The European House Ambrosetti

Business Insights from Italy

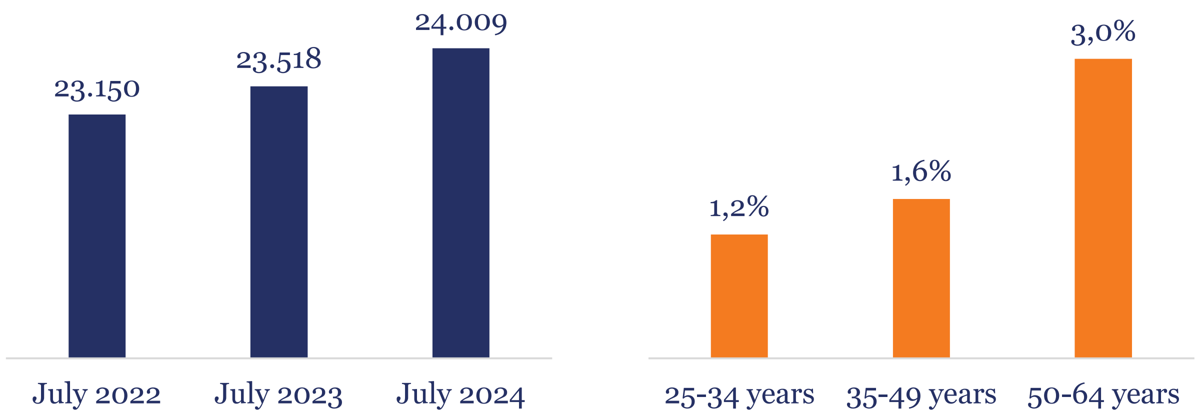
A Letter to International Investors

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 the second quarter of 2024, Italian GDP grew by 0.2 percent compared to the previous quarter and by 0.9 percent compared to the second quarter of 2023. Acquired growth for 2024 is 0.6 percent, and projections suggest 2024 growth of around 1 percent.

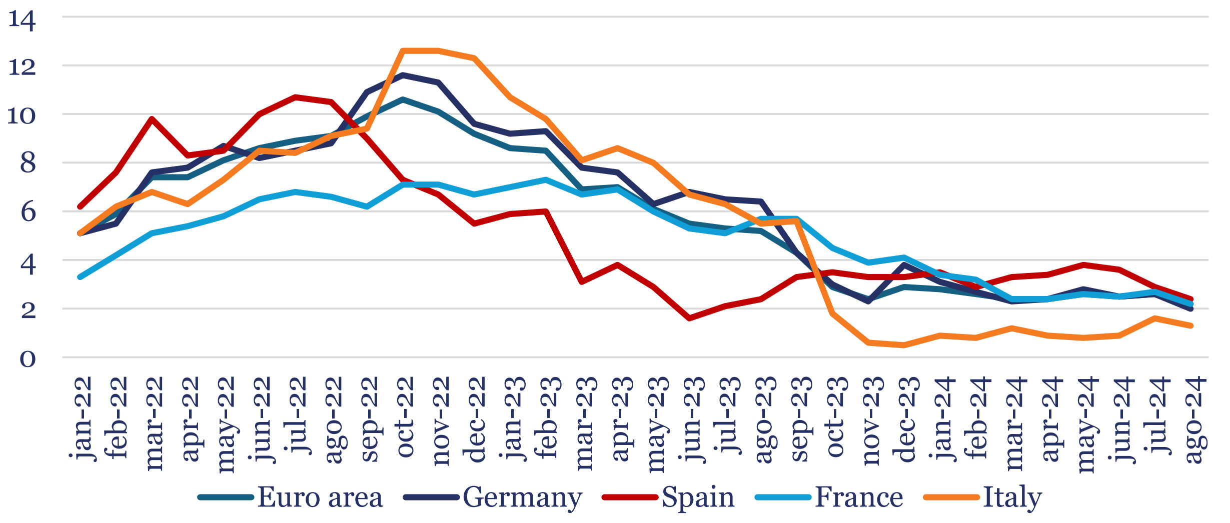


On the left: employees in Italy (thousands). On the right: percentage change in employment by age class between 2023 and 2024

The **Italian labour market** continues its path of robust growth: between July 2023 and July 2024, the number of employed people grew by 2.1 percent, and more than **260,000 new jobs** have been created since the beginning of the year. Employment growth is widespread across all segments of the population: both among new entrants to the labour market (25-34 age group), which grew by 1.2% in the past year, and among older workers (50-64), where growth was as high as 3%.

In the first six months of 2024, Italy has notably overtaken Japan in exports of goods, thus reaching the 4th place among top exporters worldwide.

