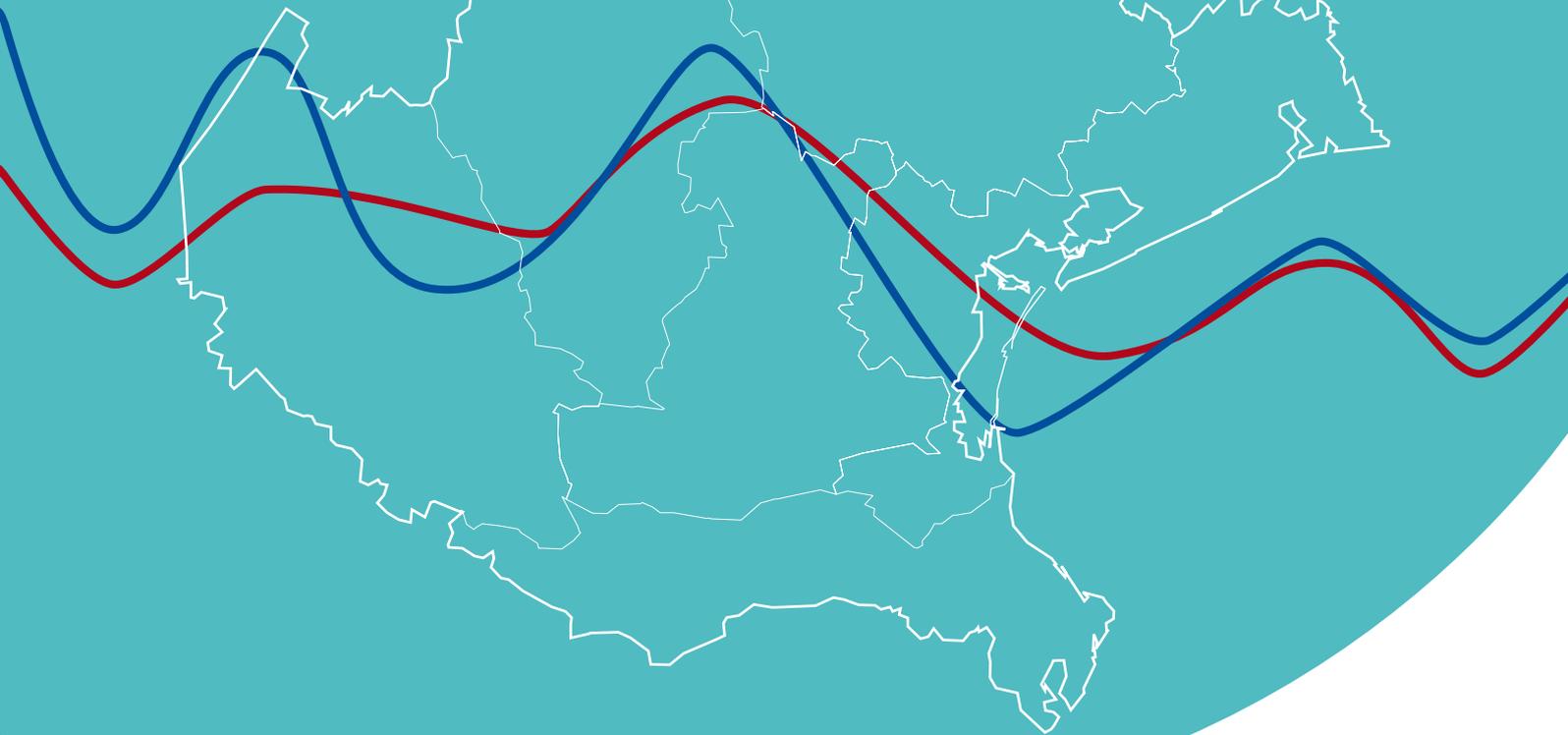


Veneto 2012

Economic report



Unioncamere
Veneto



Centro studi e ricerche economiche e sociali

Now entering its 13th year of publication, this preliminary report on the economy of the Veneto region is once again acknowledged as an important event in the regional economic information agenda.

For the Veneto, 2011 was a two-tier year. The reading of the data showed that the regional economy was able to react to the crisis of recent years regaining lost ground, especially with regard to overseas sales, agriculture, tourism and transportation. However, other figures report the major difficulties encountered in starting off again: construction, manufacturing, trade, artisan firms and employment are still sluggish.

Europe has witnessed a sharp worsening of the economic cycle: production in many areas is still below pre-crisis levels, investments are still at a standstill and the downward trend in household consumption has continued, while tensions in financial markets are likely to trigger a new recession in 2012. Moreover, the weak economic recovery in 2011 has not made it possible to turn around hiring demand, thus slowing down the recovery of jobs lost during the crisis. However, in recent days there seems to be an easing in tension and it is expected that the Euro area will register a very gradual economic recovery later this year provided a suitable combination of structural reforms and fiscal rigour is put in place, which is essential to promote confidence and create a climate conducive to sustainable growth.

In this context, from the end of 2011 Italy is already officially in a new recession that will last for much of 2012. In 2011 the economy of the Veneto registered a rise in GDP of only 0.6 percent over the previous year, a sharp slowdown compared to the +3 percent in 2010, which had fuelled high hopes after the 2009 crisis. A more dynamic recovery is expected in the second half of 2012, thanks to the stronger orientation towards foreign markets that will make it possible to catch the train of recovery in international demand. A good performance of the Veneto's exports would very likely stem the recessionary wave that will further hit consumption in the first half of 2012. If the euro continues to depreciate in the course of the year, exporting firms in the region could become more competitive.

Year 2011 was a year of decelerated growth for the Veneto economy. In coming years recovery will depend on the ability to cope with and manage ongoing changes and this effort requires the active involvement and cooperation of all local players, public agencies and political and social forces.

In a context in which the production fabric is calling for greater simplicity and fewer constraints to deal with the difficult economic situation, the chamber of commerce system has proven to be an important partner for enterprises and the subject that can assist enterprises in the dialogue with Public Administration. Chambers of Commerce are clearly committed to the growth and prosperity of local territories, to supporting businesses and employment, to fostering innovation and the internationalisation of the production system. These priorities must be accompanied by other channels of action functional thereto, such as market regulation, the spreading of a culture of legality and the promotion of competitiveness factors (credit, infrastructures, tourism, environment, supply chains policies) that can provide new lines of development for enterprises.

Venice, March 2012

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This report was drawn up by the Study Centre of the Veneto's Regional Association of Chambers of Commerce (Unioncamere del Veneto) based on the information and data available as of 21 March 2012.

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The crisis is getting worse: in 2012 the Veneto comes to a stop

How will 2012 be for the regional economy? A question so simple and direct should have an answer just as simple and straightforward. In actual fact, the situation is much more complex, especially if one considers that in 2011 the global economy registered, at least until summer, a strong recovery, compared to the 2010 bounce-back and the disastrous 2009. Then something happened, which led to a reversal of the global economic cycle, with impacts at a national and regional level. Let us put things in the right order.

Year 2011 started with a recovery in global demand and production levels, which had sustained the pace of global economic growth. Then the tensions on public debt in the euro area and ongoing uncertainty as to the process of consolidation of public finances in the U.S. led a debate on the prospects of growth in advanced economies. During the summer, international trade registered a recovery but slowed down in the last months of 2011 because of weak demand in the major advanced economies and inflationary pressure diminished, benefiting from the reduced trade in raw materials.

At the beginning of 2012 the prospects of the global economy are burdened by many factors of uncertainty associated with the effects of consolidation of public accounts in advanced economies. In the United States, in the absence of an extension of fiscal stimulus measures in 2012, economic growth this year could shrink by two percentage points. In the European Union the impacts of the sovereign debt crisis of Member States are not easily quantifiable: the continuing difficulties in deposits and savings in the banking sector could reduce the ability to supply credit to the economy, fuelling a downward spiral of declining production levels, weak financial sector and sovereign debt risk.

In the first part of 2012 the world macroeconomic situation remains very unstable. The economic slowdown registered in the second half of 2011 is bound to have prolonged effects throughout 2012, which is expected to be a **year of contraction**.

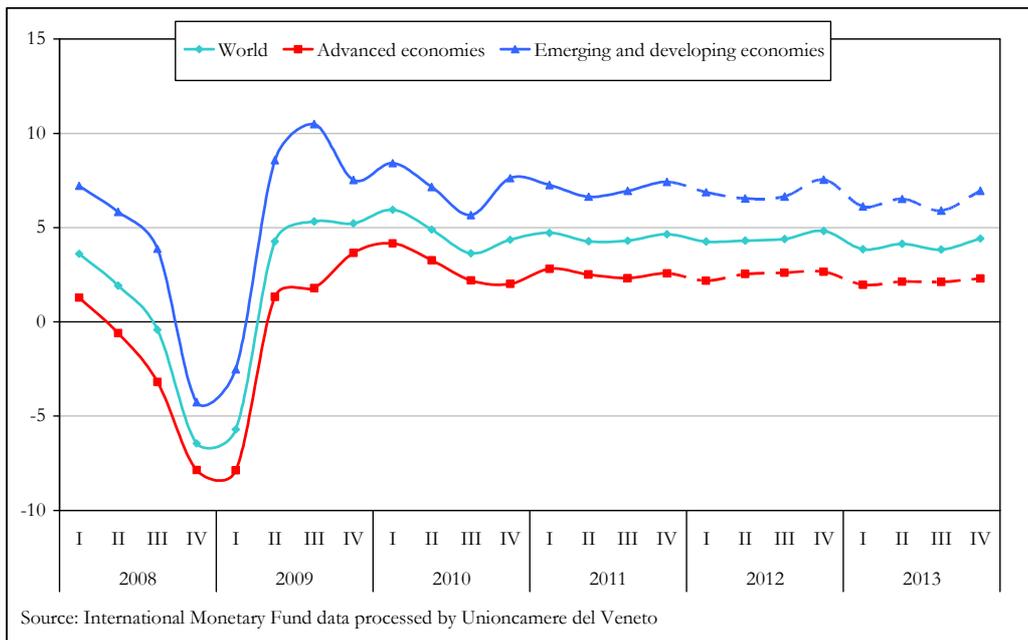


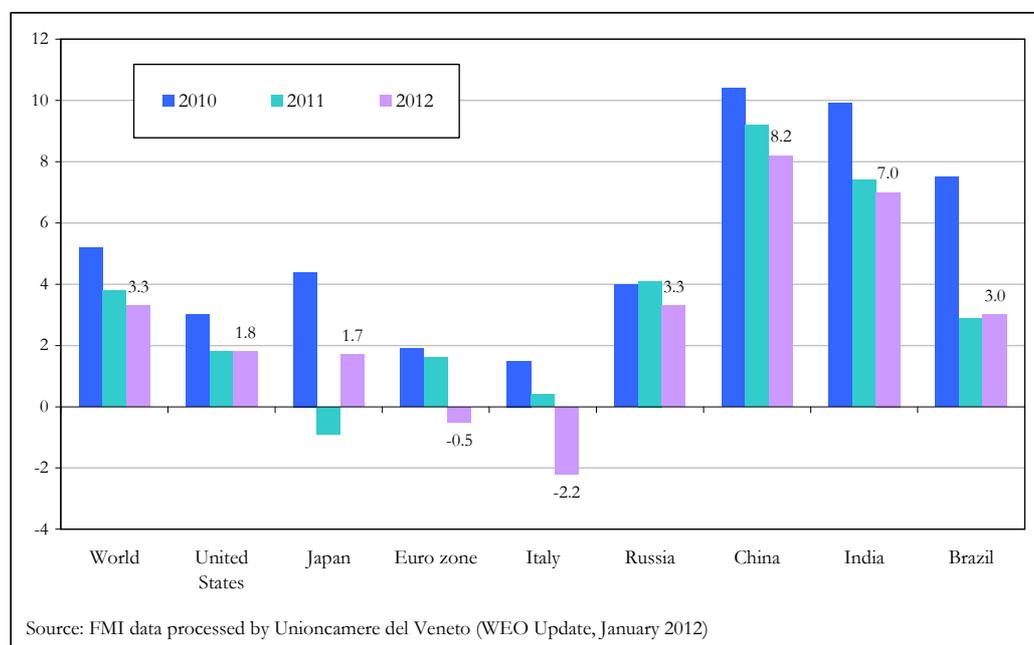
Chart 1 – Trend of world GDP (quarterly % var. over the previous year). Years 2008-2013

In the update released in January, the IMF lowered its forecast for global growth, while warning against the risk that the European public debt crisis could threaten the very operation of the global economy. Overall, **global growth should decelerate**, but not fall sharply: at the end of 2012 growth should reach 3.3 percent, lower than the estimate of 4 percent in September and below the average rate for the 2010-2011 period (+4.4%) and the 2006-2007 period (+5.5%). Moreover, **world trade will be severely affected by the effects of the European crisis**. After the strong growth in 2010 and slowdown in 2011, growth of international trade should stand at 3.8 percent, almost half compared to the rates reported in 2011 (+6.9%) and 2010 (+12%).

Even in 2012, world growth will continue to depend on **emerging and developing economies**. However, a contraction is expected compared to 2011 due to the spreading of the effects resulting from the slowdown in advanced economies and to weaker domestic demand in some major emerging economies. In **China**, which in the latter part of 2011 was affected by the further weakening of global demand and the slowdown in the real estate sector, GDP growth could fall below 9 percent in 2012. Elsewhere the impact could be more moderate, as in **India**, which is expected to register a growth rate of 7 percent in 2012, and in **Brazil**, where GDP should not grow by more than 3 percent.

The most advanced economies, however, will not fall into recession, despite the now limited scope of action available for any support policies. In the **United States** the negative effects arising from the European recession would be widely outweighed by a stronger domestic demand and GDP should grow by 1.8 percent. In **Japan**, after the interruption of production following the earthquake, 2012 is expected to register a rebound in GDP of 1.7 percent.

Chart 2 – Rate of change of GDP Years 2010-2012



In a context characterized by a declining phase, the **euro zone** will probably face a mild recession this year, as determined by the effects of rising yields on government debt, financial deleveraging in the banking sector and restrictive fiscal policies imposed by the need for fiscal consolidation in many countries in the area. According to the IMF forecast, the euro zone will register a 0.5 percent

decline, but the tendency is not common to all countries in the area. Northern European countries, with balanced public finances and a healthy financial system, will register only a pause in growth, but not a recession. This is the case of **Germany**, which in 2012 will record a GDP increase of 0.3 percent, and **France**, which is expected to grow by 0.2 percent. By contrast, the major countries of the area at the centre of the sovereign debt crisis, **Italy** and **Spain**, will clearly go into recession in 2012.

Unlike Spain, **Italy's debt situation** appears to be less fragile due to the substantial measures to correct public finances, most recently with the decree called "*Salva Italia*" (literally: "Save Italy"), although in recent weeks Spain's spread to German 10-year bonds has exceeded, for the first time since mid-August, Italy's spread, which has fallen below the level of 300 basis points, its lowest since early September and nearly 300 points below the peak reached in November 2011.

	2010	2011	2012	2013
Italy				
ISTAT March 2012 (a)	1.8	0.4	-	-
Governo December 2011 (b)	-	0.6	-0.4	1.5
Commissione UE February 2012 (c)	-	0.2	-1.3	-
Banca d'Italia Jenaury 2012 (d)	-	0.4	-1.5	0.0
Ref. Jenaury 2012	-	0.4	-1.5	-0.3
Prometeia February 2012	-	0.3	-1.7	0.2
Confindustria December 2011	-	0.5	-1.6	0.6
OECD November 2011 (e)	-	0.7	-0.5	0.5
FMI Jenaury 2012 (f)	-	0.4	-2.2	-0.6
Veneto				
Istat October 2011 (g)	2.1	-	-	-
Prometeia February 2012	3.0	0.6	-1.6	0.6

Table 1 – Italy and the Veneto. Percentage variation of GDP in real terms: comparison of forecasts. Years 2010-2013

(a) GDP and debt PA. Years 2009-2011 (March 2012)

(b) Decision of the Public Finance (December 2011)

(c) Interim Forecast (February 2012)

(d) Economic Outlook n.67, first scenary (Jenaury 2012)

(e) Economic Outlook n.90 (November 2011)

(f) World Economic Outlook Update (Jenaury 2012)

(g) Regional accounts, North East's estimate (June 2011)

Source: cited source processed by Unioncamere del Veneto

However, Italy's economic picture appears weaker, characterized by high uncertainty as to the forecasts, which never before have been so misaligned. **How will 2012 be for Italy's economy?** According to the IMF, in 2012 Italy's GDP should fall by 2.2 percent, an estimate well below the forecasts made public by the EU Commission and Banca d'Italia, which, considering the different scenarios, range between -1.2 and -1.5 percent. The forecasts produced by the OECD and the Italian government are more promising and indicate an economic slowdown of around -0.4/-0.5 percent in 2012.

As demonstrated by the wide range of estimates, the uncertainty surrounding the prospects for the Italian economy is closely linked to the evolution of the sovereign debt crisis in the euro area and further risks cannot be ruled out for production levels: lower confidence in the ability of European governments to tackle the debt crisis could have extremely serious consequences on interest rates and financing terms, which would reduce the spending power of families and hamper the revival of business investment.

In this context, a sharper slowdown of Italy's economy compared to the more favourable forecasts could thwart the measures already taken to rein in public accounts. The austerity measures that the Government implemented between July and December 2011 by approving three budget laws should lead to a 3 percent correction of GDP in 2012 and a 4.7 percent correction in the next two years with a view to achieving a balanced budget in 2013, and a small surplus in 2014. However, in the absence of a recovery in production that will probably not be enough.

It should be emphasized that the adjustment of public accounts was mainly achieved through increased revenue, which will drive the **tax burden** up to 43.8 percent, its highest level since World War II. Today there are serious doubts about the ability of households and businesses to survive such a high tax burden, especially in an economic situation that can technically be called recessive. For two consecutive quarters (third and fourth quarter 2011), GDP recorded an economic downturn, formalizing a technical recession, and the contraction is expected to continue into the first two quarters of 2012, especially due to the continuing weakness of manufacturing output, which is still about 20 percentage points below pre-crisis levels. In addition, in February 2012, the confidence of Italian businesses further worsened; the assessments of households, while remaining pessimistic, seem slightly better, but domestic demand is extremely weak and the prospects of foreign demand are still uncertain.

Table 2 – Forecast scenario 2012: comparison between the Veneto, the North East and Italy.

Indicators*	Veneto	North East	Italy
GDP	-1.6	-1.5	-1.7
Household expenditure	-1.8	-1.8	-2.2
Gross fixed investment	-3.3	-3.2	-3.8
Imports	-1.9	-2.1	-2.1
Exports	2.8	2.3	1.8
Labour units	-0.4	-0.4	-0.5
Unemployment rate (%)	5.4	5.4	8.9

* % variation of chain-linked values (year 2000)

Source: Prometeia (February 2012)

Projection data for the Italian economy are to be interpreted by taking into account the foregoing. During the year, the main aggregate demand items are expected to show a negative trend: -2.2 percent in **household expenditure**, -3.8 percent in **investments by enterprises**. As for foreign demand, in 2012 exports of goods and services are expected to register a rather positive trend, rising by 1.8 percent, thanks to the great international opening of Italy's production system. As regards the **labour market**, 2012 is expected to register a contraction (-0.5% in labour units). This could trigger a rise in **unemployment**, which could reach 9 percent.

How does the Veneto compare to the national and international scenario?

The 2012 forecasts outline a rather negative economic situation. According to the latest estimates (February 2012), **the Veneto will register a 1.6 percent drop in GDP**, slightly higher than that of the North-East (-1.5%). In 2012 the forecast scenario sees all the major regions with the minus sign: a stronger contraction of GDP in Tuscany (-1.8%), followed by Piedmont and Lombardy (-1.6%) and then by Emilia Romagna (-1.5%) and Friuli-Venezia Giulia (-1.4%).

The contraction of regional GDP in 2012 will be determined by a sharp decline in **investments by businesses** (-3.3%), which are agonizing due to the credit crunch and late payments by local administrations, which in turn are the victims of the so-called "Stability Pact". In fact, according to a survey by Cassa Depositi e Prestiti (CDP) and Consip, debts owed by the Central Government to small and medium-sized Italian enterprises amount to 102 billion euros. All this is worsened by credit restrictions applied by banks. According to Banca d'Italia, Italian banks have used two major ECB loans to increase their capital assets, instead of increasing the availability of credit for enterprises: between late December 2011 and January 2012, Italian banks bought BTP's (fixed-rate Treasury notes) and government bonds worth 28 billion euros and own bank bonds and securities in the amount of 41 billion euros, for a total of 69 billion euros, which have been completely drained from the national production system. This combination is causing a "domino effect": the shortage of loans and payments weigh heavily on businesses, which are unable to pay other enterprises and pay taxes to the Central Government, undermining the recovery of public accounts.

In 2012 a sharp contraction in **household consumption** (-1.8%) is also expected, which is burdened by the anticipation of a further rise in consumer prices. Among the main provisions of the "Save Italy" decree, enacted by the Monti government, some measures will significantly impact on inflation: in addition to the increase in fuel tax, the additional tax token on powerful cars and the tax on financial assets, the change in VAT rates will result in higher prices in the short and medium term. In a context of slow wage growth, this situation will contribute to aggravate the already dwindling purchasing power of households, which will also be affected by the sharp rises in public tariffs and regional and municipal surtaxes on income tax, mainly because of cuts to local transfers as set forth by the corrections in public accounts passed in 2011.

There will be a modest contribution of **foreign trade**, which is burdened by the deceleration of world trade: the growth rate of exports will reach 2.8 percent, while imports should fall by 1.9 percent. The effects of the crisis on employment are expected to continue in 2012: by the end of the year, **manpower calculated in units** is expected to grow by 0.4 percent, but unemployment could actually rise to 5.4 percent, without considering the many inactive workers, especially in the industrial sector as a result of massive recourse to temporary unemployment benefits (i.e. *cassa integrazione guadagni* - CIG). Without recovery, the likely outcome

will be that many of these workers will lose their jobs, increasing the unemployment rate, which could reach 10 percent.

Financial tensions and uncertainty associated with the public finance operations are adversely affecting the confidence of households and enterprises, which see no margins for improvement without a real plan for growth and development. The expectations of employers for the first half of 2012 clearly indicate a worsening of the economic cycle. In January 2012 **the confidence index of the manufacturing sector** calculated by Unioncamere del Veneto as the balance between expected increases and forecast decreases in industrial production, amounted to -16.3 percent (-3.2% in October 2011). Also with regard to turnover, the balance has worsened (-15.1%), as have domestic orders (-20.1%) and foreign orders (-7.8%). Employment forecasts are also negative: the figure has dropped further reaching -7.5 percent (as opposed to -5.5 percent in October 2011).

In an economic phase that is expected to be recessionary, enterprises cannot and should not be left to their own fate. It should be avoided that the weight of structural barriers and lack of credit curtail entrepreneurial activities and it is necessary to conceive development programs that enable regional exports to set the economy back into motion, in order to increase orders, production and employment. It is yet to be seen whether at a national level financial manoeuvres will finally be adapted to the differences existing between Italy's regions, which require urgent action "made to measure".

