



BANCA D'ITALIA  
EUROSISTEMA

# Regional economies

Economic developments  
in the Italian regions in 2007

2008 Rome

2008

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# **Regional economies**

*The new series Regional economies aims at documenting the developments and fostering the economic analysis of the Italian economy at the regional breakdown. The series will gather the annual reports on the economic developments in each region, the update of the main indicators analysed in such reports, and the annual overview report on the economic developments in the Italian regions.*

# ECONOMIC DEVELOPMENTS IN THE ITALIAN REGIONS IN 2007

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## SYMBOLS AND CONVENTIONS

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In the following tables:

- the phenomenon in question does not occur
  - .... the phenomenon occurs but the value is not known
  - .. the value is known but is nil or less than half the final digit shown
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*The report was drafted by a working group coordinated by Luigi Cannari, Piero Casadio and (for public finance questions) Giovanna Messina and comprising Antonio Accetturo, Demetrio Alampi, Raffaello Bronzini, Diego Caprara, Amanda Carmignani, Guido de Blasio, Alessio D'Ignazio, Andrea Lamorgese, Luigi Leva, Sauro Mocetti, Roberto Rassa, Carlotta Rossi. Thanks also to Luciana Aimone Gigio, Michele Benvenuti, Enrico Beretta, Paolo Chiades, Alessandra Dalle Vacche, Elena Gennari, Andrea Migliardi, Alessandra Mori, Pasqualino Montanaro, Marcello Pagnini, Carmine Porello, Fabio Quintiliani, Paola Rossi and Alessandro Schiavone, who helped in the preparation of boxes and studies on special topics. The report was edited by Raffaella Biscaglia, Maria Letizia Cingoli and Stefano Vicarelli. Any opinions expressed are those of the authors alone and do not necessarily reflect the views of the Bank of Italy.*

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## SUMMARY

The report on economic developments in Italian regions in 2007 comprises two sections: the first, focuses on the analysis of economic developments by geographical area, is supplemented by boxes on specific topics of interest; the second brings together studies involving, in particular, the Bank of Italy's branch network.

In 2007 the Italian economy was affected by the global downturn and the acceleration in the prices of raw materials; output growth slowed from 1.8 to 1.5 per cent. As in the previous year, the pace of growth in southern Italy (the regions of the South and Islands) was slower (0.9 per cent) than in the North-East (1.8 per cent), Centre (1.7 per cent) and North-West (1.5 per cent).

Industry and services expanded more rapidly in the North-East and Centre than in the rest of the country. In the North-West industry performed more poorly and services barely better than the national average. In the South and Islands, industrial growth was similar to the national average, but expansion in services was more contained, equal to about half that in the Centre and North. After the stagnation of recent years, only the regions of the Centre and North reported a pick-up in investment by industrial firms, compared with a decline in the South and Islands. Nominal exports of goods recorded sustained growth throughout the country, in southern Italy especially.

Employment levels continued to rise in the North and particularly in the Centre, confirming a trend under way for over ten years; in the South and Islands employment figures remain close to the levels reported in 2002. Recourse to various forms of temporary employment and consultancy contracts—which have become the most common point of entry into the labour market, including for young highly-educated people—has grown even further, most markedly in northern Italy.

Banks' actions have been influenced by the rise in official interest rates and the turbulence triggered by the US subprime mortgage crisis. In the second half of the year lending conditions for firms were tightened slightly, especially for those with the highest risks. The volume of lending to firms continued to grow at a sustained pace throughout Italy, however. In contrast to the previous three years, loan growth in the South and Islands was lower than in the Centre and North. The quality of credit to Italian firms registered a slight improvement in the South and Islands, while remaining in line with the previous year's national average. The gap between short-term interest rates applied to firms in southern Italy and to those in the Centre and North, which has been narrowing since 2005, declined to 1.2 percentage points.

In 2007 the growth rate of loans to households slowed. This trend was more pronounced in the Centre and in southern Italy, in part due to the slump in the property market. No area reported any deterioration in the quality of credit supply to

*Economic  
developments by  
geographical area  
in 2007*

*Banking and  
finance in 2007*

households. In the early months of 2008, banks applied slightly more restrictive conditions to the granting of mortgages to households.

Banks' fund-raising slowed slightly, but only in the North-West and Centre, above all due to the lower growth in deposits. The composition of household portfolios continued to vary widely from area to area. The share of low-risk financial instruments in the South and Islands was higher than in the Centre and North; this reflected not only the lower level of per capita wealth in southern Italy, but also its weaker economy and lower degree of financial literacy, elements that make it even more important for banks to assist customers, and ensure transparency and fairness in their dealings.

*Public finance  
and general  
government  
capital account  
expenditure*

In 2007 the public finances fared better than expected. According to the national accounts, last year net borrowing declined to 1.9 per cent of GDP (from 3.4 per cent in 2006), returning after four years to below the 3 per cent upper threshold fixed under European rules. Public debt resumed its downward trend, reaching 104.0 per cent of GDP compared with 106.5 per cent in 2006. Local authorities helped narrow the gap; spending by communes, provinces and regions fell by 0.5 percentage points of GDP, primarily reflecting the decline in current expenditure. Revenues rose by 0.6 percentage points. Debt remained substantially unchanged at 7.1 per cent of GDP, halting the upward trend of recent years.

According to preliminary estimates of the Regional public accounts, in 2007 general government capital account expenditure (investment expenditure and capital transfers) totalled €56.2 billion, of which €19.8 (35.3 per cent) was in the South and Islands. Public investment accounted for 56.2 per cent of spending in the South and Islands, compared with 64.8 per cent in the Centre and North.

The studies and boxes relating to productive activities focus on the modest growth of Italy's regions compared to European ones, the emergence of gaps between the country's main areas and the current restructuring of the productive system.

*Development  
lags and  
migration*

In the last decade southern Italy's GDP has grown in real terms at about the same pace as the Centre and North. In terms of per capita output and assuming equal spending power, all parts of Italy have fallen behind European regions with comparable levels of development. In the South and Islands the regional policies launched in the second half of the 1990s in the context of EU territorial cohesion policies have, on the whole, failed to live up to expectations, both in terms of economic and social development and as regards the performance of firms that benefited from the incentives. In 2007 per capita GDP in the South and Islands was still 57.5 per cent that in the Centre and North. There was ongoing substantial migration from southern Italy to the Centre and North. Between 1998 and 2006 over one million people—most of whom were young with an average to high level of education—transferred their legal residence from the South and Islands to the Centre and North. The influx of migrants from abroad was also substantial. The ratio of foreigners to Italians doubled in the last six years, reaching 7 per cent in the Centre and North and staying under 2 per cent in the South and Islands. The immigrant population is on average younger than the Italian one; education levels

being equal, immigrants tend to perform less qualified and more poorly paid tasks.

Labour productivity growth, which slowed in the early 2000s, has returned to modest growth since 2004. Our analyses show that an overhaul of the production system is currently under way and is characterized by a marked heterogeneity of results including also firms belonging to the same sector. The firms that have performed best have made greater investments in upstream and downstream activities in the production process, research and development, brand building and internationalization. Signs of change can be seen in relations between universities and firms and in recourse to new forms of fund-raising for enterprises. The balance sheet data for 63 state universities reveal an increase in revenue from private sources allocated to research between 2001 and 2005. Moreover, new centres have opened dedicated to technology transfer to enterprises. Private innovation remained restricted in scope. In their interaction with firms, the universities in northern Italy emerged as the most active and dynamic compared with those in the rest of the country.

*Cooperation  
between  
universities and  
firms*

In recent years Italian firms have started to invest more in risk capital, such as private equity and venture capital, whose market nonetheless remains small by international comparison. Most of the resources in question have been invested by firms located in northern regions and have involved transactions aimed at restructuring the firm's portfolio. Investments designed to promote entrepreneurial activities have played a secondary role; those linked to start-ups have been marginal in all parts of the country.

*Private equity*

The studies on the banking system are based on a survey conducted in 2007 by the Economic Research Units of a sample of over 300 intermediaries; researchers examined organizational change in banks and the evolution of the home mortgage market, which since the early 2000s has recorded sustained growth.

Changes in organizational structures primarily affected the level of decentralized decision-making—which increased throughout Italy, in particular among the banks in the North-East—and the mobility of branch managers, which increased most intensively in the North. The use of scoring techniques for granting credit to firms grew at a sustained pace in all areas, especially among banks in the South and Islands.

*Changes in  
banks'  
organization*

Sustained growth in the home mortgage market was favoured by historically low interest rate levels and changes to agreements, such as the extension of contracts' duration, the increase of the proportion of the value of the property financed and a higher repayment to income ratio. These new types of contract were less popular in the South and Islands compared with the rest of the country. All areas have reported a delay in the practical implementation of the rules on early redemption and mortgage portability.

*Home  
mortgages*

Several studies focus on infrastructure, human resources, the quality of regulations and of the services provided by general government—crucial factors that are all central to the development of the South and Islands and of the entire country.



*Infrastructure and the port system*

Indicators on infrastructure signal that Italy is lagging behind the rest of Europe, in the South and Islands especially. Public investment in infrastructure, which from 1996 to 2001 was higher in southern Italy, recorded a gradual decline in that area over the following five years, compared with an increase in northern Italy. In the South and Islands the most significant reduction concerned investment in economic infrastructures, such as transport and network services, but there were also cuts in spending on social infrastructures, linked to education and health. As a survey of the major international shipping companies shows, poor infrastructure, and in particular the inadequacy of road and rail links both within Italy and with the rest of Europe, hinder the potential of the port system, which relies on Italy's favourable geographical location with respect to intercontinental shipping traffic.

*School drop-out rates and academic achievement*

Despite the progress made in recent years, there is still a very high percentage of young people who abandon their studies prematurely, before having obtained their secondary school diploma; in the South and Islands this percentage is among the highest in Europe. Most students drop out between lower and upper secondary school. Already at the age of fifteen, around 16 per cent of young people have left school or have fallen behind. The higher proportion in the South and Islands is affected by the lower level of education among the families of origin. The choice of upper secondary school increases segmentation among young people based on previous exam results. Moreover, pupils' skills show significant disparities depending on their area of origin. The proportion of fifteen year olds with low levels of academic achievement in the South and Islands is over twice that of the North. Especially penalizing is the gap between the curricula offered by vocational schools, above all in the South and Islands, and the average in OECD countries.

*Wholesale trade*

In many services sectors there are barriers to entry and regulatory obstacles that hamper productivity, prevent firms from growing in size and affect prices. In the wholesale trade of fruit and vegetable products, between 2000 and 2005 output fell in Italy by about 4 per cent, even as it rose in the other European countries. The wholesale sector's productive structure is more fragmented in Italy than in Germany, France and Spain. As the Antitrust Authority has reported, the presence of a series of small operators and excessive bureaucracy are being translated into lower margins for producers and an increase in the final cost and trading margins.

In the local public services sector the liberalization processes that were launched in the 1990s were designed to promote the aggregation of operators, to ensure the separation of service operator from regulator and to cover costs through service charges. The delay in implementing these reforms has significantly limited their effectiveness to date, especially in the South and Islands.

*Water and waste disposal services*

In the water services sector the quality of infrastructure remains poor and varies widely from area to area. In most cases there was a failure to adopt tender procedures for the award of management services that would have fostered greater competition; very often the incumbents were reconfirmed as the service providers. In most regions and in the Centre and southern Italy in particular, the country is still a long way off reaching the environmental and efficiency targets it has set itself in urban waste disposal: the share of waste that is separated and collected is still very low and the share of waste disposed of in dumps remains high, only a small

proportion of costs are covered by local taxes or charges, especially in the South and Islands.

Several indicators in the health system signal lower efficiency in spending and a limited capacity to meet demand for health services in southern Italy, where the quality of hospital services is less satisfactory and many patients seek treatment in other parts of the country. In the pharmaceutical sector, regulatory and administrative interventions at central and regional level to rationalize and curb expenditure, have had positive—but very different—effects. Since the early 2000s spending on pharmaceuticals covered by the national health service has fallen sharply. In the last five years public spending per capita in the regions of the Centre and North, excluding Lazio and Liguria, was markedly lower than the national average. Part of the difference is due to the growing tendency of the regions to distribute pharmaceuticals directly.

*Spending on  
medicines*

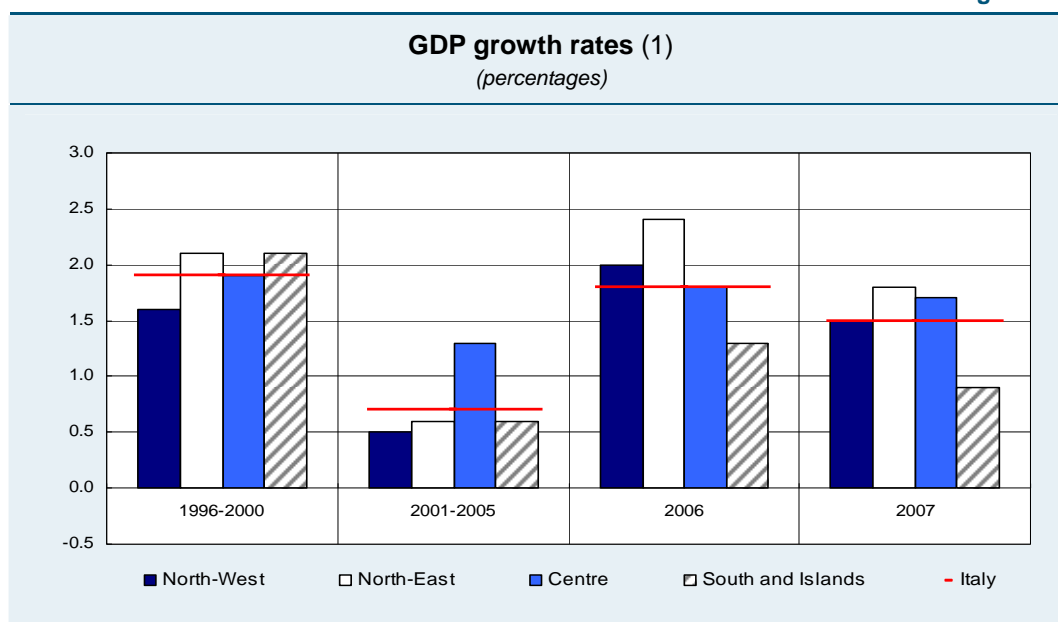
# ECONOMIC DEVELOPMENTS IN THE ITALIAN REGIONS

## 1 – GROWTH AND ECONOMIC ACTIVITIES

### *Growth and productivity*

In 2007 gross domestic product in Italy grew by 1.5 per cent in real terms, three tenths of a percentage point less than in 2006. According to preliminary Istat estimates, the slowdown affected all areas of the country except the Centre where growth was substantially maintained (1.7 per cent). The North-East grew by 1.8 per cent (down from 2.4 per cent in 2006), the North-West by 1.5 per cent (down from 2.0 per cent), and the South and Islands by 0.9 per cent (down from 1.3 per cent). In all areas, growth was driven by an increase in value added in the services sector (2.2 per cent in the North-East; 2.0 per cent in the Centre and in the North-West; 1.1 per cent in the South and Islands). In the industrial sector, value added grew in the Centre and in the North-East (by 1.7 and 1.3 per cent respectively) at a rate higher than the national average, while there was a strong contraction in the North-West (0.5 per cent); the increase in the South and Islands was 1.0 per cent, in line with the national average.

Figure 1.1



Sources: Calculations based on Istat data for the periods 1995-2000, 2001-05 and 2006; Projections based on Istat's Regional economic accounts for 2007. The red horizontal line represents the average annual growth rate of the Italian economy in the reference period.

(1) Chain-linked values until 2006. Values at previous year's prices for 2007. Average annual growth rates for the periods 1996-2000 and 2001-05.

Between 1995 and 2007, the Italian economy grew by 1.4 per cent. The Centre (1.6 per cent) and the North-East (1.5 per cent) grew at a slightly higher rate than average, in contrast with the South and Islands (1.3 per cent) and the North-West (1.2 per cent). Following the growth in the second half of the 1990s, since 2001 the slowdown has affected all macro-regions of the country, albeit to different degrees. The Centre performed best, with an average annual growth rate of 1.3 per cent in the period 2001-05 compared with the 1.9 per cent in the previous five-year period. Growth in the other macro-regions declined significantly to around half a percentage point annually: 0.6 in the North-East and the South and Islands (down from 2.1 in the period 1995-2000) and 0.5 in the North-West (down from 1.6).

Between 1995 and 2007, according to the regional accounts, per capita GDP annual growth in Italy was 1.0 per cent. GDP in the South and Islands grew at a faster pace (1.2 per cent) compared with the other macro-regions of the country (1.0 per cent in the Centre, 0.8 per cent in the North-East and 0.7 per cent in the North-West). As a result there was a slight convergence of per capita GDP among the macro-areas: in the South and Islands, per capita GDP rose from 65.5 per cent of the national average in 1995 to 67.5 per cent in 2007; in the Centre it basically remained the same, rising from 110.4 to 110.6 per cent; in the North it fell, in relative terms, from 124.5 to 120.5 per cent in the North-West and from 122.5 to 119.9 per cent in the North-East.

The process of convergence of per capita GDP between the macro-regions was very slow during the second half of the 1990s, picking up in the following five-year period when population growth differentials in the various areas widened: between 2001 and 2005, the population in the South and Islands grew by 0.4 percentage points less than the Italian average. This trend became more marked in the following two years.

## SOCIO-ECONOMIC DISPARITIES IN THE ITALIAN MACRO-REGIONS

Istat produces a vast set of indicators to provide an overview of socio-economic conditions in the different Italian regions since some differences are not captured perfectly by trends in macroeconomic aggregates. These include about 160 variables of different kinds, regrouped into six standard subject areas: I. Natural Resources (indicators on environmental public services and degree of pollution), II. Cultural Resources (cultural supply and demand indexes), III. Human Resources (indicators on the labour market, proportion of diploma and university degree holders, quality of students' learning), IV. Local Development Systems (economic indicators such as measures of productivity, spending on research and development, investment, bank credit quality), V. Towns (including indexes of quality of life in towns, looking at incidence of micro-criminality, urban public service provision, etc.) and VI. Service Networks and Hubs (including indexes on public security, transport and telecommunications). In addition, there are further indicators, known as *break variables*, which are particularly important for territorial policies; they include the openness of the markets, export capacity, degree of lawfulness and social cohesion, and capacity to innovate.

Table R1

Key regional indicators and break variables (percentages)						
SUBJECT AREA	Cases where the indicator improved between 1996 and 2006 (1)				Cases where the indicator was better in the South and Islands than in the North	
	North-West	North-East	Centre	South and Islands	1996	2006
I – Natural Resources	56.3	50.0	68.8	81.3	6.7	20.0
II – Cultural Resources	50.0	62.5	75.0	75.0	37.5	0.0
III – Human Resources	69.7	69.7	66.7	75.8	15.2	15.2
IV – Local Development Systems	66.7	66.7	63.0	48.1	15.6	18.8
V – Towns	66.7	58.3	66.7	91.7	7.1	21.4
VI – Service Networks and Hubs	50.0	61.5	50.0	61.5	36.0	36.0
R – Break variables	61.5	53.8	61.5	69.2	7.7	7.7
<b>Total</b>	<b>61.5</b>	<b>62.2</b>	<b>63.0</b>	<b>68.9</b>	<b>17.9</b>	<b>19.3</b>

Source: Calculations based on Istat data.

(1) For some indicators, the first available year and the last available year may differ according to macro area.

Although the percentage of cases in which an indicator has improved over the last decade was higher, relatively, in the South and Islands (68.9 per cent against around 62-63 per cent in the Centre and North), a comparison of the areas does not show the southern regions catching up with the higher socio-economic standards of those in the Centre and North. The most recent year for which data are available is 2006; in that year, in only 19.3 per cent of cases are the indicators for the southern regions better than those of the Centre and North, a figure slightly higher than ten years before.

Preliminary estimates from Istat indicate a growth rate of GDP per unit of labour in 2007 of 0.9 per cent in the South and Islands. This figure compares with slower growth in the North (0.4 per cent in the North-West and in the North-East) and no change in the Centre.

In the macro-regions of the Centre and North, GDP growth per unit of labour is in line with the modest increase in 2006 (0.6 per cent in the North-East, 0.3 per cent in the Centre and 0.2 per cent in the North-West) following a basic standstill in the five-year period 2001-05 (-0.2 per cent in the North-West, 1.0 in the North-East, -0.1 per cent in the Centre), which interrupted the marked growth in the second half of the 1990s (0.8 per cent in the North-West, 1.0 in the North-East and in the Centre). In the South and Islands, on the other hand, GDP growth per unit of labour in 2007 recovered in relation to past figures (-0.1 per cent in 2006; 0.0 per cent on average in the previous five years), but was still lower than the average annual rates for the five-year period 1996-2000 (1.6 per cent).

The lag of average labour productivity in the South and Islands has remained significant (close to 20 per cent) and basically unchanged since 2000. This persistent lag of the South and Islands comes partly from this area's production structure, characterized by a large number of small companies. In 2005, according to data from the companies' statistical register (ASIA), companies in the North-West, North-East and the Centre are larger on average, respectively by 63.6, 49.5 and 40.3 per cent, than companies in the South and Islands. This difference is only slightly less than in 2000 and is even greater for manufacturing companies, which are more exposed to international competition.

In the first half of the present decade, there was a significant change in company strategies in response to the new context of international competition. According to the results of the Bank of Italy's Survey of Industrial and Service Firms, based on a sample of firms with more than 50 employees, between 2000 and 2006 more than half of Italian industrial firms introduced new products, invested in their brand or began internationalizing. These changes were more frequent in the Centre and North than in the South and Islands. In particular, in 2006 more than 22 per cent of companies firms in the Centre and North had internationalized by means of direct investment or collaboration with other foreign firms, compared with 9.4 per cent of southern ones.

The growth of productivity, crucial in determining a firm's capacity to respond to international competition, strictly depends on its research and development and innovation activities. Here also, there were significant differences between the South and Islands and the rest of the country, within a general context of Italian industry lagging behind foreign competition (see chapter 6 in the *Special Topics* section).

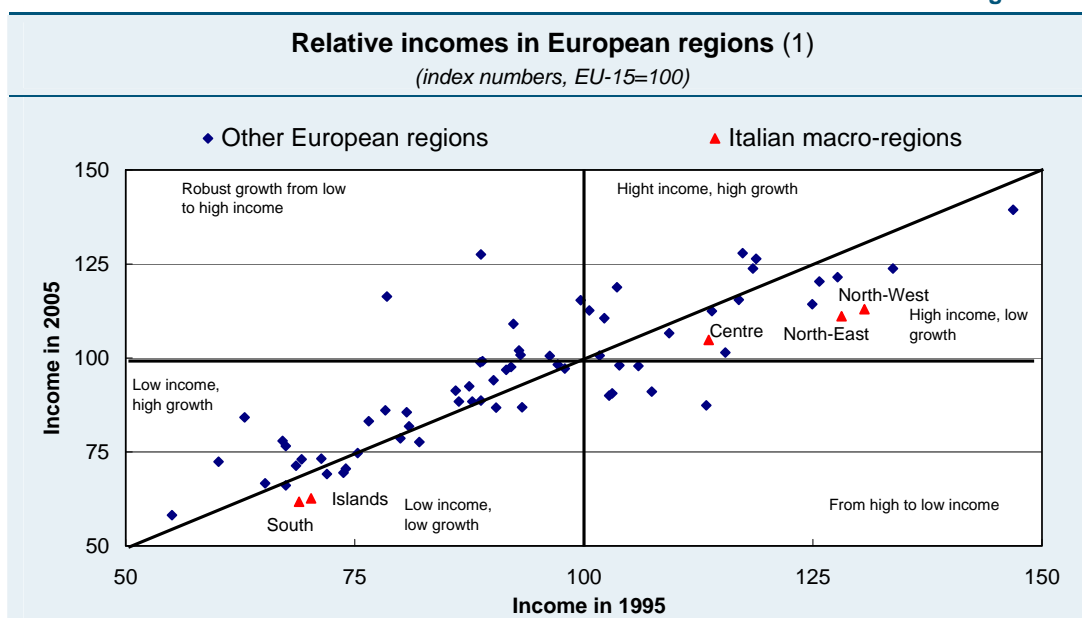
*Comparison with Europe.* – The weak convergence of the per capita income growth in the Italian regions is associated with the poor performance of the Italian production system in comparison with other European countries. On the basis of Eurostat data, per capita GDP in Italy (evaluated at purchasing power parity) was, in 1995, 105 per cent of the 15-country European Union average. In 2005, it had fallen to 93 per cent.

For each of the 74 regions in the European Union of 15 countries (at the NUTS1 level, equivalent to the Italian macro-regions; see section: Methodological Notes), Figure 1.2 compares the relative levels of per capita income in 1995 and 2005. All observations over the 45° line represent regions whose per capita income grew more than proportionally in relation to the European average. The figure shows that the slowdown affected all the Italian regions, which are below the dividing line.

This deterioration was more marked in the North, in particular in the North-West where income was at 131 per cent of the European average in 1995, in 8th position for per capita income in European regions, falling to 113 per cent, in 19th place, ten years later in 2005. The North-East suffered a similar decline, falling from 128 per cent of average per capita income in European regions to 111 per cent, losing 13 places in the classification (from 9th to 22nd place). The decline was less marked in the Centre, mainly thanks to the Lazio region remaining stable.

Per capita income in the South fell from 69 to 62 per cent of the European average and from 70 to 63 per cent in the Islands. Of the 74 European NUTS1 regions, the Islands and the South were, in 2005, in 71st and 72nd places respectively in the per capital income classification (compared with 63rd and 65th places in 1995).

Figure 1.2



Source: Calculations based on Eurostat data.

(1) Relationship between regional per capita income and average European per capita income in EU-15 at purchasing power parity.

The increase in the growth rate gap between the southern regions of Italy and the rest of Europe occurred in a period when results from all the other regions were converging: almost two thirds of those included in 1995 in Objective 1 of the EU Structural Funds had a relative increase in their own per capita income. These also included almost all the Objective 1 regions in Spain and Portugal and a large number of those in Germany and the United Kingdom; no Italian region was included however.

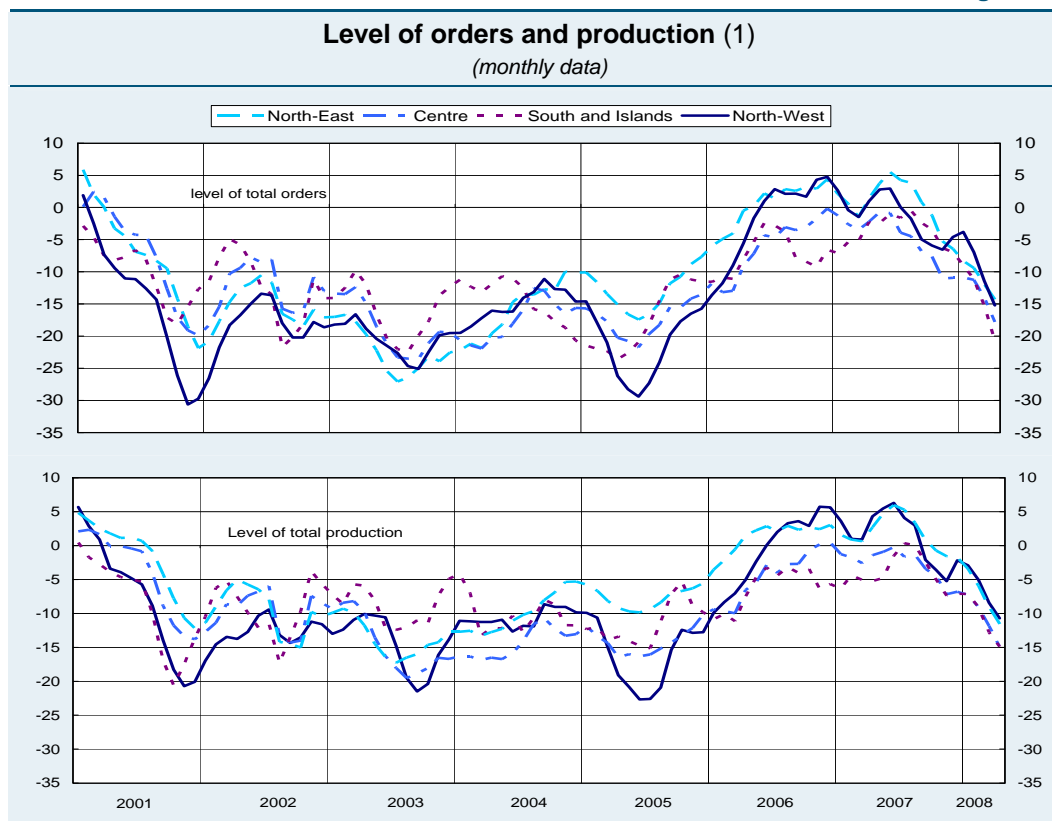
Labour productivity, calculated as the ratio between PPP adjusted value added and the number of employees, showed a trend towards a convergence of the European regions in the years 1996-2005. The Italian regions had the lowest growth rates in Europe, irrespective of their initial level of development. The increase in productivity in the European Objective 1 regions was very similar: some econometric estimates show that, initial economic conditions being the same, the backward areas with the strongest growth were in Spain and Germany, while the worst were in Italy.

### *Production*

*Industry.* – In 2007 the value added to base prices in industry slowed to 1.0 per cent from 1.2 per cent in 2006. Growth was recorded in all the territorial divisions,

with greater expansion in the Centre (1.7 per cent) and the North-East (1.3 per cent) compared with the South and Islands (1.0 per cent) and the North-West (0.5 per cent).

Figure 1.3



During the year value added in industry excluding construction contracted to 0.8 per cent in real terms (from 1.2 per cent in 2006); growth in the manufacturing sector was accompanied by a fall in the energy and extractive sectors. Growth was driven by the increase in the sectors of transport equipment (3.3 per cent), mechanical engineering (3.1 per cent), iron and steel (2.4 per cent). In the traditional manufacturing industry, the clothing and textiles sector picked up again following a contraction in recent years (1.0 per cent), but the footwear sector continued to decline (-4.6 per cent).

According to the monthly ISAE surveys, the balance of business assessments of orders and output continued to fall in the first months of the year, reaching in April the levels last seen at the start of 2006 (Figure 1.3). These indicators suggest that economic activity will continue to slow down throughout 2008 in all areas of the country.

According to the survey conducted by the Bank of Italy on a sample of industrial firms with at least 20 workers (see section: Methodological Notes), gross fixed investments increased by 5.4 per cent at constant prices in 2007, following



stagnation in recent years. The increase only affected the regions of the Centre-North (7.6 per cent in the North-West; 9.8 per cent in the North-East; 7.0 per cent in the Centre), while there was a fall of 3.9 per cent in the South and Islands. According to the assessments of operators in the sector, in 2008, in real terms, investment will grow by 5.8 per cent, mainly thanks to investments planned in the South and Islands and the North-West.

*Construction and public works.* – In 2007, real value added growth in the construction industry was 1.6 per cent, a similar rate to the previous year. Private construction expanded whereas there was a contraction in the public works sector.

According to the construction industry association ANCE, growth in investment in private construction was greater in the North-West (1.9 per cent) and the North-East (1.2 per cent), slighter in the Centre (0.6 per cent), remaining stationary in the South and Islands.

The total amount of tax relief for house renovations continued to increase strongly (by 8.5 per cent). In the last decade, more houses have been renovated in the North-East where applications to the Italian Inland Revenue for tax relief covered 23 per cent of all housing. The corresponding figures for the North-West and the Centre were 15.6 and 11.6 per cent respectively, and 4.1 per cent in the South and Islands.

According to the Territorial Management's Property Market Observatory, house sales fell by 4.6 per cent in 2007, following an increase in the previous years. This decline, which was more marked in the second half of the year, affected all parts of the country. House prices rose by 6.2 per cent in line with a slowdown that began in 2005. The deceleration was particularly marked in the Centre (from 12.1 per cent to 7.5 per cent); in the South and in the Islands growth in house prices was down one percentage point, falling to 7.7 per cent; in the North prices continued to rise by about 5 per cent.

In the public works sector, the decline observed in the preceding two years continued. The survey conducted by the Bank of Italy found that production at constant prices fell by about 3 per cent. The decline was greater in the Centre and the North than in the South and Islands.

The value of public works contracted out during the year fell by 1.9 per cent. The reduction affected all parts of the country except for the North-West, where the value of tendered works grew by 50 per cent compared with 2006 as a result of the start-up of tender proceedings for large road-building projects in Lombardy and major work on port and health facilities in Liguria (see: *L'economia della Lombardia and L'economia della Liguria nel 2007*).

*Services.* – Real value added rose 1.8 per cent in the sector in 2007, slightly less than in 2006 (2.1 per cent). According to preliminary estimates provided by Istat, value added rose fastest in the Centre and the North (2.2 per cent in the North-East, 2.0 per cent in the North-West and the Centre) compared with the South and Islands (1.1 per cent).

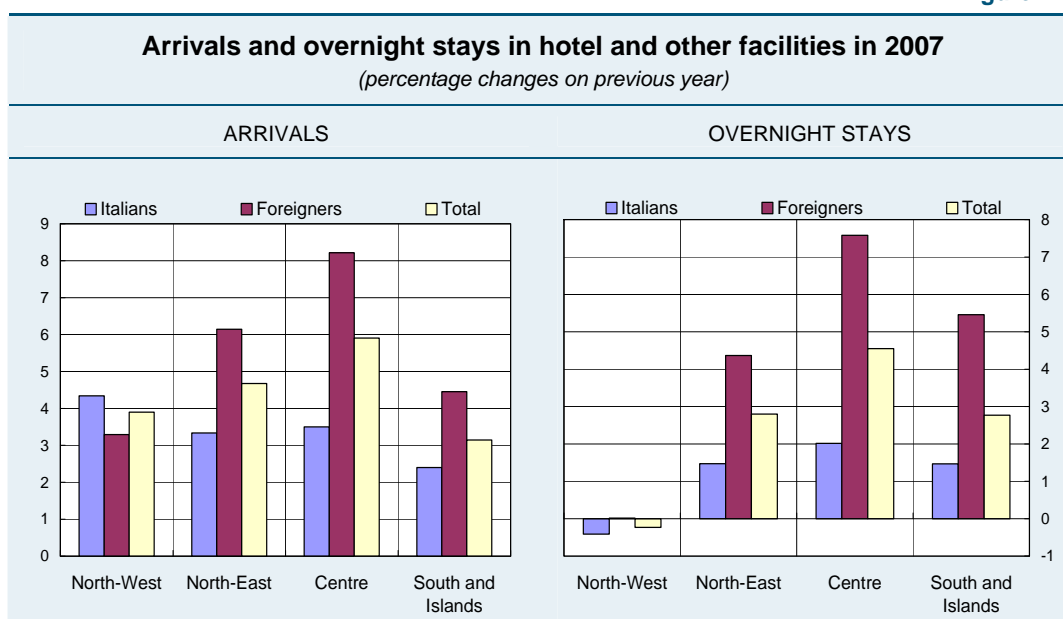
Data from the Ministry for Economic Development show that retail sales at current prices rose by 0.7 per cent in 2007, down from 1.2 per cent in 2006. Growth was greatest in the North (North-East 1.4 per cent, North-West 0.9 per cent) compared with basically no change in the South and Islands (0.4 per cent) and the Centre (0.3 per cent, see Table a1.8).

The number of medium-sized and large retail outlets (supermarkets, department stores and hypermarkets) rose by 5.1 per cent compared with the previous year, with the greatest increase in the South and Islands. The diffusion of these outlets is however highly uneven geographically: at the start of 2007 in the regions of the South and Islands, the floor space of supermarkets was 60 per cent of that of the Centre and North in proportion to population and that of hypermarkets was 53 per cent (Table a1.9).

The average size of retail and wholesale outlets is less than that in the leading European countries, affecting productivity and final product cost (see chapter 7 in the *Special Topics* section).

Estimates by the regional statistics offices and tourist promotion agencies indicate that the number of tourists staying at hotels and other facilities in Italy increased by 4.6 per cent in 2007 (compared with 5.6 per cent in 2006) and the number of overnight stays by 2.8 per cent (4.2 per cent in 2006).

Figure 1.4



Sources: Estimates based on data from Regional statistical offices and Tourist promotion agencies.

As in 2006, growth in the number of foreign visitors was greater than in the domestic sector with a 4.7 per cent increase in overnight stays (1.3 per cent for Italian tourists). The increase in tourism flows was greatest in the Centre (Figure 1.4), mainly thanks to tourism in the Lazio region. Increases greater than the national average were seen in the Veneto region and in some of regions in the South and Islands

(Basilicata, Campania, Calabria and Sardinia). In the North-West the number of overnight stays fell slightly, particularly as regards Italian tourists.

According to data from AISCAT, heavy goods vehicle traffic on Italian motorways increased by 2.4 per cent in 2007. Compared with other European countries, there is much less rail and air freight in Italy. Freight transported by rail by Trenitalia increased by 0.4 per cent, down from a 2.1 per cent increase in 2006. A slight growth in international shipments was countered by a small decline in the volume of domestic traffic. Rail freight traffic to and from Italy grew markedly in the North-East, mainly thanks to shipments to and from the regions of Veneto and Emilia-Romagna. There was also an expansion in the South and Islands, with exports from Campania making a decisive contribution. In the other macro-regions shipments decreased.

According to Assaeroporti data, passengers and freight traffic carried by air increased by 10 and 5 per cent respectively. In the cargo sector, the main Italian airport, Milan Malpensa, representing almost 50 per cent of national cargo traffic, increased the quantities of tons transported by 16 per cent. Compared with the main European airports, Milan Malpensa is fifth in terms of goods transported, less than a quarter of cargo in and out of Frankfurt airport and less than a third of cargo flow at Amsterdam airport.

Data from port authorities show that freight handled in the main Italian seaports slightly increased (2.6 per cent). Container traffic in the main Italian ports grew by 9.4 per cent, more than in the main ports of other Mediterranean countries but less than in the ports of Northern Europe. One of the reasons for this lag is that Italian ports are less well developed in terms of accessory infrastructure, especially as regards road and rail links to the main markets (see chapter 8 in the *Special Topics* section).

### ***Exports and foreign direct investment***

In 2007, Italian exports of goods and services rose by 5.0 per cent in real terms, compared with 5.5 per cent in 2006, better than the average for the five-year period 2001-05. Provisional data from Istat showed 8 per cent growth in exports of goods at current prices, compared with 10.7 per cent in 2006 (Table a1.10). Growth was faster than the national average in the South and Islands (11.8 per cent) and the North-West (8.2 per cent), slower in the North-East (7.2 per cent) and the Centre (7.3 per cent).

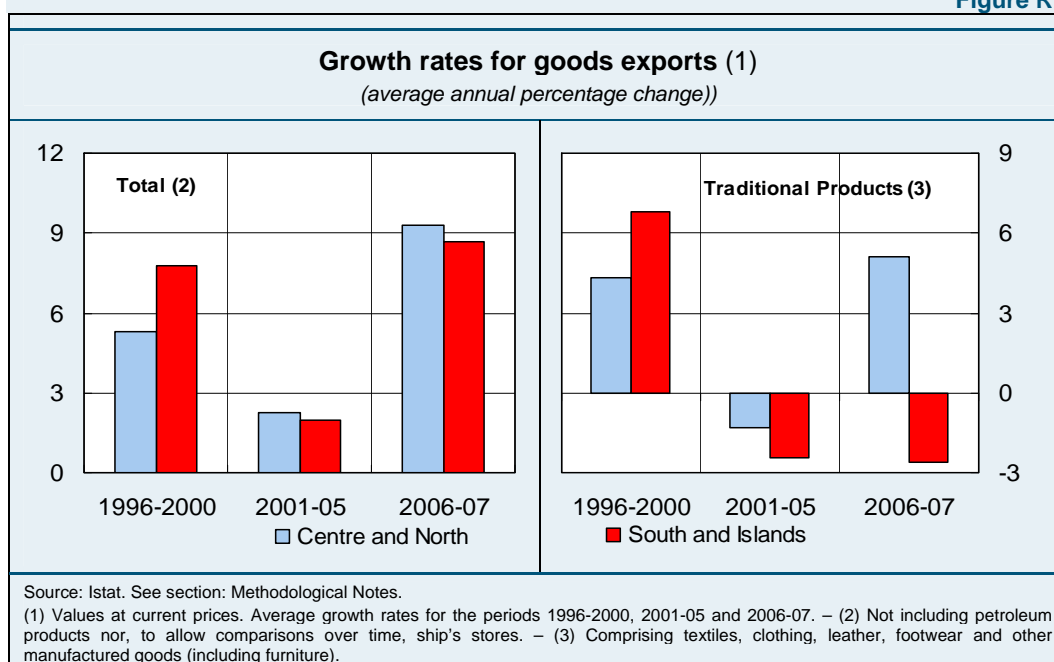
The export expansion in the regions of the North was mainly due to sales of machinery and, to a lesser extent than in the previous years, to metal products. In the Centre there was also expansion in chemical products and transport equipment. In the South and Islands the transport equipment and refined petroleum product sectors made the greatest contribution. Although more slowly than last year, sales on international markets of typical Italian goods in the fashion segment (textiles, clothing, leather and footwear) continued to grow, mainly due to the good performance of companies in North-West (3.7 per cent). Exports from the fashion segment in the South and Islands, which account for about 7 per cent of Italian

exports in this sector, remained stationary (0.5 per cent), in line with growth in this area since 2001 (see box below).

## EXPORTS FROM THE MACRO-AREAS AND INDUSTRIAL CENTRES

In the second half of the 1990s, the average annual growth rate for exports at current prices was higher in the South and Islands (7.8 per cent, net of petroleum products) than in the Centre and North (5.3 per cent), even in traditional sectors (textiles and clothing, leather and footwear and other manufactured goods, including furniture, see Figure R1).

Figure R1



In the first half of the current decade however, export growth was slightly faster in the Centre and North. Greater competition from the more recently industrialized countries affected traditional sectors in the South and Islands more than other parts of the country, suffering from the greater diffusion of medium-low quality goods. Exports of typical southern products fell by 2.4 per cent during the year (-1.3 per cent in the Centre and North). This trend was confirmed in the two-year period 2006-07: at a time when Italian exports generally were recovering, the value of foreign sales of typical southern products continued to decline as exports of firms located in the Centre and North began to grow again.

The decline was marked in many important southern industrial centres: between 2000 and 2007, furniture exports from the provinces of Bari and Matera declined by 43.7 and 38.8 per cent respectively, and those of the tanneries in the Avellino area fell by 67.4 per cent. In the Bari and Naples areas, footwear exports contracted by 27.7 and 25.6 per cent respectively. In contrast, exports of clothing from the Naples and Isernia areas increased by 50.8 and 48.7 per cent respectively.

Italy's market share of international trade at current prices rose to 3.7 per cent (3.5 per cent in 2006). In 2007 exports from the North-West and the North-East accounted for 1.5 and 1.2 per cent respectively of world exports at current prices; those of the Centre and the South and Islands for 0.6 and 0.4 per cent. As a result of the increase in the average unit values of exports, Italian market share at current prices has nevertheless been steadily contracting since the mid-1990s and stood at 2.8 per cent in 2007 (against 4.6 per cent in 1995).

The South and Islands produce about 15 per cent of Italian industrial added value, just over 10 per cent of export value. The reason for this gap can be explained by the smaller average size of firms in the southern regions of the country compared with the rest of Italy. In 2005, according to data from the statistical register of companies (ASIA), the average size of manufacturing firms in the South and Islands was more than 50 per cent below that of the North and almost 30 per cent less than that of the Centre. Some econometric estimates based on data from the Company Accounts Data Service and the Bank of Italy's survey on industrial firms with more than 50 workers from 1985 to 2005 show that company size has a significant effect on southern firms' export capacities. The analyses indicate that there is a positive relation between the number of workers and foreign sales since larger companies benefit from greater productivity. Nevertheless, although companies in the South and Islands have, on average, lower export capacities than those in other parts of the country, in some sectors (food, clothing, manufacturing of precision instruments and furniture), large southern firms managed to export more than those in the Centre North, even in the period 2000-05.

*Direct investment.* – Foreign direct investment in Italy, net of real estate, banking, and disinvestment, decreased in the Centre and North-West and increased slightly in the North-East and the South and Islands. Net inflow in the North-West came to 1.4 per cent of GDP, a higher percentage than that of the other areas. Italian direct investment abroad expanded significantly, driven mainly by the outflow of capital from regions in the Centre. Investment increased only slightly in the North-East and the South and Islands and diminished in the North-West.

