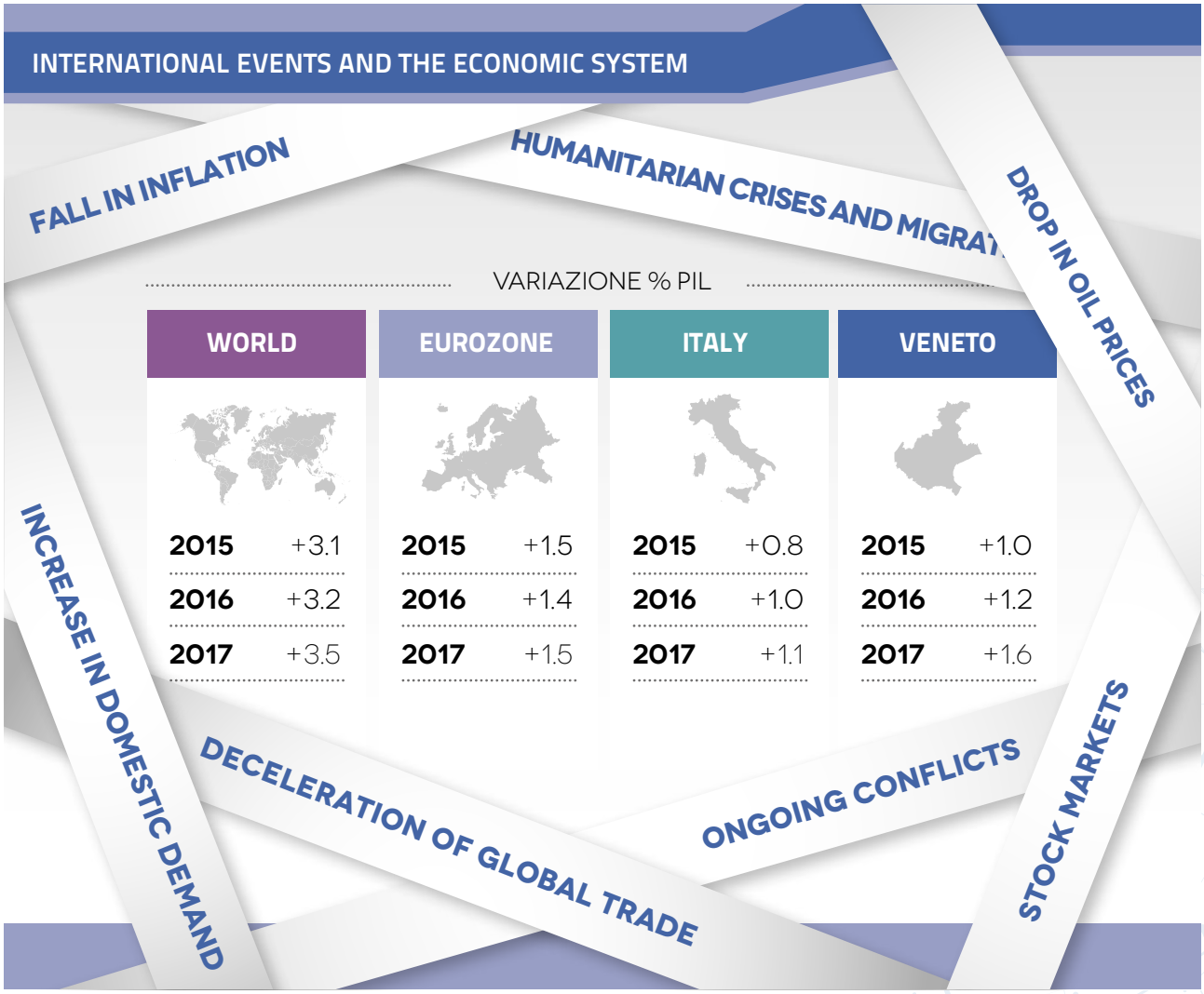
Chapter 1 - The Fears and Opportunities of the Interconnection of the Economic System[1]

In 2015, the global economy was growing at a rate of 3.1%, a fairly moderate pace, due to an average recovery of advanced economies of +1.9% and growth of +4% in emerging markets.
The Europe-28 GDP ended 2015 at +1.8%, indicating recovery, albeit still fragile. There was similar growth in the Eurozone: +1.5% in 2015.
In Italy, in 2015, GDP of €1,636,372 million (at current values) was recorded, with an increase in real terms of 0.8%, after three negative years in a row. In 2016, it is predicted that growth will be 1%, supported by investments and consumption.
Growth of 1% is estimated for the Veneto GDP of 2015, a rate slightly above the national average. Domestic demand is slowly moving out of the situation of stagnation of recent years: household consumption rose by 1.3% and investments are positive once again, with an increase of 1.4%.
This result can be attributed to good performance by Veneto industry, which has made a return to competitiveness, recording an increase in added value of 1.8% and moderate growth in services of 0.4%; at the same time, the construction sector shrank once again, this time by -0.1%.
Estimations for 2016 see progress in recovery and growth in GDP is predicted to be 1.2%.



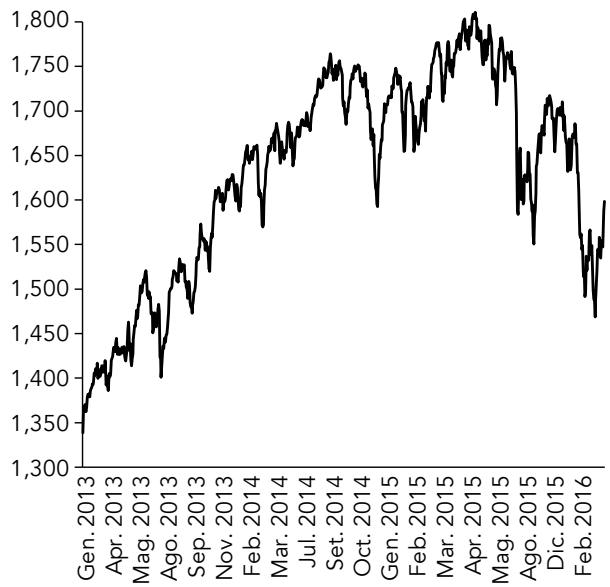
[1] Dati e previsioni disponibili ad aprile 2016.

In the 2000s, the global economy was characterised by accentuated interconnection: the development in volume and variety of international trade of goods and services, the increase in flows or capital and employment, the rapid and generalised diffusion of technology and the integration of financial markets hurdled geopolitical, dimensional and sectorial boundaries.
This interdependency, in addition to having positive effects on wellbeing and on overall consumer opportunities, also brought great insecurity.

1.1 The global scenario

There are many interconnected elements that characterise the international economic scenario of 2015: from ongoing conflict to terrorist attacks, continuing migration flows, the insecurity of emerging countries, the opening up of opportunities in new countries, such as Iran and Cuba.
Certain factors stimulate global demand for 2015, such as the fall in price of petroleum, the monetary expansion measures of the Central European Bank, the drop in interest rates, the depreciation of the Euro.

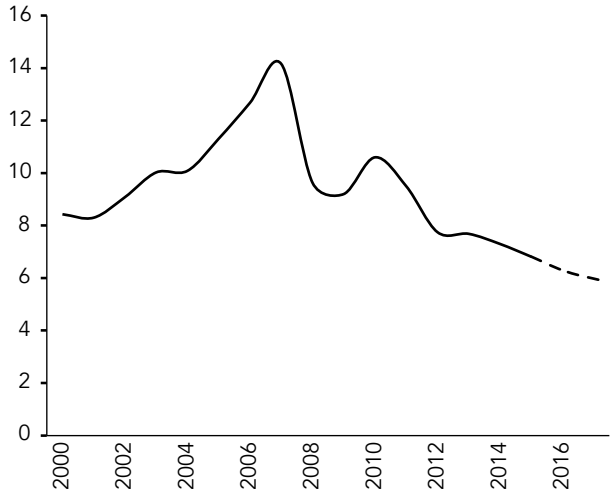
Figure 1.1.1 – The global stock markets (MSCI World indicator, price in $) – Years 2013:2016



Source: Veneto Region Data Processing, Regional Statistical System Section on REF economic situation data

Alongside these factors, elements emerge that are negative for the economy, such as the financial markets' failure in the capacity for self-regulation, manifested last August with the bursting of the bubble that had formed in the Chinese stock market. The price signal of the stock market crash demonstrates the fragility of emerging economies and the difficulties of the Chinese economic policy in managing this delicate crisis situation.
2016 reaps that sown in the previous two year period; that is to say, a global economy that sticks to a path of recovery at a moderate pace and with great instability of financial markets. After a long period of growth, the stock markets have suspended earnings for over a year, recording a significant market correction in the early weeks of 2016.

Figure 1.1.2 – Annual percentage variations in China's GDP (constant prices) – Years 2000:2017



Source: Veneto Region Data Processing, Regional Statistical System Section on International Monetary Fund data

Whereas, in the second half of 2015, the epicentre of the financial crisis was located in the Chinese stock market, during the most recent stages, all the main markets have suffered losses.
In line with that highlighted by stock market trends, the currencies of emerging countries also continue to record downward trends, accentuated by the start of the recovery of US currency rates. Over the course of 2015, numerous countries caused depreciation in their exchange rates against the dollar, with the hope of increasing competitiveness towards other economies in their area, as far as causing further de-

valuations. The most significant case is China, which began to let its exchange rate towards the dollar slide downhill.

