CHAP. 1. - THE BALANCING OF ACCOUNTS AND SUSTAINABLE ECONOMIC GROWTH[1]

The global economic situation appeared to have been boosted by a cyclical recovery that began in mid-2016, intensified in 2017 and peaked in 2018 due to positive growth. Since mid-2018, however, the issue of political risk has become ever present. Such risk has the potential to influence the choices of international investors, move markets and lower the rate of global growth. The International Monetary Fund declared a decline in global expansion. World economic growth for 2018 was estimated at +3.6% and is expected to sit at +3.3% in 2019.

In 2018 the European economy proved to be very fragile. In the second half of 2018, production activity declined significantly across the Eurozone as a result of the downturn in world trade growth, in a climate where confidence was compromised by uncertainty. Output in some Member States was hampered by temporary domestic factors such as disruptions in car production, social tensions and uncertainties in fiscal policy. Accordingly, the growth of Gross Domestic Product in both the Eurozone and the EU slipped to 1.9% in 2018 and is estimated at 1.2 % in 2019.

2018 marked the fifth consecutive year of Italy's economic growth, yet indicated a slowdown compared to 2017: +0.9% in 2018 and is forecasted at +0.1% for 2019.

Veneto's GDP growth was estimated at 1.1% in 2018, slightly above the national average. Domestic demand increased by 1.4%, more due to the rise in investments, +4.3%, than due to the rise in household consumption, +0.8%. The result of 2018 is attributable to the Veneto industry's good performance, which saw a 2.3% increase in added value, the recovery of the construction sector and a positive, but subdued, performance of services. Despite not having reached the pre-crisis levels of 2007, the main economic variables have developed positively in recent years, mainly due to the region's capacity for autonomous growth. The following factors encourage growth: the local area's distinctive technological, infrastructural and logistical features, the deep-rooted entrepreneurial approach of locally-based company management, and the particular productivity of the area's workforce, or in other words, simply the conscientious mindset of the people of Veneto.

[1] Data and forecasts available as of April 2019.

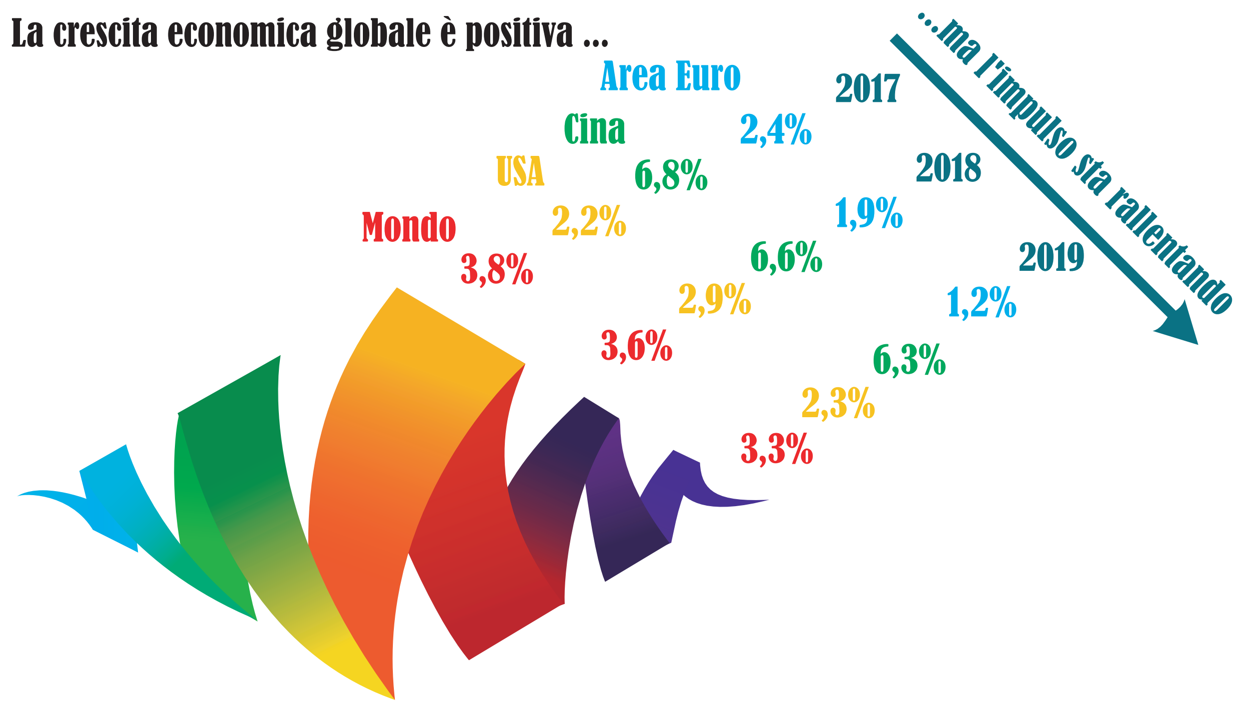
1.1 The world scenario

The 2018 Nobel Prize in Economic Sciences was awarded to US economists William D. Nordhaus[2] and Paul M. Romer[3], for having integrated climate change and technological innovations into long-term macroeconomic analysis. Their work has allowed to develop methods and theoretical tools to respond to a question becoming more and more relevant; how to promote economic growth that is at the same time, both durable and sustainable.
Nordhaus, in the 90s, was the first person to develop quantitative models that describe the global interaction between the economy and climate; Paul Romer instead has shown that knowledge and innovation are the drivers of long-term economic growth.
Both, analysing the transition phases of human history and highlighting the benefits and risks of capitalism, have studied models, in search of a *balance* between economic growth and social welfare.

[2] Yale University.
[3] NYU Stern School of Business, New York.

However, we cannot talk about *balance*, in a broad sense, when revisiting the salient facts that shaped 2018: the tariff wars between the United States and China, the meeting between American President Donald Trump and North Korean leader Kim Jong-un following months of threats of nuclear war, the new American sanctions against Iran, the growth of debt in emerging and developing countries, the collapse of the price of oil, the management of the Brexit process, the tensions between Italy and the EU, the the yellow vest demonstrations in France, the return of terrorism in Europe with the shooting at the Strasbourg Christmas markets, as well as the crises of Turkey, Argentina, Venezuela, and so on.
If, therefore, the global economic situation appeared to have been boosted by a cyclical recovery that began in mid-2016, intensified in 2017 and spiked in 2018 due to the good prospects of sustained growth and widely profitable financial markets, from mid-2018 the world economy would face the issue of political risk; a source of systemic uncertainty that could affect the choices of international investors, move markets and lower the rate of global growth.

Fig. 1.1.1 - Annual percentage changes in GDP of some regions: Years 2017-2019



Source: Data was drawn from the Statistics Office of Regione Veneto, while estimates and forecasts were obtained from the International Monetary Fund, Eurostat and the European Commission.

