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Monthly Brief on the Italian Political Economy

December 2024

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Every month, our Monthly Brief on the Italian Political Economy provides a bullet-point recap of the month's main events, followed by reasoned deep dives and/or interesting graphs and commentaries on topics of significance for economic policymaking in Italy.

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LAST MONTH IN BRIEF

02/12	MP Tommaso Foti is sworn in as Minister for EU Affairs by President of the Republic Sergio Mattarella, following Raffaele Fitto's appointment as Executive VP in the new European Commission
10/12	The European Commission selects Italy's IT4LIA AI Factory project to build one of the first AI factories in EU, a digital development ecosystem entailing the placement of an AI supercomputer to enhance industrial innovation (see **Deep Dive 1**)
17/12	Following CEO Carlos Tavares' resignation, Stellantis officially presents the "Piano Italia" to the Italian government; it is the new industrial plan to safeguard the group's investments and employment levels in Italy
17/12	The annual Italian Market and Competition Law is published in the Official Gazette; it includes key provisions that revolutionise Italy's regulatory framework for start-ups (see **Deep Dive 2** and our **Graph of the Month**)
18/12	The European Commission approves Italy's €1.3 bln State aid to Silicon Box for the construction of a chiplet factory in Novara, Piedmont (see **our March 2024 Monthly Brief**)
30/12	Following the payment of the sixth instalment of the National Recovery and Resilience Plan (NRRP), Italy sends the payment request for the seventh, worth €18.3 bln
31/12	After approval by both Chambers of Parliament, Italy's annual budget law is published in the Official Gazette, entering into force on the first day of 2025.

DEEP DIVE 1

Building the European AI Ecosystem: the IT4LIA AI Factory

On 10 December the European Commission selected the Italian IT4LIA AI Factory as one of the seven European consortia to establish AI factories. AI factories are a European initiative to create ecosystems fostering innovation in the AI field by combining tools (hardware and software) and talent (knowledge and research). The Italian project, designed in partnership by Italy, Austria and Slovenia, will receive public financing worth €430 million, sustained in equal measure by national and EU investments, making the consortium the most financed among the seven. The initiative foresees the realisation of a supercomputer for AI and the development of a series of AI solutions to strengthen the industrial complex, especially SMEs.

Commentary

The EU's choice calls for some considerations from two main standpoints.

First, from the Italian industrial viewpoint, the event shows that, despite recurring concerns about Italy's slowness in the innovation field, the country excels in some niches. The Commission's choice provides an important certification to Cineca–a research consortium specialised in digital transformation and high performance computing that has already received significant investments over the past decade. Cineca will lead the project and the AI supercomputer will be placed in Bologna at the Tecnopolo Manifattura. If well exploited, the Factory can indeed be a good first step to enhance the level of innovation of Italian enterprises. However, it should be noted that for a full ecosystem to emerge, these initial hardware investments will need to be matched by further ones to develop and train AI models–which can cost billions–and, crucially, by the attraction of talent able to develop commercial applications of these models.

Second, from the EU industrial policy standpoint, the project provides concrete insights into Europe's vision and innovation model. The AI factories are the materialisation of a top-down approach where the public sector selects and funds a few initiatives to create scale in the AI and computing infrastructure, to then share the positive spillovers downstream to the private industrial base. This approach contrasts evidently with the American model, where large private corporations have been investing directly across the value chain of AI. Will this European model be able to truly compete? What happens in the next few years at the IT4LIA AI will be part of the answer.

DEEP DIVE 2

Italy's Scale Up Act

On 17 December, some key provisions for Italy's startup ecosystem came into force as part of the annual competition law. Twelve years after the country's pioneering "Start Up Act", Parliament approved a series of significant changes that both acknowledge some shortcomings of the previous law and reflect a growing understanding by Italy's policymakers of the innovation ecosystem's key dynamics.

Commentary

Details aside, the new provisions are a positive evolution because they signal that Italian policymakers have recognised and are addressing two important aspects of how an innovation ecosystem works.