It is crucial to **reduce public debt**, which in 2011 grew by a total of 55 billion euros and in January 2012 by yet another 40 billion euros, reaching the record figure of 1,935 billion euros. Moreover, it is necessary to consider the increased spending on interest payments to refinance the debt that Italy is paying after the speculative attack that made the yields of Italian government bonds skyrocket.

It is also necessary to **cut excess public spending** in some regions. In fact, there is an "unbalanced" distribution of resources at a local level. Public spending in the southern regions is lower, but its impact on GDP is much higher, because of the low level of economic development: public spending in terms of GDP in the southern regions is over 15 percentage points higher than in the Centre-North. In particular, in the 2007-2009 average the percentage incidence of spending of Public Administrations on GDP was 40 percent lower in Lombardy, the Veneto and Emilia Romagna.

Finally, it is necessary to **boost the entrepreneurial system with tax benefits and a progressive reduction of the fiscal residuum** (i.e., the difference between what the Central Government takes from citizens and enterprises and how much is spent at a regional level in services, salaries to public employees, and investments), which has become unbearable and is slowing down the economy of the more advanced regions and, consequently, of the whole country. Without these measures, the recession is likely to continue well beyond 2012.

1. The international economic context

Economic activity slowed down worldwide in 2011. In emerging countries it was the result of policies adopted to curb inflationary pressures, while in developed countries it was due to the sharp fall in confidence levels and a fall in domestic consumption. According to the International Monetary Fund, after a positive 2010 (+5.2%) **world GDP** registered weaker growth, equal to +3.8 percent on an annual basis. The growth of **world trade** has almost halved (+6.9% as opposed to +12.7% the year before) reflecting the strong impact of the European crisis and declining domestic demand in some major emerging economies (Chart 3).

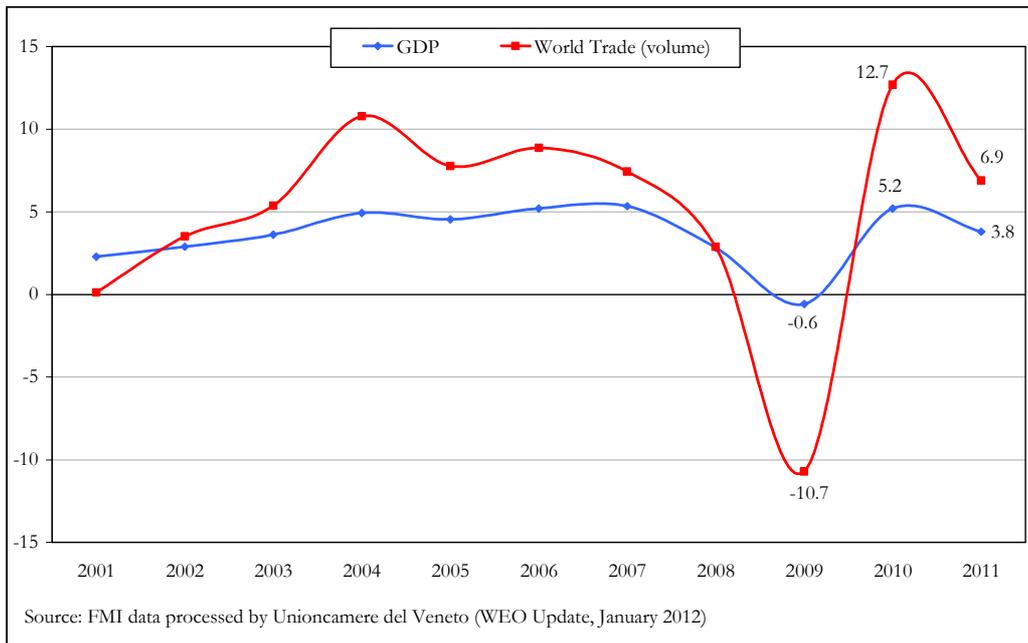


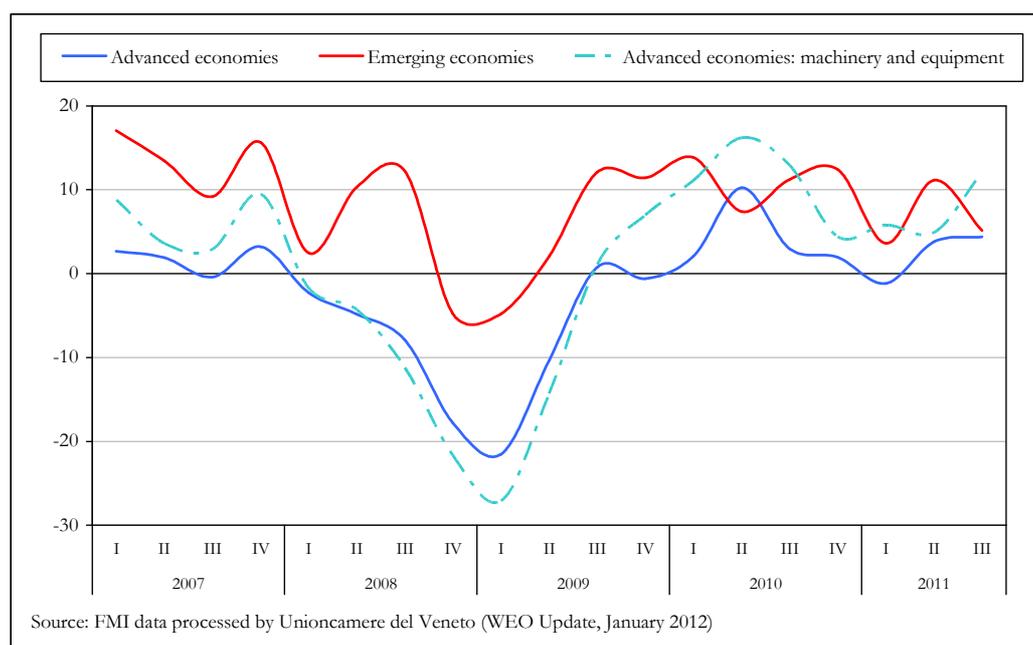
Chart 3 – World GDP trends and world trade volume (% var. over the previous year). Years 2001-2011

The world economic system was threatened by the European public debt crisis, with the uncertainty that the interconnections between public debt and the banking system could bring about the end of the single currency and a deep recession in Europe with a heavy impact at a global level. Another risk factor is the stalemate in U.S. fiscal policy, which in the absence of consent between Democrats and Republicans could lead to an automatic reduction in public spending and could cast the U.S. into recession in a period of weak global economy. A third factor was the economic trend in China, where there is an ongoing slowdown in growth and the Government and Central Bank are implementing measures to streamline the economy. A possible burst of a housing bubble in the Chinese market could also deprive the global economy of a powerful support factor.

In 2011 growth in **advanced economies** was significantly slower (+1.6% year-on-year, compared to +3.2% in 2010), affected not only by temporary factors such as the rise in energy prices and the consequences of the tsunami that struck Japan in March, but also by tensions on the labour market, the less expansionary fiscal policies, in addition to widespread uncertainty as to the resolution of financial imbalances, due to the huge stock of sovereign debt of some countries of the Monetary Union and the consequent risks of insolvency. This has resulted in marked instability in financial markets, with repercussions on deposits and savings

and the stock market performance of the banking system. In the **United States**, after good recovery in 2010 (+3%), economic growth has lost momentum (+1.8%) reflecting the great uncertainty on the consolidation process of public finances. In **Japan**, after sustained growth in 2010 (+4.4%), there is a recessive scenario (-0.9%), largely due to the tremendous earthquake that hit the country in mid-March and that has drastically reduced economic activities. Nonetheless, the performance of the economy has been better than market expectations. The main dampening effect was the contraction in exports, but domestic demand has made a positive contribution, mainly due to the accumulation of stocks by Japanese companies.

Chart 4 – Real gross fixed investment (annualized percent change from preceding quarter) I quarter 2007-III quarter 2011



According to Eurostat, in 2011 the **euro zone** closed with a 1.4 percent increase, down by 0.5 percentage points over the previous year. This trend was driven by a slowdown in growth in the second quarter, which saw a gradual deterioration over the summer, to reach values near zero in the fourth quarter. The economies of the countries of the euro zone have grown at different speeds. Once again, the countries most in trouble recorded the worst results: Italy, Spain, Portugal and, of course, Greece registered a sharp decrease. So did Belgium and the Netherlands. Thanks to its balanced public accounts and sound financial system, **Germany**, once again, was the European locomotive with an excellent +3 percent compared to 2010 (but it still showed signs of trouble: in the first quarter of 2011 it registered a +4.6% percent year-over-year and growth gradually faded to 2% in the last quarter). Only **France**, in contrast with other European countries, had a moderately positive growth in GDP (+1.7%). **Spain** and **Italy**, the largest countries at the centre of the sovereign debt crisis, stood below 1 percent (+0.7 and +0.4% respectively). For Italy, it is a decrease of 1.1 percentage points compared to 2010. In the **United Kingdom** the restrictive credit conditions, the adjustment of household budgets and the substantial fiscal tightening continued to weigh down on growth in domestic demand, limiting the growth of GDP to only +0.8 percent (+2.1% in 2010).

Even in the major **emerging economies** growth registered a slight slowdown (+6.2% as opposed to +7.3% in 2010) reflecting the slowdown in advanced economies and the weakening of domestic demand in some countries. **Brazil** registered a growth rate of 2.9 percent in 2011, following the restrictive economic policies and weakening foreign demand. The high prices of crude oil have continued to support the **Russian economy**, which maintained a level of growth above the 4-percent mark. As regards **India**, after the significant growth recorded in 2010 (+9.9%), growth in 2011 was more modest (+7.4%) due to the decline in investments and the slowdown in domestic consumption. In **China** the slowdown was more modest (from +10.4% in 2010 to +9.2% in 2011), but on the horizon there are two elements of risk lying ahead: foreign demand (where the two major markets for Chinese goods, Europe and the U.S., are in trouble) and domestic consumption (with the possibility of a rapid deflation of the real estate sector).

	2009	2010	2011			% GDP
			IMF	Oecd	Eurostat	
World	-0.7	5.2	3.8	-	-	100.0
United States	3.5	3.0	1.8	1.7	1.7	19.5
Euro area	-4.3	1.9	1.6	1.6	1.4	14.6
Germany	-5.1	3.6	3.0	3.0	3.0	4.0
France	-2.6	1.4	1.6	1.6	1,7*	2.9
Italy	-5.2	1.5	0.4	0.7	0.4	2.4
Spain	-3.7	-0.1	0.7	0.7	0.7	1.8
Japan	-6.3	4.4	-0.9	-0.3	-0.9	5.8
United Kingdom	-4.9	2.1	0.9	0.9	0.8	2.9
China	9.2	10.4	9.2	9.3	-	13.6
India	6.8	9.9	7.4	7.6	-	5.5
Russian Federation	-7.8	4.0	4.1	4.0	-	3.0
Brazil	-0.6	7.5	2.9	3.4	-	2.9

* estimated data

Source: 2009-2010: FMI data; 2011 estimates: IMF (WEO Update - January 2012), OECD (Economic Outlook - November 2011), Eurostat (March 2012)

Table 3 – Real GDP trend in a number of countries (% var. over the previous year). Years 2009-2011

2. The national economic context

Italy has been sharply affected by the negative trend in the global economy and by the turmoil in the markets. Despite the substantial soundness of the banking system, the low level of household debt and the absence of significant imbalances in the housing market, Italy has been strongly hit by the crisis because of the high level of public debt, the strong dependence of the economy on international trade, the size of the trade deficit, and the weak growth prospects in the medium term. In the first three months of 2011 the increase in GDP amounted to +1.2 percent, then growth registered a marked deceleration (+1 and +0.4% in the second and third quarters on an annual basis) dropping to -0.4 percent in recent months. In economic terms, in the third and fourth quarter GDP was negative: two consecutive quarters with a minus sign (-0.2 and -0.7%) confirmed that technically speaking a recession is in progress.

According to the latest estimates published by ISTAT, in 2011 **Italy's GDP¹ rose by 0.5 percent** compared to the previous year, an abrupt halt compared to the +1.8 percent in 2010, which had partially recovered the marked decline of 2009 (-5.5%). Despite the growth of the last two years, GDP has remained at levels lower than those recorded before the 2008-2009 economic crisis. The deterioration of economic growth has been associated with the extreme volatility of financial markets, due to the large size of public debt and fears of a new recession². The deceleration, certified by Istat, was much weaker than both the euro zone average (+1.4%) and the EU27 average (+1.5%). In terms of area (Table 4), according to Prometeia estimates, there was a decrease in all geographical areas: less pronounced in the North-East (+0.6%) and more evident in the North-West (+0.4 %) and Centre (+0.3%), while growth was zero in the South.

Broken down by **sector**, the slowdown of Italy's GDP in 2011 can be ascribed to the sharp decline in the value added in construction, which fell again (-3.1%), the zero growth of agriculture (-0.5%) and the weak growth in services (+0.8%), whereas there was a more sustained increase in value added in industry (+1.7%). The weakening in production was mainly the result of the downturn in **gross fixed capital formation** (-1.2%). The reduction was particularly sharp for investments in construction (-2.3%) and machinery and equipment (-0.3%); investments in the automotive sector grew instead (+1.8%). **Household final consumption** has stagnated, with variations of +0.2 percent for expenditure of resident households (primarily driven by spending on services, while spending for goods registered a contraction) and -0.9 percent for spending of Public Administrations.

¹ GDP adjusted for calendar effects and with values linked to reference year 2005. This figure differs slightly from the change not adjusted for calendar effects, published on 2 March 2012 by Istat and provided by Eurostat (+0.4%).

² The weak growth of Italian GDP matches the previous forecasts made in late 2011 and early 2012 by leading research institutes, which had all been revised downward due to the emergence of a risk of recession that was feared to have a global scope, but was felt most in Europe following the sovereign debt crisis. After having suggested for 2010 a +1.1-percent rise in GDP, in November the OECD reviewed its estimates for Italy downwards to +0.7 percent. In January the IMF registered slower growth of Italian GDP in 2011 (+0.4%) compared to the fall forecasts of +0.6 percent, and the expectations for 2012 (-2.2%) are even worse. Even the latest European Commission forecasts showed weak growth for Italy, with a +0.2 percent change in GDP.

As for employment, Italy has continued to suffer worrying setbacks. In 2011 the **manpower calculated in units** remained stable, after declines in previous years. This trend is the result of the increase in employees (+0.4%, thanks to reduced use of temporary unemployment benefit (i.e. *cassa integrazione guadagni* - CIG) by enterprises, while the self-employed decreased by -0.7 percent. There was weak growth in manpower calculated in units in industry in the strict sense (+0.8%) and services sector (+0.5%), whereas there was a drop in agriculture, forestry and fishing (-2.8%) and construction (-3.1%). **Income deriving from subordinate work** increased by +1.8 percent, i.e., just as much as **gross wages and salaries** (in 2011 these recorded an increase of 2.2% in agriculture, 4% in industry in the strict sense, 1.4% in services and a reduction of 1.2% in construction). At a national level, 2011 recorded 953 million hours falling under **temporary unemployment benefit** (equal to 578 thousand workers) with a significant reduction of 20.8 percent compared to 2010 (when the number of hours had reached 1.2 billion). This decrease was due to a strong reduction of ordinary CIG (-33.8%), which showed a sharp decline in industry (-39.5%) and construction (-10.3%), plus the drops, just as significant, in extraordinary and exceptional CIG (-15.8% and -15.3% respectively).

If the domestic market was weak, burdened as it was by unfavourable employment prospects and by increased uncertainty concerning the economic situation, foreign demand was the main source that continued to fuel growth. In 2011 (according to provisional data released by Istat on exchanges) a growth of 11.4 percent was registered in **exports**, while **imports** rose by 9 percent.

Public accounts recorded an improvement: the deficit/GDP ratio stood at -3.9 percent, lower than the level registered the year before (-4.6%). This result primarily reflects the sharp drop in the share of primary expenditure on GDP (1%, edging up from the negative value recorded in 2010). **Fiscal burden** amounted to 42.5 percent, on the same level as in 2010, due to a sharp increase in capital account taxes (+47.2%). Indirect taxes increased by 2 percent, driven mainly by increased revenue from VAT and taxes on mineral oils and natural gas. Direct taxes were slightly down (-0.1%), mainly due to declining income tax.

	GDP	Household Consumption	AAPP & ISP Consumption	Gross fixed investment	Export **	Import**
Piedmont	0.6	0.3	-0.3	-0.3	11.8	9.6
Lombardy	0.4	0.6	-0.1	-0.6	10.8	4.2
Veneto	0.6	0.5	-0.1	-0.6	10.2	5.9
Emilia Romagna	0.7	0.5	-0.1	-0.2	13.1	12.1
Tuscany	0.3	0.3	-0.3	-1.1	13.7	9.4
North-West	0.4	0.5	-0.2	-0.5	11.2	6.0
North-East	0.6	0.5	-0.1	-0.4	11.1	8.1
Centre	0.3	0.3	-0.2	-0.9	13.0	12.6
South and Islands	0.0	0.1	-0.7	-1.7	10.3	14.5
Italy	0.5	0.2	-0.9	-1.2	11.4	9.0

* National data are Istat estimates, data for regions and areas are Prometeia forecasts

** Istat provisional data

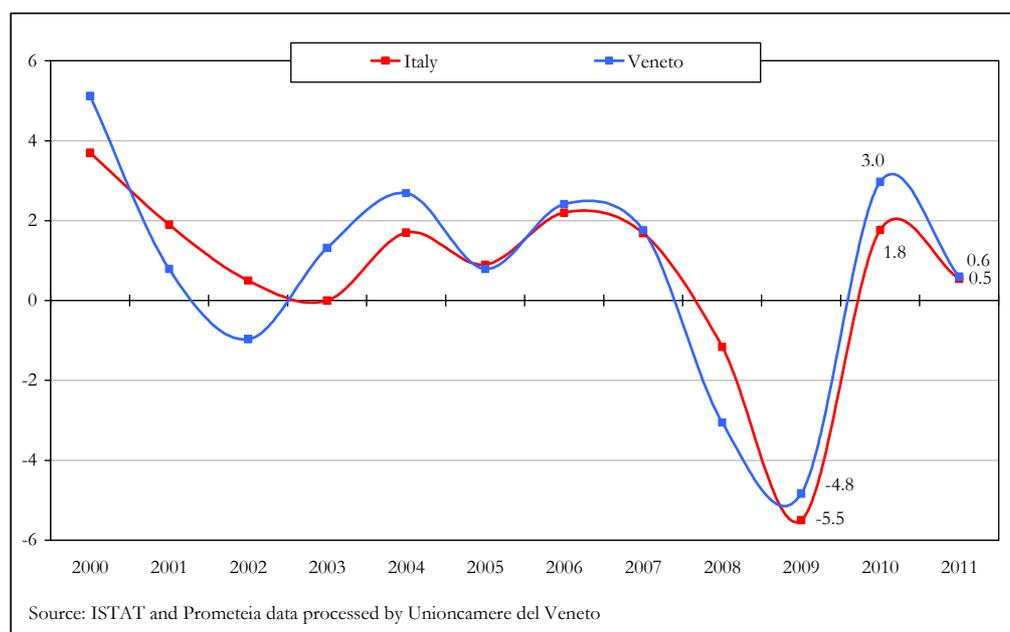
Source: Istat (national public accounts), Prometeia (scenarios for local economies - February 2012)

Table 4 – Main economic indicators in a numbers of Italian regions (% var. over the previous year)*. Year 2011

3. Veneto economy

In 2011 the growth rate of the regional economy was weaker. The recovery in the first half of the year and the effects of the recession that began in the last part of the year led to a **weak growth in regional GDP, up by +0.6 percent year-on-year**, thus failing to maintain the ground recovered in 2010 (+3%) (Chart 5).

Chart 5 – GDP trend for the Veneto and Italy (% var. over the previous year). Years 2000-2011



In comparison with other Italian regions, GDP was down in several areas of the South and central and northern Italy registered a significant slowdown in economic growth (both Trentino Alto Adige and Valle d'Aosta +0.5%, Lombardy +0.4% and Friuli Venezia Giulia +0.3%). Some northern regions such as Emilia Romagna (+0.7%) and Piedmont (+0.6%) showed greater dynamism, but in all areas the pace of growth was rather moderate.

Table 5 – The Veneto.
Main aggregate of national public accounts (values in current euro and pre capita). Years 2000, 2007-2011

	2000	2007	2008	2009	2010*	2011*
absolute value						
GDP (mln of euro)	111,712	147,009	145,923	141,761	143,944	146,166
Labour units (thousand)	2,186	2,333	2,357	2,269	2,285	2,294
Employees unit (thousand)	1,520	1,654	1,714	1,658	1,647	1,654
Income from employment (mln of euro)	42,564	58,250	62,258	61,196	61,094	62,120
Average annual population (thousand)	4,470	4,787	4,842	4,881	4,907	4,934
per capita values						
GDP at market prices per inhabitant (euro)	24,991	30,713	30,137	29,043	29,333	29,626
GDP at market prices per labour units (euro)	51,115	63,016	61,908	62,480	63,005	63,710
Domestic final consumption per inhabitant (euro)	17,901	21,927	22,160	21,842
Income from employment for employees unit (mln of euro)	28,012	35,209	36,334	36,912	37,089	37,562

*source data Prometeia

... data not available yet

Source: Istat (national public accounts), Prometeia (scenarios for local economies - February 2012)

The evolution of regional GDP had wider repercussions on the components of **domestic demand**, which in 2011 remained steady (+0.2%). The effects of fiscal policies on real household incomes together with the difficult labour market conditions continued to depress **private consumption** (up by only +0.5%) and the spending curbing measures had similar effects on **public spending** (-0.1%). **Investments** suffered a 0.6 percent slowdown in 2011 due to increased uncertainty over demand prospects and tighter credit conditions.

The drop in consumption is largely attributable to the trend in purchasing power of households, which was lower compared to prices. In 2011, **household disposable income** showed a slight decrease (-0.4%), while consumer prices (NIC index) recorded an increase of 2.5 percent year-over-year.

The trend in GDP is strongly linked to that of **exports**, which has always been the driving force of the regional economy. Analysing the **items contributing to the change in GDP**, trade with foreign countries continued to support the Veneto's economy (by about 2.3 percentage points), while a very weak yet positive contribution came from private consumption (0.2 points). A stronger growth of GDP was not possible due to the lack of investments and to the change in inventories (Chart 6).

