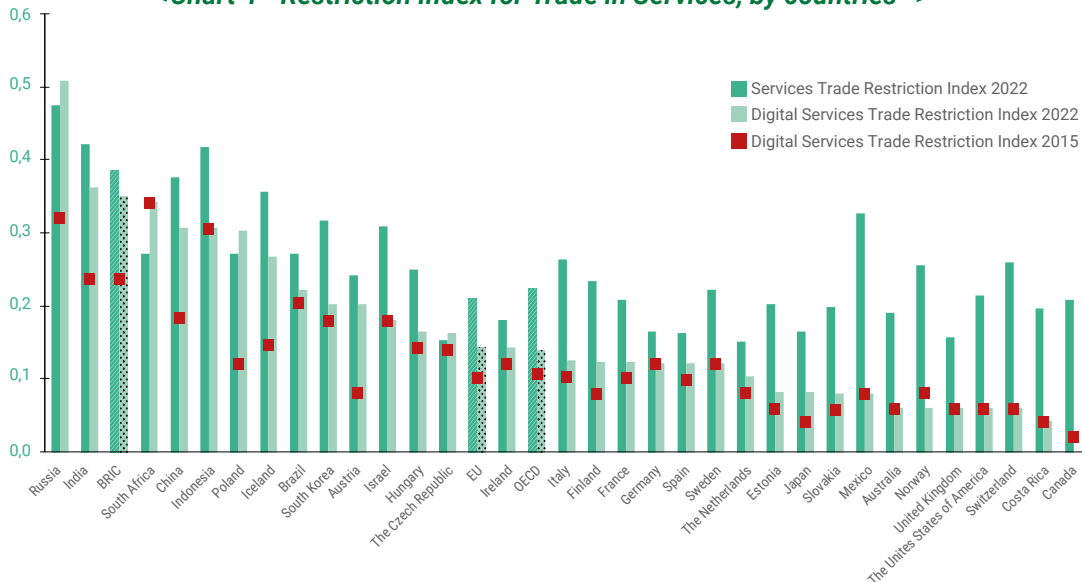
2. TRADE POLICIES AND FOREIGN DIRECT INVESTMENTS

In an international context in which the system of multilateral rules, agreed within the World Trade Organization (WTO), appears to be in crisis and struggles to regain a leading role, recent years have witnessed a return to protectionist policies, exposing countries to the double shock of trade retaliation and inflationary pressures as a result of the barriers introduced. Comparing the different types of restrictions, overall the imports of capital goods and intermediate goods are subject to relatively low tariff levels, while higher tariffs are generally applied to imports

of agricultural products. In terms of geographical areas, advanced economies impose lower customs duties, while in non-EU European countries and North Africa the average tariffs for both categories reach 17 percent and 19 percent.

In recent years, the introduction of unilateral restrictive measures has further accelerated, especially the so-called non-tariff measures, applied to both imports and exports and leading to an increase of costs and red tape barriers due to their complexity and lack of transparency.

<Chart 4 - Restriction Index for Trade in Services, by countries⁽¹⁾>



¹ Higher values indicate more restrictions; Bulgaria, Cyprus, Croatia, Malta and Romania are excluded from the EU area
(Source: ITA elaboration on OECD Data)

Considering international trade in services, national regulations applied to the different modes of supply translate in restrictions of various kinds, which negatively affect the competitiveness of companies and their exports. As in the case of customs duties and non-tariff measures, the indicators (source: OECD, Services Trade Restriction Index - STRI and Digital Services Trade Restriction Index - DSTRI) show the existence of wide differences among countries, with digital services targeted by a minor level of restrictions compared to the average. Other protected sectors are specific professional services and transportation.

In the case of Italy, the digital economy indicators show a degree of restriction of digital services lower than the EU average (0,126 versus 0,144) whereas, considering other services, including transportation, the index is above the European average (0,263 versus 0,211). Inward foreign investments are also subject to restrictions, particularly of a regulatory nature, which effectively limit the ability of countries to attract FDIs and benefit from their positive effects on productivity, employment growth, and knowledge transmission.