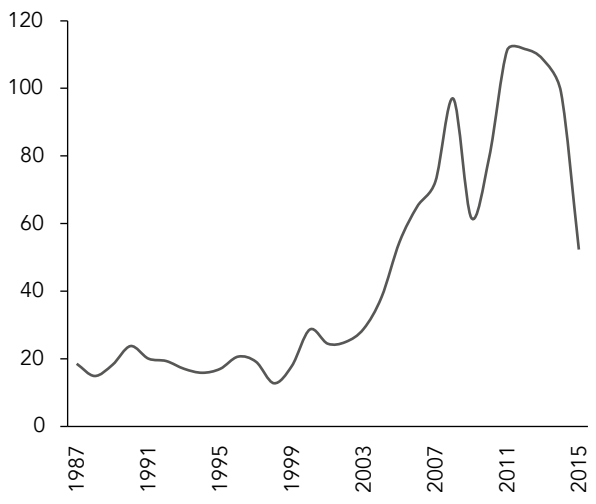
China influences markets

It all began in August 2015, when the global stock markets were hit by the bursting of the bubble that had formed in previous months in the Chinese stock market. Beyond the impact on the wallets of international investors, it proved that which analysts had predicted for several months, i.e. the weakness of the Chinese economic situation.
Chinese growth had already slowed over recent years, dropping to around 7%, significantly lower than the over 10% witnessed in the 2000s.
The slowing of the Chinese economy reflects, on the one hand, the slowdown in demand of advanced economies in recent years and, on the other hand, the end of the export-based growth phase of the 00s; the interruption of this process is probably to be expected, given that China reduced the productivity gap with competitors that was characteristic of the productive structure of the 90s. Looking at the wider picture, the potential growth of the economy also slowed due to demographic reasons, due to the effect of past policies on birth control, which will lead to a gradual decrease in the supply of employment.
The Chinese economic situation is somewhat uncertain, among the risks of deflation, affecting salaries and employment, and the collapse real estate market. All this could create hurdles for the transformation of the Chinese productive structure from an export-based model to a model more focused on domestic demand and on consumption, in particular.
For the rest, economic theory teaches us that it isn't possible to have a fixed exchange rate, free flows of capital and an independent monetary policy, all at the same time; it is precisely this "trilemma" in which those governing Chinese[2] economic policy have found themselves involved.
The Chinese crisis could infect other economies mainly through commercial trade with the rest of Asia. The impact on the rest of the global economy could vary; in 2015, the European economy most exposed to the demand of emerging Asian countries, and China in particular, was Germany. Among the other countries, those most at risk are the United States, insofar as the strength of the dollar could amplify the effects of the slowdown in world trade on American industry.
In general, for Western economies, the negative effects are in part compensated for by the fact that the weak Chinese economic situation contributes to maintaining limited commodities prices and this favours growth in domestic consumption. In parallel, this leads to very negative consequences for all countries that are producers of commodities[3].

The Oil Crash

The prices of raw energy and non-energy raw materials continue to fall over the course of the year. The price of oil weakened further, from an average of 52 dollars per barrel in 2015 to around 31 dollars per barrel in January of 2016, the lowest price since 2008, with predictions of an average of 39 dollars for 2016.

Figure 1.1.3 – Price of Brent oil ($/barrel) – Years 1987:2015



Source: Veneto Region Data Processing, Regional Statistical System Section on EIA data – U.S. Energy Information Administration

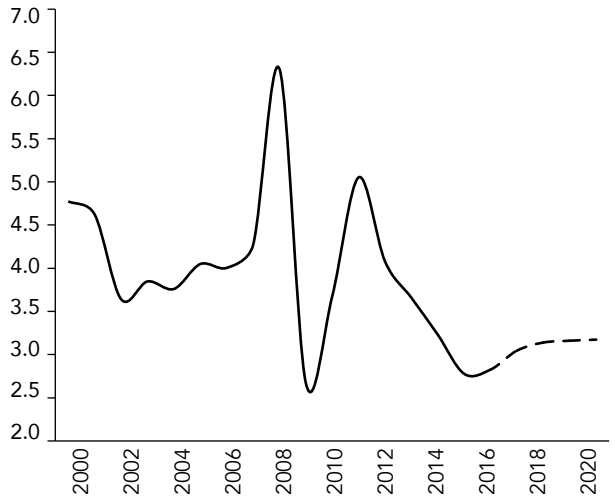
This trend is affected by the decision of OPEC to abandon the strategy, followed since 1992, of setting an agreed production objective; the Organisation of petroleum Exporting Companies thus expressed the desire not to halt the fall in prices within a context in which there is also the prediction of a gradual increase in supply from Iran after the revocation of international sanctions.
Up until now, the fall in prices of raw materials has been transferred rapidly onto the prices of international manufactured goods, including due to the existence of vast areas of production capacity unused on an international level. The persisting very

[2]Prometeia. Rapporto di previsione - March 2016

[3]Congiuntura Ref, 8th gennary 2016

low inflation rates have contributed to keeping medium-term expectations at low levels, including in economies such as that in the US, where recovery has been underway for longer. Even countries with significant depreciation in exchange rate have demonstrated limited increases in inflation.

Figure 1.1.4 – Global inflation – Years 2000:2020

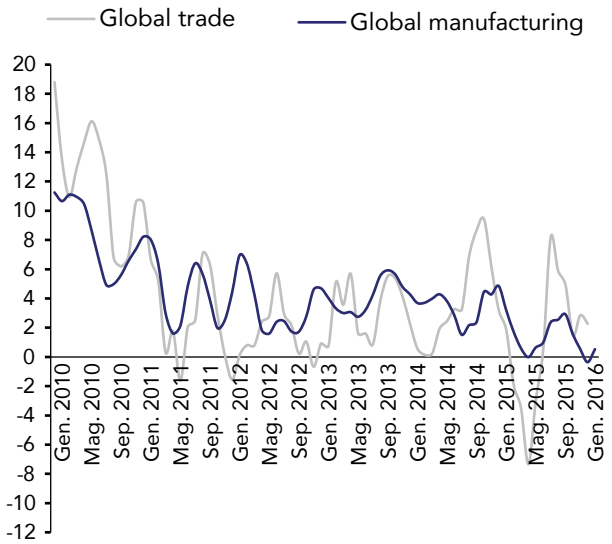


Source: Veneto Region Data Processing, Regional Statistical System Section on International Monetary Fund data

The Slowdown of World Trade

In 2015, the trend of international trade in goods was undoubtedly influenced by all the factors described above and that is not all: the economic stagnation that involves many developed countries, the unforeseen costs relating to the crisis of migration in Europe, the fall in the prices of oil and other raw materials and the financial instability that may ensue from a decision by the FED to increase interest rates and not reduce the production of foreign currency, which could create imbalances in international markets.
IMF estimates set the increase in international trade at 2.8% in 2015 and at 3.1% in 2016. There was a sharp drop in trade in the first half of 2015, starting to climb again in the third quarter and finally recovering, though at a reduced pace, in the fourth quarter. This is a worrying situation, according to global trade experts, who have always seen commercial trade as a unique opportunity for economic growth and seen the protectionism that may manifest itself in the form of real wars of currency as a danger that risks obliterating economic recovery[3]. "In a time of great uncertainty, especially in Europe, where austerity measures have contributed to depressing domestic demand, global trade holds a crucial role in resurrecting prospects of development and reducing poverty," states the OECD press release.

Figure 1.1.5 – Percentage variations in the global trade of goods and services and in global manufacturing – Jan 2010:Feb 2016

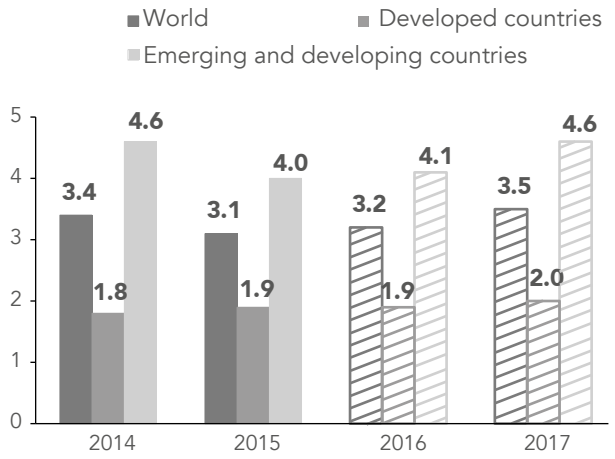


Source: Veneto Region Data Processing, Regional Statistical System Section on International Monetary Fund data

Professor Dani Rodrik[4] sustains that we have entered an era of hyper-globalisation: a market where the benefits of the free flow of goods and capital across national borders have, for the most part, already been produced. Basically, the advantages are by now counterbalanced by enormous costs due to unemployment, wage reduction, lost pensions and depopulating urban communities. "The free market, and the generalised internationalisation of the economy, failed to ensure the expected prosperity, confirming its lack of ability to manage efficiently and effectively the risks tied to the cyclic nature of the evolution of economic activity." Alongside Rodrik's affirmations must be included the thoughts of Joseph Stiglitz, one of the world's leading economists, 2001 Nobel Prize winner for his research on the asymmetry of informational asymmetries that obstruct the free market, who has long predicted a revision of the entire international economic system.