## 2 – THE LABOUR MARKET AND THE ECONOMIC CONDITIONS OF HOUSEHOLDS

### *Employment*

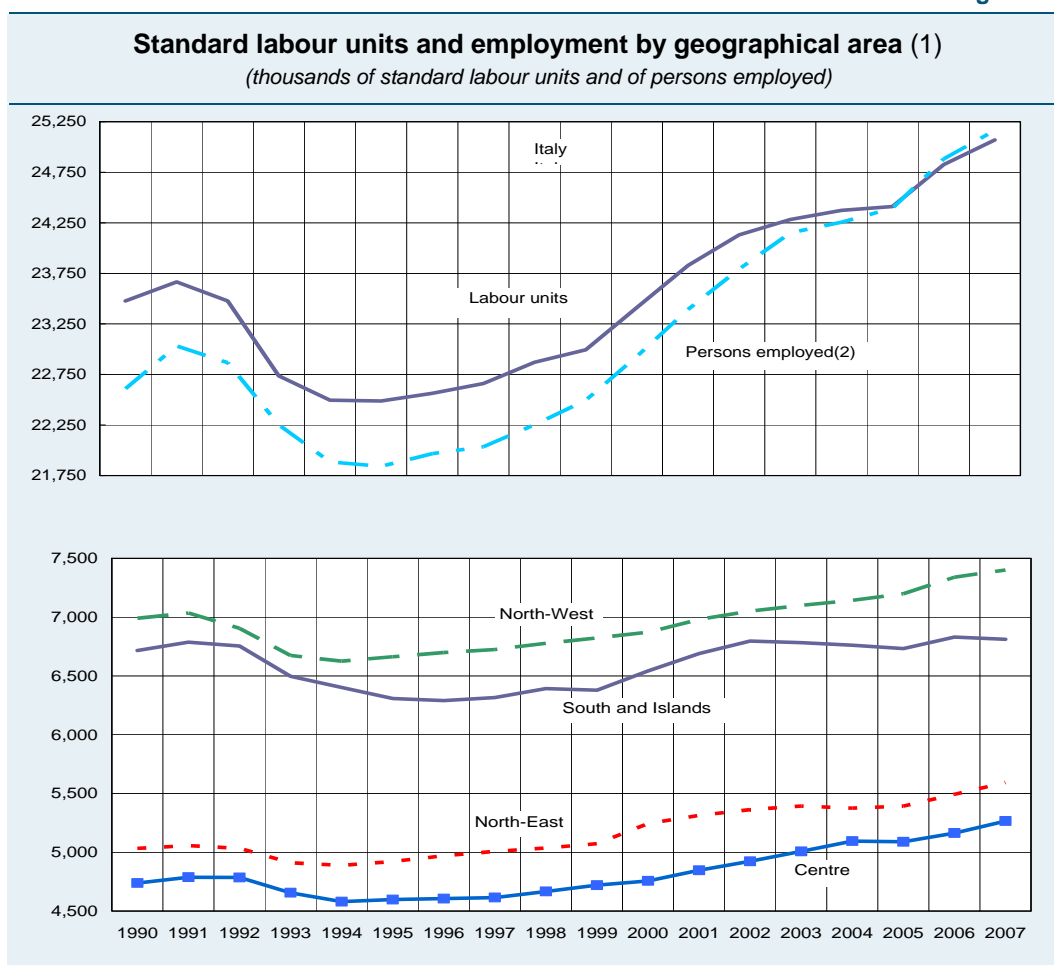
The expansion of employment continued in 2007, although at a slower pace than in 2006. Istat's preliminary figures showed that the number of full-time equivalent workers rose by 1.0 per cent, as did the number of employees (which includes unregistered and non-resident workers). Continuing a five-year trend, the number of standard labour units increased in the Centre and North (by 1.4 per cent) but remained unchanged in the South and Islands (Figure 2.1).

According to Istat's labour force surveys, the average number of employees increased by 1.0 per cent in 2007 (Table a2.1). Employment rose significantly in the regions of the Centre (2.5 per cent), less so in the North (1.0 per cent); in the South and Islands it remained at the previous year's level. By sector, employment expanded mainly in the construction industry, especially in the Centre, and in services outside general government. In industry excluding construction employment was stable in the Centre and North and increased in the South and Islands. Everywhere, women's employment grew more than men's, at a rate of 1.3 per cent nationwide.

About 1.5 million foreigners were employed in Italy in 2007, and non-residents accounted for about two thirds of the overall expansion, increasing from 5.9 to 6.5 per cent of the work force, a figure that is still lower than the European average. In the Centre and North foreigners make up 8.0 per cent of the work force, as against 2.6 per cent in the South and Islands (see chapter 9 in the *Special Topics* section).

*The employment rate.* – The employment rate for the population aged 15-64 rose by 0.3 percentage points in 2007 to 58.7 per cent (Table a2.3). The increment came almost exclusively in the 55-64 age-group. The rate rose in the regions of the Centre and North while declining in the South and Islands, so that geographical disparities widened. The employment rate in the Centre and North is near the European average at 65.4 per cent, 19 points higher than in the South and Islands. The gap in female employment is even wider: 55 per cent in the Centre and North against 31 per cent in the South and Islands.

Figure 2.1



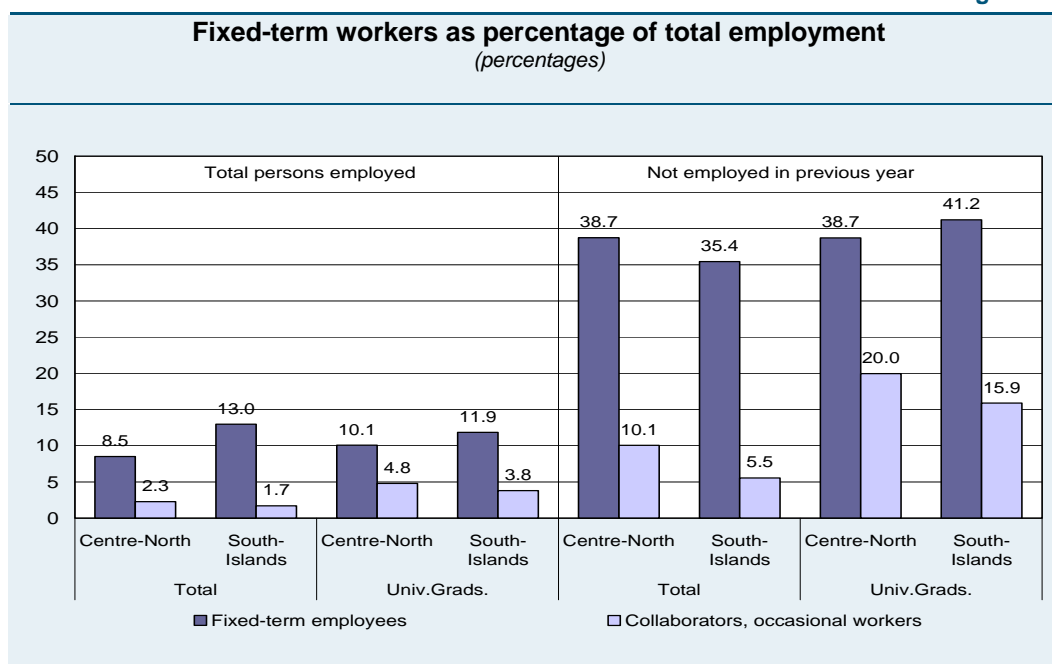
Sources: Istat, Regional accounts and National accounts. See section: Methodological Notes

(1) The territorial data for 2007 are provisional and derived from a preliminary Istat release in June 2008. – (2) Resident and non-resident workers, regular and non-regular, in resident firms.

*Employment relationships.* – The growth of employment was accounted for entirely by payroll positions, which increased by 1.5 per cent, while the number of self-employed workers slipped by 0.3 per cent. Fixed-term payroll positions rose quite strongly (2.1 per cent), especially in the North (nearly 5 per cent), but their share of the total remained significantly larger in the South and Islands, owing in part to the greater importance of agriculture and construction in those regions.

Fixed-term employment, which in addition to salaried positions also includes collaborations and occasional work, is more common among young people (a fifth of all workers in the 15-34 age-group) and among university graduates. Fixed-term relationships are more common among new labour market entrants; in the Centre and North 49 per cent of all those having found employment within the last year had a fixed-term position, compared with 41 per cent in the South and Islands (Figure 2.2); and for university degree-holders the percentages are higher still, owing above all to the larger proportion among them of project collaborators and occasional workers.

Figure 2.2



Source: Istat, labour force surveys. See section: Methodological Notes.

Part-time employees increased in number by nearly 6 per cent and accounted for 14.1 per cent of the total. In the South and Islands the incidence of part-time jobs is 3 percentage points less than in the Centre and North. Part-time work is especially common among women, with the highest rate in the North-West (30 per cent) and the lowest in the South and Islands (23.6 per cent).

In 2005 – the last year for which data are available – non-regular employment constituted nearly 20 per cent of the total in the South and Islands compared with 10.7 per cent in the Centre and 8.7 per cent in the North. The percentages are especially high in construction, agriculture and household services.

### *The labour supply and unemployment*

In 2007 the labour force did not change in size. The increase in the number of persons employed was offset by a 10 per cent decrease in the number of job seekers. The fall was sharper in the South and Islands than in the Centre and North. As a consequence, the national unemployment rate continued to fall from 6.8 to 6.1 per cent. In the Centre and North it declined from 4.4 to 4.0 per cent, and was less than 3 per cent in Trentino-Alto Adige and Emilia Romagna. In the South and Islands the unemployment rate came down from 12.2 to 11.0 per cent. Part of the reduction in these southern regions depended on discouragement. Counting as unemployed also those who, though not having undertaken a job search action in the previous month, stated that they were willing to go to work immediately, the unemployment rate in the South and Islands would have been nearly 10 percentage points higher in 2007, whereas in the rest of the country it would have risen only marginally. Further, the



incidence of long-term unemployment is greater in the South and Islands, where 55 per cent of job-seekers have been out of work for more than a year, compared with 39 per cent in the Centre and North.

The decline in youth unemployment continued, the rate among 15-24-year-olds falling from 21.6 to 20.3 per cent. In the South and Islands, even though the youth unemployment rate has fallen by over a dozen percentage points since the turn of the decade, one youth in three is still unemployed. The reduction in the jobless rate is due in part to increasing enrolment in secondary schools and universities. In 2007 the high school enrolment rate (for 14-18-year-olds) was 93.2 per cent, 11 points higher than at the start of the decade and almost 20 higher than in 1995 (see chapter 10 in the *Special Topics* section).

### THE COST OF LABOUR AND THE COST OF LIVING: THE NORTH-SOUTH GAPS

According to the Bank of Italy's Survey on Household Income and Wealth, the private-sector wage differential between the South and Islands on the one hand and the Centre and North on the other, net of taxes and social security contributions, was 15 per cent in 2006, adjusting for the characteristics of individual workers. The administrative data of INPS, which do not allow taking education into account, put the gross earnings differential at around 20 per cent, adjusted for workers' age, sex and nation of birth. The high rates of unemployment and non-regular activity in the South and Islands prevent matching labour demand and supply, given the region's persistent productivity lag.

Migration helps to bring demand and supply more closely into line. For southern residents, the earnings gap and the lower probability of finding a job create an incentive to look for work in the Centre and North. But the higher cost of living in the more advanced parts of the country works in the opposite direction. Exhaustive estimates of regional cost-of-living differentials are not available, but partial indications can be derived for major consumption components (house rentals, food, clothing, home furnishings). In 2006, the Survey on Household Income and Wealth found that the average house rental in the Centre and North – adjusted for dwelling characteristics and size of municipality – was 30 per cent higher than in the South and Islands. Recent estimates by Istat, for provincial capitals only, show that prices in the Centre and North are 10 per cent higher for foods, 3 per cent for clothing, 18 per cent for furnishings. Combining the data on living costs based on rents and those on average earnings and probability of finding work, adjusting for individual characteristics, we can calculate a summary indicator of the relative advantage of moving from south to north. This indicator suggests that the economic incentive to emigrate, which is stronger for workers under 35 years of age, strengthened over the course of the 1990s and has weakened in the current decade. Given wage differentials that have changed little, this pattern reflected the change in the unemployment gap, which first widened and then narrowed. Another factor is the rent differential, which widened sharply starting in the mid-1990s, curbing the migratory flow towards the Centre and North. (see chapter 9 in the *Special Topics* section).

## *The economic conditions of households*

According to the Bank of Italy's Survey on Household Income and Wealth, the real net monthly earnings of full-time employees in Italy averaged €1,453 in 2006; average earnings in the Centre and North were 17.1 per cent higher than in the South and Islands, compared with 8.7 per cent in 1995 (Table 2.1).

**Table 2.1**

<b>Real net monthly earnings of full-time employees (1)</b> <i>(in euros at 2006 prices and percentages)</i>						
VOCI	1995	1998	2000	2002	2004	2006
Average earnings	1,360	1,358	1,377	1,410	1,423	1,453
<i>Centre and North</i>	1,393	1,403	1,422	1,458	1,482	1,514
<i>South and Islands</i>	1,282	1,248	1,255	1,288	1,261	1,293
Share of low-wage workers (2)	9.7	12.2	10.6	11.3	12.7	10.0
<i>Centre and North</i>	7.0	8.6	7.4	8.6	9.7	7.2
<i>South and Islands</i>	16.3	20.9	19.3	18.4	20.6	17.1

Fonte: Banca d'Italia, *Indagine sui bilanci delle famiglie italiane, Archivio storico* (versione 5.0, febbraio 2008). See section: Methodological Notes.  
(1) Main jobs (i.e., excluding second jobs). Earnings are deflated using the CPI and are net of taxes and social security contributions. Values in lire (through 1998) are converted into euros at the official parity of 1936.27 per euro. – (2) Percentages. According to the OECD definition, low-wage workers are those earning less than two thirds of the median for full-time workers.

Nationwide, average earnings increased by 6.8 per cent between 1995 and 2006, but virtually all of the gain came in the Centre and North (8.7 per cent, compared with a rise of just 0.9 per cent in the South and Islands).

The proportion of workers earning less than two thirds of the nationwide median was 17.1 per cent in the South and Islands and 7.2 per cent in the Centre and North, values not far removed from those of a decade earlier. However, the regional disparities do not take account of differences in the cost of living (see the box: “The cost of labour and the cost of living: The North-South gaps”). The real disposable “equivalent” household income was just over €19,000 in 2006; that of southern households was only 58.8 per cent of that of central and northern households (in 1995 it had been 61.8 per cent; Table 2.2). The slight worsening of geographical disparities reflects faster growth of real incomes in the Centre and North (1.8 per cent per year) than in the South and Islands (1.3 per cent).

Table 2.2

<b>Real disposable household equivalent income (1)</b> (in euros at 2006 prices, percentages)						
	1995	1998	2000	2002	2004	2006
Average equivalent income:	15,839	16,926	17,130	17,531	18,301	19,063
<i>Centre and North</i>	18,396	19,950	19,975	20,651	21,630	22,302
<i>South and Islands</i>	11,368	11,615	12,111	11,979	12,297	13,120
Occupational status (2)						
<i>Production or sales worker</i>	12,581	12,636	12,774	12,929	12,859	13,524
<i>Office worker, teacher</i>	18,766	18,278	18,949	19,198	19,680	19,965
<i>Manager</i>	31,925	33,362	32,871	38,309	36,041	41,171
<i>Self-employed worker</i>	18,632	22,828	21,078	21,946	25,601	26,887
Gini index (3)	0.337	0.348	0.335	0.330	0.343	0.338
<i>Centre and North</i>	0.299	0.314	0.293	0.292	0.306	0.305
<i>South and Islands</i>	0.357	0.350	0.357	0.329	0.334	0.324
Low-income households (4)	12.5	13.0	12.4	12.2	12.0	11.8
<i>Centre and North</i>	5.2	5.9	4.4	4.5	4.7	5.3
<i>South and Islands</i>	27.1	27.4	28.4	27.5	27.7	26.2

Fonte: Banca d'Italia, *Indagine sui bilanci delle famiglie italiane, Archivio storico* (versione 5.0, febbraio 2008). See section: Methodological Notes.

(1) Total household income (including imputed rentals on owner-occupied housing), net of direct taxes, deflated by the national accounts national household consumption deflator, made comparable using the OECD scale of income equivalence, which assigns a weight of 1 to the first adult, 0.7 to every other person older than 13 and 0.5 to those 13 or younger. Observations are weighted by number of persons, save for the share of low-income households, which is calculated according to number of households. – (2) Occupational status is that of the head of household, defined as the recipient of the largest labour or pension income. – (3) Range from 0 (perfect equality) to 1 (maximum inequality). – (4) "Low income" is defined as less than 50 per cent of the median.

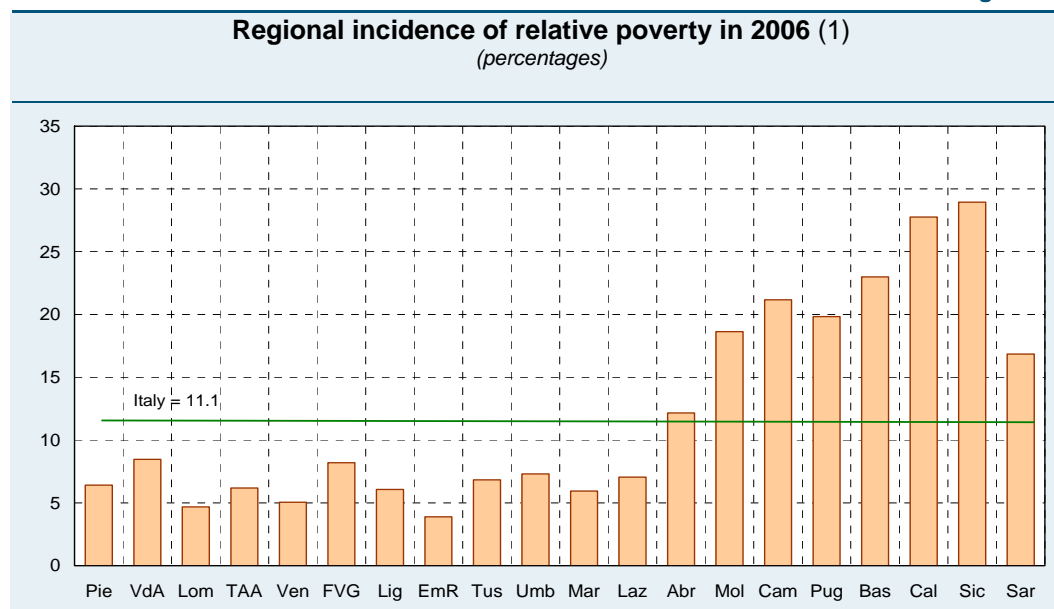
In 2006 the Gini index of concentration for equivalent household incomes in Italy was 0.338; the degree of inequality was greater in the southern regions (0.324) than in the central and northern ones (0.305). Between 1995 and 2006 the inequality index had remained unchanged nationwide, increasing slightly in the Centre and North and diminishing slightly in the South and Islands.

*According to Istat's EU-SILC survey on income and living conditions, Gini's concentration index for Italy is comparable to that for Britain and America and higher than that for northwestern Europe, including France and Germany, and even more markedly higher than for the Scandinavian countries. The highest index levels are recorded in the southern regions, notably Calabria, Sicily and Campania. Inequality is less marked in the Centre and North, especially in the North-East.*

While the measures of inequality have remained broadly stable, the relative position of households according to the occupational status of the household head has changed. Between 1995 and 2006 the total equivalent income of households in which the main earner was a self-employed worker or a manager rose respectively by

3.4 and 2.3 per cent per year in real terms, while that of households headed by production workers or clerical employees rose by less than 1 per cent a year.

Figure 2.3



Source: Istat, *La povertà relativa in Italia nel 2006*.

(1) Percentage of households whose average monthly consumption spending is below a conventional poverty line, defined in relative terms with respect to national average per capita spending. In 2006 the poverty line, for a two-member household, corresponded to €970,34 a month..

According to Istat, the proportion of households below the relative poverty line – i.e. with monthly consumption below a conventional threshold – was 11.1 per cent, corresponding to 12.9 per cent of the population (Figure 2.3). In the South and Islands the incidence of poor households was 22.6 per cent, as against 5.2 per cent in the North and 6.9 per cent in the Centre. The regions with the lowest poverty rates were Emilia Romagna (3.9 per cent) and Lombardy (4.7 per cent); those with the highest were Sicily (28.9 per cent) and Calabria (27.8 per cent).

### 3 – FINANCIAL INTERMEDIARIES

#### *Lending to households and firms*

Net of repos and bad debts, bank lending grew by 10 per cent in 2007, slightly less than in 2006 (11 per cent; Tables 3.1 and a3.1). The deceleration involved all the macroregions except the Centre. In the North-West and the South and Islands it extended to both households and firms, while in the North-East and the Centre the slowdown in lending to households was countered by an acceleration in lending to firms.

**Table 3.1**

<b>Bank lending by geographical area and by sector (1)</b> (percentage changes on previous year)											
	General government	Financial and insurance companies	Non-financial corporations (a)		Households		Firms = (a) + (b)			Total	
			With fewer than 20 workers (2)		Producer (b) (3)	Consumer (4)	Manufacturing industry	Construction	Services		
<b>North-West</b>											
2006	0.4	13.9	11.3	6.3	10.0	8.9	11.2	6.2	14.5	13.7	11.0
2007	10.4	8.7	9.8	8.4	6.3	8.5	9.5	4.4	11.8	11.4	9.1
<b>North-East</b>											
2006	4.3	30.9	9.6	4.0	5.7	9.4	9.2	5.5	13.8	11.7	10.4
2007	-9.5	-0.9	12.2	4.7	2.5	8.3	11.1	10.4	12.7	11.9	9.2
<b>Centre</b>											
2006	6.4	12.8	10.3	4.7	6.7	12.1	10.1	7.6	14.7	9.6	10.0
2007	7.1	-1.6	20.2	7.8	7.2	7.9	19.0	5.7	16.4	8.6	12.2
<b>Centre and North</b>											
2006	4.9	15.8	10.5	5.0	7.6	10.0	10.3	6.2	14.3	12.1	10.6
2007	5.7	5.5	13.0	6.7	5.1	8.3	12.3	6.8	13.5	10.8	10.0
<b>South and Islands</b>											
2006	-3.0	-22.3	19.7	9.5	10.6	13.2	18.4	12.4	21.0	22.3	13.9
2007	-0.2	-7.0	10.7	9.7	6.6	10.5	10.0	7.2	18.5	9.6	9.4
<b>Italy</b>											
2006	3.7	13.6	11.6	5.6	8.3	10.6	11.3	6.9	15.4	13.3	11.0
2007	4.8	5.2	12.7	7.1	5.5	8.7	12.0	6.8	14.3	10.7	10.0

Source: Supervisory reports. Data classified by customer location. See section: Methodological Notes.

(1) Lending does not include repos and bad debts. The changes are calculated without taking account of the effects of reclassifications, exchange rate variations and other changes not due to transactions. The data do not include the reports of Cassa Depositi e Prestiti S.p.A. and Poste S.p.A.– (2) Limited partnerships and general partnerships with fewer than 20 workers; informal partnerships, de facto companies and sole proprietorships with more than 5 but fewer than 20 workers. – (3) Informal partnerships, de facto partnerships and sole proprietorships with up to 5 workers. – (4) Includes non-profit institutions serving households and units n.e.c.

*Firms.* – In a phase of low growth in self-financing, bank lending to firms expanded more rapidly than in 2006, with stronger growth in the medium and long-term component (13.8 per cent, against 9.7 per cent for short-term loans). The sharp acceleration recorded in the Centre (from 10.1 to 19 per cent) was largely due to the financing of an acquisition in the energy sector; the energy sector alone accounted for more than half of the growth in lending in the Centre (Table 3.2). The increase in the North-East was ascribable to both services and manufacturing, in particular the machinery sector, which accounted for about 15 per cent of the total growth in lending in the area.

In the North-West, the deceleration in credit involved all the productive sectors. In the South and Islands, where lending had expanded vigorously in the three years 2004-06 and at a higher rate than in the other geographical areas, the rate of growth last year was lower than in the rest of the country; lending slowed in all the productive sectors and particularly in real-estate services.

**Table 3.2**

<b>Sectoral contributions to the growth in lending by geographical area in 2007</b> (percentage points)						
	North-West	North-East	Centre	Centre and North	South and Islands	Italy
Agriculture	0.2	0.3	0.2	0.3	0.2	0.3
Energy products	0.6	0.1	10.3	2.8	0.3	2.5
Food processing	0.1	0.4	0.0	0.2	0.4	0.2
Textiles and clothing	0.3	-0.1	0.1	0.2	0.1	0.2
Chemicals, rubber and plastics	0.2	0.3	0.1	0.2	0.1	0.2
Machinery	0.7	1.6	0.6	1.0	0.9	1.0
Other manufacturing	-0.1	1.1	0.4	0.4	0.1	0.4
Construction	1.2	1.7	2.6	1.7	2.9	1.9
Distribution	1.0	1.3	1.9	1.3	2.7	1.5
Hotels and restaurants	0.3	0.4	0.4	0.3	0.6	0.4
Transport and communications	-0.1	0.2	0.2	0.1	0.4	0.1
Other services	4.9	3.7	2.1	3.9	1.2	3.5
<b>Total</b>	<b>9.5</b>	<b>11.1</b>	<b>19.0</b>	<b>12.3</b>	<b>10.0</b>	<b>12.0</b>

Source: Calculations based on supervisory reports. See section: Methodological Notes.

As in 2006, the growth in loans was driven by non-financial firms with at least 20 workers (13.4 per cent); it was less intense in the South and Islands (10.8 per cent), where rates of growth, especially high in 2006, fell back to their 2005 levels.

The increase in lending to firms with fewer than 20 workers (6.3 per cent) was smaller than that for larger firms. As in the previous three years, lending to small firms grew more in the South and Islands than in the Centre and North.

*In recent years banks have been engaged in a complex process of reorganization and in a revision of their lending policies, as, for instance, the adoption of credit scoring techniques. The use of credit scoring by small banks in evaluating small firms varies across geographical areas (see Chapter 12 in the Special Topics section).*

Leasing credit granted by banks and financial companies grew by 17.8 per cent, more rapidly than in 2006, and outpaced the annual increase in total bank lending. Growth was stronger than in 2006 in the North; it diminished in the South and Islands, though maintaining high rates (Table a3.2).

Factoring credit granted by banks and financial companies slowed slightly, its annual growth declining from 10.3 in 2006 to 9.1 per cent; the deceleration mainly involved the South and Islands, where the rate of growth fell from 27.7 to 15.3 per cent.

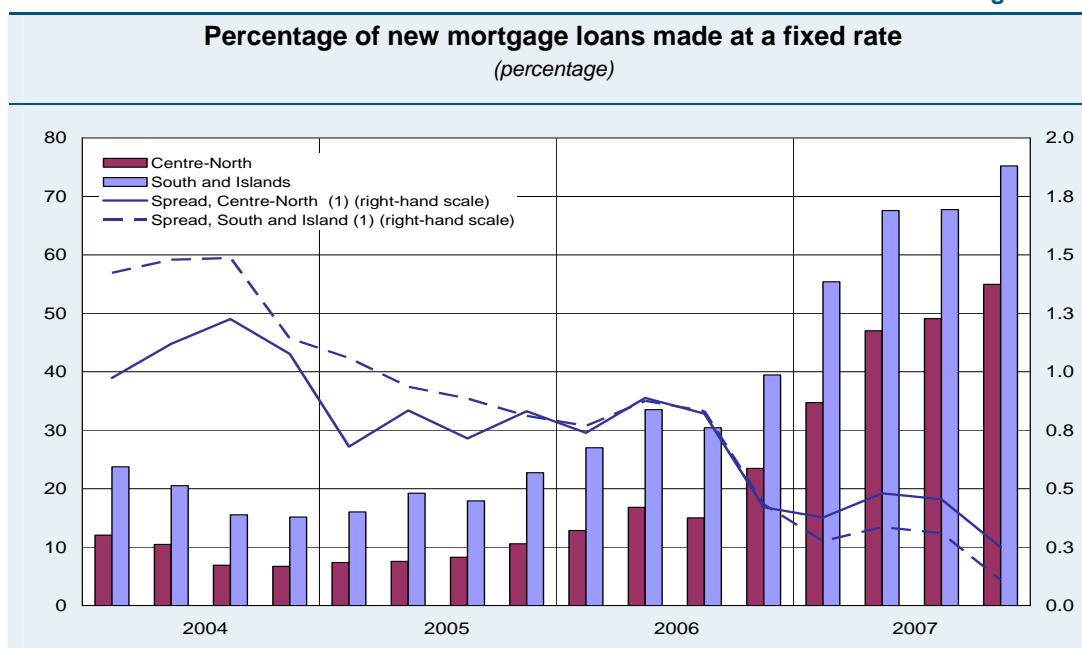
*Consumer households.* – Bank lending to households slowed to annual growth of 8.7 per cent in 2007. The deceleration involved all parts of the country and was particularly sharp in the South and Islands (from 13.2 to 10.5 per cent) and the Centre (from 12.1 to 7.9 per cent). The rise in interest rates and drop in housing sales contributed to it. The continuation of loan securitizations was an additional factor throughout Italy.

During the year households took out €62.7 billion of mortgage loans, slightly more than in 2006. New loans edged up by 0.4 per cent in the Centre and North, while in the South and Islands it declined by 0.9 per cent after a long period of growth.

*Between 2000 and 2007 mortgage lending to households grew at an average annual rate of 13.4 per cent both in the South and Islands and in the Centre and North. Low interest rates, the sharp rise in house prices and a general improvement in loan terms and conditions contributed to the strong expansion in loans for house purchases. According to a survey conducted in 2007 by the economic research units at the Bank of Italy's branches on a sample of banks representative of credit market supply conditions, in the last five years Italian banks made increasing use of innovative types of contract: mortgage loans with a loan-to-value ratio greater than 80 per cent, with a maturity of more than 30 years or with a variable maturity and a fixed installment. The practice was more widespread among banks based in the Centre and North than among those based in the South and Islands (see Chapter 11 in the Special Topics section).*

The differential between the fixed and variable rate on mortgage loans to households narrowed from the second half of 2006 onwards. There was a change in the composition of new loans to the benefit of fixed-rate mortgages, whose share of the total volume of new business rose from 20.3 per cent in 2006 to above 50 per cent in 2007. This pattern prevailed in all parts of Italy, but most markedly in the South and Islands (Figure 3.1).

Figure 3.1



Sources: Supervisory reports, *Rilevazione sui tassi di interesse attivi*. See section: Methodological Notes.

(1) Difference between the rate on mortgage loans with interest reset periods of more than 5 years and the rate on variable-rate mortgages in the area.

In terms of stocks, the share of variable-rate mortgages declined but still amounted to 72 per cent of total mortgages at the end of 2007; fixed-rate mortgages were relatively more widespread in the South and Islands and in the Centre, where they made up respectively 39.4 and 34.3 per cent of the stock of mortgages at the end of the year.

*The rise in interest rates prompted some borrowers who had taken out variable-rate mortgages when money-market yields were particularly low to ask banks to renegotiate their terms and conditions under the new law on the early repayment and portability of mortgages (see the Bank's Annual Report for 2007) According to the survey conducted by the economic research units, in 2007 more than 80 per cent of banks reported that they had renegotiated terms and conditions (e.g. the interest rate, maturity and amortization schedule) of mortgage loans contracted by households. The proportion is very similar both across types of intermediary and across geographical areas (see Chapter 11 in the Special Topics section). Renegotiations involved about 3 per cent of the total amount of mortgages outstanding; about a tenth of the stock referred to borrowers having difficulties making payments. In addition, 58 per cent of the banks in the survey indicated that they had offered mortgages to replace loans previously taken out with other intermediaries. The amount of such mortgages is estimated at close to 1 per cent of the total amount outstanding.*

Consumer credit expanded strongly, although at a lower rate than in 2006. Consumer loans granted by banks and financial companies grew by 13.8 per cent (17.9 per cent in 2006); financial companies accounted for more than three quarters



of the growth, which was fastest in the South and Islands and in the North-East (Table a3.2).

*Lending conditions.* – According to data gathered at the main Italian banking groups participating in the Eurosystem’s Bank Lending Survey, moderately more restrictive standards were applied in lending to firms, especially riskier ones, from the second half of 2007 onwards. A slight tightening of mortgage loan conditions for households was not recorded until early 2008. The interest rates on outstanding short-term loans to resident customers adjusted gradually to the increase in official rates in the first half of 2007; at the end of the year they stood at 7.2 per cent, up from 6.4 per cent twelve months earlier (Table a3.7).

Interest rates on short-term loans to non-financial corporations rose more sharply in the Centre and North, so that the unfavourable gap for the South and Islands narrowed. The differential between the two areas, which has been diminishing since 2005, decreased to 1.2 percentage points. Adjusting for the different composition of customers by sector and size in the two areas, it fell to less than one percentage point. The difference in borrowing costs reflects the greater riskiness of firms in the South and Islands, ascribable to the external diseconomies that burden productive activity in the area.

The annual percentage rate of charge on medium and long-term loans to households rose to 5.9 per cent at the end of 2007 from 5 per cent a year earlier. At the end of 2007 the rate on loans for house purchases was 6 per cent in the South and Islands, less than 0.2 points higher than in the Centre and North.

*Credit risk.* – Loan quality remained stable with respect to 2006: adjusted new bad debts amounted to 0.8 per cent of total loans outstanding (0.9 per cent in 2006; Table a3.3).

The quality of business loans remained about the same in the country as a whole. A slight improvement in the quality of loans to firms in the South and Islands and the North-West was set against a slight deterioration in the North-East, while the quality of loans to firms based in the Centre held at the previous year’s levels. The improvement in the South and Islands came from a decline in the flow of new bad debts of service firms. The quality of loans to households was in line with the previous year’s level in all the macroregions.

According to Central Credit Register data, non-performing positions – including loans that are past due and overdraft ceilings that have been breached for more than 180 days, restructured loans, substandard positions and bad debts – amounted to 5.8 per cent of total loans at the end of 2007. The proportion was 11.2 per cent in the South and Islands and 5 per cent in the Centre and North, with a gap between the two areas of 6.2 percentage points. The gap was larger for firms and smaller for households (6.4 and 4.4 points respectively).

### *The financial condition and profitability of firms*

According to national accounts data, in 2007 non-financial firms' operating profitability, measured as the ratio of gross operating profit to value added, remained stable at the previous year's moderate level (36 per cent). Net interest expense rose to 6.2 per cent of value added (5.2 per cent in 2006), mainly as a consequence of the rise in interest rates.

*On the basis of information from the Company Accounts Data Service, in the three years 2004-06 low interest rates helped to sustain firms' net profitability by reducing interest expense, which fell to 19.3 per cent of gross operating profit, from 21.8 per cent in the previous three years. The ratio of interest expense to gross operating profit decreased in all size classes of firm and throughout Italy but more sharply in the South and Islands, so that the gap with respect to the Centre and North narrowed from about 10 to less than 4 percentage points. In the same period the overall profitability of non-financial firms as measured by the return on assets held stable at about 5 per cent; an increase was recorded by firms with at least 250 workers, in particular those located in the South and Islands (Table a3.4).*

According to the financial accounts, leverage at market prices, which had held steady for three years, began increasing again in 2007, rising to 41 per cent.

*In the period 2004-06 firms' financial debt, measured by leverage, declined slightly with respect to the previous three years, falling to 50.4 per cent (Table a3.4). The decrease recorded by firms with fewer than 250 workers contrasted with an increase for larger companies, which nonetheless had lower levels of financial debt than small and medium-sized enterprises. In the South and Island, the increase in leverage was confined to firms with between 50 and 249 workers. In the three years under review, construction and service firms were the most heavily indebted; leverage ratios were lower among manufacturing firms, in particular those in high-tech sectors. The ratio of financial debt to value added increased by more than 6 percentage points with respect to 2001-03, rising to 162.8 per cent. The increase was especially large in the construction and service sectors, where financial debt was already very high in relation to value added. As in 2001-03, the ratio was very high for firms of the South and Islands with fewer than 50 workers.*

*The share of bank debt in total financial debt diminished by comparison with 2001-03, falling to 51.3 per cent. The decline involved firms of the Centre and North and all size classes except those with fewer than 50 workers, for which bank debt represented a high proportion of total financial debt (more than 75 per cent). The share of financial debt in the form of bonds rose by one percentage point to 5.8 per cent; firms with at least 250 workers and those located in the Centre and North accounted for most of the increase.*

In 2007 firms' share capital and reserves grew by about €15 billion, of which €2 billion from issues of listed shares. In the three years 2004-06 firms' equity capital grew by more than 20 per cent compared with the previous three years; the growth rate was higher for firms with fewer than 50 workers and those located in the Centre and North.

According to the Italian Private Equity and Venture Capital Association (Aifi), private equity firms and venture capitalists stepped up their activity in the Italian market in 2007, their investment and fund-raising increasing to €4.2 billion and €3 billion respectively. Confirming a trend under way for some years, most of the investments were made in firms located in the North.

## PRIVATE EQUITY INVESTMENT

The use of alternatives to financing with bank credit has been gaining ground among Italian firms in recent years. Private equity firms and venture capitalists are playing a growing role. The experience of some countries, notably the United States, shows that private equity can assist the birth and development of firms through investments in start-ups with high growth potential (venture capital) or in larger companies requiring resources for consolidation and expansion.

Despite its rapid growth in recent years, the Italian private equity market is still small by international standards: in 2003-07 private equity transactions averaged 0.2 per cent of GDP in Italy and 0.4 per cent in Europe.

**Table R2**

<b>Private equity transactions 2003-07</b> (units and millions of euros)										
	Early stage		Expansion		Replacement		Buyout		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<i>North</i>	136	107.5	452	2,587.9	72	364.0	314	9,979.5	974	13,038.9
<i>Centre</i>	43	18.0	96	328.6	18	150.0	37	726.1	194	1,222.7
<i>South and Islands</i>	27	21.8	39	205.9	5	29.3	10	52.1	81	309.0
<b>Italy (1)</b>	<b>207</b>	<b>147.4</b>	<b>599</b>	<b>3,132.6</b>	<b>95</b>	<b>543.2</b>	<b>361</b>	<b>10,757.7</b>	<b>1,262</b>	<b>14,580.9</b>

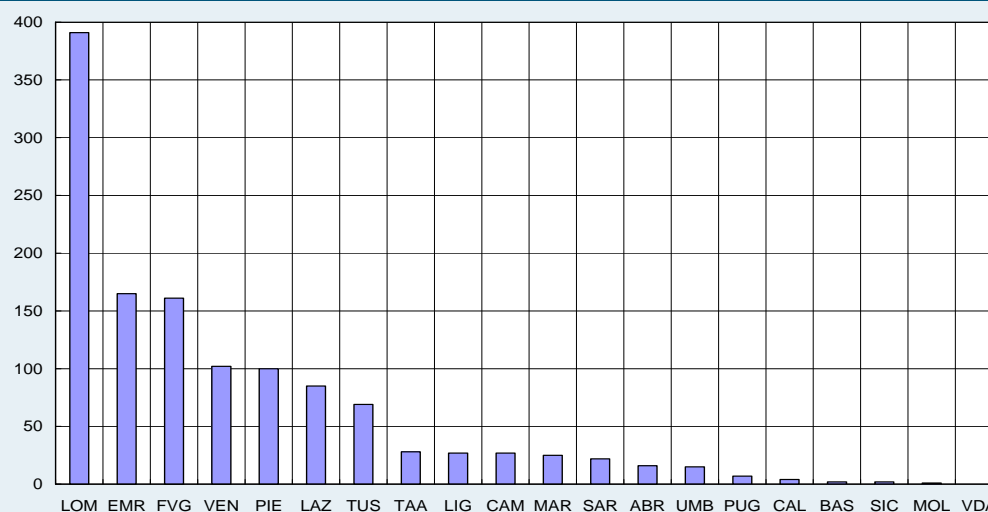
Source: Calculations based on AIFI data. See section: Methodological Notes.

(1) The total includes investments in Italian firms whose geographical distribution is unknown.

According to AIFI data, 1,262 private equity transactions worth a total of more than €14 billion were carried out in Italy in the five years 2003-07. The market is highly segmented geographically, with a strong concentration in the main northern regions. Nearly 90 per cent of the resources invested during the period went to firms of the North; a share of about 8 per cent was absorbed by firms in central Italy and 2 per cent by businesses based in the South and Islands (Table R2). In terms of the number of deals, more than three quarters of the investments were made in the North, compared with 15 per cent in the Centre and 6 per cent in the South and Islands. The regions most involved in terms of number and value of the investments were Lombardy, Piedmont, Friuli-Venezia Giulia, Veneto and Emilia-Romagna (Figure R2); for additional information, see the Reports on Lombardy, Piedmont, Emilia-Romagna and Veneto). The resources invested in firms based in the South and Islands rose from €31 million in 2003 to €102 million in 2007 (and from 1.1 to 2.8 per cent of the national total), but the market is still underdeveloped compared with the rest of the country.

Figure R2

### Private equity transactions 2003-07 by region



Source: Calculations based on AIFI data. See section: Methodological Notes.

Buyouts, involving change of controlling owner, are the main segment of activity. Between 2003 and 2007 the resources invested in buyouts represented nearly three quarters of total private equity investment in Italy. Expansion financing accounted for just over 20 per cent, while replacement deals for the acquisition of minority shareholders' interests and early-stage transactions accounted for 3.7 and 1 per cent respectively. Geographically, buyouts were the main segment of activity in both the North and the Centre, absorbing respectively 76.5 and 59.4 per cent of the total resources invested in those two areas in the five years, while equity investments in firms located in the South and Islands were mainly aimed at financing expansion (66.6 per cent; Table R2). Early-stage investments were marginal in all the geographical areas and especially so in the North, where they accounted for less than 1 per cent of the total amount of transactions.

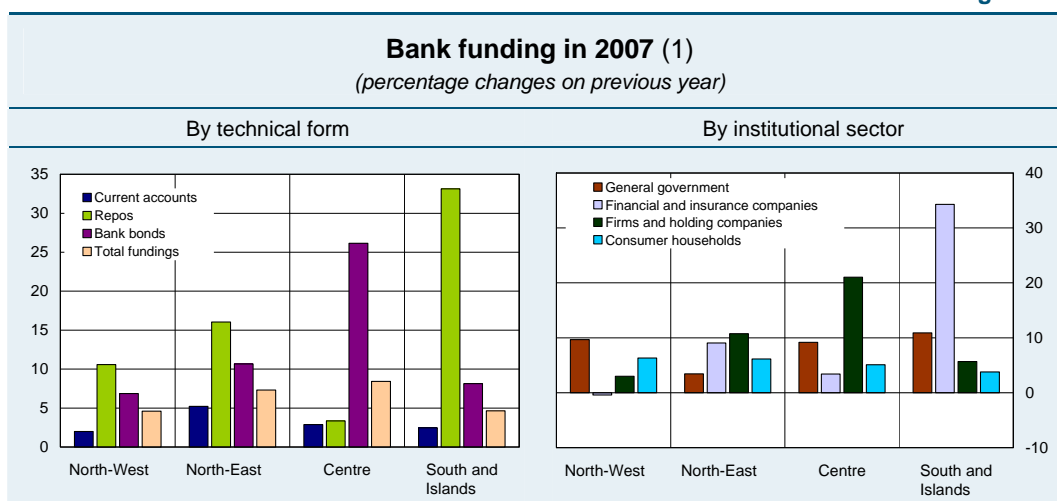
### *Bank funding and asset management*

The rate of growth in bank funding from residents edged down from 6.4 per cent in 2006 to 6.1 per cent in 2007 as a result of the smaller increase in bank deposits (Table a3.5). The deceleration mainly involved the North-West and, to a smaller extent, the Centre; in the South and Islands and the North-East, funding gained pace.

The slowdown in funding in the regions of the North-West and the Centre reflected the modest growth in the deposits of households and firms. In the North-

East, all of the components of funding accelerated; in particular, the growth in deposits was boosted by the increase in the balances held by financial and insurance companies and by holding companies. In the South and Island, the expansion was fueled by the sharp acceleration in bond issues to growth of 8 per cent (from 0.7 per cent in 2006), which more than offset the smaller increase in deposits. Repos continued to expand strongly in the area (Figure 3.2).

Figure 3.2



Source: Supervisory reports. See section: Methodological Notes.

(1) End-of-period data classified by counterparty's residence. The data do not include the reports of Cassa depositi e prestiti S.p.A and Poste S.p.A.

The slowdown in deposits from growth of 7.9 per cent to 4 per cent reflected both the decline in households' financial investment and a shift in portfolios in favour of securities, which were offering higher returns; it mainly affected current accounts, which were penalized by the rise in the opportunity cost of holding liquid assets (see Chapter 17 of the Bank's *Annual Report for 2007*).

*In Italy as a whole, the average interest rate on current accounts rose by 0.6 percentage points in 2007, from 1.3 to 1.9 per cent; the increase was greater in the Centre and North than in the South and Islands (0.6 and 0.4 points respectively). In the same period the spread between the yield on Treasury bills and the interest rate on current accounts widened further.*

Net of placements on the Euromarket, the growth in bond issues increased from 3.4 to 11.8 per cent (Table a3.5). The difficulty banks encountered in borrowing on the international markets in the second half of the year owing to the financial turmoil that began in August contributed to the growth in bond funding from resident customers. Recourse to repos with customers continued to expand at a high rate (10.9 per cent).

The face value of securities held for custody by the banking system grew by 3.9 per cent in 2007 (Table a3.6). For households, the increase was larger (5.7 per cent) and homogeneous across geographical areas except for the Centre (where it was

smaller). Government securities and corporate bonds accounted for the increase; the value of investments in securities and collective investment undertakings fell throughout Italy, but the decrease was largest in the Centre.