The International Monetary Fund (IMF) has declared a weakening of global expansion in the estimates and forecasts of the World Economic Outlook (WEO) of April [4] 2019. World growth for 2018 is estimated at +3.6%, should sit at +3.3% in 2019 and at +3.6% in 2020, a few percentage points below the projections of last January, which have already been revised to a decrease.
The slowdown in the global economy in the third quarter of 2018 continued into the final part of the year. In particular, the industrial sector has experienced a widespread deceleration in many countries, coinciding with a further loss of momentum in international demand. After a particularly brilliant 2017, generally speaking, international trade is picking up again towards levels closer to those of 2016. The most recent indications of the SME[5] Global Indicator on new export orders do not suggest an immediate recovery. In the face of everything, in 2018 the United States entered into the tenth year of the current phase of cyclical expansion, one of the longest in American history, albeit one of the weakest in terms of growth rates. Growth in 2018 was, however, rather strong in the USA, up 2.9%, partly as a result of the expansionary fiscal policy implemented by the US government. GDP growth of +2.3% is maintained for 2019 and the IMF expects a slowdown of +1.9% for 2020, but at a rate above potential growth, supported by strong domestic demand.
The positive cyclical conditions of the American economy last year were accompanied by a phase of normalisation of monetary policies that put the markets under pressure. Capital, driven by the increasing yields on US Treasury bonds, is primarily abandoning riskier assets, i.e., emerging countries. The currencies of several countries have significantly depreciated over the year, while domestic financial conditions have been deteriorating. Equity markets of many emerging countries have been suffering heavy losses and domestic demand is slowing down in several cases. The fact that China is one of the countries whose exchange rates depreciated in 2018 is particularly significant. The devaluation of the yuan has contributed to the instability of the currencies of emerging countries, as many of these economies are not in a position to withstand a loss of competition compared to China.
In this context, the rate of emerging and developing countries in Asia[6], which grew by about 6.4% in 2018, will slightly decrease to +6.3% in 2019. Within it, the growth rate in 2018 is higher for China, +6.6%, and for India, +7.1%, with forecasts for 2019 of +6.3% and +7.3% respectively.
The Japanese economy grew by 0.8% in 2018 and will grow by 1% in 2019 thanks to further fiscal support to the economy, such as some measures to mitigate the effects of the increase in consumption taxation planned for October 2019. Growth is expected to be moderate in 2020, at +0.5%.
The growth in the Eurozone will increase from 1.9% in 2018 to 1.2% in 2019 and 1.5% in 2020. Growth rates have now been revised downwards for many economies, particularly for: Germany, due to the weakness of industrial production following the introduction of new emission standards for cars and the containment of foreign demand; Italy, due to sluggish domestic demand and the criticality of public debt; and France, due to the negative impact of street protests and industrial actions.
The United Kingdom is expected to see its GDP increase by 1.4% in 2018, while uncertainty in the coming years is linked to its exit from the European Union. The European Commission envisages a +1.3% for 2019, on the purely speculative assumption of the status quo in terms of trade relations between the EU-27 and the United Kingdom.
In emerging and developing Europe[7], where growth in 2018 is estimated at 3.6%, activity is expected to cool down in 2019, slipping to +0.8%, and to resume in 2020, growing by +2.8%.
In Latin America, growth is expected to recover over the next two years, from 1% in 2018 to 1.4% in 2019 and to 2.4 % in 2020. Mexico's growth prospects for 2019-20 have decelerated, which reflects both the decline in private investment and the severe recession in Venezuela, linked to the well-known political problems. This situation has been partially offset by an improvement in the 2019 forecast for Brazil, where the gradual recovery from the 2015-16 recession is expected to continue. Argentina's economy will contract in 2019, as more restrictive policies aimed at reducing disparities will slow down domestic demand, before it can return to growth in 2020.

[4] The World Economic Outlook Update, April 2019: Growth Slowdown, Precarious Recovery
[5] *Purchasing Manager Indexes.*
[6] Bangladesh, Bhutan, Brunei, Cambodia, China, Fiji, India, Indonesia, Kiribati, Laos., Malaysia, Maldives, Marshall Islands, Micronesia, Mongolia, Myanmar, Nauru, Nepal, Palau, Papua New Guinea, Philippines, Samoa, Solomon Islands, Sri Lanka, Thailand, East Timor, Tonga, Tuvalu, Vanuatu, Vietnam.
[7] Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Kosovo, FYR Macedonia, Montenegro, Poland, Romania, Serbia, Turkey.

"Does that mean that a global recession is around the corner? The answer is 'no', but the risk of a sharper decline in global growth has certainly increased," affirmed Christine Lagarde in her opening speech at the World Economic Outlook press conference at the Annual Economic Forum in Davos at the end of January 2019. The picture it portrays of the current economic situation is thought-provoking: "If the world economy were a cross-country skier, she would have moved at a relatively high speed last year, but now the slope is changing and pointing slightly uphill. This is still a good trail to be on, but it gets a little bit harder to keep up the pace". And in order to deal with the risks ahead, it sets out some objectives in line with the theme of this year's report: making economies more resilient, inclusive and increasing collaboration.

The actions to be taken should: reduce the high public debt in order to prevent future recessions, but in a way that is both sustainable and conducive to growth; follow in the footsteps of the digital revolution, while securing workers who have been replaced by automation and creating new and better opportunities for women and young people; foster effective international cooperation, known as "new multilateralism", based on equity, to multiply efforts to solve shared problems - from reforming the global trading system, to combatting corruption and tax evasion, to tackling the threat of climate change.

In this contexts, a shrinking phase is starting for the prices of raw materials[8]. The price of metal, which is generally a good indicator of global demand, is dropping, affected by deceleration in economic activity, especially on the part of the Chinese economy. The first nine months of 2018 were affected by a trend of increasing prices, linked to very little growth in crude oil supply and the fear that the only area with increasing production, North America, would suffer a period of industrial slowdown caused by congestion of refineries.

Prices of raw materials in decline

Since the beginning of October 2018, crude oil prices have been in decline, mainly due to supply factors such as the increase in production in the United States, Saudi Arabia and Russia, as well as Iran's steady exports, following the temporary easing of the sanctions applied to it by the United States. Subsequently, prices would have been affected by less optimistic predictions of oil demand arising from the anticipated slowdown in the global economy. The agreement reached at the beginning of December between OPEC and other producing countries (OPEC+) on new production cuts is not enough to stop the decline. Future prices point to a moderate increase in the meantime; in January 2019 Brent oil was valued at around 60 dollars per barrel, about 25 dollars less than the maximum reached at the beginning of October last year. The fall in the cost of oil has resulted in less inflationary pressures compared to last year.

[8] Congiuntura Ref, 29 January 2019.

1.2 Europe

In 2018, the European economy was very fragile in the face of the worsening international economic framework. In the second half of 2018, production activity declined significantly across the Eurozone as a result of the downturn in world trade growth, in a climate where confidence was compromised by uncertainty. Output in some Member States was hampered by temporary domestic factors such as disruptions in car production, social tensions and uncertainties in fiscal policy. Accordingly, the growth of Gross Domestic Product in both the Eurozone and the EU slipped to 1.9% in 2018, a decrease compared to 2017's 2.4%.

The economic momentum from earlier this year has slowed, although the fundamentals remain solid. Economic growth will continue, but will be more moderate. The European economy should continue to benefit from the improvement of labour market conditions, favourable financing conditions and a slightly expansive fiscal policy. According to forecasts, the GDP of the Eurozone is expected to grow by 1.2% in 2019 and 1.5% in 2020. As far as the entire European Union is concerned, it is expected that there will be a 1.4% increase in 2019 and a 1.7% increase in 2020.