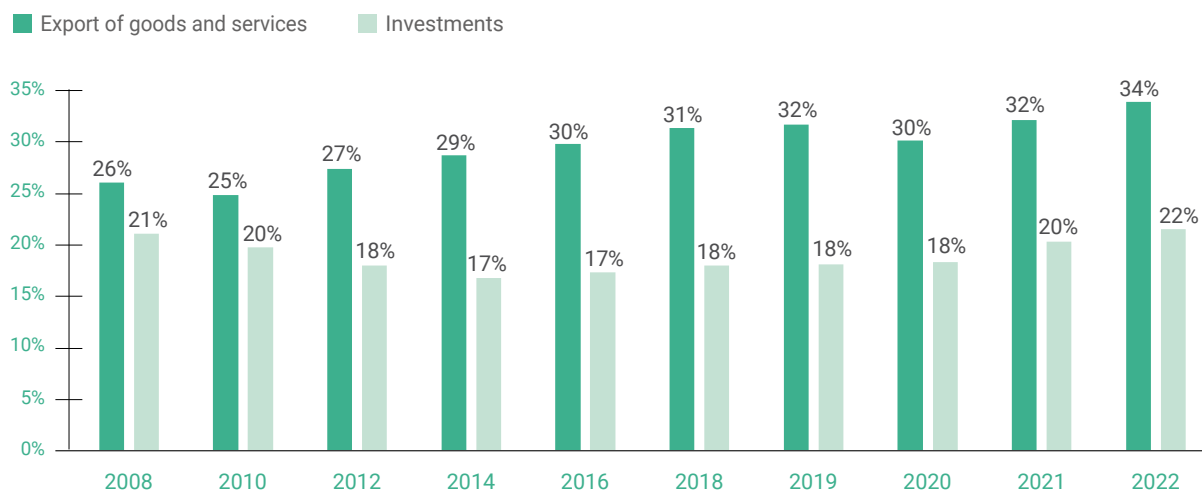
The FDI Regulatory Restrictiveness Index (OECD), which measures the degree of restriction of FDIs, shows that BRIC countries (Brazil, Russia, India, China) have an index higher than both the average of the OECD economies and the European Union. However, even in the EU countries there is room for improvement for what

the simplification of procedures is concerned. Moreover, in terms of sectors, the primary and tertiary sector index is generally higher than in the industry.

3. ITALY: AN OVERVIEW

In terms of economic performance, Italy grew by 7% in 2021 and by 3,7% in 2022, recovering pre-pandemic levels faster than both its main European partners and compared to previous economic crises (2008 and 2012). This high GDP performance was mirrored by Italian foreign trade flows, both imports and exports. The Italian imports of goods increased by 36,4 percent (655 billion euros) while exports rose by 20 percent (625 billion), resulting in a negative trade balance due to increasing energy costs.

The deterioration of the trade balance also affected other leading European economies, such as Germany, France, and Spain. However, between 2019 and 2022, Italy's exports of goods in volume (+9,6% compared to 2019) grew more than the rest of the EU (+9,1%) and the main European competitors (Germany +2,9%, the Netherlands +8,7%, France -4,9%). In 2022, and for the second consecutive year, Italy's export growth of goods was higher than the world trade average (in volume), leading to an increased world share of 2,6 percent.

< Chart 5 - Investments and exports of goods and services as a share of GDP >

(Source: ITA elaboration on IMF data)

Three main factors have been identified as crucial in the Italian performance in 2022.

