



STATISTICHE

Figures and graphs to understand Veneto

Flash

The oil price collapse, the sharp ruble's depreciation, the growth of inflation and the western sanctions have significantly weakened the Russian economy during the last year, condemning Russia to stagnation. Even President Putin admitted that it will take two years in order to come out of this difficult situation. This growth model, poor in diversification and with an imbalanced energy industry, has shown its fragility: during 2014, the growth of the gross domestic product (GDP) has never reached the unit. The recession is already taken for granted, except for improbable and unexpected rises in the oil

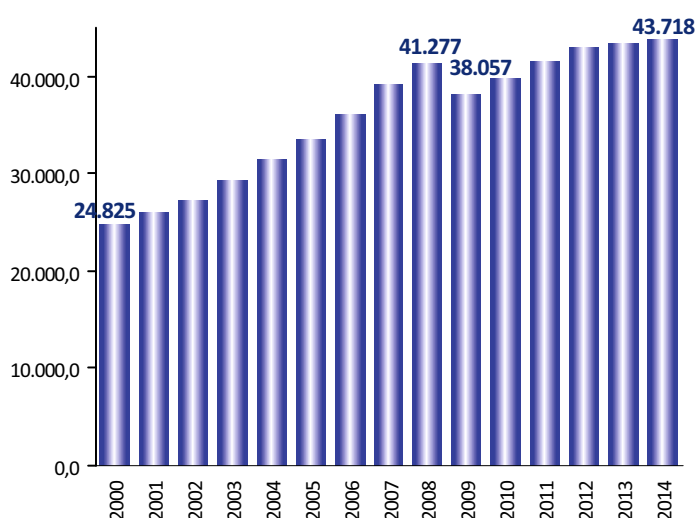
THE RUSSIAN CRISIS: THE IMPACT ON THE ECONOMY OF VENETO

price unexpected rises in the oil price or a slackening of the international sanctions, which is not giving any signals currently. The continuous tensions with the western countries will lead to an outflow of foreign capital with a negative effect on investments, while the consumption of the families will be affected by the shrinking of wages as a consequence to the soaring of prices (the level of inflation has reached 17% in in March).

The weakness of the domestic demand and the additional rouble's depreciation will have negative repercussions on the trend of imports. In order to evaluate the impact of the Russian situation on Veneto in 2015, a simulation exercise has been carried out by using a national, international and regional forecast model from Prometeia. The underlying hypotheses are the fall of the Russian GDP by 4% and a rouble's depreciation by 50% in 2015. On the basis of this simulation, the shrinking of the Russian demand is going to affect the exports of Veneto in a negative way by about 1.2%, with strong effects on the added value of the sectors. The added value of industry is particularly paying the price with a negative value by -0.67%, while the impact on the other sections remains slighter and varies between -0.14% in agriculture and -0.08% in the services. The shrinking of the Russian economy combined with the rouble's depreciation may lead to a regional GDP's slighter growth by around 0.02%, that is a loss of about 338 million of Euros in real terms. However, it is important to point out that the obtained results come from the underlying hypotheses that have been put forward (see above); in addition, in the presence of different external shocks, the impact on the Veneto economy would be inevitably not the same. Secondly, the results are based on mechanical evaluations from econometric models and necessarily ignore some aspects. As an example, the simulation exercise is not able to evaluate how the uncertainty concerning the geopolitical tensions may affect the behaviour of operators and, most of all, their decisions on investments.