*According to the Bank of Italy's Survey on Household Income and Wealth for 2006, financial instruments are generally more widespread in the Centre and the North, except for post-office deposits, which are most widely used in the South and Islands. In particular, 75 per cent of households in the South and Islands have at least deposit, compared with 93 per cent in the Centre and 97 per cent in the North. The gap between the North and the South and Islands is larger in the case of shares, bonds and government securities: the percentage of households holding these instruments is more than six times greater in the North than in the South and Islands.*

*The use of financial instruments is related to a variety of factors, including the social and demographic conditions of the population and, in particular, the degree of financial competence. The 2006 Survey on Household Income and Wealth included some questions designed to assess respondents' knowledge of concepts that are indispensable to carrying out the most common financial transactions with competence. On average, households gave the correct answer to 47 per cent of the questions. Average scores were lower for households in the South and Islands than for those in the Centre and North (below 40 and above 50 per cent respectively).*

Italian investment funds and SICAVs recorded net redemptions amounting to more than €52 billion in 2007, compared with €42 billion in 2006. As in 2006, the outflow was not offset by the contribution of foreign funds established by Italian intermediaries, which after an extended period of growth recorded net redemptions (see Chapter 16 of the Bank's *Annual Report for 2007*). The outflow from equity and bond funds was substantial, while money-market funds registered a net inflow as a result of the recovery of subscriptions in the second half of the year. More than 90 per cent of the increase in net redemptions came from the regions of the Centre and North, which accounted for over 86 per cent of the stock of investment in collective investment undertakings at the end of 2006.

### ***The structure of the financial system and distribution networks***

The consolidation of the Italian banking system continued in 2007. Notable among the mergers and acquisitions that took place were those involving the country's two leading banking groups and the largest cooperative banks (see Chapter 21 of the Bank's *Annual Report for 2007*). The strengthening of major conglomerates was accompanied by an increase in the number of banks not belonging to groups both in the Centre and North (from 444 to 452) and in the South and Islands (from 122 to 130). The number of banking groups declined from 87 to 82, that of their member banks from 227 to 224. At the end of the year, 90.2 per cent of the groups had their head office in the Centre and North; they comprised 215 banks, of which 19 based in the South and Islands. The 8 groups with headquarters in the South and Islands had a total of 9 banks, one of which was based in the northern half of the country.

Table 3.3

Number of banks by legal form and location of administrative office (units)										
Geographical areas	Limited company banks		Cooperative banks		Mutual banks		Branches of foreign banks		Total	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
North-West	98	101	8	5	60	60	60	64	226	230
North-East	54	54	11	12	181	180	5	6	251	252
Centre	65	64	9	9	85	87	9	9	168	169
South and Islands	28	30	10	12	110	113	-	-	148	155
<b>Italy</b>	<b>245</b>	<b>249</b>	<b>38</b>	<b>38</b>	<b>436</b>	<b>440</b>	<b>74</b>	<b>79</b>	<b>793</b>	<b>806</b>

Source: Register of Banks. See section: Methodological Notes.

The total number of banks rose by 13, or by 1.6 per cent, compared with 1.1 per cent in 2006 (Table a3.8). The increase involved mutual banks, limited company banks and, above all, branches of foreign banks, which continued their rapid growth (Table 3.3). The gain was greatest in the South and Islands.

Table 3.4

Number of bank branches by geographical area and location of banks' administrative office (units; percentage changes on previous year)										
Location of administrative office	Location of branches									
	North-West		North-East		Centre		South and Islands		Total	
	2007	% change	2007	% change	2007	% change	2007	% change	2007	% change
North-West	7,958	1.1	1,081	0.1	1,037	3.3	999	-4.0	11,075	0.7
North-East	1,521	12.7	7,376	3.2	885	5.2	969	9.7	10,751	5.2
Centre	633	0.6	462	-0.2	4,856	2.9	1,360	4.5	7,311	2.8
South and Islands	80	11.1	44	22.2	134	16.5	3,834	1.2	4,092	2.0
<b>Italy</b>	<b>10,192</b>	<b>2.7</b>	<b>8,963</b>	<b>2.7</b>	<b>6,912</b>	<b>3.5</b>	<b>7,162</b>	<b>2.1</b>	<b>33,229</b>	<b>2.8</b>

Source: Register of Banks. See section: Methodological Notes.

The number of banks' payment-system access points (branches, ATMs and POS units) increased in 2007. The growth in the number of branches, driven by banks based in the North-East, was fastest in the regions of the Centre (Table 3.4). That in the number of ATMs (9.3 per cent overall) was especially rapid in the North-East and the Centre. The expansion in the number of POS units slowed to 4.4 per

cent, from 12.1 per cent in 2006; the deceleration mainly involved the regions of the Centre and the South and Islands.

The geographical distribution of the number of branches and, especially, of ATMs and POS units, is highly uneven (Table 3.5).

**Table 3.5**

<b>Bank points of access to the payment system</b>										
	North-West		North-East		Centre		South and Islands		Italy	
	2000	2007	2000	2007	2000	2007	2000	2007	2000	2007
<b>Number (thousands)</b>										
Branches	8.7	10.2	7.5	9.0	5.6	6.9	6.3	7.2	28.2	33.2
ATMs	10.3	13.4	8.7	12.4	6.4	8.9	6.6	9.0	31.9	43.8
POS units (1)	180.3	335.0	145.3	265.8	134.8	290.9	111.8	290.1	572.1	1,181.7
<b>Number per 10,000 inhabitants</b>										
Branches	5.9	6.5	7.1	7.9	5.1	5.9	3.1	3.4	5.0	5.6
ATMs	6.9	8.5	8.2	11.0	5.8	7.6	3.2	4.3	5.6	7.3
POS units (1)	120.8	212.2	137.2	234.5	123.6	248.9	54.4	139.1	100.4	198.1
<b>Number per €1 million of GDP at 1995 prices</b>										
Branches	0.023	0.025	0.028	0.031	0.022	0.025	0.022	0.024	0.024	0.026
ATM	0.027	0.033	0.032	0.043	0.025	0.032	0.023	0.030	0.027	0.034
POS units (1)	0.472	0.828	0.537	0.917	0.539	1.049	0.389	0.963	0.480	0.927

Source: Calculations based on supervisory reports and Istat data; end-of period data.  
(1) Based on the reports of both banks and registered financial intermediaries (Article 107 of the Consolidated Banking Law).

In 2007 the density of payment access points per capita was highest in the North-East, followed by the North-West. In the South and Islands, the number of ATMs and POS units per capita was significantly lower than in the other areas. The gap between the South and Islands and the rest of the country in terms of per capita endowment of payment system access points has narrowed since the start of the decade, with the number of access points growing faster in the South and Islands. The South and Islands' endowment gap in 2007 was smaller when calculated in relation to GDP and nil when calculated in relation to households' gross financial wealth.

Between the end of 2006 and the end of 2007, in the South and Islands the number of current accounts held by consumer and producer households rose by 4.2 per cent, while that of home and phone banking customers increased by 25.3 and 19.1 per cent respectively. These growth rates were higher than those in the Centre and North.

*Between 2000 and 2007 the proportion of households using home and phone banking services grew considerably. The share of current accounts featuring remote access services rose from 12.6 to 72.8 per cent.*



*The increase involved all the macroregions, although it was largest in the South and Islands, and was sharper for Internet banking services.*

Although home and phone banking services have gained considerable ground among households in the South and Islands, user density in those regions is still below the national average: in 2007 there were respectively 12.9 and 11.7 home and phone banking contracts for every 100 inhabitants in the South and Islands, compared with 23.9 and 22.2 in the Centre and North. The lower density of home and phone banking contracts in the South and Islands is largely due to the lower proportion of households that have bank current accounts.

The number of current accounts held by non-financial firms rose by 3.6 per cent between the end of 2006 and the end of 2007. The increase was higher in the South and Islands (8.2 against 2.3 per cent). In the same period the number of corporate banking contracts rose by 21.6 per cent, again more rapidly in the South and Islands (26.1 per cent, against 20.6 per cent in the Centre and North). At the end of 2007 there were 22.4 current accounts for every 100 non-financial firms registered with the chambers of commerce in the South and Islands, compared with 39.6 per 100 in the Centre and North. In the South and Islands 16.2 firms out of 100 had a corporate banking service, compared with 35.9 in the Centre and North.

## 4 – THE DECENTRALIZED PUBLIC FINANCES

### *The evolution of the public finances and the contribution of local government*

In 2007 the public finances showed a much larger improvement than had been expected. According to the national accounts, net borrowing fell from 3.4 per cent of GDP in 2006 to 1.9 per cent, thus complying with the European threshold of 3 per cent for the first time in four years. This result was mainly due to the increase in revenue, which rose from 45.9 to 47.2 per cent of GDP. The reduction in expenditure was marginal: the substantial stability of the primary current component (at 39.6 per cent of GDP) and the contraction in the capital component (from 5 to 4.5 per cent of GDP, owing to the non-repetition of an extraordinary item in 2006) was offset by a significant increase in interest payments (from 4.6 to 5 per cent of GDP). The public debt began to decline again in relation to GDP, falling from 106.5 per cent of GDP in 2006 to 104 per cent.

Local government contributed to the reduction in the deficit. Its expenditure contracted by 0.5 percentage points of GDP, to 15.1 per cent, mainly owing to the fall in current outlays (from 13 to 12.6 per cent of GDP). Revenue grew by 0.6 points of GDP (to 15.1 per cent). Almost half this growth was due to investment subsidies paid by public entities (whose ratio to GDP is 1 per cent); the remainder was largely due to the growth in own tax revenue (which rose from 6.5 to 6.7 per cent of GDP). Local government debt remained basically unchanged at 7.1 per cent of GDP, thus interrupting the upward trend of the last few years.

### *Local government expenditure*

*Regional health expenditure.* – Health expenditure is the current expenditure in which the role of local government is the most obvious, since it is managed almost entirely at regional level. On the basis of Istat data, 2007 was the first year since 1995 in which health expenditure grew more slowly than GDP and as a ratio to GDP it declined to 6.7 per cent (from 6.8 per cent in 2006). Excluding wages and salaries, it remained stable in relation to GDP at 4.4 per cent, after rising steadily over the previous decade. The slowdown benefited from the curbing of pharmaceutical expenditure (see chapter 15 in the *Special Topics* section).

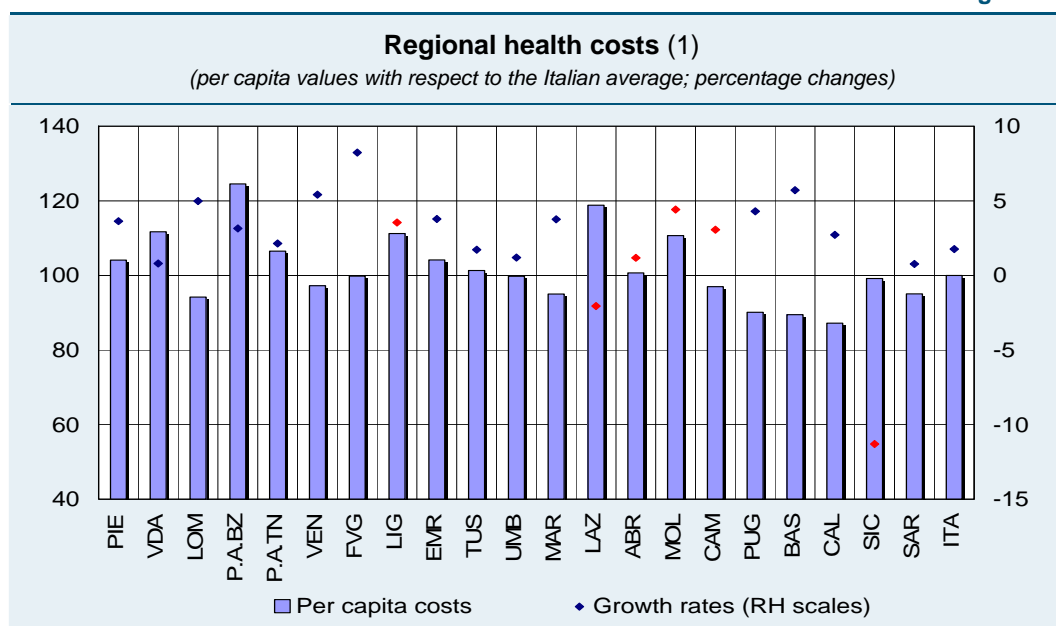
Information on public health service costs at regional level can be obtained from the Health Information System, which uses slightly different methods of recording data from the national accounts. The System figures show some divergences in per capita health costs; in particular, the highest values are found

among the regions of the North-East, followed by those of the North-West and those of the Centre (Figure 4.1). The per capita costs for the South and Islands are about four percentage points lower than the Italian average (10 percentage points with respect to the regions of the North-East).

*Per capita costs are more homogeneous in the health sector than in other sectors of public expenditure, since the provision of health services must ensure basic forms of assistance established in a uniform manner at national level. A variety of factors affect the regional differences, including the composition of the population by age group and other characteristics specific to the supply of health services, such as the size of the hospitals, the spread of district health assistance, and the quantity and composition of hospital staff (for an analysis of these aspects, see “The economy of Campania in 2007”).*

In 2007 the highest growth rates were found in Friuli-Venezia Giulia, Basilicata, Veneto and Lombardy. Among the regions with large deficits that drew up rehabilitation plans as provided for by the 2007 Finance Law (in red in Figure 4.1), costs were reduced in Lazio and substantially in Sicily. The increase in Abruzzo was small and in line with the national average; in Campania, Liguria and Molise it was higher than average.

Figure 4.1



Source: *Relazione generale sulla situazione economica del Paese* (2007). See section: Methodological Notes.

(1) Average per capita values for 2004-06; these services were 2 per cent of the total average costs of the regions with a positive balance of incoming health mobility from other regions in the three years (Lombardy, Bolzano, Veneto, Friuli-Venezia Giulia, Emilia-Romagna, Tuscany, Umbria, Lazio, Abruzzo and Molise).

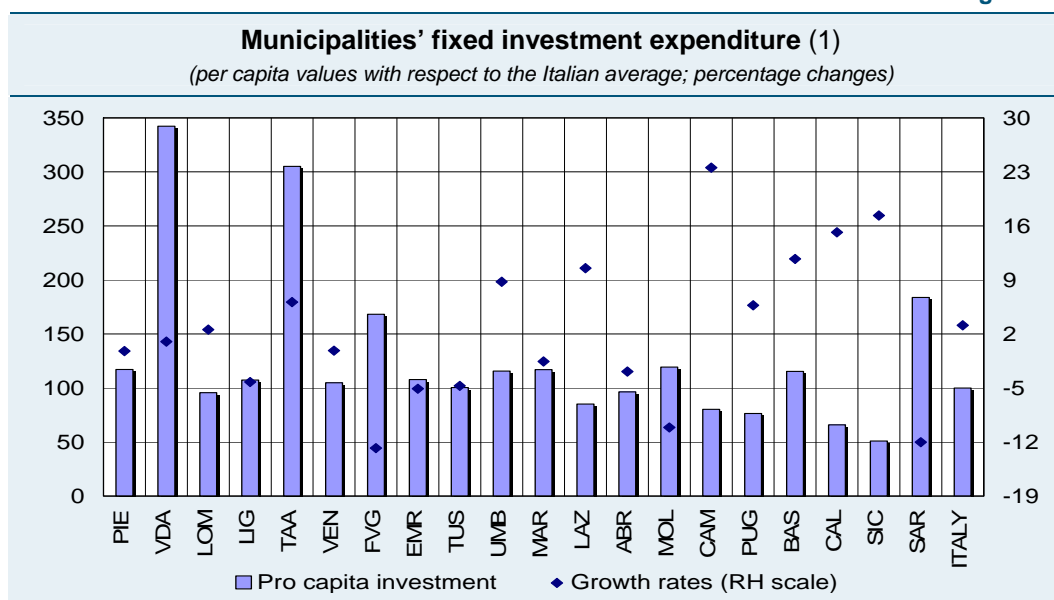
*In recent years the policy for controlling health expenditure has benefited from some legislative measures intended to discourage the creation of imbalances in individual regions. With the Finance Law for 2005 and following years, a procedure was introduced and then strengthened that provided for a caution, the appointment of a special administrator and an automatic increase in the rates of the personal income surtax and the regional tax on productive activities in the event of a health service deficit; provision was also made for the quarterly monitoring of the health accounts and the principle according to which the utilization by regions*

of additional resources for the financing of earlier deficits is subject to the signing of a re-entry plan agreed with the state. Decree Law 159/2007 established that the position of special administrator (who is authorized to replace the director generals of local health and hospital units) is incompatible with any other position with the region placed under special administration.

For the six regions that have signed re-entry plans, the health deficit in 2007 was down on that of the previous year (for an analysis of the measures contained in the re-entry plans, see the 2007 Regional notes on Abruzzo and Sicily and the 2006 Regional notes on Campania, Molise and Liguria).

*Expenditure on fixed investment.* – A large part of public investment expenditure consists of the construction of infrastructure, both economic and social (see chapter 13 in the *Special Topics* section). Local authorities play an important role here too. In fact according to Istat data, municipalities account for 40 per cent of general government fixed investment. In 2007 their expenditure began to grow again (rising by 2.5 per cent) after falling for two years; as a ratio to GDP it remained unchanged at 1 per cent.

Figure 4.2



Sources: For 2004-06, Regional public accounts (Ministry of Economic Development); for 2007, the State Accounting Office.  
(1) Per capita values for the period 2004-06; growth rates in 2007, calculated using absolute values.

In 2005-06 the investment expenditure of the local authorities was curbed by the restrictions imposed by the domestic stability pact. This set different limits on the growth of capital and current expenditure. Since 2007 the pact's objectives for local authorities have been set in terms of balances and not of spending caps.

The territorial differences can be captured using the data of the Regional public accounts (Ministry for Economic Development) and, for 2007, the information gathered by the State Accounting Office (Figure 4.2). Municipal per capita expenditure on investment is highly heterogeneous across the country and reaches the highest values for the municipalities in the special statute regions, except

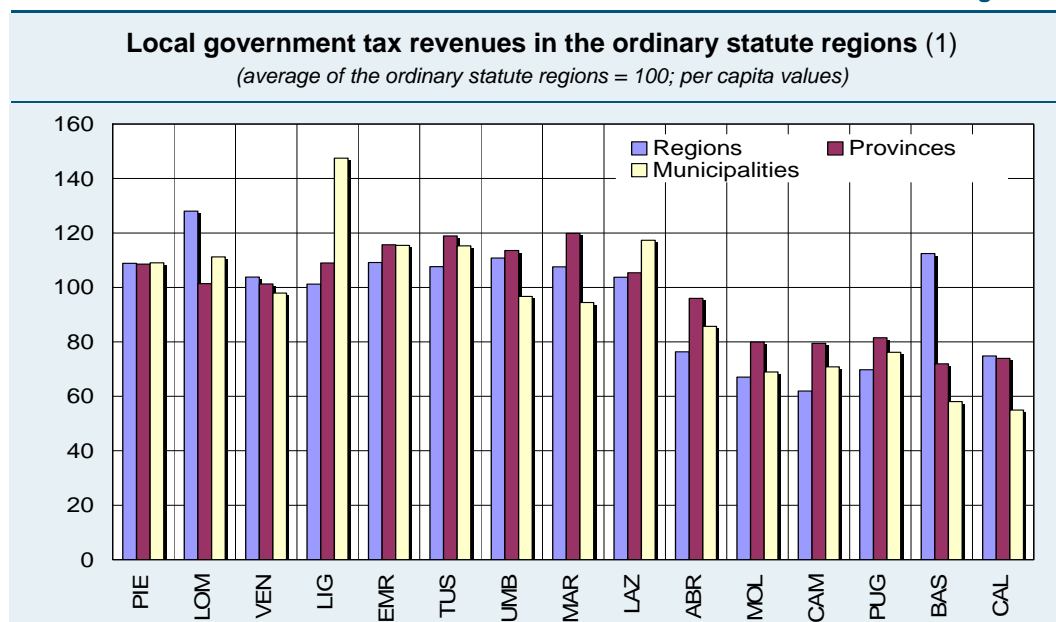
Sicily. The municipal expenditure of the ordinary statute regions in the South is about 8 percentage points below the Italian average.

In 2007 the highest rates of growth in municipal investment occurred in some of the regions with the lowest values of per capita expenditure (Campania, Sicily and Calabria).

### *The main channels of financing*

*Tax revenues.* – Local government tax revenues largely reflect the distribution of the related tax bases, which are highly heterogeneous across the country. According to Istat data drawn from the outturns of local authority budgets, in the three years 2004-06 the per capita tax resources of the ordinary statute regions in the South were about 70 per cent of those of the ordinary statute regions in the North (Figure 4.3).

**Figure 4.3**



Source: Istat, Budget outturns of regions, provinces and municipalities.

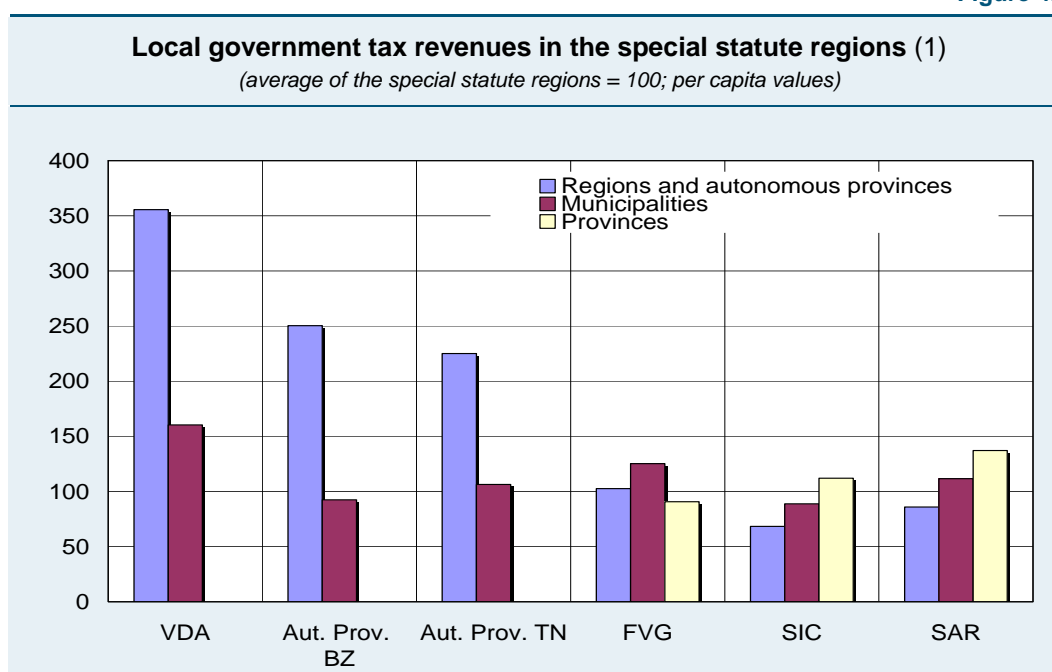
(1) Average per capita values for the three years 2004-06. The tax revenues recorded in Title 1 of the budgets include both own taxes (for which local authorities can vary the rates within certain limits) and transfers of shares of central government taxes fixed by law.

In addition to regional own taxes (among which the regional tax on productive activities, the regional personal income surtax and the motor vehicle taxes), these revenues include the share of VAT, which the national accounts classify among transfers. The gap is even larger for the municipalities: the per capita tax resources of those in the ordinary statute regions in the South do not amount to 60 per cent of those in the ordinary statute regions in the North (Figure 4.3). The figures include municipal own taxes (among which the municipal property tax and the municipal personal income surtax) and the municipalities' share of personal income tax.

The special statute regions enjoy special degrees of autonomy and perform some special functions, recognized in their statutes. Their financing is based on the transfer of the bulk of the main central government taxes levied on their territories. For this reason the per capita tax revenues of the special statute regions are nearly double those of the ordinary statute regions. There are nonetheless considerable differences among the special statute regions: in the three years 2004-06 the tax revenues of the insular regions averaged about one third of those available to the special statute regions in the North (Figure 4.4).

In 2007 the own taxes revenue component increased. For the regions taken together, the increase was due in particular to the regional personal income surtax and the regional tax on productive activities (up respectively by 20.4 per cent to €7.1 billion and by 4.8 per cent to €39.3 billion). The growth in municipal own taxes was mainly due to that in the personal income surtax (up by 43.3 per cent to €2.2 billion).

Figure 4.4



Source: Istat, Budget outturns of regions, provinces and municipalities.

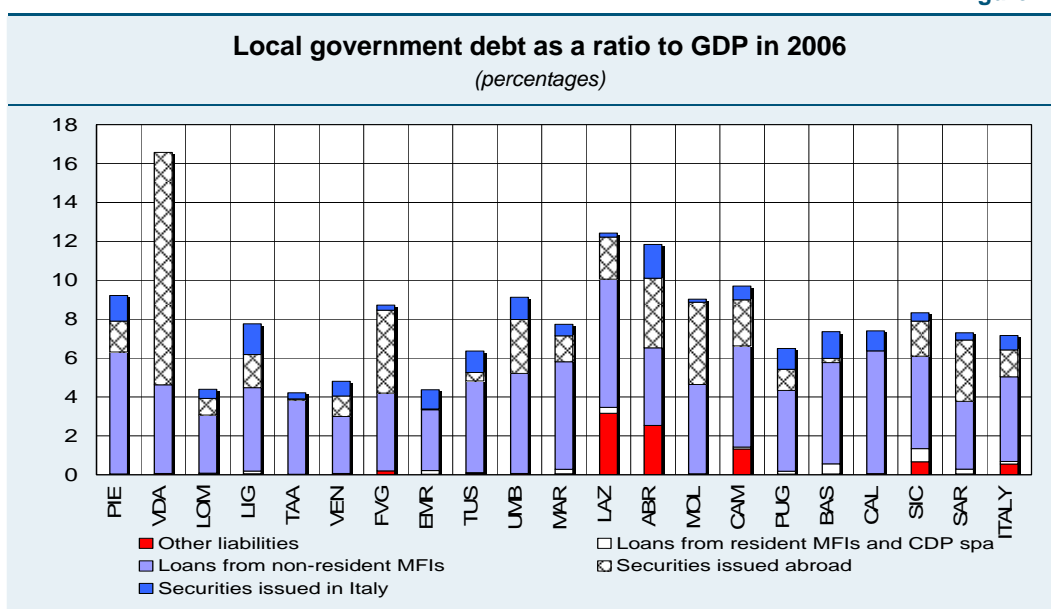
(1) Average per capita values for the three years 2004-06. The tax revenues recorded in Title 1 of the budgets include both own taxes (for which local authorities can vary the rates within certain limits) and transfers of shares of central government taxes fixed by law. The local government of Trentino-Alto Adige includes the autonomous region, which is not shown in the figure. The tax revenues of this entity are roughly equal to the total for the two autonomous provinces.

*The growth in the regional personal income surtax was influenced by the automatic increase in the rates for 2006 in the regions with health service deficits (the payment of this tax is made in the year following the reference year). The amount raised from the private sector by the regional tax on productive activities should have been affected by the reduction in the labour tax wedge introduced by the Finance Law for 2007; the information available suggests that many firms postponed benefiting from these reliefs to this year. The increase in the municipal personal income surtax also benefited from the introduction of a 30 per cent payment on account for the amount due in 2007.*

The power of the regions and municipalities to increase the rates of their personal income surtax was restored in 2007, after a block lasting four years; in addition, the maximum rate applicable by municipalities was raised from 0.5 to 0.8 per cent. Only one region (Emilia Romagna) increased its rate. By contrast, numerous municipalities raised their personal income surtax rates; in fact the average municipal rate rose in every region. The effects on revenue will be felt in 2008 (in the case of the municipalities, they already emerged in part in the payment on account made in 2007).

*Debt.* – Local government debt amounts to 6.8 per cent of the total public debt and more than 80 per cent is accounted for, to an almost equal extent, by the regions and the municipalities. In 2006 the regions with the highest debt to GDP ratios were Valle d’Aosta, Lazio and Abruzzo (Figure 4.5). As regards the composition of the debt, in every region except Valle d’Aosta the largest share consists of loans from resident MFIs; “other liabilities” are mainly present in the regions with health service deficits, where private claims on health-sector entities have been securitized.

Figure 4.5



Sources: Bank of Italy and Istat. See section: Methodological Notes.

In 2007 Italian local government debt grew by 3.5 per cent to €109.4 billion. The largest increases occurred in Campania, Calabria, Abruzzo and Sardinia.

## 5 – POLICIES FOR LAGGING AREAS AND THE NEW PLANNING CYCLE

### *General government capital spending*

The data of the Ministry for Economic Development show that between 1998 and 2006 the cumulative capital expenditure of general government amounted to €480.6 billion, 77 per cent of it budgeted under regular programmes and 23 per cent under regional policy programmes. The total spending in the South and Islands came to €181 billion, compared with about €300 billion in the Centre and North. The average annual outlay was equivalent to 6.5 and 3.4 per cent of the two areas' GDP and to nearly €1,000 and about €900 per inhabitant, respectively). Nearly 50 per cent of the spending in the South and Islands was funded out of additional resources, compared with 8 per cent in the Centre and North. The Department for Development and Cohesion Policies estimates that in 2007 capital expenditure came to €63.2 billion, 22.3 per cent of it in the South and Islands.

The portion of total capital spending accounted for by transfers, as against direct investment, is higher in the South and Islands, owing to the greater importance of subsidies to companies. The Department estimates that in 2007 direct investment accounted for 56.2 per cent of the total in the South and Islands compared with 64.8 per cent in the Centre and North. But the gap is narrowing: in 2003 the share of direct investment was 49.7 per cent in the South and Islands and 62.2 per cent in the Centre and North.

The Economic and Financial Planning Document for 2008-2011 released in July 2007 confirmed the objective of earmarking at least 41.4 per cent of overall capital spending for the South and Islands. The Department's estimates put the share at 35.3 per cent in 2007; in 2001 it had been 40.4 per cent).

### *Policy instruments and their evaluation*

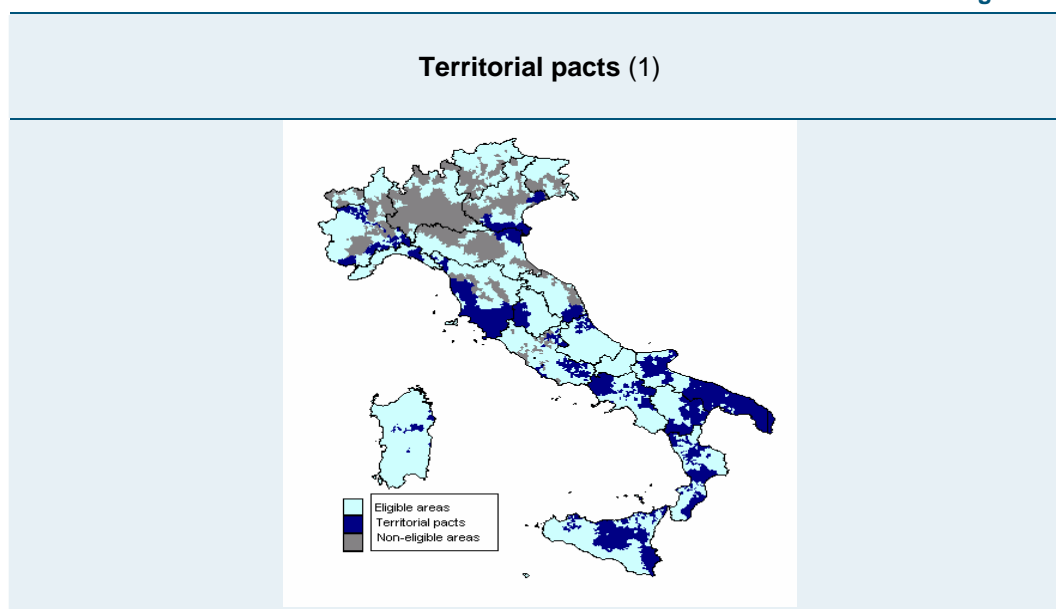
Regional policy embraces a range of instruments designed both to offset locational advantages (through capital grants, labour subsidies and tax incentives, governed by automatic, discretionary and negotiated rules) and to undertake public investment (public works, business services, personal services). The instruments include those of so-called negotiated development planning, intended to promote local entrepreneurship.

*Territorial pacts, which form part of "negotiated development planning," are agreements between governments and economic organizations in a group of bordering municipalities in underutilized areas. They*



enjoy public financing, which goes mostly for incentives to economic agents and in lesser part for local infrastructure. Since 1997, a total of 220 pacts have been initiated (Figure 5.1). At present, nearly half the Italian population lives in municipalities covered by a pact; in the South and Islands the figure is 80 per cent.

**Figura 5.1**



Source: Calculations based on Ministry for Economic Development data.

(1) The territorial pacts covered are those of the first and second generations, excluding the ten European Employment Pacts.

*Census data and the ASIA Local units database for 1996-2004 have been used to study the effectiveness of territorial pacts, comparing trends in employment and in industrial and service business formation in municipalities covered by the pacts with trends in other, similar municipalities not covered. The results suggest that participation in a territorial pact has not had any effect either on employment growth or on the creation of local business units. Nor do the results appear to depend on the initial level of development or the amount of funds actually used.*

Studies on some important investment subsidy programmes (Law 488/1992 and Law 388/2000) indicate that these incentives have had only limited effectiveness.

*Comparing investment activity by firms benefiting from Law 488/1992 with that by firms that applied for funding but were rejected suggests that the primary impact of the incentives is an intertemporal substitution effect on investment decisions. The funding through the tax credit under Law 388/2000, by contrast, was apparently more effective in actually stimulating additional investment. However, the stimulus was reportedly diminished by the imposition, less than two years after the passage of the legislation, of more restrictive eligibility standards.*

*The limited efficacy of the investment incentives seems to be confirmed by the Bank of Italy's survey of industrial firms for 2005, in which entrepreneurs were asked to say what actions they would have undertaken in the absence of the incentive programmes. The overall effect of the programmes, according to this survey, was modest: for southern firms, the additional investment came to about 30 per cent of the funds received; for northern firms, 10 per cent.*

## *The National Strategic Reference Framework 2007-2013*

In July 2007 the European Commission approved Italy's proposed National Strategic Reference Framework (NSRF) setting out the additional resources that would be available to regional development policy for 2007-2013 (EC Decision 3329 of 13 July 2007).

*The additional resources will come both from Community funds, augmented by national co-financing, and from national appropriations. Italian development resources have been channelled through the Fund for Underutilized Areas (FUA) since 2003, when the Fund was created. To improve coordination between additional national funds and Community funds for the planning period 2007-2013, the Finance Law for 2007 defined the FUA budget commitment over a seven-year period.*

The resources of the European Social Fund (ESF) and the European Regional Development Fund (ERDF) are earmarked through the designation of three objectives: Convergence, embracing some regions in the South and Islands (Basilicata, now being phased out, and Calabria, Campania, Puglia and Sicily); Regional competitiveness and employment, including the regions of the Centre and North and the remaining southern regions (Abruzzo, Molise and Sardinia, the latter being phased in; Figure 5.2); and European territorial cooperation, which involves a number of Italian cities in an effort to promote tourism.

**Table 5.1**

### **Resources allocated under the National Strategic Reference Framework, 2007-2013** (billions of euros)

	ESF and ERDF	National co-financing	Fund for Underutilized Areas (FUA)	Total
<i>Convergence objective</i>	21.6	22.0	-	-
<i>Competitiveness objective</i>	6.3	9.4	-	-
<i>Cooperation objective</i>	0.8	0.3	-	-
<b>Total NSRF 2007-2013</b>	<b>28.8</b>	<b>31.7</b>	<b>63.3 (1)</b>	<b>123.8</b>
of which: <i>Centre-North (2)</i>	4.9	7.4	9.5	21.8
<i>South and Islands (2)</i>	23.0	24.0	53.8	100.8

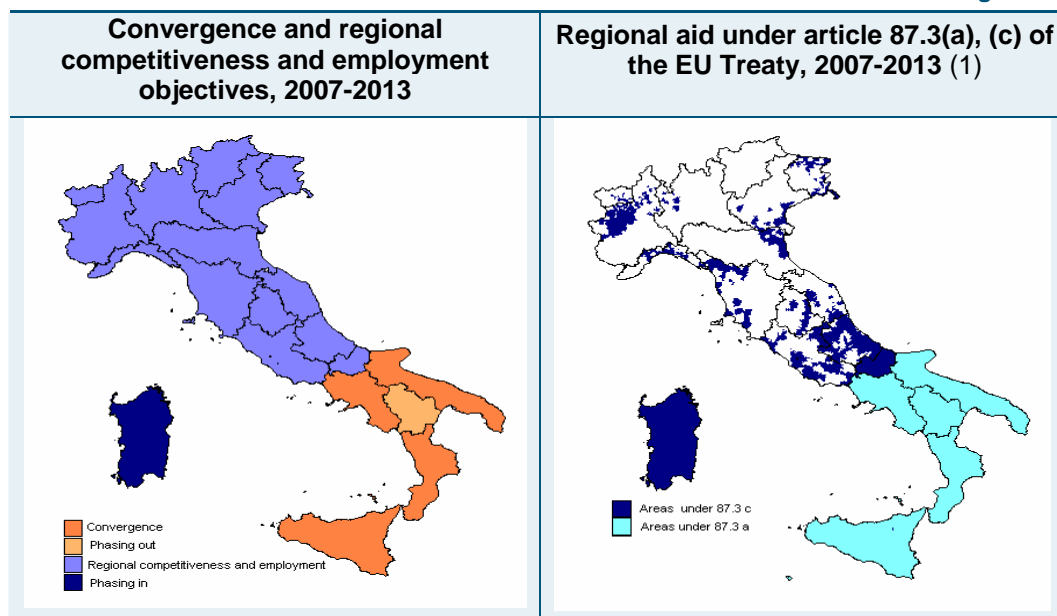
Source: Ministry for Economic Development.

(1) Including €3.0 billion for the Essential services programme and €23.6 billion for programmes of strategic national interest. – (2) Does not include the Cooperation objective.

The resources allocated to these three objectives represent respectively 72.1, 26.0 and 1.8 per cent of the total national appropriations, including co-financing. The regions of the South and Islands are to get €47 billion, those of the Centre and North €12.3 billion; in addition, the South and Islands will receive FUA funds worth €53.8 billion, including €3 billion earmarked for the Essential services programme (Table 5.1).

*The regional aid map.* – By a decision of 28 November 2007, the Commission approved Italy’s regional aid map defining areas eligible for incentives for private investment, in derogation from the general principle, and determining the maximum possible state grant under Article 87.3(a), (c) of the EU Treaty (Figure 5.2).

**Figure 5.2**



Source: Calculations based on Ministry for Economic Development data.  
 (1) See section: Methodological Notes.

The Commission reaffirmed the overall coverage limit for the 2000-2006 planning period, setting the proportion of the entire EU population eligible at 42 per cent. It also reduced the ceiling on aid. With the enlargement of the Community, the share of the population living in areas eligible for aid within the EU-15 was lowered significantly in favour of the new member countries. In Italy, it was cut from 43.6 to 34.1 per cent: the share reduction relating to Article 87.3(a) was modest (from 33.6 to 29.2 per cent), while that under Article 87.3(c) was quite sharp (from 10 to 3.9 per cent).

*The Essential services programme.* – The preceding planning period introduced a “reward” mechanism providing additional resources to administrations that attained certain objectives. A broad set of indicators was devised, in part for monitoring purposes; those used specifically for the “reward” mechanism bore chiefly on procedural innovation in administration. The 2007-2013 Reference Framework enhanced the reward mechanism and revised its logic to consider actual performance in four service areas: education, childhood and old age assistance, urban waste, and water services. All the regions of the South and Islands participate, as does the Ministry of Education (for the education area only).

Attainment of objectives is gauged by 11 indicators (Table 5.2). For each, a target to be reached by 2013 is set and linked to a financial reward.

Table 5.2

Regional objective indicators (baseline and target) (1)											
<i>(percentages and kilograms)</i>											
REGION	Education			Childhood and old age services			Waste management			Water services	
	S.01 2006	S.02 (2) 2006	S.03 (2) 2006	S.04 2004	S.05 2004	S.06 2005	S.07 (3) 2005	S.08 2005	S.09 2005	S.10 2005	S.11 2005
Abruzzo	14,7	....	....	23,6	6,7	1,8	399	15,6	12,1	59,1	44,3
Molise	16,2	....	....	2,2	3,2	6,1	395	5,2	1,1	61,4	88,4
Campania	27,1	36,1	44,3	30,5	1,5	1,4	305	10,6	2,3	63,2	75,8
Puglia	27,0	36,3	43,0	24,0	4,8	2,0	453	8,2	1,8	53,7	61,2
Basilicata	15,2	34,0	38,4	16,8	5,1	3,9	235	5,5	0,1	66,1	66,7
Calabria	19,6	....	....	6,6	2,0	1,6	395	8,6	0,8	70,7	37,4
Sicily	28,1	40,8	48,9	33,1	6,0	0,8	473	5,5	1,3	68,7	33,1
Sardegna	28,3	37,2	45,3	14,9	10,0	1,1	390	9,9	4,5	56,8	80,5
<i>Centre-North</i>	<i>16,8</i>	<i>18,2</i>	<i>22,9</i>	<i>47,6</i>	<i>15,5</i>	<i>3,5</i>	<i>264</i>	<i>31,6</i>	<i>29,1</i>	<i>73,4</i>	<i>67,2</i>
Target 2013	10,0	20,0	21,0	35,0	12,0	3,5	230	40,0	20,0	75,0	70,0

Source: Ministry of Economic Development.

(1) The indicators are as follows. (S.01): percentage of the population aged 18-24 with at most a lower secondary school degree, which has not concluded a regionally recognized training programme of more than two years' duration, which are not attending school classes and are not engaged in other training; (S.02): percentage of 15-year-old students with poor reading skills; (S.03): percentage of 15-year-old students with poor mathematical skills; (S.04): municipalities with public day-care facilities as percentage of all municipalities in the region; (S.05): children under age 3 using day-care facilities as percentage of total population aged 0-3; (S.06): old people receiving integrated home assistance as percentage of population over 64; (S.07): urban waste disposed of in landfill per inhabitant per year; (S.08): percentage of separate waste collection; (S.09): organic refuse treated in composting facilities as percentage of total wet waste (Leg. Decree 217/06); (S.10): percentage of water flowing into municipal distribution networks actually delivered to end users; (S.11): equivalent inhabitants served by sewage treatment plants, with secondary and tertiary treatment, as percentage of total equivalent urban residents in region. – (2) These indicators will be available for all the regions of the South and Islands starting with the 2009 OECD's PISA survey (Programme for International Student Assessment). The baseline value will be the value for that year. – (3) Kilograms.

Measuring the actual performance of important public services according to objective indicators rather than the declarations of the governments involved is a significant innovation that can help to produce results-oriented rather than formal, procedural administration. In many of the areas involved, however, the ordinary political process also needs to be reformed and to become results-oriented. The incentive to consider only the aspects gauged by the indicators, at the expense of others, is a possible source of distortion. A major contribution to effectiveness will be the local population's awareness and sufficient understanding of the "reward" mechanism.

The objective is the same for all regions, because the final values are minimum standards for the availability of public services. Nevertheless, the regions differ in initial conditions (the indicators' baseline values are shown in Table 5.2). It follows that the effort needed to attain the objective differs from region to region. To attenuate this disparity, there is a flexibility clause under which the target is deemed to have been attained if by the 2013 final date at least 60 per cent of the distance between baseline and target has been covered. This clause, however, can only be applied to four indicators; and it cannot be applied to all the indicators of any given target.

*Simulations run on the indicators for which time series are available have shown that the attainment of minimum targets will require a significant acceleration by comparison with past trends, with very substantial differences between regions. Sardinia is the region which, on the basis of the tendencies of recent years, stands to attain the most targets. Molise and Puglia are those in which achieving the targets will require the greatest change. The data further show that the amount of funds earmarked is only very modestly correlated with the present distance from target.*

The indicators reveal sharp geographical disparities in the quality of education and in the efficiency of water services and waste management. The regions of the South and Islands are behind (see chapter 10 in the *Special Topics* section). Proposals to simplify the programmes to attract investment and spur enterprise development are under discussion.

## SPECIAL TOPICS

### 6 – INNOVATION AND TECHNOLOGY TRANSFER: COOPERATION BETWEEN BUSINESS AND UNIVERSITIES<sup>(\*)</sup>

For several years now, the Italian economy has been characterized by low levels of growth and a disappointing productivity performance. A reversal of this trend calls for the intensification of research and innovation activities, which are scarce in Italy, above all in the private sector. In this situation the role of research produced by universities and public research centres assumes more importance, as does the related technology transfer to the industrial system.

In 2005 the proportion of GDP spent on R&D was equal to 1.1 per cent (1.2 per cent in the Centre-North; 0.8 in the South and Islands), similar to the levels seen ten years ago and well below the EU-27 average (1.8 per cent). In particular, not one of the 21 European regions that met the national investment target of 3 per cent of GDP envisaged under the Lisbon 2010 objectives is Italian. Moreover, the contribution by private businesses in Italy to R&D is low (50 per cent on average; 30 per cent in the South and Islands).

