



Are we on track for recovery?

There are encouraging indications that we have finally overcome the worst stage of the crisis: the expansion of industrial production and global trade over the last months suggest that the international cycle is getting strong enough to achieve a global growth of 3% in 2013 and 3.6% in 2014 despite the fact that the recovery is still fragile and the levels of unemployment are still unacceptable in many Countries. However, the European Union ends the year in stagnation, 0.1% for the EU28 and -0.4% for the Euro Zone.

The economic and social costs of the two recessions that hit Italy in this short space of time are huge. Since 2007 the GDP has decreased by 9% and the industrial production by 22%. The job opportunities have decreased: the number of employed people has reduced by 1 million units, the unemployment rate has reached 12.2% and is higher than 40% for young people. In Italy a GDP of 1,560,024 million current Euros was reached in 2013 with a reduction of 1.9% in real terms compared to the previous year; 2012 recorded a decrease of 2.4%. Following to last year's drop, real terms the GDP went slightly below the level recorded in 2000.

In the estimates of 2013 the recession seems to lessen since in Veneto as well as at the national level, the last months of the year provided reassuring indications: a percentage variation of -1.6% in the GDP is estimated for the end of the year, with a positive contribution from international sales only, because as regards internal demand, the household spending should fall by 2.3% and the gross fixed capital formation by 5.2%. 2014 should be the year of recovery, recording a growth of +1% whereas a consolidation of +1.5% is expected for 2015.



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# 1. Are we on track for recovery?

Six long years have passed since the start of the serious crisis that gripped the global economy. The outcome of this crisis is not yet clear in Europe. It was caused and fuelled by the finance sector, which was completely out of control and had no rules, and thus produced social inequality, poverty and unemployment throughout the world. However, a new balance can be created based on principles that are alternative to those of the past. The crisis forces us to redesign our path, give ourselves new rules, find new forms of commitment and focus on “positive experiences and get rid of the negative ones”<sup>1</sup>. The crisis therefore becomes an occasion of discernment and new projects, the world needs a thorough cultural renovation to be achieved via the rediscovery of basic principles on which to construct a better future and via the redefinition of the paths which lead to financial and social wellbeing.

## 1.1 The global scenario

There are encouraging indications that the worst stage of the crisis is, perhaps, over: the expansion of industrial production and global trade over the last few months suggest that the international cycle is strong enough to reach a global growth of 3% in 2013 and 3.6% in 2014, despite the fact that the recovery is still fragile and unemployment remains at unacceptable levels in many Countries.

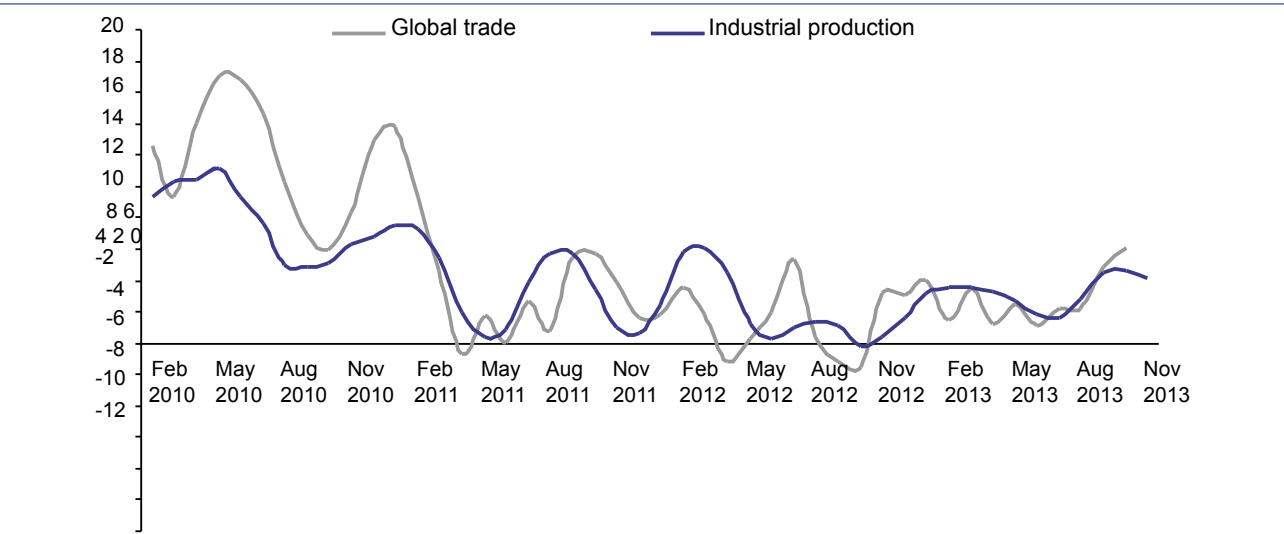
The last months of 2013 cut down on some delicate points for the global economy: in the United States an agreement is reached on the measures of the budget policy, while in Europe the cycle is reverting its sign, and in the emerging markets the growth pace is picking up.

**The growth of the United States at an alternate rate**

At the end of 2013 the US economy recorded one of the best six months of growth of

the last ten years, giving credit to the new optimism on expansion. “Spending on consumption and investments show robust increases” said Ryan Wang of HSBC. “The economy demonstrates a reasonable strength” added Nariman Behravesh of IHS – alongside the solidity of the consumers, other drivers for growth are gaining height again, from the capital expenditure of businesses to exports”.

Fig. 1.1.1 - Percentage variations in the global trade of goods and services and of industrial production - Year 2010:2013

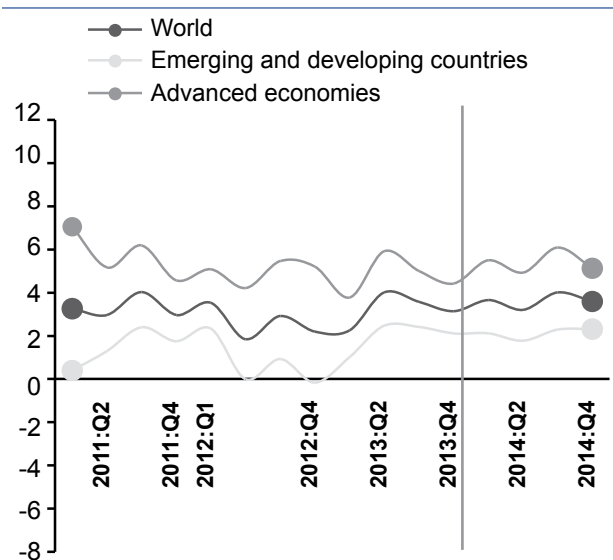


Source: Processing by Veneto Region - Regional Statistical System Section on International Monetary Fund data

<sup>1</sup> Enc. Caritas in veritate, 21



Fig. 1.1.2 - GDP percentage variations with respect to the same period of the previous year. World, advanced economies, emerging and developing Countries, 1st quarter 2011: 4th quarter 2014



Source: Processing by Veneto Region - Regional Statistical System  
Section on International Monetary Fund data and forecasts

fell by 12.6%, and such a drop is also attributable to the paralysis of the government following the battle over the budget, which was then resolved. All this threatened to slow down growth: at present, the analysts predict that it will be 2.8% in 2014.

In any case, according to the estimations of the International Monetary Fund, the economy of the United States remains the most imposing in the world: the national GDP is equal to more than 16 thousand billion US dollars, almost double that of China, which is less than 9 thousand. The unemployment rate fell from 9.6% in 2009 to 7.4% in 2013. Among the other Countries ranking as the best economies, with an average income of over 80 thousand dollars per year, Luxembourg is confirmed as record holder in the Fed rating for GDP per capita. With little more than 500,000 inhabitants and an economy that has reduced the repercussions of the crisis almost completely, Luxembourg records a growth in 2013 after the standstill of the previous year. Main part of its GDP comes from financial services, with a "major friendly" tax regime that attracted here the European divisions of majors such as Amazon and Skype: corporate tax 17%, i.e. above the 12.5% of Ireland but well below 35% of the United States.

Among the worst performances of 2013, however, is that of the Central African Republic, characterised by a large mining wealth but also by corruption, political instability and "insertion" of foreign companies in the national property. According to the IMF estimates, the GDP of the Central African Republic in 2013 will have a record drop by 14.5%.

Among the Countries that are lowest in the IMF ranking by individual wealth and growth prospects is Malawi, with an annual GDP per capita amounting to little more than 156 euros. The reduction in tribal clashes, which were in the foreground up to a little more than five years ago, had only a partial easing effect on the structural deficits of a country where 35% of GDP comes from agriculture and child mortality and Aids spreading are still high. A slight improvement is however predicted for 2014.