First of all, Italy's price competitiveness *vis-à-vis* other European countries, calculated on the real effective exchange rates released by the Bank of Italy, deflated by the manufacturing price index and weighted with manufacturing trade flows, had a positive impact on exports. Second, the different weight and the dynamics of exports in the most energy-intensive manufacturing sectors, where commodity price increases had strong negative consequences, have certainly played a role, considering the lower weight in the case of Italy. In addition, although the shortage of materials and equipment also

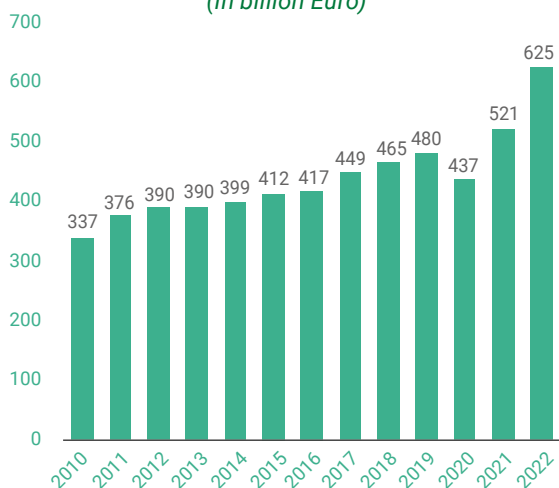
had a negative impact in Italy, the effects were lower than in other main economies of the euro area.

In current values, Italy's market share of goods has shrunk by about a tenth of a percentage point, including raw materials, but remained at the same level as in 2021 in the manufacturing sector. Decreases were recorded in food, fashion consumer goods and in the mechanical sector, against increases in pharmaceuticals, furniture, and in intermediate products such as textiles.

The decline in the aggregate share is mainly due to a negative commodity effect, since the relative weight of sectors in which Italy is less specialized has increased significantly (for example energy raw materials

and refined petroleum products), while sectors in which Italy is traditionally strong (from machinery to pharmaceuticals, from metallurgy to traditional Made in Italy products) have decreased, largely due to the cyclical rise in energy prices.

< Chart 6 - Exports of goods >
(In billion Euro)



(Source: ITA elaboration on ISTAT data)

These dynamics have also influenced the geographical composition of Italy's foreign trade, with a strong increase in the value of imports from non-EU countries (+59,7%) compared to those from the EU (+22,7%). On the other side, the growth of nominal export values was more homogeneous between the two areas (+23,1% exports directed to non-EU countries and +19,8% exports

to the EU). In the European Union, Belgium (+26,8%), the Netherlands and Austria recorded the largest increases, while exports to Germany (which were heavily affected by supply problems) and Spain showed smaller, albeit significant increases (+15% and 17,2%).

Among non-EU markets, the United States (+32%), thanks also to the depreciation of the euro against the dollar, Turkey (+40,9%) and the Middle East (+28,9%) recorded a strong increase. Conversely, export dynamics towards China decelerated significantly (+5%, compared to 21,8% in 2021), also due to the effect of the Covid-19 health restrictions, as well as exports to Russia (-23,7%) due to sanctions for the war in Ukraine.