*Sources of innovation in Italian firms and cooperation with universities.* – According to a survey of around 4,000 firms with 20 or more workers conducted by the Bank of Italy, most new technology is introduced via the purchase of software or new machinery from external sources; this was the case of approximately 53 per cent of firms in the last three years (Figure 6.1). Just over one quarter of firms have their own research or planning centre, located within Italy; around 4 per cent have centres located abroad. Over half of these are small units, comprising at most five workers; only one fifth of firms have a centre with more than 15 researchers. In the last three years, just 10 per cent of firms hired highly skilled workers; less than 7 per cent acquired patents. Recourse to these forms of innovation is relatively more widespread among large firms and in the northern regions.

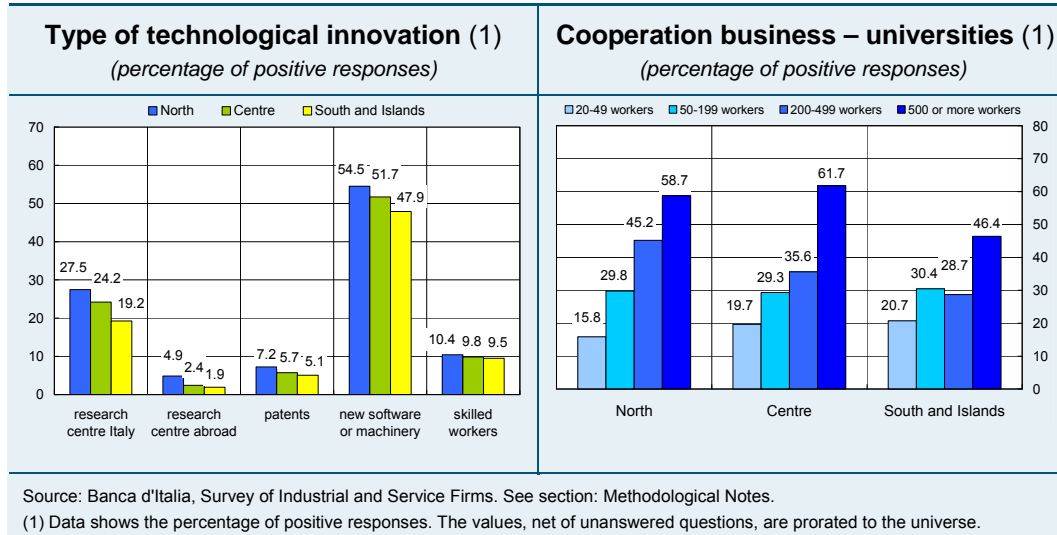
Around 22 per cent of the firms interviewed cooperated with Italian universities in the three years from 2005 to 2007; almost double the number compared with the previous period of three years [. Joint projects were more frequent among larger firms, in all macro regions. Where there was no contact this appeared to indicate a lack of interest by business, but also the widespread feeling that academic research is ill-suited to business needs.

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(\*) Prepared by Alessandra Mori (Milan Branch).

Based on preliminary econometric data, the channel through which technology is transferred from universities to firms appears to complement research activities carried out within firms themselves.

Figure 6.1

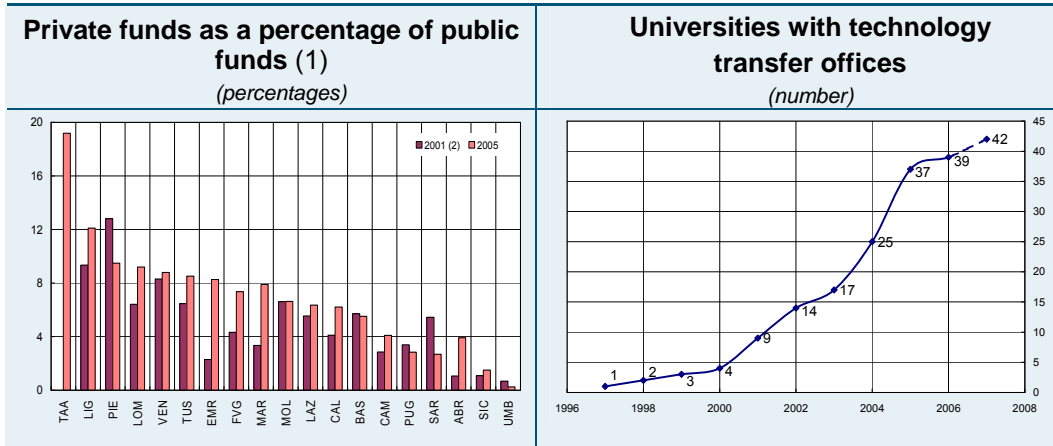


The most common form of cooperation remains that of student internships in businesses, which are often a genuine trial and training period of young qualified personnel. It turns out that the purchase of consultancy services is more widespread than the direct funding of research projects. For the most part, cooperation with universities have been conducted on an individual basis; joint ventures, including those supported by trade associations, were more numerous in the South and Islands.

*The regional university systems and policies to optimize research.* – Public resources earmarked for state universities from the “Ordinary Finance Fund” are used almost exclusively to pay university personnel. The financing of research activities depends on the universities’ ability to secure further funds, from private sources in particular. The balance sheets of 63 Italian state universities show how between 2001 and 2005 the share of private revenue rose from 5.0 to 5.8 per cent of the total allocated under the “Ordinary Finance Fund”.

In 2005 in Trentino-Alto Adige and the regions of the North-West the share of private funds as a proportion of the “Ordinary Finance Fund” was close to or greater than 10 per cent. Between 2001 and 2005 this share grew significantly in Emilia-Romagna, Marche, Friuli-Venezia Giulia, Abruzzo, Lombardy and Liguria (Figure 6.2). Since 1997 the commercial exploitation of intellectual property and the results of research has been given further impetus by the opening within universities of dedicated technology transfer offices, which in 2007 were present in around two-thirds of Italian state universities.

Figure 6.2

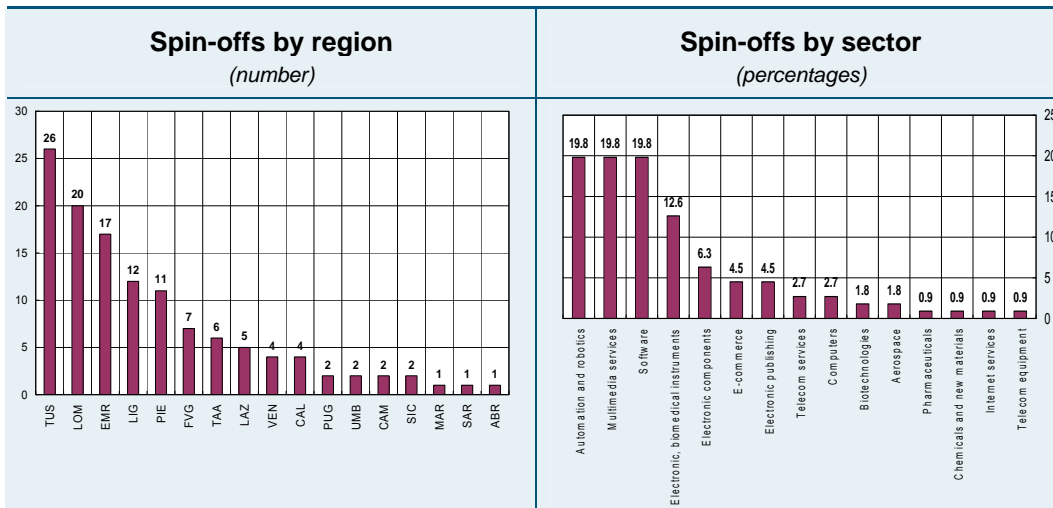


Source: Ministry of Education, Universities and Research; based on Netval data and data from various universities. See section: Methodological Notes.

(1) The balance-sheet items used to calculate the indicators are expressed in current euro and defined as follows: the private funds correspond to third-party funds, which include revenues from private sources stemming from contracts, conventions, planning agreements and sales of goods and services; it excludes other own revenues. The public funds are drawn from the Ordinary Finance Fund. For reasons of graphic presentation, the percentage of Trentino-Alto Adige for 2001 is not included (32.92).

In the last decade, more and more public research *spin-offs* have been created firms established by researchers with the participation of universities. Based on data collected by the observatory on advanced technology enterprises (RITA), based in Milan's Polytechnic, there are 123 spin-offs in Italy; these are primarily based in Tuscany, Lombardy and Emilia-Romagna (Figure 6.3). The "academic enterprises" are concentrated in the new services sectors (software, Internet service providers, telecommunications and multimedia) and in manufacturing (automation and robotics, electronic instruments and components), while they are almost entirely absent in the pharmaceutical, chemical and new materials sectors.

Figure 6.3



Source: Calculations based on data from RITA and Milan Polytechnic. See section: Methodological Notes.



## 7– THE WHOLESALE MARKET FOR FRESH PRODUCE AND ITS IMPACT ON PRICES<sup>(\*)</sup>

### *A European comparison*

Italy's food industry contributes around one-fifth of wholesale turnover, in line with the European average, with the fresh produce sector accounting for more than 15 per cent. The ratio of fruit and vegetable wholesalers to the population is higher in Italy than in the leading European countries and average company size is smaller. Labour productivity, in particular, is much lower: almost half that of French wholesalers and just over a third of that of German companies (Table 7.1).

**Table 7.1**

<b>Main indicators of fresh produce wholesalers in selected European countries - 2005</b> <i>(absolute values and percentages)</i>				
	Germany	France	Spain	Italy
No. of firms per 100,000 inhabitants	2.2	6.2	23.1	15.8
No. of employees per firm	16.6	9.8	14.1	4.4
Turnover per firm (1)	9,783	4,213	2,288	1,342
Labour productivity (1) (2)	64.3	42.7	21.0	23.4
Value added/Value of production	57.5	39.5	48.4	23.4

Source: Calculations based on Eurostat data.  
(1) Thousands of euros. – (2) Value added per employee.

Productivity declined by around 4 per cent in Italy between 2000 and 2005, while the other European countries registered growth. In Spain, in particular, productivity started from a very low level then grew by 15 per cent. The gap with respect to the other countries of Europe is mainly due to Italy's fragmented productive system: firms with fewer than 10 employees make up more than 91 per cent of the total, 30 per cent more than in Germany and 6 per cent more than in France and Spain. However, the sector's productivity is lower in Italy even among firms with more than 50 employees.

The structural deficiencies of Italy's wholesale trade are due to some extent to delays in legislation and to the fragmented nature of regulations governing the sector, at both national and regional level. The structural reform envisaged in the legislation of the 1980s was only put into effect in early 2000 and the measures have not been applied uniformly in the various regions.

(\*) Prepared by Luciana Aimone Gigio (Turin Branch).

*The impact on prices*

In the last three years, the difference between producer price and wholesale price of a homogenous basket of fruit and vegetables has been more than 100 per cent in Italy, compared with an average of 60 per cent in Spain (Table 7.2) and France. The wholesale sector's role as supplier to the retail trade differs in scope and form in the countries considered, making an international comparison of the mark-up from wholesaler to consumer impossible. Data provided by the Institute for Agrifood Market Services (Ismea) indicate an average price increase in this stage of more than 50 per cent in Italy; overall, the total mark-up from producer to consumer averages 200 per cent.

Table 7.2

	Producer prices, wholesale prices and mark-up (1)					
	<i>(averages and percentages)</i>					
	Italy			Spain		
	Producer prices	Wholesale prices	% mark-up	Producer prices	Wholesale prices	% mark-up
2005	0.43	0.91	113.1	0.37	0.60	60.6
2006	0.42	0.84	101.0	0.39	0.62	59.6
2007	0.44	0.96	120.7	0.41	0.66	58.8

Sources: Calculations based on data from Ismea for Italy and Mercasa for Spain.  
 (1) Prices are in €/Kg and may reflect the different varieties of a same product considered each year and for each country; as a result they should not be used to compare absolute values but only as indicators of the gap between producer price and wholesale price.

In a paper published in 2007, the Antitrust Authority analyzed the distribution chain of a sample of five fruit and vegetable products, recording their prices at every stage from producer to consumer for a total of 267 transactions. The findings were that the existence of numerous small operators and multiple passages reduces producers' profit margins and increases final prices and gross income (Table 7.3). The average total mark-up, which the Antitrust Authority estimates at 200 per cent, depends on the number of middlemen; it is less than 80 per cent for very short supply chains (direct from producer to retailer) and close to 300 per cent when there are three or four middlemen in addition to the producer and retailer. The survey also reveals that only in a quarter of cases do large retailers buy direct from the producer, using instead two or more middlemen for almost 40 per cent of purchases, either because seasonal and perishable produce is involved or production is badly organized. Stall vendors, on the other hand, have the shortest supply chain, with 60 per cent using only one middleman, usually the wholesale food market.

**Table 7.3**

<b>Price increases in fresh produce</b> (percentages)				
	Total mark-up	Average mark-up by 1 <sup>st</sup> middleman	Average mark-up by 2 <sup>nd</sup> middleman	Average mark-up by 3 <sup>rd</sup> middleman
Direct from producer	77.4	-	-	-
with 1 middleman	132.9	37.4	-	-
with 2 middlemen	290.0	28.9	81.2	-
with 3-4 middlemen	293.7	30.8	34.8	39.5
<b>Overall average</b>	<b>200.5</b>	<b>33.6</b>	<b>68.1</b>	<b>39.5</b>

Source: Antitrust Authority, *Research survey of agrifood distribution*, 2007.

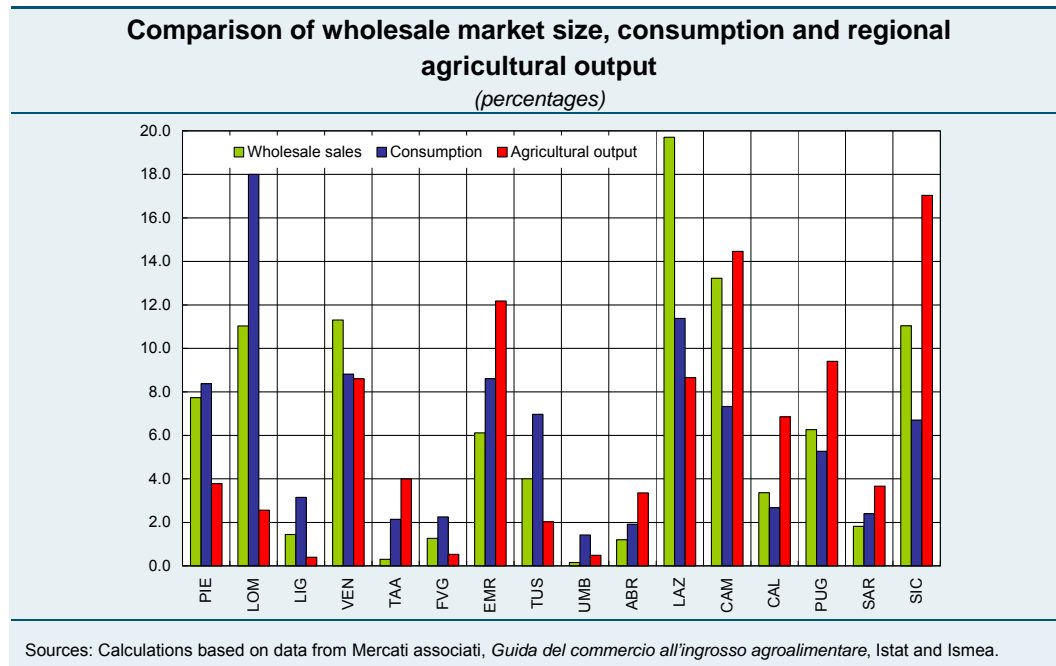
### *Wholesale markets in Italy*

The way in which wholesale markets operate and their very role have been called into question in recent years as a result of changes brought about by the development of modern distribution, the evolution of transport and logistics, the rapid growth of mass catering, and the spread of information technology. The wholesale markets that have adapted successfully, called ‘third generation markets’, are the ones that have changed their relationship with modern trade from opposition to cooperation; the number of people involved has also increased and new functions have developed. Alongside the wholesalers, service firms have gained importance too, in terms both of numbers and of the value added created. They perform a multitude of tasks that range from managing logistic platforms to providing ancillary services, such as receipt and checking of goods, air-conditioned warehouses, maturing, packaging, preparing lots, distribution and in some cases initial processing.

Wholesale markets continue to play a significant role in Italy, handling around 70 per cent of fresh produce. In France and Spain, where large retail stores rely more on centralized purchasing, wholesale markets account for 50 and 55 per cent respectively. The two countries offer positive examples of how the role of such markets can be transformed: in France the wholesale trade is up against a highly developed and well-organized large retail sector and can only partially influence its procurement system. In Spain, on the other hand, the two sectors have evolved almost in parallel; the role of the wholesale markets has been revived, and there are good prospects for future development. In Italy, the current importance of the wholesale sector reflects different models of consumption and distribution; future prospects will depend on the ability to respond satisfactorily to changes in the external context given the delay in enacting reform in Italy compared with the two countries considered.

In Italy the wholesale sector is still dominated by a large number of small-sized traders. While there are 19 wholesale markets in France and 23 in Spain, Italy has nearly 150. Around 90 per cent of these markets are less than a fifth of the size of even the smallest markets in France and Spain; they handle only 30 per cent of trade, compared with the 50 per cent of more of Spain and France. This means that in Italy 70 per cent of trading takes place in a few markets, representing 10 per cent of the total.

Figure 7.1



Just under half of Italy’s markets date back to the 1960s and 1970s and almost a third to before World War II. Only ten markets have been created in the last ten years with financing allocated under Law 41/1986.

Most of Italy’s wholesale markets have difficulty fulfilling the dual function of supplying local traders and distributing surplus agricultural output to other areas of consumption. In the regions of southern Italy in particular, although some of the more recently created markets have developed considerably in recent years, overall the wholesale markets are unable to handle a large volume of agricultural produce and have to channel it towards other outlets (Figure 7.1).

Distribution platforms began to develop within the wholesale market later in Italy than in the other European countries. It is only in the main markets that firms offering high-quality processed goods are found (chiefly, ready-cooked food, prepared and packaged fruit and vegetables). Except in a few markets there is no IT system for recording prices or tracing products. Longer opening hours, which help to increase competition and provide better service, have been introduced in very few instances, especially in the North, where markets generally open only in the early

morning; two exceptions are the Fondi and Rome markets, which are open throughout the day.

There are many shortcomings on the logistics front as well, particularly regarding the efficient transport of goods produced in the South and Islands to the consumer base in the Centre and North.

Ismea has estimated, in a survey conducted on behalf of the Ministry of Production, that logistics costs in the fresh produce sector account for between 30 and 35 per cent of the final price, and sometimes weigh more than production costs. Transportation, 90 per cent of which is by road, accounts for around two-thirds of total logistics costs. The large number of operators involved and the small amounts of goods transported do not lead to efficient logistics, resulting in a low capacity utilization rate for transporters.

## **8 – THE COMPETITIVENESS OF THE NATIONAL SEAPORT SYSTEM (\*)**

### *The maritime transport sector and the growth of container traffic*

In Italy, port logistics and auxiliary services directly contribute more than €6.8 billion to GDP and employ some 71,000 workers. In addition, the sector's functionality is decisive for the development of the overall logistics chain, which in Italy accounts for an estimated 12 per cent of GDP.

The strategic importance of Italy's maritime transport sector and seaports has increased significantly in the last decade, in part owing to technological innovation and the expansion of container traffic.<sup>1</sup> The expansion in the load capacity of container ships, from 3.2 to 10.8 TEUs between 1997 and 2007, has made the Panama Canal impracticable for many of them. Intercontinental traffic, growing rapidly because of the flow of exports from the Far East to Europe and North America, has thus progressively shifted to the so-called pendulum routes, which include crossing the Mediterranean from Suez to Gibraltar (Figure 8.1). This process is expected to continue in the coming years. Ocean Shipping Consultants estimates that by 2015 container traffic in the ports of the Mediterranean and southern Europe will have doubled with respect to 2004. Italy's geographical position and its transshipment ports potentially qualify it to handle this traffic: a shipment of goods sent by sea from the Far East to central Europe would save about five days at sea if it landed at a port on the Ligurian-Tyrrhenian coast instead of one in the North of Europe (the Northern Range).

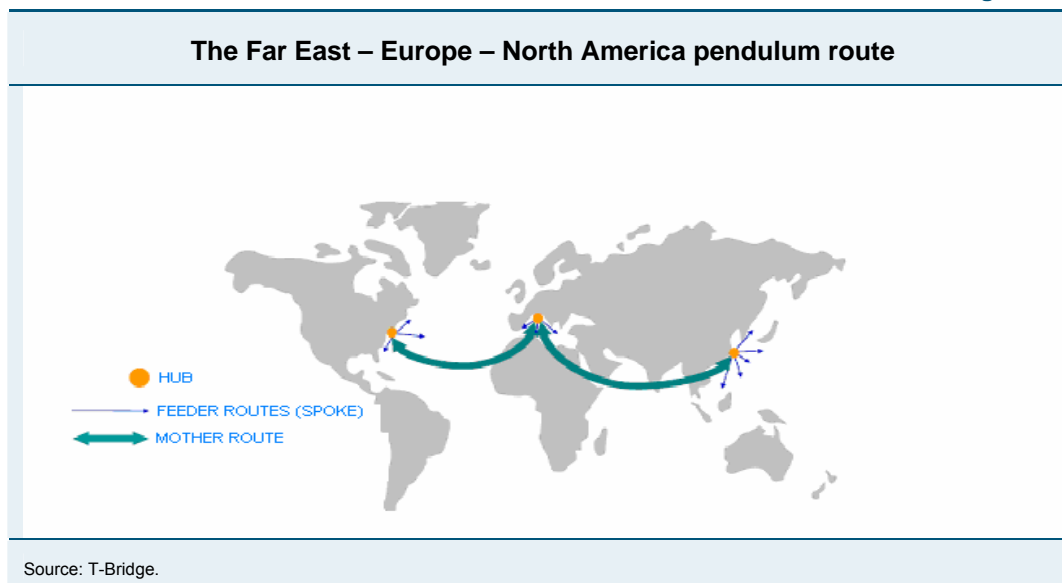
Between 1997 and 2003 the growth in container traffic in Italy's ports (10 per cent per year) was in line with that in the main port systems of the western Mediterranean (9.9 per cent) and outpaced that of the Northern Range (8.4 per cent), although the total volumes handled in the North of Europe remained far greater. During that period Law 84/1994 became fully operational. The law essentially privatized the wharves, fostering more efficient management of port facilities and attracting some of the world's leading terminal operators and shipping companies. The mid-1990s saw the inauguration of the transshipment ports of Gioia Tauro, Cagliari and Taranto, built and operated by leading international companies, and the Genoa Voltri terminal, constructed with the contribution of the Fiat group and subsequently acquired by a foreign operator. These four ports accounted for some 80 per cent of the growth in container traffic in Italy between 1997 and 2003.

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(\*) Prepared by Enrico Beretta, Alessandra Dalle Vacche and Andrea Migliardi (Genoa Branch).

<sup>1</sup> Container traffic is the largest and fastest-growing component of sea cargo traffic. Between 1997 and 2007 it expanded at an average annual rate of 8 per cent, compared with 3 per cent for total cargo traffic.

Figure 8.1



However, between 2003 and 2007 the volume handled by the nation's seaports slowed to average annual growth of 4.8 per cent, appreciably less than that of the main competitors. In the same period the average growth rate was 11.5 per cent per year in the Northern Range, 7.4 per cent in the French and Spanish ports and 8.4 per cent in the main West Med ports.

### *The competitive strengths and weaknesses of Italy's seaports: results of the Bank of Italy's survey*

Istat's transport statistics show that Italian ports' have a basically domestic pool of users: the goods shipped to or from Italy that pass through foreign ports are marginal, as are those handled by Italian ports on behalf of foreign markets.<sup>2</sup>

The relatively slow growth of Italy's port system in recent times reflects that of the Italian economy. In the period 2004-07 Italy's GDP grew by 1.4 per cent per year in nominal terms, nearly one point less than the euro-area average; for exports and imports, the negative growth gap averaged more than two percentage points.

More robust growth, not so dependent on the performance of the Italian economy, would be possible if the nation's ports succeeded in expanding the area they serve to include bordering zones, such as Savoy, Switzerland, southern Germany and the countries of eastern Europe. Despite the potential savings in terms of days at sea, this does not happen for reasons relating to port and land transport infrastructure and, more in general, the efficiency and reliability of the entire logistics cycle. A survey by the Bank of Italy's Genoa Branch of the Italian agents of twelve

<sup>2</sup> In the last ten years between 1 and 4 per cent of all goods exported to non-EU countries left Italy by road or rail (at least a part of this share presumably was loaded on ships in foreign ports). During the same period an annual average of about 1 per cent of all goods imported from non-EU countries reached Italy by road or rail (at least a part of this share was first offloaded in foreign ports).

of the world's leading container lines (they handle more than two thirds of world traffic) analyzes the causes of this situation.

The survey examines the importance of the main aspects of competitiveness of the Italian port system.<sup>3</sup> Geographical position is the sole variable for which Italian ports have a clear-cut advantage over their Mediterranean and North European competitors. Table 8.1 summarizes operators' opinions of Italian ports' competitiveness with respect to the Northern Range and West Med ports. Assessments were on a scale ranging from -2 (major disadvantage) to +2 (major advantage). The disadvantages by comparison with the Northern Range were systematically greater than those vis-à-vis the West Med ports. This is consistent with the evolution of market shares, with larger gains recorded for the ports of northern Europe, followed by those of the western Mediterranean.

Operators underscore, in the first place, the inadequacy of Italian ports' land transport infrastructure (average mark of -1.7 compared with the Northern Range and -1.6 compared with the West Med). The difficulties of dispatching goods on the road and rail networks hold back the growth of traffic through the ports. In the medium term, completion of the main rail lines that are part of the EU priority axes of transport is considered a necessary condition for access to the markets of central Europe. The functionality of the so-called last mile (links between ports and land infrastructure) shows fairly important disadvantages; these could be mitigated with relatively limited investments.

In the view of operators, a qualitative and quantitative upgrading of rail transport is necessary. Rail transport is underutilized in Italy: according to Eurostat data, in 2006 about 90 per cent of goods shipped via land travelled by road and less than 10 per cent by rail. By comparison, in the EU-15 railways handled more than 14 per cent of goods traffic (more than 21 per cent in Germany) and inland waterways another 7 per cent (13 per cent in Germany). Rail transport in Italy also suffers from limited productivity: in 2005 1.4 million tonnes of freight were carried per kilometre of rail line, compared with 1.7 million for the EU-15 and 2.6 million for Germany. On the other hand, the motorway network is over-exploited in Italy, handling 32.7 million tonnes of freight per kilometre, against 27 million in the EU-15 and 25.7 million in Germany.

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<sup>3</sup> The results of the survey at regional level are presented in the Reports on Calabria, Campania, Friuli-Venezia Giulia, Liguria, Puglia and Veneto.



Table 8.1

<b>Competitive advantages and disadvantages of the Italian port system (1)</b> <i>(arithmetic averages of operators' responses)</i>		
	Compared with the <i>Northern Range</i> ports	Compared with the <i>West Med</i> ports
<b>Infrastructural endowment of the ports</b>	<b>-1.3</b>	<b>-1.0</b>
Cranes of adequate size	-1.2	-0.7
Capacity and length of the wharves	-1.1	-0.9
Depth of ports	-1.4	-1.2
Yard and warehouse facilities	-1.4	-1.1
<b>Efficiency of the ports</b>	<b>-1.5</b>	<b>-1.2</b>
Speed and costs of port services	-1.2	-0.8
Reliability and continuity of port services	-1.4	-1.1
Customs clearance (time and costs)	-1.9	-1.6
<b>Land infrastructure</b>	<b>-1.7</b>	<b>-1.6</b>
Road and motorway links	-1.9	-1.7
Rail links	-2.0	-1.8
Connections with land infrastructure	-1.3	-1.2
<b>Support of logistics centres</b>	<b>-1.2</b>	<b>-0.8</b>
Logistical platforms	-1.4	-0.8
Interports	-1.2	-0.7
Distriparks	-1.1	-0.9
Inland terminals	-1.1	-0.7
<b>Location</b>	<b>1.3</b>	<b>1.1</b>
With respect to main sea lanes	1.4	1.1
With respect to main European markets	1.1	1.0

Source: Bank of Italy survey. See section: Methodological Notes.  
(1) The following values were assigned to the responses provided by the nine operators: +2: major advantage; +1: fairly important advantage; 0: not a significant factor; -1: fairly important disadvantage; -2: major disadvantage.

Second, Italian ports' efficiency is lower than that of their foreign rivals (average disadvantage of -1.5 and 1.2 respectively). The survey respondents have a very unfavourable assessment of the speed and costs of customs clearance, which, they report, in some cases is carried out abroad with different procedures (for example, checks performed at storage areas, to avoid congestion at the wharves). Fairly important disadvantages are found as regards the reliability and continuity of port services, while the speed and costs of port services come closer to the standards of the other countries.

Third, Italy's port infrastructure is not on a par with that of the competitors (-1.3 and -1.0). Relatively shallow waters prevent many Italian terminals from

handling the largest container ships. Yard and warehouse facilities are not entirely adequate, nor is the endowment of cranes large enough to work the largest ships. Fairly important disadvantages are reported for the length and capacity of the wharves.

Less important competitive disadvantages are indicated in the area of the support provided to traffic by logistics centres. According to the respondents, the endowment of such structures, while well below that of the Northern Range, is not unlike that of the West Med ports; what is needed, rather, is an improvement in their efficiency and their links with the ports.

The survey participants suggested various ways of promoting the development of the port sector and of the entire maritime and land logistics cycle. These included liberalization, deregulation, direct management of the main junctures of the cycle by intermodal operators using advanced organizational models and offering reliable, high-frequency services. In Italy, experiences of this kind are still limited in scale and confined to a small number of ports and goods distribution centres. By contrast, Germany, which for some time has made very substantial investments in logistics, has achieved outstanding results and now has the world's leading air-freight company and the world leader in postal service, the headquarters of nearly all the main European shipping companies, and an integrated logistics operator that manages the country's entire intermodal system.

The above-mentioned options should be accompanied by measures to strengthen intermodal transport infrastructure. Its progress has been hampered in recent years by insufficient financial resources. The legislative context is changing, however. The Finance Law for 2007 provided for a substantial increase in port authorities' financial autonomy, which had been minimal compared with the situation in other countries. And the Finance Law for 2008 takes important steps, allowing the annual increases in tax receipts from the goods handled by seaports to be used to improve infrastructure connected with maritime transport.

Going forward, expanded recourse to public-private partnership schemes and strengthened coordination between the port authorities belonging to the same geographical area could prove helpful.

## 9 – INTERNAL MIGRATION AND IMMIGRATION FROM ABROAD<sup>(\*)</sup>

From the beginning of the 1990s, Italy began to receive significant flows of migrants from abroad and internal migration from the South to the Centre and North picked up again. In the five-year period 2002-07, in the regions of the Centre and the North, the increase in internal population movements and in those from abroad more than offset the negative natural change, resulting in growth rates for the number of residents which were above the national average (Table 9.1). In the South and Islands population growth was less intense because of negative internal net migration and a smaller foreign component.

**Table 9.1**

<b>Population trends in Italy between 2002 and 2007 (1)</b> <i>(thousands, percentage shares and changes)</i>								
	Foreign residents in 2007	Resident population in 2007	Percentage of foreigners in 2007	Population growth rate 2002-07	Components of growth			
					Natural change	Internal net migration	Foreign net migration	Other (2)
North-West	1,067	15,631	6.8	4.6	-0.5	0.7	3.5	0.9
North-East	802	11,204	7.2	5.3	-0.3	1.7	3.7	0.2
Centre	728	11,541	6.3	5.8	-0.6	1.0	3.3	2.1
South and Islands	342	20,756	1.6	1.2	0.6	-1.2	0.9	0.9
<b>Italy</b>	<b>2,939</b>	<b>59,131</b>	<b>5.0</b>	<b>3.8</b>	<b>-0.1</b>	<b>0.3</b>	<b>2.5</b>	<b>1.0</b>

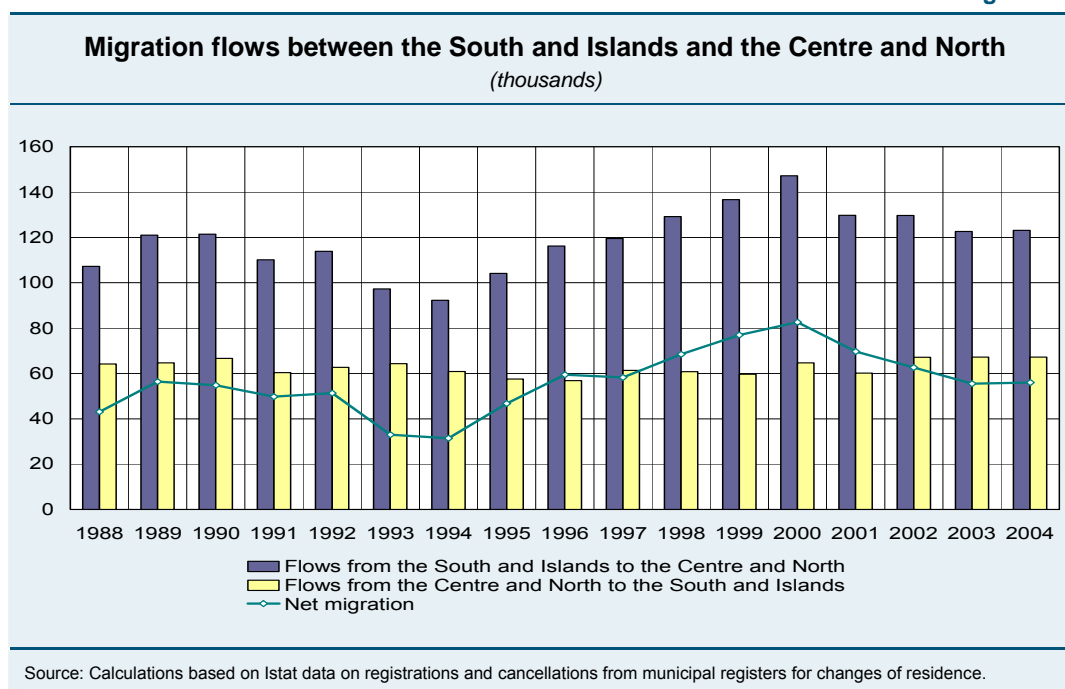
Source: Calculations based on Istat's population statistics.  
(1) Data refers to 1 January for each of the years under consideration. – (2) Balance of registrations and cancellations from population registers for other reasons.

*Internal migration* – In 2006 about 1.5 million people transferred their official residence from one Italian municipality to another. There were considerably more registrations of change of residence in the Centre and North compared with the South and Islands both in absolute terms and in relation to the resident population. This disparity between the areas has widened considerably since the beginning of the 1990s. The growth in new registrations in the Centre and North is due to greater short and medium-distance mobility – transfers of residence between municipalities in the same region or macro area – and to the resumption of longer distance migration flows from regions in the South. By contrast, in the South and Islands, there is less movement between neighbouring municipalities and migration towards the Centre and North has picked up again.

(\*) Prepared by Sauro Mocetti and Fabio Quintiliani (Bologna Branch) and Carmine Porello (Bari Branch).

Transfers of residence from the southern regions towards the rest of Italy, which also include foreigners transferring residence within the country, began to increase again in the second half of the 1990s, marking the end of a contraction that had lasted since the early 1970s. In 2000, almost 150,000 people moved from the South and Islands to the Centre and North, the highest number for a quarter of a century. In the following years, the flow diminished stabilizing at just over 120,000 people. Flows in the opposite direction, on the other hand, remained basically the same (Figure 9.1). In total, between 1988 and 2004, net migration between the South and Islands and the Centre and North was about a million people.

**Figure 9.1**

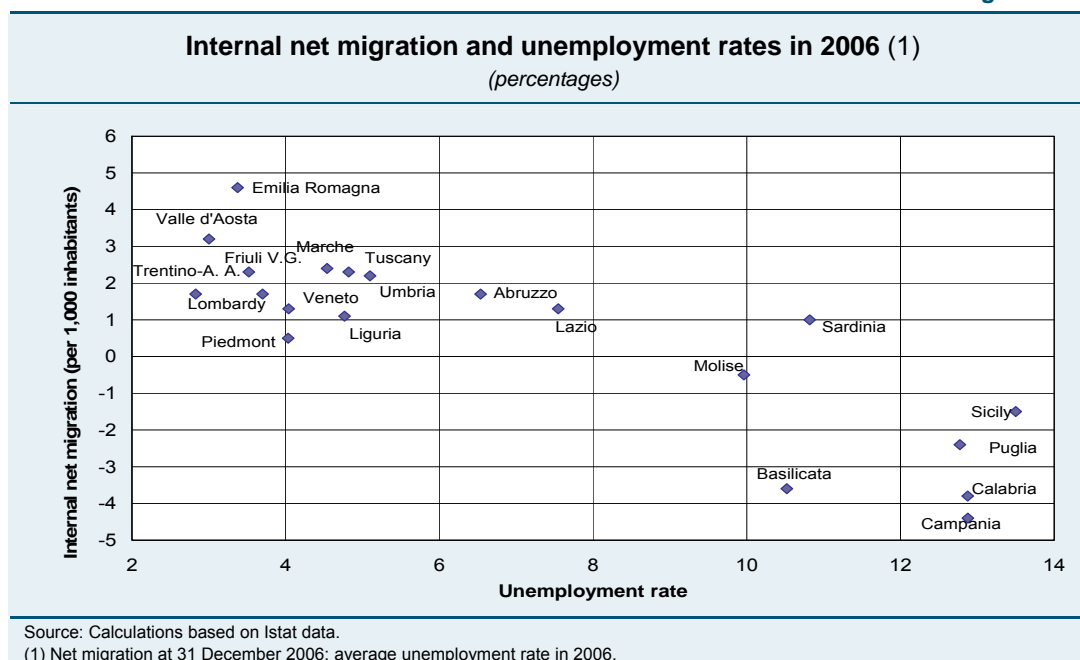


The time distribution of migration from the South and Islands to the Centre and North reflects the difference in the unemployment rates between the two areas, which was greatest in the second half of the 1990s. In the following years migration flows slowed down, partly discouraged by the greater difference in housing costs between the various parts of the country.

The North-West is still the destination of choice for southern migrants although it attracts considerably fewer people than in the past (in 2004, 36 per cent of southern migrants moved to the North-West, 15 percentage points below the figure for 1988). In contrast, flows to the North-East increased, accounting for one third of all transfers of residence from the South and Islands in 2004. In the same year, the regions with the highest net migration were Emilia Romagna and Lombardy; those with the largest outflows were Campania, Puglia, Calabria and Sicily. Regional net migration figures are strongly correlated with unemployment

rates, reflecting the fact that workers tend to move to where income and employment opportunities are better. (Figure 9.2).

**Figure 9.2**



Compared with the start of the 1990s, migrant workers are today better educated. In 2003, more than 13,000 university graduates from the South and Islands transferred their residence to regions in the Centre and the North, a number roughly three times greater than in 1990. This growth in transfers among graduates is not however the result of a more general improvement in the population's educational qualifications but, rather, it reflects the fact that graduates resident in the southern regions are more likely to move to the Centre and North of Italy. The regions that attracted the most qualified labour force were Lazio, Emilia Romagna and Lombardy. On the other hand, all the southern regions had a negative net balance of graduates, most noticeably Basilicata (about 10 graduates per 1000 residents with a university degree), Puglia, Campania, Calabria and Sicily.

As in the past, migrants tend to belong to the youngest age groups. Net migration between the Centre and North and the South and Islands in 2004 was highest among those aged 25-34 years (in 1988 it was highest for those aged 15-24). Net migration was negative for the oldest age groups, probably explained by flows of people who had moved away in their youth returning to their home region.

*Labour mobility.* – Workers can also decide to work in another place without necessarily changing their official place of residence. This type of mobility, which is not recorded by municipal register offices, can be described by using data from the Labour Force Survey (RFL).

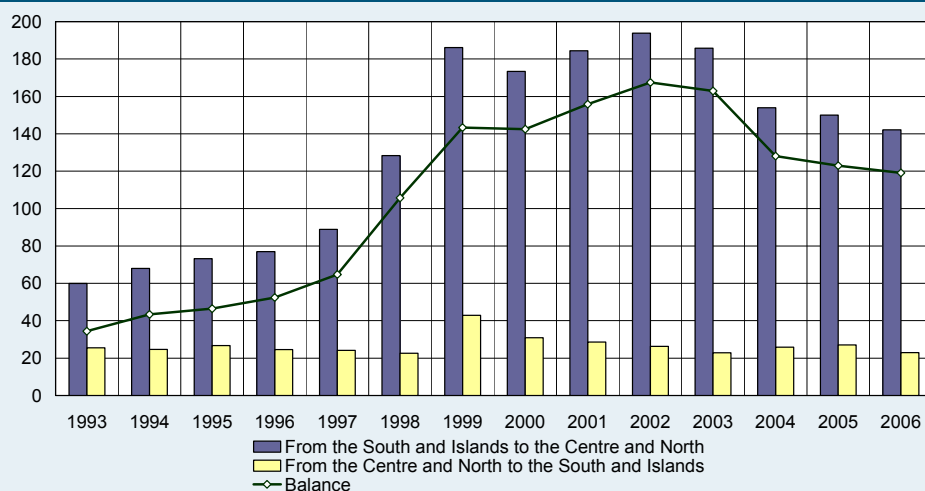
In 2006, over 470,000 people, more than 2 per cent of all workers, stated that they worked in a different region from the one where they were officially resident.

The regions attracting the largest number of workers were Lazio, Emilia Romagna and Lombardy; those with the highest number of residents working in another region were Campania and Puglia.<sup>4</sup> In the last decade, inter-regional mobility for work reasons has remained basically unchanged in the regions of the Centre and North but the figure has doubled for people moving away from the South and Islands. Mobility has also increased in the areas around the big cities, especially Rome and Milan. Increased mobility could be partly due to the change in types of work contract and the growth of fixed-term contracts which would not justify, at least in the short term, any change of official residence.

In 2006, over 140,000 workers resident in the South and Islands (40,000 of whom were university graduates) said they were working in the Centre and North. In the first half of the 1990s, the number was less than half. The growth in this type of mobility is similar to that described by the register offices: continued growth until the end of the 1990s and then a levelling off in the following years (Figure 9.3). Considering only workers with a university degree, growth in mobility from the South to the Centre and North was even more pronounced: in 2006 the net balance of graduates was seven times higher than that in the first half of the 1990s.

**Figure 9.3**

**Mobility of workers between the South and Islands and the Centre and North (1)**  
(thousands)



Source: Calculations based on Istat data on registrations and cancellations for changes of residence.  
(1) Excluding workers whose place of work is not known or who are working abroad.

Those working in a different region from the one in which they are formally resident, are usually young people with a high educational level. The share of university graduates is 26 per cent, about twice as high as the corresponding share

<sup>4</sup> The largest regional flows were from Piedmont to Lombardy (32,000 workers) and from Campania to Lazio (28,000). In the North the flows went in both directions, such as those between Piedmont and Lombardy and between Emilia Romagna and Lombardy; in the South and Islands, the flows were mainly one-way towards the Centre and North of the country.

of the total number of workers. The 25-34 age-group is the most commonly represented. Extra-regional mobility mainly involves payroll workers and, in particular, those working in the construction industry and in general government jobs. People are more likely to move at the start of their working career before stable family and working conditions are established. The share of workers with fixed-term contracts among those working in another region is 24 per cent, about 10 percentage points more than the corresponding share among the total number of people in work. In 36 per cent of cases, they are the children of the head of household filling in the RFL questionnaire.

*Immigration from abroad.* – Besides considerable migration inside Italy, in the last fifteen years there has also been a significant amount of immigration from abroad, as happened in the traditional receiving countries (such as Germany or the United Kingdom) and more recently in the countries of Mediterranean Europe (Greece, Spain and Portugal).

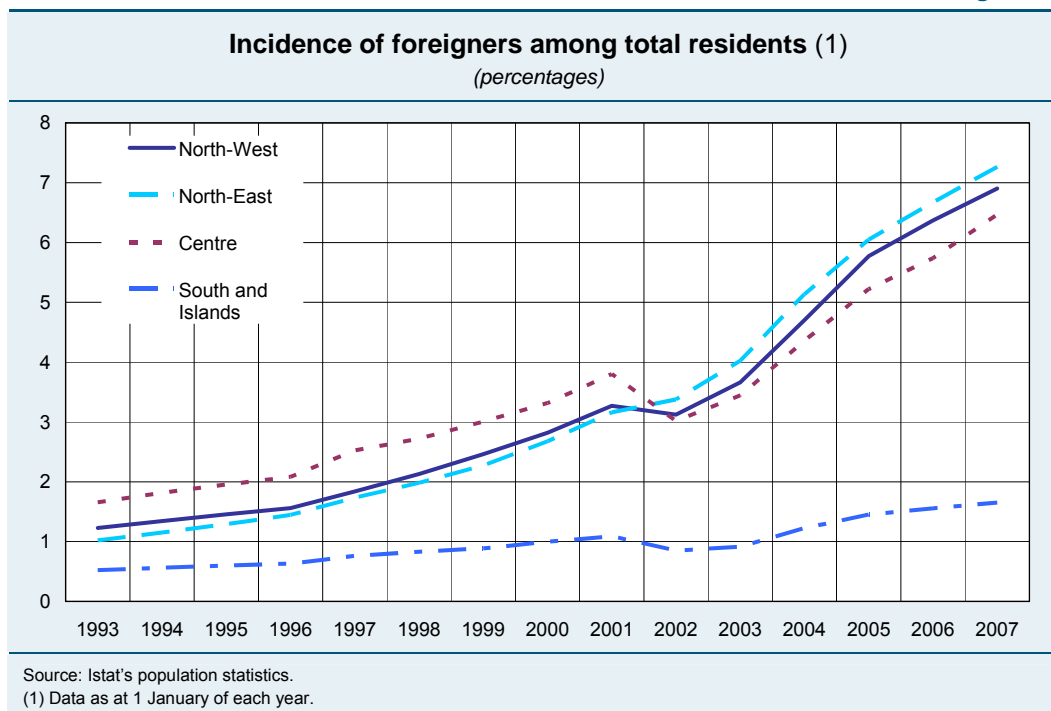
On the basis of population census data, in 1991 there were about 356,000 foreigners resident in Italy, accounting for 0.6 per cent of the population. Ten years later, the immigrant population already numbered more than 1.3 million (2.3 per cent of all residents). More than 60 per cent of the growth is due to the regularization procedures started in 1995 and in 1998. The growth of the foreign population then increased further. At the start of 2008, there were about 3.5 million foreigners resident in Italy, more than double the number recorded in 2001, accounting for 5.8 per cent of the resident population. This increase was partly due to the regularization procedure of 2002 which led to the emergence of around 650,000 people who were already working in Italy and partly to arrivals from countries that had recently joined the European Union. The incidence of the foreign population is nevertheless lower than that in the consolidated traditional immigration countries.