[3] "Commercio mondiale, un crollo che fa riflettere" by Monica Straniero, 5 October 2015
[4] Professor formerly at Harvard, now at the Princeton Institute for Advanced Studies

Figure 1.1.6 – Annual percentage variations in Gross Domestic Product. World, Developed countries, Emerging and developing countries – Years 2014:2017



Source: Veneto Region Data Processing, Regional Statistical System Section on International Monetary Fund data

In 2015, the global economy grew to a rate of 3.1%, a relatively moderate pace, created by a modest recovery of advanced economies (+1.9%) and by growth of +4% of emerging markets, which, despite representing over 70% of global growth, decrease in rate for the fifth year in a row.
In the main emerging economies, the overall economic outlook remains poor, with trends differing greatly among countries: intensification of the recession in Brazil is contrasted by positive developments in India's economic situation and further decrease in product prices in Russia.
GDP in the United States recorded growth of 2.4% in 2015, exceeding analysts' expectations and the

World growth is moderate

average rate in post-recession years, though still far from the rates of over 3% of the 1990s. Domestic demand in 2015 increased by 3%, corporate investments rise and residential property investments show signs of recovery. The USA economy, one of the most advanced economies, has been worse affected than other countries by the abovementioned tensions. The American stock market ceased to grow some time ago and the dollar recorded significant appreciation. The effects on exports are relatively pronounced, although overall growth has been supported by household consumer trends, supported themselves in terms of credit. American households benefit from low imported inflation and favourable labour market conditions. The real estate market continues to follow a path of growth.
At the time of drafting this report, the United States are in the midst of a ferocious electoral battle, which will end on 8 November. Historically, during electoral campaigns, the economy remains as far as possible in stand-by. And then the moment will come in which to put into practice the recommendations that the economic advisors of the presidential candidates have prepared over the past months. Some propose a crackdown on Wall Street and others the streamlining of the tax system, but there is one constant: do whatever it takes to avoid another recession.

1.2 Europe

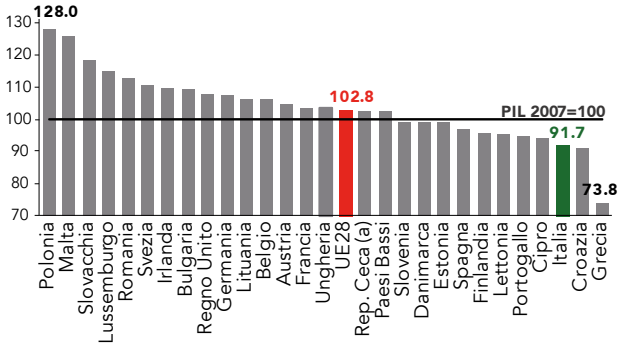
GDP of the Europe-28 was up +1.8% at the close of 2015, highlighting a recovery, albeit a fragile one. There was similar growth in the Euro Zone: +1.5% in 2015. Many European countries have not yet recovered that lost starting in 2007.

Tab. 1.1.1 - conomic indicators in the main industrialised countries – Years 2014:2017

	PIL (Var. %)				Domanda interna (Var. %)				Inflazione				Tasso di disoccupazione			
	2014	2015	2016	2017	2014	2015	2016	2017	2014	2015	2016	2017	2014	2015	2016	2017
Stati Uniti	2,4	2,4	1,7	2,0	2,6	3,0	1,8	2,1	1,6	0,1	1,3	1,2	6,2	5,3	4,8	4,8
Giappone	0,0	0,5	0,8	0,4	0,0	-0,2	0,8	0,2	2,8	0,8	0,4	1,4	3,3	3,5	3,4	3,4
Area euro	0,9	1,5	1,4	1,5	0,8	1,7	1,6	1,5	0,4	0,0	0,1	1,4	11,6	10,4	10,0	9,7
Regno Unito	2,9	2,2	1,8	1,8	3,5	2,7	2,2	1,9	1,5	0,0	1,0	2,9	6,2	5,3	4,9	4,5
UE28	1,4	1,8	1,6	1,6	-	-	-	-	0,5	0,0	0,3	1,7	10,2	9,4	-	-

Fonte: Elaborazioni Regione Veneto - Sezione Sistema Statistico Regionale su dati e previsioni, in rosso, Eurostat, FMI e Prometeia

Figure 1.2.1 – Gross Domestic Product for certain European countries (*) 2007=100, connected values 2010) – Year 2015



(*) Data from 2014
Source: Veneto Region Data Processing, Regional Statistical System Section on Eurostat data

Europe is in recovery but...

In Europe, 2015 ended with two great concerns: the possibility of Brexit, the exit of Great Britain from the European Union in 2017, but, above all, the increasing pressure at the doors of Europe of the humanitarian crisis of the refugees from the Middle East. Debate on the survival of the Schengen agreement for the free movement of people and goods is still underway, between those who want to close the borders to the great influx of migrants and those who adopt policies of hospitality.
On the one hand, 2015 was characterised by a series of factors that improve the economic situation of households: household purchase power increased due to the drop in inflation and the consumption rate rose, supported above all by the gain in terms of trade tied to the fall in oil prices. Furthermore, in the majority of Eurozone countries, domestic demand began to benefit from the softening of tax restrictions.

...it is affected by foreign demand

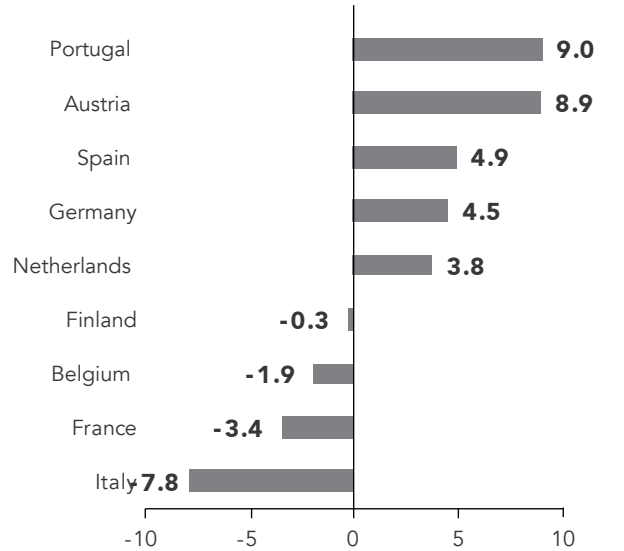
On the other hand, however, annual exports lost pace, reflecting the less dynamic international situation. Manufacturing slowed, industrial production stagnated over the year and investments remained poor. The real estate market began to recover in some countries, whereas in others it only recently stabilised.
Within this context, it can be observed that the growth differentials among the European countries are changing, as compared to previous years.
The gap in growth between Germany and neighbouring economies, despite recording an increase in GDP of
+1.4% in 2015, as compared to 2014, is decreasing, due to both the impact of the Volkswagen "dieselgate" and its high degree of openness to trade towards China and Russia. The other country heavily penalised by dependence on Russian demand is Finland (+0.4%).
Over the course of 2015, Russia suffered a series of events that seriously weakened its economy: the crash in oil prices, sanctions, fall of the ruble, war in Syria, geopolitical tensions with Europa and America. All this translates into a GDP recession of 3.7%, inflation that, according to some estimates, shot up to 15%, including due to the frighteningly volatile exchange rate, and a drop in retail sales.
Spain and Ireland, so-called peripheral countries, are demonstrating, however, a lively-paced recovery: +3.2% and +7.8% respectively.
France is finding it hard to pick up pace after the terrorist attacks, including due to the Hollande government's redirection of resources towards security instead of towards investments in growth. In Greece, in addition to existing tensions caused by austerity measures, there is also the economic pressure of the overwhelming humanitarian crisis.

Tab. 1.2.1 - Economic indicators in the larger Eurozone countries – Years 2014:2017

	GDP (% var.)				Domestic demand (% var.)				Inflation				Unemployment rate			
	2014	2015	2016	2017	2014	2015	2016	2017	2014	2015	2016	2017	2014	2015	2016	2017
Germany	1.6	1.4	1.4	1.6	1.2	1.4	1.6	1.7	0.8	0.1	0.3	1.6	5.0	4.6	4.5	4.5
Francie	0.2	1.1	1.1	1.2	0.6	1.2	1.3	1.4	0.6	0.1	0.1	1.4	10.3	10.4	10.2	9.6
Spain	1.4	3.2	2.7	2.0	1.5	3.5	3.1	2.0	-0.2	-0.6	-0.7	1.6	24.4	21.5	19.2	18.6
Italy	-0.3	0.8	1.0	1.1	-0.3	1.0	1.1	1.2	0.2	0.1	-0.1	1.1	12.7	11.9	11.5	11.2

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

Figure 1.2.2 - % variation for 2015/13 in house prices in certain countries



Source: Veneto Region Data Processing, Regional Statistical System Section on REF Economic Situation data

Fiscal Policies

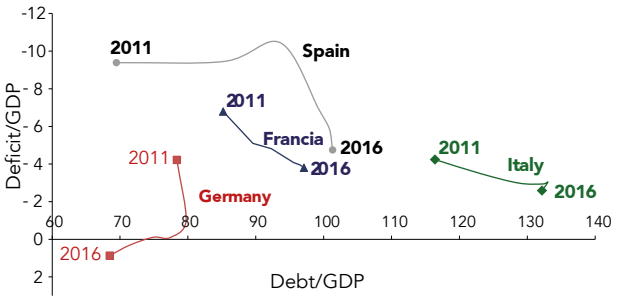
An important element that helps to explain the divergences in economies of the Eurozone is the trend in public spending. After the restrictive policies of the beginning of the decade, public consumption has started to increase once again in the majority of countries. Some, however, have less leeway and manage at the most to stabilise public consumption (Finland, Holland, Portugal).

After three years of extensive tax restrictions, in the past two years, the Eurozone has created neutral fiscal policy.

Certain countries, such as Germany, France, Ireland, Austria and Portugal maintain a restrictive tone of limited spending. In other countries, such as Spain, Finland and Greece, the fiscal policy provides a modest contribution in promotion of growth. In Italy and Holland, fiscal policy defends an almost neutral stance. The overlapping of positive and negative fiscal policies, the divergences in growth rates and the different starting positions led to 2015 closing with very different budget balances for different countries.

Indeed, the objectives of the Fiscal Compact, which initially were supposed to lead us to a balance in budget between 2015 and the present year, will be achieved only by Germany, whilst the majority of economies relax the pace of correction after the extensive fiscal efforts of previous years.