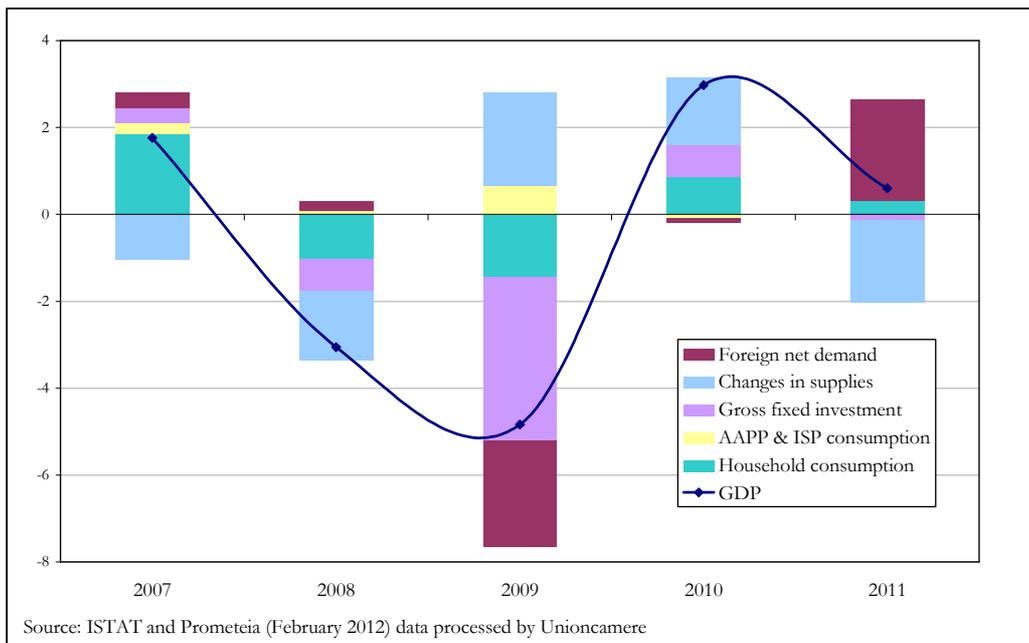


Chart 6 – The Veneto. Contributing factors for the growth of the GDP (percent values and tendential var.). Years 2007-2011

According to provisional data released by Istat³, in 2011 the Veneto's **exports** were strong, growing by 10.2 percent, which is only a slight increase compared to the previous year (+16.2%), but allowed it to reach pre-crisis levels of foreign sales. In 2011 the Veneto's **trade balance** was positive by 9.7 billion euros.

The situations of the production structure and labour market reflect the weak economic trend. In 2011 the number of **active businesses** was slightly lower (-0.3%) compared to the previous year⁴. However, with the exception of companies in trouble due to bankruptcy, there was a drop in the number of businesses hit by the crisis or which signed agreements for their management. The

³ For further information refer to the paragraph "Foreign trade".

⁴ For further information refer to the paragraph on the "Production Structure".

2011 level was unchanged compared to 2010. The difficult economic situation had a heavy impact on **employment**, which recorded a negative balance of an additional 15,000 units. This downturn marked an overall reduction of about 80-85 thousand jobs during the entire crisis, starting in autumn 2008. However, in 2011 there was a slowdown in recourse to temporary unemployment benefit: 87 million authorized hours as opposed to 125 million the previous year⁵.

As to income formation, in 2011 **added value** over the basic prices was estimated to be slightly higher by 0.7 percent compared to the previous year. Enterprises operating in foreign markets were less affected by those operating in the domestic market; therefore, the decrease in the Veneto's industry was less sharper (+1.2%). Services and agriculture also increased, although at a more moderate rate compared to industry (+0.4 and +0.6% respectively). The construction sector continued its negative trend, once again registering losses (-0.5%).

The data below show a regional system that is trying to react to the past recession and to today's difficulties by regaining the ground lost. The recovery of foreign trade has driven the manufacturing sector, agriculture ended the year up, and tourism continues to be one of the most important sectors, especially in terms of foreign visitors. However, other figures tell of those who in 2011 failed to recover: building businesses, small retail businesses and artisan firms.

The crisis and the difficulties of households

The international economic crisis and its impact on the labour market and on production have depressed the income and consumption of the Veneto's households.

According to Istat, in 2010 the Veneto's families who were in a situation of **relative poverty** (measure of inequality) are estimated to have amounted to almost 106,000 out of a total of over 2 million resident households in the region, with an incidence of 5.3 percent (3.3% in 2007), as opposed to 11 percent registered nationwide. Along with Piedmont and Tuscany, the Veneto ranked among the least poor regions of Italy, preceded only by Lombardy, Emilia Romagna and Umbria.

The recession has led to a progressive reduction in household wealth. In 2009, according to ISTAT, there was a drop of 2.5 percent year-over-year in disposable income in the Veneto. Between 2001 and 2009, the **disposable income of households**, in real terms and per capita, decreased from about 16,100 to 15,300 euros (13,600 euros in Italy).

The decline in disposable income slowed consumption growth: between 2007 and 2009 **household spending** declined by 7.8 percent (-4.5% in Italy and -3.8% in the North).

As opposed to an average disposable income among the highest nationally, the Veneto's families have an average monthly consumption among the highest in Italy. In 2010, in the region, the **average monthly expenditure per household** was equal to 2,876 euros, as opposed to a national average of 2,453 euros. The spending items with the greatest impact on the budgets of the Veneto's households are housing (27.7% of the total monthly average), food and soft drinks (16.1%) and transportation (15.4%).

⁵ For further information refer to the paragraph on the "Labour market".

Foreign trade

In 2011 the growth of **Italian exports** was strong (+11.4%), allowing to reach a value of goods sold in the amount of 376 billion euros. This trend is part of the recovery in world trade whose crisis in 2009 led Italian exports to contract by more than 24 percent in a single year. The slowdown in imports negatively impacted the trade balance by more than 24.6 billion euros, a smaller deficit compared to the one registered in 2010 (equal to over 30 billion euros).

At a local level (Table 6), the largest increases in the flow of exports were recorded in Central Italy (+13%), followed by the North-West (+11.2%) and North-East (+11.1 %), in line with the national average. Less remarkable growth was experienced in the South (+10.7%) and Italy's islands (+9.6%). Among the regions that made the greatest contribution to the growth of domestic exports in 2011 were Emilia Romagna (+13.1%), Tuscany (+13.7%) and Latium (+13.8%), while the exports of Lombardy (+10.8%) and the Veneto were relatively lower. These two regions, however, continue to be the most export-oriented in Italy. In 2011 the weight of the Veneto's foreign trade on the national total (**13.5%**) was unchanged and the region, following the leader Lombardy (27.9%), retained second place in the ranking of Italian regions that most contribute to Italian exports. It is followed by Emilia Romagna (12.6%), Piedmont (10.2%) and Tuscany (7.9%).

	Imports			Exports			Balance
	2010 (a)	2011 (b)	var.%	2010 (a)	2011 (b)	var.%	
Lombardy	118,263	123,209	4.2	94,022	104,164	10.8	-19,045
Veneto	38,321	40,598	5.9	45,613	50,283	10.2	9,685
Emilia Romagna	26,688	29,925	12.1	42,386	47,934	13.1	18,008
Piedmont	26,427	28,975	9.6	34,464	38,533	11.8	9,558
Toscana	20,201	22,103	9.4	26,564	30,201	13.7	8,098
Lazio	29,014	33,536	15.6	15,011	17,081	13.8	-16,455
Friuli-Venezia Giulia	6,490	7,102	9.4	11,674	12,565	7.6	5,463
North-West	154,747	164,024	6.0	134,948	150,032	11.2	-13,992
North-East	77,981	84,297	8.1	105,820	117,584	11.1	33,286
Centre	58,396	65,750	12.6	53,605	60,572	13.0	-5,178
South	27,644	30,742	11.2	24,399	27,006	10.7	-3,736
Islands	24,451	28,907	18.2	14,556	15,959	9.6	-12,948
Other or n.a.	24,170	26,759	10.7	4,017	4,697	16.9	-22,062
Italy	367,390	400,480	9.0	337,346	375,850	11.4	-24,630

(a) definitive data; (b) provisional data

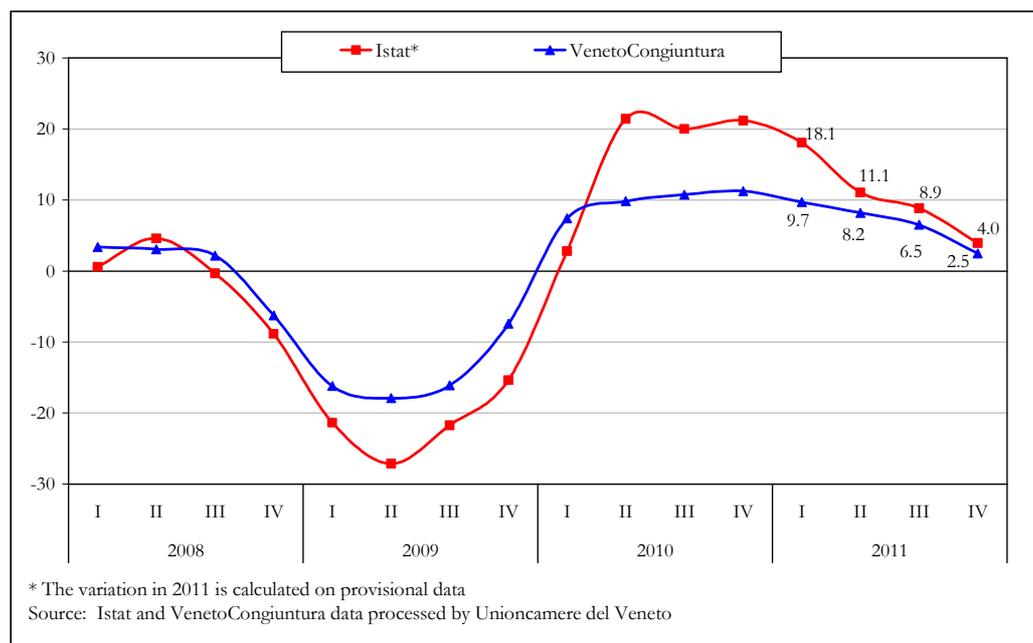
Source: Istat data processed by Unioncamere del Veneto

Table 6 – Italy. Trade flows in a number of regions (million of euro). Years 2010-2011

In 2011 the role played by exports was confirmed as the driving force of the Veneto's economy. The Veneto's businesses have continued to show a good international focus: the **openness rate** (imports account for 27.8% of regional GDP) and **propensity to export** (exports account for 34.4% of GDP) have shown a steady increase over previous years (in 2010 the two values were equal to 26.6% and 31.7% respectively), thus outlining a production system that is active in foreign markets. Even in light of the limited absorption capacity of domestic demand registered over the past decade, enterprises have increasingly turned to foreign markets to find growth opportunities.

In 2011, the Veneto's exports rose by **10.2 percent** compared to the previous year, totalling over **50 billion euros**, up by more than 4.7 billion compared to 2010⁶. Although this positive trend is weaker than that recorded in 2010 (+16.2%)⁷, the region managed to recover from the sharp slowdown registered in 2009 and to fully reach pre-crisis levels of exports⁸.

Chart 7 – The Veneto.
Export trends (quarterly %
var. over the previous year).
Years 2008-2011



The dynamism of regional sales abroad gradually ebbed in 2011 (Chart 7). Both the Istat data and results of the *VenetoCongiuntura* survey, conducted quarterly by Unioncamere Veneto on a sample of over 1,200 manufacturing firms with at least 10 employees, showed the downward trend of trade with foreign countries during the year. Specifically, there was a shift from +9.7 percent in the first quarter to +8.2 and +6.5 percent in the second and third quarters. In the period from October to December 2011, the increase in foreign sales of the Veneto's industry stopped at +2.5 percent on an annual basis⁹. The positive balance is mainly attributable to large businesses, with small and medium businesses lagging slightly behind. Even comparing the provisional data published by ISTAT, it is clear that there was a weakening in exports during 2011. In particular, during the last quarter of the year, exports increased by 4 per cent, a trend more than half less compared to the second (+8.9%) and third quarters

⁶ As no final figures are as yet available, the variation for 2011 on 2010 is calculated comparing the (underestimated) provisional data with the final data adjusted to the figures made available by Istat.

⁷ Based on the final figures (released by Istat in November 2011), the value of the Veneto's exports in 2010 was 20 million euros lower than the provisional data released in March 2011. This deviation is due to the extraordinary revision of foreign trade statistics made by ISTAT in 2011. The percentage variation for 2010 on 2009 calculated by Istat (provisional data on final data) was found to be 16.3 percent, thus deviating slightly from the final value.

⁸ These variations must be assessed with caution, as they were calculated on provisional data which, as noted, are often underestimated and do not provide a comprehensive analysis of the dynamics of trade with foreign countries at the local level, especially for systems with a high export orientation like the Veneto. The provisional data were released by Istat on 14 March 2012, whereas the final figures will be made available in early 2013.

⁹ In the quarterly assessment of foreign trade figures it was considered appropriate to calculate the percentage variations for 2011 on 2010 using provisional data.

(+11.1%) of 2011 and very limited compared to the period from January to March (+18.1%)¹⁰.

The **breakdown by main types of product**¹¹ shows that all items contributed to the general year-on-year increase. The metallurgical industry experienced the best performance for exports, having grown 32.3 percent, for a total value of almost 3.2 billion euros. The industrial machinery industry, which ranks first in the Veneto for exports, sold goods for more than 10.2 billion euros, accounting for 20.2 percent of the regional total, having increased by 18.1 percent compared to 2010. Good recovery rates were recorded also in food products (+15.5%, namely 2.1 billion euros), beverages (+13.7%, namely 1.5 billion euros) and in other crucial sectors of the regional economy: eyewear (+10.3%, i.e. 2.5 billion euros), tanning and leather industry (+12.8%, 2.2 billion euros), jewellery (+4.7%, 1.6 billion euros) and footwear (+7%, 2.2 billion euros). The clothing, household appliances, and furniture sectors registered weak increases in the goods sold and are lagging behind compared to pre-crisis levels. The only sector that registered a substantial fall was the automotive and automotive components industry (-15.3% year-over-year, falling to 1.9 billion euros) (Table 7).

Products	2010 (a)	2011 (b)	var.%	comp. %
1 Machinery	8,608	10,169	18.1	20.2
2 Metalwork	2,441	3,229	32.3	6.4
3 Clothing	2,649	2,862	8.0	5.7
4 Other electrical equipment	2,480	2,789	12.5	5.5
5 Metallurgy	2,558	2,637	3.1	5.2
6 Means of transport and parts productions	2,242	2,474	10.3	4.9
7 Eyewear	1,944	2,192	12.8	4.4
8 Furniture	2,047	2,190	7.0	4.4
9 Footwear	2,056	2,172	5.6	4.3
10 Tanning and leather processing	1,866	2,155	15.5	4.3
11 Food	1,855	2,034	9.6	4.0
12 Chemical Pharmaceuticals, synthetic fibers	2,268	1,921	-15.3	3.8
13 Rubber and plastic products	1,559	1,698	8.9	3.4
14 Jewelry	1,486	1,556	4.7	3.1
15 Beverages	1,312	1,491	13.7	3.0
16 Yarns and Fabrics	1,199	1,343	12.0	2.7
17 Household appliances	1,185	1,227	3.5	2.4
18 Paper and printing	981	999	1.8	2.0
19 Other manufactured products	912	938	2.8	1.9
20 Agriculture and fishing	833	812	-2.6	1.6
21 Electronic, medical and measuring equipment	795	804	1.2	1.6
22 Other services	481	550	14.3	1.1
23 Knitwear	457	495	8.2	1.0
24 Cut, shaped and finished stones	406	426	5.0	0.8
25 Glass and glass products	409	425	3.8	0.8
26 Refined petroleum products	290	385	32.8	0.8
27 Wood	235	248	5.6	0.5
28 Mining and quarrying products	57	60	6.4	0.1
Total	45,613	50,283	10.2	100.0

(a) definitive data; (b) provisional data

Source: Istat data processed by Unioncamere del Veneto

¹⁰ The correlation coefficient calculated between the quarterly variation of foreign sales for the years 2009-2011 recorded in the *VenetoCongiuntura* survey and the variation based on the export data released by Istat equals 0.97. As a result, the data resulting from the Unioncamere del Veneto survey can be considered to be a sound substitute source for export flow trends in the Region.

¹¹ This product classification aggregates the Ateco 2007 codes to highlight the leading sectors and areas of the Veneto's foreign trade.

Table 7 – The Veneto.
Export by type of product,
classified by values (million
of euro). Years 2010-2011

By analysing the **destination of the Veneto's foreign sales** (Table 8), it can be noted that in 2011 the largest area of reference was **EU27**, with 58.7 percent of the manufacturing exports of the Veneto to this area, compared with 41.3 percent headed to **extra-EU27** markets. The share from the EU is, however, further shrinking compared to previous years, when exports to EU markets accounted for over 60 percent of the overall total. This change is the result of a more limited growth dynamic in direct sales to EU partners (+9% compared to 2010); however, the growth in exports to non-EU27 countries was stronger (+12.6%).

Once again, **Germany** confirmed its position as the Veneto's main trading partner having purchased manufactured goods totalling 6.8 billion euros (i.e., 13.9% of regional exports, up by +14% compared to 2010). The trade balance with Germany was nevertheless negative, considering that the Veneto bought goods for more than 9 billion euros (+4% compared to 2010). The **French market** ranked second with 5.2 billion euros of exported goods (10.7% of the regional total, having increased by 9.5% on an annual basis). There was a contraction in the sales of manufactured goods to two major markets for the Veneto's exports, which weakened greatly following the economic crisis: the **United States** (to which sales were down -1.1%) and **Spain** (-2.3%).

The Veneto's exports have been largely revived by sales to the large emerging economies. The degree of the Veneto's trade integration is underscored by the growth rates of exports to **BRIC countries**, which reached considerable levels in the course of 2011 (Brazil +25.4%, Russia +19.7%, India +26.1%, China +30.6% compared to 2010). Moreover, some of these countries now permanently belong in the group of the leading regional trading partners: **China**, with 1.8 billion euros of manufactured goods purchased, ranked seventh and **Russia**, with 1.5 billion euros, was ninth. In 2011 the growth rate of the Veneto's manufacturing exports to these countries was higher than the regional average and the regional share of total exports exceeded eight percentage points (in 2001 they accounted for only 3.6% of the region's foreign sales, in 2011, 8.5%). Russia and China have confirmed to be important markets, with a share of over 3 percent of regional manufacturing exports. In the last decade, trade toward these two countries has generated the greatest contributions to the growth of regional exports. Despite the recovery in exports to these countries, the Veneto's trade balance was negative by more than 1 billion euros. The trade deficit is mainly attributable to the increased flow of manufactured goods from China (over 4 billion euros) and India (634 million euros), in particular as regards the fashion industry. Noteworthy were some geographic and sectoral opportunities: there were two sectors that drove the growth in the Veneto's exports in 2011: the machine tool industry, which alongside well-established partners (Germany, France and China) is increasingly focused on new markets (Russia, Poland, Turkey and Brazil), capable of ensuring a strong demand even in tough times, and the fashion and furniture industries, with flows directed mainly to Russia.

More generally, Asian economies were clearly the driving force of regional exports. In 2011, sales of manufactured goods to East Asia grew by 24 percent over the previous year, reaching more than 4 billion euros (+8.5% of total exports), mainly thanks to **China** (whose exports more than quadrupled in terms of value in the decade from 2001 to 2011), **Hong Kong**, **South Korea** and **Singapore** (in 2011 the Veneto's exports to these two countries increased by more than one third on an annual basis). Exports of manufactured goods to Central Asia, driven mainly by **India**, grew by over a quarter (760 million euros).

Countries	2010 (a)	2011 (b)	var.%	comp.%
<i>Imports</i>				
1 Germany	8,875	9,227	4.0	25.3
2 China	3,899	4,003	2.7	11.0
3 Spain	1,626	1,875	15.3	5.1
4 France	1,839	1,859	1.1	5.1
5 Austria	1,415	1,495	5.7	4.1
6 Netherlands	1,421	1,407	-1.0	3.9
7 Belgium	1,219	1,309	7.4	3.6
8 Romania	1,120	1,289	15.1	3.5
9 United Kingdom	700	769	9.9	2.1
10 Czech Republic	661	762	15.3	2.1
Ue 27	22,324	23,899	7.1	65.5
Extra Ue 27	11,885	12,583	5.9	34.5
in BRIC	5,211	5,356	2.8	14.7
in Next 11	1,308	1,582	20.9	4.3
Total	34,209	36,482	6.6	100.0
<i>Exports</i>				
1 Germany	5,968	6,805	14.0	13.9
2 France	4,760	5,212	9.5	10.7
3 United States	2,975	2,942	-1.1	6.0
4 United Kingdom	2,151	2,318	7.8	4.7
5 Spain	2,295	2,242	-2.3	4.6
6 Switzerland	1,632	2,055	25.9	4.2
7 China	1,349	1,762	30.6	3.6
8 Austria	1,531	1,721	12.5	3.5
9 Russian Federation	1,242	1,487	19.7	3.0
10 Romania	1,205	1,383	14.8	2.8
Ue 27	26,303	28,658	9.0	58.7
Extra Ue 27	17,940	20,202	12.6	41.3
in BRIC	3,317	4,161	25.5	8.5
in Next 11	2,186	2,458	12.4	5.0
Total	44,242	48,860	10.4	100.0

*In 2011 97.2% of Veneto exports consists of manufactured goods

(a) definitive data; (b) provisional data

Source: Istat data processed by Unioncamere del Veneto

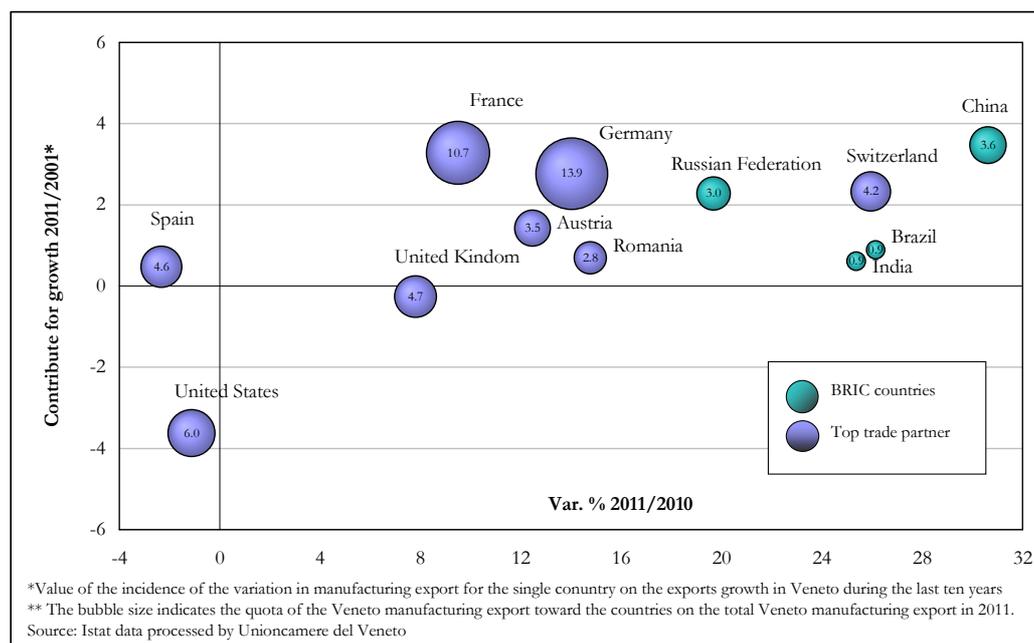
The successors of the BRIC countries appear to be the countries of the **Next 11** group¹², which, with a total value of goods sold amounting to 2.5 billion euros, accounted for 5 percent of regional manufacturing exports and allowed for a positive trade balance of 876 million euros. These countries are seen as new business partners for world exports considering their high rate of population growth, development potential and strong increase in domestic consumption.