In all parts of the country, the contribution of net external migration was positive. In the regions of the South and Islands, with negative net internal migration, changes in the number of residents as a result of foreign in- and out-migration were considerably lower than the national average. Growth in the foreign population was greater in the regions of the North-East, where 7.2 per cent of the total resident population in 2007 were immigrants (Figure 9.4).<sup>5</sup> Over the years, the concentration of immigrants in the regions of the Centre and North has intensified. In 1991, 69 per cent of foreign residents counted in the census were concentrated in Lombardy, Lazio, Emilia Romagna, Tuscany, Veneto and Piedmont. Fifteen years later, the same areas absorbed 75 per cent of immigrants. At the same time, immigrants were better distributed across the country and less concentrated in the big cities. In 1991 the municipalities with more than 500,000 inhabitants (Turin, Genoa, Milan, Rome, Naples and Palermo) absorbed 29 per cent of foreigners compared with 17 per cent in 2004.

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<sup>5</sup> In the regions of Umbria, Veneto, Lombardy and Emilia Romagna, foreign residents account for over 7 per cent of the total population, while in the regions of Puglia, Sardinia and Basilicata the corresponding figure is slightly over 1 per cent.

Figure 9.4



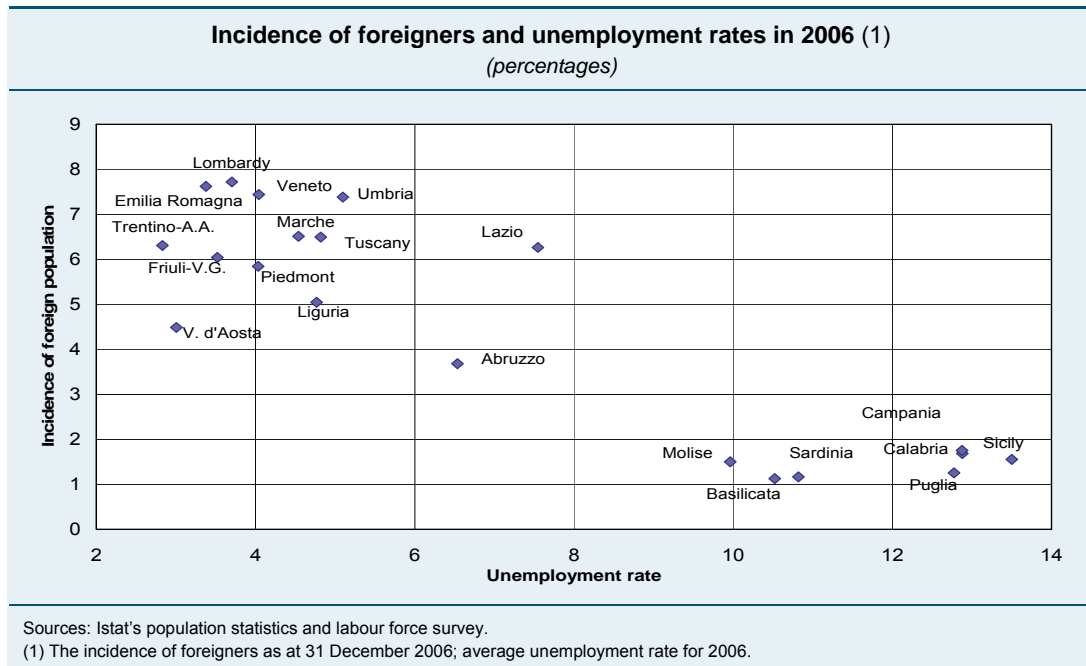
The distribution of foreigners across the country reflects the different job opportunities in the different regions. In the Centre and North, which have lower unemployment rates, the incidence of foreigners among the total population is higher than the national average; in the South and Islands, the share of non-Italian residents stabilized at a fairly low level (Figure 9.5). Foreigners choose their destinations on the basis of geographical proximity to their country of origin. In 2007, in the regions bordering on the Adriatic, the proportion of immigrants from Albania, Serbia, Montenegro, and Croatia was greater than their proportion at a national level. In Sicily, about 30 per cent of immigrants came from Tunisia and Morocco. Nevertheless, in the period under consideration, the geography of migration flows changed. There was a partial reduction in migration from south to north, although the communities themselves increased in absolute terms. This was contrasted by an intensification of migration from East to West. The percentage of foreigners coming from North Africa fell from 19.4 per cent in 1991 to 17.7 per cent. Instead, the incidence of foreigners coming from central and eastern Europe increased from 5.8 per cent in 1991 to 41.5 per cent.

On average, proportionally to total population, immigrants are younger than Italians. In 2007, more than 52 per cent of foreigners came into the 15-39 age-group compared with 31 per cent of Italians. In the same year, 40 per cent of Italian citizens were aged 50 or over, compared with 11 per cent of foreigners. These “younger” foreigners have a higher employment rate than Italians. Foreigners’ educational level is slightly lower than that of Italians: 11.3 per cent of employed immigrants is a university graduate, about 4 percentage points below the figure for their Italian counterparts. The sectoral distribution of jobs is noticeably different. In



most regions, the share of foreign workers is significantly higher than that of Italian workers in agriculture, construction, hotels and restaurants, personal services, and in the traditional “made in Italy” segments within the manufacturing sector. In general, immigrants perform lower-skilled and lower-paid jobs: about 33 per cent of immigrants is doing an unskilled job (compared with 7.4 per cent of Italians), a percentage which increases to almost 60 per cent in the South and Islands.

**Figure 9.5**



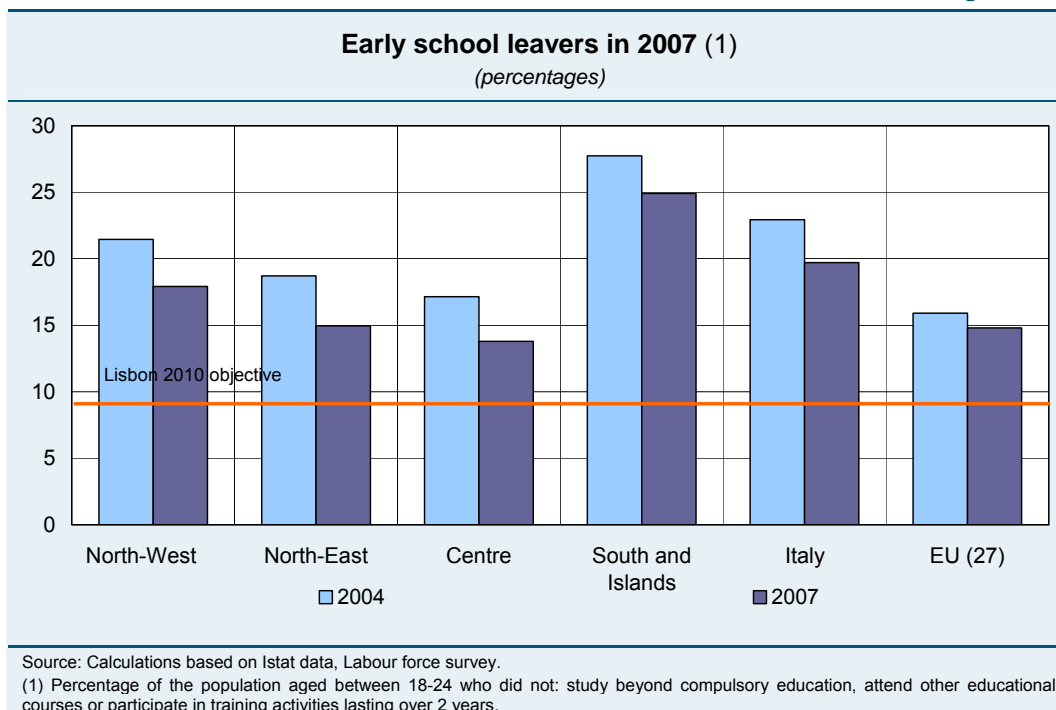
In the fifteen years under consideration, the incidence of immigrant women has further increased from about 40 to 50 per cent. The steady increase in the number of foreign women is due to more residence permits being issued to women for the purpose of family reunion, the reason accounting for more than 48 per cent of permits issued to women in 2007. There has also been a growing demand for domestic and personal service workers which could lead to more Italian women entering the labour market, enabling them to balance family commitments with a job.

## 10 – EARLY SCHOOL LEAVERS AND PUPILS' SKILLS<sup>(\*)</sup>

Despite the progress made in recent years, the percentage of young people who abandon their studies prematurely in Italy continues to exceed that of other European countries. Early school leaving is concentrated in the transitional phase between the attainment of the lower secondary school certificate and the beginning of upper secondary school. Even more marked is the extent to which Italian students lag behind their European peers in terms of knowledge and skills. Compared with the Centre and North, moreover, southern Italy has a higher drop-out rate and a higher proportion of young people with insufficient knowledge and skills.

*Early school leaving.* – In recent years the rate of school attendance has risen steadily. The youngest cohorts are more highly educated and the school attendance rate among 15-year-olds has reached around 95 per cent (up from 90 per cent at the start of the decade). In 2007, however, one out of every five students aged between 18 and 24 years had only studied up to their lower secondary school certificate and were not attending any training course, one of the highest ratios in Europe. In the Centre and North-East the percentage of early school leavers was in line with the European average, as against over 25 per cent in Campania, Sicily and Puglia (Figure 10.1).

**Figure 10.1**



(\*) Prepared by Sauro Mocetti (Bologna Branch).

In the last three years the drop-out rate has declined in all parts of the country. However, even if this trend were to continue over the next three years, only the Centre and North-East would come close to achieving the 10 per cent target agreed as part of the Lisbon strategy. The South and Islands would continue to record an average rate of early school leaving of more than 20 per cent.

Abandonment of studies and other forms of academic failure, which occur primarily during the period of transition between the lower and upper secondary school cycles, contribute to the phenomenon of early school leaving.

Based on Istat's labour force survey data, already at 15 years of age almost 13 per cent of young people have left the school system or have fallen behind (Table 10.1). Of these, 3.7 per cent abandon their studies after completing compulsory education and 0.8 per cent leave without having obtained their lower secondary school certificate; these percentages are higher in the South and Islands and more moderate in the regions of central Italy. Not all of the 15-year-olds enrolled in school have kept up with the teaching schedule: 8 per cent have repeated at least one year and are still in the lower secondary cycle. Even students who are on track can present anomalies: several switch type of upper secondary school and others abandon their studies the following year, without taking into account those pupils who fail to gain admission to the next class and who repeat the year, a group that is not identifiable in the labour force survey.

**Table 10.1**

<b>The educational level of 15-year-olds (1)</b> <i>(percentage)</i>				
STATUS	North	Centre	South and Islands	Italy
<b>Not enrolled (a)</b>	<b>4.1</b>	<b>1.3</b>	<b>6.2</b>	<b>4.6</b>
Left before end of compulsory schooling	0.8	0.4	1.1	0.8
Left after end of compulsory schooling	3.4	0.9	5.1	3.7
<b>Enrolled</b>	<b>95.9</b>	<b>98.7</b>	<b>93.8</b>	<b>95.4</b>
Lower secondary school (behind schedule) (b)	8.4	6.3	8.2	8.0
Upper secondary school (on schedule)	87.4	92.4	85.6	87.4
<i>of which: % that change school the following year (2)</i>	5.7	8.8	5.0	6.0
<i>drop-out rate the following year (c)</i>	4.2	1.2	3.8	3.4
<b>No longer enrolled or behind at 16 years (a+b+c) (3)</b>	<b>16.7</b>	<b>8.8</b>	<b>18.2</b>	<b>16.0</b>

Source: Calculations based on Istat data, Labour force survey.

(1) The sample comprises 15-year-olds surveyed in the first six months of the year (and who were all 15 at the time of interview). It was obtained by pooling data from 2004, 2005 and 2006. When they are academically on schedule, 15-year-olds are enrolled in the first year of upper secondary school. – (2) The changes contemplated are those between the following schools: technical schools, vocational schools, academic secondary schools, art institutes and teachers' training colleges. – (3) Not including the pupils enrolled in the first year of upper secondary school who, since they were not admitted to the second year, must repeat the first but do not leave.

According to econometric estimates based on the labour force survey, interruptions in pupils' progress through school are correlated with the family of origin and local school facilities. Students whose parents attained a university degree

rather than just their secondary school diploma are almost ten times less likely to fall behind or drop out. The effectiveness of the school system in combating early school leaving does not appear to depend on the number of teachers employed but rather on their employment status: a higher percentage of permanent staff would help lower the risk of such interruptions. Longer school hours at lower secondary level and better infrastructure would also reduce the drop-out rate.

The geographical disparities are attributable in part to differing literacy levels in the adult population and to local school facilities. In the South and Islands the proportion of adults aged between 35 and 55 with at most an upper secondary school diploma — among them many parents of today's 15-year-olds — is 57 per cent, 13 percentage points more than in the Centre and North. Moreover, data on school construction work show that there is a higher proportion of buildings improperly adapted for use as schools and of schools with poor quality infrastructure and hygiene-sanitation facilities in the South and Islands than in the Centre and North. This inadequate infrastructure can have a negative impact on pupils' learning and signal less attention being paid by local authorities to schools. However, early school leaving does not necessarily derive from situations of social hardship. In the northern regions the decision to drop out of school in some instances goes hand in hand with early entry into the workplace, which presents more immediate and tangible benefits compared with continued investment in education.

**Table 10.2**

<b>Upper secondary school attendance by area and type (1)</b> (percentage)						
AREA	Academic secondary schools	Teacher training colleges	Technical schools	Vocational schools	Artistic schools	Total
North-West	30.4	7.1	37.5	21.1	3.9	<b>100.0</b>
North-East	30.4	6.2	36.5	22.7	4.2	<b>100.0</b>
Centre	37.6	6.3	31.9	19.9	4.3	<b>100.0</b>
South and Islands	33.6	8.9	33.0	21.1	3.5	<b>100.0</b>
<b>Total</b>	<b>33.2</b>	<b>7.6</b>	<b>34.2</b>	<b>21.1</b>	<b>3.8</b>	<b>100.0</b>

Source: Ministry of Education.

(1) The data refer to the total of those enrolled in upper secondary school in the school year 2006-07.

Among those who decide to continue their studies, the choice of what type of upper secondary school to attend has significant consequences for their subsequent academic and professional careers; this choice varies according to geographical area. Academic secondary schools (*licei*) are most popular in the Centre and in the South and Islands (Table 10.2). In northern regions, by contrast, there is a greater preference for technical-vocational schools, chosen by 59 per cent of pupils. If one discounts the slight decline in attendance of technical schools in favour of academic secondary schools, the distribution of students by school type has remained broadly unchanged compared with the picture ten years ago.

From analyses based on the workforce survey it emerges that the choice of school type is conditioned strongly by the socio-economic circumstances of parents (level of education and occupation), by the academic results achieved in lower secondary school and by local market conditions. In particular — with all other individual and contextual variables being equal — students who complete compulsory education behind schedule are four times more likely to enrol in a vocational school. By contrast, nine out of every ten children of parents with degrees enrol in academic secondary schools. The greater preference shown by young people in the North for technical-vocational schools appears linked to the greater return on these qualifications in the local job market.

The phenomenon of early school leaving is also marked in upper secondary school. On average 18 per cent of pupils enrolled in the first year are not admitted to the next year's class; this percentage declines as the years progress. The greater difficulties encountered in the first year can be linked to the transition from one educational cycle to another, with pupils finding they have to cope with a different study environment and new subjects. These difficulties can be compounded by errors of assessment in the choice of school type. Moreover, admission to the subsequent academic year is often accompanied by educational debits (in 36 per cent of cases), which are especially common in mathematics. Non-admission to the next class and other forms of failure can result in pupils' changing their specialized courses or dropping out of school altogether. Most pupils who change their studies opt for the technical-professional institutes. The drop-out rate is higher in the South and Islands and in the North, and lower in the central regions (Table 10.1).

Early school leaving and other forms of interruption in the educational process mean that for every 100 pupils who enrol, on average 71 complete the upper secondary school cycle. The ratio is higher in academic secondary schools (84) while it is lower in technical (73) and vocational schools (52). In the latter, however, several young people already leave in the third year having obtained their qualification.

*The knowledge and skills of 15-year-olds.* – The gap between Italian and European schools and the country's geographical disparities are more pronounced if one considers the skills of students measured by the OECD Programme for International Student Assessment (PISA).

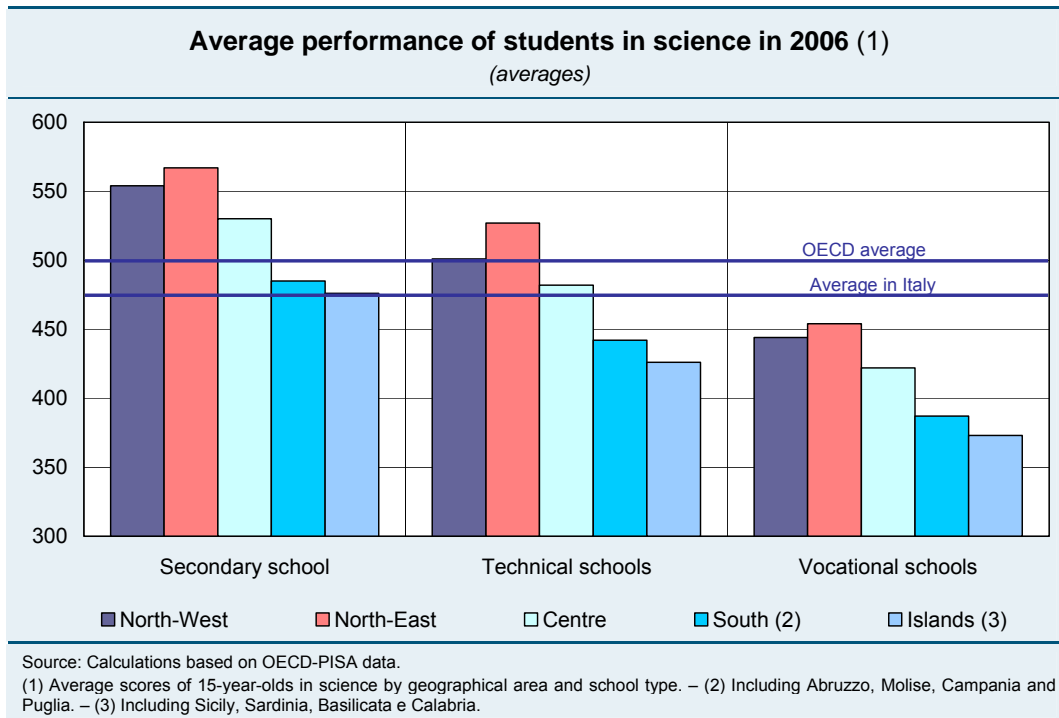
From the third edition of the survey, which the OECD conducted in 2006, it emerges that around one in every four 15-year-old Italian students performs poorly in reading and the sciences; one in three in mathematics. The southern regions show a significantly higher incidence of weak pupils compared with the other parts of the country, in all the subjects considered.

The principle objective of the 2006 survey was to collect data on the science competencies of 15-year-old students. In the South and Islands more than one student in three is lacking in skills; on the contrary, in the regions of the Centre and North the figures are in line with, and in some cases below, the OECD country average. Similar results are obtained if one examines the average scores of pupils. If one considers the higher drop-out rates in the South and Islands compared with the Centre and North, which means that 15-year-olds with greater learning difficulties and from disadvantaged socio-economic backgrounds are excluded from the survey,

then it is likely that the differences between North and South are underestimated.

Students in academic secondary schools achieve significantly higher scores than those enrolled in technical and vocational schools (518, as against 475 and 414). The differences between the schools, given that pupils' skills and knowledge are assessed at the beginning of the upper secondary cycle, reflect both the education provided by those types of school and a channelling of less-able students towards technical-vocational schools. Compared with the OECD average the gaps between the schools are much more marked in Italy, especially in respect of North European countries, where a more uniform distribution of performances among schools is accompanied by higher than average levels of attainment.

**Figure 10.2**



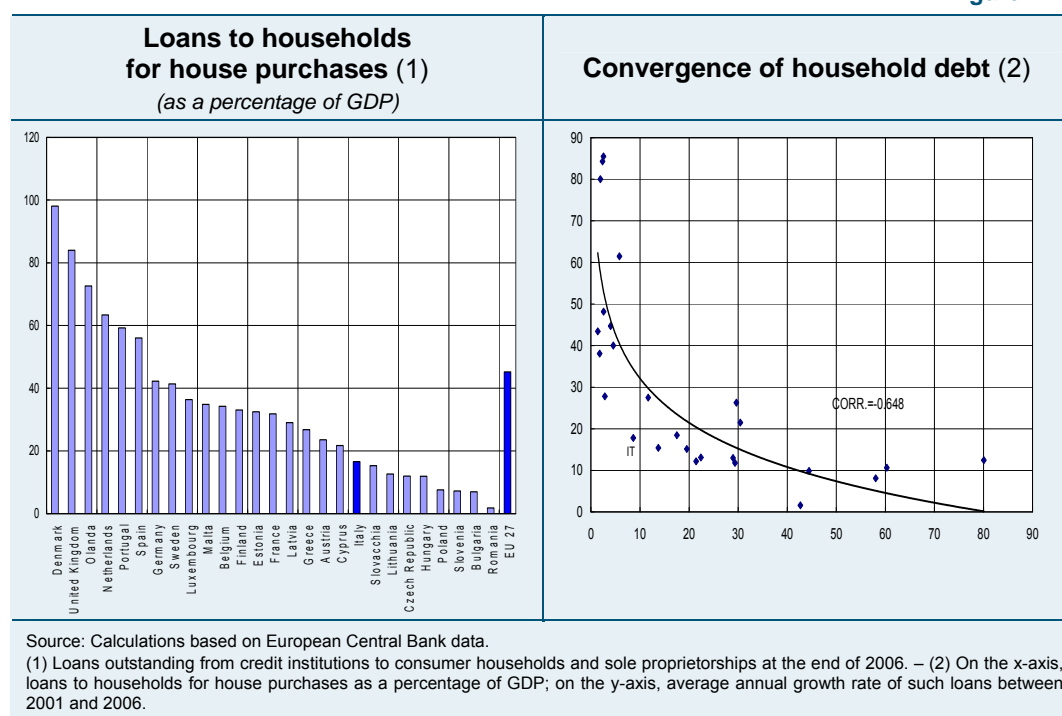
Territorial disparities extend to all types of school. Students in academic secondary schools in the Centre and North, unlike those in the South and Islands, perform above the OECD average, as do students in technical schools in the northern regions (Figure 10.2). On the other hand, those enrolled in vocational schools report lower than average scores, irrespective of what part of the country they are in.

Comparing the outcomes of 2006 with those of the previous surveys, it is possible to identify some trends, both in reading and mathematics. Compared with 2000, the reading skills of Italian students have undergone a statistically significant decline, in both areas. Skills in mathematics remained basically in line with those reported in 2003.

## 11 – HOUSEHOLD DEBT AND THE SUPPLY OF MORTGAGES WITH INNOVATIVE CHARACTERISTICS<sup>(\*)</sup>

The Italian market in home mortgages has expanded rapidly since the start of the decade, although it is still underdeveloped by international standards. According to internationally comparable European Central Bank data, bank loans for house purchases amounted to 16.6 per cent of GDP in 2006, against an EU-27 average of 45.2 per cent. However, a slow convergence of households' degree of indebtedness is under way: between 2001 and 2006 loans for house purchases grew at an average annual rate of 17.8 per cent in Italy, against 11.2 per cent in the EU (Figure 11.1).

**Figure 11.1**



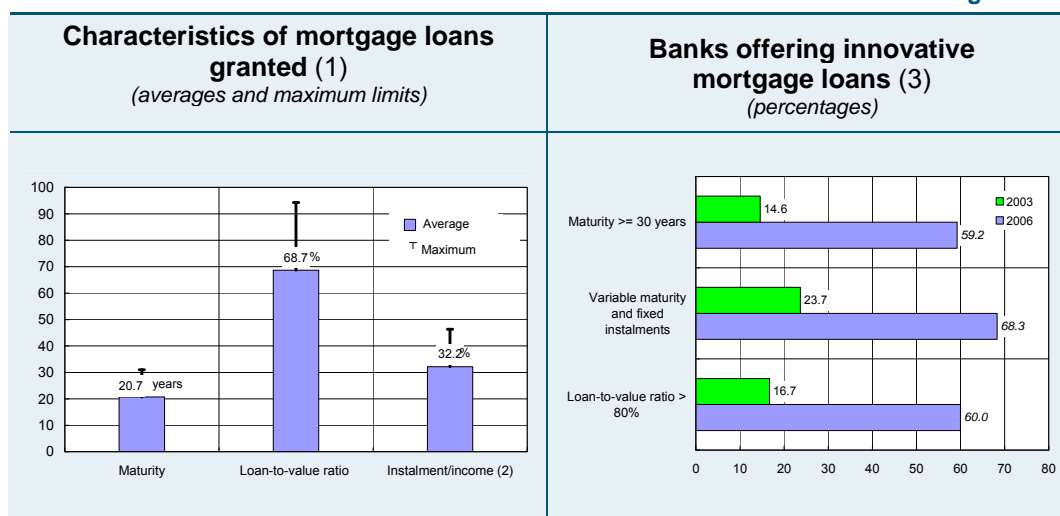
The expansion in mortgage loans to households in recent years is due to historically low interest rates and a general improvement in lending conditions (See: *L'indebitamento delle famiglie italiane*, in *Bollettino economico*, n. 46, 2006 e n. 52, 2008 and Chapter 14, “*The financial condition of households and firms*”, of the Bank’s *Annual Report for 2007*). In Italy, as in other countries, increasing use has been made of some innovative types of contract that have widened the range of available products and made it possible to increase the average loan amount.

<sup>(\*)</sup> Prepared by Paola Rossi (Milan Branch).

In 2007 the economic research units at the Bank of Italy's branches conducted a survey of more than 300 banks to gather information on the characteristics of the mortgage loans disbursed and the types of contract offered to households. A new survey was made in the first few months of 2008 to obtain additional data, particularly as regards the renegotiation or substitution of mortgages.

According to the survey, the factors that typically limit the loan amount – the length of the loan, the loan-to-value ratio, the ratio of the instalment to the borrower's income at the time the contract is concluded – have become less restrictive than in the past, not least in response to the rise in the market values of houses.

Figure 11.2



Source: Sample survey of 315 banks. See section: Methodological Notes.

(1) Data refers to new mortgage loans to households in 2006. Averages of responses, weighted by mortgage loans to households outstanding at the end of 2006. Banks were asked to indicate the average and maximum figures for: *i*) the ratio of the amount of the loan to the value of the property; *ii*) the length of new loans; *iii*) the ratio of the loan instalment to the household's income at the time of disbursement. – (2) Income does not include imputed rents, which instead are included in the statistics on disposable income published by Istat and by the Bank of Italy (see Banca d'Italia, "Household Income and Wealth in 2006, *Supplements to the Statistical Bulletin*, no. 7, 2008). – (3) Unweighted percentages of positive responses. Banks were asked whether, and since when, they had offered households mortgage loans with the following characteristics: *i*) loans with a maturity of 30 years or longer; *ii*) loans with a loan-to-value ratio higher than 80 per cent; *iii*) loans with a fixed instalment and variable maturity.

The average length of new mortgage loans granted in 2006 was just over 20 years (Figure 11.2), while the maximum stood at about 30 years, although some banks give households' access to contracts with even longer maturity. The new loans in 2006 covered an average of almost 70 per cent of the value of the property; some banks offer mortgages financing a higher share, up to 100 per cent. The average loan-to-value ratio is fairly uniform across banks of different sizes, while it is lower for those based in the South and Islands (about 60 per cent). In 2006 the average ratio of the loan instalment to the household's income at the time of disbursement was just over 30 per cent. The instalment-income ratio is higher at the time of disbursement than that observed for outstanding mortgages and tends to diminish subsequently as a consequence of the normal pattern of income growth during one's working career.

The range of products offered to households has widened progressively. The lengthening of the duration of the contract has been one of the innovations with the



greatest impact on loan amounts, helping to reduce the average incidence of loan instalment on household income. In 2003 only 15 per cent of the banks surveyed offered mortgage loans with a repayment period of 30 years or longer; the proportion rose to 59 per cent in 2006 (Table 11.1 and Figure 11.2). At the time of the 2007 survey, nearly all the large banks offered contracts of this maturity. Thirty-year mortgages were less common among small banks (68 per cent) and mutual banks (45 per cent), while they were offered more frequently by banks based in the North-East and the Centre. Mortgages with a maturity of 30 years or longer accounted for 18 per cent of the total amount of new mortgage loans in 2006.

**Table 11.1**

<b>Banks offering mortgage loans with innovative characteristics (1)</b> (percentages)				
Size of bank and location of headquarters	Maturity of 30 years or longer	Variable maturity and fixed instalment	Loan-to-value ratio greater than 80%	All three products
Major, large and medium-sized banks (2)	93.9	90.9	59.4	57.6
Small and minor banks (2)	68.3	79.5	56.9	49.6
Mutual banks	45.0	55.0	62.5	27.5
North-West	50.0	56.6	57.0	29.8
North-East	67.4	73.9	72.5	46.7
Centre	68.9	83.8	63.5	52.7
South and Islands	47.2	58.3	30.6	22.2
<b>Total</b>	<b>59.2</b>	<b>68.3</b>	<b>60.0</b>	<b>39.2</b>

Source: Sample survey of 316 banks. See section: Methodological Notes.  
 (1) Unweighted percentages of positive responses. Banks were asked whether, and since when, they had offered households mortgage loans with the following characteristics: *i*) loans with a maturity of 30 years or longer; *ii*) loans with a loan-to-value ratio higher than 80 per cent; *iii*) loans with a fixed instalment and variable maturity.- (2) See Bank of Italy, *Annual Report for 2007*, Appendix, *Glossario*, "Banche". Small and minor banks do not include mutual banks.

Loans with a fixed instalment and variable maturity have become more popular in response to the trend of market interest rates. The percentage of banks offering these products rose from 24 per cent in 2003 to 68 per cent in 2006. At the end of the period, nine out of ten large banks offered loans of this type, compared with eight out of ten small banks and just over half of mutual banks. Here, too, the incidence was higher among banks based in the North-East and the Centre. According to the survey, about 8 per cent of the new mortgage loans granted in 2006 by the sampled banks had this characteristic.

Mortgages that make it possible to finance more than 80 per cent of the property's value facilitate the purchase of a house by households with less initial capital. The proportion of banks offering mortgages of this kind rose from 17 per cent in 2003 to 60 per cent in 2006. It is similar across size classes. In particular, just under 60 per cent of the larger banks offered these loans, a smaller share than in the case of 30-year or flexible-maturity mortgages. Geographically, the share is distinctly lower for banks of all size classes based in the South and Islands. Mortgages with a

loan-to-value ratio exceeding 80 per cent accounted for 64 per cent of the total amount of new mortgages in 2006.

More than 39 per cent of the banks in the sample offered all three products. The proportion increases with bank size: it is lowest for mutual banks (27.5 per cent), rises to about 50 per cent for small banks and to 58 per cent for larger banks. It is significantly lower for banks based in the North-West and the South and Islands (Table 11.1).

**Table 11.2**

<b>Substitution and renegotiation of mortgage loans (1)</b> (percentages)				
Size of bank and location of headquarters	Substitution		Renegotiation	
	Banks (2)	Amount (3)	Banks (2)	Amount (3)
Major, large and medium-sized banks (4)	79.5	1.1	84.6	2.7
Small and minor banks (4)	65.9	1.4	86.1	3.5
Mutual banks	49.3	0.5	86.9	4.4
North-West	57.6	1.8	82.2	2.5
North-East	62.2	0.3	91.9	4.2
Centre	58.0	0.5	88.6	2.8
South and Islands	52.0	1.3	80.0	1.7
<b>Total</b>	<b>58.3</b>	<b>1.1</b>	<b>86.4</b>	<b>3.0</b>

Source: Sample survey of 367 banks. See section: Methodological Notes.

(1) Substitution is defined as the offer of contracts that replace mortgage loans from other banks, with subrogation and succession (not necessarily pursuant to Decree 7/2007), including the consolidation of personal debts outstanding with the banking system. Renegotiation is defined as any variation in the terms and conditions initially agreed with the customer that envisages the conclusion of a supplemental contract or a new contract. – (2) Percentage of banks stating that they offered substitute mortgages or had renegotiated mortgages with customers. – (3) Amount as a percentage of mortgage loans outstanding at the end of 2007. – (4) See Bank of Italy, *Annual Report for 2007*, Appendix, *Glossario*, "Banche". Small and minor banks do not include mutual banks.

According to the new survey, in 2007 about 58 per cent of the banks in the sample offered mortgages to customers interested in replacing existing contracts with other banks (Table 11.2). The percentage tends to decrease with the size of the bank; it is highest among larger banks (about 80 per cent), while it is lowest among mutual banks (49 per cent), except for those based in the North-East. The amount of new mortgage loans substituting for existing contracts was equal to 1 per cent of the stock of loans, with a high of 1.8 per cent for banks based in the North-West.

The rise in market rates also spurred customers who had taken out variable-rate mortgages to request revision of the contractual conditions. According to the survey, 86 of the banks in the sample had renegotiated mortgages (Table 11.2). The percentage was very similar for all types of bank and equal to at least 80 per cent in all the macroregions. Some 70,000 contracts had been renegotiated, equal to 3 per cent of the stock of mortgages at the end of 2007. In 10 per cent of the cases (12 per

cent by amount), loans were renegotiated after borrowers had experienced difficulty making payments.

The survey also covered the supply of mortgage loans to foreign workers in Italy: 5.7 per cent of the new mortgages disbursed by the banks in the sample were made to immigrants, similar to the share recorded in 2006.

Mortgage lending to households is associated with cross-selling of other financial products. In particular, for most of the banks in the sample, when a mortgage loan is granted, the borrower takes out a homeowner's insurance policy and opens a current account. Less frequently, mortgages are accompanied by the sale of life insurance or unemployment insurance policies.

## 12 – THE ORGANIZATION OF LENDING TO SMALL FIRMS AND THE USE OF CREDIT SCORING<sup>(\*)</sup>

With financial innovation, technological progress, legislative and regulatory reform, and the concentration of the Italian banking system, banks' organization has been radically altered, and this has affected bank-firm relations. A survey conducted by the Bank of Italy's economic research units referring to 2006 examined banks' procedures for lending to small and medium-sized enterprises (SMEs). This chapter focuses on lending by small banks, disaggregated by the location of their legal headquarters (Table 12.1). These smaller banks ("small" and "minor", in the Bank of Italy classification by size), whose business is generally limited to a restricted geographical area, are affected more directly than nationwide banks by the economic structure of their areas. Their interaction with local customers is more intense.

**Table 12.1**

<b>Organizational variables of banks by geographical area</b> <i>(number and percentages)</i>								
Geographical areas	Sample				Total population			
	N.	Mutual banks' share (1)	Branches (2)	Total assets. (2)	N.	Mutual banks' share (1)	Branches (2)	Total assets
Small and minor banks (3)	285	56.5	33.6	1,568	734	59.4	16.3	1,102
<i>North-West</i>	91	59.3	27.4	1,412	193	31.1	15.4	1,711
<i>North-East</i>	87	65.5	34.7	1,691	241	75.1	16.2	809
<i>Centre</i>	74	54.1	33.4	1,526	156	54.5	19.4	1,344
<i>South and Islands</i>	33	30.3	47.7	1,767	144	76.4	14.4	516
Major, large, and medium-sized banks	37	-	518.8	39,380	57	-	358.2	38,376
<b>Total sample</b>	<b>322</b>	-	<b>89.3</b>	<b>5,913</b>	<b>791</b>	-	<b>41.0</b>	<b>3,788</b>

Source: Sample survey of 322 banks. See section: Methodological Notes  
(1) Number of mutual banks as percentage of all banks in the area. – (2) Average. – (3) See Bank of Italy, *Annual Report for 2007*, Appendix, *Glossario*, "Banche".

The survey reveals that the local banks have extended their reach. The average distance between the local system where the bank is headquartered and the local

(\*) Prepared by Michele Benvenuti (Florence Branch) and Marcello Pagnini (Bologna Branch).

markets where it has at least one branch increased from 28 kilometres in 2000 to 34 in 2006. The average distance increased more in the South and Islands (Table 12.2).

**Table 12.2**

<b>Small and minor banks: organizational variables by geographical area</b> (number and percentages)							
Geographical areas	Distance Hq-branch (2000)	Distance Hq-branch (2006)	Trend in decentralization of decision-making (1)	Trend in tenure of branch manager (2)	Tenure in months (3)	Index of relative power delegation (4)	Incentives for branch manager (5)
Small and minor banks (6)	28	34	47.1	25.0	47	16.0	7.8
<i>North-West</i>	34	40	46.5	25.9	40	16.6	9.9
<i>North-East</i>	19	25	48.3	28.0	57	12.3	6.9
<i>Centre</i>	21	23	50.0	24.0	45	18.7	5.9
<i>South and Islands</i>	47	61	39.4	16.6	42	18.2	6.2
<b>Total sample</b>	<b>42</b>	<b>47</b>	<b>49.5</b>	<b>25.0</b>	<b>45</b>	<b>14.7</b>	<b>8.8</b>

Source: Sample survey of 322 banks. See section: Methodological Notes.

(1) Balance between answers indicating an increase and those indicating a decrease in decision-making decentralization over past three years, as a percentage of total sample. – (2) Balance between answers indicating a lengthening and those indicating a shortening of branch manager's tenure, as a percentage of total sample. – (3) Median tenure of branch manager at branch. – (4) Power delegated to branch manager normalized with respect to that of the general manager. – (5) Average share of incentive pay in total annual compensation for branch manager; includes only banks reporting that they use such incentives. – (6) See Bank of Italy, *Annual Report for 2007*, Appendix, *Glossario*, "Banche".

The survey also found that the banks' organization was increasing in complexity. Between 2003 and 2006 the overall decentralization of their decision-making (i.e. the amount of independent power over small business loans exercised by the branch manager) increased. The increase was greater in the banks of the North-East and above all of the Centre, less marked in the South and Islands. However, despite the sharper increase in the North-East, branch managers there still enjoy less autonomy than in the rest of the country (Tables 12.2 and 12.3).

More decentralized power means a larger incentive for branch managers to gather information on customers and reduces the cost of information transmission. However, it also heightens the risk of opportunistic conduct on their part. Possible means for limiting this risk are geographical mobility of managers and flexible compensation linked to results. Over the three years considered, the mobility of branch managers increased; the balance between the branches recording a diminution in the average manager's tenure and those recording an increase was 25 percentage points. The increase in mobility was least pronounced in the North-West and especially in the South and Islands, but the average tenure of managers in those two areas was less than the nationwide average in 2006.

**Table 12.3**

<b>Loans granted on authority of branch managers</b> (percentages)					
Geographical areas	Share of lending to SMEs granted independently (1)	Frequency of cases in which branch manager is important:(2)			
		Granting loan	Amount of loan	Pricing	Garanzie
Small and minor banks (3)	22.2	30.6	19.1	19.1	26.8
<i>North-West</i>	21.8	19.6	16.4	12.1	19.1
<i>North-East</i>	20.3	29.4	22.8	33.5	26.4
<i>Centre</i>	22.9	43.9	17.4	10.8	29.4
<i>South and Islands</i>	27.7	35.9	16.1	2.3	38.2
<b>Total sample</b>	<b>29.1</b>	<b>22.9</b>	<b>22.9</b>	<b>15.6</b>	<b>26.8</b>

Source: Sample survey of 322 banks. See section: Methodological Notes.  
(1) Share of lending to SMEs granted on branch manager's own authority weighted by bank's total lending to SMEs. – (2) Percentage answering "very important" weighted by amount of lending to SMEs. – (3) See Bank of Italy, *Annual Report for 2007*, Appendix, *Glossario*, "Banche".

During the same period, the use of earnings incentives for branch managers increased in the small banks. In 2006 such incentives amounted to 6 per cent of the branch manager's total compensation in the Centre and 10 per cent in the North-West (Table 12.2).

**Table 12.4**

<b>Use of credit scoring models for SMEs</b> (percentage frequency)									
Geographical areas	Presence of credit scoring models			Importance of credit scoring for: (1)					
	2000	2003	2006	Granting of loan	Size of loan	Pricing	Maturity	Collateral	Monitoring
Small and minor banks (2)	9.8	23.9	51.9	58.9	34.3	21.2	9.6	34.3	56.9
<i>North-West</i>	5.5	19.8	51.7	57.5	23.4	21.3	2.1	36.2	46.8
<i>North-East</i>	8.1	19.5	42.5	59.5	40.5	8.1	16.2	35.1	75.7
<i>Centre</i>	14.9	31.1	58.1	57.1	35.7	28.6	14.3	38.1	54.8
<i>South and Islands</i>	15.2	30.3	63.6	65.0	45.0	30.0	5.0	20.0	50.0
<b>Total sample</b>	<b>9.6</b>	<b>24.5</b>	<b>57.1</b>	<b>63.7</b>	<b>36.8</b>	<b>22.0</b>	<b>12.6</b>	<b>34.6</b>	<b>58.2</b>

Source: Sample survey of 322 banks. See section: Methodological Notes.  
(1) Percentage, among banks using credit scoring models, that consider it "decisive" or "very important". – (2) See Bank of Italy, *Annual Report for 2007*, Appendix, *Glossario*, "Banche".

The reorganization of lending to SMEs, which involved branch managers, was accompanied by greater use of information technology, allowing the adoption of statistical credit risk measurement techniques (generically termed "credit scoring").

This management tool has become more common in recent years and is now used by nearly all medium-sized and large banks and about half the smaller ones, with a slightly lower share in the North-East (Table 12.4).

The impact of these credit scoring models on credit supply depends on how they are actually used. A significant number of banks consider credit scoring decisive or very important in granting and monitoring loans. It is less influential in determining the size of a loan granted and of collateral, and rarely affects decisions on interest rates and loan maturity. By geographical area, small banks in the North-East tend to make more than average use of credit scoring models for ex-post monitoring but less for setting interest rates commensurate with the degree of risk indicated by the model.

The types of data embodied in the credit scoring models, in order of importance as judged by the banks, are given in Table 12.5. The most important are financial statements and data concerning the firm's credit relations with the bank and with the rest of the banking system. Other external data, qualitative data, and sectoral/territorial data are less important.

**Table 12.5**

<b>Data used in SME credit scoring models (1)</b> <i>(percentage frequency)</i>						
Geographical areas	Balance-sheet data	Sectoral/territorial data	Credit relations with other banks (2)	Other external sources (3)	Credit relations with the bank itself (2)	Qualitative data (4)
Small and minor banks (5)	71.0	4.5	47.1	15.0	51.5	6.1
<i>North-West</i>	76.1	4.4	41.3	6.8	54.4	2.3
<i>North-East</i>	81.8	0.0	48.5	6.3	51.5	9.4
<i>Centre</i>	62.5	7.7	53.9	30.8	46.2	2.6
<i>South and Islands</i>	57.9	5.6	44.5	16.7	55.6	17.7
<b>Total sample</b>	<b>68.8</b>	<b>4.1</b>	<b>53.2</b>	<b>16.7</b>	<b>48.0</b>	<b>6.0</b>

Source: Sample survey of 322 banks. See section: Methodological Notes.

(1) Sum of frequencies of answers judging each source as one of the two most important. Banks were asked: "If you use quantitative-statistical methods for evaluating credit risk of firms, please rank by decreasing importance the data that your 'calculation engine' uses in determining the overall score: 1 for the most important, 2 for the second, and so on. If this factor is not applied, answer 'NA'". – (2) Central Credit Register or other Credit Bureau. – (3) Interbank register of bad cheques and cards, Protested cheque bulletin, etc. – (4) Data that may be codified, as via special questionnaires, on the firm's organization, characteristics of the project to be financed, etc. – (5) See Bank of Italy, *Annual Report for 2007*, Appendix, *Glossario*, "Banche".