Japan: good 2013 even if less than expected

In Japan in the last quarter of 2013 the GDP increased

much less than expected by the analysts; in the whole of 2013 real GDP recorded a growth of 1.6%, which is a good result for an advanced economy, even if

The White House has highlighted that recovery is ongoing and continuing: "Growth is a testimony to the strength of both the businesses and the American families" declared the economic advisor Jason Furman. For the whole of 2013, growth was actually quite moderate - 1.9% compared to 2.8% in 2012 - also taking into account that the first part of the year was quite weak. The generalised improvement at the end of 2013 appears however to be a good omen for the future: it could shelter the US economy - at least partially - from the risk contagion (if moderate) coming from the crisis of the emerging markets. In the fourth quarter of 2013, consumer spending increased by 3.3%, which is the main increase over three years, mainly thanks to durable goods expenditure. The investments of business increased by 3.8% thanks to investments in machinery, and exports had a sharp increase by 11.4%, which reduced the deficit. However, we still do not know whether the investments made by our businesses will generate new production and whether the increase in stocks has not been excessive so as to become an obstacle in the future. The last quarter also shows some weak points: investments in residential real estate fell by 9.8%, partly due to the bad weather/climatic conditions. The federal public spending



Tab. 1.2.1 - Economic indicators in the major industrialised Countries - Years 2012:2015

	GDP (% variation)				Domestic demand (% variation)				Inflation				Unemployment rate			
	2012	2013	2014	2015	2012	2013	2014	2015	2012	2013	2014	2015	2012	2013	2014	2015
United States	2.8	1.9	2.6	2.9	2.6	1.7	2.3	2.9	2.1	1.3	1.2	1.1	8.1	7.4	6.5	6.0
Japan	1.4	1.5	1.7	1.7	2.3	1.7	1.0	1.0	0.0	0.3	2.8	2.1	4.3	4.0	3.6	3.6
Euro Zone	-0.7	-0.4	1.1	1.5	-2.2	-1.1	0.8	1.2	2.5	1.4	0.9	1.5	11.3	12.0	11.8	11.4
United Kingdom	0.3	1.7	2.4	2.0	1.2	1.8	2.9	1.9	2.8	2.6	2.0	2.0	7.9	7.5	7.1	6.8
EU28	-0.4	0.1	1.4	1.6	-1.5	-0.5	1.2	1.4	2.6	1.5	1.2	1.6	10.4	10.8	-	-

Source: Processing by Veneto Region- Regional Statistical System Section on data and forecasts from IMF, Eurostat and Prometeia (in red)

not as remarkable as many had expected after the fiscal and monetary stimuli from the government and Central Bank. In the fourth quarter of 2013 Japanese consumption increased by 0.5% (fifth consecutive month of growth) and export by 0.4% (after the decrease of 0.7% in the previous quarter). The increase in the capital investments of the businesses was +1.3% - the highest growth rate over two years - but also in this case the experts were expecting something better.

An apparently positive sign concerns the GDP deflator, equal to +0,1%, indicating that the economy is coming out of a long period of deflation. The first comments of the experts highlight that the recovery of the exports was slightly below expectation - the significant weakening of the Yen was expected to re-launch exports, whereas the strong demand for import goods impacted on the performance of the economy. The greater fears now concern the effects of the increase in consumption tax from 5 to 8% from the first of April. In the first quarter of 2014 the GDP was expected to be in significant expansion due to the race to buy that occurred before the announced increase in the tax burden; the second and also the third quarter could record a significant shrinking, even if the government is introducing a second manoeuvre to provide a new stimulus. The GDP of most of the emerging economies is expected to grow at a higher rate with respect to 2013. A decade after

**The Emerging Countries go ahead in a random order**

the Bric, it is time for four new emerging countries: the Mint.

To coin the term and identify the four new economies about to conquer the world is the same person who baptised the Bric: the British economist Jim O'Neill, an ex-analyst of Goldman Sachs who in 2001 invented an

acronym to unite Brazil, Russia, India and China under the same umbrella term. 2014 could be the year in which the Mint Countries start to establish themselves: Mexico, Indonesia, Nigeria and Turkey. According to an estimate by the BBC, Mexico will be the eighth biggest economy in the world in 2050, followed by Indonesia in ninth place while Nigeria will be 13th and Turkey 14th: they will still come behind the Bric which at this time may well dominate the planet, but in front of the largest Western economies today, Italy included (in 2050 in 17th place).

Growth increased significantly in China in the second half of 2013 due to an acceleration in investments that leads the annual GDP to a variation by +7,7%. This increase is expected to be temporary, partly due to measures aimed at slowing the growth of credit and increasing the cost of capital. The growth is therefore expected to be around 7.5% in 2014-2015.

India grew by 4.4% in 2013 after a favourable monsoon season and a good export performance; the economy is expected to further consolidate following implementation of structural policies that greatly support investments. In Brazil and in the Countries of Latin America in general, the alert generated - above all - by the inflation and growth remains but is decreasing. The crisis between Russia and Ukraine hits an area that is already in distress: the GDP of Russia grows by 1.3% only in 2013 and the average of the first three trimesters of 2013 indicate that Ukraine is experiencing recession.

## 1.2 Europe

The more recent economic indicators have confirmed that Europe is experiencing a stage of recovery. The accounting estimates on the fourth quarter of last



year show a growth, despite at a still rather mild pace: the GDP variation across the Euro Zone amounts to 0.4%, following the 0.1% of the previous quarter, which is definitely below the pace of the other major advanced economies.

Nevertheless, the European Union ends the year in stagnation, 0.1% for EU28 and -0.4% for the Euro Zone, and confirms the differences between its various Countries: on one hand, the positive drives coming from Switzerland, Finland, Denmark, Germany together with some Countries of the East area, and on the other hand, the concern for the peripheral economies, since, in addition to Greece (-3.9%) and Spain (-1.2%), the trend remains structurally weak in Italy (-1.9%).

The GDP of the EU is expected to increase by 1.4% in 2014 and by 1.6% in 2015. For the Euro Zone the prospects are slightly less promising (+1.1% in 2014 and +1.5% in 2015).

Olli Rehn, Vice-President of the European Commission and European Commissioner for Economic and Monetary Affairs, declares: "Recovery is gaining ground in Europe, following the return to growth in the middle of last year. The strengthening of domestic demand this year should help us to achieve more balanced and sustainable growth. Rebalancing of the European economy has been progressing and external competitiveness is improving, particularly in the most vulnerable countries. The worst of the crisis may now be behind us, but this is not an invitation to be complacent, as the recovery is still modest. To make the recovery stronger and create more jobs, we need to stay the course of economic reform". Employment is still a problem, due to the usual delay of the labour market in responding to economic recovery and also due to the overall modest relaunch rate of economic activities in the EU. The unemployment rate is expected

A modest recovery is starting in Europe

to become stable this year in the Euro Zone, and a

slight reduction (11.4%) is supposed to occur in the percentage of unemployed people in 2015. In the reference period the differences between the various Member States will remain important: in 2013, for example, the unemployment rate was 4.9% in Austria and 5.3% in Germany, while it reached 26.4% in Spain and 27.3% in Greece.

The serious conditions of the European labour market are starting to affect the wage dynamics as shown by their slowing down over the course of 2013. Wage deceleration seems therefore to support the fall of inflation, which is also favoured by the reduction of the costs of imported inputs.

These dynamics reopen the debate on the risks of deflation, which could lead to an increase in the real interest rates and therefore prevent the reduction in public and private debt in the Countries affected by the crisis.

Over the last years the wage dynamics in the whole Euro Zone was relatively stable, highlighting insufficient reactivity to the cycle<sup>2</sup>. For this reason, it was hypothesised that the increase in unemployment would lead to a reduction in the wage dynamics, "shifting" the Phillips curve towards the right, as in fact has happened.

This shift in fact corresponds to a hypothesis of "hysteresis of unemployment", i.e. an increase of the Non-Accelerating Inflation Rate of Unemployment. In fact, in the peripheral economies the increase in the unemployment are so large so much that the inability of the recovery to totally reabsorb the unused labour force is almost given for granted.

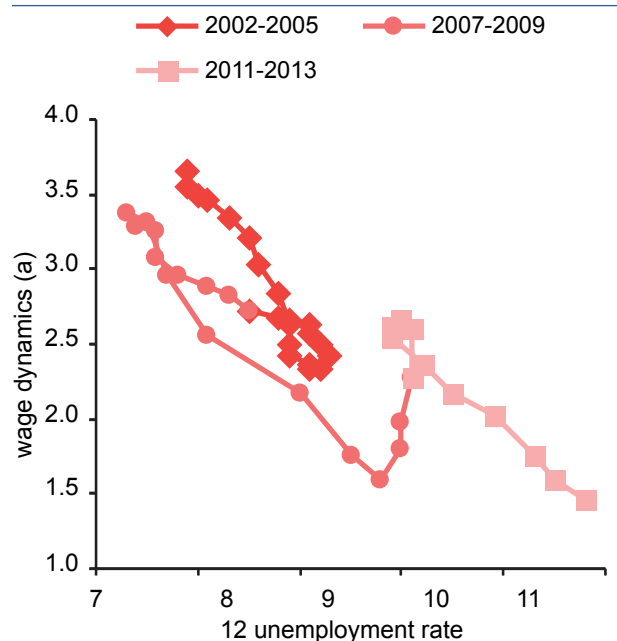
Tab. 1.2.2 - Economic indicators in the major Countries of the Euro Zone - Years 2012:2015																
	GDP (% Variation)				Domestic demand (%variation)				Inflation				Unemployment rates			
	2012	2013	2014	2015	2012	2013	2014	2015	2012	2013	2014	2015	2012	2013	2014	2015
Germany	0.7	0.4	1.6	1.8	-0.3	0.5	1.8	1.8	2.1	1.6	1.1	1.7	5.5	5.3	5.2	5.1
France	0.0	0.2	1.0	1.3	-0.9	0.2	1.2	1.2	2.2	1.0	1.1	1.3	9.8	10.3	10.4	10.0
Spain	-1.6	-1.2	1.1	1.6	-4.1	-2.8	0.4	1.0	2.4	1.5	0.5	1.2	25.0	26.4	25.2	24.1
Italy	-2.4	-1.9	0.7	1.5	-5.0	-2.7	0.7	1.2	3.0	1.2	0.8	1.7	10.7	12.2	13.2	13.0
Source: Processing by Veneto Region - Regional Statistical System Section on data and forecasts from Istat, Eurostat and Prometeia (in red)																

<sup>2</sup> Congiuntura ref. Research Year XXI - number 2.