The Eurozone is home to a diverse landscape, not without moments of tension. These include the referendum on the independence of Catalonia in Spain last year, concerns of the markets induced by the recent fiscal policy in Italy, and the collapse of Macron's political consensus in France. In addition, there has been a downturn in global investment, particularly hitting the German economy which has historically been highly dependent on global demand for capital goods. The German economy is also suffering

The EMU is suffering as a result of the worsening of the international framework

the consequences of the slowdown in the car manufacturing industry, which can be partly explained by problems with adapting new models to environmental regulations. Italy follows, perhaps because of its significant integration with German industry and because of a cycle that remains structurally dependent on stimulating foreign demand.
To be specific, in 2018 Germany's GDP grew by +1.4%, while the current forecast predicts a decrease in growth rate for 2019, at +0.5%, and +1.5% for 2020. Spain ends 2018 at +2.6% with prospects of +2.1% for 2019 and +1.9% for 2020.
For 2018, Ireland recorded a greater than expected GDP of +6.7%. There are forecasts of +3.8% and +3.4% for the years following.
The countries of northern Europe all boast higher growth rate than the European average. Greece is still struggling to recover, but has respectable growth rates of +1.9% for 2018, +2.2% and +2.2% for the two years after.
For 2018, France recorded a +1.5% increase, and predicts an increase of +1.3% in 2019 and +1.5% in 2020. Lastly, Italy has the lowest growth rate in the Eurozone for 2018, at +0.9%, with expected stagnation for the following two years (+0.1% and +0.7%).
Output from Great Britain continues to be a source of uncertainty; the UK ended 2018 with an increase of +1.4% of GDP and a +1.3% expected for the next two years.
The economic outlook is one of high uncertainty and projections are subject to the risk of being adjusted to lower values. Trade tensions, which have been weighing on the climate for some time, have to some extent subsided but continue to give cause for concern. The Chinese economy could slow down more sharply than expected, in a climate of fragile global financial markets and many emerging markets alike, as a result of abrupt changes in risk perception and growth expectations. For the EU, the Brexit process remains a source of uncertainty.
In the Eurozone, consumer price inflation fell towards the end of 2018 as a result of a sharp drop in energy prices and moderation of food prices. Core inflation, excluding energy and raw food prices, was relatively moderate over the year, despite faster wage growth. General inflation (HICP) averaged 1.8% in 2018, up from 1.5% in 2017. With oil prices for this year and next year currently lower than previously assumed, inflation in the Eurozone is expected to slow down to 1.4% over the next two years. Instead, in the EU, inflation is expected to reach 1.5% this year and then 1.6% in 2020.

1.3 Italy

Inflation is falling

In 2018, economic growth continued for the fifth consecutive year, but slowed down compared to 2017. By the standards of the Italian economy, the period of relatively fast-paced growth, which began in mid-2016, began to lose momentum in the second quarter of last year; three quarters have since passed and, on the basis of available economic indicators, even the

Tab.1.2.1 - Economic indicators in major Eurozone countries - Years 2017-2020

	GDP (% change)				Internal demand (% change)				Inflation (a)				Unemployment rate			
	2017	2018	2019	2020	2017	2018	2019	2020	2017	2018	2019	2020	2017	2018	2019	2020
Germany	2.2	1.4	0.5	1.5	2.0	1.9	1.3	1.8	1.7	1.9	1.5	1.5	3.8	3.4	3.1	2.7
France	2.2	1.5	1.3	1.5	2.0	1.0	1.3	1.6	1.2	2.1	1.3	1.4	9.4	9.1	8.8	8.5
Spain	3.0	2.6	2.1	1.9	3.0	3.0	2.2	1.9	2.0	1.7	1.1	1.4	17.2	15.3	13.5	12.2
Italy	1.7	0.9	0.1	0.7	1.4	0.9	-0.2	1.0	1.2	1.1	0.7	1.1	11.2	10.6	10.9	11.0

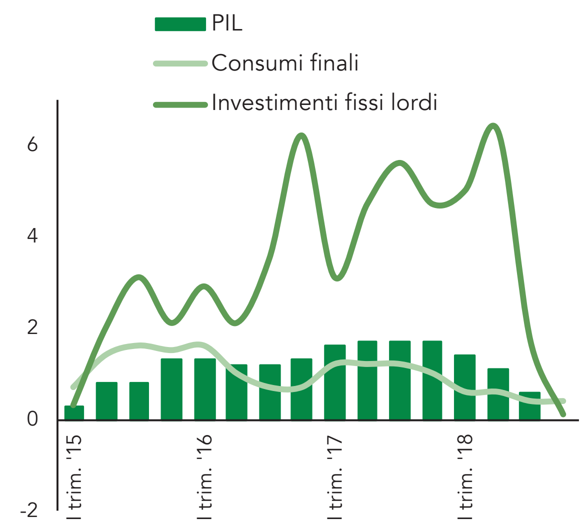
(a) Global Index
Source: Processing of data and forecasts, in red, have been drawn from from the International Istat, Prometeia, Eurostat and the European Commission by the Statistics Office of Regione Veneto

beginning of 2019 does not promise better results.
In 2018, GDP at market prices was €1,756,982 million, an increase of 0.9% in real terms[9] (in 2017, growth was +1.7%).
The loss of momentum was caused by a substantial drop in domestic demand, particularly that of private consumption, and by the fact that the export trend showed a deceleration.
GDP growth was accompanied in 2018 by an expansion of 3.4% of gross fixed capital formation (GFCF) and 0.5% of domestic closing consumption.[10].
Final consumption expenditure of resident households grew by 0.6% (+1.5% in 2017).
Expenditure on the consumption of goods and services both increased by 0.7%. In terms of consumer spending, the most significant increases in real terms were +2.3% on clothing and footwear, +1.6% on furniture, household appliances and home maintenance, and +1.5% on recreation and culture. Expenditure in the following areas have seen a decrease: alcohol and tobacco (-1.4%), health (-0.6%), and food and non-alcoholic beverages (-0.1%).
Gross fixed capital formation (GFCF) was the most significant driver of demand, up 3.4% (+4.3% in 2017). All investment areas recorded increases of: 14.5% for investments in means of transport, 2.6% for investments in construction, 2.8% for investments in machinery and equipment and 0.8% for intellectual property products.

Italian Growth is positive, but slowing down

Exports of goods and services increased in real terms by 1.9%, and imports by 2.3%.
In 2018, the total value added in real terms increased by 0.9%; in 2017, it had increased by 1.7%. The increase in added value across all of the main sectors is more noticeable in the manufacturing and construction industry as a whole, than in its individual services; the increase in industry in the strict sense is equal to +2.1%, and in construction to +1.7%. Growth was more moderate in the field of agriculture, forestry and fishing, which recorded an increase of +0.9%, and +0.6% in its services combined.
Annual work units (AWUs) are increasing at a more moderate pace than in 2017, while per capita wages

Fig. 1.3.1 - Percentage changes in GDP, final consumption and investments in the respective period of the previous year. Italy - First Quarter of 2015- Final Quarter of 2018



Source: Processing of data from Istat by the Statistics Office of the Veneto Region

are making a strong net recovery. The work units increased by 0.8%, with a notable rise in the number of employees (+1.3%), and a decline in the number of self-employed persons (-0.3%). The growth of AWUs affected all macro sectors, with the exception of the construction sector, which was down -0.2%.
Employment increased by 1.4% in industry in the strict sense, by 0.8% in services and by 0.7% in agriculture, forestry and fishing.
Employee incomes and gross wages rose by 3.3% and 3.0% respectively. Per capita gross wages increased by 1.7% across the whole economy. The increase is of 1.5% in the agricultural sector, 2.1% in services, 0.9% in industry in the strict sense and 0.6% in construction.