By geographical area, the greatest importance is attached to financial statements by banks in the North, especially the North-East; the use of external data sources is most important in the Centre and the South and Islands. The area where qualitative data are considered most important, relatively, is the South and Islands, probably owing to the attachment of lesser importance to financial statements as indications of soundness.

## 13 – PUBLIC SPENDING ON INFRASTRUCTURE IN THE ITALIAN REGIONS<sup>(\*)</sup>

On the basis of Regional public accounts, general government (central, regional and local government) fixed investment amounted to 2.5 per cent of GDP in the three years 2004-06. The largest component, about 40 per cent, consisted of spending on civil engineering works (road and rail networks, seaports and airports, energy and environmental facilities and networks, communications structures and networks), which can be defined as “economic infrastructure” in that, compared with other public works, they have a more direct link with economic development. About a third of the resources went to works, such as infrastructure in the fields of education and health, which, having more directly social objectives, can be defined as “social infrastructure”.

**Table 13.1**

<b>General government spending on infrastructure in the period 1996-2006 by geographical area</b> <i>(annual averages at current prices)</i>					
	North-West	North-East	Centre	South and Islands	Italy
<b>Civil engineering works</b>					
Millions of euros	2,744	2,682	1,889	4,154	11,469
Euros per capita	180	249	168	199	197
% of GDP	0.7	1.0	0.7	1.4	0.9
% composition					
<i>Transport infrastructure</i>	69.0	63.7	71.9	64.6	66.7
<i>Plants and networks</i>	11.0	8.9	9.2	12.2	10.6
<i>Other (1)</i>	20.0	27.4	18.9	23.2	22.7
<b>Social infrastructure</b>					
Millions of euros	2,344	2,333	2,200	2,940	9,817
Euros per capita	154	216	196	141	169
% of GDP	0.6	0.9	0.9	1.0	0.8
Sources: Calculations based on data published by the Ministry for Economic Development (Department for Development Policies), Regional public accounts database, and by Svimez. See section: Methodological Notes.					
(1) Includes, among other items, waste disposal and treatment works and other sanitary and health facilities..					

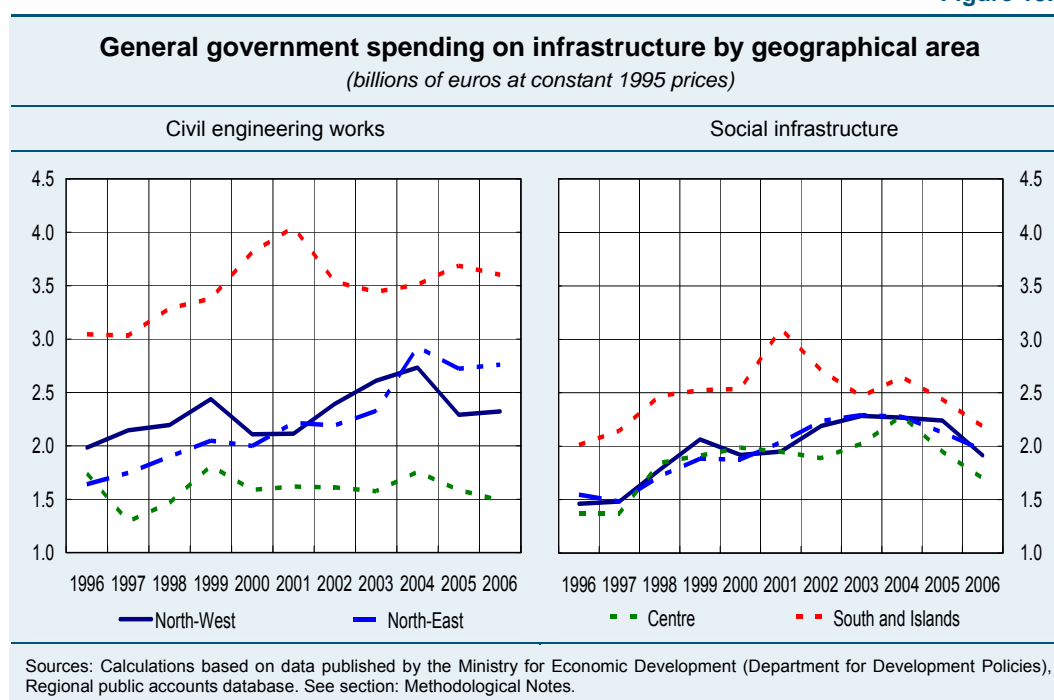
(\*) Prepared by Pasqualino Montanaro (Ancona Branch) and Alessandro Schiavone (Bari Branch).



Cumulative general government expenditure on civil engineering infrastructure from 1996 to 2006 totaled €126 billion at current prices, averaging 0.9 per cent of GDP (Table 13.1).

In the South and Islands, which absorbed 36 per cent of the resources, the ratio to GDP was 1.4 per cent, against 1 per cent in the North-East and 0.7 per cent in both the Centre and the North-West. Per capita expenditure on this type of infrastructure was highest in the North-East, where it averaged €249 per capita over the period, followed by the South and Islands (€199), the North-West (€180) and the Centre (€168; Table 13.1).

**Figure 13.1**



In the period 1996-2001 the average volume of expenditure per year at constant prices (see Methodological Notes) in the South and Islands approached that in the northern regions. A gap opened in 2002, as flows to the South and Islands contracted sharply while those earmarked for the North grew more rapidly.<sup>6</sup> Average annual expenditure in the Centre remained virtually stationary from 1999 onwards (Figure 13.1). The picture does not change if we focus on transport infrastructure (two thirds of the total expenditure; Table 13.1), for which investment in the South and Islands grew at practically half the rate recorded in the Centre and North in the period 2002-06 by comparison with 1996-2001.

<sup>6</sup> The pronounced decrease in direct investment is an aspect of overall capital expenditure whose redistributive action in favour of the South has been declining since 2002, according to the 2007 Annual Report of the Ministry for Economic Development, Department for Development Policies. A relatively high share of capital expenditure in the South and Islands consists of transfers as opposed to investment, reflecting the larger allocations for grants and incentives to firms.

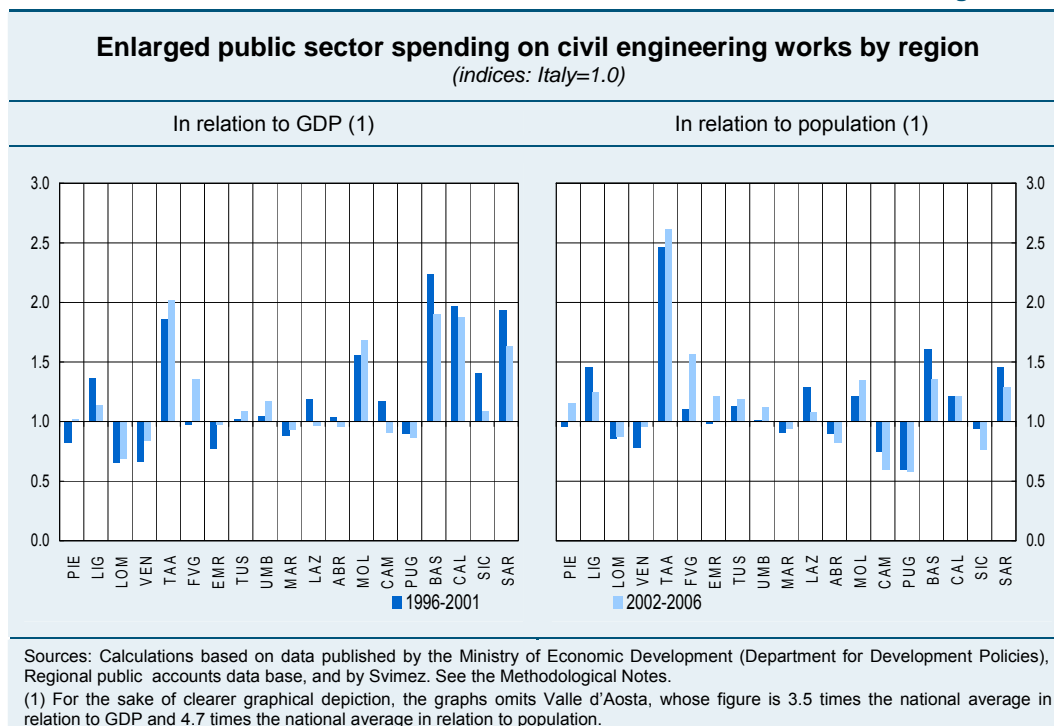
As regards social infrastructure, in 1996-2006 actual general government expenditure at current prices amounted to almost €108 billion, with average annual corresponding to 0.8 per cent of GDP (Table 13.1). The ratio to GDP was slightly higher in the South and Islands (1 per cent). However, the expenditure flows per capita for works of this kind in the South and Islands were smaller than in the rest of the country (Table 13.1). At constant prices, the growth in expenditure came to a halt in 2001, when the South and Islands' share of the total had reached 34 per cent; by 2006 their share had fallen to 28 per cent. In the other macroregions the flows continued to grow up to 2004 and then declined in the last two years (Figure 13.1).

A large share of engineering works are also carried out by entities and firms not belonging to the general government sector that are part of the enlarged public sector, such as Enel, the State Railways, specialized and municipally-controlled agencies, institutions, public economic entities and publicly-owned corporations. Including their expenditure brings total investment in civil engineering works to about a €259 billion at current prices over the entire ten years.

Examining the geographical composition of this aggregate of expenditure, the South and Islands' share was a little over one quarter. In the period 2002-06 by comparison with 1996-2001, the flow of investment by the non-general-government entities grew far more rapidly in the North-East (42.7 per cent in real terms) than in the other macroregions. Over the whole ten years period, the share of non-general government investment in favour of the regions of the North rose by nearly 10 percentage points, from about 43 to 53 per cent. In the South and Islands, by contrast, the investment at constant prices diminished by 14 per cent between the two subperiods. Almost all of the resources were divided about equally between transport infrastructures (whose share grew significantly during the period) and communications and electrical grids and lines.

Considering the enlarged public sector, in the period 1996-2006 spending on civil engineering works in the South and Islands was generally lower than in the rest of the country in relation to resident population (by €78 per person), but it was higher in relation to GDP (except in Puglia; Figure 13.2). In the South and Islands, investment in civil engineering works ranged from 1.7 per cent of regional GDP in Puglia to about 4 per cent in Basilicata and Calabria. The special-statute regions showed a conspicuously high ratio of investment to GDP: their share of investment in civil engineering works remained stable at about a 20 per cent over the ten years, during which they contributed less than 13 per cent of national GDP. Examining the trends between the two subperiods with regard to the largest regions, the share of total national expenditure increased in those of the North (Piedmont, Lombardia, Veneto and Emilia-Romagna) while it contracted in Lazio, Campania and Sicily.

**Figure 13.2**



## **14– REGULATION AND EFFICIENCY IN WATER AND URBAN WASTE SERVICES (\*)**

Launched in the 1990s with a view to fostering consolidation between service providers, ensuring separation between operators and regulators and covering costs with tariff revenues, the liberalization of local public services has proceeded slowly. In water services, the quality of infrastructure remains low, with marked territorial differences. In the vast majority of cases, service concessions have not been awarded on the basis of competitive tendering, which would have promoted more competition; almost without exception, the incumbent operators have been selected. In the urban waste disposal sector, implementation of the reform remains limited. Most regions, especially in the South and Islands and central Italy, are far from achieving the environmental and efficiency objectives that had been set. The percentage of sorted urban waste remains low, the percentage of waste disposed of in landfills is high, and the percentage of costs covered by local tax or tariff revenues is still limited, especially in the South and Islands.

### ***Water services in Italy: state of implementation of the reform***

Up to the mid-1990s water services in Italy were divided among a large number of operations, usually municipal in scale, which were unable to attain adequate standards of economic efficiency and service. Law 36/1994, known as the Galli Law, reformed this set-up primarily with the aim of boosting efficiency in the sector by applying an “industrial” regime. The law provided for: a) identification by the regions of Optimal Service Areas (OSAs); b) separation between policymaking and control on the one hand, assigned to a local public regulator (the “area authority”, to be established by municipal and provincial governments), and management on the other, to be entrusted as a rule to a single entity for all the segments of integrated water service; and c) introduction of a tariff regime with full coverage of both variable and fixed costs.

According to a survey of area authorities conducted by the Bank of Italy in the first half of 2007, the implementation of the Galli Law has been drawn out and marked by service award decisions not always based on the principle of competitive tendering for single, integrated operation of the service.

Between 1995 and 2002 the law was transposed in all the regions except Trentino-Alto Adige, to which it does not apply. In identifying the OSAs, most of the regions followed mainly administrative rather than topographical criteria. Some

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(\*) Prepared by Michele Benvenuti and Elena Gennari (Florence Branch) and Paolo Chiades (Venice Branch).

small regions (Val d'Aosta, Molise and Basilicata) but several larger ones as well (Puglia and Sardinia, with 4.1 million and 1.7 million inhabitants, respectively) opted for a single region-wide OSA. In other regions the OSAs are coextensive with provinces (Lombardy, with the exception of the Milan metropolitan area, Liguria, Emilia-Romagna, Calabria and Sicily). In the remaining regions hybrid arrangements prevailed, with some OSAs corresponding to provinces and others not (Piedmont, Friuli-Venezia Giulia, Veneto, Umbria, Marche and Abruzzo) or all OSAs straddling provincial borders (Tuscany, Lazio and Campania).

Once instituted, the area authority is required to map the infrastructures and draw up an area plan, after which the service is assigned with a contract drawn up according to a model prepared by the relevant region. In general, the process was quite time-consuming. The authorities were set up with less delay in the Centre and South. According to the data collected by the Bank of Italy, five years after the reform's entry into force, in the Centre and in the South and Islands had been instituted the 63 and 54 per cent of the authorities, respectively, compared with 17 per cent in the North-West and 33 in the North-East. The gap was closed in the subsequent years. Mapping of infrastructure had been completed in 2006 in 89 per cent of the cases (up from 22 per cent in 1999). Most of the area plans were drawn up between 1999 and 2003 in the regions of the Centre and the South and Islands and between 2004 and 2006 in those of the North, where some plans have yet to be completed. In the South and Islands, the acceleration in implementation of the reform between the late 1990s and the beginning of 2000 can be ascribed to access to European Union financing under the Community Support Frameworks.

As of the end of April 2007 the water service had been awarded in 62 out of 91 cases (to 122 operators); the cases of failure to award service concessions were concentrated in the North-West and in the South and Islands. New operators were rare: of the 98 service operators that provided such information, 51 were incumbents, 39 were incumbents that had taken new minority shareholders on board, and only 8 were entirely new. Award procedures realizing effective competition for the market were followed in less than a fifth of all cases: competitive tendering was used in only 3 out of 122 cases and direct award to a publicly controlled company, with competition to select the minority shareholder, in 20 (including 7 in which selection of the private partner is still pending ; Table 14.1). By contrast, there was greater resort to award procedures that tended to preserve the local operator, such as in-house awards (36 cases) and awards based on safeguard clauses (53).

According to a further survey conducted by the Bank of Italy in the second half of 2007 with 71 operators, control is completely public in 57.5 per cent of the cases and partially public in 37 per cent; the latter model is more common in the central regions. In the North-East, service operators are more frequently multiutilities. Aqueduct service fees account for nearly half of revenues, waste-water treatment for a quarter, and sewerage charges and the fixed fee for the rest. Sales revenue per cubic metre of water amount to €1.48.

Roughly four fifths of the area authorities have set up a technical structure for the performance of their functions and about the same proportion prepare a budget, normally in accordance with the technical forms proper to local government bodies.

For 67 of the 91 area authorities contacted by the Bank of Italy, data are available on the main cost items connected with the functioning of the regulator. For Italy as a whole, the area authorities cost an average of €0.92 per cent per inhabitant, of which 40 per cent for staff costs, 30 per cent for purchases of goods and services and 24 per cent for compensation of the governing bodies. There are significant geographical differences: the total cost per inhabitant is €0.35 in the regions of the North-West, €0.97 in those of the North-East, €1.68 in central Italy and €1.09 in the South and Islands. The higher costs in the regions of the Centre are connected with staff pay (€0.64 per inhabitant, against a national average of €0.37) and purchases of goods and services (€0.60 against €0.28); in the South and Islands, the cost per inhabitant of compensation of the governing bodies is higher than the national average (€0.40 against €0.22).

Table 14.1

Number of Optimal Service Areas and service providers by macroregion (units)						
GEOGRAPHICAL AREA	Optimal Service Areas	Providers (1)	Award procedure (2)			
			Competitive tendering	Direct, with competitive tendering for the private partner	In-house	Safeguard and other
North-West	23	44	0	5	14	25
North-East	21	43	0	3	8	29
Centre	19	19	1	9	4	5
South and Islands	28	16	2	3	10	1
<b>Italy</b>	<b>91</b>	<b>122</b>	<b>3</b>	<b>20</b>	<b>36</b>	<b>60</b>

Source: Bank of Italy survey.  
 (1) Awarded service concessions pursuant to the Galli Law. – (2) Discrepancies with respect to the total of service providers are due to incomplete data.

### Effectiveness and costs in urban waste management

The last decade has seen significant changes in both the organization and the market structure of solid urban waste management in Italy as a consequence of the greater operational and technological complexity of the integrated cycle and the reform introduced by Legislative Decree 22/1997 and carried further by Legislative Decree 152/2006 (known as the Environmental Code). However, modernization of the sector has been slow and is still far from reaching completion. The effectiveness of the regional urban waste management systems is summarized by three indicators (Table 14.2), which reflect the order of priorities established by national legislation in defining optimal waste management. Top priority goes to preventing the production of waste, followed by sorting preparatory to recycling or recovery for power generation. The last indicator refers to disposal in landfills, to be used possibly for

waste that cannot be recycled or recovered for other use.

**Table 14.2**

<b>Indicators of effectiveness by region in 2006</b> <i>(indices and percentages)</i>					
Index of production (1) (Italy=100)		Percentage of sorted waste collection (2)		Percentage of disposal in landfills (3)	
Trentino-Alto Adige	81.4	Trentino-Alto Adige	49.1	Lombardy	16.5
Lombardy	83.8	Veneto	48.7	Veneto	35.6
Friuli-Venezia Giulia	84.1	Lombardy	43.6	Friuli-Venezia Giulia	37.4
Veneto	84.2	Piedmont	40.8	Emilia-Romagna	38.2
Molise	85.7	Emilia-Romagna	33.4	Trentino-Alto Adige	39.2
Basilicata	87.0	Friuli-Venezia Giulia	33.3	Tuscany	50.2
Piedmont	90.9	Valle d'Aosta	31.3	Piedmont	50.8
Valle d'Aosta	96.3	Tuscany	30.9	Umbria	58.2
Marche	102.4	Umbria	24.5	Campania (3)	59.1
Lazio	104.6	Sardinia	19.8	Basilicata	59.5
Sardinia	106.9	Marche	19.5	Valle d'Aosta	65.3
Abruzzo	107.6	Abruzzo	16.9	Sardinia	65.3
Liguria	109.0	Liguria	16.7	Marche	65.7
Calabria	109.2	Campania	11.3	Calabria	66.8
Emilia-Romagna	112.0	Lazio	11.1	Abruzzo	80.7
Campania	114.2	Puglia	8.8	Lazio	85.1
Puglia	116.4	Calabria	8.0	Liguria	90.0
Tuscany	122.6	Basilicata	7.8	Puglia	91.0
Sicily	123.3	Sicily	6.6	Molise	93.0
Umbria	123.6	Molise	5.0	Sicily	93.7
<i>North</i>	<i>90.7</i>	<i>North</i>	<i>39.9</i>	<i>North</i>	<i>36.0</i>
<i>Centre</i>	<i>111.1</i>	<i>Centre</i>	<i>20.0</i>	<i>Centre</i>	<i>68.5</i>
<i>South and Islands</i>	<i>113.8</i>	<i>South and Islands</i>	<i>10.2</i>	<i>South and Islands</i>	<i>77.3</i>

Sources: Calculations based on Agency for Environmental Protection and Technical Services (APAT) and Istat data.  
(1) Simple average of the indices on waste production per capita and in relation to GDP (Italy=100). The indicator is affected by economic variables (e.g. the number of tourists in the region) and regulatory factors (degree of differentiation between special waste and urban waste, a matter left to municipalities) that lie outside the regions' competence. (2) In relation to total waste production. – (3) Includes temporary waste storage sites, which are considered landfills pursuant to Directive 1999/31/ EC.

The picture that emerges exhibits pronounced geographical disparities. The regions of the North show a good ability to curb waste production, while those of the Centre and, especially, the South and Islands, have a lower incidence of sorting and depend more on landfills.

The levels of effectiveness in urban waste management are at least partly a reflection of the different governance and managerial arrangements in place at local level. In the South and Islands, where direct municipal operation of services is still widespread and most regions have appointed special administrators, few companies with entrepreneurial management characteristics have developed. By contrast, in the North and in some of the regions of the Centre, sorting, recycling and recovery for

power generation have been increasing steadily, thanks in part to the more extensive use made in regional planning of tax measures, with modulation of the special tax on waste disposal in landfills.

The major geographical differences in the procedures and quality of waste cycle management are only partially reflected in the costs borne by municipal administrations. On the basis of municipal budget data, integrated to take account of the expenses sustained by the special administration in place in four regions (Sicily, Campania, Calabria and Puglia), the average cost per tonne for municipalities in the South and Islands was about 7 per cent higher than the national average, while the cost per inhabitant was in line with the national average (Table 14.3).

**Table 14.3**

<b>Cost per capita and per tonne and cost cover ratio</b> <i>(amounts in euros and percentages)</i>			
GEOGRAPHICAL AREA	Costs per inhabitant (1)	Costs per tonne (1)	Cover ratio
North-West	116.6	224.4	97.7
North-East	112.3	205.0	96.4
Centre	140.1	224.1	91.4
South and Islands	120.1	242.7	77.5
<b>Italy</b>	<b>121.6</b>	<b>226.5</b>	<b>88.9</b>

Sources: Calculations based on Utilitatis and Corte dei conti data.  
(1) The costs are for 2005 and refer to the entire service, including collection, treatment, disposal and street-cleaning. They include the expenditures of the special administrators, net of those sustained for water management, on the assumption that they are additional to those sustained by municipalities.

The share of costs covered with tax or tariff receipts averaged 88.9 per cent. It was higher in the North (97.2 per cent), lower in the Centre (91.4 per cent) and the South and Islands (77.5 per cent). The result for the South and Islands is partly due to the scant diffusion of the pricing system, which extends to 4 per cent of the population in the South and Islands (against 24 per cent in all of Italy) and envisages full cost coverage, unlike the urban solid waste disposal tax, which has a minimum cover ratio of 50 per cent and is supplemented from general tax receipts.



## **15– PUBLIC PHARMACEUTICAL EXPENDITURE: AN ANALYSIS BY MACRO-AREA (\*)**

In 2006 national pharmaceutical expenditure amounted to 1.6 per cent of GDP. The part paid by the National Health Service was about three quarters of total pharmaceutical expenditure and accounted for 18 per cent of total health expenditure.

After more than doubling in the second half of the 1990s, the growth in pharmaceutical expenditure slowed sharply from 2001 onwards, partly as a result of the additional measures adopted by the central government and the regions.

Per capita expenditure varies across the country and is highest in the South and Islands. The macro-area analysis shows how pharmaceutical expenditure charged to the budget is influenced by the effects of the actions of: *a*) the central government, with its measures to curb expenditure at national level; *b*) local authorities, for the policy implemented at regional level; and *c*) consumers, whose expenditure behaviour influences public expenditure through the varying extent to which they pay for their own drugs, including essential ones.

### ***Pharmaceutical expenditure***

Public pharmaceutical assistance in Italy is provided through two different distribution channels. Pharmaceuticals can be provided directly by government via its healthcare structures (direct distribution) or sold through private-sector outlets (mainly chemists shops) with government reimbursing the cost of eligible medicines (indirect distribution). In 2006 pharmaceutical expenditure of the latter type amounted to a little less than three quarters of total public pharmaceutical expenditure. Direct distribution expenditure is marked by having lower supply costs.<sup>7</sup>

Since 2001 the efforts to rationalize and reduce public pharmaceutical expenditure have been intensified. After more than doubling between 1995 and 2001, indirect expenditure grew from 2001 to 2006 by 6.3 per cent (Figure 15.1); in 2007 it fell by 6.8 per cent. The development of expenditure varied across the four macro-areas. Starting in 2001 the South and Islands and the North-West reduced their pharmaceutical expenditure, by 3.6 and 1.8 per cent respectively; by contrast, in the Centre and the North-East pharmaceutical expenditure rose by 2.5 and 2.8 per cent

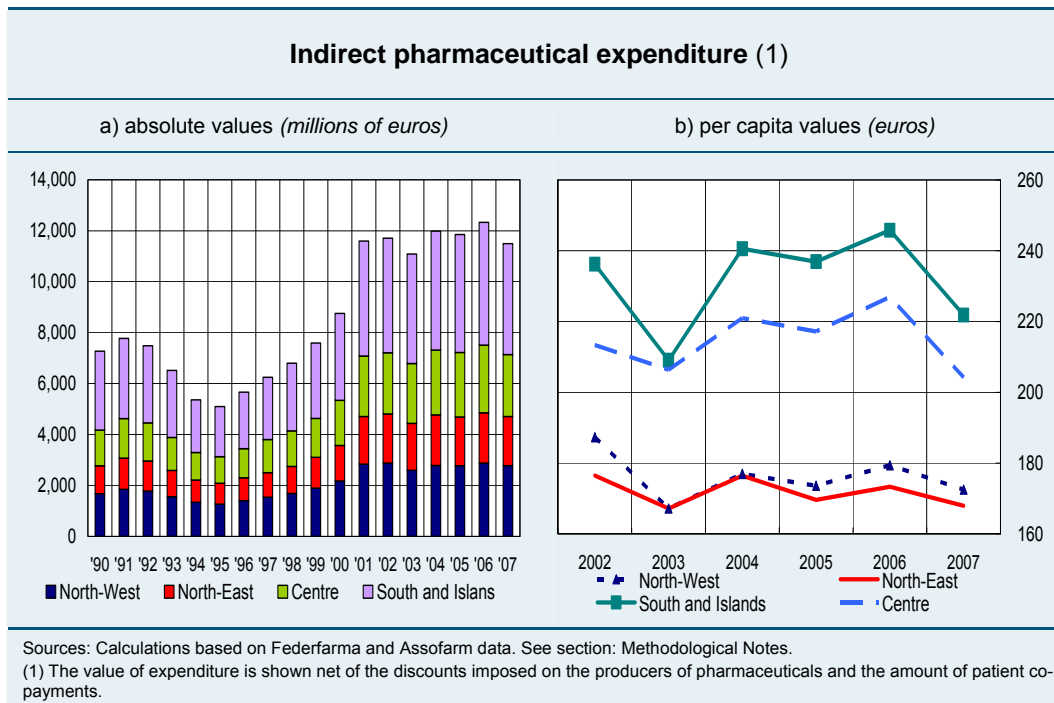
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(\*) Prepared by Demetrio Alampi (Naples Branch).

<sup>7</sup> According to estimates made by Aifa (Agenzia Italiana del Farmaco), in 2006 the minimum discount on directly distributed pharmaceutical products was 50 per cent for medicines authorized under the national procedure not subject to bargaining, 33 per cent for those authorized under the European or national procedure subject to bargaining. The discount on high-cost medicines distributed via public or private territorial structures varied, instead, from 12.5 to 19 per cent.

respectively. Over the period 2001-07 indirect expenditure averaged €11.7 billion, or 13 per cent of total health expenditure.

**Figure 15.1**



The measures to contain public expenditure have derived from parallel action at two levels of government. The central government initiatives have been in the form of discounts on the reference prices for the active principles recorded in the National Pharmaceutical Manual, mandatory discounts applied to operators in the production chain and reductions in the shares, going to the drug manufacturers, of retail prices. By contrast, the regional initiatives have been in the form of: *a)* the transfer of part of the financial costs from the public sector to patients, with the introduction of prescription charges and reimbursement up to the price of generic drugs or equivalent; *b)* the containment of the costs of pharmaceutical products borne by the National Health Service by restructuring the product mix in favour of less costly drugs, by using centralized purchasing and introducing incentives to use generic drugs (exemption from prescription charges); and *c)* incentives to use direct distribution channels in order to exploit the economic advantages in terms of the cost of pharmaceutical supplies.

The level of per capita expenditure is not uniform across the country. In 2006 the net indirect pharmaceutical expenditure was €210 per capita and ranged from a minimum of €174 in the North-East to a maximum of €243 in the South and Islands (Table 15.1 and Figure 15.1).<sup>8</sup> Per capita spending in the regions of the South and

<sup>8</sup> The above-average figures in the central regions were due entirely to the Lazio region.

Islands was 15.8 per cent above the national average. The variability across the country of the per capita value of pharmaceutical expenditure covered by the system also reflects the importance of this channel of distribution with respect to total public pharmaceutical expenditure. In fact, if account is taken of direct distribution, the differential of South and Islands with respect to the national average falls to 11.3 per cent. In these regions the direct distribution channel accounts for about 22 per cent of public pharmaceutical expenditure, compared with 27 per cent in the Centre and North.

**Table 15.1**

<b>Per capita pharmaceutical expenditure in 2006</b> (euros)						
GEOGRAPHICAL AREA	Public and private Class A pharmaceutical expenditure					
	Public			Discounts and co- payments (2)	Class A private (3)	Total
	Indirect net	Direct	Total			
North-West	181	63	244	24	17	284
North-East	174	76	250	15	16	281
Centre	228	79	307	15	11	333
<i>Centre and North</i>	<i>193</i>	<i>71</i>	<i>264</i>	<i>19</i>	<i>15</i>	<i>298</i>
South and Islands	243	69	312	19	4	336
<b>Italy</b>	<b>210</b>	<b>71</b>	<b>280</b>	<b>19</b>	<b>11</b>	<b>311</b>

Sources: Calculations based on Aifa and Istat data.  
 (1) A substantial part of the interregional variability of expenditure is due to the different composition of the resident population by age group. To eliminate the effect of this factor, the population of the macro-areas has been calculated by giving the different age groups the weights prepared by the planning department of the Health Ministry to determine the per capita share of the national health fund in relation to the level of pharmaceutical assistance. The size of the adjustment can be significant: applying the system of weights in 2006 increased the population of the Centre and North by 2.5 per cent and reduced that of the South and Islands by 4.5 per cent. – (2) Includes the obligatory discounts imposed by national law and the part of indirect drug costs charged to patients (prescription charges and the difference with respect to the reference price of the equivalent drug). – (3) The value of citizens' direct purchases of Class A drugs, i.e. essential drugs, totally refundable by the National Health Service, for which no request was made for a refund.

The excess of per capita expenditure in the regions of the South and Islands falls further when consideration is given to the private contribution to expenditure on essential drugs (so-called Class A drugs), which could be bought indirectly. If account is also taken of the costs borne by individuals, through co-payment for pharmaceuticals bought indirectly and direct purchases, per capita expenditure appears to be more uniform: in the regions of the South and Islands it is 8.1 per cent above the national average.<sup>9</sup> The public expenditure of the regions of the Centre and North, where per capita income is higher, appears to benefit from a greater propensity of their inhabitants to pay for drugs available under indirect distribution. Such expenditure amounts to 7.6 per cent of expenditure on Class A drugs, against 4.4 per cent in the Centre and 1.6 per cent in the South and Islands.

<sup>9</sup> Includes the mandatory discounts operators in the production chain must apply to their prices to the public.

### ***Central government measures to contain pharmaceutical expenditure***

The 2001 agreement between the state and the regions placed a ceiling on pharmaceutical expenditure and established that the cost of indirectly distributed pharmaceutical assistance in each region to be borne by the National Health Service could not exceed 13 per cent of public health expenditure. The part of expenditure beyond this limit was to be divided as follows: 40 per cent to be charged to the regional budget and 60 per cent to the producers of the drug by reducing their share of the sales of drugs.

Decree Law 269/2003 put a limit, as of 2004, on public pharmaceutical expenditure, including that for direct distribution, equal to 16 per cent of total health expenditure. In turn Decree Law 156/2004, ratified as Law 202/2004, established that indirect pharmaceutical expenditure should be related not to the health expenditure outturn but to the budgeted amount. The law also required the application, as of June 2004, of a discount imposed on producers of 4.1 per cent of the sales price of pharmaceuticals refundable by the National Health Service. This measure was applied until 31 October 2005.

The Finance Law for 2005 (Law 311/2004) introduced an incentive mechanism for containing expenditure, by allocating additional funds to the regions for the years 2005-07, subject to compliance with the 13 per cent limit on indirect pharmaceutical expenditure. It also laid down that, as of 2005, regions that had not complied with the expenditure limit or that had not presented measures capable of ensuring the containment of expenditure would have the share of the expenditure in excess to be charged to the regional budget increased to 50 per cent.

The Finance Law for 2006 (Law 266/2005) authorized Agenzia Italiana del Farmaco (Aifa) to introduce temporary reductions in the prices of pharmaceuticals when pharmaceutical expenditure in excess of the ceiling was forecast. The Agency used this instrument several times: as of 15 January 2006 it introduced a temporary reduction in the prices to the public of 4.4 per cent and imposed a temporary discount of 1 per cent on pharmaceutical firms' margins; as of 15 July 2006 it raised the reduction in the prices to the public from 4.4 to 5 per cent; and as of 1<sup>o</sup> October 2006 it introduced a further reduction of 5 per cent in the prices to the public.

The temporary price reduction measures introduced by Aifa were confirmed for the following years in the Finance Law for 2007 (Law 296/2006), which established the new obligations to be fulfilled by regions that exceeded the ceilings on pharmaceutical expenditure in order to have access to the additional financing provided for in the Finance Law for 2005. Going beyond the 13 per cent ceiling on indirect distribution expenditure would lead to the requirement to introduce patient co-payments or, alternatively, to adopt expenditure containment measures capable of fully covering the 40 per cent share of pharmaceutical expenditure exceeding 13 per cent of total health expenditure. Going beyond the ceiling of 3 per cent of public expenditure on direct distribution expenditure would lead to the requirement to draw up a plan for containing hospital pharmaceutical expenditure in addition to the monitoring of the use of innovative pharmaceuticals and supply contracts.

Decree Law 159/2007, ratified as Law 222/2007, amended the definition of the expenditure ceilings and the manner of repaying overshoots of the 13 per cent limit. From 2008 onwards the constraint on public pharmaceutical expenditure, including the direct distribution share and gross of patient co-payments, is set equal to 14 per cent of the ordinary financing of the State at national level and in each individual region.

### *The regional measures*

From 2002 onwards most regions have used prescription charges for drugs. Only Valle d'Aosta, the autonomous province of Trento, Friuli-Venezia Giulia, Emilia-Romagna, Tuscany, Umbria, Marche and Basilicata have never had forms of patient co-payment for pharmaceuticals. The regions that introduced forms of co-payment for pharmaceuticals in 2002 generally opted for a fixed payment of €2 per item (€1 in Lazio, Molise and Calabria and €1.50 in Sardinia), with an upper limit for each prescription. Puglia, in addition to a fixed €2 prescription charge applied a fixed fee per item of €1. A series of changes to the structure of the prescription charge followed, some of which were substantial. The size of the co-payment was reduced in Sardinia and Puglia; the exemptions based on patients' personal or income conditions were broadened in all the regions in the North having a prescription charge; prescription charges were abolished in Lazio, Calabria and Sardinia. In January 2007 Abruzzo and Campania introduced forms of co-payment following the agreement of plans with the Government for the elimination of their health debts.

Measures to encourage the use of generic drugs have been adopted by Piedmont and all the South and Islands regions except Sardinia, with reductions in or exemptions from related prescription charges. In 2006 the share of net expenditure on generic drugs was 13.7 per cent. This was sharply up on the 9.8 per cent recorded in 2003, but still well below the figures in other European countries: 50 per cent in the Netherlands and between 30 and 40 per cent in the United Kingdom, Denmark and Germany.

The incentives to use the channels of direct distribution have mainly concerned so-called "on-account distribution", implemented by entering into agreements with intermediate and final operators.<sup>10</sup> Under such agreements Local Health Units acquire drugs directly from producers, benefiting from advantageous price conditions, and then sell them on to operators in the distribution chain, who earn below-market margins. Such agreements have been concluded by the autonomous province of Trento and in Valle d'Aosta, Basilicata, Molise, Liguria and Marche. Other regions have regulated the agreements at regional level, while delegating their implementation with operators in the distribution chain to individual Local Health Units.

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<sup>10</sup> In addition to being "on account", direct distribution can be in the form of: *a*) the periodic distribution of drugs by public structures to patients with pathologies that require regular specialist controls, with reference to preparations included, as of November 2004, in the Manual of hospital-territory assistance continuity; and *b*) the direct distribution of the first cycle of therapy for patients at the end of a stay in hospital or a specialist out-patient visit.

# STATISTICAL APPENDIX

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Table a1.1

## Sectoral composition of value added in 2006 (1)

(percentage shares)

	Agriculture, forestry and fishing	Industry excluding construction	Construction	Wholesale and retail trade, hotels, transport and communication	Financial intermediation, real-estate services and business activities	Other services	Total	Share by region and area (2)
Piedmont	1.5	24.8	5.0	23.2	27.6	17.9	100.0	8.1
Valle d'Aosta	1.4	13.8	11.6	22.7	24.4	26.2	100.0	0.2
Lombardy	1.1	27.8	5.5	22.7	28.8	14.1	100.0	21.0
Liguria	1.8	11.2	6.1	28.7	29.4	22.9	100.0	2.8
<b>North-West</b>	<b>1.2</b>	<b>25.5</b>	<b>5.5</b>	<b>23.4</b>	<b>28.5</b>	<b>15.9</b>	<b>100.0</b>	<b>32.1</b>
Bolzano	4.2	14.4	7.9	29.6	23.1	20.8	100.0	1.1
Trento	2.8	19.5	6.9	24.6	24.0	22.2	100.0	1.0
Veneto	1.8	27.9	6.8	23.5	24.7	15.3	100.0	9.5
Friuli-Venezia Giulia	1.6	21.8	4.4	22.9	27.3	22.0	100.0	2.3
Emilia-Romagna	2.3	27.3	5.9	21.8	26.5	16.2	100.0	8.7
<b>North-East</b>	<b>2.1</b>	<b>26.1</b>	<b>6.3</b>	<b>23.1</b>	<b>25.6</b>	<b>16.9</b>	<b>100.0</b>	<b>22.6</b>
Tuscany	2.0	21.1	5.6	25.0	27.3	19.0	100.0	6.7
Umbria	2.2	20.2	7.6	22.9	24.5	22.6	100.0	1.4
Marche	1.8	26.6	5.8	21.4	25.1	19.4	100.0	2.6
Lazio	1.2	9.9	4.7	26.4	30.8	27.0	100.0	11.0
<b>Centre</b>	<b>1.6</b>	<b>16.1</b>	<b>5.3</b>	<b>25.1</b>	<b>28.6</b>	<b>23.3</b>	<b>100.0</b>	<b>21.7</b>
<b>Centre-North</b>	<b>1.6</b>	<b>23.0</b>	<b>5.7</b>	<b>23.8</b>	<b>27.7</b>	<b>18.3</b>	<b>100.0</b>	<b>76.4</b>
Abruzzo	2.8	24.5	6.5	21.4	22.0	22.8	100.0	1.8
Molise	3.8	19.0	7.4	19.1	21.4	29.3	100.0	0.4
Campania	2.8	11.8	7.0	25.3	24.2	28.8	100.0	6.3
Puglia	4.0	15.1	8.2	21.6	23.9	27.1	100.0	4.5
Basilicata	4.8	17.0	8.9	20.8	20.6	27.8	100.0	0.7
Calabria	5.3	9.8	6.9	22.3	23.5	32.1	100.0	2.2
Sicily	4.2	10.8	6.3	21.6	24.2	32.9	100.0	5.5
Sardinia	3.5	13.0	6.9	23.5	23.3	29.8	100.0	2.1
<b>South and Islands</b>	<b>3.7</b>	<b>13.4</b>	<b>7.1</b>	<b>22.7</b>	<b>23.7</b>	<b>29.4</b>	<b>100.0</b>	<b>23.5</b>
<b>Italy</b>	<b>2.1</b>	<b>20.8</b>	<b>6.0</b>	<b>23.5</b>	<b>26.7</b>	<b>20.9</b>	<b>100.0</b>	<b>100.0</b>

Source: Calculations based on Istat data, *Conti economici regionali*.

(1) Value added at previous-year prices. – (2) The total for Italy does not correspond to the sum of the regions' or areas' shares owing to geographically unallocated amounts.

Table a1.2

**Composition of manufacturing value added in 2005 (1)**  
(percentage shares)

	Food products, beverages and tobacco	Textiles and clothing	Leather, leather products and the like	Paper, paper products, printing and publishing	Coke, refined petroleum products, chemicals and pharmaceuticals	Non-metallic mineral products	Basic metals and fabricated metal products	Mechanical and electrical machinery and equipment, precision tools and transport equipment	Wood, rubber and other products of manufacturing	Total manufacturing industry
Piedmont	11.6	7.9	0.3	6.7	5.2	3.8	17.4	36.0	11.2	100.0
Valle d'Aosta	15.5	1.2	0.1	2.3	1.3	2.8	31.6	35.7	9.5	100.0
Lombardy	7.1	8.1	0.9	7.3	11.1	3.1	20.2	31.2	10.9	100.0
Liguria	13.3	1.9	0.2	4.6	8.6	7.4	14.3	40.6	9.2	100.0
<b>North-West</b>	<b>8.4</b>	<b>7.8</b>	<b>0.7</b>	<b>7.0</b>	<b>9.5</b>	<b>3.5</b>	<b>19.4</b>	<b>32.7</b>	<b>10.9</b>	<b>100.0</b>
Bolzano	19.4	1.1	0.1	6.0	2.6	6.4	16.1	25.3	22.8	100.0
Trento	13.2	4.7	0.9	12.4	5.3	7.6	13.8	25.8	16.3	100.0
Veneto	7.8	9.4	5.2	5.2	4.9	6.0	18.1	28.2	15.2	100.0
Friuli-Venezia Giulia	7.9	2.1	0.7	5.2	2.5	6.6	20.8	29.6	24.7	100.0
Emilia-Romagna	14.5	6.0	1.6	4.3	5.5	11.5	15.3	33.5	7.8	100.0
<b>North-East</b>	<b>11.0</b>	<b>7.0</b>	<b>3.1</b>	<b>5.1</b>	<b>4.9</b>	<b>8.4</b>	<b>17.0</b>	<b>30.4</b>	<b>13.2</b>	<b>100.0</b>
Tuscany	7.2	16.9	11.7	6.5	7.4	6.3	10.4	21.5	12.2	100.0
Umbria	15.3	10.7	0.8	5.8	3.2	12.3	20.9	18.5	12.4	100.0
Marche	7.2	7.3	16.9	4.6	2.8	3.4	15.2	23.7	18.9	100.0
Lazio	12.4	3.8	0.2	14.2	21.4	6.5	9.5	24.1	8.0	100.0
<b>Centre</b>	<b>9.2</b>	<b>10.7</b>	<b>8.9</b>	<b>8.1</b>	<b>9.8</b>	<b>6.2</b>	<b>12.1</b>	<b>22.4</b>	<b>12.5</b>	<b>100.0</b>
<b>Centre-North</b>	<b>9.5</b>	<b>8.1</b>	<b>3.1</b>	<b>6.6</b>	<b>8.0</b>	<b>5.6</b>	<b>17.2</b>	<b>30.0</b>	<b>12.0</b>	<b>100.0</b>
Abruzzo	11.7	11.9	2.0	7.2	5.0	10.5	13.8	27.9	10.0	100.0
Molise	17.1	13.3	0.5	1.7	7.4	11.3	12.6	27.3	8.7	100.0
Campania	17.2	7.1	4.9	6.2	6.0	6.3	14.2	28.7	9.3	100.0
Puglia	16.1	11.3	5.0	4.6	4.6	7.5	20.3	17.9	12.6	100.0
Basilicata	14.9	6.7	1.7	3.3	4.3	10.4	8.8	30.7	19.2	100.0
Calabria	21.8	8.4	0.5	5.5	7.8	16.9	11.6	16.7	10.7	100.0
Sicily	19.9	2.8	0.2	5.0	19.4	10.2	11.9	20.2	10.3	100.0
Sardinia	19.7	4.1	0.3	5.0	14.7	12.0	14.8	18.1	11.3	100.0
<b>South and Islands</b>	<b>16.9</b>	<b>8.1</b>	<b>2.8</b>	<b>5.4</b>	<b>8.5</b>	<b>9.2</b>	<b>14.7</b>	<b>23.4</b>	<b>11.0</b>	<b>100.0</b>
<b>Italy</b>	<b>10.5</b>	<b>8.1</b>	<b>3.0</b>	<b>6.4</b>	<b>8.1</b>	<b>6.1</b>	<b>16.9</b>	<b>29.1</b>	<b>11.9</b>	<b>100.0</b>

Source: Calculations based on Istat data, *Conti economici regionali*.  
(1) Value added at previous-year prices.