¹² The term “Next Eleven” (N-11) was coined in 2005 by Jim O’Neill and the GIR team at Goldman Sachs to identify those countries with rapid growth, which, following in the footsteps of the BRIC countries, will have a major impact worldwide. The Next 11 countries include Bangladesh, Egypt, Indonesia, Iran, South Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey and Vietnam. However, there are conflicting opinions on whether all these countries will be able to effectively exploit the potential ascribed to them. O’Neill was also the one who coined the term BRIC in 2003.

Table 8 – The Veneto. Top 10 countries by origin of imports and destination of regional exports* (million of euro). Years 2010-2011

These countries are attributed the potential to achieve an economic growth in coming decades similar to that currently registered by the BRIC countries (in the decade from 2001 to 2011 the contribution of these countries to the growth of the Veneto's exports amounted to 2.9 percentage points). In particular, in 2011 sales of products manufactured in the Veneto to **Turkey** (reaching a value of 915 million euros), **South Korea** (over 340 million), **Indonesia** (105 million), the **Philippines** (63.3 million) and **Bangladesh** (55 million) increased by over 20 percent year-over-year . However, the data shows that the BRIC and Next 11 countries, despite their great potential, are still rather limited markets for the Veneto: sales of goods to these areas account for only a third of regional non-EU27 exports.

Chart 8 – The Veneto.
% var., contribute for growth and % quota** of the manufacturing exports toward the top trade partners and the BRIC countries.
Year 2011



In 2011 the Veneto's trade surplus amounted to 9.7 billion euros, a value higher than the year before, as a result of the weaker trend in imports compared to exports. Trade flows from abroad increased by just 5.9 percent compared to 2010, reaching a provisional value of 40.6 billion euros. The Veneto experienced growth rates in line with the north-eastern area of Italy, where incoming flows generally increased by 8.1 percent. The regions of comparison registered a sharper increase in purchases from abroad: the imports of Emilia Romagna grew by 12.1 percent, those of Piedmont and Tuscany by over 9 percent. The increase in Lombardy (+4.2%) was slightly lower. In 2011, the Veneto's top trade partner for imports continued to be Germany (more than 9 billion euros), from which over one quarter of the Region's imports originated, recording a 4 percent increase in 2011. China remained in second place (4 billion euros), with an increase of incoming trade flows of 2.7 percent compared to 2010 (compared to 2001, while the Veneto quadrupled the value of manufactured goods imported from China).

Production structure

In 2011 the production structure of the Veneto experienced a slight overall contraction. According to data provided by Infocamere, the enterprise base was constituted by **505,467 registered enterprises**, a decrease of 987 units compared to 2010, which in relative terms corresponds to a decrease of **0.2 percent**. The negative trend also affected the stock of **active companies**, which in 2011 dropped by about 1,200 units, equal to **-0.3 percent** in relative terms, amounting to **456,000 units**. Considering the nominal changes in stock, this dynamic reflects a relatively positive trend for the service sector (+0.6%) and negative for industry (-0.9% including construction) and agriculture, a sector which confirmed a negative trend (-2.2%) as has been the case since 1997.

Going into the details of the **economic sectors** (Table 9), the strongest positive trend was registered by the public utilities sector, which, driven by the renewable energy segment, saw an increase of 15.5 percent of active companies. The positive trend in the tertiary sector continued, with a substantial increase in educational services (+5.5%), followed by healthcare and social services (+4.7%), rental business, tourism services and services to companies (+2.9%) and services to persons (+2.5%). The only negative exception was transportation and logistics services, which in 2011 recorded a further fall of 1.9 percent, and that of the sale of motor vehicles, which suffered a slight drop of 0.2 percent.

The shift to services of the enterprise base is confirmed by the fact that the largest decrease was recorded in manufacturing, with a drop of 1.3 percent in the number of enterprises, and in construction (-0.7%), a sector hit hard by the financial crisis and credit crunch.

	Registered		Active		Reg.	Active
	2010	2011	2010	2011	var.% 11/10	
Economic sector						
Agriculture, forestry and fishing	79,551	77,817	79,071	77,353	-2.2	-2.2
Mining	316	309	268	259	-2.2	-3.4
Manufacturing industry	65,343	64,575	58,260	57,484	-1.2	-1.3
Public utilities (energy, gas, water, environment)	1,042	1,180	939	1,085	13.2	15.5
Construction	78,520	78,194	74,566	74,029	-0.4	-0.7
Trade and repair of motor vehicles motorcycles	112,475	112,306	104,936	104,710	-0.2	-0.2
Accommodation and catering	31,996	32,413	28,070	28,394	1.3	1.2
Transport services, logistics and storage	15,759	15,539	14,643	14,363	-1.4	-1.9
Media and communication services	9,303	9,449	8,531	8,689	1.6	1.9
Advanced support services for businesses	16,858	17,163	15,447	15,682	1.8	1.5
Financial Services & Insurance	9,172	9,279	8,790	8,908	1.2	1.3
Real estate	31,387	32,004	28,743	29,327	2.0	2.0
Rental business, tourist services and supp. Business	10,081	10,389	9,385	9,655	3.1	2.9
Private education and training services	1,698	1,778	1,593	1,680	4.7	5.5
Health, social care and private health services	1,722	1,796	1,578	1,652	4.3	4.7
Services to the person	4,071	4,178	3,595	3,684	2.6	2.5
Other activities	18,764	18,909	18,340	18,481	0.8	0.8
Unclassified Companies	18,395	18,189	470	492	-1.1	4.7
Legal form						
Joint-stock companies	107,303	109,222	81,527	83,203	1.8	2.1
Partnership	114,498	113,163	96,422	95,639	-1.2	-0.8
Sole proprietorship	274,924	273,313	272,387	270,158	-0.6	-0.8
Cooperatives	5,872	5,834	3,849	3,792	-0.6	-1.5
Other forms	3,856	3,935	3,040	3,135	2.0	3.1
TOTAL	506,453	505,467	457,225	455,927	-0.2	-0.3

Source: Infocamere-Movimprese data processed by Unioncamere del Veneto

Table 9 – The Veneto. Registered and active company by sector and legal form (absolute value and % var. over the previous years). Years 2010-2011

A deeper analysis of **manufacturing firms** (Table 10) shows that all the sectors registered more or less marked contractions, except for the food, beverages and tobacco sector and the chemical and pharmaceutical industry, where the number of enterprises remained stable. The only sector that showed a positive trend was repairs, maintenance and installation of machinery (+8.6% compared to 2010), which according to the new Istat classification of economic activities belongs to manufacturing but basically falls within the field of services. The greatest losses were registered though in wood and furniture (-2.8%), marble, glass, and ceramics (-2.6%), machine engineering and mechanical appliances (-2.2%), electrical machinery and electronic equipment (-2.1%) and in metals and metal products (-2%). The decrease in companies operating in the automotive sector (-1.6%) and in paper and printing (-1.4%) was slightly less sharper. The changes in the plastic materials (-0.8%) and fashion industries (-0.7%) were negative, though to a lesser extent.

Table 10 – The Veneto.
Registered and active
company by sector.
(absolute value and % var.
over the previous years).
Years 2010-2011

Economic sector	Registered		Active		Reg.	Active
	2010	2011	2010	2011	var.% 11/10	
Food, beverage and tobacco	4,076	4,076	3,686	3,689	0.0	0.1
Textile, clothing and footwear	12,042	11,913	10,294	10,224	-1.1	-0.7
Wood and furniture	10,269	10,021	9,234	8,971	-2.4	-2.8
Paper, print and furniture	2,552	2,502	2,266	2,235	-2.0	-1.4
Chemical, pharmaceutical and oil industries	720	705	604	604	-2.1	0.0
Rubber and plastic	1,652	1,646	1,454	1,443	-0.4	-0.8
Marble, glass, ceramics and non metal products	3,391	3,325	3,021	2,942	-1.9	-2.6
Metal and metal products	13,583	13,367	12,411	12,163	-1.6	-2.0
Machine tools	4,913	4,851	4,268	4,175	-1.3	-2.2
Means of transport	1,153	1,138	987	971	-1.3	-1.6
Electrical and electronics machinery	3,616	3,548	3,171	3,105	-1.9	-2.1
Repair and maintenance machinery and equipment insta	2,383	2,588	2,309	2,507	8.6	8.6
Other manufacturing enterprises	4,993	4,895	4,555	4,455	-2.0	-2.2
TOTAL	65,343	64,575	58,260	57,484	-1.2	-1.3

Source: Infocamere-Movimprese data processed by Unioncamere del Veneto

Looking at the number of enterprises by **legal form**, it can be seen that the transformation of the enterprise base towards more structured forms of companies continued in 2011. The number of joint-stock companies registered an increase of 2.1 percent compared to 2010, while partnerships and sole proprietorships both witnessed a decline of 0.8 percent. In sharp contrast to 2010, the number of cooperatives and consortia dropped, registering a decline of -1.5 and -0.5 percent respectively.

To better understand the dynamics of the regional production structure, it is useful to examine the **number of businesses which were set up and closed down**, namely the demographic changes in registrations and discontinuances (net of compulsory discontinuances¹³) recorded during the year, providing a different measure of the transformation processes in the regional entrepreneurial system. Following the slowdown in 2009 and the recovery in 2010, **the difference between registrations and discontinuances was positive in 2011** (Chart 9):

¹³ As a result of the implementation of the new procedures for compulsory cancellations (Italian Presidential Decree No. 247 of 23/07/2004 and subsequent Circular No. 3585/C by the Ministry of Productive Activities), since 2006 Infocamere handles separately compulsory cancellations and cancellations for other reasons from the Register of Companies. Consequently, as of 2006, to ensure that the final counts are in fact comparable, cancellations are considered net of any compulsory cancellations made during the period.

between January and December, 30,576 enterprises were started, while 27,095 had to shut down, generating a **positive balance of 3,481 units**¹⁴. However, this trend was due to a contraction of both discontinuances and registrations, which in 2011 registered a variation of -5.5 and -4.5 percent respectively.

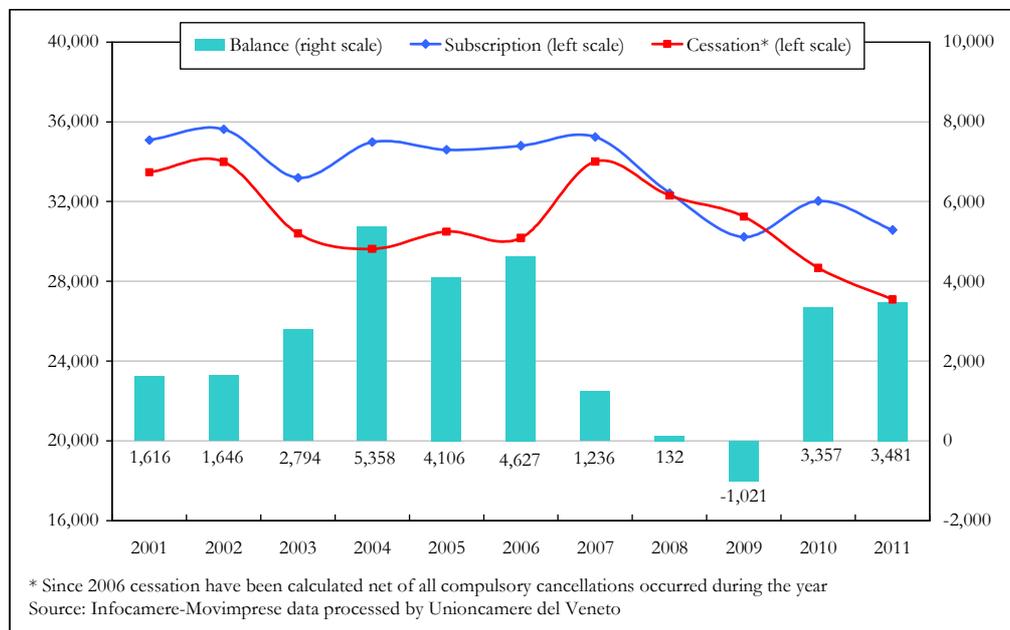


Chart 9 – The Veneto. Company registrations, closures and the balance of companies registered. Years 2001-2011

The presence of enterprises owned by women, young people and foreigners

According to data released by Infocamere, in 2011 the number of **businesses owned by women** in the Veneto reached 109,908 units, those owned by **young people** 46,287 and those by **foreigners** 40,021. In particular, enterprises owned by women in the Veneto had a weight of 7.7 percent out of the national total, those owned by young people accounted for 6.7 percent and those by foreigners 8.8 percent. Compared to 2010, enterprises owned by young people suffered a sharp decline (-5.1%). Instead, the performance of firms owned by foreigners and by women was better; both registered positive changes of +4.2 and +0.7 percent year-over-year respectively. Broken down by **sector**, businesses owned by women were mainly concentrated in agriculture and related activities (24.8%) followed by services to businesses (24.4%) and trade (24.1%). As to enterprises owned by young people and foreigners, most were found in the construction sector (14.5% and 17.3%) and trade (9.6% and 9.4%).

¹⁴ In order to correctly assess the dynamics of the enterprise base, it should be noted that the balance between continuing and discontinued businesses registered in a given period does not mathematically affect the number of active businesses operating at the end of that period, because there are other phenomena defined as “changes” (transformation of the legal forms, changes of states of activity, transfers between provinces, etc.) that can modify the number of enterprises belonging to a single economic activity or legal form. Therefore the balance between new and discontinued businesses recorded in a given period may not be consistent with nominal changes in the number of enterprises. This discrepancy may also depend on the effects arising from compulsory discontinuance (see note above) on the number of firms. The administrative review of compulsory discontinuance of companies that are no longer active results every year in an overall decrease in the number of active enterprises not included in the balance between registrations and discontinuances. It follows that the comparison of the number of active companies at the end of each period with the corresponding situation of previous year may depend on the administrative review and not on the actual economic dynamics of the business structure.

Labour market

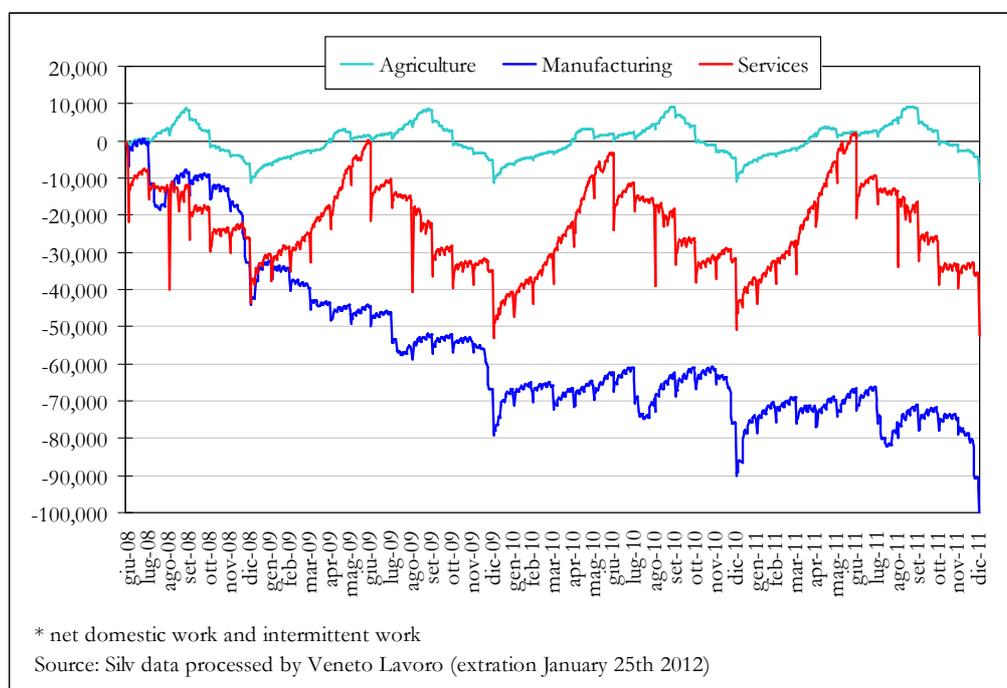
During 2011, the economic downturn continued to lash the labour market with a fairly significant impact.

According to calculations by *Veneto Lavoro* based on Silv data¹⁵, 2011 closed with a **negative employment balance of over 15,000 jobs**, nearly twice the number in 2010 (-8500 units), though lower than in 2009 (-44,200 units). The overall reduction over the last three years of crisis is equal to almost 70,000 units.

Drawing a balance of the trend in employment during the year, it is possible to identify two distinct phases, which can also be found in the two previous years: an improvement in the first half of the year followed by a sharp slowdown in the last six months. In the first two quarters, there was an improvement, characterized by positive balances in employment (+37 thousand units and +22 thousand units), and a reduction in demand for support measures (CIG, unemployment benefits, suspensions); in the last two quarters instead, there was a new contraction in jobs, which reached its highest level since September (-13 thousand in the third quarter and -61.5 thousand units in the fourth quarter). The trend registered in the last quarter was nevertheless in line with past trends, considering that the year-end coincides with the administrative closure of contracts, especially those for temporary workers.

The **negative employment balance** is attributable to the positive dynamics of terminations (increased from 636 to 674 thousand units, equal to +6%), despite an increase in new hires (increased from 627 to 658 thousand units, equal to +5%), which was not sufficient, though, to give a positive balance.

Chart 10 – The Veneto.
Position of employees* by
macrosector
(var. accumulate compared to
June 26, 2008, daily data).
June 2008 – Dic. 2011



¹⁵ Silv (Sistema informativo lavoro veneto - Veneto Labour Market Information System) enables monitoring labour market trends in the Veneto, with reference to employees and insourced workers for which it is mandatory to notify the beginning of the work contract (so-called *collaborazioni a progetto* - project-based contracts, *collaborazioni coordinate e continuative* - coordinated and continued collaboration, "mini-cococo"). For more information, refer to www.venetolavoro.it.

With regard to **labour demand** by sector, the trend was particularly positive for the tertiary sector, which recorded the highest growth (+5.6%). However, industry, while showing an increase in hiring, recorded a much lower change compared to the previous year (+4.9% as opposed to +20% in 2010), as a result of the sharp decline in hiring in some sectors linked to the “Made in Italy” brand and in the construction sector. Moreover, industry, once again, was the sector that suffered the largest loss of jobs (-13 thousand in 2011, -60 thousand in the last three years) (Chart 10).

New hires regarded primarily foreigners (+6.5%), which recorded an increase in the hiring of women (+5.6%). Overall, more than half of the increase in jobs involved women (+17 thousand) compared to men (+14 thousand). With reference to the **types of contracts**, both permanent contracts and fixed-term contracts registered a growth of +12 and +4 percent respectively, but only the former had a positive balance (+4 thousand units as opposed to -8.4 thousand units for fixed-term contracts).

	Recruitment			Closures			Balance	
	2010	2011	var.% 11/10	2010	2011	var.% 11/10	2010	2011
Total	627.6	658.5	4.9	636.1	674.0	6.0	-8.5	-15.5
Gender								
Female	303.7	320.6	5.6	305.1	326.2	6.9	-1.4	-5.6
Male	323.9	337.9	4.3	331.0	347.8	5.1	-7.1	-9.9
Nationality								
Italian	454.6	474.3	4.3	465.5	490.6	5.4	-10.9	-16.3
Foreign	173.0	184.2	6.5	170.5	183.4	7.6	2.5	0.8
Sector								
Agriculture	50.0	49.9	-0.2	49.7	49.8	0.2	0.3	0.1
Industry	180.6	189.5	4.9	191.5	203.3	6.2	-10.9	-13.8
in Construction	38.0	36.5	-3.9	40.8	41.3	1.2	-2.8	-4.8
Services	397.0	419.3	5.6	394.9	421.1	6.6	2.1	-1.8

* net domestic work and intermittent work

Source: Veneto Lavoro-Sily data processed by Unioncamere del Veneto

Table 11 – The Veneto. Recruitment, closures and balance of employees* by gender, citizenship and industry (in thousands). Years 2010-2011

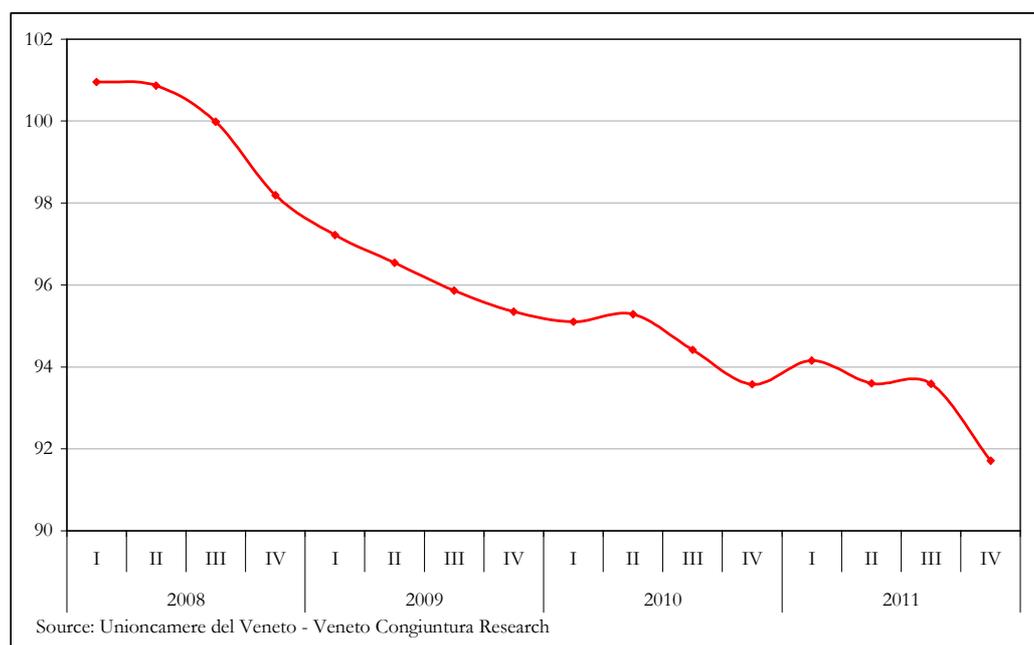
In 2011 the **authorised hours of CIG** registered a significant reduction from 125 million to 87 million (-30%). However, this value is still higher than the 2009 level when the number of hours of CIG had suddenly sky-rocketed (80 million hours). The decrease in the number of hours of CIG was largely due to extraordinary CIG (37 million as opposed to 55 million in 2010) compared with ordinary CIG (20 million as opposed to 28 million in 2010). Within extraordinary CIG, there was a sharp drop in hours authorised in the manufacturing sector (53 to 33 million) and the exponential increase of those in the building sector (from 780 thousand to 2.3 million). The reduction in the recourse to temporary unemployment benefits was matched by the drop in the number of **company crises**¹⁶, which fell from 1,425 to 1,063 units. At the same time there was also a

¹⁶ Formal declaration of crisis by a company: this procedure starts with a communication made by the company to the trade unions, INPS (Italy's National Social Security Institute) and the Provincial Commission for Labour Issues.

decrease in the number of workers affected by the subsequent measures of extraordinary CIG and/or layoffs (21 thousand units, as opposed to 29,000 in 2010). As to the number of workers **made redundant**, there was a drop in the number of individual lay-offs (Italian Law 236/93) (22,671 units as opposed to 22,760 in 2010). There was instead an increase in the number of collective redundancies (Law 223/91) resulting in the inclusion in the redundancy lists (11,807 units as opposed to 10,290 in 2010).