Fig. 1.2.1 - Phillips curve for the Euro Zone - Years 2001: 2013



(a) % trend variations (on centred moving averages of 5 terms) in the hourly wage (3 quarters lag)  
Source: Processing by Veneto Region - Regional Statistical System Section on Congiuntura REF data

On the other hand, the wage dynamics remains of a positive sign in the Euro Zone and we can talk explicitly of deflation only with reference to Greece.

However, a significant lowering in the wage dynamics occurred in the last quarters, so much so that the recent deceleration of inflation - with a consumer price dynamics that reaches values much below the target of the European Central Bank - reopens the debate on the risks of deflation. The other, more optimistic hypothesis of analysts is that we are in a phase of temporary disinflation with beneficial consequences for the economy. With regard to public finance, since 2011 public spending has been cut drastically in the EU, but for most of the Countries, perhaps, sacrifices are not finished yet. In 2013 the budget deficit in the EU and in the Euro Zone increased respectively to 3% and 3.3% of the GDP.

**The public finance is recovering**

In the same year the debt to GDP ratio reached the

highest values of the last years: 92.6% in the Euro Zone and 87.1% in the EU28.

The industrial activity showed signs of weakness in the two months of October-November 2013 and production was at a considerable standstill in the Euro Zone, in Germany and in France, while it increased by around half a percentage point in Italy. The surveys made at the various businesses outline a moderate expansion in December and in the following months. The composite index of the purchasing managers (SMEs) increase in December but the prospects continue to be uneven in the major economies: the index increases in Germany but in France it decreases to below the expansion threshold both in the services and manufacturing sectors. The demand of the households is not increasing, even if there are some signs of improvement. In the two months period of October and November the retail sales in the Euro Zone remain stationary. In the three months period from September to November the car registrations increase in the Euro Zone driven by the sales in Germany, but in Italy they drop. According to the surveys coordinated by the European Commission, in December the consumer confidence index increases in the Euro Zone. The most recent data confirm the positive trend of sales abroad and the short term prospects remain favourable: in December the foreign order component in the SMEs of the Euro Zone remains above the threshold, in line with the trend of sales, which are in the sixth consecutive month of expansion.

**Raw materials and exchange rates**

The prices of raw materials fluctuated in 2013, with the exception of the oil industry. The slowing down of the growth of the Emerging Countries in the first part of 2013 considerably affected the significant shrinking in the prices of metals, but the downward trend also concerns the agricultural products. The prospects on the global oil markets are heavily influenced by the tensions in the Middle East. The worsening of the tensions in Iraq, the fragility of the political balance in Libya and Nigeria, and the continuation of the conflict in Syria, the lower production by Saudi Arabia and a global demand that is still rather unremarkable predict a downward trend.



The inflation rate decreased in 2013 due to the fall of commodity prices, the shrinking of demand and continual appreciation of the Euro. The consumer prices inflation is expected to continue to decrease 2014 and thus keep at moderate levels.

It seems a paradox, but the peripheral Countries, including Italy, have to fix their economies - where prices are low and wages are shrinking wages - with an "external re-evaluation", with a Euro - US Dollar exchange rate close to 1.40 - the maximum since 2011 - which erodes competitiveness. An appreciation of 9% of the Euro from 2012 to today cut inflation of almost half a point, which makes it even more difficult the structural reforms and the possibility of their having good outcomes, that is the non-deflationary shifting of the economic activity from the closed sectors to the exporting ones. When inflation approaches zero, the adjustment of the relative prices becomes more difficult and often takes place only via unemployment or a decrease in growth.

In this context, the analysts agree on the fact that the Euro will remain strong at least in the medium-term.

1.3 Italy

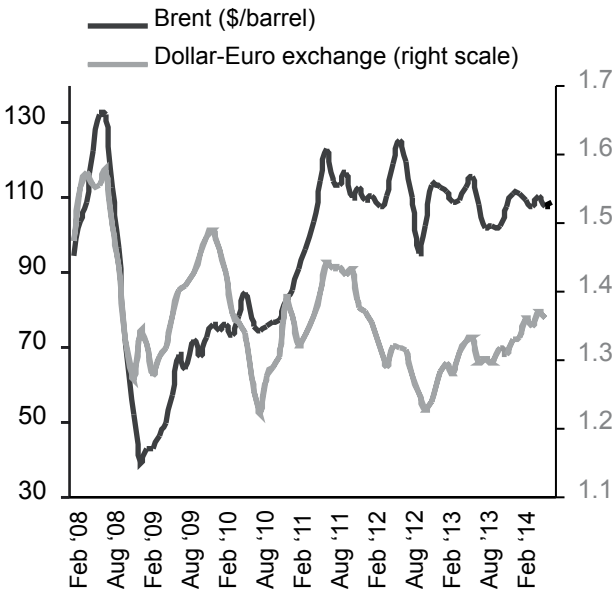
The economic and social costs of the two recessions that have hit Italy in this short space of time are huge. Since 2007 the GDP has dropped by 9% and the industrial production by 22%. The job opportunities have decreased by 1 million units, the unemployment rate reaches 12.2% and surpasses 40% for young people. The households have become economically more vulnerable:

after a slight improvement in 2009, the risk of poverty or social exclusion begins to grow again in most of the European Countries, but it is particularly in Italy and Greece that the situation is significantly more critical. If for Italy in 2009 the risk concerned 24.7% of the population, now it concerns almost 30% of it, i.e. a percentage higher than the average European one (EU28 24.8%), especially when compared with the EU15 figure (23.1%).

The crisis originated from abroad but its effects have been accentuated by the structural weakness of our economy, first and foremost the public debt and the delays with which the production system and the institutions have responded to technological progress, the globalisation of markets and the launching of the Euro.

In this context it is a relief that the prolonged fall of the Italian GDP stopped in the fourth quarter of 2013. In 2013 the Italian GDP was equal to 1,560,024 million current Euros, with a reduction of 1.9% in real terms

Fig. 1.2.2 - Price of Brent oil (\$/barrel) and dollar-euro exchange - Feb 2008:Feb 2014



Source: Processing by Veneto Region - Regional Statistical System Section on EIA -U.S. Energy Information Administration and Banca d'Italia - UIC data

In Italy the GDP stops falling...

with respect to the previous year. In 2012 a drop of 2.4% was recorded.

With the fall of the last year, the GDP in real terms descended slightly below the level recorded in 2000.

... But the internal demand is weak

With regard to investments, both the national final consumption (-2.2%) and of

gross fixed capital formation (-4.7%) shranked.

The final consumption expenditure of resident households in 2013 recorded a reduction by 2.6% in addition the one - still more accentuated - recorded in 2012 (-4.0%).

The reduction in consumption was particularly marked for commodities (-4.0%), while spending on services decreased by 1.2%. In terms of function, the most accentuated reductions concerned spending on health (-5.7%) as well as on clothes and shoes (-5.2%).

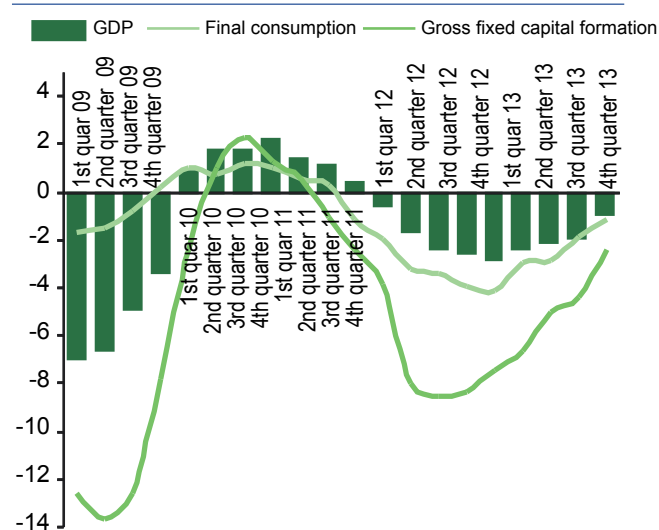




The spending of the Public Administrations and that of the private non-profit institutions (in Italian, ISP - Istituzioni sociali private) have recorded, respectively, reductions by 0.8% and by 1.5%. The gross fixed capital formation in 2013 saw a further marked reduction by 4.7% after that which characterised 2012 (-8.0%). This drop concerned the investments in construction (-6.7%) and those in machinery and equipment (6.3%), while investments in means of transport recorded an increase by 12.9%.

The exports of goods and services increased by 0.1% while the imports decreased by 2.8%.

**Fig. 1.3.1 - Percentage variations of GDP, final consumption and investments on the corresponding period of the previous year. Italy - 1st quarter 2009: 4th quarter 2013**



Source: Processing by Veneto Region - Regional Statistical System  
Section on Istat data

The total added value decreased by 1.6% in 2013, which is a slightly better situation than 2012, when a reduction of 2.2% was recorded. All the sectors recorded negative variations with the exception of agriculture, forestry and fishing, which underwent a 0.3% increase. The reductions were 5.9% in constructions, 3.2% in industry in the strict sense and 0.9% in services.