Figure 1.2.3 – Deficit and public debt in the leading Eurozone economies – Years 2011:2016



Source: Veneto Region Data Processing, Regional Statistical System Section on REF Economic Situation data

A warning from the OECD: "The slow rate of recovery of the Eurozone seriously hampers global growth and leaves Europe vulnerable to global shocks… Europe must pick up pace in terms of shared action, rediscover itself and speak with one voice…" Basically, the OECD highlights the slow pace of reforms and the failure to strengthen investments, despite the positive effect of the fall in oil prices and the very low interest rates.

In many European countries, the high private debt and mass of impaired credit obstruct the monetary policy transmission credit channel.

The risk that the Eurozone remains trapped in a situation of poor growth and low inflation, with confidence in the medium-term that is too weak to generate strong investments and innovation that would strengthen productivity and the increase in employment. This scenario negatively affects the banking sector, as is demonstrated by the sharp drops in share prices and bonds of European banks17.

The Draghi Manoeuvre

To counteract all of the above, on 10 March 2016, Mario Draghi announced, on behalf of the European Central Bank, a series of expansionary measures: a cut in all three main interest rates – refinancing rate from 0.05% to 0%, deposit interest rate from -0.30% to -0.40% and the marginal lending facility from 0.30% to 0.25%; an increase in monthly purchasing of government bonds from 60 to 80 billion as of April – the most eagerly awaited and potentially most effective measure; an increase from 33% to 50% of the purchasing limit of each bond issuance.

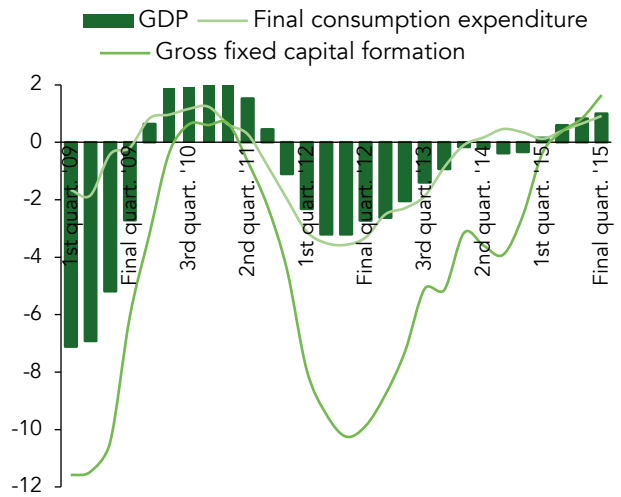
In addition, for the first time, bonds in euros issued by non-financial corporations were included as part of the Quantitative Easing18 programme, as long as they have an investment grade rating.
Draghi explained that it would be "a committee that decides which enterprises are eligible" for the purchase of bonds.
Finally, from June 2016 to March 2017, the ECB will launch 4 new TLTRO (Targeted Long-Term Refinancing Operations), long-term loans to banks, lasting four years and with an interest rate that can drop to the level of the new deposit rate of -0.40%. In the new package of four maxi-loans, Draghi explained, the more negative interest rate (starting from the main rate of zero) paid by the banks will translate into an equivalent increase in loans to businesses and households.
In the light of these measures, growth in GDP in the Eurozone is predicted at +1.4% for 2016 and +1.5% for 2017.
Due to oil prices, inflation for 2016 will be 0.1% and could be negative, even without causing the Eurozone to fall into deflation. Draghi states that, without the Frankfurt interventions, "today, we would be suffering disastrous deflation."

1.3 Italy

Recovery in Italy is gradual

Having held up activity in the past four years, exports are suffering the effects of the weakness of markets outside Europe and are being gradually overtaken by domestic demand, in particular in terms of consumption expenditure and inventory restocking.
In 2015, Italy recorded GDP of €1,636,372 million (at current rates), with real-time growth of 0.8%, after three negative years in a row.
In terms of loans, there was a recorded increase of 0.8% in gross fixed capital formation and of 0.5% in final national consumption expenditure.
In 2015, final resident household consumption expenditure grew in real terms by 0.9% (0.6% in 2014). Expenditure for the consumption of goods increased by 1.4% and of services by 0.7%. In terms of the purpose of consumption, the biggest increases concerned expenditure for transport, 5.5%, education, 2.7% and recreation and culture, 2.4%.
Pubic Administration expenditure recorded a decrease of 0.7%, whilst that of Private Social Institutions (PSIs) increased by 0.6%.

Figure 1.3.1 – Percentage variations in GDP, final consumption expenditure and investments in relation to the respective period of the previous year. Italy – 1st quarter 2009: final quarter 2015



Source: Veneto Region Data Processing, Regional Statistical System Section on ISTAT data

As compared to recent years, 2015 demonstrated a reversal of trend in gross fixed capital formation: +0.8% (-3.4% in 2014). There was a recorded increase in investments in transport and in machinery and equipment, of 19.7% and 1.1% respectively, whereas there was a decrease in investments in construction, - 0.5% and products of intellectual property, -0.4%. Goods exports increased by 4.3% and imports by 6.0%.
In 2015, the total added value in real terms increased by 0.6%; in 2014, it fell by 0.2%. There was a significant increase in agriculture, forestry and fishing, of 3.8%, whilst industry recorded a more limited increase of 1.3%, with growth in the added value of manufacturing of 1.5% and a fall of 0.7% in construction. Overall, services recorded an increase of 0.4%.
In 2016, growth is predicted at 1%, supported by investments and consumption expenditure. It is estimated that the ongoing reduction in oil prices equates to a further 7.5 billion in increased income and 4.5 billion in decreased costs.
This, together with the positive developments in the labour market and the accommodating direction taken by monetary and fiscal policies, will lead to increased spending. In fact, despite the slight decrease in pace post-Expo effect, the recovery in private consumption continued in the final quarter of 2015 and confirmed its role as the driving force in this stage of the cycle.

Public Finance

The debt load falls

In 2015, the net debt load of Public Administrations in relation to GDP was -2.6%, as compared to 3.0% in the previous year.
As an absolute value, debt stood at -€43,101 million, a decrease of over 5.5 billion as compared to the year before.
The primary balance (net debt load excluding interest expenditure) was a positive €25,326 million at current value.
The balance of current assets (savings or deficit of Public Administrations) was a positive €16,336 million, as compared to the €4,408 million of 2014. This improvement is the result of an increase in current revenue of around €6.4 billion and a decrease in current expenditure of around €5.6 billion.
In 2015, the total revenue of Public Administrations increased by 0.6% as compared to the previous year, 47.8% of GDP.
Current revenue recorded growth of 0.8%, 47.4% of GDP. In particular, indirect taxation decreased by 0.5%; this reduction mainly reflects the reduction in IRAP (Italian regional tax on productive activities) and taxes on electricity, in part compensated for by the increase in VAT revenue. Direct taxes increased by 1.9%, due to the effect of the marked increase in IRPEF (Italian personal income tax), the positive trend in IRES (Italian corporate income tax) and substitute taxes. An increase in actual social security contributions of +2.0% was recorded, as compared to 2014.
The sharp drop in capital revenue (-21.7%) can be attributed to both taxation and other capital revenue. Overall fiscal pressure (total sum of direct and indirect taxes, capital revenue and social security contributions as a percentage of GDP) was 43.3%, a fall of 0.3 percentage points as compared to 2014.
In 2015, total expenditure of Public Administrations decreased by 0.1% as compared to 2014 with a result of 50.4% of GDP. This included decreases in current expenditure of 0.7%: mid-term consumption expenditure increased by 0.3%, whilst income from employment fell by 1.1% (-0.7% in 2014). Social benefits in cash rose by 1.9% (+2.2% in 2014) due to a limited increase in pensions and a more significant increase in social care services. Other current expenditure fell by 6.7% due, in particular to the fall in contributions to production.
Passive interest rates fell by 8%, following the reduction of 4.2% in 2014.

Within the field of capital expenditure, which underwent an overall increase of 7.8%, gross fixed capital formation (+1.0%) reversed the negative trend of recent years.
The strong increase in other capital expenditure (+17.7%) is weighed upon by the marked growth in investment contributions and the back payments of pensions issued from 2012, following ruling no. 70/2015 of the Italian Constitutional Court.

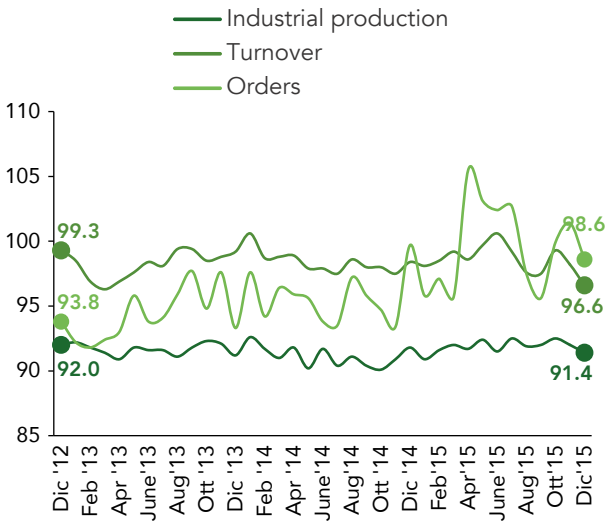
Industrial Activity

The overall industrial production index of 2015 increased by one percentage point, as compared to 2014.

Production on the up

The trend that saw a fall in industrial activity from the end of 2011 right through to the end of 2014 has finally been reversed.
Against a decrease in durables and intermediate goods, the main support for manufacturing comes from capital goods and energy.
Among the sectors that recorded significant increases in production, there are transport, +16.8%, and the production of coke and oil products, +10.8%.
The average turnover in industry for 2015 increased by 0.3%; the combination of a decline in the domestic market of 0.2% and growth in the foreign market of 1.2%.
Here, too, the most significant increase was recorded in the manufacture of transport vehicles.