The decrease in employment shown by the administrative data released by Silv is also confirmed in part by the results of the survey conducted by Unioncamere del Veneto. According to *VenetoCongiuntura* the negative change in employment in manufacturing firms was less pronounced, marking an **average yearly drop of 0.6 percent**, less than the contraction in 2010 (-2.1%). This value is perfectly aligned with that of Confartigianato Veneto, which registered a reduction in employment in artisan firms equal to 0.6 percent. The falling employment rates reported by *VenetoCongiuntura* affected mainly small businesses (up to 9 staff), that suffered a 1.5 percent drop, more than medium-sized businesses (10 and more staff), that suffered a 0.5 percent drop. The other sectors monitored by *VenetoCongiuntura* showed instead better employment trends. This is the case of retail trade where employment remained stable (+0.1%). However, in the services sector the trend of employment was positive in the transportation sector (+0.5%) and, in particular, in the innovative and technological services sector (+1%), compared to a decline registered in tourism (-0.5%).

Chart 11 – The Veneto.
Employment in
manufacturing companies
(based index: 2008=100).
Years 2008-2011



Opposite trends were highlighted by Istat, which, having been updated only in the third quarter of 2011, cannot be considered exhaustive, as these do not include the fall in employment at the end of the year. According to an ongoing survey of the labour force, employment in the Veneto rose slightly (+1%) compared to the same period in 2010 (+0.1%), having recorded **2,134 thousand employed people**. The result of the Veneto is in line with that of the North-East (+1.2%), and stands out compared to the national figure (+0.5%). The job situation is attributable to the positive trend of employment (+1.8%), which contrasts with

the negative change in self-employment (-1.6%). Overall, the **employment rate**, i.e. persons in employment as a percentage of the population of working age (15-64 years), stood at 65.3 percent for the first three quarters of 2011, having increased by just one percentage point compared to the same period in 2010. The **unemployment rate** also improved, amounting to 4.5 percent, 0.7 points lower than the figure for the corresponding quarter of 2010. In this case, it is interesting to note the gap between the regional value and the national average (7.6%), amounting to 3.1 percentage points. However, the number of **people seeking jobs** was high (over 100,000 units) despite the significant contraction in the change on an annual basis (-14.2%). Broken down by **sector**, the drop in employment affected only the construction sector (-2.6%). On the other hand, employment grew in the other sectors, with the most marked increases in agriculture (+10%) and industry excluding construction (+2.4%), and more moderate increases in trade (+0.6%) and services (+0.2%).

	Veneto			North-East			Italy		
	2010	2011	var. %	2010	2011	var. %	2010	2011	var. %
Labour force	2,238	2,241	0.1	5,314	5,339	0.5	24,928	24,973	0.2
Total Employees	2,113	2,134	1.0	5,029	5,089	1.2	22,851	22,972	0.5
Agriculture	64	71	10.0	178	178	0.3	851	845	-0.8
Industry excl. Constr.	595	610	2.4	1,328	1,362	2.5	4,622	4,675	1.1
Construction	177	172	-2.6	387	382	-1.4	1,956	1,870	-4.4
Commerce	417	420	0.6	1,009	994	-1.5	4,541	4,544	0.1
Services	860	861	0.2	2,126	2,173	2.2	10,881	11,038	1.4
Looking for employment	125	107	-14.2	285	249	-12.6	2,077	2,001	-3.7

Source: Istat data processed by Unioncamere del Veneto

Table 12 – Italy, the North East and the Veneto. Labour force by industry (in thousands). Years 2010-2011 (Jan.-Sept.)

The entrepreneurs' employment forecasts for 2011 were confirmed

The actual results confirm the forecasts made by entrepreneurs and recorded by the **Excelsior survey on the employment needs of enterprises** carried out by Unioncamere. The Veneto's entrepreneurs, influenced by the worsening of the economy, predicted a drop in employment of nearly 6,000 jobs (-0.5%) in 2011, which is the balance between the 80,000 new hires (rate of entry of +6.7%) and 86,000 planned lay-offs (exit rate of +7.2%). This proves the reliability of the Excelsior survey, which at a national level is one of the most important sources of information on the labour market and a useful tool to bring together labour demand and supply. Also broken by **sector**, the Excelsior forecasts have proven to be reliable: the estimated job flows confirmed the decline in all sectors, though at differing rates compared to what actually happened, providing equal employment balances for both industry and services. In actual fact, though, there was a contraction in the services sector that was more limited compared to the manufacturing sector. Skilled workers in the trade and services sectors (clerks and waiters) are the **most sought-for job profiles** and account for 23 percent of estimated new hires, followed by specialised workers (19%) and technical occupations (18%). Then come unskilled occupations (13%), the system operators and semi-skilled workers (12%), white-collar workers (10%), intellectual, scientific and highly specialized professions (5%) and managers (0.3%). The hiring expectations **by level of education** showed, instead, high school graduates (43%) in first place, followed by staff without specific training (31%), qualified staff (15%) and graduates (11%).

Agriculture

The **value of production** of the Veneto's agriculture grew in 2011, which reached a turnover of 5 billion euros, equal to a 5 percent increase over the previous year, standing at among the highest levels of the last decade. Not all agricultural sectors contributed equally to this result: herbaceous crops suffered a decline (-3.5%), especially due to the disappointing performance of the vegetable sector, while, among the woody crops, the wine sector recorded a significant increase in prices, as did animal husbandry, which, after some years marked by sluggishness in the market, benefited from a significant increase in value (+8.8%). However, it should be noted that the good market performance is the result of an opposite trend observed during the year: prices generally rising in the first half and then decreasing in the second.

Table 13 – The Veneto.
Trend in gross agricultural production (% var. over the previous year). Year 2011

	current prices	constant prices
Herbaceous crops	-3 ÷ -4%	+5 ÷ +7%
Woody crops	+16 ÷ +18%	+7,5 ÷ +9,5%
Farming product	+8 ÷ +10%	0 ÷ -2%
Gross output	+4 ÷ +6%	+2 ÷ +3%

Source: Istat data estimated by Veneto Agricoltura

By analysing the economic and production results achieved in 2011 by individual crops and livestock, it can be noted that **cereals** did well with mean annual prices up from the previous year. Maize was the main crop in the Veneto, with a 10 percent increase in area cultivated (which exceeded 250,000 hectares) and 13 percent increase in production (which reached 2.5 million tons). The mean annual price reached 224.3 euros/ton, i.e. 33 percent higher than the year before. The increase in maize cultivation was matched by a decrease in soft wheat, which fell to 73,000 hectares (-23%) and 440,000 tons (-21%) but with prices higher by 37 percent on average, and durum wheat. Similar trends were registered for barley (12% decrease in surface and 11% drop in production, while the average price increased by 32%), whereas rice recorded a 10 percent increase in cultivated lands and a 26 percent increase in price.

With regard to **industrial crops**, there was a significant decline in acres planted with sugar beet (-37%), which nevertheless registered high levels of production (3,100 euros/ha, +48%) due to the high degree of polarization and to market demand. The surface planted with soybean increased by 19 percent (77,000 ha) and its production by 14 percent. On average, its price rose by 10 percent. By contrast, the cultivation of tobacco (-22%) dropped sharply and recorded also a 5-to-10 percent decrease in the average price. There was also a decline in acres planted with sunflower (-4%), while rape-seed, after five years of continuous expansion, suffered a setback: the area cultivated fell by 16 percent and production by 21 percent.

Overall, the **vegetable sector** recorded a slight increase in cultivated area, which reached 33,400 hectares (+2%), but sluggish markets and the “E. Coli” scare led to a drop in prices, resulting in a 13 percent decrease in the produced value for vegetables and 21 percent for tuber vegetables. Radicchio bucked the trend, some varieties of which reversed the disappointing results of the previous year recording a 14 percent increase in the average price. The **fruit sector** experienced a generally positive year in terms of production but not very satisfactory in commercial terms, with prices often equal or lower than those of the previous year.

As to wine grapes and wines, the Veneto confirmed the production levels of recent years with production estimated at 11 million tons of grapes and 8.3 million hectolitres of wine in a year that is proving to be of great interest from a qualitative point of view. Noteworthy was also the increase in the price of grapes, usually equal to 27 percent, registered on the Veneto’s commodity markets, and the increase in 2011 of Veneto **wine exports** (+15% compared to the previous year), reaching a value of 1.3 billion euros, or about 30 percent of total Italian wine exports. The market trend of Veneto wine seems to be driven mainly by the favourable phase experienced by white wines and especially Prosecco. On the Treviso commodity market DOC white wines registered a further increase (+11%) at the start of 2012 after the good recovery observed in 2011 (+28% year-on-year), while the prices of DOC red wines on the Verona commodity market dropped by about 16 percent.

Consistently positive results were registered also for **animal husbandry**, whose turnover started growing again after several years of decline thanks to the generally favourable market trend: milk +10 percent, beef +5 percent, pork +15 percent and poultry +13 percent. However, there is concern for the rise in production costs and particularly feed, which has reduced the profitability margins of farms.

As to the **sea fishing**, the data for the first 6 months of 2011 showed a significant decrease in catch at a regional level, which fell to 8,105 tonnes (-16.8%), and consequently in turnover (21.7 million euros, -8.9%). At the Chioggia fish market the value of transits fell by 9.1 percent, while at the market in Venice there was a 4.7 percent increase.

The decline in the number of agricultural **businesses** in the Veneto continued, falling in 2011 to over 73,800, a 2.3 percent decrease compared to the previous year, yet lower than the national average (-3%). The trend in the food sector was rather stable in the number of businesses (in 2011 equal to 3,352, +0.1%), in contrast to the decline in the manufacturing sector as a whole (-1.3%). According to Istat data on employment in the first 9 months of 2011, the **employees** in the agricultural sector are estimated to have risen by 10 percent over the same period last year. The **trade balance** deficit in the Veneto’s food products grew (over 1 billion euros, increasing by a quarter compared to 2010) due to higher growth in imports (+13.7%, reaching 5.6 billion euros in purchased goods) compared to exports (+11.1%, 4.5 billion euros of goods sold).

Manufacturing

2011 was a positive year for manufacturing, though there was a slowdown in production levels compared to the recovery registered in 2010. The total growth in production of the last two years has not allowed though to fully recover from the sharp drop in 2009.

In 2011 the regional industrial production index calculated by Unioncamere del Veneto based on the results of the *VenetoCongiuntura*¹⁷ survey registered a mean annual variation of +2.3 percent. Although the overall annual figure is positive, the production values recorded in individual quarters showed a gradually decreasing trend that ended the year with a contraction of -1.4 percent (Table 14).

Table 14 – The Veneto.
Trend in industrial
production
by activity, field of industry
and company size (quarterly
% var. over the previous
year). Year 2011

	1/2011	2/2011	3/2011	4/2011
Sector				
Food, beverage and tobacco	2.7	0.9	3.5	1.5
Textile, clothing and footwear	5.4	4.6	-0.2	-2.0
Wood and furniture	-0.9	0.2	-1.2	-2.5
Paper, print and furniture	2.6	2.1	0.4	-2.5
Rubber, plastic	5.8	4.2	2.7	-3.0
Marble, glass, ceramics and non-metal products	-1.4	1.5	-3.8	-1.4
Metal and metal products	8.4	6.2	1.5	0.4
Machine tools	8.6	6.2	6.3	-0.4
Electrical and electronics machinery	6.3	6.6	2.3	-7.9
Means of transport	4.7	0.2	5.9	-0.8
Other manufacturing enterprises	-2.2	1.8	0.3	-0.9
Main grouping of Industries				
Capital goods	5.9	4.9	6.8	-0.3
Intermediate goods	6.4	5.5	0.5	-1.0
Consumer goods	1.7	1.7	1.1	-2.5
Class size				
2 - 9 employees	0.3	-2.2	-0.9	-4.0
10-49 employees	3.7	4.2	0.9	-0.5
50-249 employees	5.7	3.8	1.5	-1.1
250 or more employees	10.1	10.0	5.7	-3.9
Total	4.6	3.9	2.0	-1.4
of wich with 10 or more employees	4.8	4.2	2.1	-1.4

Source: Unioncamere del Veneto - Veneto Congiuntura Research

The growth in production levels is due mainly to large firms (250 or more employees), which in 2011 achieved an average annual change of +5.5 percent, resulting from the excellent performance of the first half of the year. However, in the last quarter of the year there was a sharp slowdown in production (-3.9%). Positive results were also registered for small and medium-sized companies that

¹⁷ The *VenetoCongiuntura* survey, conducted every quarter on a regional sample of over 2,500 manufacturing firms with at least 2 employees, is the main source of information for the economic analysis of manufacturing firms for both its scope of observation and the rigour of the method adopted (see www.venetocongiuntura.it).

registered an average annual growth of production of 2.5 and 2.1 percent respectively. The economic crisis hit instead micro-businesses (up to 9 employees) that showed drops in almost all quarters, with an average annual contraction of 1.7 percent.

Broken down by sector, the more favourable trend was registered by the industries that produce capital goods and intermediate goods with a growth of 4.3 and 2.9 percent on an annual basis. Growth was more moderate for sectors that produce consumer goods (+0.5%).

Considering the contribution of individual sectors, the best performance was registered by the machine engineering and mechanical appliances industry, which recorded a 5.2 percent increase of the indicator on an annual basis, followed by metals and metal products with a growth of 4.1 percent. Positive results were also posted by industries that operate in the automotive, rubber and plastics, food, beverages and tobacco sectors, followed by the textile and electrical machinery and electronic equipment industries. There was a slowdown in wood and furniture, marble, glass, ceramics and other non-metalliferous minerals, which registered an annual average decrease of 1.1 and 1.3 percent respectively.

The trends that emerged from the Unioncamere del Veneto survey are consistent with the data released by the Italian Unioncamere, according to which in 2011 the North-East area showed a growth in production of 1.7 percent. The good performance of the region's industry was also confirmed by the comparison with the rest of the country: in 2011, the Veneto saw greater industrial production, which was one percentage point higher compared to Italy's (+1.4%¹⁸). Better results were achieved in some regions of the North-West, like Piedmont (+4.1%) and Lombardy (+2.7%) (Chart 12).

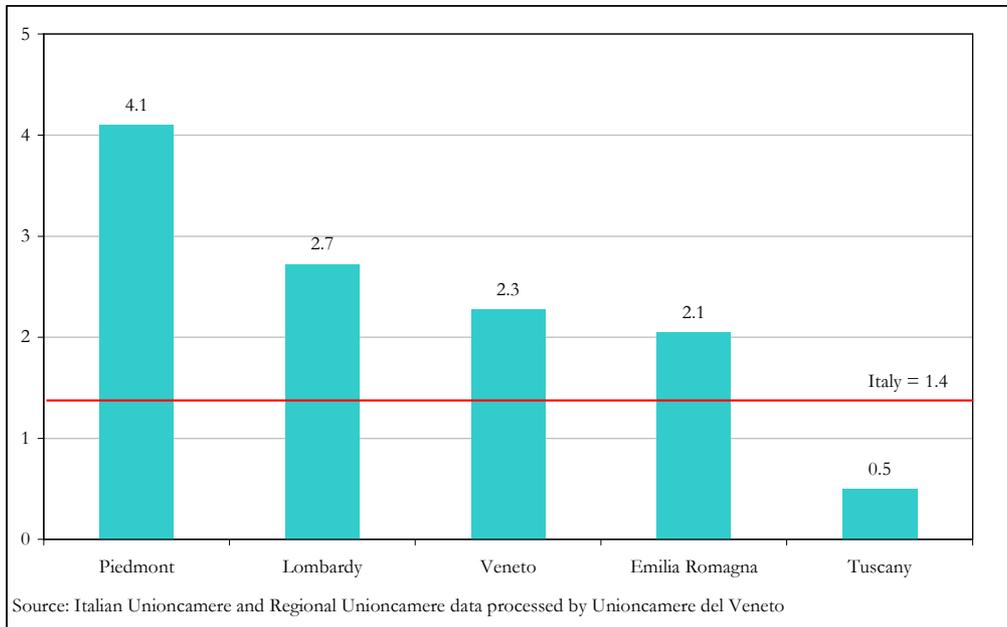
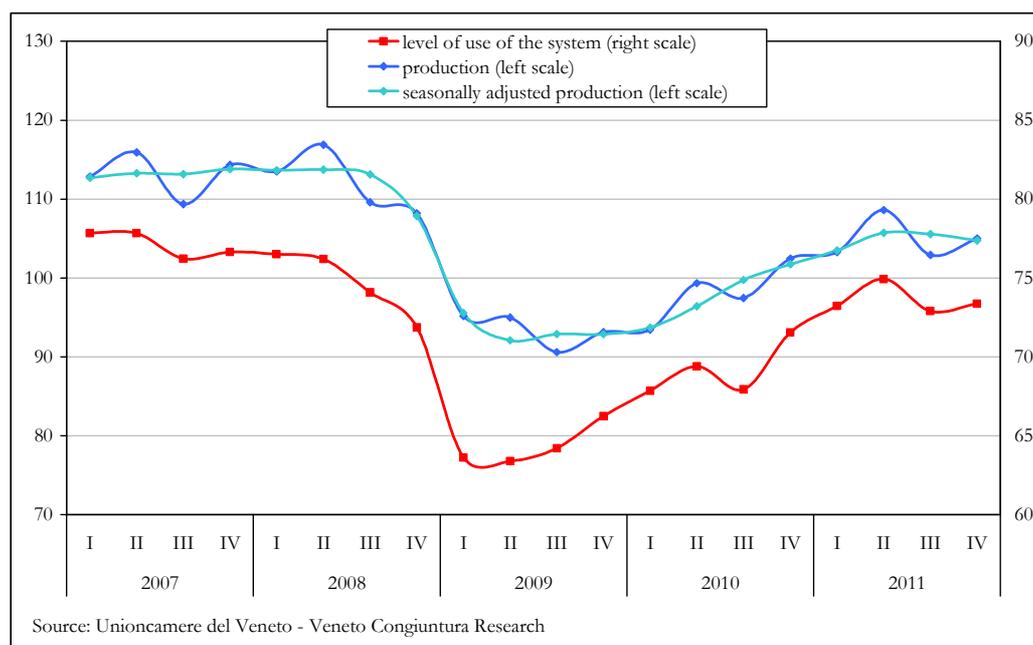


Chart 12 – Italy. Trend of industrial production in a number of Italian regions (% var. over the previous year). Year 2011

The growth in production levels is confirmed by the increase in **capacity utilization rate** (Chart 13), which recorded an average annual rate of 73.6 percent of full operating capacity, increasing by 4.4 percentage points compared to 2010.

¹⁸ According to data released by Istat, the year-on-year change, calculated using the raw data, stood at -0.8 percent.

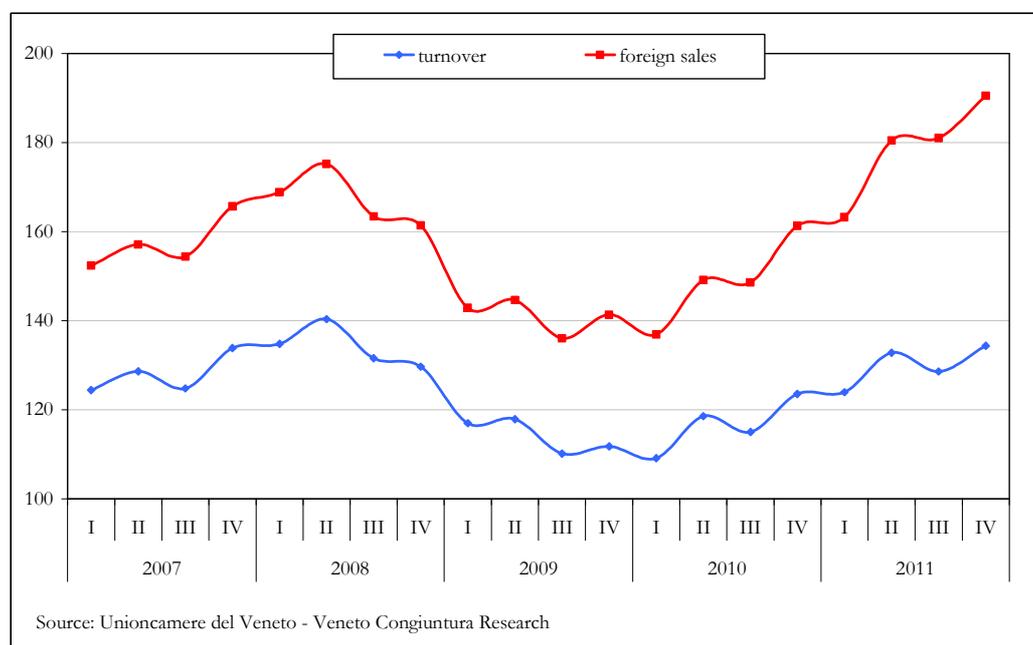
Chart 13 – The Veneto.
Trend of industrial production (raw and seasonally-adjusted index based on 2005=100) and capacity utilization rate for companies with less than 10 employees. Years 2007-2011



In 2011, the **turnover** showed a trend similar to that of production. According to the *VenetoCongiuntura* data, the total turnover of the manufacturing industry recorded an average annual variation equal to +4.3 percent, continuing the positive trend recorded the previous year.

The decisive factor was the trend of **foreign sales**, which grew by 6.7 percent on an annual basis, whose index returned to pre-crisis values (Chart 14).

Chart 14 – The Veneto.
Trend in turnover and foreign sales for companies with less than 10 employees (based index: 2005=100). Years 2007-2011



Orders too confirmed the slowing down of economic recovery. Although the annual average was positive, in all quarters of 2011 there was a weakening in domestic orders compared to foreign orders. In particular, the last quarter saw a fall in total orders amounting to 0.6 percent. As for turnover, even the total orders were fuelled mainly by foreign orders.

There was a slight decrease in **employment** (-0.6%). In particular, a 1.1 percent decrease was seen in foreign labour.

Construction

The final data on the trend in the Veneto's construction market, according to estimates drawn up by the Cresme for the *CEAV-Unioncamere del Veneto* observatory on the construction market, showed the worst crisis in the sector from 2008 to 2011, dropping by 16.4 percent in real terms and 20.8 percent in constant values (net of inflation). In 2011 the construction sector in the Veneto drew **investments** amounting to slightly over 13.4 billion euro, as opposed to 16 billion in 2008. In three years the market lost nearly 3 billion euros in investments.