THE CRISIS HAS NEGATIVE EFFECTS ON THE VENETO ECONOMY

The Gross Domestic Product of Russia (billions of roubles at stable prices) – Years 2000:2014



Simulation on the impact of the Russian crisis on the Veneto economy: absolute differences (millions of Euros at real values) and % compared to the general scenario – Year 2015

	Differences compared to the general scenario	
	absolute (millions)	%
GDP (Gross Domestic Product)	-337,9	-0,24
Exports	-615,2	-1,20
Added value:		
-Agriculture	-3,5	-0,14
-Industry	-206,0	-0,67
-Construction	-6,7	-0,11
-Services	-72,0	-0,08

Source: Veneto Region Processing – Regional Statistics System Section and Prometeia on International Monetary Fund data and other sources

From 2000 to 2014 the Veneto exports to Russia have shown a very intensive growth, almost four times larger than that registered by the total regional export. If, in 2000, Veneto was placed 25th in the ranking of the target markets, in 2004, it was ranked 12th, in 2014, 8th. In 2014, sales from Veneto to Russia decreased by approximately 180 million Euros in a year, -9.9% compared to 2013 and the losers were

THE VENETO EXPORTS TO RUSSIA

not only the export of products under embargo; exports from the agri-food sector decreased by -19.1% overall (equal to 17.4 million Euros), but other "Made in Veneto" sectors also suffered the indirect effect of the geopolitical confrontation Euros and the economic crisis of Russia. In fact,

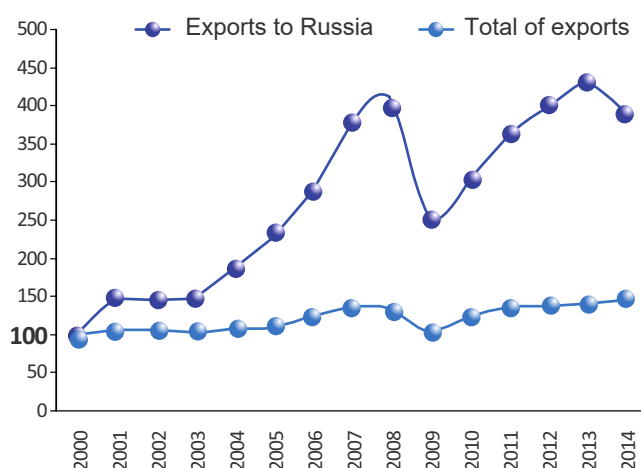
reductions in the value of regional exports to Russia have involved goods in the fashion industry (-26.6%, equal to around 100 million Euros), mechanical engineering production (-8.8%, equal to 49 million Euros), the furniture industry (-13.8%) and the optics (-21.7%). On the other hand, the number of sales in other industries increased: pharmaceutical products (+24 million Euros compared to 2013), chemical products (+14.9%) and electrical equipment (+4.3%).

The data of the first quarter of 2015 are far away from being comforting: the exports to Russia have reduced by 32.6%, that is 127 million, compared to the same period in 2014. Apart from the goods of the agricultural industry, that have halved their value (-11 million Euros), other industries have been affected as well: the mechanical industry (-32 million), fashion (-34.5 millions) and furniture industry (-12.3 million), which represent also the main Made-in-Veneto sectors in Russia. The only stable industry is motor vehicles industry.

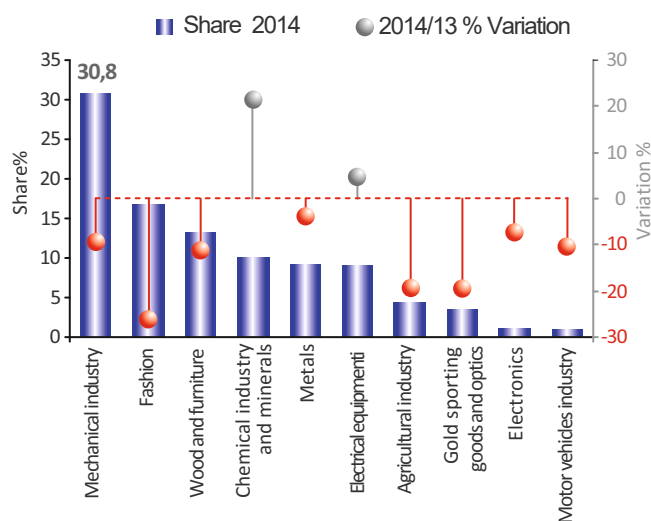
If the situation won't change, it will be necessary to invest on new emerging markets, with a lower risk: countries with a rapid economic expansion, with a stable increase in investments and consumption, where Veneto exporting businesses are currently present in a small number.