The manufacturing performance is highlighted

Public finance

According to Istat's estimates of April 2019 on the consolidated account of public administrations for the year 2018, the net borrowing of GG in relation to GDP in 2018 was equal to -2.1% (-2.4% the previous year). In absolute terms, debt amounted to -€37,505 million, down approximately €3.8 billion from the previous year. The primary balance

[9] Changes compared to one or more of the previous years are reported in real terms to take into account the inflationary effect.
[10] These include the consumption of resident households, Private Social Institutions (PSIs) and General Government (GG).

(net borrowing minus interest expenditure) measured in relation to GDP, was positive and amounted to €27,474 million, with a GDP margin of 1.6% (in 2017 it was 1.4%). The current account balance (General Government savings or deficit) is positive and amounts to €17,168 million (€19,295 million in 2017). In 2018, General Government total public revenue increased by +1.6%, compared to the previous year, and its contribution to GDP was equivalent to 46.5%.
Current revenues are recording a growth of 1.9%, equal to 46.2% of GDP. In particular, indirect taxes increased by 2.1%, mainly due to a significant increase in revenue from VAT and IRAP (Italian regional production tax). Direct taxes decreased by 0.7%, due to the decrease in IRES (corporate income tax) and substitute taxes, partly offset by the increase in IRPEF (personal income tax).
Actual social security contributions increased by +4.3% compared to 2017, partly as a result of the renewal of contracts for civil servants.
The sharp drop in capital income, -44.2%, was due to both capital taxes and other capital returns. The overall taxation level (amount of direct and indirect capital taxes, and social contributions in relation to GDP) was 42.1%, remaining unchanged from the previous year.
In 2018, total General Government expenditure increased by 1.0% compared to 2017. In relation to GDP, this was equivalent to 48.6%. Current domestic expenditure grew by 2.3%. Social welfare benefits increased by 2.2%, mainly in the form of pension benefits. Interest rates charged decreased by 0.9%. Capital expenditures fell by 13.1% as a result of the decline in capital transfers to companies, which had included operations involving distressed banks in 2017, partly offset by the increase in investment grants.

Expansive Fiscal Policies

Legislative Decree 4/2019 introduces two measures of fiscal expansion: "Quota 100" and "Citizenship Income". The research institute Prometeia estimates that these measures could lead to an increase in households' disposable income of 0.4%, with a net expansionary effect on GDP estimated at 0.1%. This effect is based on the reallocation of resources to households at the expense of financial corporations, assuming that the tendency of expenditure of the former is high and exceeds that of the latter. It is assumed that the increase of households' disposable income will sit at around 1% in the years 2020-2021. All of this is based on the assumption that the effectiveness of the measures is in line with the government's estimate in terms of implementation and compliance. For 2020, the forecast is rather uncertain, as policy re-financing is currently dependent on an increase in VAT rates; alternative means of coverage will therefore have to be found to offset recessionary effects.

Industrial Activity

After the peak point of December 2017, in all quarters of 2018 production has shown, after deducting seasonal factors, economic downturns, with a significantly sharper drop in the final quarter. Nevertheless, overall production levels were moderately higher (+0.8%) over the course of the year, thanks to the knock-on effect of the previous year's positive performance. On a yearly basis, there was still a positive trend for capital goods and consumer goods, while intermediate goods and energy were down.
The main contribution to manufacturing activity came from the capital goods sector[11], +2.7%. Overall, manufacturing output increased by 0.9%, driven by the machinery manufacturing industry, up 3.1%, electrical equipment, up 2.3%, pharmaceuticals, up 2.4%, and the food industry, up 1.1%.
In 2018, sales tended to remain stable in the first nine months, with a deterioration in the final quarter. Over the course of the year, however, the industry's average turnover presented a moderately expansive trend +2.3% compared to that of 2017, due to the combination of +1.7% growth on the domestic market and +3.4% on the foreign market.
The highest growth in turnover can be observed for energy-related goods, up 10.6%, and intermediate goods, up 2.4%; after deducting energy, growth is reduced to 1.7%.
The crude order index increased by 1.9% compared to 2017, with a greater shift towards foreign orders, up 3.4% than domestic orders, up 1%.
The index of both orders and turnover worsened in the last quarter of 2018, for the most part domestically rather than internationally.
The last months of 2018 have seen a drop in confidence on the part of businesses and households, as recorded by the index regarding confidence in the economy.

The slow-down of i ndustrial production...

The comprehensive index of business confi-

[11] These are goods used for the production of other goods (machinery, plant, vehicles, licences, freight, etc.).

dence, which includes the opinion of entrepreneurs from all sectors, began to fall in August, reaching a value below 100.
The index for construction alone showed the same trend, but with an encouraging surge in January 2019.

And turnover

Even in the services sector, the general opinion is gradually becoming more pessimistic: the downturn has been evident since July 2018 and did not seem to be slowing down in the first two months of 2019.
An exception is the retail trade which, after a slump in April and May, is now proving to be more promising, with some uncertainties displayed only in October 2018 and January 2019.

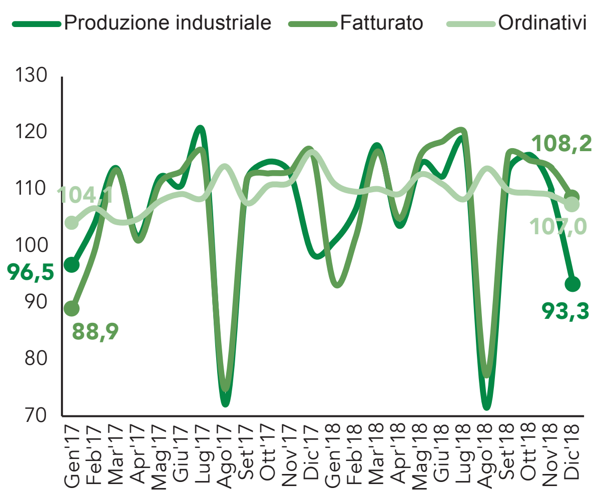
Stock market collapses, a surge in bond sales and fears of a direct confrontation with Brussels have certainly not helped and the latest developments have come too late to affect the results. Perhaps also for this reason, all of the individual aspects of consumer confidence, explains Istat, are worsening: comparing the figures for March 2018 with those for February 2019, the economic climate went from 141.9 to 126.6 of February 2019, while the personal climate fell from 109.3 to 108.2.