Figure 1.3.2 – Seasonally adjusted index of industrial production, turnover and orders (base year 2010=100). Italy – Dec. 2012:Dec. 2015



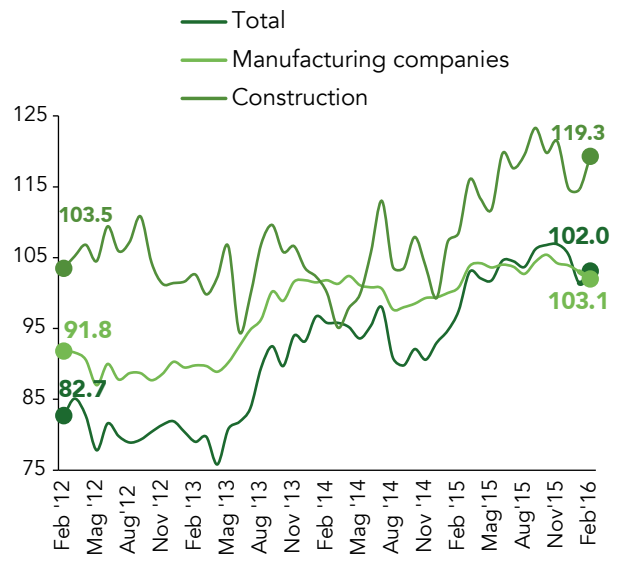
Source: Veneto Region Data Processing, Regional Statistical System Section on ISTAT data

The provisional index of orders increased by 1.5% as compared to 2014, with a greater increase in domestic orders, +8.6%, than foreign orders, 0.7%.

Improved climate of confidence in Italy

In recent times, the household and business "confidence" indicators have acquired growing importance in the analysis of the economic situation, thanks to their timely publication and, in some cases, their capacity to pre-empt the economic cycle.
Qualitative business indicators finally returned to pre-crisis growth levels: in 2015, business confidence increased on the previous year.
The composite index of business climate of confidence, which combines the opinions of business owners of all sectors, improved thanks to the optimism of manufacturing, services and trade and also of the construction sector.
A general fall was recorded in January 2016, which appears to have recovered already by the end of February.

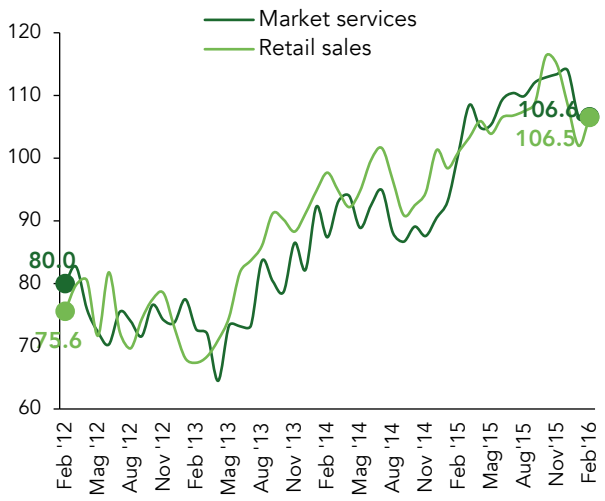
Figure 1.3.3 – Monthly balance of the climate of confidence of total businesses, of manufacturing companies and of construction companies (seasonally adjusted data, 2010=100). Italy – Feb. 2012:Feb. 2016



Source: Veneto Region Data Processing, Regional Statistical System Section on ISTAT data

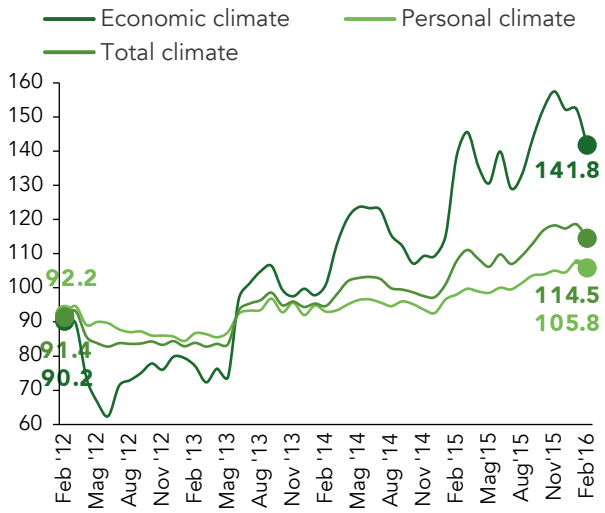
Over the course of the year, opinions improved on orders and production waiting times for manufacturing companies. In the field of construction, opinions improved on orders and/or construction plans.

Figure 1.3.4 – Monthly balance of the climate of confidence of market services companies and retail sales companies (seasonally adjusted data 2010=100). Italy – Feb. 2012: Feb. 2016



Source: Veneto Region Data Processing, Regional Statistical System Section on ISTAT data

Figure 1.3.5 – Monthly balance of consumer climate of confidence (seasonally adjusted data, 2010=100). Italy – Feb. 2012:Feb. 2016



Source: Veneto Region Data Processing, Regional Statistical System Section on ISTAT data

The climate of household opinion has also taken an optimistic turn: in the first part of the year, confidence continued to climb until it reached pre-crisis levels.

There was an increase in all three components: consumer opinion on the economic situation of the country and expectations for the economic situation of the future improved over the past 12 months. Expectations on employment worsened slightly, along with opinion on the dynamics of consumer prices, with a decrease in the proportion of those who judge them to be undergoing "strong growth".

The Banks

Whilst, on the one hand, the ECB highlights its willingness to strengthen the scope of the monetary stimulus to the economy, Italian banks are burdened with the management of impaired credit. This was the focus of the end-of-year debate and currently worsens insecurities over the solidity of our banking system. On 22 November 2015, the Italian government and the Banca d'Italia (Bank of Italy) applied the new standards approved by the Italian parliament in implementation of the European Bank Recovery and Resolution Directive (BRRD), resolving the crisis of the Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio di Ferrara and Cassa di Risparmio di Chieti.

Overall, they held around 1% of the nation's bank deposits – it could be said a derisory amount – but capable of triggering a reaction among investors and undermining "confidence" with regard to the entire system. And, in this case, the "system" is provided precisely by the interconnection of economy, society and politics. "…the novelty is that the disenchantment has affected areas in which the relationship with credit was, traditionally, more solid. Almost complicit. Between companies and local banks."[10]

Commissioned by the Bank of Italy, the banks are found mainly in Northern and Central Italy, areas of development of small enterprises, which depend to a larger degree on bank loans.

In implementation of the European Directives, the Italian regulations established that, in the event of a bank collapse, the first to offset the situation shall be shareholders, then subordinate bondholders, then senior bondholders and, finally – but in a more theoretical than actual situation – deposits of over €100,000. From 2019, senior bonds will become subordinate (thus vulnerable to earlier bankruptcy measures) to business deposits over 100 thousand euro. This is already the case with regard to household deposits of over €100,000.

It must be said, however, that, according to simulations made by Prometeia on the Italian banking system, neither deposits nor senior bonds would be damaged by maxi-devaluation of impaired credit and bail-ins20. Reason: the banks have enough capital and subordinate bonds to absorb possible losses. Furthermore, in April 2016 saw the creation of Atlante, an investment fund to support increases in bank capital and to help manage non-performing loans. Promoted by the government using private resources for the banking sector and launched by the Quaestio Capital Management SGR[11], has the aim of "ensuring the success of increases in capital requested by the Supervisory Authority of banks that find themselves facing objective market difficulties, acting as a back stop facility," reports the statement by Quaestio, and to "resolve the problem of non-performing loans. The total sum of non-performing loans that can be deconsolidated by bank financial statements will be far greater than those acquired by the fund, insofar as Atlante will focus its own investments on the junior[12] tranche of vehicles of securitisation, being able to leverage those with greater seniority for which there is a manifest interest on behalf of investors." The Atlante Fund, the statement continues, "has the aim of eliminating the high discount at which the market values Italian financial institutions because of: non-performance loan stock quadrupled since 2007, due to the severity of the recession; credit recovery times much longer than the European average; massive increases in capital required by devaluation; uncertainties surrounding the capacity of certain institutions to complete successfully the increases requested by the Supervisory Authority."

The measures taken by the private investors of the Atlante Fund and the provisions of the Italian government on bankruptcy law are considered decisive, at the moment of writing, for the support of increases in capital (with quotation) for the two Veneto banks in difficulty – the Banca Popolare di Vicenza and Veneto Banca.

Government Objectives for 2016[13]

On 8 April 2016, the Council of Ministers resolved upon the Document of Economy and Finance (DEF), which updates the programmatic framework on which executive action is structured.

[10] I. Diamanti, Repubblica, 22 December 2015

20 A bail-in is an instrument that allows the resolution authorities to reduce the value of shares and certain types of credit or to convert them into shares in order to absorb losses and recapitalise the bank to a sufficient extent to recover adequate capitalisation and to maintain market confidence.