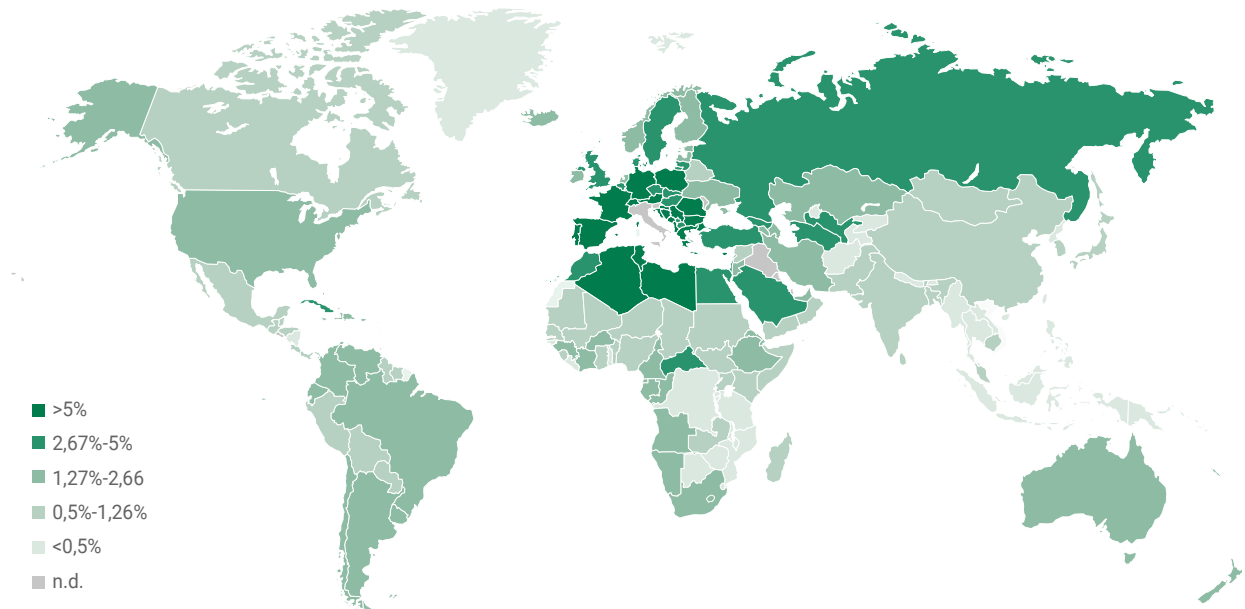
On the import front, purchases from areas supplying energy products have been sustained, supported by the increase in prices, with peaks of +87,3 percent for imports in value from the Middle East (primarily from Azerbaijan and Qatar) and 96 percent from North Africa (particularly from Algeria). Also noteworthy is the substantial increase of import values from Russia (+45,7%), driven by the sharp increase in the price of gas, which however underlies a sharp contraction of purchases in volume (-35,7%). The strong growth in values imported from China (+49%) and the United States (+57,6%), corresponds to positive, albeit decidedly more limited, changes in volumes (19% and 15,8% respectively).

In terms of competitive positioning, the dynamics described resulted in a slight downsizing of the Italian presence in most of the main export markets in 2022, although of different intensity. Market share in the EU fell to 4,6%, mainly due to declines in France and Germany (from 8,5% to 7,9% and from 5,5% to 5% respectively); among non-EU European countries, the largest decline was recorded in Switzerland (from 10,1% to 8,7%) and

the United Kingdom, while in Turkey there was a slight improvement (from 4,5% to 4,7%).

Among the other main destination areas for Italian exports, Italy's presence consolidated in North America, while recording a slight decline in the Middle East and in Central and Eastern Asia.

< Chart 7 - Italian share of export of goods in 2022 >



(Source: ITA elaboration on IMF data)

In terms of concentration and diversification in sales and supply markets, the dynamics in international trade and global supply chains determined a more pronounced change of Italy's positioning *vis-à-vis* other European countries. Between 2019 and 2022, significant changes occurred in the distribution of export markets and supplying countries, and the sectoral repositioning led, on one hand, to an increased concentration of export markets and, on the other hand to a greater diversification of suppliers in sectors such as electronics, food and beverages, textiles, clothing and leather, and chemicals.

In other cases - machinery, metallurgy and metal products, other manufacturing and rubber, plastics and non-metallic minerals - there was a reduction in both indicators, with a higher concentration in both trade directions. Moreover, the (direct and indirect) impact of goods exports on the added value of the Italian economic system decreased slightly from 18,6 percent in 2019 to 17,5 percent in 2022, due to the relative increase in the share of imports generated by each export unit, although not evenly across sectors (food and beverages, electronic goods, pharmaceuticals, chemicals scored well, compared to machinery, metallurgy and metal products).

Despite this, it should be noted that the post-pandemic increase in exports has had a positive effect on the growth of total value added. Comparing 2022 to the previous year, the net expansionary effect of export

growth on the value added was equal to 2,6 percent, almost twice the estimated value for the pre-Covid two-year period.

Italy is characterized by a low industrial concentration and by a large number of exporting companies, competing in the countless niches of products in which Italy is specialized. In 2019, the top fifty exporting companies represented only 19 percent of Italian exports, generated by the industrial sector, compared to 53 percent of the top 50 French companies and 46 percent of the top 50 German companies.