The employees' income and gross wages decreased by 0.5%.

2014 will also be a difficult year but with some recovery. The GDP is expected to grow by 0.7% to then accelerate in 2015 up to +1.5%.

### Public finance

The international community acknowledges the progress made by Italy in 2013 towards financial sustainability of its retirement system, efficiency of its tax system, fight against tax evasion, systematic revisiting of all the items of public spending in search of redundancies and possible savings, and the streamlining of the standards. However, the institutions and usual practices harness the energies of the Country, constrain competitiveness of businesses and shatter the expectations of young people.

As announced in the programmes of the Government, after two consecutive years of deficit containment, in 2013 the net borrowing remained unchanged compared to the previous year, despite the weakness of the macro scenario. The net borrowing of the Public Administrations, measured against the GDP, is equal to -3.0%, and is stable with respect to 2012. In absolute value, the borrowing is 47,321 million.

The primary balance (net borrowing minus interest payments) is positive and equal to 34,722 million Euros, 2.2% of the GDP (in 2012 it was 2.5%).

#### Net borrowing of the Public Administrations remains stable

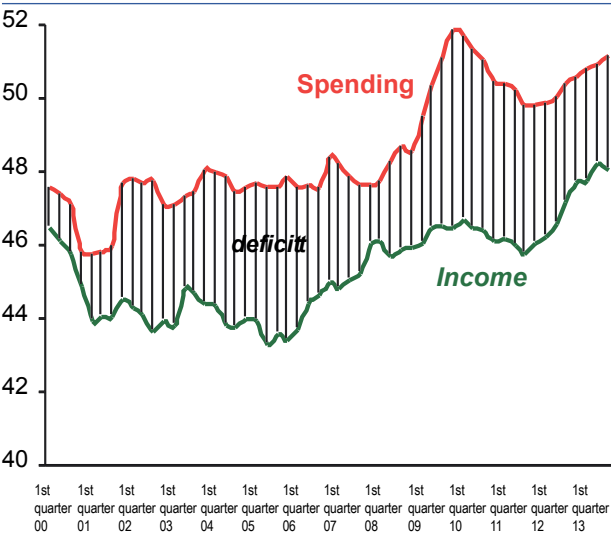
The current account position (saving or deficit of the Public

Administrations) is equal to 13,998 million Euros compared with 4,422 million of 2012. The worsening is to be attributed to a decrease in the current income by about 5.3 billion Euros and an increase in the current spending by about 4.3 billion euros. The total revenue of the Public Administrations, equal to 48.2% of the GDP, decreased by 0.3% compared to the previous year (+2.5% in 2012).

Current income record a shrinking by 0.7%, thus reaching 47.6% of the GDP. In particular, income from indirect taxation decreased by 3.6%, mainly because of the fall in the yield of IMU (municipal real estate tax), VAT and excise duties. Income from direct taxation increased by 0.6%, essentially as a result of the increase in the IRES corporate tax and of the substitute tax on withholding, interest and other investment income. The actual social security contributions showed a slight decrease (-0.5%).

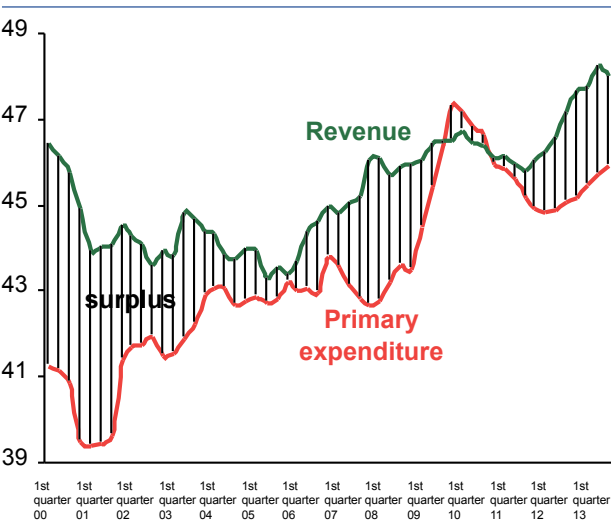


Fig. 1.3.2 - Income and spending of the Public Administrations (% of the GDP). Italy Years 2000:2013



Source: Processing by Veneto Region - Regional Statistical System  
Section on Congiuntura REF data

Fig. 1.3.3 - Revenue and primary expenditure of the Public Administrations (% of the GDP). Italy - Years 2000:2013

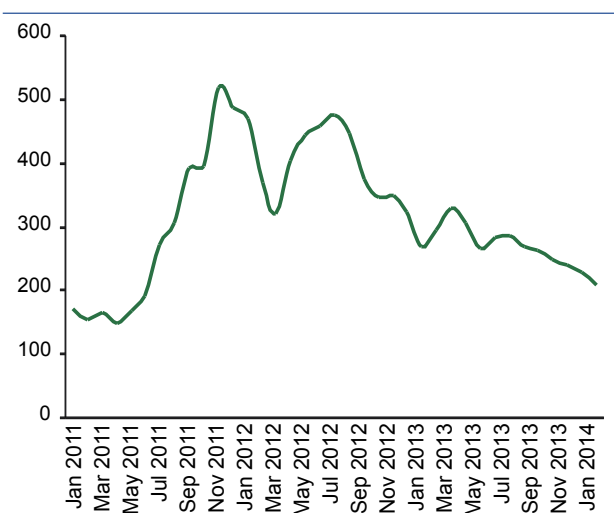


Source: Processing by Veneto Region - Regional Statistical System  
Section on Congiuntura REF data

The total tax burden (overall amount of direct and indirect taxes, capital income and social security contributions against the GDP) is around 43.8%, with a decrease by 0.2% percentage points compared to 2012. The increase in capital income (+57.3%) is to be mainly attributed to the increase in taxes on capital income brought about by the once-for-all payment of the substitute tax on the re-alignment of book values with the IAS<sup>3</sup> standards.

The total expenditure of the Public Administrations, equal to 51.2% of the GDP, decreased by 0.2% with respect to 2012, with the current spending component recording an increase by 0.6%. In particular, employees' income decreased by 0.7% (-1.9% in 2012), as an effect of the reduction of the Public Administrations' working units and the persistence of the veto on contract renewals. The intermediate consumption reduces by 1.7% after a decrease by 3.2% in 2012. The social benefits in money increase by 2.7% (+2.3% in 2012), affected, inter alia, by the significant increase in the expenditure for welfare support provisions, in particular for unemployment allowance. The interest payable decreased by 5.1% compared to the increase by 10.3% recorded the last year due to the reduction of the spread. Gross fixed capital formation (-9.2%) confirmed the downward trend observed over the last years.

Fig. 1.3.4 - Spread: difference between Italian BTP and German Bund government bonds (x 100) - Jan 2011:Jan 2014



Source: Processing on Veneto region - Regional Statistical System  
section on Eurostat data

### Industrial activity

The industrial activity decreased almost without interruptions from summer 2011 and then increased again over the last months of last year. The quality indicators inferred from the surveys at the businesses are consistent with the forecast predicting a further expansion of production activities over the next months.

Despite this recovery, the overall data of 2013 is negative. Over the course of 2013 the industrial activity decreased by 3.2% with respect to the previous year; the turnover of the industry records

Legislative Decree no. 185 of 2008, Art. 15 "Re-alignment and voluntary revaluation of book values" and Law no. 228 of 24/12/2012, Stability Law for 2013.

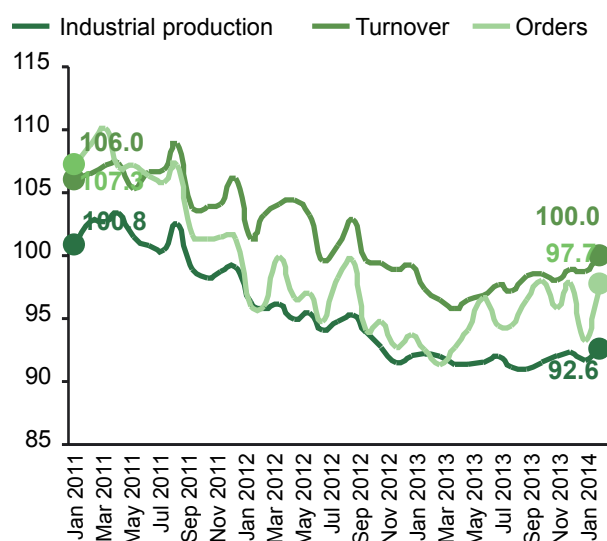


a reduction by 3.7% (-6.2 % on the domestic market and +1.4% on the foreign one) and orders undergo a reduction by 1.3% (-3.5% on the domestic market and +2.0% on the foreign one). The main support for the manufacturing industry comes from the instrumental goods, intermediate goods and energy segments, while the consumer goods segment records a downturn.

If in 2013 the turnover and order indices exceeded the minimum levels of 2009 in 2013 and went recovered the levels of the first half of the 2000s, the industrial production index shows instead a further worsening of its difficulties and thus goes back to the levels of 2009, the year that the crisis started.

What's worrying is the domestic market, which shows no signs of recovery.