THE EFFECTS OF THE RUSSIAN SITUATION ON THE VENETO EXPORTS

The trend of the Veneto exports to Russia and general trend of the year (2000=100) – Years 2000:2014













Annual share and percentage variation of the Veneto exports to Russia by industry – year 2014



THE FIRST 2015 QUARTER (*)

Annual share and percentage variation of the Veneto exports to Russia by industry. First 2015 quarter

		% variation first 2015/14 quarter	Share first 2015 quarter			% variation first 2015/14 quarter	Share first 2015 quarter
	Mechanical industry	-28,6	30,6		Metals	-46,2	5,8
	Fashion	-42,4	17,9		Gold, sporting goods and optics	-38,1	3,7
	Wood and furniture	-23,6	15,2		Agricultural industry	-55,9	3,4
	Wood and furniture	-9,3	11,6		Motor vehicles industry	0,5	1,2
	Chemical industry and minerals	-34,9	9,3		Electronics	-16,6	1,0

(*) 2015 temporary data

Source: Veneto Region Processing – Regional Statistics System Section on Istat data

In response to the sanctions imposed by EU to Russia, in August 2014 the country has embargoed the imports coming from the European Union for some categories of agricultural products, such as the fishing industry, the beef and pork meat industry, dairy products and various types of fruits and vegetables. It is also true that these products had in 2013,

THE EMBARGO FIGURES

the year before embargo, a minority value compared to the total agricultural industry towards Russia: the Veneto exports of the whole industry slightly exceeded 91 million Euros, while the exports concerning the goods subjected to sanctions amounted 35 million Euros, 16 of which concerning the “Belli, Buoni e Benfatti”

(BB&B products: BW&G - beautiful, well-made and good), that is mid-high range goods, with a long tradition and craftsmanship, but at the same time characterised by an innovative design and technology and manufactured with high quality standards and competence.

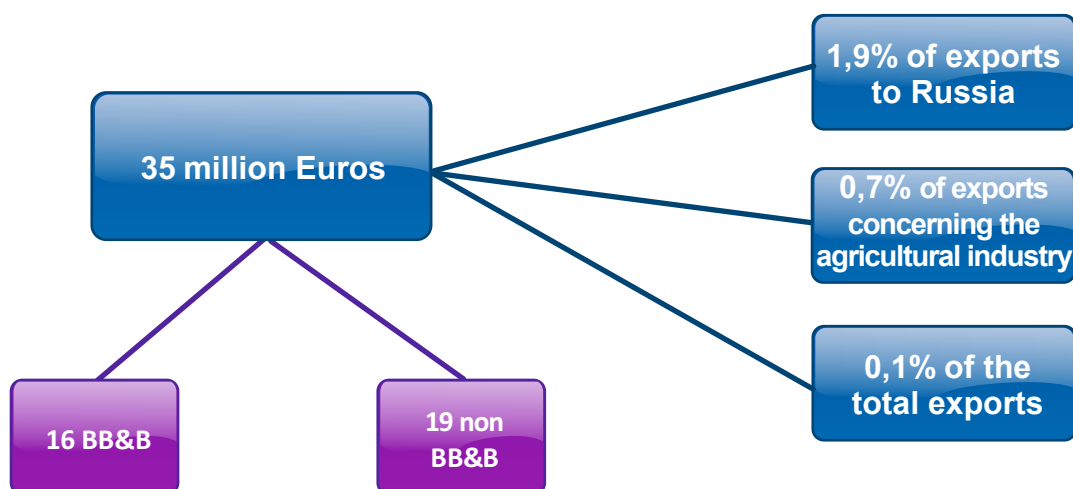
In 2014, the number of Veneto exports to Russia regarding agricultural products under embargo (BB&B and non-BB&B) have been halved, while the number of exports to the rest of the world have continued to expand; they represent 1% of the total foreign turnover generated by the exchanges with Russia and about 25% of the exports of the Veneto agricultural industry to that market, while before the value of embargo on all the agricultural production totalled 38%.