	2008	2011	var. % 11/08	comp.% 2008	comp.% 2011
New Buildings	9,063	5,868	-35.3	56.4	43.7
residential buildings	4,904	2,994	-38.9	30.5	22.3
non-residential private buildings	2,520	1,564	-37.9	15.7	11.6
non-residential public buildings	427	286	-33.0	2.7	2.1
civil engineering	1,213	1,024	-15.6	7.5	7.6
Renovation	7,013	7,568	7.9	43.6	56.3
residential buildings	3,544	3,714	4.8	22.0	27.6
non-residential private buildings	2,253	2,741	21.7	14.0	20.4
non-residential public buildings	377	449	19.1	2.3	3.3
civil engineering	839	664	-20.9	5.2	4.9
Total investments	16,076	13,436	-16.4	100.0	100.0

Source: data processing and forecasting by CRESME on behalf of the CEAV-Unioncamere del Veneto observatory

Table 15 – The Veneto.
Investments in the
market of reference
(millions of euro in
current value).
Years 2008 e 2011

The construction industry suffers from a particularly difficult market trend, and from 2008 to 2011 it changed its structural composition: in 2008 new constructions accounted for 56.4 percent of investments, while in 2011 building renovations accounted for 56.3 percent. In three years the market not only shrunk, but it also profoundly changed and in this scenario, the signs of slight recovery recorded in the first months of 2011 weakened and turned into a new tailspin in the second half of 2011.

The growth in renovations associated with more than 30,000 applications related to the “*piano casa*” - literally: “housing plan” - (as at 31 December 2011) did not allow the reversal expected and hoped for by enterprises. The continuation and worsening of the crisis has had a direct impact on employment. According to *Veneto Lavoro* data, in 2011 alone there was a decrease of 4,800 **employees** in the building sector. This decline is to be added to the negative trend of the previous three years, with an overall reduction in the amount of 13,800 employees. The crisis in the last two years started to be felt heavily even by the business system, but not for all types of businesses. Looking at the data on the number of artisan and non-artisan **active businesses** in the construction sector by legal form, there was a decrease in the total number of firms (-0.7% compared to 2010). The figure recorded in the 2009-2011 period amounted to -1.6 percent and was more unfavourable for artisan businesses (-2.2% in the two-year period). However, despite the crisis, some types of business are witnessing strong growth, among which artisan joint-stock companies (+15.6% in the two-year period) and artisan cooperatives and consortia (+3.4%). Another contrasting sign was the growing

number of one-man businesses in the non-artisan sector (+13.3% last year). Artisan one-man businesses and partnerships in general do not appear to be particularly suited to face the crisis. As already seen in previous years, better structured companies and companies joined by forms of cooperation proved to better tackle the crisis. This element can be useful in defining a strategy for the market in the future.

Table 16 – The Veneto.
Active artisan and
non-artisan building
enterprises
by legal status.
Years 2009-2011

	2009	2010	2011	Var. % 2011/2010	Var. % 2011/2009
Artisan					
Joint stock	2,098	2,258	2,426	7.4	15.6
Partnership	8,149	7,956	7,769	-2.4	-4.7
Sole partnership	48,156	47,799	46,949	-1.8	-2.5
Other forms*	58	61	60	-1.6	3.4
Total	58,461	58,074	57,204	-1.5	-2.2
Non-artisan					
Joint stock	9,551	9,675	9,726	0.5	1.8
Partnership	3,292	3,222	3,155	-2.1	-4.2
Sole partnership	3,098	2,788	3,158	13.3	1.9
Other forms*	809	807	786	-2.6	-2.8
Total	16,750	16,492	16,825	2.0	0.4
Total	75,211	74,566	74,029	-0.7	-1.6

* "Other forms" include cooperatives and consortia

Source: Infocamere-Movimprese data processed by Unioncamere del Veneto

Against a backdrop of economic slowdown, the *CEAV-Unioncamere Regional Observatory* has underscored that the crisis was felt more intensely in the second part of 2011, while at the beginning of the year there seemed to be signs of a turnaround. The hope that the downturn in the third quarter of 2011 was a “technical rebound”, also due to extreme weather conditions at the beginning of summer, was not confirmed and in the fourth quarter the sector headed for a major recession, especially among non-artisan businesses, which were those least affected by the “housing plan”. In this context it should also be noted that the uncertainties in the application of the new rules of Regional Law No. 13/2011, and especially its expected implementation at a municipal level by the end of November, could have generated a period of wait-and-see among investors, which is to be added to the overall worsening of the economy and overall financial situation, with particularly negative consequences for businesses especially in terms of access to credit, thus heavily penalizing activity and the capacity of action in the market.

Trade

Year 2011 was a disappointing year for **retail sales**, because of falling consumer confidence as a result of increased uncertainties in the economy that impacted on the prospects for individuals and household budgets. There was a real collapse in sales, which at a national level registered a record fall not seen since 2009.

According to Istat, the downturn affected the entire market, but was mainly the result of the fall in sales of non-food products, thus highlighting the difficulties of consumers who have reduced waste and limited purchases.

The trend was dispiriting in the Veneto where, according to the *VenetoCongiuntura* data released by Unioncamere, the balance of consumption was clearly negative with a mean annual decline of 2.7 percent. The sales trend proved to be critical in general, but with differing trends by product and business size.

With regard to the type of product, the negative change was differentiated by intensity: the sales of **food products** registered a 2.6 percent decrease, while those of **non-food products** registered a drop double as much, reaching -5 percent (Chart 15). The size variable continues to be decisive in determining the sales trend: as the business size decreases, the trend of sales declines. In particular, the negative change was 4.4 percent for **small retailers** and 2.1 percent for **department stores**.

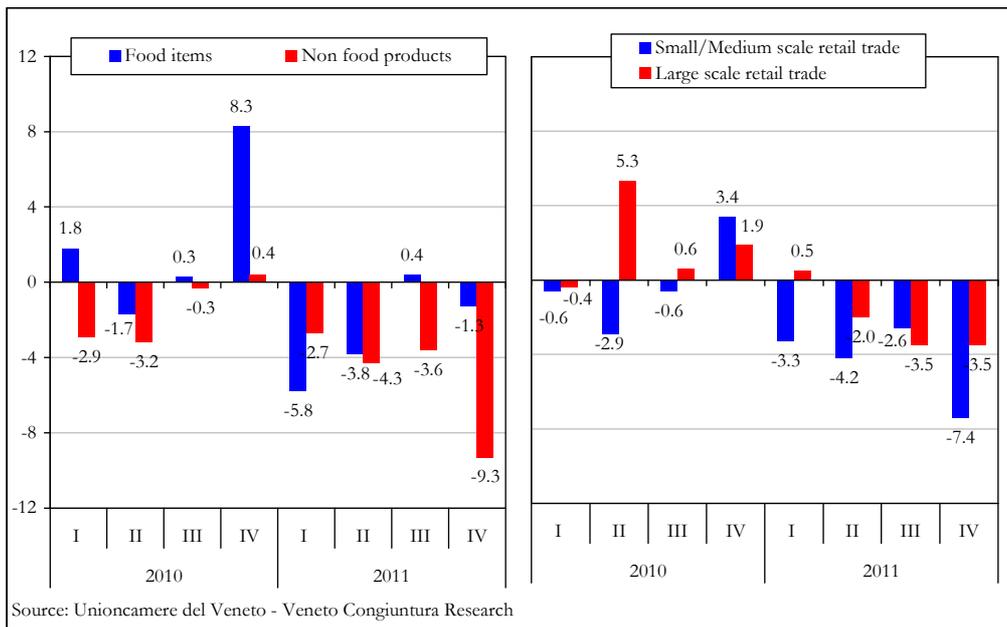
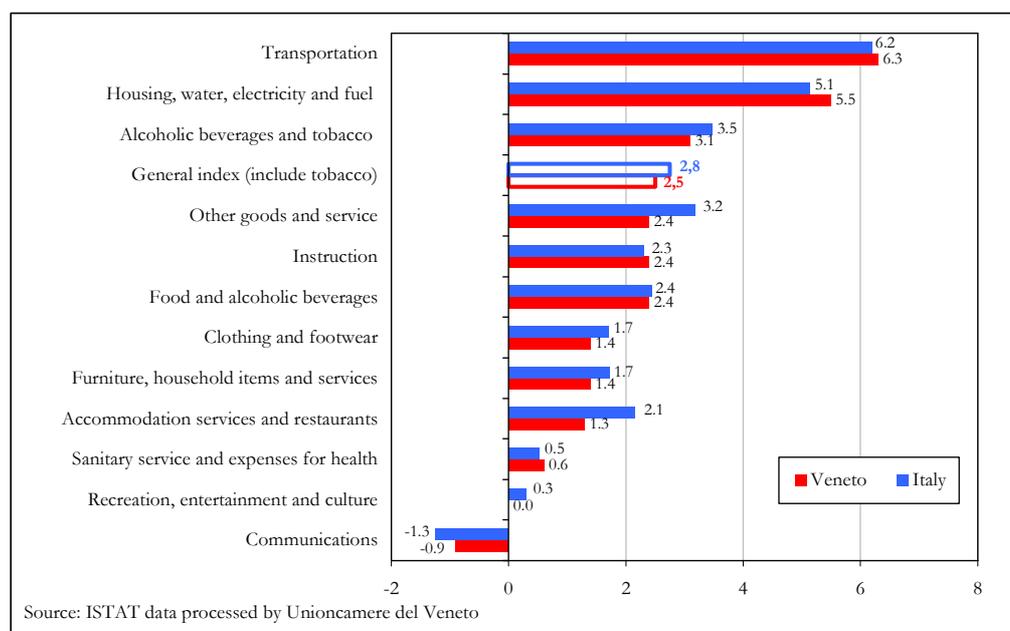


Chart 15 – The Veneto. Trend in retail sales by product and business size (quarterly % var. over the previous year). Years 2010-2011

The indicator relating to **orders** was not encouraging either: the sharp slowdown recorded in 2011 (-2.9%) is no good news for the new year.

Household consumption was also negatively impacted by the rising trend in **prices** and in particular in fuel prices, driven by new record highs in international markets, and in tobacco and energy prices. During 2011, inflation showed a constantly rising trend. According to Istat, the average annual variation of the **NIC index** (national index of consumer prices for the entire community including tobacco) stood at 2.8 percent nationally and 2.5 percent at a regional level, thus marking a significant increase compared to 2010 when values stood at

1.5 and 1.4 percent respectively. With reference to spending items (Chart 16), the highest rates of growth in prices were recorded by transportation (+6.3%), housing, water, electricity and fuel (+5.5%) and alcoholic beverages and tobacco (+3.1%). More moderate increases of less than 2.5 percent were registered by the other items. All spending items contributed to the increase in inflation, except for recreation, entertainment and culture, which was stable, and communications, the only one to report a negative change in prices (-0.9%).



Looking at the **car market**, the declining trend that started in 2008 continued in 2011. According to Unrae data, in the Veneto, new registrations suffered an 11.2 percent drop, amounting to almost 17,000 cars less than in 2010. The industry's crisis involved the entire country, although the change at a national level (-10.8%) was slightly lower compared to the Veneto. Compared to other Italian regions, the Veneto's trend was better than that of Lombardy (-10.7%), Emilia Romagna (-9.2%), Piedmont (-7.6%) and Tuscany (-5.6%).

Table 17 – Italy.
Car registrations by
region.
Years 2010-2011

	2010	2011	var.% 11/10
Lombardy	367,555	328,336	-10.7
Piedmont	188,483	174,174	-7.6
Tuscany	179,457	169,373	-5.6
Emilia Romagna	157,471	143,003	-9.2
Veneto	151,323	134,448	-11.2
Italy	1,961,473	1,748,931	-10.8

Source: Ministry of Trasport data processed by UNRAE, last updated: 29 February 2012

Credit

Despite the economic and financial crisis and the difficulties of the production system to access credit, **lending** by the banking system grew slightly in 2011, both regionally and nationally. According to data released by Banca d'Italia, in the Veneto total loans increased from about 158 billion to 164 billion euros, a 3.7 percent increase, while in the whole country growth in percent was higher (12%).

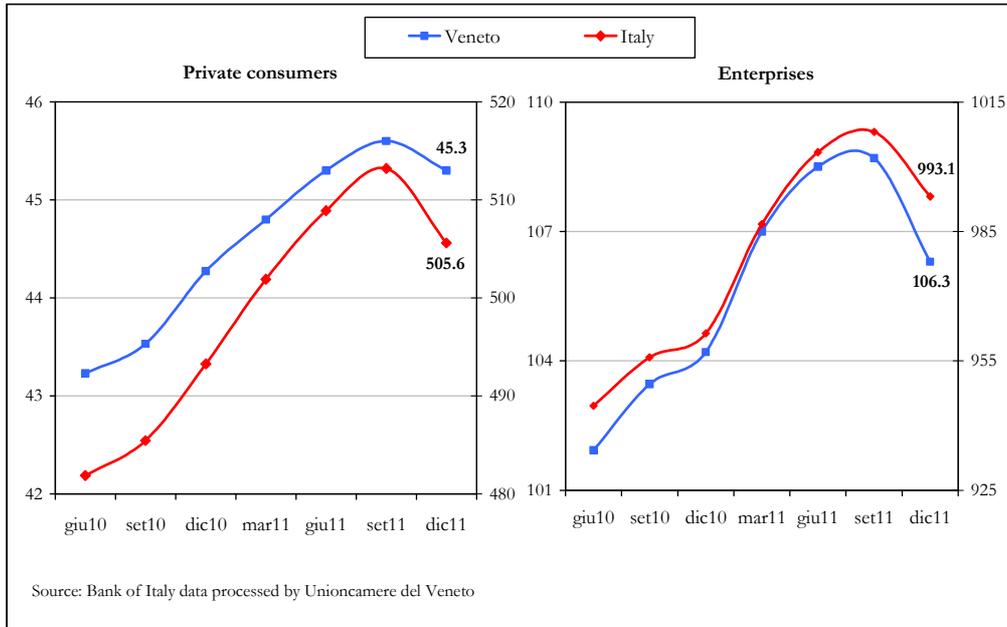


Chart 17 – Italy and the Veneto. Trend in bank loans to businesses and consumers (values in billion of euro). June 2010 - Dec. 2011

The annual values must not mislead, because the increases occurred in the first half of the year, while the levels of the third quarter were almost stable and in the last months of 2011 the change was actually negative. Therefore, the contraction came suddenly, was concentrated in the second half of 2011 and has continued into the early months of this year.

On the other hand, not even the annual results can be considered satisfactory especially considering that in 2010 the annual increase was higher in the region and even greater than that recorded in Italy. Moreover, the difference of the Veneto compared to the national average was significant in 2011: the annual inflation rate of 2.8 percent virtually eliminated the increase in real terms and the growth of GDP at constant prices, albeit modest, called for increased capital requirements.

The trend in bank lending to **households**¹⁹ grew by 2.3 percent, to a lesser extent compared to the national level (+2.5%). Clearly, the consumer credit, despite the crisis in domestic consumption, showed an increasing demand due to lower available income of the middle class, which has been most heavily affected by economic hardship.

With regard to the most relevant loans item, namely relating to loans to **businesses**²⁰, the increase amounted to 2 percent, compared to a +3.3 percent registered nationwide. Therefore, it is clear that the even lower increase in credit

¹⁹ The aggregate refers to private consumers, private social institutions and entities not classifiable by the reporting bodies.

²⁰ The aggregate refers to the production sector composed of non-financial businesses (joint-stock companies and partnerships) and income-generating families (one-man businesses).

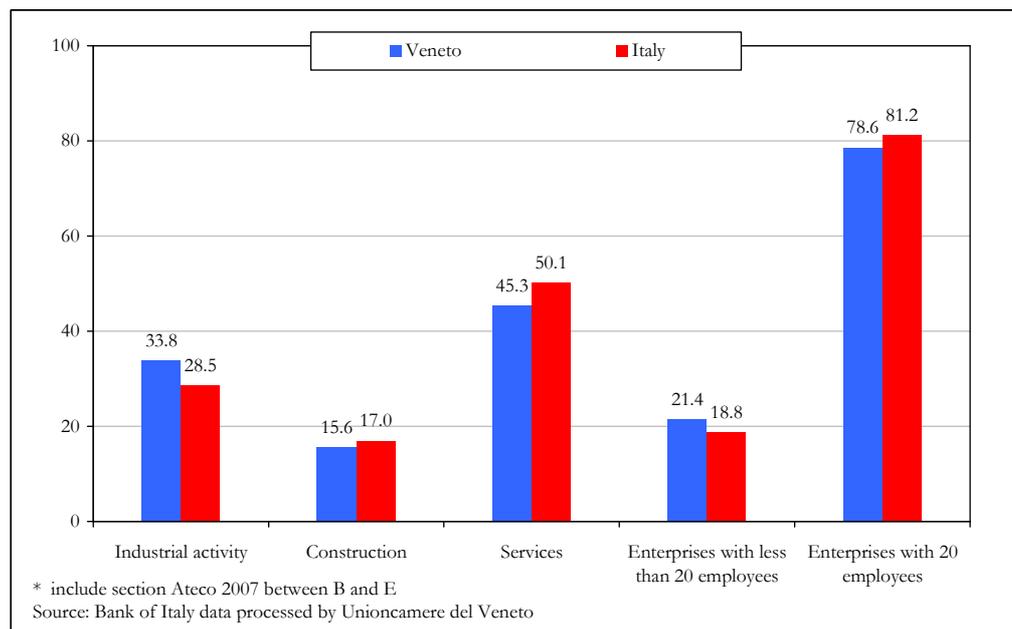
to the production system (compared to the variation of total loans) is even more alarming, because the negative picture illustrated above is to be deemed even worse for businesses.

In fact, businesses are the natural place for investments in productions, namely these generate income and therefore need more funding. On the other hand, investments yield the margins in value added, which in addition to paying the labour force, also remunerate capital invested and hence bank loans. Therefore, return on investment should be the first guarantee of any loan, because it obviates the need for other guarantees, which, in order to be realised, involve major difficulties in case of insolvency.

However, it is a matter of fact that the current economic crisis makes return on investment increasingly difficult, and credit is often needed to restore the balance of ordinary management and not to make new investments. In fact, a greater and better selection of borrowers through a more careful assessment of credit standing would be the winning strategy and would make it possible to target resources where growth prospects are more favourable or at least where there is a stronger resistance to the effects of the crisis.

Analysing loans to enterprises by main **business sectors**, it can be noted that while the percentage of regional loans to services remained unchanged (45.3%), lending to industrial activities increased (now at 33.8%) and loans to the construction sector slightly decreased (15.6%). In Italy, instead, the greater presence of the tertiary in proportional terms absorbed a much higher share of credit (50.1%).

Chart 18 – Italy and the Veneto. Trend in loans to production activities order by sector and business size (comp.%). December 2011



The breakdown of loans by size of business, albeit with slight differences from the previous year, showed a slight increase for larger enterprises (over 20 employees) and a corresponding decrease in loans to small and micro-enterprises (up to 20 employees), both regionally and nationally.

Despite the contraction in lending by banks, there was corresponding shortage in collection of **deposits** from customers and this, even more so, underscores an unbearable situation to exit the crisis and grow. Clearly, the rise in deposits was used only in part to support the real economy, while the rest was diverted to financial uses, also to hedge the system's increasing risk.

Household deposits rose in the Veneto in 2011 by 24 percent and 25.7 percent across the country. This inflow, unusual in a time of crisis, is likely due to the insecurity of families about the future and they prefer to keep savings in liquid form for fears of negative unexpected events, while waiting for a better economic situation.

The pattern observed in the deposits of enterprises was clearly different. These fell slightly (-1.9% at a regional level and -4.9% at a national level). Obviously, in this case the lack of bank credit calls for an intensive use of internal liquidity, thereby reducing deposits. More generally, and regardless of the crisis, it can be said that businesses should reduce the liquid funds kept in banks for future payments to a minimum because it is not convenient because of the considerable spread between active and passive interest rates for enterprises.

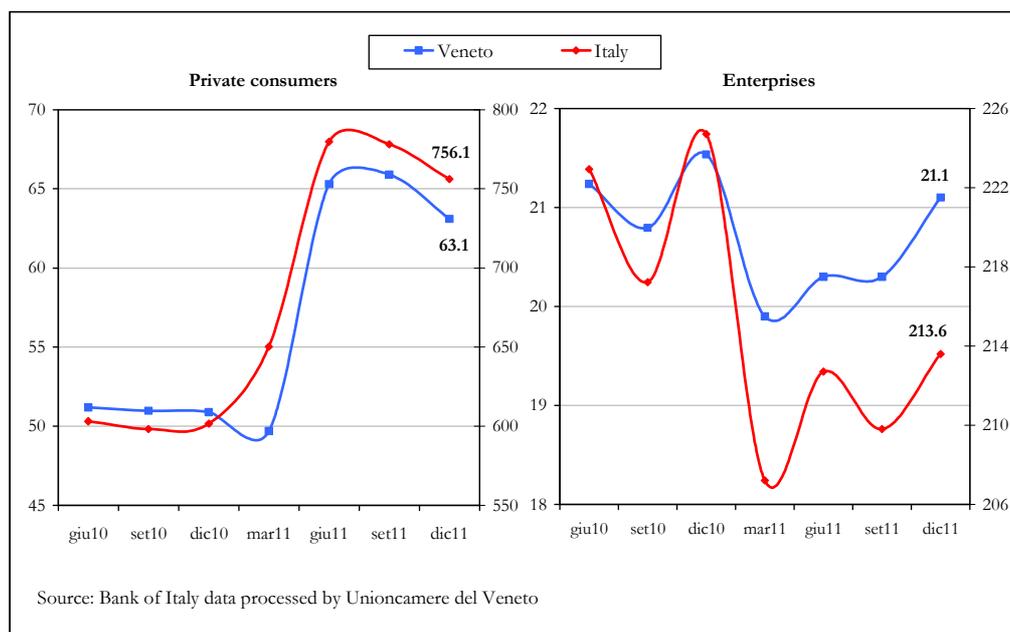


Chart 19 – Italy and the Veneto. Trend in deposits bank to businesses and consumers (values in billions of euro). June 2010- Dec. 2011

Small businesses and the difficult access to credit

One of the most alarming phenomena observed in recent years is the **credit crunch**, a phrase that indicates the difficulty of firms to gain access to credit. According to the survey by Fondazione Impresa in February 2012 on **small Italian enterprises** (less than 20 employees), 43.3 percent of those surveyed experienced difficulties in accessing credit. In particular, 24.7 percent met “some difficulties”, 14.1 percent “many difficulties” and credit was denied to 4.5 percent. The **main reason** why small businesses need credit is the management of daily operations vital to the survival of the company (57.1%) to handle the lack of liquidity. The **greatest difficulties** in accessing credit were registered in Northern Italy (especially in the North-East it regarded 48.2% of cases), despite the increased propensity to seek loans for investments (North-East 38.7% and North-West 37.7%). The **prospects for the future** indicate that the confidence of small businesses in recovery is getting worse. To date 55.4 percent of companies think that if they went to the bank, they would have difficulty obtaining credit, while 6.7 percent of them would find it impossible.

Tourism

A record year. The trend in tourism in the Veneto in 2011 is described here in a nutshell. The figures speak for themselves: more than **63.4 million guests** and almost **15.8 million visitors**. Never before have such considerable numbers been recorded, not even in the pre-crisis period, when very gratifying results were registered in 2007.

