

## Letter from Chief Investment Officer Italy

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### Key takeaways from the recent ‘Versailles Declaration’ and the contents of REPowerEU

In recent years, the macroeconomic landscape and financial markets have been heavily influenced by ultra-expansive monetary policies and targeted fiscal stimulus, measures intended to heal economic and social wounds inflicted by the COVID-19 pandemic.

We expect the coming years to be profoundly shaped by the war in Ukraine, a dramatic event which is causing unspeakable suffering to the population.

The European Union is providing coordinated political, financial and humanitarian support, whilst also planning how to effectively respond to growing instability, global strategic competition and security threats.

These are the issues addressed by the ‘Versailles Declaration’, which concluded the 10-11 March meeting of the EU Heads of State and Government.

It is an important strategic plan because it clearly states the main directions that EU public and private investments will take in the next decade. We know that monetary policies will gradually be normalized but we can be sure that, regardless of the uncertain scenarios we face, fiscal policy will take an additional expansive step on top of the Next Generation EU.

#### The main topics covered by the declaration are:

1) **The EU will substantially increase defense expenditure**, with a significant share for investments with a special focus on innovative and emerging technologies related to hybrid warfare, in order to strengthen cyber-resilience and protect critical physical and technological infrastructures.

2) **REPowerEU (European Commission, 8 March 2022) is the solution to the current heavy dependence on Russian fossil fuels and is based around two pillars:** less Russia and fewer fossil fuels. The first pillar of REPower EU aims at diversifying both gas supply routes and sources and sees higher Liquid Natural Gas (LNG) and pipeline imports from non-Russian suppliers, boosting the use of biomethane and renewable hydrogen. By the end of the year, these measures could result in the EU's gas demand going down by volumes equivalent to two thirds of Russian gas imports. The second pillar is an integrated EU energy system largely based on renewables and greater energy efficiency to reduce fossil fuel dependence for buildings and industries. The case for energy efficiency has never been stronger, as lowering energy consumption in households and enterprises means not only reducing energy imports from Russia, but also reducing energy costs for EU citizens and businesses. As a short-term measure, a new State aid Temporary Crisis Framework will be discussed to grant assistance to companies affected by particularly high energy costs. The Commission also intends to present by April a legislative proposal requiring underground gas storage across the EU to be filled up to at least 90% of its capacity by 1 October each year (gas storage usually supplies 25-30% of EU gas consumed in winter).

3) **In order to make Europe's economic base more resilient and competitive**, various other initiatives will also be set in motion. Here, we would like to pick out those related to: semi-conductors, where EU will diversify supply value-chains and further develop internal production capacity with the aim of doubling European global market share to 20% by 2030 (the European Chips Act, 8 February 2022, aims to mobilize more than EUR 43 billion of public and private investments); digital technologies, including Artificial Intelligence, Cloud and 5G deployment in Europe underpinned by the need to swiftly adopt pending legislative acts (in particular the Data Act, the Digital Services Act, the Digital Markets Act, the Artificial Intelligence Act).

Overall, an ambitious plan which could be funded with a similar scheme to those adopted at country level through the Recovery and Resilience plans. The full implementation will take years but we expect to see concrete actions in the coming months.

All these measures of course require great efforts and the path, as ever, will be far from linear – but they have the potential to shape a better and stronger Europe of tomorrow.