In 2021, 15,7 percent of exports of Italian manufacturing companies (about 75 billion euros) come from small companies (between 0-19 employees) and 30,3 percent from medium-sized ones (50-249 employees). Around half (49,6%, € 236 billion) originate from large companies. The decline during the Covid-19, both in the number of exporting companies and in exported values, mainly concerned micro and small enterprises; although 2021 saw a full recovery in exports for all classes of companies, the number of small exporting enterprises in 2021 was still below the 2019 level.

In 2022, some of the exporting companies progressed towards more complex ways of participation in GVCs (Global Value Chains), especially in the capital goods sector, while others, previously not involved, activated for the first time some form of participation, a factor that

emerged as relevant to their export performance.

In this sense, there are at least three important aspects to consider: the first is given by the remarkable resilience of exporting SMEs in the first exit phase of the pandemic (2019-21), with a subsequent stabilisation in the second phase (2021-22); the second relates to the delay in the recovery of exports of foreign-controlled companies, due to the strong interdependence with the strategies of global groups, followed however by a considerable export performance; the third is the ability of Italian multinationals to maintain sustained export flows in both

phases, thanks to their high resilience and management capacity in terms of product and geographical distribution on foreign markets.

To summarize, the dynamics of exporting companies in the manufacturing sector during the period 2019-2022 clearly shows that firms involved in international production networks (measured through the exchange of intermediate goods, with different intensities) reached in 2022 a higher export performance, compared to companies not participating in GVCs.

4. ITALIAN TRADE AGENCY: POLICIES AND ACTIVITIES

The Italian Trade Agency (ITA) continued in 2022 on its role of supporting the internationalization processes of the Italian companies. More specifically, to encourage the post-pandemic recovery, the Agency extended to the whole year the policies started in 2020-2021: in particular, companies participating in the promotional activities could benefit from a free participation at trade fairs and other events, and from free assistance/consulting services, mainly provided by ITA's network abroad. In 2022, there were about 21.000 users of supporting services (trade promotion, assistance and consulting, training), with a significant increase in users due to the new service policy - introduced in early 2020, and extending the number of free services - and to the

various events implemented in digital format. In the last two years, the promotional services have also more than doubled (from about 6.000 to over 13.000).

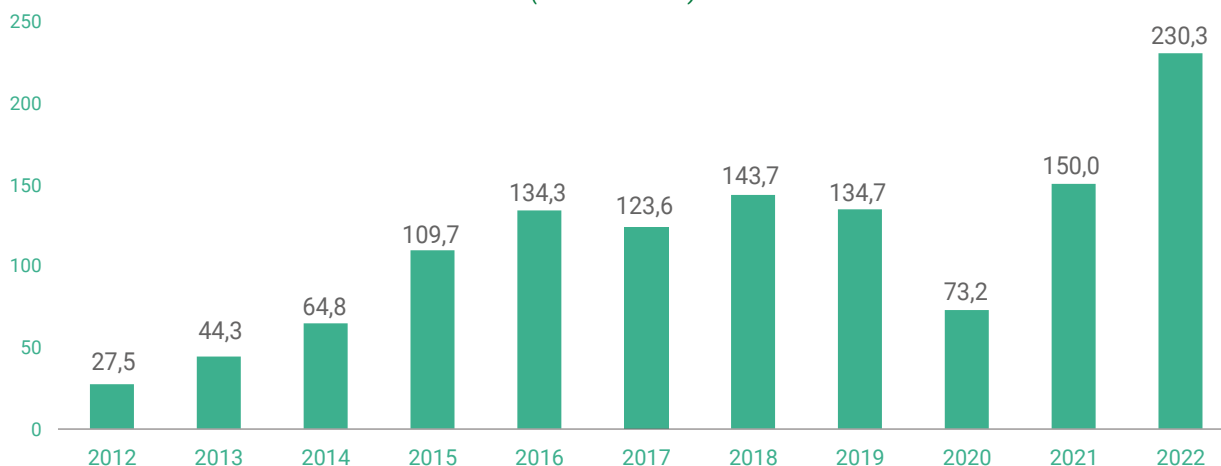
The 2022 Italian Budget Law allocated additional resources to extend the measures for extraordinary and ordinary promotional programmes, reaching for 2022 a total allocation of 168,7 million euros. The Promotional Plan has been structured in seven types of action: communication, training / information, e-commerce and large-scale distribution, support to fairs and exhibitions, support to agricultural and agri-food productions, digitalisation and innovation, attraction of foreign investments. By adding large communication

campaigns and some other specific support measures (Digital Bonus and Digital-Temporary Export Manager projects) to the more traditional promotional activities,

the total expenditure reached a record figure of 230,3 million euros (+ 54% compared to 2021).