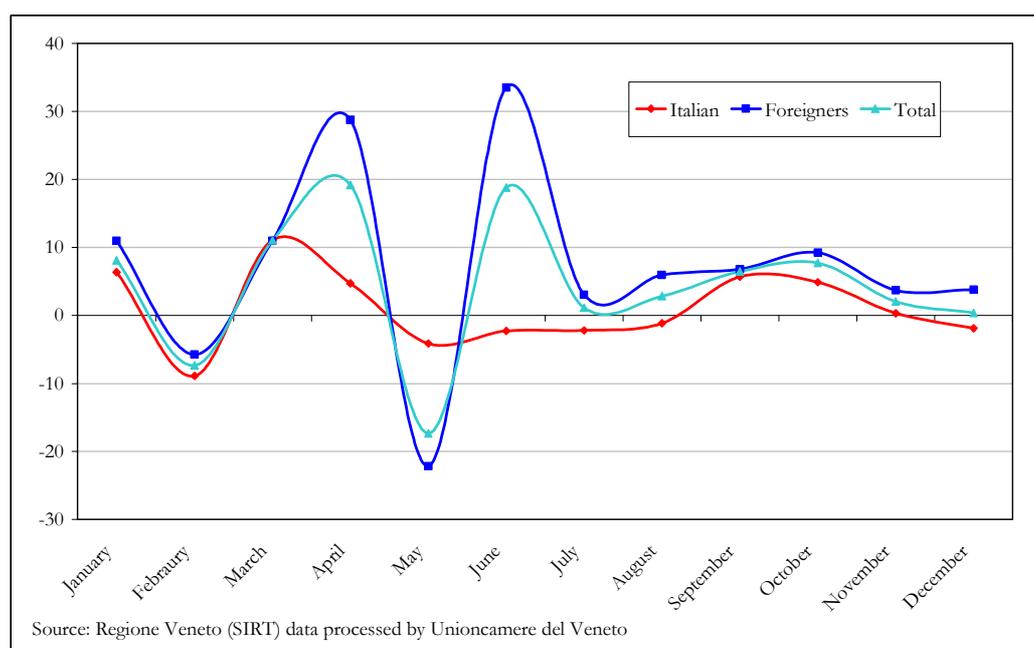
After two sluggish years, the signs of recovery registered in 2010 were confirmed in 2011, recording a significant increase in the number of tourists (+8.1%) matched by an increase, albeit to a lesser degree, in overnight stays (+4.2%), such that the **average length of stay**, which continued to decline (**4 days** as opposed to 4.2 the year before), recorded its lowest level since the beginning of the century.

Almost two thirds of the movements were generated by international tourism, demonstrating once again the appeal that the Veneto has on foreign travellers.

In 2011 **more than 39 million foreigners** visited the Veneto, marking an 11.6 percent increase (approximately 1.2 million visitors more), thanks mainly to a greater inflow of tourists from the countries of Central Europe (Germany, Austria and Switzerland). Americans and Japanese tourists have flocked back to heritage cities and major contributions have come from Australia, France and the Netherlands. Finally, marketing campaigns in emerging countries (Russia, China, Brazil) have given particularly good results that bode well for the future.

The number of nights grew (+7.1%), though less markedly, and this resulted in the shorter length of stay of 3.9 days compared to 4.1 recorded in 2010. The increase in the number of tourists, particularly from outside Europe, and the concomitant reduction in the length of stay is probably due to the fact that the stay in the Veneto is part of a journey that has taken them to visit Italy's and Europe's main cities.

Chart 20 – The Veneto.
Annual trend inflow of
tourists by origin (% var.
over the previous year).
Year 2011



The movement originated by **Italians** was rather different: it was positive for arrivals, though more modest (+2.6%), but negative in terms of guests, for which there was a slight drop, with 32,777 less nights (-0.1%).

Many, and more than usual, were the inhabitants of the Veneto who chose to spend their holidays in the Region and joined the significant number of new arrivals from all over northern Italy, and especially Piedmont, Emilia Romagna and Trentino-Alto Adige. By contrast, the budget was in the red for arrivals from the South and Latium (-10.7%). A similar trend was recorded for the nights, which were heavily affected by the drop of visitors from Latium. The average stay of Italian guests shrank further, but less than that of foreigners, amounting to 4.2 days.

The performance of the **hotel sector** was good. It registered increases both in arrivals (+8.7%) and in the number of guests (+6%), due mainly to the significant contribution of the higher classes and foreigners.

The balance closed with a positive result for the non-hotel sector with increases in the number of guests and overnight stays by 6.8 and 2.7 percent respectively. Especially rural tourist accommodations benefited from this trend and in recent years they have shown a now consolidated upward trend.

Year 2011 showed a growth in tourist arrivals in all districts, especially in heritage cities (+11.6%), in seaside (+5.2%) and lakeside resorts (+6%). These same destinations also saw an increase in the number of guests, while spa resorts, but especially mountain resorts, which suffered from an unfavourable climate, registered negative results (-0.4% and -2.2% respectively).

The final results for other Italian regions are not available yet and a comparison can be made only with the 2010 data recently released by ISTAT. These show that the Veneto continues to be the region with the most appeal for tourists with 14.8 percent of arrivals and 16.2 percent of total guests. A leadership that fears no challenge.

	2010		2011		var. %	
	arrival	stay	arrival	stay	arrival	stay
Accommodation facilities						
hotel	10,087,941	28,291,457	10,964,737	29,989,605	8.7	6.0
extra hotel	4,495,801	32,528,258	4,800,891	33,411,388	6.8	2.7
District						
heritage cities	7,266,513	16,236,786	8,106,706	17,833,398	11.6	9.8
lake	2,069,930	10,298,055	2,194,841	10,750,247	6.0	4.4
seaside	3,685,059	25,818,498	3,875,418	26,485,634	5.2	2.6
mountains	955,482	5,461,133	960,181	5,338,552	0.5	-2.2
spa resorts	606,758	3,005,243	628,482	2,993,162	3.6	-0.4
Total	14,583,742	60,819,715	15,765,628	63,400,993	8.1	4.2

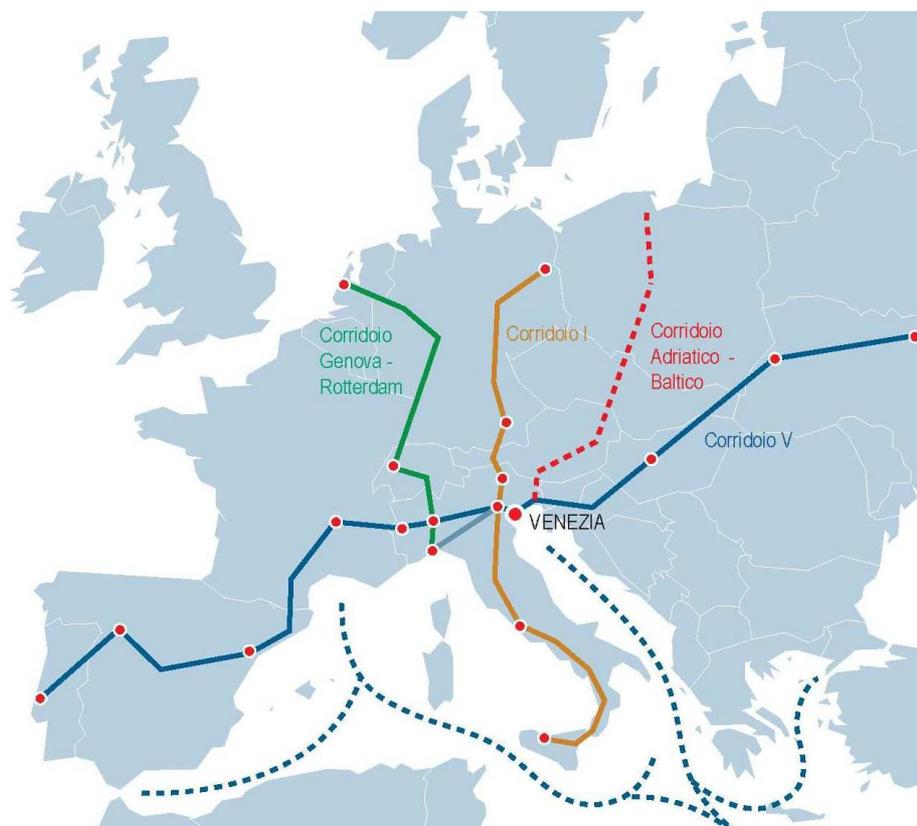
Source: Regione Veneto (SIRT) data processed by Unioncamere del Veneto

Table 18 – The Veneto. Tourist flows by type of accommodation and destination. Years 2010-2011

Transport

In 2011 the transportation sector continued to experience signs of recovery already felt in 2010, after the difficult economic situation in 2009. According to the *VenetoCongiuntura* survey by Unioncamere, the transportation and logistics sector recorded a positive performance in 2011 compared to 2010, with an increase in **turnover** (+1.8% year-over-year) and a slight growth of **employment** (+0.5%). Both indicators were affected by the slowdown in the fourth quarter. The new proposed European Commission regulations (2011/650 and 2011/665) that define the future of European transportation policy have introduced an extremely favourable scenario for the Veneto region, especially with regard to the North-South connections. Of the 10 “corridors” that will form the new trans-European “core network”, 4 cross Italy and 3 of these will pass through the Veneto. The region is poised to become a major hub connecting Central and Southern Europe, both along the East-West and North-South axes. The ports of Venice, Trieste, Ravenna and Koper (soon also Rijeka) formed the Association of Northern Adriatic Ports (NAPA), a cooperation agreement to promote the logistical consolidation of the Upper Adriatic and reach the “critical mass” needed to compete in a global market. The goal is to capture an increasing share of trade flows to/from Asia by sea that pass through the Suez Canal, so as to allow the shift of world manufacturing towards Asia and the Far East.

Figure 1 – The North-East, the crossroads of development



Source: www.uniontrasporti.it

Provisional data released by Aiscat, referring to the total kilometres travelled by vehicles entering the regional **highway network** in 2011 showed a slight increase (+0.5%) compared to the previous year, reaching 13,648 million vehicles/km, mainly due to the dead weight sector (+1%, 3,739 vehicles/km). The Veneto's **rail network**, which covers 1,190 km of railway lines (6.7% of the national network), registered a very high level of mobility in 2011 (152,620 passengers a day and 65,824 travel card holders).

As to **airports**, according to data of Assaeroporti, the Veneto's airports registered increases in both the aircraft sector and especially in the freight and passengers sector (Table 19). Noteworthy was the increase recorded at the Venice Marco Polo airport, with a traffic of almost 8.6 million passengers, namely 25 percent higher compared to 2010. This result is also due to the closure, in the second half of 2011, of the nearby Antonio Canova airport of Treviso for maintenance. The closure of the Treviso airport and the consequent transfer of activities to the Venice airport made it necessary to take into account the data of the **Venice-Treviso airport system** as a whole. Year 2011 registered an important result in traffic, with 9.7 million passengers and a 7.1 percent increase over the previous year, confirming the already established position as Italy's third largest airport after Rome and Milan. The total aircraft movements amounted to 97,227 (+2% compared to 2010). During the transfer of activities from Treviso to Venice the airport managed traffic peaks that exceeded 37,000 passengers a day. During the year the offer of flights at Venice airport was expanded with the opening of new European and international destinations and some routes were consolidated. The air flows between Venice and the East rose by a quarter compared to 2010 results; in particular, there was a sharp increase in passenger volumes to China and India (increased by 32% and 24% respectively compared to 2010). Istanbul in 2011 also became the second intermediate hub for the flow of passengers from Venice to Asia.

Airport	Passengers		Goods (tons)		Cargo (tons)	
	Absol. value	var.% 11/10	Absol. value	var.% 11/10	Absol. value	var.% 11/10
Venice-Treviso*	97,227	2.0	9,662,156	7.1	42,754	5.5
Treviso - Antonio Canova	10,089	-51.0	1,077,505	-49.9	868	-70.1
Venice - Marco Polo	87,138	16.7	8,584,651	25.0	41,886	11.4
Verona - Valerio Catullo	37,770	2.3	3,385,794	12.0	5,381	16.1
Total	134,997	2.1	13,047,950	8.3	48,135	6.5

* aggregate data of Venezia-Treviso airport system. The airport of Treviso was closed from June 1st to 4th December 2011 and the assets were transferred to the Venice airport

Source: Assaeroporti data processed by Unioncamere del Veneto

Table 19 – The Veneto. Data traffic (goods, passengers and cargo) in airport. Year 2011

Traffic at **Treviso Airport** amounted to more than a million passengers. This data does not include the volumes handled in Venice during the closure period, accounting for an additional 1.3 million passengers. Overall, the traffic generated by carriers based in Treviso registered an increase in airport volumes of 10 percent compared to 2010.

In 2011 there were almost 3.4 million passengers who transited through the **Verona Airport**, a 12 percent increase over the previous year. Passengers on international flights totalled over 2 million. In 2011 Verona registered one of the best growth rates among the airports with 1-to-5 million passengers, with a share of traffic in the segment of 8.1 percent in the period from January to November. In terms of impact on the territory, it is important to highlight that the number of

passengers on scheduled international flights rose by 43.1 percent on an annual basis. The turnaround after two years of decrease in traffic was determined by the arrival of Ryanair in late 2010, which was followed in 2011 by the arrival of new companies among the most important in Europe, which recorded occupancy rates of over 70 percent already in the first year of activity.

Year 2011 confirmed the growth trend of the **Port of Venice**. In 2011 the total traffic was stable with more than 26.3 million tons of goods handled (-0.3% compared to 2010) (Table 20). Dry bulk increased by 2.8 percent and other goods registered a +5.8 percent. The trend was the opposite for bulk liquids that registered a drop of 6 percent, due both to a decrease in imports of crude oil from Libya and to the reduction of the petrochemical activities in Porto Marghera. Growth was registered in the container sector which in 2011 recorded a significant increase (+15.1%) by over 39,000 TEUs (unit of measurement of containers) compared to the previous year. Passenger traffic are continued to grow: almost 1.8 million cruise passengers chose Venice as the port of call for their leisure trips (+11.1% over the same period of 2010), a positive trend that already started in mid-2009, reaching levels better than those of 2008, when the effects of the crisis had not been felt yet.

Table 20 – Movement of cargo, containers and passengers through the Port of Venice. Years 2010-2011

	2010	2011	Var.% 11/10
MOVEMENT OF GOODS (tons)	26,389,758	26,321,702	-0.3
liquid bulk cargo	11,928,847	11,210,813	-6.0
dry bulk cargo	6,425,703	6,608,355	2.8
other break bulk cargo	8,035,208	8,502,533	5.8
MOVIMENT OF CONTAINERS	258,173	297,209	15.1
MOVIMENT OF PASSANGERS	2,058,815	2,239,751	8.8
cruise passangers	1,599,054	1,777,073	11.1
SHIP ARRIVED	4,189	4,142	-1.1

Source: Port of Venice data processed by Unioncamere del Veneto

Among the freight villages of the Veneto those of Verona and Padua stood out for the quantity of transported goods. In 2011 the **Quadrante Europa Freight Village** handled nearly 7 million tons of goods, divided between containers, trailers, swap bodies and traditional carriages, but registered a 9.5 percent decrease over the previous year. The **Padua Freight Village** grew in 2011: traffic registered a 6.7 percent increase in TEUs compared to 2010 (almost 163 thousand TEUs handled only at the Nuovo Grande Terminal), in contrast with the overall decrease in the last two years in the intermodal freight system.

Innovative and technological services

According to the *VenetoCongiuntura* survey by Unioncamere, in 2011 innovative and technological services experienced a slowdown. After two years of progressively increasing **turnover** (+1.9% in 2009 and +4.4% in 2010), the turnover marked a setback (-0.1%), which interrupted the upward trend (Chart 21). This trend was lower than the rest of the tertiary sector. In fact the trend of the tourism sector was the opposite. After the sharp decline in 2009 (-6.3%), it started to grow in 2010 (+0.7%) and rose further in 2011 (+1.1%). The performance of the transportation sector was also good. It recovered significantly from the sharp fall suffered in 2009 (-9.6%), although the annual change in turnover in 2011 (+1.8%) is slightly lower to that of 2010 (+2.4%).

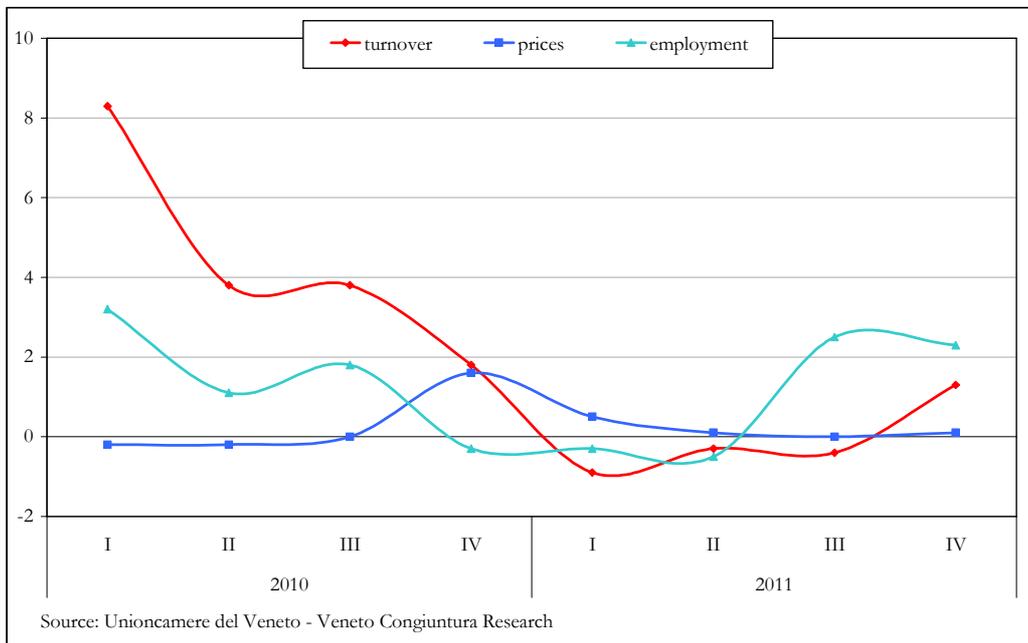


Chart 21 – The Veneto. Turnover, prices and employment in innovative and technological services. Years 2010-2011

The decline in turnover of innovative and technological services was due to the negative trend of the first nine months of the year: in the first quarter it registered its lowest value (-0.9%), then increased slightly in the second and third quarters (-0.3% and -0.4% respectively) and finally recorded growth in the last (+1.8%).

With regard to **prices**, there was a 0.2 percent increase, stable compared to the change recorded the previous year (+0.3%), but worse compared to the change in 2009 when prices fell by -0.8 percent.

Although signals regarding turnover and prices were not positive, **employment** grew instead by 1 percent on average. It is an important result because it shows the resilience of the sector despite the weakness of the other indicators.

The resilience of the innovative and technological services sector in the face of the economic crisis was also confirmed by the steady growth from 2000 to present in terms of the number of businesses.

In 2011 the number of **active businesses** in the innovative and technological services sector stood at over 30 thousand units with a 2.1 percent increase compared to the year before, while the incidence of the sector on the regional total passed from 6.4 to 6.6 percent (Table 21).

Table 21 – Italy and the Veneto.
Active businesses in innovative and technological services by sector. Years 2010-2011

	Veneto			Italy		
	2010	2011	var. % 11/10	2010	2011	var. % 11/10
Innovative and technological services	29,478	30,085	2.1	358,929	367,516	2.4
Computer and telecommunications	7,248	7,364	1.6	85,076	86,329	1.5
Advanced support services for businesses	15,544	15,775	1.5	169,665	173,573	2.3
Operational support services for business	6,686	6,946	3.9	104,188	107,614	3.3
Total	457,225	455,927	-0.3	5,281,934	5,275,515	-0.1

Source: Infocamere - Movimprese data processed by Unioncamere del Veneto

The findings of the Observatory on Innovative and Technological Services

According to the findings of the Confindustria SI Veneto survey, carried out on a sample of 400 firms, in the 2009-2011 period, despite the current complex and critical economic situation, the innovative services sector experienced a growth phase, such that only a small part of the companies surveyed slowed down or abandoned planned innovation processes. During the period under review it was showed that 44.9 percent of companies surveyed reported an increase in **turnover** and 29.6 percent an almost stable trend. In terms of size, all categories of business showed a similar trend, but the best performance was recorded by the intermediate category (11-20 employees). As to the sectors, the best results were reported by IT and communication services (50% registered growth and only 15% a decrease), while the worse were those for architecture, engineering and technical consulting (37% growth, 32.5% decline).

Although the effects of the economic crisis on the innovative and technological services sector were limited, there were significant impacts in terms of the competitive environment. It was found that 85 percent of the sample reported a reduction in the budgets of customers and longer time to payment. In addition to this, there was a drop in the prices of services offered (74.6%), the demand for new services (65%) and a certain number of businesses also witnesses a drop in the number of customers (44.7%). Among the strategies that businesses consider most suitable to tackle the new competitive environment, attention was focused on the need to grow in size through aggregation (29%), openness to international markets (19.6%), investments in human resources (19.3%) and in technology and organizational structure (15%). While, among the actions that are deemed essential to make the IT services industry grow, their replies were split between the need for a lower tax burden (28%) and further support to innovation and research (22%), followed by the demand for better networking technologies at a local level (14.5%), a banking system more attentive to the sector's specific features (13.3%) and further support to aggregation (10.3%).

Artisan firms and small enterprises

In 2011 the number of **active artisan enterprises** in the Veneto amounted to 141,216 units. The declining trend that characterized the last three years (-0.5% in 2008, -2.2% in 2009 and -0.4% in 2010) was followed by a further reduction in the number of firms in an amount equal to 1.1 percent, with a loss of over 1,500 units. Looking at the individual **sectors** of regional artisan crafts (Table 22), the two most important aggregations showed declining values: manufacturing activities registered a 1.4 percent drop compared to 2010, while construction a 1.5 percent drop. Please bear in mind that these two macro-sectors account for nearly 70 percent of the total of small artisan firms active in the Veneto. There was a drop also in firms of other crafts, though with a lesser weight within the sector. In 2011 there was a negative performance in firms operating in the agriculture, forestry and fishing sectors (-1.5%), trade and repair of motor vehicles and motorcycles (-1.1%), transportation services, logistics and warehousing (-3.8%) and services to persons (-2.9%). Contractions were also sharp among the active firms in the mining (-2.4%) and real estate (-11.4%) sectors, which however account for a small number of firms (0.1% of total). In contrast, however, some areas of the service sector have continued to demonstrate a substantial resilience: please note in particular the +7 percent of tourism services and services to companies, +2.4 percent of accommodation and restaurant services and +6.1 percent of media and communication services, despite the low incidence of these activities on the world of artisan firms.

With regard to the **legal form** of the firms, growth was registered only among joint-stock companies (+6.3%). Downward variations were recorded instead for partnerships (-1.8%), one-man businesses (-1.4%), which, despite the ongoing reductions, still continue to be the most popular legal form in regional crafts (73.4%), and cooperatives (-1.1%).