Faced with the slowdown in European partners, Italian companies further diversified their exports, thus offsetting intra-EU reductions with an **expanding dynamic toward non-EU countries** (+0.8%). In particular, exports to OPEC countries increased by 11.1% and to Japan by 5.9%



Inflation rate (percentage point)

The **path of inflation reduction** continues apace: as of August 2024, the inflation rate has reached 1.3 percent, which is significantly lower than what is being recorded in other European countries and the Eurozone as a whole.

The reasons for this success lie, primarily, in the **falling cost of energy goods**, which in turn is the result of a strategy of diversification of supply sources from abroad and an increase in production from renewable sources.

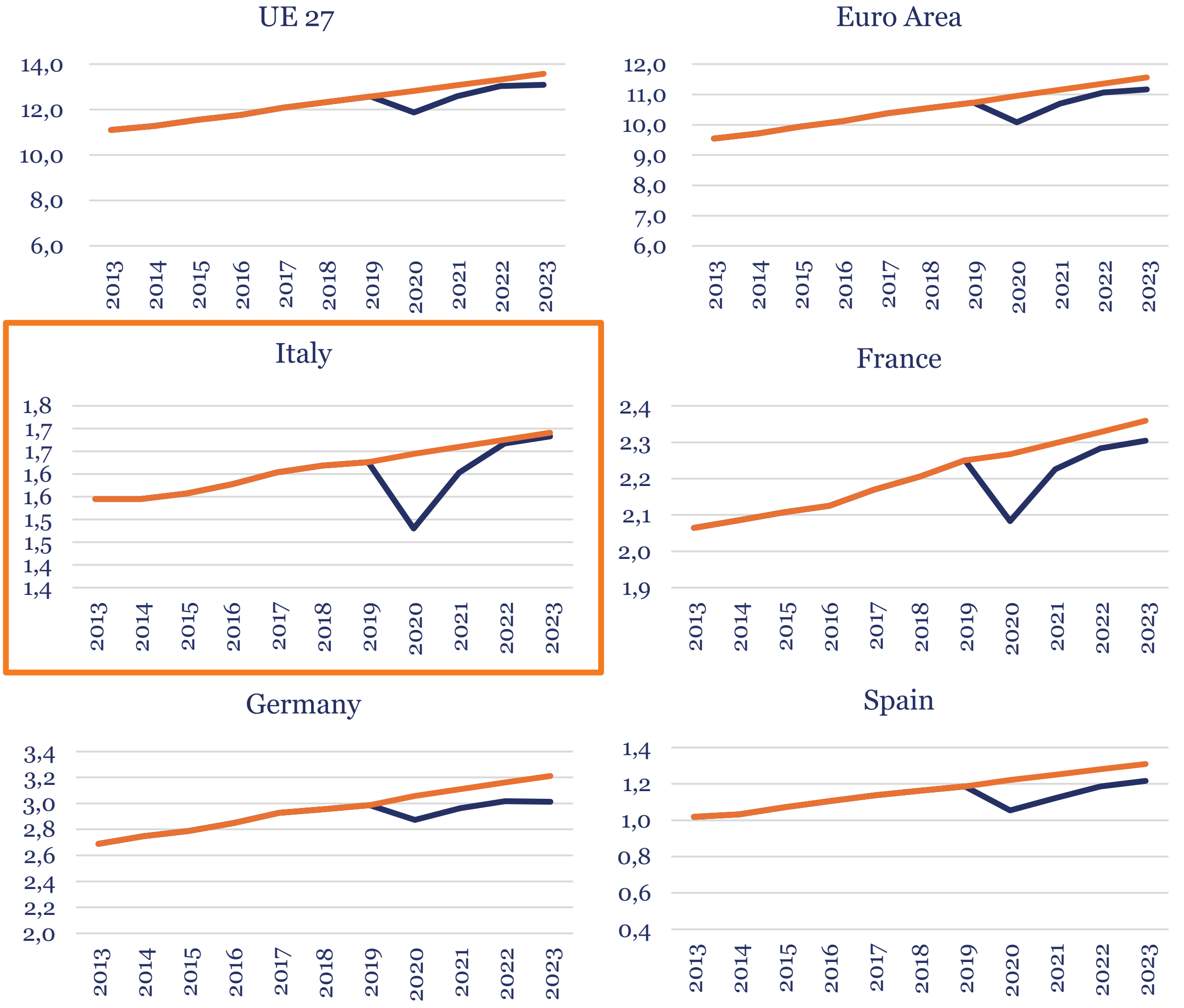
The forecast released by the European Commission before the summer shows 2024 inflation at 1.6 percent: recent data appear to be outperforming expectations, thus making it conceivable that the 2024 closing figure will be better than anticipated.

