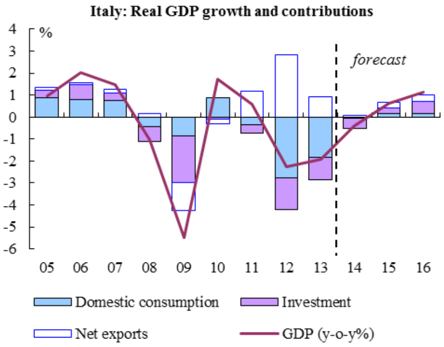
INVESTMENT IN ITALY

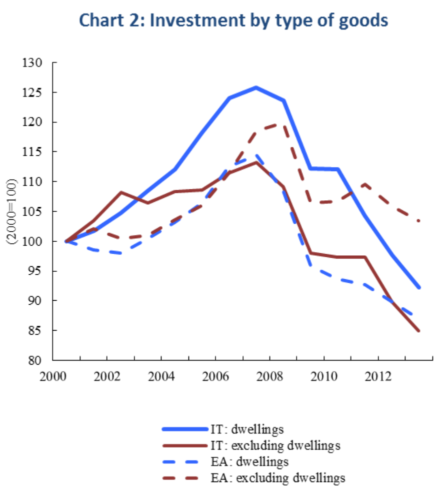
What is the situation in Italy?



Source: European Commission 2014 Autumn Forecast

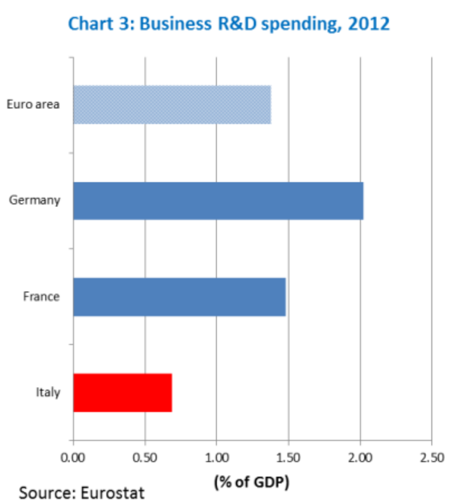
The Italian economy is struggling to exit the prolonged recession. At the end of 2013, the country's real GDP was 8.3% below its pre-crisis peak in 2007 and is expected to contract further in 2014. Investment was hit very hard, considerably slowing down GDP growth in the short term and weighing heavily on Italy's long-term potential. As a share of GDP, investment fell from 21.6% in 2007 to 17.8% in 2013, and it is now 2 percentage points lower than in the EU as a whole (19.3%). Private investment fell by 3.2 percentage points as a share of GDP over the same period and government investment by 0.5 percentage points as measures to restore sound public finances did not protect capital spending.

What is the main challenge?



The recovery of productive investment is Italy's main challenge. The non-housing part of investment was the hardest hit during the crisis, despite subdued growth beforehand. In real terms, in 2013 it was 15% below its level in 2000. The long drawn-out recession, uncertain outlook and difficult credit conditions continue to hamper the ability of Italian firms to invest, also due to their high leverage. There is also room to improve the quality of spending in Italy. While productive investment as a share of GDP remained broadly in line with that in the euro area until 2006, it failed to underpin productivity growth. Improving the business environment, opening markets, developing capital markets and a more growth-friendly tax system would help improve both the quantity and the quality of investment, and attract foreign direct investment.

Opportunities for investment



Source: Eurostat

The Italian economy still leans towards traditional, medium/low-tech goods, which exposes the country to strong cost-competition. Investment should therefore be directed to improve the technological and knowledge content of the economy. This is not yet happening. Italy's business R&D spending remains at 0.69% of GDP, around half of the euro area. Italy's share of ICT investment in total investment decoupled from that of other major European countries in mid-1990, when ICT is deemed to have fuelled productivity growth. The small size of Italian firms and the low level of qualified workforce (in 2013, only 22.4% of 30-34 years old had a university degree or equivalent, the lowest share in the EU) are both a driver and a consequence of these developments. Italy also shows significant gaps in infrastructure, in particular with regard to electricity grid and gas storage facilities, ultra high-speed broadband and the interconnections between the ports and the inland railway network.

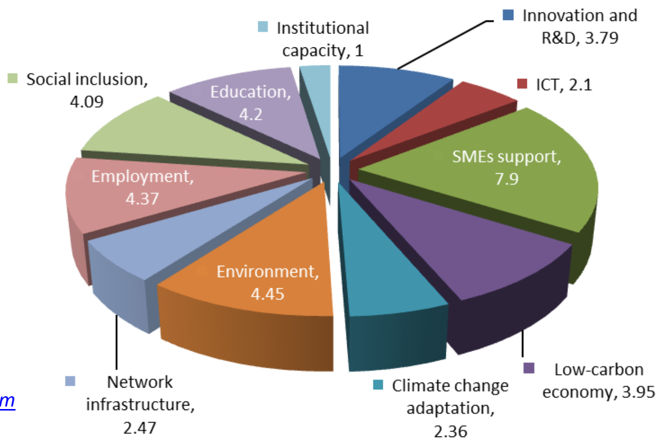
Reforms for investment

In the Country Specific Recommendations for Italy, the European Union recommended:

A growth-friendly fiscal adjustment while preserving growth-enhancing spending like R&D, innovation, education and essential infrastructure projects	Implement the National System for Evaluation of Schools to improve school outcomes and reduce early school leaving
Further shift the tax burden from production factors to consumption, property and the environment	Ensure that public funding better rewards the quality of higher education and research.
Reinforce the resilience of the banking sector	Approve legislation or other equivalent measures aimed at simplifying the regulatory environment for businesses and citizens and address existing implementation gaps.
Foster non-bank access to finance for firms, especially small and medium-sized businesses.	Foster market opening and remove remaining barriers and restrictions to competition.
Evaluate the impact of the labour market and wage-setting reforms on job creation and cost-competitiveness, and assess the need for further action.	Ensure swift and full realisation of the Transport Authority. Approve the list of strategic infrastructure in the energy sector and enhance port management and connections with the countryside

EU funding for investment

2014 – 2020
In billion EUR



Source: Partnership Agreement:
http://ec.europa.eu/contracts_grants/agreements/index_it.htm
**excluding European Maritime and Fisheries Fund (EMFF)*

Past or ongoing projects for investment