**Fig. 1.3.5 - Seasonally adjusted indices of industrial production, turnover and orders (Base year 2010=100). Italy - Jan 2011: Jan 2014**



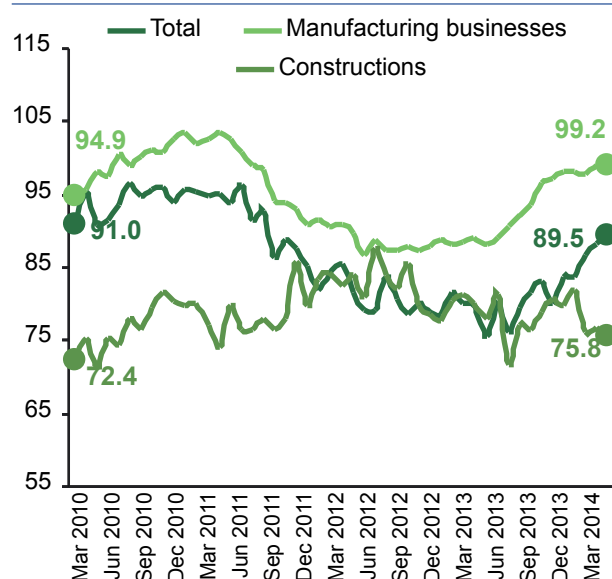
Source: Processing by Veneto Region - Regional Statistical System Section on Istat data

### The confidence climate in Italy

The qualitative indicators anticipate an expansion of the industrial production also in the first months of the current year. Over the last months of 2013 the businesses' confidence increased, although only slightly, regaining the levels observed at the end 2011.

Therefore, the composite index of the businesses' confidence, taking into account the opinion of entrepreneurs from all sectors, improves thanks to the optimism of the manufacturing, service and trade industries, while worries persist in the construction sector.

**Fig. 1.3.6 - Monthly balance of businesses' confidence climate: all sectors, manufacturing and construction (data seasonally adjusted, 2005=100). Italy Mar 2010:Mar 2014**



Source: Processing by Veneto Region - Regional Statistical System Section on Istat data

**Fig. 1.3.7 - Monthly balance of the confidence climate in the market services and retail trade businesses (seasonally adjusted data 2005=100). Italy Mar 2010:Mar 2014**

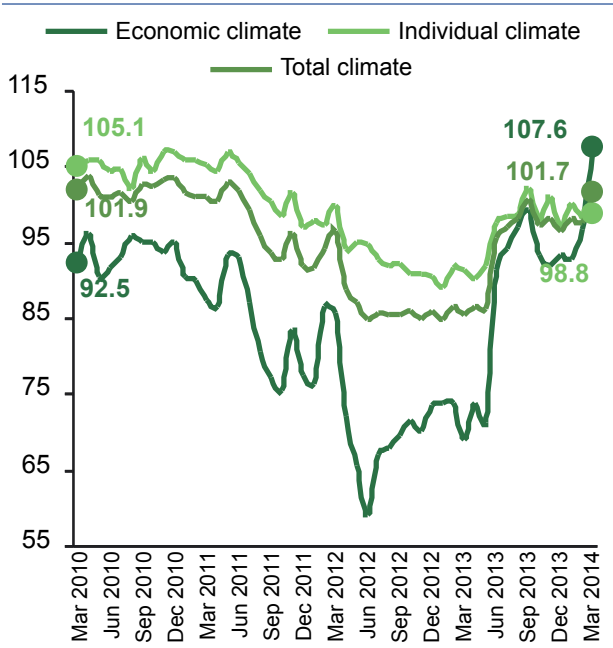


Source: Processing by Veneto Region - Regional Statistical System Section on Istat data



The opinion of the households is gradually turning to optimism, even if the trend is still fluctuating from month to month. Despite the ups and downs, by mid-2013 onwards the index value remains even higher compared to the first months of 2013 and all of 2012.

**Fig. 1.3.8 - Monthly balance of consumer confidence climate (seasonally adjusted data 1980=100). Italy Mar 2010:Marh 2014**



Source: Processing by Veneto Region - Regional Statistical System Section on Istat data

### The effects of taxation and incentives on the capital companies

From the start of the crisis the Governments that followed each other tried to adopt measures able to protect the business system. In particular, the corrective measure carried out in summer 2011 (Legislative Decree no. 98) intervenes on the regulation of tax losses, establishing that these can be carried forward with no time limits and used to reduce the taxable income of the subsequent tax periods (to an extent not exceeding 80% of the taxable income for the year).

The Law "Salva-Italia", passed in December 2011, introduced two structural measures aimed at the reduction of the tax burden on the profits of businesses and on work. The main measure is the Italian Allowance for New Corporate Equity ("Aiuto alla Crescita Economica", ACE) that allows the deduction

of notional return on new owner's equity contributions and reinvested profits from taxable income, in order to favour a process of financial strengthening and restructuring of the businesses.

The Stability Law 2014 allows for further development of the deduction mechanism. The second measure provides for total deductibility of the IRAP regional corporate income tax) applied to labour cost for the purposes of the national corporate income tax. Istat has analysed the effects of the aforementioned measures on taxation of capital companies' income - measures introduced starting from 2011<sup>4</sup>. For 2014 it is estimated that the carryover of losses will have a limited impact: the number of businesses entitled to a tax reduction of tax will be less than the number of businesses that will undergo an increase of their tax burden. However, the IRAP deductions and the ACE will concern over half of the businesses (57.3%), one third of which will benefit from both measures. The highest percentage of beneficiaries is found in the small- or medium-sized industrial business, corporate groups, and businesses resident in the North of the Country. For the North-East, the percentage of beneficiaries amounts to 61.8%.

The introduction of these measures determines a 9.8% saving on income tax, equal to 2.6 billion euros in 2014. The most significant contribution to tax reduction is attributable to the ACE (5.4%). The businesses with a turnover between 500,000 and 10 million Euros, the businesses in the construction sector and those located in the South and in the North-East of Italy are the greatest beneficiaries. The tax saving for businesses in the North of the Country is estimated at 11.4%.

Tab. 1.3.1 - Distribution effects of the various measures: percentage variation of IRES tax liability. Fiscal year 2014				
	% variation of the IRES burden			
	Loss reform	Deduction IRAP	ACE	Cumulative effect
North-West	-0.2	-4.1	-5.3	-9.6
North-East	0.4	-5.2	-6.6	-11.4
Centre	0.2	-3.7	-4.3	-7.8
South	0.4	-6.6	-6.6	-12.7
Total	0.1	-4.5	-5.4	-9.8

Source: Processing by Veneto Region - Regional Statistical System Section on Istat data

<sup>4</sup> Istat - micro simulazioni. Gli effetti dei provvedimenti fiscali sulle imprese. 6 March 2014. The simulation concerns all the capital companies that have filled in the UnicoSC form for at least one of the fiscal years 2008-2011. The analyses presented refer to a subgroup of around 860,000 businesses, excluding businesses belonging to the agricultural, finance, health and education sectors as well as businesses with a turnover which is negative or equal to zero that are not operative or are newly incorporated.



**Tab. 1.3.2 - IRES and IRAP burden on corporate profits before taxes: comparison of effective IRES rates according to the legislation previously in force and currently in force, and effective IRES+IRAP rates (median values, percentage points). Tax year 2014**

	Effective IRES rates legislation		Effective rates IRES+IRAP legislation
	previously in force	currently in force	currently in force
North-West	29.1	26.3	31.8
North-East	28.6	25.7	31.3
Centre	28.6	26.4	31.6
South	27.8	26.0	30.3
<b>Total</b>	<b>28.5</b>	<b>26.1</b>	<b>31.3</b>

Source: Processing by Veneto Region - Regional Statistical System Section on Istat data

The systematic application of the measures leads to a reduction of the effective taxation rate on businesses' income: the median rate decrease from 28.5% to 26.1%, a value lower than the statutory rate (27.5%). The reduction of the rate is greater for businesses of an average size, those operating in the industrial sector, those residing in northern areas and the fiscal groups. Also considering the IRAP component weighing on corporate income, the effective median rate reaches 31.3%.

The effects of the mechanism of the ACE, considered independently from the other measures, favour the more profitable and dynamic businesses, ensuring a gradual lowering of the tax burden over time. In 2014 the effective rate for beneficiaries of ACE will decrease by more than two percentage points thus reaching 26.2%.

The objectives of the Government for 2014

On 9th April 2014 the Ministry of Economy and Finance has presented the Document of Economy and Finance (DEF) approved by the Council of Ministers on 8th April.

The programmatic objectives aim<sup>5</sup> to immediately provide support to the domestic demand, which has suffered from the long recession, by using the available resources in the best possible way, always taking into account the obligation to continue consolidation of public accounts. In the medium term the purposes is to implement structural reforms able to lead to a long-term growth above that of the years before the crisis, thus also making it this less difficult the re-balancing of the fiscal indicators.

The main expansive interventions are the 10% relief and IRPEF reduction; the latter would be implemented via an increase of the deductions for employees, who will receive 80 euros more (on average) in their pay packet starting from the month of May.

Another important support intervention is the full payment of trade payables in arrears launched last April with the allocation of 13 billion in addition to the 47 already provided for by the two decrees of 2013.

A comprehensive reform of the labour market (Job Act) aimed at an effective streamlining of the recruitment mechanisms, of contract types as well at renovating the system and making the welfare support provision more efficient.