The figure

Italy produces more energy from renewable sources than other major European countries: 19.4% of Italian production is green, vs. 18% in Germany, 16.9% in Spain, and 14% in France

The current Italian macroeconomic framework fits into a broader post-pandemic recovery context in which the country has significantly outperformed the European average.

In fact, looking at the growth trend during the 2021-2023 period, it is clear that Italian GDP has already returned to its "natural" pre-pandemic levels (2013-2019 trend), whereas the entire European Union, the Eurozone, and all other major European countries are, on average, still at lower levels.



GPD in Europe. The orange line represent the long run trend, while the blue line the actual value (hundred of billions)

The graph highlights this dynamic: **the only country where the post-pandemic recovery**, marked by the blue line, **has reached the trend** (orange line) **is Italy**, whose 2023 GDP is almost identical (-0.5%) to the long-term trend. On the other hand, France (-2.3%), Germany (-6.3%), and Spain (-7.2%) have not yet fully recovered from the losses incurred between 2020 and 2021.

The growth forecasts for 2024 and 2025 confirm this trend. According to the European Commission's projections, Italy is expected to close 2024 with a growth of **0.9%**, and 2025 with a growth of **1.1%**. The estimates for France indicate 0.7% and 1.3%, and for Germany 0.1% and 1%. It is important to highlight that in 2025, public investments will experience a significant acceleration due to the increased funding provided by Next Generation EU. Indeed, the schedule foresees a growing pace of spending, which can act in a counter-cyclical manner and further support the country's economic growth.

The new Special Economic Zone in Southern Italy

In recent months, a unified Special Economic Zone (“ZES: *Zona Economica Speciale*”) has been established across Southern Italy.

This project unifies the previously established regional Special Economic Zones under a single entity. The unification simplifies administrative procedures and allows for the adoption of a broader strategic approach, as outlined in the **three-year Strategic Plan**.

This Plan, in line with the NRRP (the Italian *National Recovery and Resilience Plan,* adopted within the Next Generation EU framework) and with the national and regional programming of European structural funds, and in compliance with environmental sustainability principles, defines the development policy for the unified ZES.

The Italian Special Economic Zone

With the aim of developing the unified ZES, the Plan also identifies priority sectors and investments to be promoted. Furthermore, it outlines prospective interventions, including measures to advance the energy transition.

The ZES was created with the aim of encouraging the **establishment of new businesses** in a region with vast potential and abundant energy resources, though still underdeveloped compared to its capabilities.

The Special Economic Zone is an area where economic and entrepreneurial activities, carried out both by companies already operating in these territories and by those that will settle there, benefit from special conditions related to investments and development activities.

The Strategic Plan identifies **8 strategic sectors and 3 technological areas** towards which investments in the ZES should be directed. Specifically, the sectors are agribusiness, tourism, electronics-ICT, automotive, high-quality Made in Italy products, chemicals and pharmaceuticals, shipbuilding, and aerospace.

The three key technologies are digital, cleantech, and biotech, which are the value chains included by the European Commission in the STEP (Strategic Technologies for Europe Platform) investment platform.

The NRRP has allocated **investments worth 630 million euros** to 71 infrastructure projects directly supporting the ZES, aimed at the urbanisation and the industrial development of these areas. Overall, looking at the distribution of NRRP investments in the Italian ZES, 48% is dedicated to improving "last mile" connections, 42% to investments related to logistics, green urbanisation, and energy and environmental efficiency in the areas around ports and industrial zones belonging to the ZES, and 10% is focused on enhancing the resilience and security of infrastructure connected to port access.

The deadline for **completing** these projects is set for **June 30, 2026**.

From a **procedural simplification perspective**, and with the aim of promoting greater awareness among economic operators regarding the benefits of the unified ZES, a **digital one-stop shop** was established at the Mission Structure starting March 1, 2024. It incorporates the digital one-stop shops already active in each ZES. Furthermore, economic, industrial and logistical projects within the area **are now subject to a single authorisation**.

From a **fiscal perspective**, under the new unified ZES regulation, a **tax credit is granted** for 2024 to companies that purchase capital goods intended for production facilities located in Southern Italy. The tax credit is calculated based on the proportion of the total cost of the specified assets, with a maximum limit of **100 million euros** per investment project and a minimum value of 200 million euros. The credit varies according to the region, the size of the enterprise, and the scale of the investment. Depending on the investment area, the credit corresponds to a percentage **between 15% and 50%**.

Additional incentives are also provided for **small and medium-sized enterprises**: for investment projects with eligible costs not exceeding 50 million euros, the limits are increased by 10 percentage points for medium-sized enterprises and by 20 percentage points for small enterprises.