The climate of trust is deteriorating

The First Data Emerging From 2019

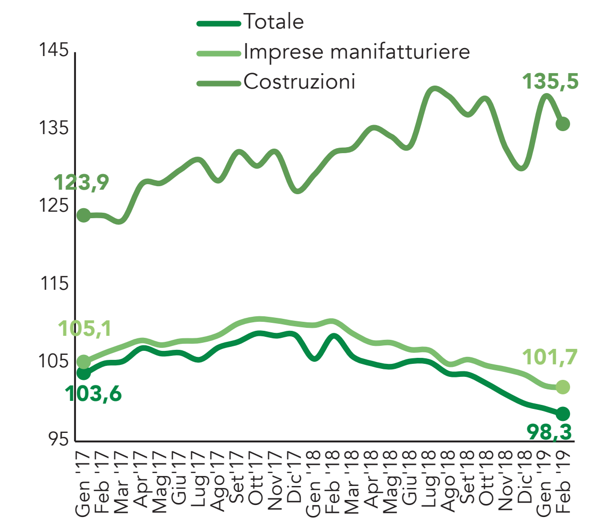
At the beginning of 2019 the Italian economy exhibited a moderate recovery that interrupted the slight decline in activity recorded in the two previous quarters. Overall, the last year was characterised by a phase of substantial stagnation of GDP, the level of which remained almost unchanged in the first quarter of 2019 with respect to that of the beginning of 2018. According to Istat's preliminary estimate, in the first quarter of 2019, Italian GDP re-

Fig. 1.3.2 - Seasonally adjusted indices of industrial production, turnover and orders (base year 2010=100). Italy: Jan. 2017 - Dec. 2018



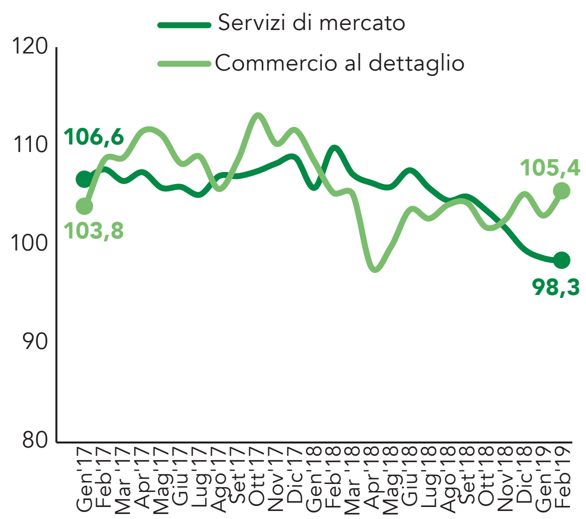
Source: Processing of data from Istat by the Statistics Office of Regione Veneto

Fig. 1.3. - Monthly climate of trust of manufacturing, construction and overall enterprises (seasonally adjusted data, 2010=100). Italy: Jan 2017 - Feb. 2019



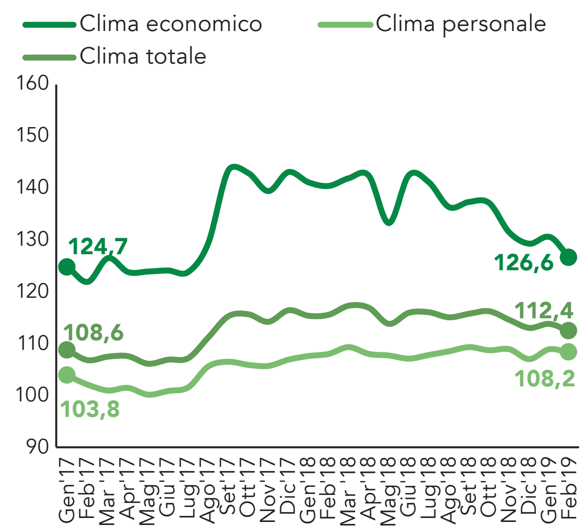
Source: Processing of data from Istat by the Statistics Office of Regione Veneto

Fig. 1.3.4 - Monthly climate of trust of enterprises in market services and retail trade (seasonally adjusted data, 2010=100). Italy: Jan. 2017 - Feb. 2019



Source: Processing of data from Istat by the Statistics Office of Regione Veneto

Fig. 1.3.5 - Monthly balance of consumer confidence (seasonally adjusted data, 2010=100). Italy - Jan 2017 - Feb. 2019



Source: Processing of data from Istat by the Statistics Office of Regione Veneto

corded a cyclical increase equivalent to +0.2% and +0.1% compared to the same quarter in 2018.
The cyclical variation in GDP is the result of increases in added value both in the agriculture, forestry and fishing sectors, and in industry and services. With regard to share of demand, there was a negative national share and a positive net foreign share.

1.4 Veneto's economy[12]

The official regional accounts data is limited to the year 2017, so for the analysis of 2018 and 2019, reference is made to the estimates and forecasts of the Prometeia Research Institute.
It should be noted that the choice of using the estimates and forecasts of the Prometeia Institute for Veneto, is due to not only its acknowledged expertise in the field, but also due to the possibility of obtaining coherent and comparable information for the entire country. It should also be noted that when economic forecasts are based on statistical-probabilistic models, they always have a percentage of error. In fact, they are mainly used to identify the trend of a phenomenon and not to determine its value. In this respect, the change of one decimal place in the forecast is to be considered irrelevant. Below we shall compare the estimates and forecasts for Italy and the Veneto region from reliable data sources.
The regional accounts data of 2017, disseminated by Istat in December 2018, indicates how Veneto has been one of the regions driving the entire national economy.
With €162,505.4 million at present, Veneto remains the third region in Italy for wealth production, after Lombardy and Lazio: 9.4% of the national Gross Domestic Product is produced in Veneto. In 2017, the Veneto region recorded growth of +2.3%, well above the +1.6% forecasted a year ago and the national prediction of +1.6%.
The GDP per capita in Veneto in 2017 was €33,122 according to current values, 16% higher than the national figure. It is estimated that in 2018, the GDP per capita sat at €33,776 according to current values.
There is a great deal of disparity between the economies of European areas. The Veneto region sits in

[12] All of the values shown in the tables, graphs and text are expressed in real terms at 2010 prices, unless otherwise stated.

a position above the general average.
Amongst Italian competitors, Veneto is outperformed only by Lombardy and Emilia Romagna, while German regions maintain their own competitive strength. Veneto and Catalonia continue to place above the French Rhône-Alpes, English Greater Manchester and the South of Sweden.
It is estimated that Veneto's GDP grew by 1.1% in 2018, slightly above the national average.
Domestic demand increased by 1.4%, more due to the 4.3% rise in investments, than due to the 0.8% rise in household consumption.
The result for 2018 is attributable to Veneto's industry, which recorded an increase in added value of 2.3%, the recovery of the construction sector, +2.3% and the positive but understated progress of services, +0.7%.