Moreover, the wish to relaunch the infrastructural investments is also confirmed: implementation of the "Piano scuola" for schools, "Piano casa" for housing, the increase of the "Fondo di garanzia" (guarantee fund) for small and medium enterprises as well as interventions for the protection of the territory are on schedule for this year. These actions will be accompanied by a series of reforms constitutional reforms and reforms to the Public Administration aimed in part at simplifying and speeding up the Government mechanisms and in part at cutting spending.

Funding of the measures indicated in the DEF (Economy and Finance Document) does not require linear cuts but seems to be made up of the savings produced by the reduction in the purchase of goods and services to the Public Administration aimed for application of standard costs, the reduction of public managers' wages, the disposal of the State-owned immovable property and the transfer of stocks of State-owned companies. On the other hand, the solidarity contribution of the highest pensions and the revision of the pension indexing system will allow to contain the spending on social security. Resources will also come from the recovery of capitals from abroad and the increase in VAT receipts following the aforesaid payment of their arrears by the Public Administrations.

Thanks to the structural reforms outlined, the Government estimates that the GDP will increase by 0.8% in 2014. There will be a variation of +1.3% in 2015, +1.6% in 2016 and +1.8% in 2017 and +1.9% in 2018. As regards the structural deficit, the final text of the document outlines that "in 2015 and in 2016 the achievement of the balancing of accounts in structural terms will require additional measures to bridge the residual gap; the Government hypothesises these measures to only concern public spending".

<sup>5</sup> Documento di economia e finanza 2014 (Document of Economy and Finance 2014) - Ministry of the Economy and Finance.





1.4 The Veneto economy

Official data on Veneto regional accounting are available up to the year 2012 and therefore for the analysis of 2013 we will refer to the estimations and forecasts of the Prometeia research institute.

Veneto is strongly affected by the national recession and in 2012 not even its inclination for export managed to stop the negative economic trend; GDP therefore decreased by 2.7%. The region's internal demand reduced both due to the weakening of household consumption and the reduction in investments.

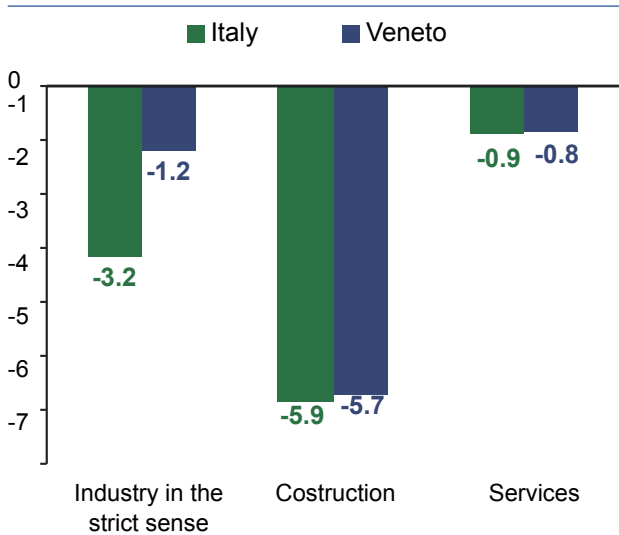
The result of 2012 is above all attributable to the loss of the industry in the strict sense, the added value of which decreased by 4.5 percentage points. The tertiary sector, which over the last years had always been holding out or had at least remained stable, in 2012 recorded a drop by 1.4%, while agriculture dropped by 6.4% and the construction sector by 3.7%.

Estimations for 2013 predict an alleviation of the recession since the last months of the year provide encouraging signs both in Veneto as at the national level: a percentage variation of -1.6% is expected for the GDP, with a positive contribution coming only by international sales, considering that, with regard to internal demand, the household spending is expected to fall by 2.3% and the gross fixed capital investments by 5.2%.

Some positive signs at the end of 2013...

The added value of the tertiary sector records a slowdown (-0.8%) while the sectors which suffer further are industry in the strict sense (-1.2%) and above all construction (-5.7%). 2014 is expected to be the year of the recovery and to bring growth up to +1% and a consolidation of +1.5% is outlined for 2015.

Fig. 1.4.1 - 2013/12 % variation of the added value by sector of economic activity. Veneto and Italy

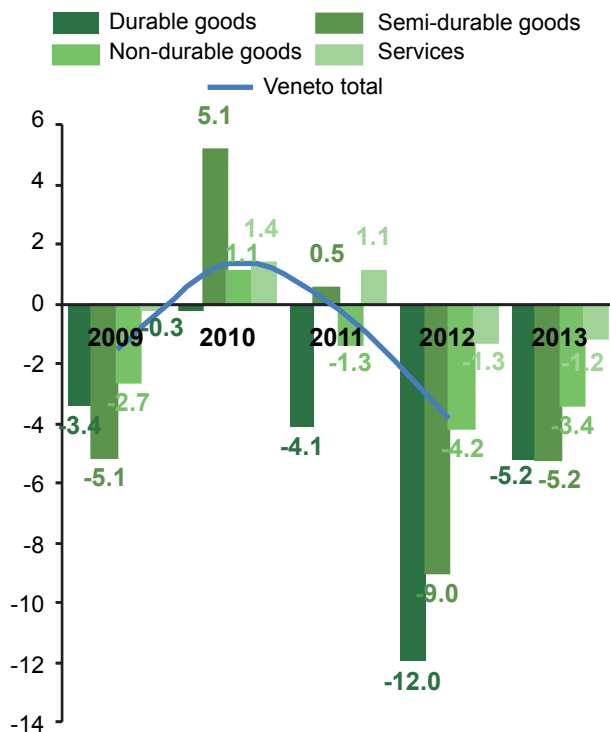


Source: Processing by the Veneto Region - Regional Statistical System Section on Istat data and Prometeia estimates

Tab. 1.4.1 - Macro-economic framework (percentage variations on concatenated values with 2005 as the reference year). Veneto and Italy - Years 2011:2014								
	2011		2012		2013		2014	
	Italy	Veneto	Italy	Veneto	Italy	Veneto	Italy	Veneto
Gross Domestic Product	0.4	1.3	-2.4	-2.7	-1.9	-1.6	0.7	1.0
Final consumption spending of households	-0.3	-0.2	-4.0	-3.8	-2.6	-2.3	0.5	0.4
Final consumption spending of Public Administrations and private non-profit institutions (ISP)	-0.5	-2.4	-3.1	-2.5	-2.3	0.1	-0.3	0.3
Gross fixed capital formation	-2.2	-3.2	-8.0	-7.9	-4.7	-5.2	0.6	1.3
Imports (a)		9.3	6.3	-5.3	-7.7	-5.5	-0.8	3.9
Exports (a)		11.4	10.3	3.8	1.7	-0.1	2.8	4.0
(a) Current values								
Source: Processing by Veneto Region - Regional Statistical System Section on Istat data and, in red, Prometeia forecasts								



**Fig. 1.4.2 - Annual % variations of the spending of Italian households by goods type and of total expense of Veneto households - Years 2009:2013**



Source: Processing by Veneto Region - Regional Statistical System Section on Istat data

In 2013 at the national level, the spending for resident final consumption indicated a drop by 2.5% which is to be added to still more accentuated drop recorded

**... but the consumption is slow to recover**

in 2012 (-3.8%), equal to the one that occurred in Veneto.

The fall of consumption over the years 2012-2013 was particularly marked for goods and less for services.

**The industrial sectors, construction in particular, are still suffering**

The Veneto real estate sector experienced a period of significant

expansion between 2000 and 2007, with its added value recording an average annual growth of 4.8%.

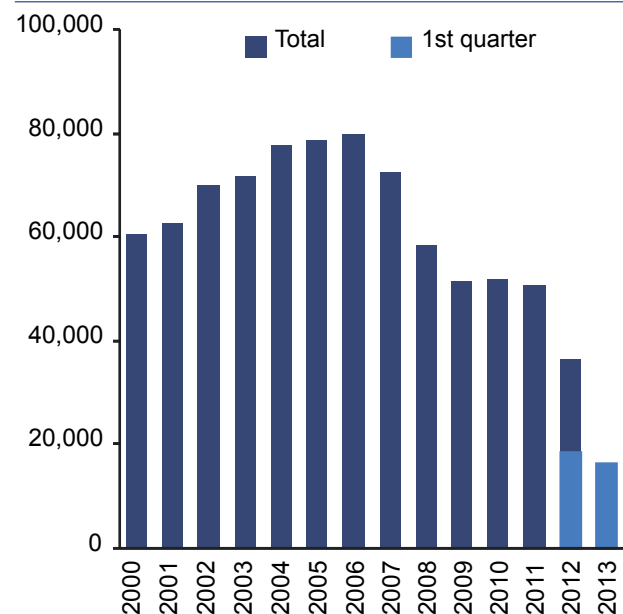
In 2008 a period of significant reduction in production of the sector began, with an average annual shrinking of 5.7% between 2007 and 2012 (-4.9% for Italy).

In 2013 the construction sector of Veneto continues its downward trend due to the worsening of the prospects of the demand and of the financing conditions, which slowed down the already modest intentions of investments even further.

The data of the Osservatorio Immobiliare (Real Estate Observatory) of Agenzia delle Entrate, the Italian revenue agency, shows that while in the period 2000:2006 recorded a continual increase in house sales and Veneto reaches the peak with 79,774 houses sold in 2006, from 2007 to 2012 the number of sales reduces by a half. The data of the first quarter 2013 seems to confirm this shrinking.

