Investment dynamics in Italy: financing constraints, demand and uncertainty

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In this paper we describe the investment behaviour of manufacturing firms in Italy between 1995 and 2013 and we investigate the most important factors leading to the decline in investment since 2008. We estimate an error correction model for investment using information on firms' demand expectations, uncertainty, and credit constraints, based on the Bank of Italy's Survey of Industrial and Service Firms. Our results suggest that the fall in the expected growth rate of real sales played an important role in quantitative terms, and that the 2008 demand shock may explain a long period of weak investment. We also find that credit constraints have a significant impact at the firm level, but less so in aggregate terms. Finally higher uncertainty does not seem to have played a significant role in explaining investment dynamics during the crisis.