	Active companies		Var. 2011/2010		Total %
	2010	2011	%	v.a.	
Agriculture, forestry and fishing	1,480	1,458	-1.5	-22	1.0
Extraction	83	81	-2.4	-2	0.1
Manufacturing industries	38,377	37,832	-1.4	-545	26.8
Public utilities (energy, gas, water, environment)	256	258	0.8	2	0.2
Construction	58,074	57,204	-1.5	-870	40.5
Trade and repair of motor vehicles and motorcycles	7,009	6,933	-1.1	-76	4.9
Accommodation and catering service	3,805	3,898	2.4	93	2.8
Transport services, logistics and storage	10,431	10,035	-3.8	-396	7.1
Media and communication services	907	962	6.1	55	0.7
Advanced support services for businesses	2,185	2,185	0.0	0	1.5
Financial and insurance services	20	20	0.0	0	0.0
Real estate activities	35	31	-11.4	-4	0.0
Rental business, tourist services and Business supp.	2,943	3,150	7.0	207	2.2
Private education and training services	176	182	3.4	6	0.1
Health, social care and private health services	96	108	12.5	12	0.1
Services to the person	588	571	-2.9	-17	0.4
Other activities	16,062	16,102	0.2	40	11.4
Unclassified companies	196	206	5.1	10	0.1
Legal form					
Joint stock	7,392	7,854	6.3	462	5.6
Partnership	30,039	29,500	-1.8	-539	20.9
Sole proprietorship	105,029	103,602	-1.4	-1,427	73.4
Cooperatives and other forms	263	260	-1.1	-3	0.2
Total	142,723	141,216	-1.1	-1,507	100.0

Table 22 – The Veneto.
Active artisan firms
by sector and by legal
form. Years 2010-2011

Source: Infocamere-Movimprese data processed by Unioncamere del Veneto

With regard to key economic indicators, the data collected as part of the sample survey conducted by Confartigianato del Veneto registered a slight contraction in **production** (-0.3%) due to the decrease reported by construction firms (-1%) and services to persons (-0.8%). There was a slight increase instead in production of the manufacturing sector (+0.4%) and services to businesses (+0.1%). The **turnover** showed an equal drop compared to production, involving construction firms (-0.7%), services to persons (-0.4%) and services to businesses (-0.2%). The only increase in turnover was registered in manufacturing (+0.3%). **Supplier prices** rose in all sectors considered, while the percentage of small artisan businesses that made **investments** stood at 12.5 percent of the sample.

Table 23 – The Veneto.
Leading economic indicators for artisan firms and small enterprises (%var. over the previous year).
Year 2011

	Production*	Turnover	Supplier's prices	Impact of investments**
Manufacturing industries	0.4	0.3	3.1	16.2
Building Trade/Construction	-1.0	-0.7	2.4	9.6
Services for enterprises	0.1	-0.2	2.5	15.9
Services for people	-0.8	-0.4	2.6	6.9
Total - all sector	-0.3	-0.3	2.7	12.5

* For industrial companies (manufacturing and building trade) production data are shown; for services demand-related data are shown

** % of artisan enterprises that made investments in 2009 out of the total of the interviewed sample

Source: Confartigianato Veneto

Employment too was marked by a downward trend, confirming the declining trends of the last three years. In 2011, the decline in employment was equal to 0.6 per cent, resulting relatively lower than more recent surveys. Employment rose only among firms in the tertiary sector (+1.3%), driven mainly by transportation, which showed a 3.9 percent growth. By contrast, construction firms showed the worst performance in employment (-3.4%), with a contraction both in building proper (-4.4%) and in allied systems (-2.2%). The slight decline in employment in manufacturing (-0.1%) was due to the negative results in graphic arts (-3.5%), wood (-2.1%) and other manufacturing activities (-1.6%). The remaining fields of specialisation showed rather promising increases.

Table 24 – The Veneto.
Employment in artisan firms (% var. over the previous year).
Year 2007-2011

Sectors	2007	2008	2009	2010	2011
Foodstuff	6.1	-2.1	0.7	4.2	0.3
Textiles, clothing, footwear	-6.7	-4.5	-6.8	-3.3	0.8
Wood	1.4	-4.7	-5.2	-4.7	-2.1
Graphics	3.5	-3.5	-3.8	-0.1	-3.5
Ceramic, chemical products, glass	-1.2	-5.4	-5.6	-0.6	1.0
Mechanics	2.9	-2.8	-8.7	0.5	0.4
Other manufactured products	-0.6	-4.8	-4.3	-5.1	-1.6
Total Manufacturing	0.5	-3.7	-6.3	-1.0	-0.1
Building	0.6	-8.6	-6.1	-5.9	-4.4
Plant engineering	-1.3	-1.2	-3.0	0.0	-2.2
Total Construction	-0.2	-5.6	-4.8	-3.3	-3.4
Servicing for cars and motorcycles	0.2	-3.2	-0.1	0.3	0.7
Services for people and other service	-1.6	-1.3	-3.1	-1.6	0.1
Transport	3.1	1.8	-2.4	2.9	3.9
Total Services	0.2	-0.9	-2.1	0.2	1.3
Total	0.3	-3.7	-5.2	-1.3	-0.6

Source: Confartigianato Veneto - Bs consulting

4. Focus: the competitiveness of EU regions

For the first time in 2010 the European Commission published the **regional competitiveness index** (RCI)²¹. It is an adaptation to the EU regions of the study released annually by the World Economic Forum (WEF), “Global Competitiveness Index”²² that monitors in detail the degree of competitiveness of the “national system” of 142 countries in the world. According to the latest WEF report, Italy ranked 43th, behind countries such as Barbados, Poland and Tunisia. The methodology used for the study of the EU Commission is similar to that of the WEF report and is characterized by almost 70 basic indicators related to eleven areas defined “pillars”. In detail, these are:

- 5 “basic pillars” (institutions, macroeconomic stability, infrastructure, health, quality of primary and secondary education);
- 3 “pillars of efficiency” (higher education and training, labour market efficiency, market size);
- 3 “pillars of innovation” (level of technological development, sophistication of the production system, innovation).

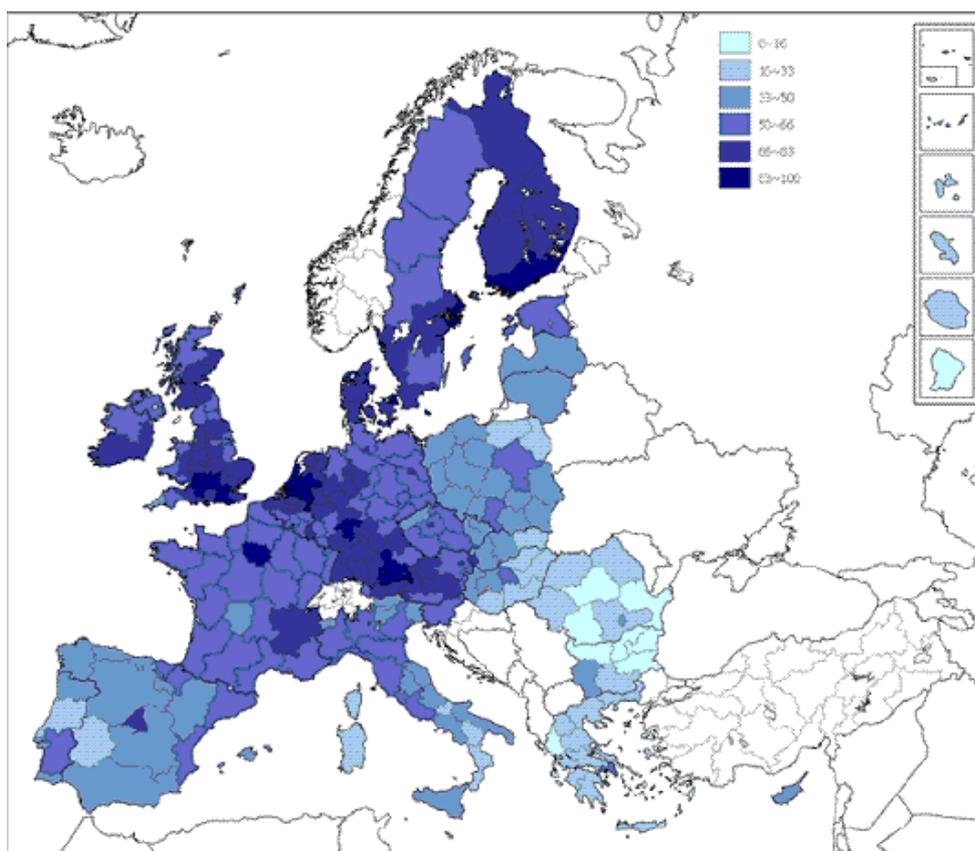


Figure 2 – Map of regional competitiveness index (normalized values)

Source: Annoni, P. - Kozovska, K.: “EU Regional Competitiveness Index 2010”, European Commission (2010)

²¹ Annoni, P. - Kozovska, K.: “EU Regional Competitiveness Index 2010”, European Commission (2010).

²² World Economic Forum: “Global Competitiveness Index 2011-2012”.

According to the EU Commission's study, **Italy's regions did well with regard to the competitiveness of the regional system, but nevertheless seem distant from the results of the regions of Northern Europe** such as Utrecht (NL), Hovedstaden (DK), London (UK), Stockholm (SE) and Île de France (FR). In the ranking of the Regional Competitiveness Index of the European Commission, **there is no Italian region among the best**: almost all of the regions of central and northern Italy do not go beyond the third group (out of six), with an index between 50 and 66, while Calabria, Basilicata, Molise and Sardinia have a worse ranking and fall into the fifth cluster. Based on research carried out by the European Commission, the best among Italy's regions is Lombardy (95th place out of 268), while Basilicata does not go beyond 235th place (Table 25).

What are the factors that affect the regions historically considered to be more competitive? According to the results of the index, at a European level the most developed Italian regions suffer from the institutional situation (institutional quality) and the effectiveness/ineffectiveness of the basic education system (skills acquired by students). In other pillars, such as the labour market and the production system, there is a high degree of heterogeneity between regions, with a clear divide between the regions of the North and South. At a European level, the regions of Southern Italy rank at the bottom of most of the indicators (education and lifelong learning of the workforce and labour market efficiency)²³.

Table 25 – Regional competitiveness index: positions in the ranking of Italian regions in the three index components (268 regions)

	Regional competitiveness index	Basic pillars	Pillars of efficiency	Pillars of innovation
Lombardy	95	182	59	96
Emilia Romagna	121	193	69	140
Lazio	133	176	105	124
Veneto	146	183	100	156
Piedmont	149	178	128	139
Tuscany	155	180	138	152
Liguria	170	170	164	160
Friuli-Venezia Giulia	172	202	159	158
Marche	180	194	168	178
Umbria	181	184	176	185
Autonomous province of Trento	184	240	152	170
Abruzzo	189	181	190	198
Autonomous province of Bolzano	191	191	194	180
Campania	199	189	212	191
Puglia	211	192	227	221
Valle d'Aosta	212	171	229	186
Sicily	213	185	231	209
Calabria	222	186	240	244
Molise	225	196	233	222
Sardinia	234	220	243	215
Basilicata	235	203	250	219

Source: European Commission data processed by Unioncamere del Veneto

²³ Annoni, P. - Kozovska, K. - Saltelli, A. (2010): "Regioni d'Europa: chi è più competitivo?", www.lavoce.info, 21 September 2010.

The competitiveness of regions such as Lombardy, Emilia Romagna and the Veneto seems to be severely hindered by factors related to the so-called “basic pillars”, i.e. those relevant to the quality of institutions, macroeconomic stability, infrastructure, health and quality of primary and secondary education. In the partial ranking of “basic pillars”, out of 268 regions in Europe, Lombardy ranks 182th, the Veneto 183rd and Emilia Romagna 193rd (Table 25). A crucial role in defining this structure seems to be played by the country of the region and, consequently, the action exercised by the Central Government. In fact, for two of the five “basic pillars”, namely institutions and macroeconomic stability, the study takes into account national, not regional data. In this way, **the unfavourable Italian context characterized by high public debt, poor public services and an inefficient allocation of resources, eventually hinder the competitiveness of regions like Lombardy, Emilia Romagna and the Veneto, widening the gap with more advanced areas of Europe.** Unsurprisingly, in the other two major components of the regional competitiveness index, these three regions showed by far the best results, especially in the pillars of effectiveness (higher education and training, labour market efficiency, market size).

The study of the European Commission provides an excellent starting point for further discussion on the role of public efficiency and tax evasion with regard to the competitiveness of a territory.

In modern states Public Administration does not just collect taxes and provide essential public services, but it also has the task of fostering the best conditions for the production system to grow and create wealth. In an increasingly open and interconnected market, the burden of competitiveness cannot be borne only by businesses, but it must involve the entire national system. And in this context emerges the role of Public Administration, as it holds the power to build roads, bridges and railways, to ensure the efficient provision of public services, and to rapidly serve justice²⁴.

This premise does not apply though to Italy, where the situation is not the one just described: **regions like Lombardy, Emilia Romagna and the Veneto are examples of economic systems that can compete** (though with some difficulty) **internationally despite delays, dysfunctions, inefficiencies and excessive tax burden on the part of Public Administration.** The direct and indirect action of the public sector has strong effects on the local economy: this view is somewhat confirmed by the European Commission’s study that places the regions of central and northern Italy on a level of overall competitiveness still far from that in some areas of northern Europe.

In light of these considerations, Unioncamere del Veneto, in collaboration with Centro Studi Sintesi, carried out, within the framework of research on public finance, a study aimed at analysing the **effects of the public system on the degree of local competitiveness** in Italy. From an operational standpoint, the analysis compared the degree of competitiveness of Italy’s regions reported by the EU Commission with some indicators that can illustrate the efficiency of the Public Administration and the degree of fidelity of taxpayers.

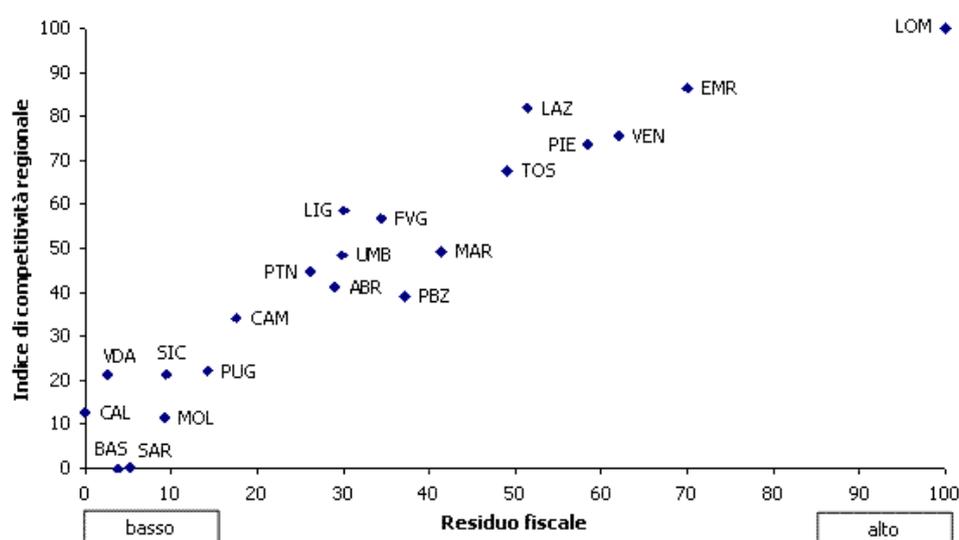
With regard to the **efficiency of Public Administration**, the analysis considered the following indicators: per-capita fiscal residuum²⁵, civil servants in relation to population and territorial public spending on GDP. Among these, the fiscal

²⁴ Unioncamere del Veneto (2011), “Imprese e burocrazia in Veneto”, Quaderno di ricerca n. 15, December 2011.

²⁵ The fiscal residuum is the difference between how much the Public Administration draws in a given area (in the form of taxes, duties and contributions) and how much it returns in terms of services to the community and businesses and of transfers to local authorities.

residuum is of great significance, given that Italy is the country where Public Administration carries out the greatest internal redistribution of resources to achieve national cohesion. In Italy the fiscal residuum varies greatly by region: it is high in Lombardy, Emilia Romagna and the Veneto, which therefore contribute more than other regions to the country's public finance needs, while it is low in the South, which thus benefits from these cash flows²⁶. Looking at Chart 22, it can be noted that the **fiscal residuum** is closely related to the **regional competitiveness index** developed by the European Commission. This somehow proves that the cash flows to the benefit of the regions of the South in recent decades have contributed to increasing the competitiveness of these territories; conversely, the areas of the North (which generate a positive fiscal residuum) retain leadership in competitiveness in Italy, but are also penalized in comparison with other leading regions in Europe.

Chart 22 – Relation between regional competitiveness and fiscal residuum (normalized)



Source: European Commission data processed by Unioncamere del Veneto

There seems to be instead a close link between the **number of Public Administration staff** and the **regional competitiveness index**. Nevertheless, the presence of public employees cannot be considered irrelevant in defining the local economic and social context because a larger number of employees leads indirectly to a greater quantity of public services, which, however, does not always mean quality service. In Italy, the presence of Public Administration staff reaches unreasonable gaps, because public functions to be managed are the same in all areas of the country, thus proving to be very unequal in favour of regions with a per-capita GDP below the national average²⁷.

Finally, there is an inverse relationship between **regional competitiveness** and **public spending**, one of the main problems of Italy's institutional make-up. This does not mean that less public spending automatically leads to greater competitiveness (or vice versa). The most plausible interpretation is that a

²⁶ The results were obtained from calculations based on data from the "Territorial Public Accounts" of the Ministry of Economic Development.

²⁷ Unioncamere del Veneto (2009), "Responsabilità e federalismo", Quaderno di ricerca n. 11, September 2009.

competitive and efficient economic system indirectly produces beneficial effects on the management of public resources. From this point of view, economic growth becomes a formidable ally in the decade-long battle to balance public accounts.

With regard to the level of **taxpayer fidelity**, the aspects analysed in the study concerned the discrepancy index²⁸ between income and well-being, the level of tax evasion and the rate of irregularity of manpower calculated in units. The first two indicators measure the level of the underground economy, which is one of the elements that have most characterized the recent consolidation policies of the public accounts of European countries, and especially Italy. Tax evasion is an issue that cannot be avoided for the purpose of the country's recovery. **The combination of the two indicators with the regional competitiveness index shows that the increase of regional competitiveness seems to go hand in hand with positive values of the discrepancy index** (positive values refer to territories where the level of "actual" well-being of residents - how much they consume - is compatible with the "official" income - how much they earn), **and a lower rate of tax evasion**. In particular, the results showed that large areas of the North are the territories where there is a greater correspondence between "official" income and "actual" income, and a lower propensity to evade taxes.

The large regions of central and northern Italy have an optimal combination even between the degree of economic competitiveness and rate of irregular manpower calculated in units and are hence the most competitive areas where there is a limited presence of undeclared labour.

Ultimately, the study has highlighted the existence of a relationship between the degree of regional competitiveness and some indicators related to the size of the public operator and the propensity to tax evasion. According to the study carried out by the European Commission, Italy's most competitive regions²⁹, **Lombardy, Emilia Romagna and the Veneto, have in common a positive fiscal residuum, lower public staffing** (except Latium due to institutional reasons related to the presence of the country's capital), a **low incidence of overall public spending compared to GDP** and indices that show a **low level of tax evasion**. The situation for the less competitive regions³⁰ seems a bit more complicated, but it is possible to find a group of regions (Basilicata, Sardinia, Calabria and Molise) that share a **negative fiscal residuum, a high incidence of public spending** in terms of GDP, a scarce correlation between income and well-being (discrepancy index) and a significant presence of **irregular labour** (Table 26).

²⁸ The discrepancy index correlates the level of "official" well-being (disposable income) and the level of "actual" well-being, calculated on the basis of factors such as consumption of electricity for domestic purposes, the per-capita consumption of gasoline and diesel fuel, and the presence of fine homes. For more information, see Unioncamere del Veneto (2011), "*Federalismo, Sussidiarietà ed Evasione Fiscale*" - (Federalism, subsidiarity and tax evasion) Quaderno di ricerca n. 13, June 2011.

²⁹ Thus identified because they have a normalized index (0 to 100) greater than 75.

³⁰ Thus identified because they have a normalized index (0 to 100) lower than 25.

Table 26 – An overview of the variables studied (normalized 0-100)

	Regional competitiveness index	Fiscal residuum	Civil servants per 1,000 inhabitants	Public spending on GDP	Discrepancy index between income and well-being	The level of tax evasion	Irregularity of manpower
Lombardy	100.0	100.0	100.0	100.0	60.5	100.0	95.6
Emilia Romagna	86.6	70.0	79.9	86.8	80.9	84.5	100.0
Lazio	81.8	51.5	45.3	69.3	54.0	99.7	91.7
Veneto	75.4	62.1	90.3	95.8	60.8	92.7	96.1
Piedmont	73.9	58.5	82.4	72.5	71.6	95.8	90.3
Tuscany	67.7	49.0	70.5	74.2	50.8	74.7	97.1
Liguria	58.7	30.0	58.7	45.2	38.0	86.6	79.1
Friuli-Venezia Giulia	57.0	34.4	47.3	50.3	74.5	63.2	87.4
Marche	49.2	41.4	76.3	75.0	65.9	66.1	89.3
Umbria	48.5	29.8	73.0	45.3	52.6	66.1	87.4
Autonomous province of Trento	44.7	26.2	39.7	48.5	54.4	95.4	96.1
Abruzzo	41.4	29.1	75.3	47.2	31.9	64.2	83.5
Autonomous province of Bolzano	39.0	37.2	39.7	67.2	100.0	95.4	100.0
Campania	34.4	17.6	78.5	27.3	0.0	29.6	67.5
Puglia	22.1	14.3	78.0	27.2	8.2	25.4	51.0
Valle d'Aosta	21.6	2.7	0.0	22.5	36.7	66.1	94.2
Sicily	21.4	9.4	67.4	19.2	2.1	30.5	48.5
Calabria	12.9	0.0	64.1	0.0	3.0	0.0	0.0
Molise	11.5	9.3	57.8	30.1	37.2	61.5	45.1
Sardinia	0.3	5.3	56.7	27.2	2.3	46.1	43.2
Basilicata	0.0	3.8	71.4	28.1	37.8	1.9	32.0

Source: different source data processed by Unioncamere del Veneto

In summary, **the regions of central and northern Italy appear to be particularly penalized by the country's institutional, fiscal and national characteristics.** These regions start with a gap of structural competitiveness exogenous to their local economic systems, mainly due to inefficiencies in the public system as a whole. The fact that these regions have a fiscal residuum that has no equals in Europe cannot be irrelevant in defining the respective degrees of competitiveness. According to research carried out by Unioncamere del Veneto, the fiscal residuum of Lombardy, Emilia Romagna and the Veneto regions appears to be far higher than that of major regions such as Catalonia, Bavaria and Baden-Württemberg. The fact that these are regions of federal countries is a sign, if not evidence, that a decentralized public organisation can simultaneously ensure solidarity between territories and local economic development.