[11] http://www.quaestiocapital.com/

[12] More at risk

[13] Economy and Finance Document 2016 – Ministry of Economy and Finance

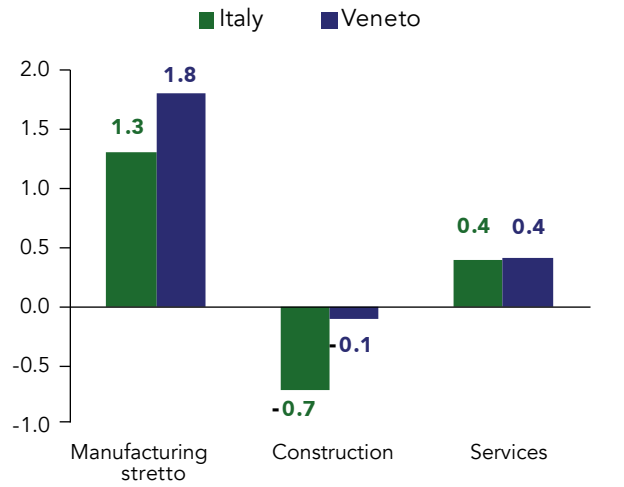
The main objective is to boost growth and employment and the instruments can be summarised as follows: broad national structural reform and public and private investment stimulus; gradual yet robust consolidation of public finances, such as to reduce in increasing measure the relationship between debt and GDP; reduction of the tax burden, which is tied to increased efficiency in expenditure and public administration activity; improvement of the business environment and of the competitiveness of the Italian system.
Improving the "investment climate" in Italy is an essential condition for providing adequate support to public and private investment. In support of this priority, continuation on the path of Public Administration reform is expected, which will also include civil law; the objective is to make it more streamlined and simple, in line with European standards.
In support of the investment decisions, the document introduces new measures to simplify access to credit, encourage capitalisation and business listing on the stock market, provide added value to patents and other intellectual works.
There is confirmation of the desire to strengthen national policies, shared by all regions, in which there are persistent delays in the formation of human capital, in productivity and in infrastructures, i.e. the factors essential to the attractiveness of a region. With this in mind, the document includes the adoption of a Masterplan per il Mezzogiorno (Masterplan for the South), which aims to develop production chains moving from the most dynamic centres of the Southern Italian economic fabric, increasing their entrepreneurial capacity and professional expertise. These actions are accompanied by the reform of national collective bargaining, the provisions on household support, on situations of poverty and the implementation of Law107/2015 on education.
The scope of the measures indicated in the DEF envisages a public spending review, which will focus on: a review of taxation, increased regulatory conformity to broaden the tax bases and obstruct tax evasion and reform of the national balance sheet.
Thanks to the implementation of the abovementioned measures, the government estimates growth of 1.2% in the economy for 2016 and then between 1.4% and 1.5% up to 2019. As far as concerns the deficit/GDP ratio, it is predicted at 2.3% for the current year and at 1.8% for 2017; public debt should fall to 132.4% of GDP in 2016. The DEF sets inflation at 1.3% in 2017 and 1.6% in 2018, whilst the national unemployment rate should fall this year to 11.4%, going on to fall below 10% by 2019.

1.4 The Veneto Economy[14]

Official regional accounting data goes as far as 2014, so we will refer to estimates and predictions by the Prometeia Research Institute.
It is estimated that Veneto GDP will grow by 1% in 2015, a rate slightly above the national average.
Coming out of stagnation
Domestic demand is slowly moving out of the situation of stagnation of recent years: household consumption has risen by 1.3% and investments are positive once again, recording an increase of 1.4%.
The results from 2015 can be attributed to good industrial performance in Veneto, which has returned to competitiveness and recorded an increase in added value of 1.8%, and to a modest increase in services of
+0.4%; at the same time, the construction sector again recorded a weakening of -0.1%.
From the point of view of the labour market, Veneto recorded an employment rate of 63.7% and unemployment of 7.5%, confirming its position as one of the leading regions in terms of low unemployment, with the second lowest national rate.
Positive indications for 2016
According to estimations for 2016, there should be continued recovery, insofar as in Veneto, as well as on a national level, the final months of the year gave encouraging signs in terms of an increase in both consumption and investments.
The fall in oil prices and absence of inflation should continue for 2016, on the one hand, in favour of household balance and, on the other, to the advantage of Veneto manufacturing. At the start of 2016, investment decisions were negatively affected by the slowdown in international demand, but conditions remain favourable for an export-led economy, such as that in Veneto.
In any case, after the long period of decline in expenditure for investments, businesses have a growing need to renew their systems and equipment, which have become outdated, in order to improve productivity.
Within this context of recovery after a long period of crisis and freezing of the most significant expenditure, investment decisions are guided above all by credit availability, given businesses' poor capacity for self- funding. And, in relation to this, businesses

[14] All the values displayed in the tables, graphs and text are expressed in real terms at 2010 prices, unless stated otherwise

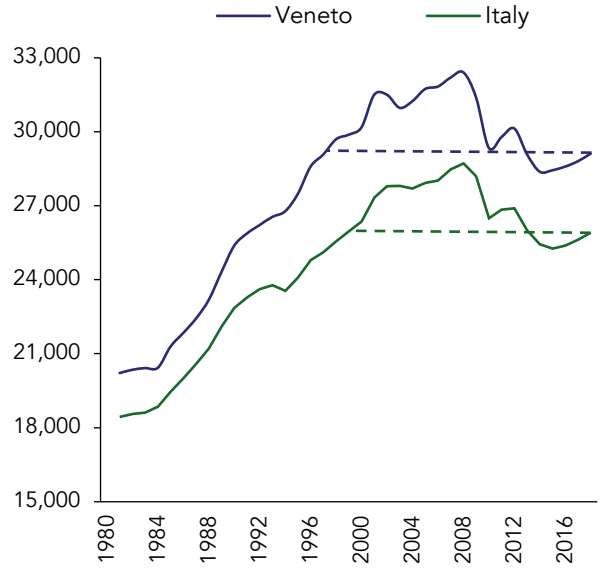
Figure 1.4.1 - % variation 2015/14 of the added value per business sector. Veneto and Italy



Source: Veneto Region Data Processing - Regional Statistical System Section on ISTAT data and Prometeia estimates

should benefit from the ECB reforms of March of this year, together with the capital goods purchasing incentives introduced for 2016 with the Stability Law, by means of a so-called "maxi-amortisation" of spending.

Figure 1.4.2 – Gross domestic product per capita (euro, 2010). Veneto and Italy – Years 1980:2017



Source: Veneto Region Data Processing - Regional Statistical System Section on ISTAT data and Prometeia estimates

In the light of all of the above, predictions are made for a percentage variation 2016/15 estimated at +1.2% of GDP, with positive results for both domestic

Tab. 1.4.1 - Macroeconomic overview (percentage variations in chained volumes with reference year 2010). Veneto and Italy – Years 2013:2016

	2013		2014		2015		2016		
	Italy	Veneto	Italy	Veneto	Italy	Veneto	Italy	Prevision DEF Italy	Veneto
Gross domestic product	-1.7	-2.1	-0.3	0.4	0.8	1.0	1.0	1.2	1.2
Final household consumption expenditure	-2.5	-2.7	0.6	1.0	0.9	1.3	1.3	-	1.5
Final consumption of P. A. and Non-prof. F. W. Institutions	-0.3	0.0	-1.0	-0.6	-0.6	-0.5	0.0	-	0.1
Gross fixed capital formation	-6.6	-5.5	-3.4	-3.0	0.8	1.4	2.3	2.2	2.7
Import (a)	-5.1	3.4	-1.1	1.9	3.3	5.9	-0.3	-	-1.2
Export (a)	0.0	2.9	2.2	3.6	3.8	5.3	2.5	-	2.9
(a) Current values									

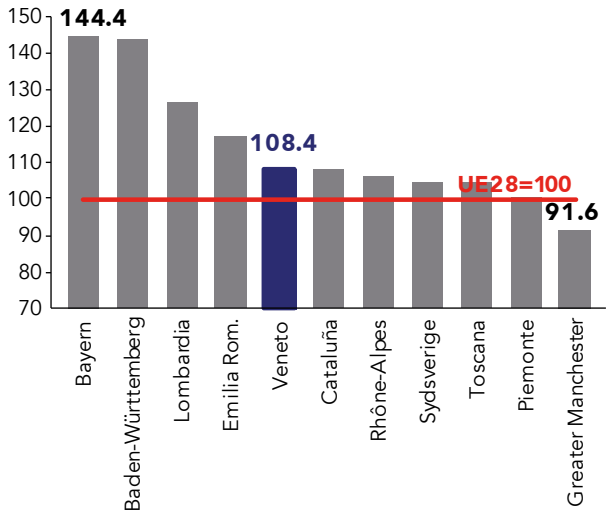
Source: Veneto Region Data Processing, Regional Statistical System Section on ISTAT data, Prometeia estimates and forecasts (in red) and Ministry of Economy and Finance – Economy and Finance Document 2016

consumption (+1.2%), insofar as household spending should grow by 1.5%, and investments (+2.7%).
The added value of manufacturing should boost growth by 2.1% and that of the construction sector by 2%. The services sector is predicted to achieve consolidation of +0.8%.
For 2017, consolidation is predicted at +1.3%.
Veneto remains in third place among Italian regions for the production of wealth, after Lombardy and Lazio: 9.2% of national Gross Domestic Product is created in Veneto. GDP per Veneto inhabitant in 2014 was €30,034 at current values, 13% higher than the national average.

Veneto in Comparisons among Regions and over Time

Comparisons among economies reveal great differences among European regions. Veneto finds itself in an above-average position but does not excel when benchmarked with the highest performing European economies.