< Chart 8 - ITA Promotional expenditure >

(in million euro)



(Source: ITA)

Considering the different segments, in 2022 promotional activity targeted mainly the fashion-personal care-leisure sectors (27,4% of total expenditure), agri-food (26,4%) and industrial technology (24,6%). Geographically, support for Made in Italy products was mainly directed towards the European markets (37% of the total), followed by

Asia and North America (26,7% and 26,5% respectively). The United States, which accounts for a quarter of promotional spending targeting specific countries, was the largest destination for Italian promotional support, followed by France, Germany (about 13% and 8%) and the United Arab Emirates (7%).

< Chart 9 - ITA Promotional expenditure by sector>

(in million euro & shares)

Lines of activities/sectors	Expenses for promotion 2022	Share
Fashion-personal care-entertainment	42,40	27,4%
Agricultural products - Food and wine	40,83	26,4%
Industrial Technology	38,10	24,6%
Startup & innovation technology	17,68	11,4%
Home & Business	15,72	10,2%
Total promotional sectors	154,73	100,0%
Share on total expenditure	-	67,2%
Multisector	7,45	3,2%
Attraction of foreign investments	3,19	1,4%
Training & education	3,05	1,3%
Industrial cooperation	2,39	1,0%
Nation branding	30,47	13,2%
Total	230,28	100,0%

(Source: ITA)

In 2022, ITA supported Italian pavilions in 249 foreign fairs and 87 markets, with 6.849 participating companies, as well as 90 exhibitions of international level held in Italy, dedicated to all export sectors. In total, 23.832 Italian participants were involved in promotional activities organized by ITA: mainly companies, but also journalists, buyers, experts that have taken part in trade missions, and participants in training courses. The number of participants coming from other

countries, involved in promotional events, reached 11.267.

An important area of activity is the support offered to Italian companies, and especially SMEs, for access to international e-commerce platforms. In 2022, 17 agreements were signed, consolidating ongoing collaboration with Alibaba, Amazon, Gmarket and Galaxus and establishing new partnerships with important players, such as Zalando (Germany); Evino/Gran Cru,

Divvino and Wine (Brazil); Shopee (Thailand) and Lamoda.kz (Kazakhstan). Companies are assisted online through a free consulting service, aimed at improving their positioning on foreign markets using marketplace and e-commerce channels, both for B2C and B2B. The service, active since 2022, supported companies in about 400 instances. Strong support was also put in place for large-scale retail trade (GDO) and O2O (offline to online) retailers present in foreign markets, aimed at facilitating access of high-end Italian goods and launching new Italian brands and products. During 2022, 56 agreements were signed with large-scale distribution chains, with over 5.900 participating companies and the involvement of 3.400 points of sale in 31 countries including the United States, Germany, United Kingdom, China, Thailand, Japan, Gulf countries.

In terms of information and assistance services, in 2022 were published over 3.000 reports, news on markets in Italian or English (over 30.000), information on international tenders, major projects and commercial opportunities (over 4.700), and sector/market notes (775). ITA provided around 35.500 services over the year, mostly free of charge. 12.782 customers made use of the services, with a slight increase compared to 2021 (11.755). Since 2019, the assistance has also been enriched by the Export Flying Desk project, which in 2022 assisted 1.271 companies, for a total of 1.311 meetings, both in presence and in virtual mode.

In 2022, the Italian Trade Agency launched the Export Tutor

project, which involved 87 ITA officials and managers, both in Italy and abroad, in order to assist over 1.000 SMEs throughout the year. Since January 2022, the Assistance and Protection Desks of Intellectual Property and Trade Obstacles project was renewed and involved eleven offices: Bangkok, Buenos Aires, Mexico City, Ho Chi Minh, Istanbul, Kiev, Moscow, New Delhi, New York, Beijing and Sao Paulo.