Veneto is the third region for the production of wealth

In regard to the labour market, the Veneto region has an employment level of 66.6%, and an unemployment rate of 6.4%. In comparison with other regions, it has once again been established as one of the leading regions, with the fourth lowest unemployment rate.
The 2019 forecast assumes a trend in line with national slowdown, albeit above the national growth

Veneto's position among European competitors is good

Tab. 1.4. - Macroeconomic framework (percentage changes in the values linked to the 2010 reference year). Veneto and Italy: Years 2016 - 2019

	2016		2017		2018		2019	
	Italy	Veneto	Italy	Veneto	Italy	Veneto	Italy	Veneto
Gross Domestic Product	1.1	1.7	1.7	2.3	0.9	1.1	0.1	0.3
Final household consumption expenditure	1.3	1.4	1.5	1.7	0.6	0.8	0.6	0.7
Final consumption expenditure of GG and PSIs	0.2	1.3	0.4	-1.2	0.2	0.2	0.3	0.3
GFCF	3.5	4.1	4.3	5.5	3.4	4.3	-1.6	-0.8
Imports (a)	-0.8	0.2	9.2	8.9	5.6	5.2	1.4	2.0
Exports (a)	1.2	1.4	7.6	5.6	3.1	2.8	3.8	4.5

(a) Current Values
Source: Analyses by the Statistical Office of Regione Veneto based on Istat data with Prometeia estimates and forecasts, in red, up to April 2019

Tab.1.4.2 - 2018 estimates and 2019 forecasts of the Italian economy by comparing GDP growth rate

Source:	GDP (% change)		
	2018	2019	2020
European Commission (May 2019)	0.9	0.1	0.7
The International Monetary Fund (April 2019)	0.9	0.1	0.9
OECD (April 2019)	0.8	-0.2	0.5
REFricerche (April 2019)	0.9	-0.1	0.7
Prometeia (March 2019)	0.8	0.1	0.7
Confindustria (March 2019)	0.9	0.0	0.4
European Commission (February 2019)	1.0	0.2	0.8
Prometeia (December 2018)	0.9	0.5	0.7

Source: Processing of ISTATA data and forecasts by the Statistics Office of Regione Veneto rate. Veneto's GDP is expected to increase by 0.3%, primarily driven by industrial production.

The dynamics of Veneto's economy

Estimates for 2018 reveal a positive evolution of the main economic variables in recent years. While the pre-crisis levels of 2007, the year in which Veneto's economy reached its peak, have not yet been reached, the levels of 2013, a particularly difficult year, have been significantly exceeded.

The growth of 2018 remains above the national average

Amongst the components that contribute to Gross Domestic Product, final consumption and gross fixed investments over time were analysed, comparing them (amounting to 100) with the level they were at in 2007, the year in which Veneto's economy reached the height of its success. For both variables, Veneto has seen a trend above than the national average.

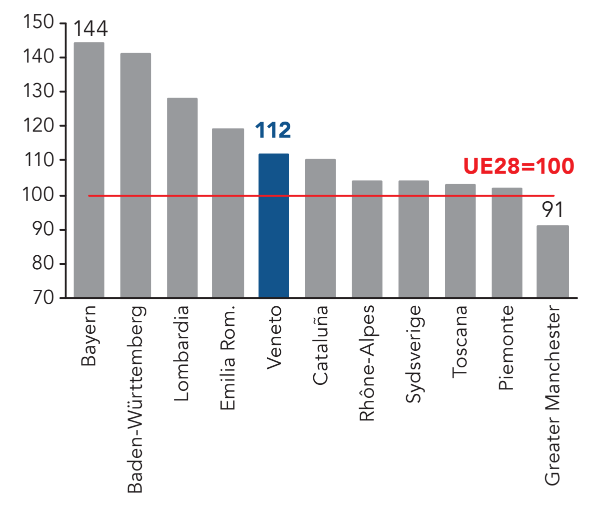
In regard to consumption, Veneto shows a greater ability to react effectively compared to the national Italian level, having already recovered from the economic downturn of 2008 by 2010. Even in the face of the more recent decline of 2013, it has proved to be improving at a faster pace.

The year 2019 is expected to be sub-par

Gross fixed capital formation (GFCF) represents the value of durable goods purchased by local production units for use in the production process, as well as the value of services incorporated in the capital goods purchased. This is another area in which the Veneto region has shown a greater ability to take advantage of recovery opportunities, even though the pre-crisis levels of 2007 have not yet been reached.

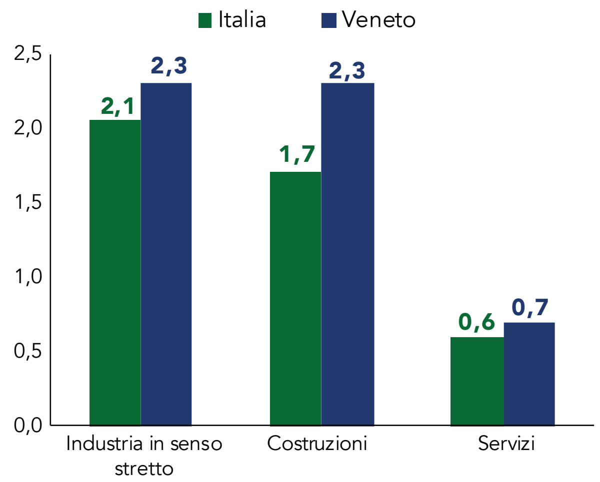
To further analyse the economy of the Veneto region, both territorially and temporally, Shift and Share Analysis (SSA) is used. This technique allows economic growth to be broken down into components which incorporate the contributions of the various development factors, so as to allow a better interpretation of the trends of the wealth produced. Using SSA makes it possible to effectively separate and identify the impacts of three components: the *trend*component, the *structural* component and the *local*component. The first expresses a measure of the growth of the added value of the entire area concerned, i.e., the nation of Italy.The second expresses the contribution made by region-specific production, which influences the presence of sectors in the area that grow at a slower or faster pace. The third component expresses the difference in growth between the region and the nation net of the effects

Fig. 1.4.1 - Gross domestic product per capita (in PPS, EU-28=100). Veneto and some Italian and European competitors - Year 2017



Source: Processing of data from Eurostat by the Statistics Office of Regione Veneto

Fig. 1.4.2 - Percentage change in added value by activity sector 2018/17 Veneto and Italy



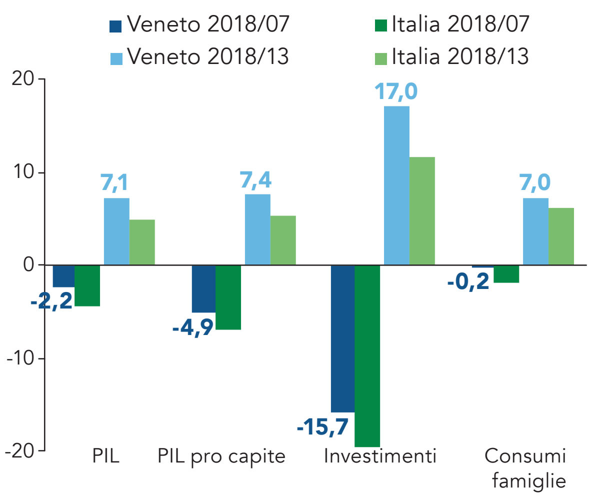
Source: Processing of data from Istat and Prometeia forecasts by the Statistics Office of Regione Veneto of the sectoral composition of the region, i.e. it is a measure of the autonomous growth capacity of the area. It is determined by a series of factors that are difficult to measure. These include the region's features in terms of technology, infrastructure and logistics, the importance of management culture in companies, the availability of raw materials, the specific productivity of the area's workforce or, in other words, simply the overall mindset of Veneto's residents.

The Veneto identity benefits from growth

Therefore, this type of analysis provides a different way of interpreting added value growth, by identifying the structural contributions of the various specialised production sectors. Such sectors are those which remain the main local drivers of development, which essentially determines the overall output of the territory. In fact, the presence of favourable production specialisations, representative of the most active facets of the economy, contributes to autonomous progress and, at least conceptually, can be separated from intrinsic and competitive factors.