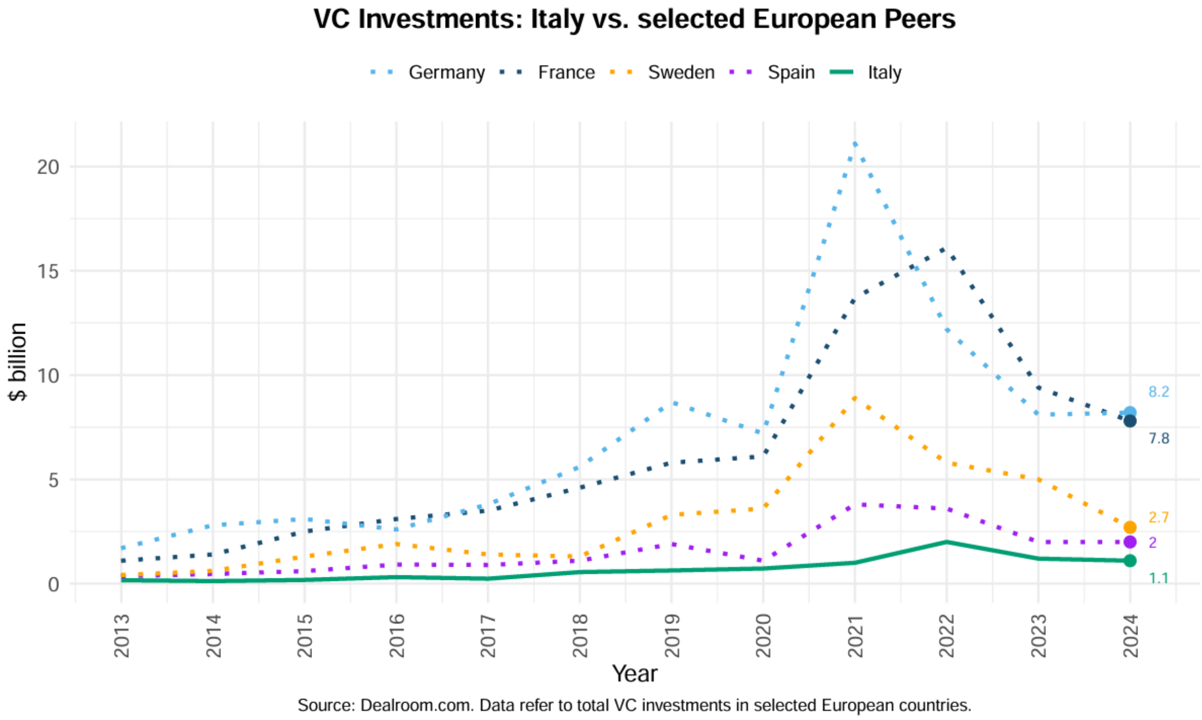
First, the new law updates the legal definition of a startup by better reflecting the true features that characterise this type of business. The 2012 law had introduced the legal concept of "innovative startups", granting important administrative simplifications and fiscal incentives for them. However, this was based on a series of requirements that, most importantly, did not reflect the *scalable* nature of Silicon Valley-like companies. The result was that in the past decade Italy paradoxically saw a proliferation of "innovative startups", yet lagged behind other peer countries in terms of successful VC-backed companies (see Graph of the Month). By 2023 there were over 15,000 "innovative startups and SMEs" in the country (MIMIT annual report). However, only about one in five of these had actually received a VC investment (Dealroom.co), marking a stark dualism between the "bureaucratic" definition of a startup and the market. A main feature of the new law is that it changes the requirements to weed out consulting and agency-like companies and extends the fiscal benefits only for those companies that demonstrate true growth potential. This is a fundamental policy shift that recognises that the companies that most benefit the rest of society are those that don't "remain startups" but grow into scaleups and eventually large businesses, creating employment and technology spillover effects (see Nesta's The Vital 6%).

The second positive development regards capital formation. The new law introduces important incentives and requirements for large institutional investors–in particular pension funds–to allocate a minimum percentage of their capital under management to the venture capital asset class. This is a step-change for an ecosystem that has lacked the volumes of capital other countries have seen. It can also be an example for other European countries of how to use policy to redirect some of Europe's large saving pools towards the funding of innovation (see our August 2024 article).

In conclusion, Italy's new Scaleup Act is a positive change for the country's ecosystem. To be sure, it retains some of the original law's limits. It aims to define top-down what innovation should look like, carrying with it some bureaucratic complexity and a proliferation of on-paper requirements. In addition, it further expands the plethora of fiscal deductions and benefits for a variety of actors, although at this stage an impact-assessment of each would be due. However, overall, it signals that Italian policymakers have better understood the key components of the innovation economy and what it takes to make it work.

GRAPH OF THE MONTH

Italian VC Investments lag behind



Source: Dealroom.com

Europe's underdeveloped financial markets, especially venture capital funds, are often cited as being one of the reasons for Europe's economic underperformance vis à vis the US (see, for example, Draghi's recent report, which highlights a gap of close to 80% in VC investments in 2023). However, within Europe there is significant heterogeneity. In the past decade, VC in countries such as France and Germany has grown much faster than in Italy, in large part also thanks to targeted public initiatives to strengthen the capital base and develop the VC industry (Moretti 2024). Since 2021 Italy has experienced an acceleration, but the gap remains significant. The government's recent Scale Up Act initiative may provide the much needed thrust.