According to the Ance Veneto estimates, investments in construction in 2013 decreased by 3.9% overall, and the shrinking of new housing and non-residential buildings, both public and private, is evident.

**Fig. 1.4.3 - Number of house sales. Veneto - Years 2000:2013**



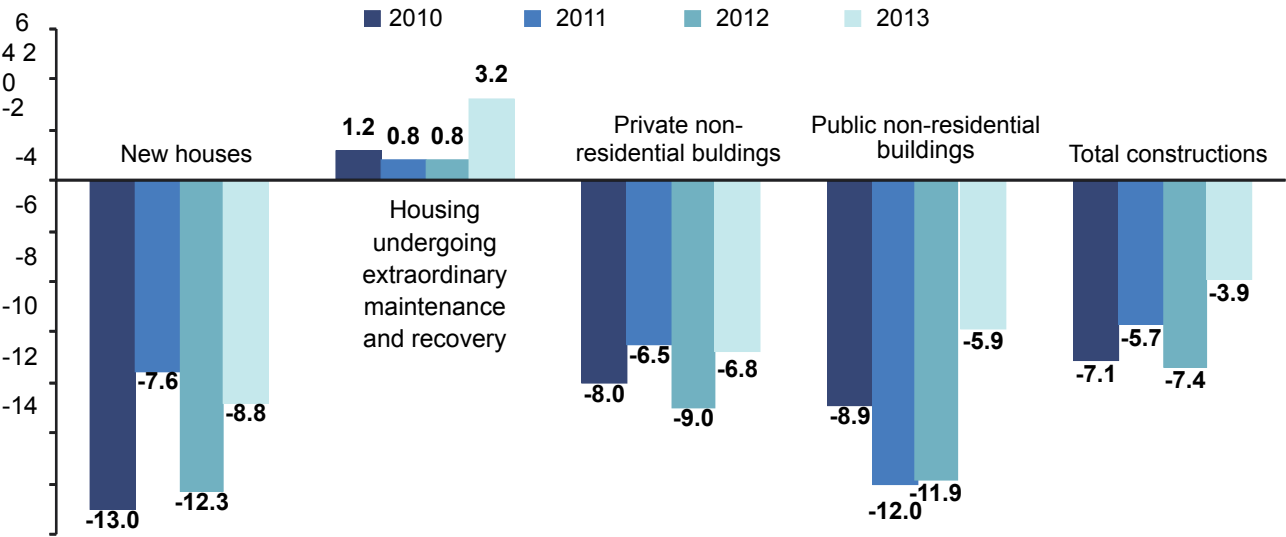
Source: Processing by Veneto Region - Regional Statistical System Section data from Osservatorio sul mercato immobiliare - Agenzia delle Entrate

The only sector to hold out over the last year is that of residential property renewal, increasing by 3.2% per year. This is mainly due to the implementation of the "Piano Casa" (Housing Plan) of Veneto Region, for which thousands of applications were presented over last year.

Despite the difficult economic situation, Veneto remains the third Italian region for the production of wealth after Lombardy and Lazio: 9.4% of the national Gross Domestic Product is produced in Veneto. The GDP per Veneto inhabitant was 29,900 Euros in 2013, 14.7% higher than the national figure.



Fig. 1.4.4 - Annual % variations of the investments in construction. Veneto - Years 2010:2013 (\*)



(\*) Investments in constructions net of property transfer costs  
Source: Processing by Veneto Region - Regional Statistical Section System on ANCE data

As regards the labour market, Veneto has an employment rate of 63.3% and an unemployment rate of 7.6%, the highest of the decade and in the comparison with the other Italian regions, it still ranks among the best ones, with the sixth highest unemployment rate and the second lowest unemployment rate.

The uneven path of the crisis

The recession underway is mainly due to the trend of internal demand and of consumption in particular. The worsening of the labour market, of the decrease in the orders to businesses, the drop of the operators' confidence, the increasing uncertainties, the tensions on the financial and credit markets and the measures for adjustment of public accounts all affect the behaviour of consumers/operators causing a postponement or resizing of the spending and investment plans.

Starting from the first year of the crisis, all the economic values show a decrease that leads them back to the levels of several years ago. Despite the fact that Veneto is in a privileged position with respect to the average of the Italian regions, it does not escape this phenomenon. From 2007 to today Veneto's GDP has

lost eight points in real terms for a total of 11.4 billion Euros, with the closing of over 8 thousand businesses and the downsizing of over 90 thousand work units. We are still far from pre-crisis economic values. Veneto's real GDP reached its highest value in 2007, with 141,628 million Euros; according to forecasts, for 2014 it could reach 129,453 million Euros, which means returning to the levels of 2002.

Veneto's GDP has returned to the levels of 2002

Dividing the loss of these years by sector, it is found that between

2007 and 2013 the value produced by the industry in the strict sense was below 4.5 billion Euros, that of construction was 2.8 billion, that of the tertiary sector almost 4 billion. The GDP per inhabitant<sup>6</sup>, which is commonly used to measure the degree of well-being of an area based on the quantity of wealth produced by its economic system, has decidedly collapsed since 2007 both in Veneto and on a national scale. Even if being well above the Italian average, in 2014 Veneto's real GDP per capita is expected to increase slightly with respect to 2013 and reach the same levels as in 1995, a good 19 years ago.

The disposable income<sup>7</sup> is a synthetic measure used to quantify the economic well-being of the residents of an area as consumers and savers.

<sup>6</sup> Here calculated in 2005 Euros, to make an evaluation of the historical trend, freeing it from the effects of inflation.  
<sup>7</sup> Represents the amount of the operators' current resources for the final uses (consumption and saving).



This in fact includes all the flows, both incoming and outgoing, relating to the residents, even if realised outside the area, and excludes the resources obtained in the area by non-residents. The disposable income per capita of the Veneto households in 2013 is 17.4 thousand Euros, which is higher than the national average but in real terms descending and similar to the value reached in 1989 and reduced by 10 percentage points from 2007. In the forecasts as of 2015, it is expected to increase slightly.

The household per capita consumption, evidently connected to the income levels, show the same trend: a decrease starting from 2007, a brief recovery in 2010

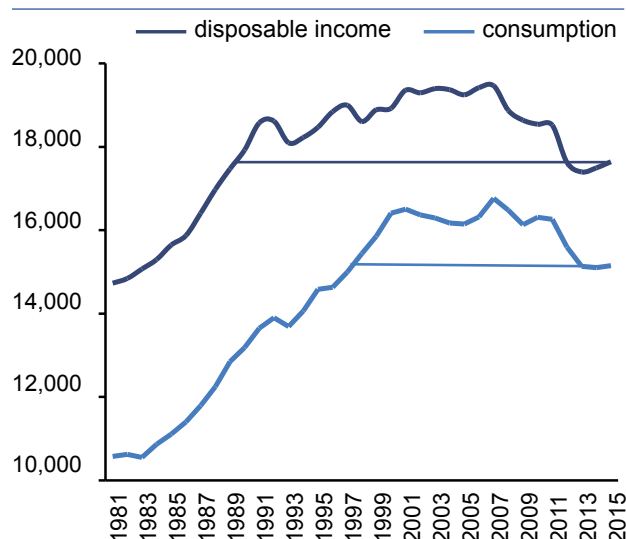
**Consumption is the same as in 1997/1998**

when the end of the tunnel was glimpsed, and a further decrease and stabilisation in

the following two years. The levels forecasted for 2013 are the same as in 1997/1998.

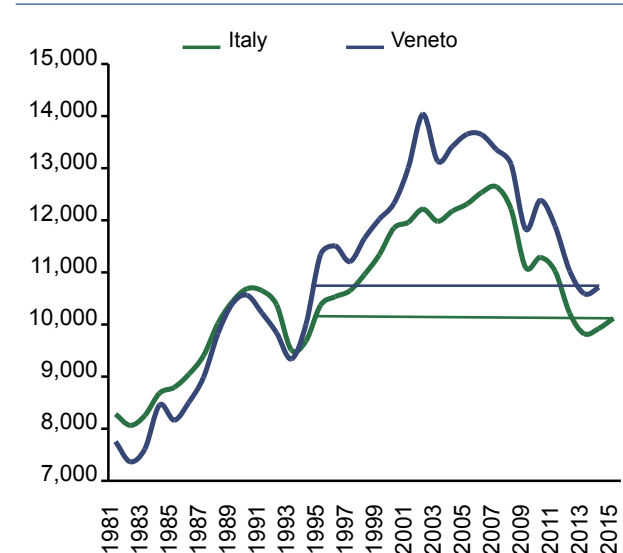
Among the other components involved in the formation of the GDP, the gross fixed capital formation is analysed which represents the value of durable goods purchase by the resident production units to be used in the production process as well as the value of the services incorporated in the investment goods purchased. The investments per worker<sup>8</sup> in Veneto in 2013 decrease further (-3.9% compared to the previous year), but they are expected to increase and return to the value of 1994/1995 in 2014.