Table a1.3

**Composition of service-sector value added in 2005 (1)**  
(percentage shares)

	Wholesale and retail trade and repair services	Hotel and restaurant	Transport, storage and communication	Financial intermediation	Services to households and businesses (2)	Public administration (3)	Education	Health and social work	Other community, social and personal services (4)	Total services
Piedmont	18.7	4.7	10.8	7.0	32.9	6.8	5.7	8.3	5.1	100.0
Valle d'Aosta	11.5	11.5	8.5	4.0	29.0	16.5	6.8	9.1	3.0	100.0
Lombardy	20.4	4.1	10.4	9.5	34.3	4.7	4.5	7.0	5.2	100.0
Liguria	15.0	7.0	13.6	5.9	30.5	10.0	5.1	8.3	4.6	100.0
<b>North-West</b>	<b>19.3</b>	<b>4.6</b>	<b>10.8</b>	<b>8.5</b>	<b>33.5</b>	<b>5.9</b>	<b>4.9</b>	<b>7.5</b>	<b>5.1</b>	<b>100.0</b>
Bolzano	17.5	15.7	7.4	6.3	25.0	10.7	5.9	8.8	2.7	100.0
Trento	14.1	9.9	10.7	6.1	27.4	12.0	6.2	10.3	3.4	100.0
Veneto	19.4	7.2	10.8	7.1	31.6	6.4	5.5	7.4	4.6	100.0
Friuli-Venezia Giulia	15.9	6.0	10.0	6.8	30.4	12.4	5.6	8.7	4.1	100.0
Emilia-Romagna	18.5	6.0	9.8	7.4	33.5	6.2	5.0	8.1	5.5	100.0
<b>North-East</b>	<b>18.3</b>	<b>7.2</b>	<b>10.1</b>	<b>7.1</b>	<b>31.6</b>	<b>7.5</b>	<b>5.4</b>	<b>8.0</b>	<b>4.7</b>	<b>100.0</b>
Tuscany	18.7	7.0	9.9	6.7	31.3	7.8	5.5	7.4	5.7	100.0
Umbria	17.4	6.0	9.9	5.2	29.4	9.7	7.6	8.6	6.2	100.0
Marche	18.0	5.5	9.4	6.6	31.1	8.3	7.4	9.0	4.8	100.0
Lazio	13.8	4.4	13.4	6.7	29.9	11.2	6.2	6.2	8.1	100.0
<b>Centre</b>	<b>15.8</b>	<b>5.4</b>	<b>11.8</b>	<b>6.6</b>	<b>30.4</b>	<b>9.8</b>	<b>6.2</b>	<b>7.0</b>	<b>7.0</b>	<b>100.0</b>
<b>Centre-North</b>	<b>18.0</b>	<b>5.6</b>	<b>10.9</b>	<b>7.5</b>	<b>32.0</b>	<b>7.6</b>	<b>5.4</b>	<b>7.5</b>	<b>5.6</b>	<b>100.0</b>
Abruzzo	17.4	5.8	9.8	4.7	28.2	12.2	9.0	8.8	4.1	100.0
Molise	13.6	4.9	9.5	3.8	26.8	15.9	11.8	9.9	3.7	100.0
Campania	14.9	4.9	12.9	4.1	26.6	11.7	10.4	9.3	5.2	100.0
Puglia	15.5	4.4	10.2	4.4	28.1	14.3	10.3	9.0	3.9	100.0
Basilicata	15.4	4.8	10.2	3.9	25.6	13.3	11.6	10.5	4.7	100.0
Calabria	13.6	4.4	11.1	3.3	26.5	15.5	11.7	9.2	4.6	100.0
Sicily	14.3	3.9	9.3	4.3	26.3	15.8	10.6	9.8	5.6	100.0
Sardinia	15.4	6.1	9.6	4.2	26.0	14.6	9.3	10.3	4.4	100.0
<b>South and Islands</b>	<b>14.9</b>	<b>4.7</b>	<b>10.7</b>	<b>4.2</b>	<b>26.8</b>	<b>13.9</b>	<b>10.4</b>	<b>9.5</b>	<b>4.8</b>	<b>100.0</b>
<b>Italy</b>	<b>17.2</b>	<b>5.4</b>	<b>10.9</b>	<b>6.7</b>	<b>30.7</b>	<b>9.2</b>	<b>6.7</b>	<b>8.0</b>	<b>5.4</b>	<b>100.0</b>

Source: Calculations based on Istat data, *Conti economici regionali*.

(1) Value added at previous-year prices. – (2) Includes real-estate, rental, information technology, research and other professional services and business activities. – (3) Includes defence and compulsory social security. – (4) Includes private households with employed persons.

Table a1.4

<b>GDP growth rates</b>							
<i>(percentage changes; chain-linked volumes; reference year 2000)</i>							
	2001	2002	2003	2004	2005	2006	2007 (1)
Piedmont	0.7	-0.5	-0.1	1.2	-0.3	1.6	...
Valle d'Aosta	2.0	1.3	1.4	1.2	-0.9	0.9	...
Lombardy	2.1	1.1	0.1	0.7	-0.4	2.3	...
Liguria	2.6	-2.0	-0.2	0.5	0.0	0.8	...
<b>North-West</b>	<b>1.8</b>	<b>0.4</b>	<b>0.1</b>	<b>0.8</b>	<b>-0.4</b>	<b>2.0</b>	<b>1.5</b>
Bolzano	-1.9	-1.2	1.3	2.0	1.2	1.9	...
Trento	0.4	-0.4	0.3	-0.7	1.1	1.7	...
Veneto	0.9	-1.0	1.3	2.3	0.5	2.5	...
Friuli-Venezia Giulia	3.0	-0.4	-2.0	0.4	3.0	2.7	...
Emilia-Romagna	1.4	-0.5	-0.5	0.6	1.1	2.2	...
<b>North-East</b>	<b>1.1</b>	<b>-0.7</b>	<b>0.2</b>	<b>1.3</b>	<b>1.0</b>	<b>2.4</b>	<b>1.8</b>
Tuscany	2.4	0.7	0.5	0.9	-0.1	2.0	...
Umbria	2.9	-0.8	-0.3	1.5	0.7	2.4	...
Marche	2.3	2.2	-0.4	1.3	0.5	2.6	...
Lazio	1.9	2.8	-0.5	4.0	-0.1	1.4	...
<b>Centre</b>	<b>2.2</b>	<b>1.8</b>	<b>-0.2</b>	<b>2.5</b>	<b>0.1</b>	<b>1.8</b>	<b>1.7</b>
<b>Centre-North</b>	<b>1.7</b>	<b>0.5</b>	<b>0.1</b>	<b>1.4</b>	<b>0.2</b>	<b>2.0</b>	<b>1.6</b>
Abruzzo	1.0	0.2	-1.3	-2.4	1.5	1.6	...
Molise	1.3	0.9	-1.7	1.2	0.7	1.4	...
Campania	3.2	1.9	-0.7	0.4	-1.1	1.4	...
Puglia	1.5	-0.4	-1.1	1.1	-0.4	1.4	...
Basilicata	-0.3	0.8	-1.2	1.3	-0.2	2.1	...
Calabria	2.8	-0.3	1.4	2.1	-2.4	1.1	...
Sicily	2.8	0.3	-0.1	0.1	1.3	1.0	...
Sardinia	1.9	-0.2	2.0	0.4	0.0	1.3	...
<b>South and Islands</b>	<b>2.3</b>	<b>0.5</b>	<b>-0.3</b>	<b>0.4</b>	<b>-0.2</b>	<b>1.3</b>	<b>0.9</b>
<b>Italy (2)</b>	<b>1.8</b>	<b>0.5</b>	<b>0.0</b>	<b>1.2</b>	<b>0.1</b>	<b>1.9</b>	<b>1.5</b>

Source: Calculations based on Istat data, *Conti economici regionali*.

(1) Projections based on Istat's *Conti economici territoriali*; percentage changes based on previous-year prices. - (2) The national total given by the regional accounts differs from that of the national accounts for the years 2004-06 because it does not yet incorporate the latest revisions. In those three years, Italy's GDP grew by 1.5, 0.6 and 1.8 per cent, respectively.

Table a1.5

Per capita GDP growth rates (1)							
(percentage changes and thousands of euros)							
	2001	2002	2003	2004	2005	2006	2006 Thousands of euros per capita
Piedmont	0.8	-0.6	-0.7	0.0	-1.1	1.4	23.3
Valle d'Aosta	1.7	0.7	0.4	0.4	-1.6	0.1	27.5
Lombardy	1.8	0.5	-1.0	-0.9	-1.6	1.5	27.5
Liguria	3.1	-1.7	-0.5	-0.1	-1.0	0.4	21.3
<b>North-West</b>	<b>1.7</b>	<b>0.0</b>	<b>-0.9</b>	<b>-0.5</b>	<b>-1.4</b>	<b>1.4</b>	<b>25.7</b>
Bolzano	-2.4	-1.8	0.4	1.0	0.0	0.8	27.9
Trento	-0.3	-1.3	-1.1	-2.2	0.0	0.8	24.9
Veneto	0.4	-1.8	0.1	1.0	-0.5	1.7	25.0
Friuli-Venezia Giulia	2.8	-0.9	-2.6	-0.2	2.6	2.4	24.0
Emilia-Romagna	0.9	-1.3	-1.6	-0.9	-0.2	1.4	26.4
<b>North-East</b>	<b>0.6</b>	<b>-1.5</b>	<b>-0.9</b>	<b>0.0</b>	<b>0.0</b>	<b>1.6</b>	<b>25.5</b>
Tuscany	2.3	0.4	-0.5	-0.2	-0.8	1.4	23.3
Umbria	2.6	-1.4	-1.6	0.0	-0.5	1.6	20.2
Marche	1.8	1.5	-1.5	0.2	-0.3	2.0	21.7
Lazio	1.9	2.5	-1.3	2.8	-1.0	-0.7	25.1
<b>Centre</b>	<b>2.1</b>	<b>1.4</b>	<b>-1.1</b>	<b>1.3</b>	<b>-0.8</b>	<b>0.5</b>	<b>23.7</b>
<b>Centre-North</b>	<b>1.5</b>	<b>0.0</b>	<b>-0.9</b>	<b>0.1</b>	<b>-0.8</b>	<b>1.2</b>	<b>25.1</b>
Abruzzo	1.0	-0.3	-2.2	-3.4	0.8	1.2	17.6
Molise	1.7	1.0	-1.9	1.0	0.9	1.7	16.0
Campania	3.3	1.8	-1.2	-0.1	-1.3	1.4	13.7
Puglia	1.7	-0.4	-1.3	0.5	-0.8	1.3	14.0
Basilicata	0.1	1.1	-1.1	1.3	0.1	2.6	15.3
Calabria	3.3	0.0	1.3	2.0	-2.3	1.4	13.8
Sicily	3.1	0.3	-0.5	-0.3	1.2	1.0	14.1
Sardinia	2.1	-0.2	1.6	0.0	-0.4	1.0	16.5
<b>South and Islands</b>	<b>2.5</b>	<b>0.5</b>	<b>-0.7</b>	<b>0.0</b>	<b>-0.4</b>	<b>1.3</b>	<b>14.4</b>
<b>Italy (2)</b>	<b>1.8</b>	<b>0.1</b>	<b>-0.8</b>	<b>0.2</b>	<b>-0.6</b>	<b>1.3</b>	<b>21.3</b>

Source: Calculations based on Istat data, *Conti economici regionali*.

(1) Value added at base prices, chain-linked volumes, reference year 2000. – (2) The national total given by the regional accounts differs from that of the national accounts for the years 2004-06 because it does not yet incorporate the latest revisions. In those three years, Italy's GDP per capita growth rates were 0.5, -0.2 and 1.3 per cent.

Table a1.6

<b>Labour productivity by sector (1)</b> (percentage changes)						
YEARS	North-West	North-East	Centre	Centre-North	South and Islands	Italy
<b>Industry excluding construction</b>						
2001	-0.4	-0.7	2.4	0.0	-0.7	-0.1
2002	-1.0	-0.9	-3.2	-1.4	-0.8	-1.4
2003	-1.2	-1.9	-3.6	-1.9	-4.2	-2.2
2004	-0.2	1.8	-0.3	0.5	-2.6	0.2
2005	-0.4	1.1	0.4	0.3	1.2	0.4
2006	1.6	1.5	0.2	1.3	0.9	1.2
<b>Construction</b>						
2001	4.4	5.1	-4.5	2.1	-0.4	1.3
2002	0.0	2.4	-3.0	-0.1	1.2	0.3
2003	-1.4	1.9	-0.1	0.0	0.1	0.0
2004	1.3	-2.9	-0.2	-0.5	-1.3	-0.7
2005	-3.9	0.5	-5.0	-2.8	-3.0	-2.8
2006	1.6	0.3	-1.1	0.4	2.3	1.0
<b>Non-financial private services (2)</b>						
2001	1.5	0.4	1.9	1.3	1.2	1.3
2002	0.5	-5.3	1.2	-1.0	-4.8	-2.0
2003	-0.7	-0.7	-8.1	-2.9	-2.5	-2.7
2004	0.7	3.8	3.9	2.5	1.7	2.4
2005	1.3	1.7	2.9	1.9	1.7	1.9
2006	1.0	1.2	1.2	1.1	0.6	1.0
<b>Goods and non-financial private services (2)</b>						
2001	0.6	0.2	0.7	0.5	-0.4	0.2
2002	-0.2	-2.5	-0.5	-1.0	-1.8	-1.2
2003	-1.2	-1.1	-5.0	-2.1	-1.8	-2.0
2004	0.4	2.7	2.3	1.6	0.9	1.5
2005	-0.1	1.8	1.1	0.8	0.8	0.8
2006	1.3	1.1	0.6	1.0	0.3	0.9

Source: Calculations based on Istat, *Conti economici regionali*.

(1) Labour productivity is calculated as the ratio of value added at base prices (chain-linked volumes, reference year 2000) to total standard labour units. –

(2) Excludes the following: financial intermediation, real-estate services and business activities, public administration, education; health services, domestic services, and other community, social and personal service activities.

Table a1.7

**Value added in manufacturing, 2000-2005**  
(percentage changes; chain-linked volumes, reference year 2000)

SECTORS	North-West	North-East	Centre	South and Islands	Italy
<b>Cumulative percentage changes</b>					
Food products, beverages and tobacco	-13.4	-13.1	-7.3	-13.1	-12.4
Textiles and clothing	-30.2	-24.8	-18.1	-26.4	-26.0
Leather and leather products	-17.5	-18.8	-13.3	-16.7	-15.9
Paper, paper products, printing and publishing	2.4	-8.4	-17.4	4.4	-4.7
Coke, refined petroleum products, chemicals and pharmaceuticals	-17.0	-9.7	-16.0	-34.2	-18.2
Non-metallic mineral products	8.6	0.3	-11.3	10.4	1.9
Basic metals and fabricated metal products	-2.2	7.4	9.6	14.9	3.7
Mechanical and electrical machinery and equipment, precision tools and transport equipment	-0.9	-6.1	-13.4	-15.9	-6.1
Wood, rubber and plastic products and other manufactures	-3.8	-6.2	-5.8	-9.9	-5.7
<b>Total manufacturing industry</b>	<b>-7.0</b>	<b>-6.7</b>	<b>-10.8</b>	<b>-11.1</b>	<b>-8.1</b>
<b>Sectoral contributions to growth (1)</b>					
Food products, beverages and tobacco	-1.1	-1.4	-0.6	-2.1	-1.2
Textiles and clothing	-3.1	-2.1	-2.1	-2.6	-2.6
Leather and leather products	-0.1	-0.6	-1.1	-0.5	-0.5
Paper, paper products, printing and publishing	0.2	-0.4	-1.5	0.2	-0.3
Coke, refined petroleum products, chemicals and pharmaceuticals	-1.9	-0.5	-1.8	-3.7	-1.7
Non-metallic mineral products	0.2	0.0	-0.7	0.8	0.1
Basic metals and metal products	-0.4	1.1	1.0	1.8	0.6
Mechanical and electrical machinery and equipment, precision tools and transport equipment	-0.3	-1.9	-3.1	-4.0	-1.7
Wood, rubber and plastic products and other manufactures	-0.4	-0.9	-0.7	-1.2	-0.7
<b>Total manufacturing industry</b>	<b>-7.0</b>	<b>-6.7</b>	<b>-10.8</b>	<b>-11.1</b>	<b>-8.1</b>
<b>Geographical contributions to growth (2)</b>					
Food products, beverages and tobacco	-4.4	-4.0	-1.0	-3.0	-12.4
Textiles and clothing	-12.6	-6.2	-3.4	-3.7	-26.0
Leather and leather products	-1.8	-5.8	-6.1	-2.2	-15.9
Paper, paper products, printing and publishing	1.0	-2.0	-4.1	0.5	-4.7
Coke, refined petroleum products, chemicals and pharmaceuticals	-8.2	-1.6	-3.1	-5.6	-18.2
Non-metallic mineral products	1.8	0.1	-2.1	2.0	1.9
Basic metals and metal products	-1.1	2.1	1.0	1.6	3.7
Mechanical and electrical machinery and equipment, precision tools and transport equipment	-0.4	-1.9	-1.8	-2.0	-6.1
Wood, rubber and plastic products and other manufactures	-1.4	-2.0	-1.0	-1.3	-5.7
<b>Total manufacturing industry</b>	<b>-2.8</b>	<b>-1.9</b>	<b>-1.8</b>	<b>-1.6</b>	<b>-8.1</b>

Source: Calculations based on Istat data, *Conti economici regionali*.

(1) Percentage change in the sector's value added in the area, weighted by the sector's share of total manufacturing value added in the area. – (2) Percentage change in the sector's value added in the area, weighted by its value added in the area as a share of its total value added in Italy.

Table a1.8

<b>Retail sales</b>		
<i>(percentage changes at current prices)</i>		
	2006	2007
Piedmont	10.2	2.7
Valle d'Aosta	4.0	1.1
Lombardy	-1.9	0.2
Liguria	-3.6	0.7
<b>North-West</b>	<b>1.2</b>	<b>0.9</b>
Trentino-Alto Adige	-1.2	1.8
Veneto	5.9	-0.2
Friuli-Venezia Giulia	1.3	-0.2
Emilia-Romagna	4.1	2.0
<b>North-East</b>	<b>1.7</b>	<b>1.4</b>
Tuscany	0.8	0.4
Umbria	5.3	1.8
Marche	0.8	-1.4
Lazio	1.3	0.3
<b>Centre</b>	<b>1.4</b>	<b>0.3</b>
<b>Centre-North</b>	<b>1.4</b>	<b>0.9</b>
Abruzzo	-3.5	0.2
Molise	-0.2	-0.2
Campania	4.8	2.6
Puglia	2.2	-1.1
Basilicata	-5.4	-0.9
Calabria	-8.2	-1.0
Sicily	1.8	0.4
Sardinia	-2.5	-0.9
<b>South and Islands</b>	<b>0.8</b>	<b>0.4</b>
<b>Italy</b>	<b>1.2</b>	<b>0.7</b>

Source: Ministry for Economic Development.

Table a1.9

## Structure of large-scale distribution in 2007

(units and squared meters)

	Hypermarkets (1)			Department stores (2)			Supermarkets (3)		
	No.	Surface per 1,000 inhabs	Work-force	No.	Surface per 1,000 inhabs	Work-force	No.	Surface per 1,000 inhabs	Work-force
Piedmont	68	78	10,280	54	25	1,449	653	132	11,514
Valle d'Aosta	2	125	502	4	28	41	11	73	220
Lombardy	125	86	22,438	146	32	4,222	1,410	149	33,667
Liguria	5	20	1,320	38	45	856	200	96	4,989
<b>North-West</b>	<b>200</b>	<b>78</b>	<b>34,540</b>	<b>242</b>	<b>32</b>	<b>6,568</b>	<b>2,274</b>	<b>138</b>	<b>50,390</b>
Trentino-Alto Adige	7	22	560	39	43	545	273	208	4,392
Veneto	51	63	6,741	78	37	2,419	1,049	203	16,371
Friuli-Venezia Giulia	16	64	1,655	21	54	810	272	187	4,267
Emilia-Romagna	38	58	8,583	51	31	1,604	689	140	16,258
<b>North-East</b>	<b>112</b>	<b>58</b>	<b>17,539</b>	<b>189</b>	<b>37</b>	<b>5,378</b>	<b>2,283</b>	<b>178</b>	<b>41,288</b>
Tuscany	29	46	5,166	128	50	2,145	472	127	13,371
Umbria	8	58	1,063	46	64	765	194	203	3,311
Marche	20	67	2,571	59	47	749	308	154	4,176
Lazio	22	22	4,008	170	45	3,552	671	108	13,468
<b>Centre</b>	<b>79</b>	<b>38</b>	<b>12,808</b>	<b>403</b>	<b>48</b>	<b>7,212</b>	<b>1,645</b>	<b>127</b>	<b>34,326</b>
<b>Centre-North</b>	<b>391</b>	<b>60</b>	<b>64,887</b>	<b>834</b>	<b>38</b>	<b>19,158</b>	<b>6,202</b>	<b>146</b>	<b>126,004</b>
Abruzzo	14	68	2,389	39	43	620	246	150	2,958
Molise	3	45	329	5	14	35	45	113	564
Campania	15	19	2,041	70	17	1,166	445	56	5,834
Puglia	20	45	3,443	55	13	535	441	76	4,360
Basilicata	3	22	459	7	11	76	62	74	770
Calabria	9	21	703	61	35	775	219	92	2,508
Sicily	17	21	2,281	131	30	2,034	623	98	8,676
Sardinia	18	63	2,804	30	29	687	286	142	4,548
<b>South and Islands</b>	<b>99</b>	<b>32</b>	<b>14,449</b>	<b>398</b>	<b>24</b>	<b>5,929</b>	<b>2,367</b>	<b>88</b>	<b>30,218</b>
<b>Italy</b>	<b>490</b>	<b>50</b>	<b>79,336</b>	<b>1,232</b>	<b>33</b>	<b>25,087</b>	<b>8,569</b>	<b>126</b>	<b>156,222</b>

Source: Ministry for Economic Development. Data at 1° January 2007. Resident population at 31 December 2006.

(1) Retail outlets with over 2,500 sq. m. of selling space, divided into sections (food and non-food) having the characteristics of a supermarket and a department store respectively. – (2) Non-food retail outlets with over 400 sq. m. of selling space and at least five separate departments for goods, mainly mass consumption products, belonging to different product categories. – (3) Food retail outlets, mainly self-service, with over 400 sq. m. of selling space, offering a large assortment of mostly pre-packed mass consumption goods and possibly some commonly used non-food products.

Table a1.10

**EXPORTS (FOB) IN 2007**  
(percentage changes on previous year at current prices)

	Food products, beverages and tobacco	Textiles and clothing	Leather and footwear	Paper, printing and publishing	Chemical, rubber and plastic products	Non-metallic mineral products	Basic metals and metal products	Machinery and equipment, precision tools	Transport equipment	Other manufactures; wood and furniture	Coke, refined petroleum products, other	Total
Piedmont	8.9	0.4	15.0	-0.9	6.4	5.8	13.9	5.8	2.8	15.7	5.4	5.9
Valle d'Aosta	46.9	-45.0	-48.9	11.7	-14.9	14.5	57.5	32.1	27.8	-12.0	36.6	47.6
Lombardy	6.3	2.5	19.7	3.8	2.1	1.3	13.4	9.8	15.0	8.6	25.1	8.6
Liguria	-9.8	-23.7	4.3	6.9	6.7	7.7	31.3	17.4	19.3	6.4	6.2	11.3
<b>North-West</b>	<b>7.0</b>	<b>1.7</b>	<b>18.7</b>	<b>2.3</b>	<b>3.1</b>	<b>2.9</b>	<b>14.7</b>	<b>9.1</b>	<b>8.7</b>	<b>10.1</b>	<b>14.4</b>	<b>8.2</b>
Trentino-Alto Adige	11.0	0.6	-0.1	6.8	9.8	0.4	12.5	9.4	-2.5	-1.0	18.5	8.0
Veneto	3.2	-4.4	-8.4	5.6	-5.7	0.3	10.0	5.1	27.4	-1.1	-2.5	2.7
Friuli-Venezia Giulia	6.6	-11.3	6.1	2.9	1.0	2.0	24.3	14.0	15.9	3.0	-6.0	11.3
Emilia-Romagna	4.7	12.2	19.2	-3.7	10.8	1.3	16.5	11.4	15.3	16.9	7.8	11.0
<b>North-East</b>	<b>5.1</b>	<b>1.9</b>	<b>-4.4</b>	<b>3.8</b>	<b>3.1</b>	<b>1.0</b>	<b>14.5</b>	<b>9.1</b>	<b>17.7</b>	<b>2.5</b>	<b>3.7</b>	<b>7.2</b>
Tuscany	-5.7	0.8	4.5	4.1	6.4	3.5	14.5	9.6	15.5	5.6	16.5	6.9
Umbria	4.6	7.2	3.6	8.2	8.1	17.0	5.8	26.2	9.2	10.0	27.7	11.3
Marche	15.6	-8.0	0.2	16.1	16.7	10.6	4.8	5.0	30.7	5.1	31.9	6.8
Lazio	4.7	-6.3	16.1	16.8	5.4	3.9	-4.3	2.9	40.1	-0.6	4.8	7.6
<b>Centre</b>	<b>-0.9</b>	<b>-0.6</b>	<b>3.2</b>	<b>7.7</b>	<b>8.2</b>	<b>4.9</b>	<b>8.3</b>	<b>7.6</b>	<b>24.1</b>	<b>5.0</b>	<b>9.9</b>	<b>7.3</b>
<b>Centre-North</b>	<b>5.1</b>	<b>1.3</b>	<b>1.9</b>	<b>3.9</b>	<b>4.3</b>	<b>2.0</b>	<b>13.8</b>	<b>8.9</b>	<b>13.7</b>	<b>5.4</b>	<b>9.4</b>	<b>7.7</b>
Abruzzo	10.8	6.6	20.4	18.0	3.7	4.4	0.1	-3.7	32.0	3.3	15.7	11.8
Molise	-11.7	-8.2	4.1	-18.2	12.1	84.2	-42.6	14.4	280.4	-12.7	29.1	2.4
Campania	12.9	0.5	1.9	-2.0	6.1	11.6	14.3	26.2	8.7	1.6	22.2	10.9
Puglia	-3.3	1.2	-9.3	-12.5	15.8	2.4	-0.7	15.7	16.0	-14.8	3.5	3.5
Basilicata	21.1	8.2	-7.6	0.6	16.9	376.8	14.4	3.5	19.6	-17.6	147.5	21.7
Calabria	2.2	-32.1	50.5	-25.9	3.7	10.9	46.3	106.8	625.2	-18.2	-14.1	30.1
Sicily	0.8	54.5	-5.2	-18.7	4.6	8.3	35.6	-11.1	26.1	0.0	27.1	19.8
Sardinia	7.5	18.1	50.5	12.6	3.9	7.9	14.9	182.7	-28.8	-12.6	6.3	8.0
<b>South and Islands</b>	<b>8.1</b>	<b>2.0</b>	<b>-1.9</b>	<b>2.5</b>	<b>7.5</b>	<b>8.1</b>	<b>5.7</b>	<b>10.6</b>	<b>19.6</b>	<b>-9.2</b>	<b>19.0</b>	<b>11.8</b>
<b>Italy</b>	<b>5.5</b>	<b>1.3</b>	<b>1.6</b>	<b>3.8</b>	<b>4.6</b>	<b>2.4</b>	<b>13.2</b>	<b>9.0</b>	<b>14.7</b>	<b>4.3</b>	<b>11.8</b>	<b>8.0</b>

Source: Calculations based on Istat data. See section: Methodological Notes.



## Indices of export specialization in 2007 (1)

	Food products, beverages and tobacco	Textiles and clothing	Leather and footwear	Paper, printing and publishing	Chemical, rubber and plastic products	Non-metallic mineral products	Basic metals and metal products	Machinery and equipment, precision tools	Transport equipment	Other manufactures; wood and furniture	Coke, refined petroleum products, other
Piedmont	1.56	1.01	0.19	1.30	1.00	0.51	0.81	0.92	2.08	0.71	0.30
Valle d'Aosta	1.11	0.01	0.02	0.32	0.09	0.20	6.24	0.34	0.47	0.34	0.01
Lombardy	0.69	1.12	0.40	0.97	1.33	0.45	1.48	1.17	0.69	0.79	0.21
Liguria	0.94	0.25	0.16	0.61	1.28	0.94	0.84	0.98	1.12	0.48	2.41
<b>North-West</b>	<b>0.92</b>	<b>1.06</b>	<b>0.34</b>	<b>1.04</b>	<b>1.24</b>	<b>0.48</b>	<b>1.31</b>	<b>1.09</b>	<b>1.06</b>	<b>0.76</b>	<b>0.30</b>
Trentino-Alto Adige	2.87	0.49	0.42	2.66	0.87	0.89	0.87	0.97	0.81	0.83	1.09
Veneto	0.96	1.28	2.20	1.24	0.53	1.19	0.99	1.14	0.59	1.84	0.31
Friuli-Venezia Giulia	0.77	0.19	0.11	1.18	0.51	0.63	1.54	1.41	0.61	2.79	0.29
Emilia-Romagna	1.22	1.03	0.47	0.39	0.66	3.17	0.68	1.38	1.07	0.56	0.25
<b>North-East</b>	<b>1.15</b>	<b>1.02</b>	<b>1.16</b>	<b>0.96</b>	<b>0.60</b>	<b>1.92</b>	<b>0.92</b>	<b>1.26</b>	<b>0.80</b>	<b>1.36</b>	<b>0.32</b>
Tuscany	0.89	1.93	3.47	1.85	0.63	1.13	0.73	0.68	0.95	1.74	0.46
Umbria	1.32	1.28	0.54	0.52	0.61	0.92	3.00	0.79	0.34	0.66	0.40
Marche	0.28	0.68	4.32	0.98	1.44	0.25	0.56	1.19	0.41	1.48	0.09
Lazio	0.66	0.41	0.28	0.79	2.84	0.79	0.30	0.66	1.18	0.53	1.67
<b>Centre</b>	<b>0.73</b>	<b>1.25</b>	<b>2.71</b>	<b>1.32</b>	<b>1.34</b>	<b>0.84</b>	<b>0.74</b>	<b>0.79</b>	<b>0.84</b>	<b>1.32</b>	<b>0.66</b>
<b>Centre-North</b>	<b>0.97</b>	<b>1.08</b>	<b>1.06</b>	<b>1.06</b>	<b>1.02</b>	<b>1.06</b>	<b>1.07</b>	<b>1.10</b>	<b>0.93</b>	<b>1.08</b>	<b>0.37</b>
Abruzzo	0.84	1.14	0.47	1.14	0.87	1.63	0.51	0.67	3.19	0.69	0.16
Molise	1.01	5.32	1.24	0.11	2.58	0.42	0.03	0.30	0.21	0.31	0.04
Campania	3.41	0.65	1.19	1.76	0.81	0.64	0.47	0.49	2.71	0.38	0.54
Puglia	0.94	0.55	1.86	0.15	1.21	0.44	1.77	0.53	0.72	1.56	1.78
Basilicata	0.18	0.23	0.31	0.32	0.54	0.18	0.14	0.11	5.85	1.13	1.44
Calabria	3.02	0.40	0.12	0.14	1.60	0.55	0.27	0.80	1.31	0.29	2.00
Sicily	0.77	0.05	0.01	0.05	0.92	0.53	0.19	0.18	0.32	0.04	9.62
Sardinia	0.55	0.05	0.01	0.07	1.02	0.13	0.68	0.09	0.07	0.12	9.60
<b>South and Islands</b>	<b>1.38</b>	<b>0.56</b>	<b>0.72</b>	<b>0.67</b>	<b>0.96</b>	<b>0.67</b>	<b>0.64</b>	<b>0.39</b>	<b>1.70</b>	<b>0.57</b>	<b>3.88</b>

Source: Calculations based on Istat data. See section: Methodological Notes.

(1) Ratio of sector's share of total regional exports to its share of total Italian exports. A figure greater than one indicates that the region has a comparative advantage with respect to the Italian average in exports of that sector.

## Employment and the labour force in 2007

(thousands of persons and percentage changes)

	Employment					Job seekers	Labour force
	Agriculture	Industry excl. construction	Construction	Services	Total		
<b>Average levels</b>							
Piedmont	66	519	141	1,138	1,863	82	1,945
Valle d'Aosta	2	7	7	40	57	2	58
Lombardy	73	1,230	321	2,681	4,305	153	4,458
Liguria	16	90	47	496	649	33	682
<b>North-West</b>	<b>157</b>	<b>1,845</b>	<b>516</b>	<b>4,356</b>	<b>6,874</b>	<b>270</b>	<b>7,143</b>
Trentino-Alto Adige	25	73	43	312	453	13	466
Veneto	74	648	176	1,221	2,119	73	2,192
Friuli-Venezia Giulia	13	140	38	331	522	18	541
Emilia-Romagna	77	546	148	1,183	1,953	57	2,011
<b>North-East</b>	<b>189</b>	<b>1,408</b>	<b>404</b>	<b>3,047</b>	<b>5,047</b>	<b>162</b>	<b>5,209</b>
Tuscany	50	343	138	1,019	1,550	70	1,619
Umbria	11	86	32	239	367	18	385
Marche	13	206	51	383	654	28	682
Lazio	48	249	166	1,752	2,215	151	2,366
<b>Centre</b>	<b>122</b>	<b>884</b>	<b>387</b>	<b>3,392</b>	<b>4,785</b>	<b>267</b>	<b>5,052</b>
<b>Centre-North</b>	<b>467</b>	<b>4,136</b>	<b>1,307</b>	<b>10,795</b>	<b>16,706</b>	<b>698</b>	<b>17,404</b>
Abruzzo	20	114	47	320	502	33	535
Molise	8	21	11	72	112	10	122
Campania	72	262	171	1,214	1,719	217	1,937
Puglia	114	217	118	835	1,284	161	1,445
Basilicata	16	34	22	124	195	21	216
Calabria	66	49	64	423	602	76	678
Sicily	121	144	147	1,077	1,488	222	1,710
Sardinia	38	72	67	435	613	67	680
<b>South and Islands</b>	<b>456</b>	<b>912</b>	<b>648</b>	<b>4,500</b>	<b>6,516</b>	<b>808</b>	<b>7,324</b>
<b>Italy</b>	<b>924</b>	<b>5,048</b>	<b>1,955</b>	<b>15,295</b>	<b>23,222</b>	<b>1,506</b>	<b>24,728</b>
<b>Percentage changes on 2006</b>							
Piedmont	-3.8	-1.3	1.2	1.7	0.6	5.7	0.8
Valle d'Aosta	-17.7	1.5	1.8	3.4	1.9	7.9	2.1
Lombardy	4.4	-1.8	-2.9	2.3	0.8	-6.9	0.5
Liguria	13.9	3.0	-0.3	1.6	1.9	3.1	2.0
<b>North-West</b>	<b>1.2</b>	<b>-1.4</b>	<b>-1.5</b>	<b>2.1</b>	<b>0.8</b>	<b>-2.1</b>	<b>0.7</b>
Trentino-Alto Adige	-3.5	-2.1	2.0	2.5	1.3	-2.1	1.2
Veneto	-5.7	2.1	-2.4	1.1	0.8	-17.1	0.1
Friuli-Venezia Giulia	-9.4	-2.4	19.3	0.5	0.6	-2.6	0.5
Emilia-Romagna	-6.5	1.3	8.1	1.9	1.8	-14.3	1.3
<b>North-East</b>	<b>-6.0</b>	<b>1.1</b>	<b>3.5</b>	<b>1.5</b>	<b>1.2</b>	<b>-13.6</b>	<b>0.7</b>
Tuscany	-16.1	3.7	12.5	-1.3	0.3	-11.1	-0.3
Umbria	-18.1	5.7	-1.4	4.5	3.4	-7.9	2.9
Marche	-22.8	0.8	3.9	1.9	1.0	-7.6	0.6
Lazio	-9.1	-2.4	8.1	5.5	4.4	-12.8	3.1
<b>Centre</b>	<b>-14.5</b>	<b>1.4</b>	<b>8.2</b>	<b>2.9</b>	<b>2.5</b>	<b>-11.5</b>	<b>1.6</b>
<b>Centre-North</b>	<b>-6.2</b>	<b>0.0</b>	<b>2.8</b>	<b>2.2</b>	<b>1.4</b>	<b>-8.6</b>	<b>1.0</b>
Abruzzo	12.8	10.3	3.8	-3.2	0.8	-4.4	0.4
Molise	17.0	-2.5	-5.5	4.0	2.5	-18.3	0.5
Campania	-12.8	4.1	0.0	-0.9	-0.7	-15.0	-2.5
Puglia	-1.1	1.8	0.7	3.0	2.2	-12.3	0.4
Basilicata	-7.4	4.0	-9.6	0.2	-1.0	-11.2	-2.1
Calabria	-8.2	-10.6	0.3	-0.2	-2.0	-16.0	-3.8
Sicily	-9.4	-0.2	11.7	-1.5	-0.9	-5.5	-1.6
Sardinia	2.6	2.3	7.2	-0.4	0.9	-8.8	-0.2
<b>South and Islands</b>	<b>-5.6</b>	<b>2.4</b>	<b>3.1</b>	<b>-0.3</b>	<b>0.0</b>	<b>-11.2</b>	<b>-1.4</b>
<b>Italy</b>	<b>-5.9</b>	<b>0.4</b>	<b>2.9</b>	<b>1.4</b>	<b>1.0</b>	<b>-10.0</b>	<b>0.3</b>

Source: Istat, *Rilevazione sulle forze di lavoro*. See section: Methodological Notes.

Table a2.2

Total employment, 1993-2007 (1)								
<i>(thousands of persons)</i>								
	1993	1995	1998	2002	2004	2005	2006	2007
<b>Men and women</b>								
Piedmont	1,689	1,667	1,652	1,752	1,796	1,829	1,851	1,863
Valle d'Aosta	54	53	54	57	56	55	56	57
Lombardy	3,700	3,660	3,737	3,983	4,152	4,194	4,273	4,305
Liguria	630	603	617	636	607	620	637	649
<b>North-West</b>	<b>6,074</b>	<b>5,984</b>	<b>6,061</b>	<b>6,427</b>	<b>6,609</b>	<b>6,697</b>	<b>6,817</b>	<b>6,874</b>
Trentino-Alto Adige	393	389	410	429	438	440	447	453
Veneto	1,786	1,780	1,840	1,953	2,042	2,063	2,101	2,119
Friuli-Venezia Giulia	473	476	483	511	500	504	519	522
Emilia-Romagna	1,734	1,701	1,726	1,851	1,846	1,872	1,918	1,953
<b>North-East</b>	<b>4,385</b>	<b>4,346</b>	<b>4,460</b>	<b>4,745</b>	<b>4,827</b>	<b>4,879</b>	<b>4,986</b>	<b>5,047</b>
Tuscany	1,344	1,326	1,330	1,426	1,488	1,510	1,545	1,550
Umbria	315	305	312	335	340	346	355	367
Marche	562	556	562	601	633	635	647	654
Lazio	1,765	1,702	1,739	1,899	2,076	2,085	2,122	2,215
<b>Centre</b>	<b>3,985</b>	<b>3,890</b>	<b>3,943</b>	<b>4,261</b>	<b>4,537</b>	<b>4,575</b>	<b>4,669</b>	<b>4,785</b>
<b>Centre-North</b>	<b>14,444</b>	<b>14,220</b>	<b>14,464</b>	<b>15,433</b>	<b>15,973</b>	<b>16,152</b>	<b>16,472</b>	<b>16,706</b>
Abruzzo	482	477	481	511	479	492	498	502
Molise	117	109	107	112	109	107	110	112
Campania	1,732	1,632	1,678	1,759	1,761	1,727	1,731	1,719
Puglia	1,243	1,180	1,180	1,279	1,235	1,221	1,256	1,284
Basilicata	187	179	180	189	194	193	197	195
Calabria	614	576	563	591	620	603	615	602
Sicily	1,400	1,330	1,384	1,449	1,439	1,471	1,503	1,488
Sardinia	546	539	554	590	593	597	608	613
<b>South &amp; Islands</b>	<b>6,321</b>	<b>6,021</b>	<b>6,127</b>	<b>6,480</b>	<b>6,431</b>	<b>6,411</b>	<b>6,516</b>	<b>6,516</b>
<b>Italy</b>	<b>20,765</b>	<b>20,240</b>	<b>20,591</b>	<b>21,913</b>	<b>22,404</b>	<b>22,563</b>	<b>22,988</b>	<b>23,222</b>
<b>Women</b>								
Piedmont	659	656	666	747	754	766	787	796
Valle d'Aosta	21	21	22	23	24	23	24	24
Lombardy	1,406	1,414	1,477	1,647	1,717	1,729	1,777	1,784
Liguria	246	243	257	278	254	257	268	280
<b>North-West</b>	<b>2,333</b>	<b>2,334</b>	<b>2,423</b>	<b>2,695</b>	<b>2,749</b>	<b>2,775</b>	<b>2,856</b>	<b>2,884</b>
Trentino-Alto Adige	140	140	159	166	183	182	185	189
Veneto	637	642	690	772	810	825	839	849
Friuli-Venezia Giulia	149	156	167	189	207	212	216	218
Emilia-Romagna	711	704	733	818	802	806	832	846
<b>North-East</b>	<b>1,637</b>	<b>1,642</b>	<b>1,748</b>	<b>1,944</b>	<b>2,002</b>	<b>2,025</b>	<b>2,071</b>	<b>2,102</b>
Tuscany	482	492	508	580	619	634	650	659
Umbria	123	119	129	145	143	142	150	157
Marche	207	209	214	246	266	263	267	272
Lazio	612	605	640	748	852	873	870	902
<b>Centre</b>	<b>1,425</b>	<b>1,424</b>	<b>1,492</b>	<b>1,719</b>	<b>1,879</b>	<b>1,912</b>	<b>1,935</b>	<b>1,990</b>
<b>Centre-North</b>	<b>5,395</b>	<b>5,400</b>	<b>5,663</b>	<b>6,358</b>	<b>6,630</b>	<b>6,712</b>	<b>6,862</b>	<b>6,976</b>
Abruzzo	196	190	199	217	186	191	192	191
Molise	41	38	38	40	40	38	39	42
Campania	541	523	539	565	573	548	561	552
Puglia	381	360	363	423	399	372	395	415
Basilicata	60	58	59	63	67	67	67	67
Calabria	190	183	173	192	214	208	214	208
Sicily	391	365	401	455	457	476	499	491
Sardinia	171	167	184	208	218	213	220	223
<b>South and Islands</b>	<b>1,971</b>	<b>1,884</b>	<b>1,956</b>	<b>2,162</b>	<b>2,153</b>	<b>2,113</b>	<b>2,187</b>	<b>2,189</b>
<b>Italy</b>	<b>7,366</b>	<b>7,284</b>	<b>7,618</b>	<b>8,521</b>	<b>8,783</b>	<b>8,825</b>	<b>9,049</b>	<b>9,165</b>

Source: Istat, *Rilevazione sulle forze di lavoro*. See section: Methodological Notes.