Only a part of BB&B products is under embargo: around 2.3% of the total quantity to Russia in 2013 (it equals to 27% if we consider only BB&B of the food sector).

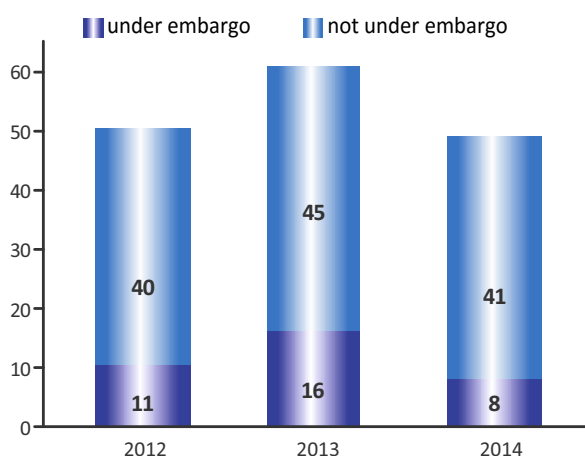
Even though the block has been started at the end of 2014, the number of exports of the concerned products and others products to this country decreased even before, as an evidence that the effects of the embargo represent only a piece of a bigger mosaic, which must be considered in a wider context. In other words, we must consider the economic and political situation in Russia and how it can affect the Veneto exporting companies in the short and long term.

EVEN IF THE PRODUCTS UNDER EMBARGO ARE FEW, THEY AFFECT THE ENTIRE INDUSTRY

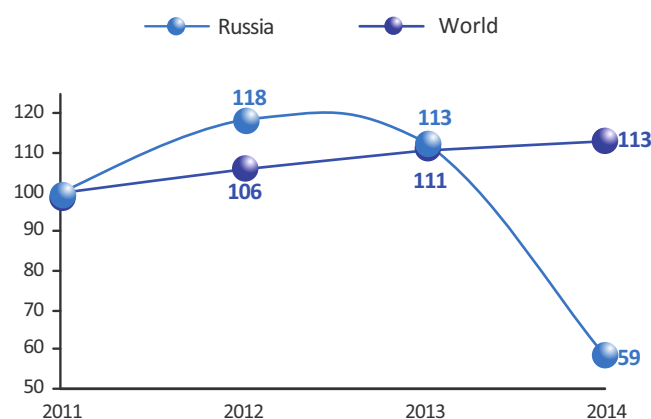
The numbers of embargo: Veneto exports of goods under embargo to Russia - Year 2013



The BB&B agricultural products to Russia (million Euros) Veneto – Years 2012:2014



The Veneto exports of goods under embargo (BB&B and non BB&B) to Russia and to the world (year 2011=100). Years 2011:2014



The criticality of the Russian economic and political situation has affected the international demand for mid-high goods, the so called "Belli Buoni e Benfatti" (BB&B: Good looking, Good tasting, and Good in quality). In 2014, the Veneto BB&B to Russia decreased by 21%, a worse trend compared to the loss in the Italian production (-13%). Even if all the industries were involved, the areas that have been most affected are the fashion sector (-26%) the footwear sector (-27%) and slightly the furniture sector (-14%). In order to evaluate the loss suffered by BB&B in Veneto due to the worsening of the situation in Russia in 2014, the effective value of the generated exports was compared to the value that would have been obtained from the forecast of the econometric model with no short term shocks. The result of the simulation shows a loss of around 180 million Euros for the total of BB&B. On the other hand, the trend of the losses in the fashion industry (-71 million euro), in the furniture

THE SHRINKING OF THE DEMAND FOR BB&B GOODS¹

industry (-48), and in the footwear industry (-31) is more stable. Slighter is the impact on the food and optics industries (-13 and -12 million euro) and on the jewellery industry (-3%).