The range studied is that which covers the last eleven, years available from official statistics for detailed sectoral geographical added value in 2016[13] compared to 2006. This is a time frame that includes: 2007, the year in which the wealth of the region had reached its peak; the effects of the international crisis that broke out in 2008; the recovery of 2010-11; the downturn of the two-year period of 2012-13,

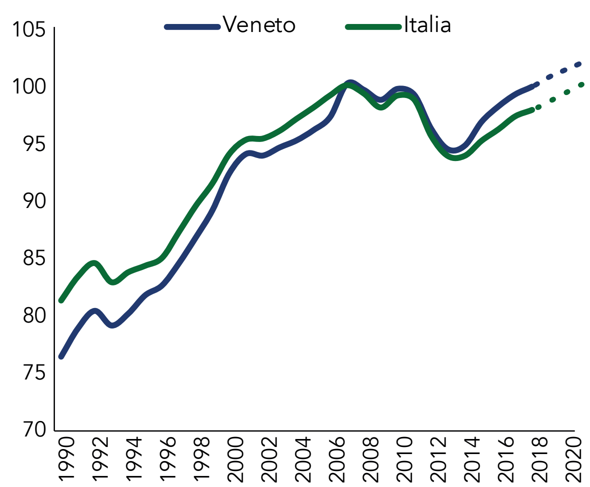
Fig. 1.4.3 - **Annual average % changes in some economic variables in 2018/07 and 2018/13. Veneto and Italy**



Source: Processing of data from Istat and Prometeia forecasts by the Statistics Office of Regione Veneto

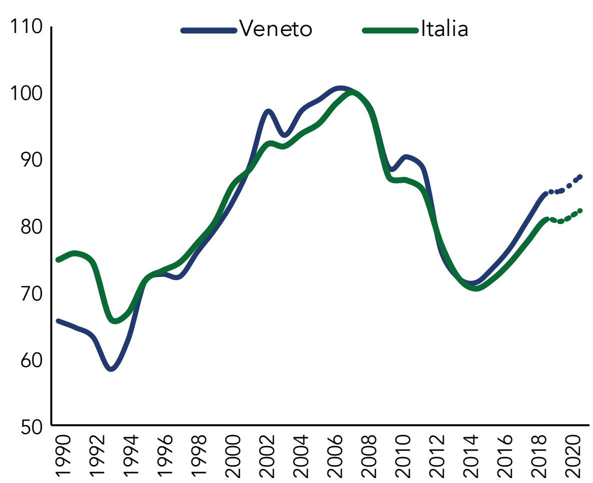
[13] 2016 is the most up to date year available for sectoral detail included in the analysis

Fig. 1.4.4 - **Final consumption expenditure (2007=100). Veneto and Italy - Years 1990 - 2020**



Source: Processing of data from Istat and Prometeia forecasts by the Statistics Office of Regione Veneto

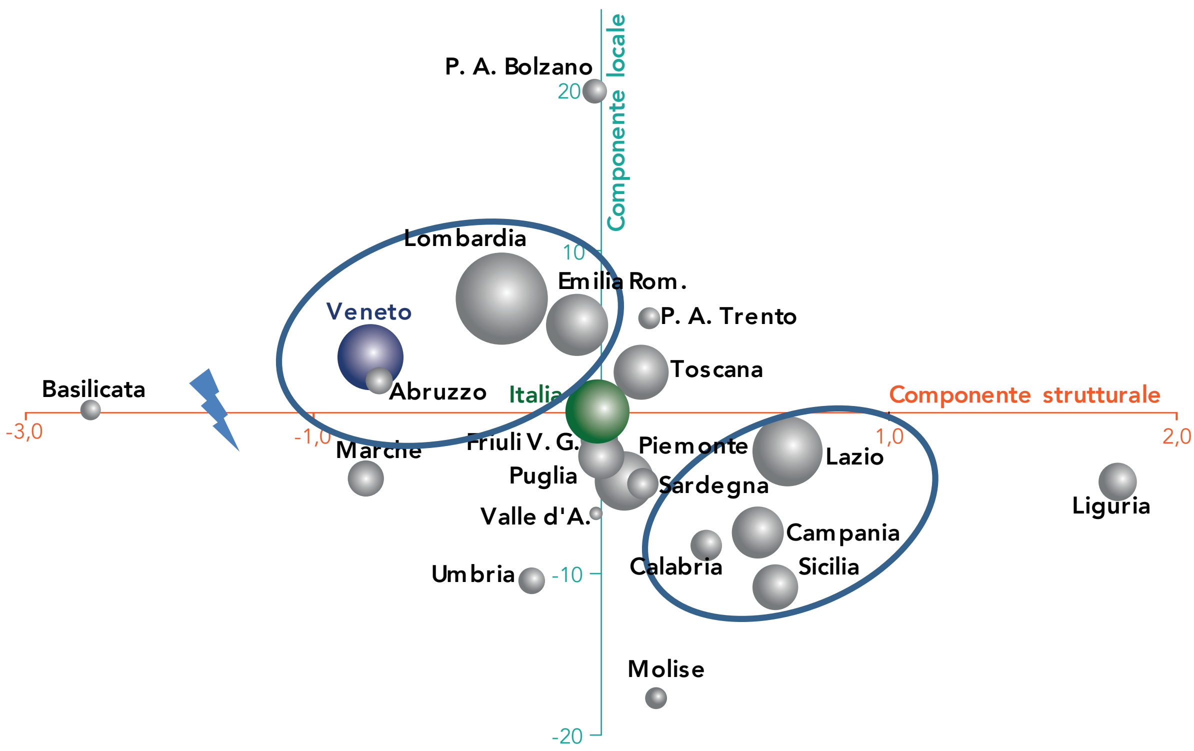
Fig. 1.4.5 - **GFCF (2007=100). Veneto and Italy: Years 1990 - 2020**



Source: Processing of data from Istat and Prometeia forecasts by the Statistics Office of Regione Veneto

when Veneto's economy reached its lowest point; and then the beginning of recovery.
In this period, the regions that could be considered as leading territories, recording the greatest increase in total added value, were, in order, the two autonomous provinces of Bolzano and Trento, Lombardy, Emilia Romagna and Veneto, with an increase from 12.1% to 29%, when the national average increase was 9.1%. Tuscany and Abruzzo were among other regions whose added value also saw an increase greater than the national average.
On the other hand, Veneto and Lombardy were experiencing a negative trend in the structural component. This is due to the concentration of production specialisations in the Made in Italy manufacturing sector within individual regions. These have shown less growth than the tertiary sectors, which have been the main generators of growth in recent years. This figure is not to be viewed as negative of the manufacturing sector. In fact, on the whole, the structural component is of little importance, demonstrating that specialised manufacturing only partly influences regional economic development, which is instead more influenced by factors linked to internal competition.
Moreover, this is more than compensated by the local component, which is strong in Veneto, Lombardy, Emilia Romagna, Tuscany and the two autonomous provinces. This component has shown a faster growth in added value than the national average, thus demonstrating that local production systems are strong, being able to maintain the regions concerned at a well-established and stable level of economic development over time, thus giving a clear indication of effective and consistent productivity in the area.
The aim was to compare the analysis of the last studied period of 2006-2016, with the previous decade, in order to understand the changes in the competitive ranking of the different regions.
The period of 1995-2006 was affected by a clear restructuring of the economy in accordance with