Training plays a crucial role in assisting the internationalisation process of Italian companies. In 2022, training courses were offered again in presence, although part of them were kept online, carrying out 76 training activities with the participation of about 6.000 company representatives, professionals, young Italian and foreign graduates, foreign operators.

The total hours of training provided were over 44 thousand, mainly aimed at companies. Among the initiatives dedicated to young graduates, ITA held in 2022 the 55th edition of CORCE Fausto De Franceschi (ASFOR accredited specialist Master), aimed at training export managers and encouraging their inclusion in Italian companies, with a placement rate reaching as much as 91 percent.

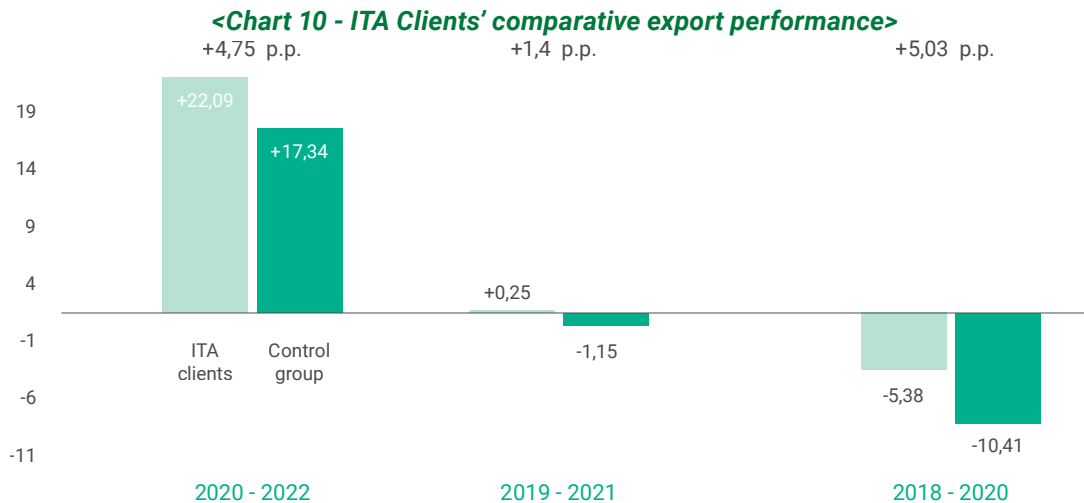
In terms of attraction of foreign investments, the agreement between ITA and Invitalia assigns a central role to the Agency in scouting activities for the identification of potential foreign investors (thanks to the network of desks and specialized analysts abroad), and in the promotion of investment opportunities in Italy. Activities are carried out

in cooperation with national bodies, regions, economic clusters, trade associations and companies.

Customer satisfaction analyses (based on a sample of around 5.000 interviews) show that 87,2% of respondents were satisfied with ITA's services. The overall rating on the services offered was equal to 4,3 (on a scale from 1 to 5). Moreover, 82 percent would participate in promotional events again, and 92,9 percent would

request additional consulting services for a fee. Finally, 89,4 percent would again take part in training activities.

To assess the effectiveness of the services aiming to foster internationalisation, the Italian Trade Agency carries out, in collaboration with ISTAT (National Institute of Statistics), a measurement of the impact deriving from its activities, assessing the export performance of companies benefitting from the support and whose results are shown in Chart 10.



(Source: ITA elaboration on ITA - ISTAT data)

The impact is calculated through the Propensity Score Matching (PSM) methodology, which compares the export growth of client companies with that of non-clients (control-group), similar in size, sector of activity, outlet markets, and export propensity. The estimate for the period 2020-2022,

which includes the year characterised by a huge contraction in international trade due to the spread of Covid-19, shows that the increase in exports is higher among companies benefitting from supporting services (+22,09%), compared to the other group (+17,34%), with a difference of 4,75 percentage points.



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