**Fig. 1.4.5 - Final consumption spending and disposable income of the households (Euro year 2005 per capita). Veneto - Years 1981:2015**



Source: Processing by Veneto Region - Regional Statistical System Section on Istat data and Prometeia forecasts

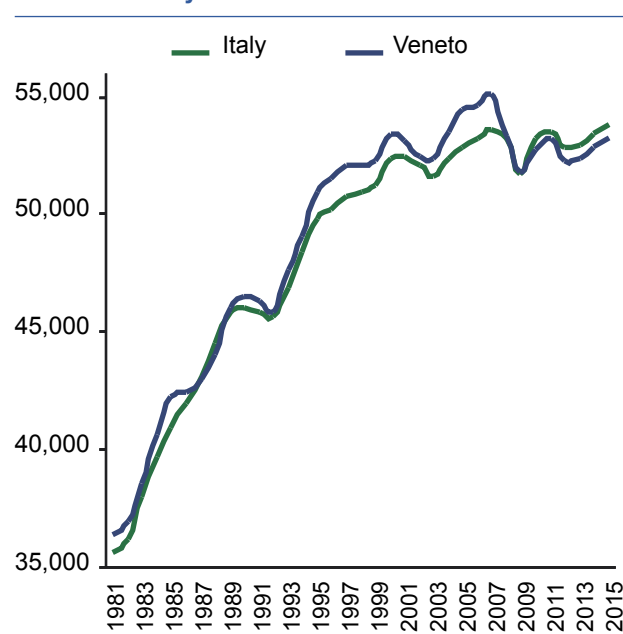
**Fig. 1.4.6 - Gross fixed capital formation per work unit (Euro year 2005). Veneto and Italy - Years 1981:2015**



Source: Processing by Veneto Region - Regional Statistical System Section on Prometeia data and forecasts

After a decrease in 2009, productivity<sup>9</sup> recovered despite no longer reaching the peak of 2007. In 2012 it fell and an acceleration is expected for the next years.

**Fig. 1.4.7 - Added value by work unit (Euro year 2005). Veneto and Italy - Years 1981:2015**



Source: Processing by Veneto Region - Regional Statistical System Section on Prometeia data and forecasts

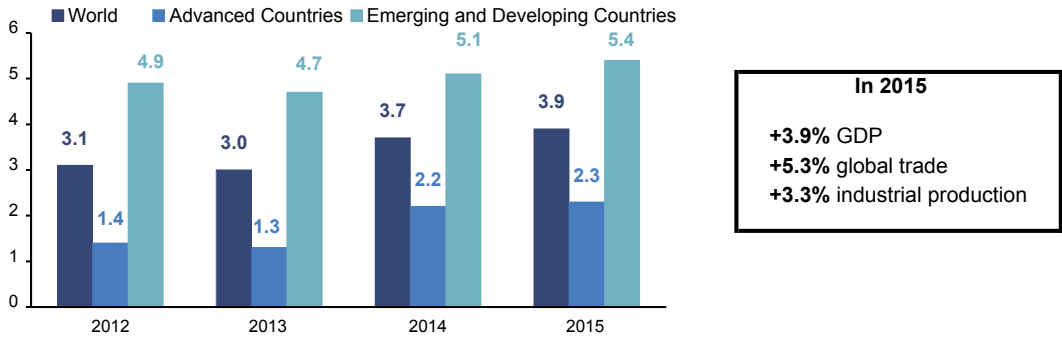
<sup>8</sup> To standardise the investments work units have been used. The work unit represents the quantity of work performed over the year by a full-time employee or the quantity of equivalent work performed by part-time employees or employees who carry out two jobs.



ARE WE ON TRACK FOR RECOVERY?

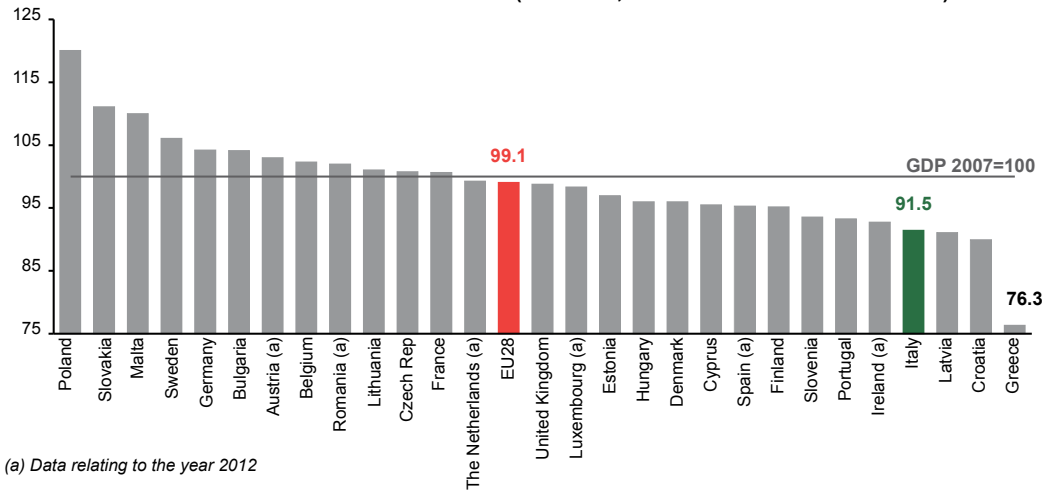
The economic cycle will improve even if at different paces

Annual % variations of the Gross Domestic Product Years 2012:2015



Europe has not yet recovered the pre-crisis levels

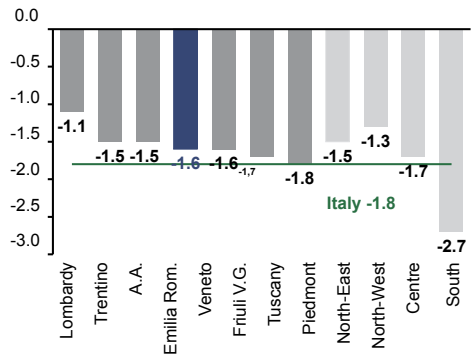
Gross Domestic Product for some Countries (2007=100, concatenated values Year 2005) - Year 2013 120.1



(a) Data relating to the year 2012

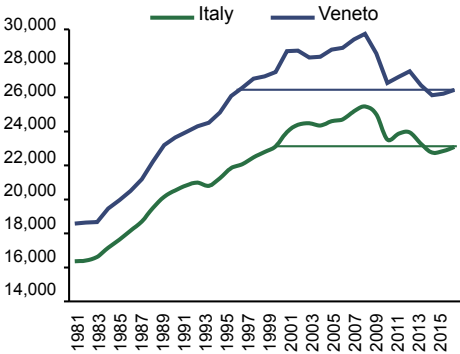
In Italy 2013 is still a year of recession but the last months are encouraging

Estimation of the % variation 2013/2012 of the Gross Domestic Product (2005 prices)



Veneto's per capita GDP returns to the values of 1995

Gross Domestic Product per capita (Euro year 2005). Veneto and Italy Years 1981:2015



Source: Processing by Veneto Region - Regional Statistical System Section on International Monetary Fund, ONU, Eurostat, Istat data and Prometeia forecasts





### The prices in Veneto

The prolongation of the crisis slows down inflation, which in Italy in 2013 is 1.2%, dropping after the 3% reached in 2012.

Compared to the general average data for 2013, the trend of prices in the twenty regions of Italy fluctuated between the 1.7% of Calabria and Molise and the 0.8% of Valle d'Aosta. This variance is to be interpreted in a scenario of adverse economic conditions affecting the entire Country and in which the trend of prices reflects the difficult situation of the internal demand and is influenced by the greater attention of the families to the

streamlining of their consumption. In the areas most hit by crises the increase in the consumer prices was probably slower.

In Veneto the average inflation is equal to 0.9%, slightly less than the national one; the province capital with higher inflation is Venice (1.4%).

With reference to cost items, the trend of Veneto is similar to the national one: in the last year, the most significant contributions to average growth mainly concern education, food products, transport and catering services.

## **Has the recovery of the international cycle begun?**

There are encouraging indications that the worst stage of the crisis could finally be over: the expansion of industrial production and global trade over the last few months suggest that the international cycle is strong enough to reach a global growth of 3% in 2013 and 3.6% in 2014, despite the fact that the recovery is still fragile and unemployment remains at unacceptable levels in many Countries.

## **And in Italy?**

The fall of GDP stopped but the internal demand remains weak. On the other hand, borrowing remains stable and the industrial activity shows positive signs.

## **Can Veneto breathe a sigh of relief?**

We are still far from the levels of pre-crisis wealth: the industrial and construction sectors are still suffering, the consumption is slow to recover; the exports are what is saving us and there are some positive signs for 2014.




*Global GDP:  
2013: +3.0%  
2014: +3.3%*



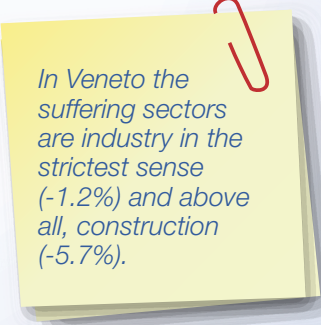
*GDP Euro Zone:  
2013: -0.4%  
2014: +1.1%*



*GDP Italy:  
2013: -1.9%  
2014: +0.7%*



*GDP Veneto:  
2013: -1.6%  
2014: +1.0%*



*In Veneto the  
suffering sectors  
are industry in the  
strictest sense  
(-1.2%) and above  
all, construction  
(-5.7%).*



*Veneto GDP reached  
its highest value in  
2007; according to the  
forecasts, in 2014 it  
could reach 129,453  
million Euros or go  
back to the levels of  
2002.*