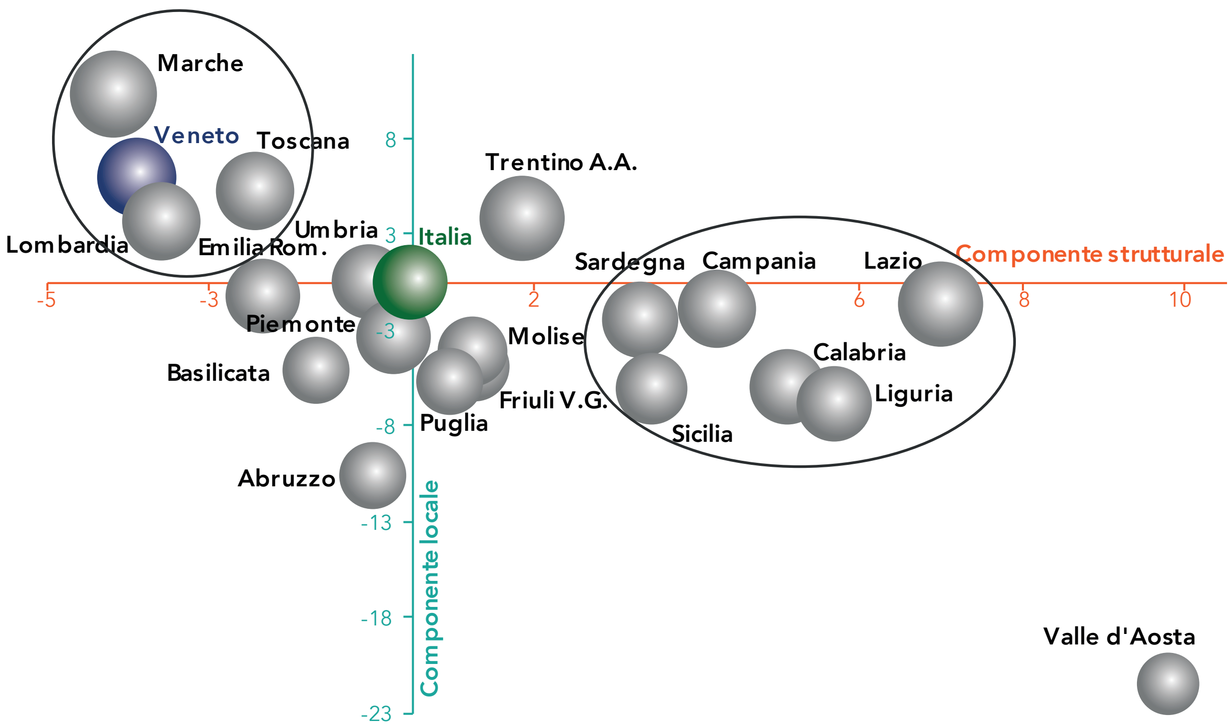
Fig. 1.4.6 - **Value added growth: local component, structural component by region - Years 2006 - 2016 (*)**



(*) The size of the bubble represents the % share of national added value in 2016
Source: Processing of data from Istat by the Statistics Office of Regione Veneto

the tertiary sector and in which many factors had an impact on economic trends. First and foremost, the globalisation of the markets saw the emergence of new players and the broadening of the scope of companies as a necessary condition for success.
In this period, the region that recorded the greatest increase in total added value was Marche. Veneto was amongst the other regions whose added value grew more than the national average, with a 56.6% increase in added value in 2006 compared to 1995. Of these regions that have enjoyed the most growth, Lazio, Campania and Sardinia are the areas that have been most positively affected by the contribution of the structural component to the growth of added value. In other words, these are the regions in which such an effect has been felt, due to the local presence of specialist manufacturers experiencing the most growth. This can be explained, for Lazio, by the presence of an economy based mainly on services linked to public administration; for the southern regions the greatest strength of the structural component is attributable, on the one hand, to the intensity of development of some the service sectors such as tourism, and on the other hand to the existence of a modest manufacturing industry. On the other hand, the structural composition of production activities has particularly disadvantaged Veneto, Marche, Lombardy and Tuscany, regions held back by a structural composition based on manufacturing, which has proved less dynamic than others.
For these four regions then, including Veneto, the local component more than compensates for the aforementioned observations.
There are two major differences between the two periods: the general decrease in growth rates due to the downsizing of Western economies and the flattening of the structural component. For the Veneto region, this means that the process of tertiarisation which began in the 1990s is being accomplished. As a result, together with the share of added value produced, 9.3% of the national total, this makes it

Fig. 1.4.7 - **Value added growth: local component, structural component by region - Years 1995 - 2006 (*)**



(*) The size of the bubble represents the % share of national added value in 2006
Source: Processing of data from Istat by the Statistics Office of Regione Veneto

one of the driving regions of the Italian economy.

Veneto Prices In The National Context

In Italy, in 2018, inflation was +1.2% and "core inflation", i.e., net of energy and fresh food, was +0.7%. In the first quarter of 2018 it slowed down to +0.7%, before accelerating in subsequent quarters, rising to 1.4% in the fourth quarter of the year.
The areas of expenditure accelerating faster than in 2017 were as follows: Alcoholic beverages and tobacco, +2.9% from +0.6%, Housing, water, electricity and fuels, +2.5%, from +1.8% recorded in 2017, and Other goods and services, +2.2% from +0.8%. The most significant slowdowns were observed in the growth of food and non-alcoholic drinks prices, +1.2% from +1.9% in 2017, Transport, +2.7%, from +3.4% in 2017 and Accommodation and catering services, +1.6%, accelerating from +0.7%. The areas of expenditure where prices showed an average annual decline are: Education, -12.6%, from -4.7% in 2017, mostly due to the new rules on university student funding which came into force in October 2017 and will remain until September 2018; Communications, -3.0%, from -2.3% in the previous year; and Health Services and health expenditure, -0.1% from +0.2%.
The steadiness of annual average inflation in 2018 was the culmination of opposing pressures consisting of slight accelerations and decelerations in consumer price growth in different regions. The former are less common but have a high concentration in regions with a significant impact on national trends (Lombardy, Piedmont, Emilia Romagna and Lazio, as well as Marche) and such that the slowdowns affecting 13 out of 20 regions were compensated for, with two regions (Veneto and Calabria) showing the same annual inflation as in 2017. The average inflation recorded in Veneto in 2018 was the same as the national average: 1.2%.
With reference to specific areas of expenditure, Veneto showed a significant increase in transport prices, +2.9%, higher than the national figure, +2.7%. The other above average areas included prices for housing, water, electricity and fuel, +2.6% (+2.5% for Italy), and alcoholic beverages and tobacco, +2.4%.
A negative trend was recorded for education costs (-10.6%) and communications (-3.2%).
Prices around the yearly average were observed for accommodation and catering services, +1.4%, and almost unchanged for recreation, entertainment and culture, +0.5%, furniture, items and services for the home, +0.1%, clothing and footwear, +0.3%.