Figure 1.4.3 – Gross domestic product per capita (in PPS, EU-28=100). Veneto and certain Italian and European competitors – Year 2014

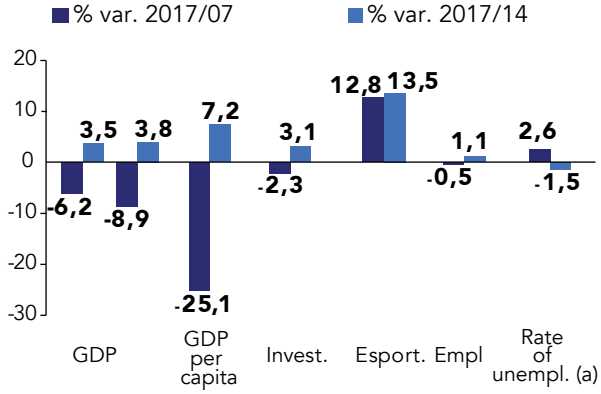


Source: Veneto Region Data Processing - Regional Statistical System Section on Eurostat data

Veneto regional performance is positive but slowed by a weaker average growth in GDP in recent years as compared to that of the other benchmark regions and regions of Western Europe[15].

[15] In-depth analysis of the productive organisation of the European best performers can be found in the Veneto Region 2012 Statistical Report.

Figure 1.4.4 - % variations 2017/07 and 2017/14 of certain economic figures. Veneto



(a) Difference between rates in the period of reference
Source: Veneto Region Data Processing - Regional Statistical System Section on Prometeia data and estimates

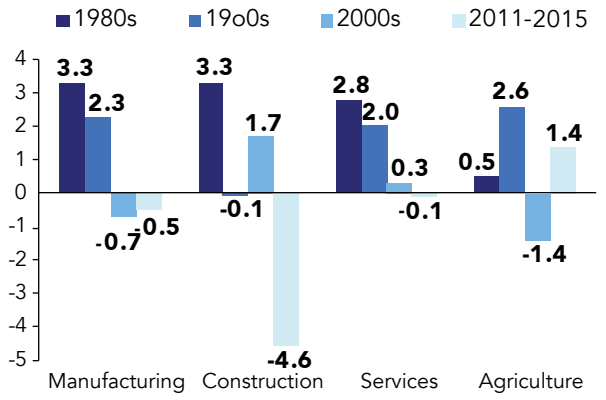
Veneto holds a good position among European competitors...

Among Italian competitors, Veneto is beaten only by Lombardy and Emilia Romagna, whilst German and Finnish regions confirm their competitive strength. Veneto and Catalonia prove superior to the French Rhône-Alpes, English Greater Manchester and Swedish Sydsverige.
The lower growth in GDP recorded since the start of the new millennium certainly contributed significantly to Veneto's result.
Since 2000, the above-average GDP per capita and the evolution of employment haven't managed to compensate for the weak growth in Gross Domestic Product, driven by the increase in population but slowed by decreasing productivity.

...but is not yet back to pre-crisis levels

Predictions for 2017 include positive developments for the main economic variables; however, despite the recovery expected for the 3-year period 2014/2017, the Veneto economy will still be working, at the end of 2017,on healing the scars left by the stagnation period, above all in terms of GDP, investments and consumption. In contrast, on the foreign sales front, our region continues to grow, as is explained in more detail later on in this report.
From a sectorial point of view, Veneto remains a region with a strongly industrial vocation; manufacturing is a valuable backbone in terms of both workforce and production of wealth incremented by significant international trade in goods: the share of

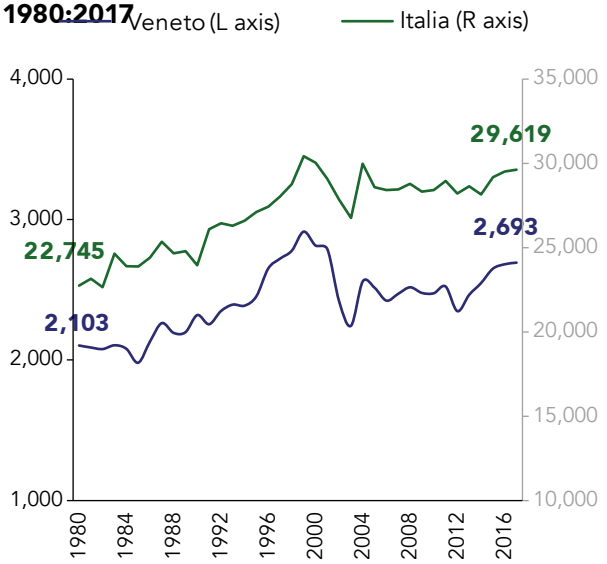
Figure 1.4.5 – Average annual % variation in added value per business sector, in the different periods. Veneto



Source: Veneto Region Data Processing - Regional Statistical System Section on Prometeia data and estimates

wealth produced by industry stands at around 30%. It is also true that, in recent decades, Veneto's productive structure has been gradually transformed, moving increasingly towards the tertiary sector, favouring the business services area and, at the same time, reducing the weight of the other economic sectors.
This change has been hindered by the difficult national and global economic situation and, in fact, is only partially underway, insofar as financial growth in the tertiary sector has failed to compensate for the reduction in manufacturing.

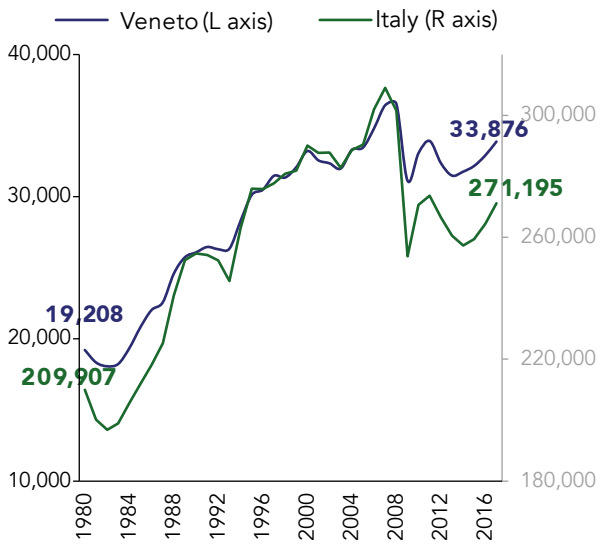
Figure 1.4.6 – Added value of services (millions of euro, year 2010). Veneto and Italy – Years 1980:2017



Source: Veneto Region Data Processing - Regional Statistical System Section on Prometeia data and estimates

The added value created by services in 2015 was €86.7 billion, in real terms, and its progressive growth over the years was halted precisely in 2008, the first year of the financial crisis; in 2009, difficulties persist and, from then on, we see a fluctuating trend that fails to find a sure road to recovery.
Indeed, following an average annual increase26 of 2.8% seen in the 1980s, the average annual added value in the 2000s is only a little over zero (0.3%) and stagnant in the years 2011 to 2015 (-0.1%).
The manufacturing area of industry produced added value of over €32 billion in 2015, a value similar to that of the early 2000; the recovery of the mid 2000s was interrupted abruptly by international events and, since then, has slowed continuously, with an average annual fall of 0.5% from 2011 to 2015.

Figure 1.4.7 – Added value of manufacturing (millions of euro, year 2010). Veneto and Italy – Years 1980:2017

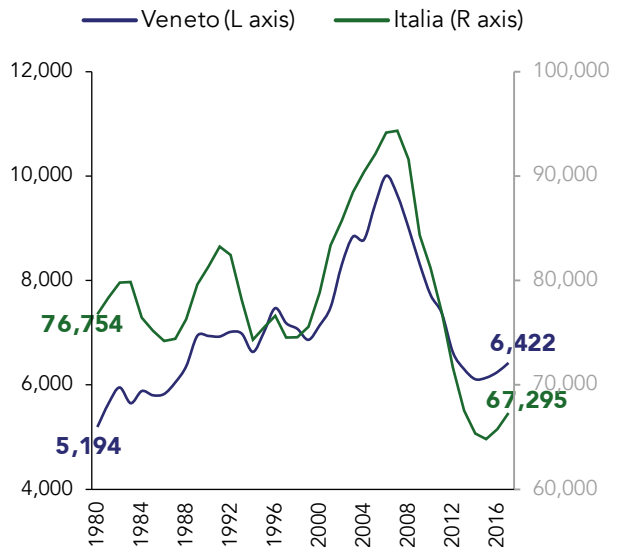


Source: Veneto Region Data Processing - Regional Statistical System Section on Prometeia data and estimates

The construction sector holds around 5% of total regional added value, worth over €6 billion. The financial crisis hit small handcrafting enterprises the hardest, despite the extensive use of incentives, building restoration and urban renewal; there was an average annual reduction in added value of 4.6% in the period 2011-2015.
The only sector with a positive average annual increase, of 1.4%, in the most recent period is the primary sector, which produced added value of around €2.6 billion, 2% of the total regional economy; it may

seem a very small proportion, but it is important to remember that Veneto produces around 9% of national agricultural added value, holding fourth position in the Italian regional rankings.
GDP per inhabitant[16], which is a commonly used measurement for calculating the level of wealth of an area based on the amount of wealth produced by its economic system, dropped sharply as of 2007, both in Veneto and on an international level. In 2015, it grew a little, and now sits above the national average of over €3,000, with predictions of an upward trend over coming years beyond its current level which is the same as that of 1995.