The new ZES was introduced at the end of 2023. The success of the initiative is also reflected in the value of the incentives provided, which exceeded expectations. For this reason, in August 2024, the Italian Government **allocated an additional 1.6 billion euros**, on top of the **already planned 1.8 billion euros**.

Moreover, a recent law ("Decreto Coesione") promotes employment growth in the ZES through a **100% contribution relief for a maximum period of 24 months,** up to 650 euros for each employee hired, for companies with up to 15 employees.

Any further information can be found in the official website, www.strutturazes.gov.it or by directly contacting the Mission Structure at the address **info.zes@governo.it**

Focus on a sector: Agrifood

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

€251.1 billion in revenue, of which **€176.7 bln** from Food&Beverage (F&B) and **€74.4 bln** from the agricultural sector
+31% vs 2015

3.3 mln employed, of which **457,000** F&B and **2.8 million** from the agricultural sector
+0,1% vs 2015

€66.6 mld in agrifood added value, of which **€29.0 bln** from F&B and **€37.6 bln** from the agricultural sector
+14% vs 2015

1.2 mln companies, **60,444** F&B and **1.1 milion** agricultural sector
-5% vs 2015

€18.3 mld in investments, of which **€6.0 mld** F&B and **€12.3 mld** from the agricultural sector
+69% vs 2015

€62.2 mld in exports, of which **€53.4 bln** from F&B and **€8.8 bln** from the agricultural sector
+69% vs 2015

The key figures of agrifood in Italy

The agrifood sector is one of the Made in Italy's standout industries, contributing significantly to growth and exports. Italy holds a substantial share of the global market in several products: pasta (45%), spirits (41.5%), tomato sauce (26.7%), processed vegetables (20.2%), wine (20%) and many others.

These data reflect the quality of Italian products. In fact, **Italy is the European country with the highest number of certified products** (890), pulling ahead of the second-ranked country, France, by more than 100 products (France has 767).

The strength of the Italian agrifood sector is exemplified by the fact that Italian agrifood exports did not stop even during 2020, despite the slowdown in international trade and production halts. **In 2020, Italian food exports increased by +2.5% compared to 2019**. The following year, with the resumption of production activities and the easing of restrictions, the growth trend returned to normal levels, registering an annual increase of +10.8%.

The dynamism of the Italian agrifood sector underpins the development of new entrepreneurial ventures and agri-tech startups. In Italy there are **over 340 startups** active in the agrifood-tech sector, a market that received investments amounting for 167 million euros in 2023 (152 million euros in 2022).

The strength of the Italian agrifood sector lies not only in the expertise and quality of the food manufacturing companies but also in the presence of the necessary upstream supply chains. Italian production of primary agricultural goods is internationally recognised as a guarantee of quality. The agrifood sector is also supported by a highly structured **food packaging supply chain** and, most importantly, by the **food processing machinery sector**, one of the hidden gems of Italian manufacturing.

Italy is the **third-largest exporter worldwide of food processing machinery**, with exports worth 4 billion euros, closely following China (nearly 4.3 billion) and more than double that of the United States.

Italy excels in adopting technological innovative solutions in the sector, such as **robotics**. Italy ranks among the top 5 EU countries in terms of value generated by the agricultural robotics market, with revenues of **1,600 euros for every million euros generated by agriculture**, doubling the EU average. In the European Union, Italy ranks 5th with 69 patent applications in the food sector (the European average is 39), and 4th for the rate of **circular material use, at 18.7%** (above the European average of 9.3%).

The importance of technological innovation in the food sector is also confirmed by one of the most important international trade fairs: CIBUS TEC. The event is held every year in the city of Parma and annually hosts about 1,200 exhibitors and over 40,000 visitors from 120 countries. It serves as an international showcase for new technological innovations and sustainability related to the agrifood sector.

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.

For more information and to get in touch with a dedicated tutor, please visit: www.investinitaly.gov.it website.

Favourable tax regime for new residents

New fiscal residents in Italy have the opportunity to apply for a **special tax scheme**, that lasts **for 15 years**:

- Foreign-source income will not be taxed at ordinary rates, but at a yearly substitutive **lump-sum tax of 200,000 euros**.
- All foreign assets will be **exempted from Italian inheritance taxes**.
- No reporting obligations to Italian tax authorities on assets held abroad.
- No wealth taxes on assets held abroad.
- Exemption from Italian CFC rules on foreign companies.

The flat taxation on foreign-source income can also be extended to family members, for 25,000 euros per year per each additional family member.

Should new residents decide to work in Italy , they could apply for a reduction of 50% over their Italian taxable income from employment or self-employment (within an annual limit of EUR 600,000).

Such reduction is granted for a period of 5 years and can be increased to 60% if moving with a minor. Applicants should commit to maintain their fiscal residence in Italy for at least 5 years and should have minimum educational requirements.

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.