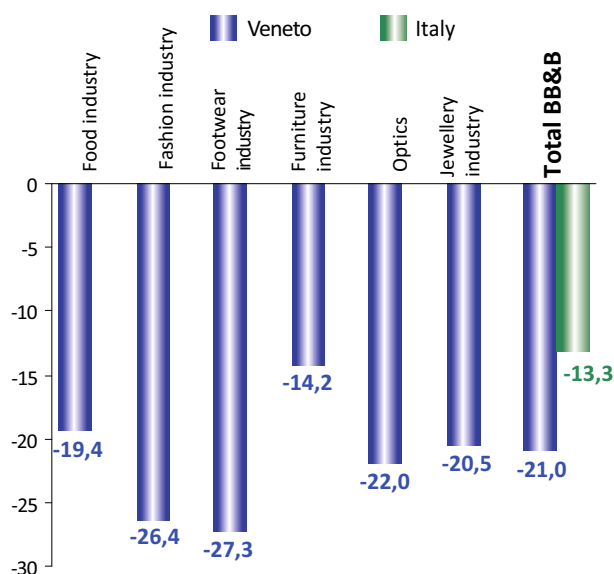
Beyond the negative effects in 2014, the situation of Russia may have a long term impact on the demand of Veneto BB&B. For over a decade the Veneto businesses have been building a particularly positive partnership with Russian mid-high class, captivating the market with its products. The tensions with the western countries can weaken this partnership, with the risk for the BB&B products to lose their appeal. The closure to the western countries can lead Russia to find some new suppliers. As an example, in the food industry the block of products from the European markets can favour other competitors, in first line the neighbouring countries, such as Turkey and Kazakhstan, which can maintain their advantage in the next years. But even suppliers from far countries could replace the European ones, like the countries of Latin America for the food industry and Asia for the fashion industry². If these partnerships ended well, then it would be difficult for the Veneto businesses to place their products again in Russian market.

¹Mid- high range goods, with a long tradition and craftsmanship, but at the same time characterised by an innovative design and technology and manufactured with high quality standards and competence

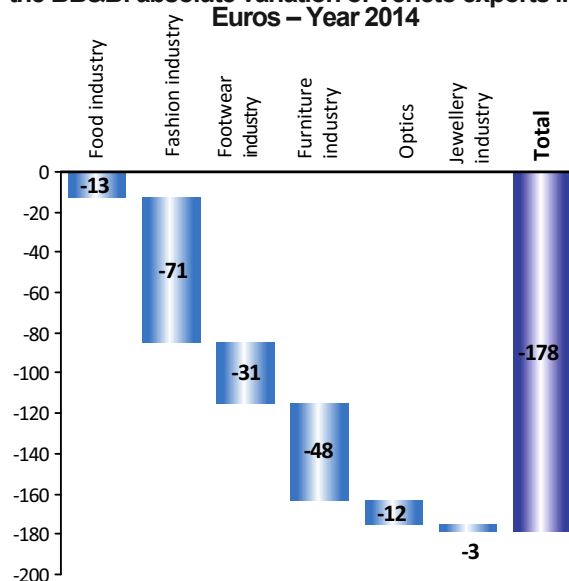
²See Confindustria-Prometeia (2015)

THE VENETO EXPORTS OF BB&B TO RUSSIA AND THE MISSED OPPORTUNITIES OF VENETO

The trend of BB&B exports to Russia: 2014/13
% variation. Veneto and Italy



Estimation of the impact of the Russian market shrinking as for the BB&B: absolute variation of Veneto exports in million Euros – Year 2014



Source: Veneto Region Processing – Regional Statistics System Section and Prometeia on Istat data



The Veneto Region

- Vice Presidency and Department for the Territory, Culture, Statistics and General Affairs

- Directorate of the President

- Department for local authorities, legal entities, control of documents, commissariat and post-emergency management, statistics, main events

- Regional Statistics System Section

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