Figure 1.4.8 – Added value of construction (millions of euro, year 2010). Veneto and Italy – Years 1980:2017



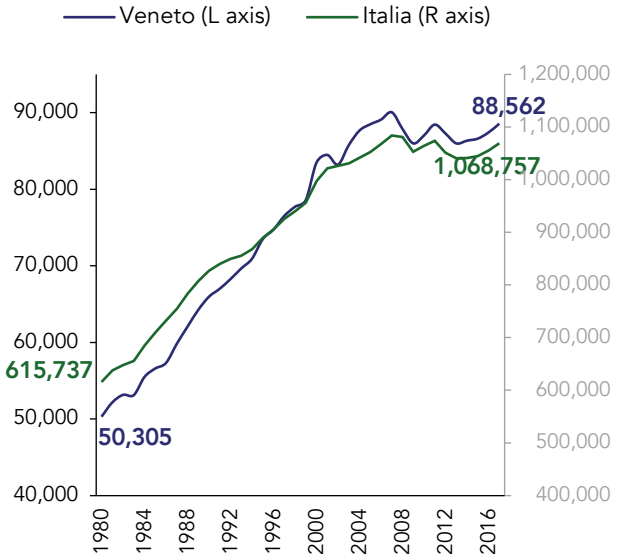
Source: Veneto Region Data Processing - Regional Statistical System Section on Prometeia data and estimates

GDP per capita returns to growth

Disposable income[17], on the other hand, is a synthetic measurement of the economic wealth enjoyed by the residents of a region, considered as consumers and savers. Disposable income per capita of Veneto households in 2015 was around €18,250, higher than the national average and finally an increase on the previous year. The downward spiral that took the value, in real terms, to as low as those seen in the late 1980s, finally came to an end. Predictions for 2016 and 2017 show further increase.

[16] Average annual increase in x from year t to year n = ((xn-xt)*100/xt)1/(xn-xt)
[17] Calculated here in euro 2005, in order to evaluate the historical trend devoid of the effects of inflation.

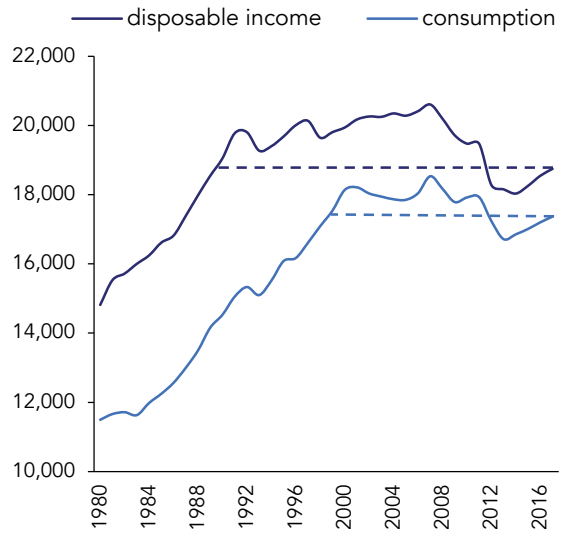
Figure 1.4.9 – Added value of agriculture (millions of euro, year 2010). Veneto and Italy – Years 1980:2017



Source: Veneto Region Data Processing - Regional Statistical System Section on Prometeia data and estimates

Household consumption per capita, evidently linked to the level of income, had already pre-empted a trend reversal the year before and, in 2015, this continues with an increase of 0.9%. This variable is also at levels similar to those of 1989/90 but predictions are optimistic.
Data on disposable income and consumption for 2015 confirms the signs of improvement in situation for Italian households. The household balance sheets have benefited from certain favourable factors that have been in place for several quarters: the labour market already records a recovery, thanks in part to social security contributions; inflation of close to zero has enabled the improvement of household purchasing power.
In general, we can see that the trend in disposable income is a lot more volatile, with considerable positive and negative fluctuations, whilst the trend in consumption seems to be more moderate: households tend to keep their spending standards as constant as possible, compensating for fluctuations in purchasing power, especially when negative, by varying their consumer tendencies.
The rate of saving also increased in 2015, returning to growth after dropping to an all-time low in 2012. The Veneto population's relationship with savings is unusual: in the early years of the crisis, they attempted to maintain their quality of life, notwithstanding a reduction in savings; then they reduced consump

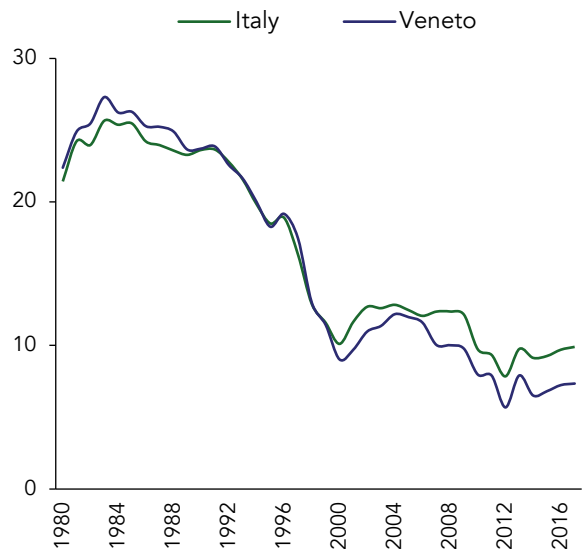
Figure 1.4.10 – Final consumption expenditure and disposable income of households (euro, year 2010, per capita). Veneto – Years 1980:2017



Source: Veneto Region Data Processing - Regional Statistical System Section on Prometeia data and estimates

tion beyond proportion with the fall in income, as a precaution against a perceived worsening of the situation; finally, today, they share the increase in income between consumption and savings.

Figure 1.4.11 – Household saving tendencies. (*) Veneto and Italy – Years 1980:2017



(*) Savings as a proportion of household disposable income
Source: Veneto Region Data Processing - Regional Statistical System Section on Prometeia data and estimates

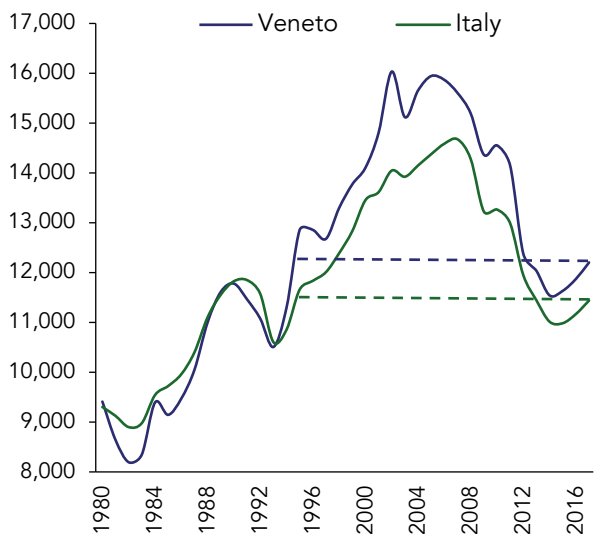
This change in behaviour can be interpreted either positively or negatively: do households perceive an end of the recession cycle? Or is it an indication of cautiousness with regard to uncertainty over the loss of value of real estate assets and to the Italian banking situation?

Among the components that form GDP, analysis was made of gross fixed capital formation, which is the value of durables purchased by resident producer units, to be used in the production process, as well as the value of services incorporated in purchased capital goods.

After years of decreasing values, investments per worker[18] in Veneto increased in 2015 by 0.8%, as compared to the previous year, and further increases are predicted for the next two years.

After the crash of 2009, productivity[19] began to recover, though it never got back to the peak values of 2007, then it dropped to an all-time low in 2012 and now, for several years, it has been more or less stagnant (+0.3% in 2015).

Figure 1.4.12 – Gross fixed capital formation per work unit (euro, year 2010). Veneto and Italy – Years 1980:2017

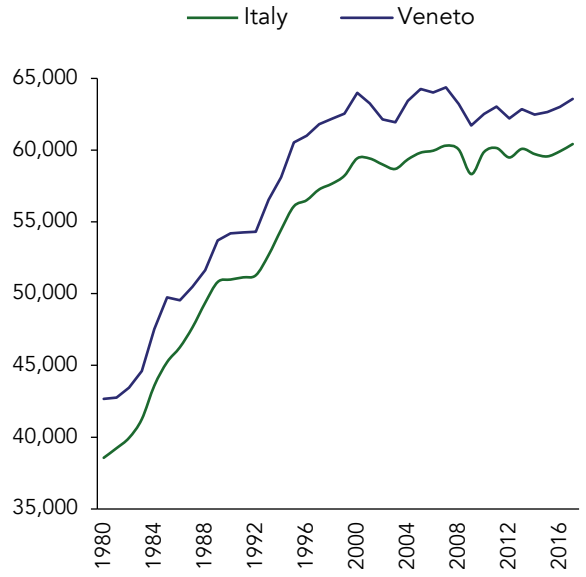


Source: Veneto Region Data Processing - Regional Statistical System Section on Prometeia data and estimates

[18] The total sum of current resources of operators for final use (consumption and savings). This includes all inflow and outflow pertaining to residents, even if produced outside of the region, whilst excluding resources produced within the region by non-residents.

[19] In order to standardise investments, annual work units were used. An annual work unit is the quantity of work undertaken in one year by a full-time employee, or the equivalent amount of work undertaken by part-time workers or those who have two jobs.

Figure 1.4.13 – Added value per work unit (euro, year 2010). Veneto and Italy – Years 1980:2017



Source: Veneto Region Data Processing - Regional Statistical System Section on Prometeia data and estimates

Prices in Veneto

In Italy, inflation has been slowing down for over two years, reaching a rate of 0.1% in 2015. It was the lowest inflation rate since 1959, when Italy was under deflation (-0.4%).

ISTAT explains the price stability with the balancing of opposing driving forces: on the one side, the acceleration of the increase in the prices of recreational and cultural activities and personal care and the-further reduction in the fluctuation of unregulated energy prices; on the other side, the reversal in the trend of transport-related prices and the slowdown in growth of prices of unprocessed foods.

Negative inflation

The average inflation recorded in Veneto in 2015 was even lower than the national average, at -0.1%. With reference to specific expenditures, Veneto displays a strong reduction in the prices of audio-visual and IT devices (-4.8%), depreciation in transport (-2.9%) and in spending relating to housing, electricity, and fuel (- 1.8%). An increase is seen, however, in the prices of tobacco, books and stationery, all levels of education, durables for recreation and culture, postal services, the purchase of vehicles and catering services.