(1) For years prior to 2004 the data refer to the old quarterly labour force survey, not perfectly comparable with the new survey

Table a2.3

**Main labour market indicators**  
(percentages of the population aged 15-64)

	Participation rate			Employment rate			Unemployment rate (1)		
	2002 (2)	2006	2007	2002 (2)	2006	2007	2002 (2)	2006	2007
Piedmont	65.8	67.5	67.8	61.5	64.8	64.9	6.5	4.1	4.2
Valle d'Aosta	73.8	69.1	70.4	65.3	67.0	68.1	....	3.0	3.2
Lombardy	66.2	69.1	69.2	63.9	66.6	66.7	3.5	3.7	3.4
Liguria	65.5	65.6	67.0	60.2	62.4	63.7	8.1	4.8	4.8
<b>North-West</b>	<b>66.0</b>	<b>68.4</b>	<b>68.6</b>	<b>62.8</b>	<b>65.7</b>	<b>66.0</b>	<b>4.8</b>	<b>3.9</b>	<b>3.8</b>
Trentino-Alto Adige	68.7	69.5	70.0	66.5	67.5	68.0	3.3	2.8	2.7
Veneto	66.2	68.3	68.1	63.2	65.5	65.8	4.5	4.1	3.3
Friuli-Venezia Giulia	66.7	67.2	67.9	63.8	64.7	65.5	4.3	3.5	3.4
Emilia-Romagna	70.4	71.9	72.4	68.6	69.4	70.3	2.5	3.4	2.9
<b>North-East</b>	<b>68.0</b>	<b>69.6</b>	<b>69.8</b>	<b>65.6</b>	<b>67.0</b>	<b>67.6</b>	<b>3.6</b>	<b>3.6</b>	<b>3.1</b>
Tuscany	66.1	68.2	67.7	63.3	64.8	64.8	4.1	4.8	4.3
Umbria	66.4	66.3	67.7	61.5	62.9	64.6	7.3	5.1	4.6
Marche	66.4	67.5	67.7	63.0	64.4	64.8	5.0	4.6	4.2
Lazio	60.1	64.2	63.8	54.9	59.3	59.7	8.5	7.5	6.4
<b>Centre</b>	<b>63.3</b>	<b>66.0</b>	<b>65.8</b>	<b>59.1</b>	<b>62.0</b>	<b>62.3</b>	<b>6.5</b>	<b>6.1</b>	<b>5.3</b>
<b>Centre-North</b>	<b>66.1</b>	<b>68.4</b>	<b>68.1</b>	<b>62.5</b>	<b>65.4</b>	<b>65.4</b>	<b>4.9</b>	<b>4.4</b>	<b>4.0</b>
Abruzzo	64.7	61.7	61.7	58.6	57.6	57.8	9.4	6.5	6.2
Molise	58.1	58.2	58.3	53.0	52.3	53.6	8.8	10.0	8.1
Campania	54.7	50.7	49.3	45.1	44.1	43.7	17.5	12.8	11.2
Puglia	53.2	52.5	52.6	46.0	45.7	46.7	13.4	12.8	11.2
Basilicata	56.7	56.3	54.8	49.0	50.3	49.6	13.5	10.5	9.5
Calabria	54.4	52.4	50.6	44.4	45.6	44.9	18.0	12.9	11.2
Sicily	54.8	52.1	51.3	43.4	45.0	44.6	20.6	13.5	13.0
Sardinia	60.0	58.7	58.6	51.9	52.3	52.8	13.5	10.8	9.9
<b>South &amp; Islands</b>	<b>55.6</b>	<b>53.2</b>	<b>52.4</b>	<b>46.4</b>	<b>46.6</b>	<b>46.5</b>	<b>16.3</b>	<b>12.2</b>	<b>11.0</b>
<b>Italy</b>	<b>62.1</b>	<b>62.7</b>	<b>62.5</b>	<b>56.7</b>	<b>58.4</b>	<b>58.7</b>	<b>8.6</b>	<b>6.8</b>	<b>6.1</b>
<b>EU -27 countries</b>	<b>68.6</b>	<b>70.3</b>	<b>70.5</b>	<b>62.3</b>	<b>64.5</b>	<b>65.4</b>	<b>8.9</b>	<b>8.2</b>	<b>7.1</b>
<b>EU-27, 1st quartile</b>	<b>71.7</b>	<b>73.8</b>	<b>74.4</b>	<b>68.4</b>	<b>69.0</b>	<b>69.9</b>	<b>5.0</b>	<b>5.5</b>	<b>4.7</b>
<b>EU-27, 3rd quartile</b>	<b>64.7</b>	<b>66.6</b>	<b>66.7</b>	<b>57.6</b>	<b>60.2</b>	<b>61.6</b>	<b>10.3</b>	<b>8.4</b>	<b>7.8</b>

Source: Istat, *Rilevazione sulle forze di lavoro*. See section: Methodological Notes.

(1) Job seekers as a percentage of the labour force; includes persons over 65. – (2) For 2002, data reconstructed by Istat for consistency with the new labour force survey introduced in 2004.

Table a2.4

### Employment by geographical area and type of employment relationship

(thousands of persons and percentages)

	Employment					2007 Composi- tion	Annual percentage changes		
	1995 (1)	2000 (1)	2005	2006	2007		1995- 2000 (1) (2)	2000- 2005 (2)	2007
<b>North-West</b>									
Self-employment	1,642	1,678	1,747	1,743	1,732	25.2	0.4	0.8	-0.6
Payroll employment	4,354	4,616	4,950	5,074	5,141	74.8	1.2	1.4	1.3
<i>of which: permanent</i>	4,142	4,282	4,508	4,583	4,635	67.4	0.7	1.0	1.1
<i>fixed-term</i>	212	334	442	491	506	7.4	9.5	5.8	3.2
<b>North-East</b>									
Self-employment	1,314	1,367	1,317	1,323	1,301	25.8	0.8	-0.7	-1.7
Payroll employment	2,992	3,247	3,562	3,663	3,747	74.2	1.6	1.9	2.3
<i>of which: permanent</i>	2,777	2,961	3,172	3,234	3,290	65.2	1.3	1.4	1.7
<i>fixed-term</i>	214	285	390	429	457	9.0	5.9	6.5	6.4
<b>Centre</b>									
Self-employment	1,174	1,204	1,260	1,268	1,279	26.7	0.5	0.9	0.9
Payroll employment	2,855	3,050	3,315	3,401	3,506	73.3	1.3	1.7	3.1
<i>of which: permanent</i>	2,692	2,768	2,920	2,954	3,046	63.7	0.6	1.1	3.1
<i>fixed-term</i>	163	282	395	447	460	9.6	11.6	7.0	2.9
<b>Centre-North</b>									
Self-employment	4,130	4,249	4,324	4,334	4,312	25.8	0.6	0.4	-0.5
Payroll employment	10,201	10,913	11,827	12,138	12,394	74.2	1.4	1.6	2.1
<i>of which: permanent</i>	9,611	10,011	10,601	10,771	10,971	65.7	0.8	1.2	1.9
<i>fixed-term</i>	589	901	1,227	1,367	1,423	8.5	8.9	6.4	4.1
<b>South and Islands</b>									
Self-employment	1,692	1,700	1,706	1,739	1,743	26.7	0.1	0.1	0.2
Payroll employment	4,004	4,218	4,706	4,777	4,773	73.3	1.0	2.2	-0.1
<i>of which: permanent</i>	3,552	3,591	3,906	3,922	3,928	60.3	0.2	1.7	0.1
<i>fixed-term</i>	452	628	800	855	846	13.0	0.1	0.1	-1.1
<b>Italy</b>									
Self-employment	5,821	5,949	6,029	6,073	6,055	26.1	0.4	0.3	-0.3
Payroll employment	14,205	15,131	16,534	16,915	17,167	73.9	1.3	1.8	1.5
<i>of which: permanent</i>	13,163	13,601	14,508	14,693	14,898	64.2	0.7	1.3	1.4
<i>fixed-term</i>	1,041	1,530	2,026	2,222	2,269	9.8	8.0	5.8	2.1

Source: Istat, *Rilevazione sulle forze di lavoro*. See section: Methodological Notes.

(1) The data refer to the old quarterly labour force survey, not perfectly comparable with the continuous survey introduced in 2004. – (2) Average annual percentage change in the period.

Table a3.1

**Bank lending by sector in 2007 (1)**  
(percentage changes on previous year)

	General government	Financial and insurance companies	Non-financial corporations (a)		Households		Firms = (a) + (b)			Total	
			Less than 20 workers (2)		Producer (b) (3)	Consumer (4)	Manufacturing industry	Construction	Services		
Piedmont	19.2	-0.2	5.5	6.7	5.0	8.8	5.5	3.9	12.7	7.3	6.6
Valle d'Aosta	-10.3	-24.0	-0.2	5.4	4.9	6.1	0.5	15.7	12.8	-1.9	0.9
Lombardy	4.9	9.6	10.5	8.9	6.6	8.2	10.3	4.5	11.0	12.2	9.7
Liguria	-8.8	-26.1	13.7	9.8	8.4	10.7	13.0	3.2	18.4	13.5	10.5
<b>North-West</b>	<b>10.4</b>	<b>8.7</b>	<b>9.8</b>	<b>8.4</b>	<b>6.3</b>	<b>8.5</b>	<b>9.5</b>	<b>4.4</b>	<b>11.8</b>	<b>11.4</b>	<b>9.1</b>
Trentino-Alto Adige	10.7	6.0	8.6	5.8	5.8	7.1	8.2	4.8	7.0	9.0	7.9
of which: <i>Trento</i>	34.2	-3.6	12.0	7.3	7.2	7.7	11.5	-1.1	10.5	17.2	9.2
<i>Bolzano</i>	56.2	8.7	5.9	4.9	5.0	6.3	5.8	12.8	3.9	3.6	6.9
Veneto	-20.0	10.7	13.1	4.0	4.2	7.9	12.2	9.7	14.2	13.4	10.5
Friuli-Venezia Giulia	-9.2	-45.3	9.9	3.9	7.0	6.7	9.6	10.2	10.8	7.9	-0.4
Emilia-Romagna	-5.7	10.4	12.6	5.1	-1.7	9.4	11.2	11.9	13.5	12.0	10.4
<b>North-East</b>	<b>-9.5</b>	<b>-0.9</b>	<b>12.2</b>	<b>4.7</b>	<b>2.5</b>	<b>8.3</b>	<b>11.2</b>	<b>10.4</b>	<b>12.7</b>	<b>11.9</b>	<b>9.2</b>
Tuscany	7.5	16.3	11.5	7.9	6.7	6.1	11.0	4.0	14.4	15.3	10.3
Umbria	-28.6	-21.4	12.5	5.5	5.8	7.5	11.6	11.9	14.7	9.8	8.8
Marche	-21.5	7.9	10.9	5.4	6.0	11.5	10.2	7.7	17.4	10.5	9.3
Lazio	9.0	-29.5	29.2	11.9	9.1	8.1	28.0	4.3	17.2	4.4	14.3
<b>Centre</b>	<b>7.1</b>	<b>-1.6</b>	<b>20.2</b>	<b>7.8</b>	<b>7.2</b>	<b>7.9</b>	<b>19.0</b>	<b>5.7</b>	<b>16.4</b>	<b>8.6</b>	<b>12.2</b>
<b>Centre-North</b>	<b>5.7</b>	<b>5.5</b>	<b>13.0</b>	<b>6.7</b>	<b>5.1</b>	<b>8.3</b>	<b>12.3</b>	<b>6.8</b>	<b>13.5</b>	<b>10.8</b>	<b>10.0</b>
Abruzzo	-20.3	11.9	3.6	9.1	7.5	9.9	4.2	7.0	14.7	-3.8	5.5
Molise	13.8	12.2	23.4	12.8	4.8	10.4	19.8	13.6	25.9	31.1	16.5
Campania	3.5	-6.8	8.1	8.2	6.1	9.2	7.9	7.3	18.0	5.6	7.7
Puglia	-12.4	23.1	17.6	13.4	6.4	10.5	15.2	9.6	19.8	15.7	12.2
Basilicata	10.5	-65.5	6.2	13.9	4.2	10.0	5.8	1.0	10.4	7.9	7.0
Calabria	24.4	-97.8	17.5	6.2	1.6	12.7	13.5	4.6	20.2	15.0	10.0
Sicily	-1.1	0.3	11.9	8.6	8.7	10.9	11.3	7.7	18.8	14.5	10.4
Sardinia	-10.7	16.6	8.3	10.5	7.3	11.9	8.2	2.3	21.1	8.3	9.5
<b>South and Islands</b>	<b>-0.2</b>	<b>-7.0</b>	<b>10.7</b>	<b>9.7</b>	<b>6.6</b>	<b>10.5</b>	<b>10.0</b>	<b>7.2</b>	<b>18.5</b>	<b>9.6</b>	<b>9.4</b>
<b>Italy</b>	<b>4.8</b>	<b>5.2</b>	<b>12.7</b>	<b>7.1</b>	<b>5.5</b>	<b>8.7</b>	<b>12.0</b>	<b>6.8</b>	<b>14.3</b>	<b>10.7</b>	<b>10.0</b>

Source: Supervisory reports. Data classified by customer location. See section: Methodological Notes.

(1) Lending does not include repos and bad debts. The changes are calculated without taking account of the effects of reclassifications, exchange rate variations and other changes not due to transactions. The data do not include the reports of Cassa Depositi e Prestiti S.p.A. and Poste S.p.A. – (2) Limited partnerships and general partnerships with fewer than 20 workers; informal partnerships, de facto companies and sole proprietorships with more than 5 but fewer than 20 workers. – (3) Informal partnerships, de facto partnerships and sole proprietorships with up to 5 workers. – (4) Includes non-profit institutions serving households and units n.e.c.

Table a3.2

<b>Leasing, factoring and consumer credit</b> (end-of-period data; millions of euros and percentage changes)						
	Consumer credit (1)		Factoring		Leasing	
	2007	% change 2006-07	2007	% change 2006-07	2007	% change 2006-07
Piedmont	7,107	15.3	3,228	2.2	6,105	17.3
Valle d'Aosta	206	8.9	30	-23.8	179	16.0
Lombardy	15,492	14.7	7,234	-1.5	27,003	16.8
Liguria	2,380	10.9	606	14.7	1,806	21.4
<b>North-West</b>	<b>25,184</b>	<b>14.4</b>	<b>11,098</b>	<b>0.3</b>	<b>35,094</b>	<b>17.1</b>
Trentino-Alto Adige	885	14.1	139	63.3	2,127	12.2
Veneto	6,054	14.6	1,216	19.3	10,774	15.5
Friuli-Venezia Giulia	1,667	11.3	222	-7.9	1,871	13.4
Emilia-Romagna	6,033	17.4	2,104	28.7	8,697	13.4
<b>North-East</b>	<b>14,639</b>	<b>15.3</b>	<b>3,681</b>	<b>23.5</b>	<b>23,469</b>	<b>14.2</b>
Tuscany	6,332	10.5	1,696	-3.9	5,369	19.8
Umbria	1,447	13.0	478	13.1	910	23.1
Marche	2,128	16.5	162	-9.1	3,323	22.3
Lazio	10,992	12.6	4,538	26.1	9,412	20.0
<b>Centre</b>	<b>20,899</b>	<b>12.4</b>	<b>6,874</b>	<b>15.3</b>	<b>19,014</b>	<b>20.5</b>
<b>Centre-North</b>	<b>60,723</b>	<b>13.9</b>	<b>21,653</b>	<b>8.2</b>	<b>77,576</b>	<b>17.0</b>
Abruzzo	2,183	13.6	498	21.8	1,121	27.3
Molise	488	13.7	27	24.6	156	43.6
Campania	9,448	13.4	1,926	20.5	3,312	31.0
Puglia	6,100	12.9	286	10.1	1,538	6.5
Basilicata	833	18.7	60	77.9	159	26.6
Calabria	3,479	16.4	168	18.0	736	43.2
Sicily	10,171	13.9	332	-1.9	1,480	22.3
Sardinia	3,616	11.4	96	-31.7	1,230	24.5
<b>South and Islands</b>	<b>36,318</b>	<b>13.7</b>	<b>3,392</b>	<b>15.3</b>	<b>9,732</b>	<b>24.8</b>
<b>Italy</b>	<b>97,044</b>	<b>13.8</b>	<b>25,045</b>	<b>9.1</b>	<b>87,308</b>	<b>17.8</b>

Sources: Supervisory reports and Central Credit Register. Data classified by customer location. See section: Methodological Notes.

(1) The national total includes geographically unallocable items.

Table a3.3

## Ratio of new bad debts to outstanding loans (1)

(percentages)

	2006			2007		
	Total	Firms	Consumer households	Total	Firms	Consumer households
Piedmont	0.8	1.1	0.7	0.8	1.0	0.9
Valle d'Aosta	0.7	0.8	0.5	0.9	1.1	0.8
Lombardy	0.6	0.8	0.6	0.5	0.6	0.8
Liguria	0.7	0.8	0.7	0.7	0.8	0.8
<b>North-West</b>	<b>0.6</b>	<b>0.9</b>	<b>0.7</b>	<b>0.6</b>	<b>0.7</b>	<b>0.8</b>
Trentino-Alto Adige	0.6	0.7	0.4	0.7	0.8	0.5
<i>of which: Trento</i>	<i>0.4</i>	<i>0.4</i>	<i>0.3</i>	<i>0.7</i>	<i>0.8</i>	<i>0.4</i>
<i>Bolzano</i>	<i>0.8</i>	<i>0.9</i>	<i>0.6</i>	<i>0.7</i>	<i>0.8</i>	<i>0.5</i>
Veneto	0.8	1.0	0.7	0.9	1.0	0.8
Friuli-Venezia Giulia	0.8	1.0	0.6	0.8	1.1	0.5
Emilia-Romagna	0.8	1.0	0.7	0.8	1.0	0.7
<b>North-East</b>	<b>0.8</b>	<b>0.9</b>	<b>0.6</b>	<b>0.8</b>	<b>1.0</b>	<b>0.7</b>
Tuscany	0.9	1.2	0.7	0.8	1.1	0.7
Umbria	1.4	1.7	1.0	1.1	1.3	0.9
Marche	1.0	1.2	1.8	1.4	1.5	1.8
Lazio	0.9	1.5	1.0	0.8	1.2	0.8
<b>Centre</b>	<b>0.9</b>	<b>1.4</b>	<b>0.9</b>	<b>1.0</b>	<b>1.4</b>	<b>0.8</b>
<b>Centre-North</b>	<b>0.8</b>	<b>1.0</b>	<b>0.7</b>	<b>0.7</b>	<b>0.9</b>	<b>0.8</b>
Abruzzo	1.6	2.0	1.1	1.2	1.4	0.9
Molise	1.2	1.5	0.8	2.2	2.7	0.9
Campania	1.2	1.5	1.1	1.4	1.8	1.3
Puglia	1.5	1.9	0.8	1.3	1.9	0.8
Basilicata	4.2	6.1	1.0	1.2	1.5	0.8
Calabria	1.7	2.8	1.1	1.5	2.1	1.1
Sicily	1.4	1.9	1.0	1.3	1.5	1.1
Sardinia	1.3	2.0	0.6	1.1	1.6	0.6
<b>South and Islands</b>	<b>1.5</b>	<b>2.0</b>	<b>1.0</b>	<b>1.3</b>	<b>1.7</b>	<b>1.0</b>
<b>Italy</b>	<b>0.9</b>	<b>1.1</b>	<b>0.8</b>	<b>0.8</b>	<b>1.0</b>	<b>0.8</b>

Sources: Supervisory reports and Central Credit Register. See section: Methodological Notes

(1) Data on transactions in euros, classified by customer location. New adjusted bad debts in the last 12 months as a percentage of the stock of loans (excluding adjusted bad debts) outstanding at the end of the preceding year; the stock of loans includes positions smaller than €75,000.



Table a3.4

**Profitability and financial condition of firms by firm size (1)**  
(weighted averages; percentages)

SIZE CLASSES	Centre-North		South and Islands		Italy	
	2001-03	2004-06	2001-03	2004-06	2001-03	2004-06
	<i>ROA (2)</i>					
1-49 workers	5.5	5.2	5.1	4.7	5.4	5.1
50-249 workers	4.8	4.8	4.0	3.9	4.8	4.7
250 or more workers	5.2	5.6	2.5	5.6	5.1	5.6
<b>Total</b>	<b>5.0</b>	<b>5.3</b>	<b>3.6</b>	<b>4.6</b>	<b>4.9</b>	<b>5.2</b>
	<i>Interest expense / Gross operating profit</i>					
1-49 workers	28.1	22.8	35.8	30.1	28.9	23.6
50-249 workers	22.7	20.0	28.2	26.2	23.2	20.6
250 or more workers	18.4	17.3	28.4	15.5	18.8	17.2
<b>Total</b>	<b>21.2</b>	<b>19.0</b>	<b>31.1</b>	<b>22.7</b>	<b>21.8</b>	<b>19.3</b>
	<i>Leverage (3)</i>					
1-49 workers	59.6	56.1	59.8	57.8	59.7	56.3
50-249 workers	55.3	52.7	52.8	53.3	55.1	52.8
250 or more workers	47.4	48.1	45.4	42.5	47.3	47.8
<b>Total</b>	<b>51.1</b>	<b>50.3</b>	<b>52.1</b>	<b>51.1</b>	<b>51.2</b>	<b>50.4</b>
	<i>Bank debt / Financial debt</i>					
1-49 workers	72.8	76.0	79.7	78.0	73.7	76.2
50-249 workers	68.6	67.0	73.8	75.7	69.1	67.9
250 or more workers	40.9	34.9	64.1	63.8	42.1	36.1
<b>Total</b>	<b>53.6</b>	<b>49.6</b>	<b>71.5</b>	<b>72.1</b>	<b>55.0</b>	<b>51.3</b>
	<i>Bonds / Financial debt</i>					
1-49 workers	2.0	1.6	1.0	0.9	1.9	1.5
50-249 workers	2.2	2.0	1.1	1.3	2.1	1.9
250 or more workers	7.5	9.3	1.2	2.4	7.2	9.0
<b>Total</b>	<b>5.1</b>	<b>6.1</b>	<b>1.0</b>	<b>1.4</b>	<b>4.8</b>	<b>5.8</b>
	<i>Financial debt / Value added</i>					
1-49 workers	197.8	199.4	259.0	254.1	204.0	205.1
50-249 workers	146.6	143.6	144.7	150.4	146.4	144.3
250 or more workers	151.4	166.8	138.5	99.3	150.7	162.0
<b>Total</b>	<b>155.7</b>	<b>164.7</b>	<b>161.8</b>	<b>142.7</b>	<b>156.3</b>	<b>162.8</b>
	<i>Current assets / Current liabilities</i>					
1-49 workers	113.3	117.6	110.5	114.3	112.9	117.2
50-249 workers	116.6	127.2	112.3	111.9	116.2	125.6
250 or more workers	102.6	106.4	111.5	116.9	103.1	107.1
<b>Total</b>	<b>110.0</b>	<b>115.2</b>	<b>110.7</b>	<b>113.8</b>	<b>110.1</b>	<b>115.0</b>

Source: Based on Company Accounts Data Service data. See section: Methodological Notes.

(1) Book value. The totals for Italy include data for which the indication of geographical area and/or size class is unavailable. – (2) Ratio of current profits before interest expense to total assets. – (3) Ratio of financial debt to the sum of financial debt and shareholders' equity.

Table a3.5

## Bank fund-raising by regions(1)

(year-end stocks in millions of euros and percentage changes)

	Fund-raising at December 2007				Percentage changes on previous year			
	Deposits			Bonds (3)	Deposits			Bonds (3)
		of which (2): current accounts				of which (2): current accounts		
Piedmont	96,958	66,616	50,630	30,342	3.3	2.3	-0.4	5.5
Valle d'Aosta	2,634	2,119	1,662	515	3.9	4.4	2.4	1.9
Lombardy	308,600	215,378	165,811	93,222	4.9	3.8	2.7	7.5
Liguria	31,568	21,690	16,992	9,878	5.7	5.8	2.7	5.5
<b>North-West</b>	<b>439,760</b>	<b>305,803</b>	<b>235,095</b>	<b>133,957</b>	<b>4.6</b>	<b>3.6</b>	<b>2.0</b>	<b>6.9</b>
Trentino-Alto Adige	29,339	17,368	12,746	11,970	6.5	3.5	3.9	11.3
<i>of which: Trento</i>	<i>14,267</i>	<i>8,655</i>	<i>6,439</i>	<i>5,612</i>	<i>6.7</i>	<i>3.2</i>	<i>4.0</i>	<i>12.4</i>
<i>Bolzano</i>	<i>15,072</i>	<i>8,713</i>	<i>6,307</i>	<i>6,359</i>	<i>6.4</i>	<i>3.7</i>	<i>3.7</i>	<i>10.3</i>
Veneto	97,869	68,229	50,356	29,640	5.7	4.6	4.4	8.5
Friuli-Venezia Giulia	32,218	20,370	16,463	11,849	13.9	10.2	9.5	20.9
Emilia-Romagna	112,851	75,157	54,267	37,695	7.2	6.2	5.0	9.3
<b>North-East</b>	<b>272,277</b>	<b>181,124</b>	<b>133,832</b>	<b>91,154</b>	<b>7.3</b>	<b>5.7</b>	<b>5.2</b>	<b>10.7</b>
Tuscany	78,192	51,335	39,748	26,857	5.3	2.0	0.8	12.3
Umbria	13,665	9,728	6,963	3,937	6.0	4.0	2.8	11.4
Marche	28,810	20,245	12,291	8,565	5.5	5.1	0.5	6.4
Lazio	159,603	124,880	91,959	34,723	10.8	3.4	4.1	49.5
<b>Centre</b>	<b>280,269</b>	<b>206,188</b>	<b>150,961</b>	<b>74,081</b>	<b>8.4</b>	<b>3.2</b>	<b>2.9</b>	<b>26.2</b>
<b>Centre-North</b>	<b>992,307</b>	<b>693,115</b>	<b>519,888</b>	<b>299,192</b>	<b>6.4</b>	<b>4.0</b>	<b>3.1</b>	<b>12.3</b>
Abruzzo	17,291	13,468	8,535	3,823	4.9	2.1	0.3	16.1
Molise	3,408	2,888	2,193	520	18.3	21.1	25.6	5.2
Campania	57,377	46,845	33,141	10,532	5.6	3.7	2.1	14.7
Puglia	39,990	31,692	20,087	8,298	5.2	4.6	2.8	7.7
Basilicata	4,999	4,074	2,562	925	5.3	3.3	1.0	15.0
Calabria	14,047	11,161	7,355	2,886	4.0	2.6	0.6	9.7
Sicily	45,796	36,278	24,546	9,518	2.3	3.2	2.0	-1.2
Sardinia	16,850	14,018	10,795	2,832	4.4	3.8	3.8	7.8
<b>South and Islands</b>	<b>199,758</b>	<b>160,424</b>	<b>109,213</b>	<b>39,334</b>	<b>4.6</b>	<b>3.8</b>	<b>2.5</b>	<b>8.1</b>
<b>Italy</b>	<b>1,192,065</b>	<b>853,539</b>	<b>629,101</b>	<b>338,525</b>	<b>6.1</b>	<b>4.0</b>	<b>3.0</b>	<b>11.8</b>

Source: Supervisory reports. Data classified by customer location. See section: Methodological Notes.

(1) Net of deposits of monetary financial institutions (banks and other intermediaries). The data do not include the reports of Cassa Depositi e Prestiti S.p.A. and Poste S.p.A. – (2) Excludes deposits of central government departments. – (3) The figure for the Centre includes bonds previously deposited with Monte Titoli S.p.A. and entered into the banking system in 2007. Adjusting for that amount (see the Report on Lazio in 2007), the rate of growth in bonds is 10.9 per cent in the Centre, 8.9 per cent in the Centre and North and 8.8 per cent in Italy, while that in total bank funding in the three areas is equal to 5, 5.4 and 5.3 per cent respectively.

Table a3.6

**Third parties' securities on deposit (1)**  
(millions of euros and twelve-month percentage changes)

	North-West		North-East		Centre		South and Islands		Italy	
	2007	% change	2007	% change	2007	% change	2007	% change	2007	% change
<b>Total</b>										
Securities held for custody and/or administration	438,350	-6.6	254,202	8.3	234,073	23.8	66,414	5.6	993,038	3.9
of which: Italian government securities	166,416	-1.4	97,541	21.0	103,619	34.0	33,811	13.5	401,387	12.6
Bonds	120,772	2.7	76,178	20.7	58,649	23.2	9,897	34.3	265,495	12.6
Shares	45,498	0.9	25,696	-4.7	19,712	15.0	4,693	6.1	95,599	2.1
Units of CIUs (2)	67,457	-23.9	31,653	-7.2	28,180	10.7	15,835	-14.8	143,125	-14.2
<b>Consumer households</b>										
Securities held for custody and/or administration	204,471	6.9	111,100	5.9	76,021	2.8	57,438	5.4	449,030	5.7
of which: Italian government securities	87,046	18.6	45,642	16.9	38,942	18.9	30,547	14.0	202,176	17.6
Bonds	49,069	13.4	24,546	17.6	15,094	18.5	8,770	35.6	97,480	16.9
Shares	12,393	-0.9	7,564	-14.1	3,799	-18.4	2,713	-3.4	26,469	-8.1
Units of CIUs (2)	46,668	-11.8	26,505	-9.0	14,556	-27.9	13,787	-15.0	101,516	-14.3

Source: Supervisory reports. End-of-period data classified by counterparty's residence.

(1) At face value. Excludes debt securities issued by banks, securities deposited by monetary financial institutions (banks and other intermediaries) and securities deposited by collective investment undertakings and external supplementary pension funds in connection with the performance of the depositary bank function. Excludes the reports of Cassa Depositi e Prestiti S.p.A. and Poste S.p.A. – (2) Collective investment undertakings. Excludes units deposited by customers without an explicit custody contract..

**Short-term bank lending and deposit rates (1)**  
(percentages)

	Loans (2)			Deposits (3)		
	Dec. 2006	Dec. 2007	Mar. 2008	Dec. 2006	Dec. 2007	Mar. 2008
Piedmont	6.7	7.5	7.4	1.1	1.6	1.5
Valle d'Aosta	7.7	8.4	8.2	1.2	1.8	1.7
Lombardy	6.0	6.7	6.6	1.3	2.0	1.9
Liguria	7.3	7.9	7.8	0.9	1.4	1.4
<b>North-West</b>	<b>6.2</b>	<b>6.9</b>	<b>6.8</b>	<b>1.3</b>	<b>1.8</b>	<b>1.8</b>
Trentino-Alto Adige	5.5	6.5	6.5	1.7	2.3	2.3
Veneto	6.3	7.0	7.0	1.2	1.8	1.8
Friuli-Venezia Giulia	6.6	7.2	7.2	1.6	2.1	2.1
Emilia-Romagna	6.1	6.9	6.8	1.3	2.0	2.0
<b>North-East</b>	<b>6.2</b>	<b>6.9</b>	<b>6.9</b>	<b>1.3</b>	<b>1.9</b>	<b>1.9</b>
Tuscany	6.3	7.3	7.2	1.3	1.8	1.9
Umbria	7.2	7.8	7.8	1.2	1.8	1.8
Marche	6.3	7.1	7.2	1.4	1.9	1.9
Lazio	6.7	7.3	7.5	1.8	2.5	2.5
<b>Centre</b>	<b>6.5</b>	<b>7.3</b>	<b>7.4</b>	<b>1.6</b>	<b>2.3</b>	<b>2.3</b>
<b>Centre-North</b>	<b>6.3</b>	<b>7.0</b>	<b>7.0</b>	<b>1.4</b>	<b>2.0</b>	<b>2.0</b>
Abruzzo	7.2	7.8	7.7	1.3	1.8	1.7
Molise	8.0	8.2	8.4	1.4	2.3	2.5
Campania	7.5	8.3	8.4	0.9	1.3	1.3
Puglia	7.7	8.3	8.3	1.0	1.5	1.5
Basilicata	7.4	8.1	8.2	1.1	1.6	1.6
Calabria	9.2	9.4	9.3	0.8	1.3	1.2
Sicily	7.5	8.0	8.0	1.2	1.6	1.6
Sardinia	6.7	7.9	7.9	1.3	1.9	1.8
<b>South and Islands</b>	<b>7.5</b>	<b>8.2</b>	<b>8.2</b>	<b>1.1</b>	<b>1.5</b>	<b>1.5</b>
<b>Italy</b>	<b>6.4</b>	<b>7.2</b>	<b>7.1</b>	<b>1.3</b>	<b>1.9</b>	<b>1.9</b>

Source: Survey of lending and deposit rates. See section: Methodological Notes

(1) Data on transactions in euros, classified by customer location. – (2) Matched loans and revocable loans. – (3) For current accounts only, including those with guaranteed cheque coverage.

Table a3.8

**Number of banks and bank branches in operation**  
(year-end data)

	2005		2006		2007	
	Banks	Branches	Banks	Branches	Banks	Branches
Piedmont	92	2,559	94	2,618	96	2,666
Valle d'Aosta	16	97	17	98	16	97
Lombardy	248	6,068	253	6,247	256	6,454
Liguria	62	934	63	959	65	975
<b>North-West</b>	<b>276</b>	<b>9,658</b>	<b>280</b>	<b>9,922</b>	<b>284</b>	<b>10,192</b>
Trentino-Alto Adige	131	932	129	941	131	952
<i>of which: Trento</i>	75	524	75	531	78	537
<i>Bolzano</i>	75	408	74	411	76	415
Veneto	135	3,332	138	3,446	142	3,551
Friuli-Venezia Giulia	57	913	60	926	62	942
Emilia-Romagna	134	3,300	139	3,410	137	3,518
<b>North-East</b>	<b>323</b>	<b>8,477</b>	<b>330</b>	<b>8,723</b>	<b>329</b>	<b>8,963</b>
Tuscany	120	2,297	122	2,376	123	2,459
Umbria	50	540	49	552	49	566
Marche	76	1,121	79	1,165	81	1,194
Lazio	168	2,514	171	2,584	170	2,693
<b>Centre</b>	<b>260</b>	<b>6,472</b>	<b>266</b>	<b>6,677</b>	<b>268</b>	<b>6,912</b>
<b>Centre-North</b>	<b>653</b>	<b>24,607</b>	<b>660</b>	<b>25,322</b>	<b>668</b>	<b>26,067</b>
Abruzzo	51	646	52	672	55	689
Molise	28	142	27	141	29	145
Campania	87	1,559	90	1,593	94	1,638
Puglia	71	1,372	75	1,396	74	1,425
Basilicata	31	244	31	250	34	253
Calabria	42	522	41	530	43	534
Sicily	70	1,729	75	1,749	79	1,788
Sardinia	30	683	32	684	33	690
<b>South and Islands</b>	<b>211</b>	<b>6,897</b>	<b>217</b>	<b>7,015</b>	<b>228</b>	<b>7,162</b>
<b>Italy</b>	<b>784</b>	<b>31,504</b>	<b>793</b>	<b>32,337</b>	<b>806</b>	<b>33,229</b>

Source: Archives of intermediary identification. See section: Methodological Notes.

# METHODOLOGICAL NOTES

## GROWTH AND PRODUCTIVE ACTIVITIES

### *Gross domestic product, population and employment in European regions*

The data on gross domestic product, population and employment in European regions are taken from Eurostat, based on the observations, which are consistent with ESA95, and the processing of the individual national statistical institutes. Eurostat converts the GDP data into purchasing power standard (PPS) values that take account of differentials in price levels between member states. The PPS units are calculated as weighted averages of the price indexes for the countries that belonged to the European Union at the start of 2007 (EU-27) for a common basket of goods. Eurostat classifies the European regions according to size using the different levels of the “NUTS” classification (*Nomenclature des unités territoriales statistiques*). NUTS-0 is equivalent to national states, NUTS-1 to Italy’s macroregions, and NUTS-2 to the regions.

### *Survey of industrial and service firms*

The survey of firms in industry excluding construction with at least 20 workers covered 2,980 firms in 2007, of which 1,852 had 50 or more workers. Since 2002 this survey has been flanked by a survey of service firms with at least 20 workers engaged in the following activities: retail and wholesale trade, hotel and restaurant services, transport and communication, and business services. The service sector sample for 2007 included 1,083 firms, of which 686 had 50 or more workers. The participation rate for industrial firms was 79.6 per cent, for service firms 77.5 per cent. For both surveys the interviews are conducted annually by the branches of the Bank of Italy, in February or March for the previous year. The theoretical sample size for each stratum is determined by applying the method known as “optimal allocation to strata” to class size and geographical area, which minimizes the standard error of sample means by oversampling the strata with the greatest variance (in particular, oversampling involves the largest firms and those with legal head office in the South and Islands). This method of allocation is applied in order to minimize the variance of the estimators of the trends in investment, employment and sales. The extrapolation of the sample data to the entire population is obtained by attributing to each firm a weight that takes account of the ratio between the number of units surveyed and the number of units present in the reference population in that size class, geographical area and sector of economic activity. In presenting the data by geographical area, the firms are classed on the basis of their legal head office. Information on the effective percentage distribution of investment and employment between the areas where plants are located (provided directly from the firms) is also used.

Tables a1.10-a1.11 and Figure R1

### *Exports (fob) by sector of economic activity*

The data on trade with EU countries are obtained using the Intrastat system; those on trade with other countries using customs documentation. The regional data are the result of the aggregation of the data classified by province of origin and destination. The province of origin is that in which goods for export were produced or obtained following the processing, transformation or repair of temporarily imported goods. The importing region is considered to be the region to which goods are sent for final use or for processing, transformation or repair. For further information, see the “Note metodologiche” section in *Commercio estero e attività internazionali delle imprese*, published by Istat and the Italian Institute for Foreign Trade (ICE).

## THE LABOUR MARKET AND THE ECONOMIC CONDITIONS OF HOUSEHOLDS

Figure 2.1

### *Standard labour units and employment in the national accounts*

Employed persons, for the National Accounts, in addition to those found by the labour force survey, comprise persons performing compulsory military service, prisoners, members of religious orders and foreigners (legally present or not) who perform an activity. Standard labour units, as defined in the national accounts, measure the amount of labour employed in productive activity in Italy, reduced to homogeneous quantities in terms of work time. Labour input as measured in standard units (or “full-time equivalent workers”) is net of Wage Supplementation. The Wage Supplementation Fund is administered by INPS for the partial compensation of the wages lost by employees in the case of short-time working or lay-off provided for by law. In estimating the total labour input of the economy, the number of hours of Wage Supplementation benefits is translated into the corresponding number of persons employed (equivalent workers on Wage Supplementation) by dividing it by the contractual working hours.

Figure 2.2, Tables a2.1-a2.4

### *The labour force surveys*

As of January 2004 Istat’s labour force survey underwent a major overhaul affecting the questionnaire, the timetable and the manner of interviewing households. The data are now collected continuously during the reference quarter instead of in just one week. Consequently, the seasonality of the data has changed. The new questionnaire permits a more accurate identification of both persons in employment and those actively seeking a job. A new network of professional interviewers is now used. They have replaced the persons previously made available by municipalities and are specially trained and benefit from the use of computers. The reference population for the survey, consisting of persons resident and present in Italy, has changed considerably compared with the past, in order to take account of the 2001 Population Census and the effects of the regularization of foreigners between 2003 and 2004. For this survey the labour force does not include persons performing compulsory military service, prisoners, members of religious orders and non-resident aliens, all of whom who are comprised in the national accounts. For further information, see the “Glossario” section in the Appendix to the Bank’s Annual Report in Italian. The main changes to the survey are described in the box “La nuova Rilevazione sulle forze di lavoro” in *Bollettino Economico*, no. 39, 2004.

Tables 2.1-2.2

### *The survey on household income and wealth*

Since the 1960s the Bank of Italy has conducted a regular sample survey of Italian households’ income and wealth. The sample (consisting, since 1987, of about 8,000 households) is a probabilistic one with two-stage selection. First about 300 of Italy’s 8,100 municipalities are selected. To this end they are grouped into homogeneous strata defined by a combination of region and size (population). The largest cities are all included in the sample; the smaller ones are taken randomly from their respective strata. In the second stage, the names of the households to survey are drawn randomly from the civic registers of the municipalities selected. Starting with the 1989 survey a panel of households has been retained in order to permit analysis of behaviour over time. The estimates are weighted to take account of the differing probability of selection of households stemming from the sampling method and the response process during the survey. The main results of the survey and the methodological details are available in the series of publications Supplementi al Bollettino statistico – Indagini campionarie. The electronic version of the statistical report, the microdata and the documentation on their use are available on the Bank’s website at: <http://www.bancaditalia.it/statistiche/indcamp/bilfait>.

## BANKING

Additional information is available in the Note metodologiche section and the *Glossario* section of the Appendix to Relazione annuale della Banca d'Italia (the Bank's annual report in Italian) and the Glossary and the Methodological Appendix to the Bank of Italy's Statistical Bulletin

Figures 3.1-3.2, Tables 3.1, 3.2, 3.5, a3.1-a3.3, a3.5 and a3.6

### *Supervisory returns*

The data are drawn from the statistical reports (third section of the supervisory returns) that the Bank of Italy requires banks to send pursuant to Article 51 of the Consolidated Law on Banking (Legislative Decree 385/1993). Since 1995 the former special credit institutions have submitted identical reports to those sent by other banks; from the same date the information on the former special credit sections has been included in the reports of their parent institutions. For details on the classification of customers by economic activity, see the Glossary of the Bank of Italy's *Statistical Bulletin* ("Customer sectors and segments of economic activity").

The aggregates are consistent with those adopted by the European System of Central Banks for the euro area and are based on end-of-period data.

The definitions of some items in the tables are given below:

*Deposits*: savings accounts, certificates of deposit, savings certificates, current accounts and repos with resident non-bank customers.

*Loans*: loans disbursed by banks to resident non-banks. The aggregate includes the bill portfolio, current account overdrafts, matched loans (advances on bills, other credit instruments and documentary credits subject to final payment), bills of exchange and other import and export documentary credits, mortgage loans, repos, advances not settled via current accounts, pledge loans, loans secured by pledge of salaries, loans granted from funds administered for third parties, and other financial investments (traded banker's acceptances, commercial paper, etc.). Short-term loans have a maturity of up to 18 months, medium and long-term loans of more than 18 months.

*Substandard loans*: claims on borrowers in a temporary situation of objective difficulty whose solution can be expected within a reasonable period of time.

*Bad debts*: loans to persons in a state of insolvency (even if not judicially declared) or basically equivalent situations.

Unless otherwise specified, the data refer to the residence of the borrower.

Table a3.4

### *Company Accounts Data Service*

The Company Accounts Data Service, a limited liability partnership formed in 1983 by the Bank of Italy together with ABI, gathers the financial statements of the main Italian companies and stores them in electronic archives. The Service also offers financial analysis. Its services are provided to the many associated banks, which help in the collection of the data.

Table R2, Figure R2

### *AIFI data on private equity and venture capital*

AIFI in collaboration with Pricewaterhouse Coopers Transactions Services conducts a yearly survey of a sample of private equity and venture capital investors in the Italian market. The reference base



for the survey consists of: AIFI Associates, members of the Association that engage in investment business, some Italian investors and financial institutions that do not belong to AIFI, and those international financial institutions which, though not having a permanent advisor in Italy, have carried out transactions involving firms in Italy during the year. The units surveyed are investment structures (management companies, advisors to international funds, closed-end securities investment fund management companies, financial companies and banks) and not the individual funds they manage. The survey, conducted via questionnaire, analyzes the institutions' investment, disinvestment and fund-raising during the period. For investment activity, the aggregate data refer only to the total equity and quasi-equity stakes paid for the transaction, not to the total value of the transaction. The overall size of the market is defined as the amount invested, in Italian and non-Italian companies, by "local" investors and the amount invested in Italian firms by pan-European and worldwide investors. The entire market is divided, for definitional purposes, into venture capital – comprising early stage and expansion – and buyouts, comprising expansion strictly construed (purchase of all or a majority of the firm's equity) and replacement (purchase of minority stakes from exiting shareholders). The AIFI data offering a regional breakdown cover the period from 2003 to 2007 and show, for the investment by the investors surveyed during the year, the number of deals, the number of firms involved and the amount of resources used. These data are further broken down according to type of operation (early stage, expansion, replacement, buyout).

Table. a3.2

### *Consumer credit, leasing and factoring*

The information on banks and financial companies is obtained from the statistical supervisory reports on consumer credit and from the Central Credit Register for leasing and factoring; the financial companies considered are those entered in the special register referred to in Article 107 of the Consolidated Law on Banking that engage (even if not prevalently) in leasing, factoring and consumer credit. Lending does not include bad debts. The leasing and factoring totals include among customers banks, other monetary financial institutions, financial companies, insurance companies and consumer households.

The definition of some items:

*Consumer credit:* this includes loans granted in accordance with Article 121 of the Consolidated Law on Banking to individuals acting for other than business reasons. It includes lending related to the use of credit cards.

*Leasing:* financial leasing claims consist of the implicit amounts plus, in the case of default by the user, instalments due and not paid and the related accessory costs and expenses. Leasing also includes preleasing costs net of any instalments paid early.

*Factoring:* factoring claims consist of the advances made against claims that have already arisen or that will arise in the future. Factoring does not include positions that have expired for non-performance, even where the conditions for reclassification as bad debts do not exist.

For further information, see the Glossary section in the *Appendix* to the Bank's Annual Report in Italian.

Tables a3.2- a3.3

### *Reports to the Central Credit Register*

The Central Credit Register records the exposures of banks (including the Italian branches of foreign banks exclusively as regards credit granted to residents of Italy) and financial companies for which the amount granted or drawn or the guarantee provided exceeds €75,000. Bad debts are covered regardless of the amount.

Definitions of some items:

*Overdue loan:* a loan is deemed to be overdue when the contractual time limit for repayment or the more favourable time limit the intermediary has granted to the debtor has passed.

*Restructured loan:* a contract altered or signed as part of a restructuring operation, i.e. an agreement by means of which an intermediary or a pool of intermediaries consents, in view of the deterioration in the financial condition and operating results of the debtor, to changes in the original contractual terms and conditions (such as a rescheduling of the time limits or a reduction of the principal and/or interest) that give rise to a loss.

*Overshoot:* the positive difference between credit used, excluding bad debts, and credit granted.

Adjusted bad debts: the total loans outstanding when a borrower from the banking system is reported to the Central Credit Register:

- a) as a bad debt by the only bank that disbursed credit;
- b) as a bad debt by one bank and as having an overshoot by the only other bank exposed;
- c) as a bad debt by one bank and the amount of the bad debt is at least 70% of the borrower's exposure towards the banking system or as having overshoots equal to at least 10% of its total loans outstanding;
- d) as a bad debt by at least two banks for amounts equal for each to at least 10% of its total loans outstanding.

*Factoring:* amounts corresponding to the nominal value of claims involved in factoring transactions with the amounts with and without recourse reported separately; the amounts are reported by both the assignor and the assignee.

Additional information is contained in the Methodological Appendix and in the Glossary of the Bank of Italy's Statistical Bulletin.

Table a3.7, Figure 3.1

### ***The survey of bank interest rates***

The quarterly sample survey of lending and deposit rates was completely overhauled in March 2004: the number of reporting banks was increased and the form for submitting reports was expanded and amended. The two groups of banks, which include the main Italian credit institutions, are made up of about 250 for lending rates and about 125 for deposit rates (compared with 70 and 60, respectively, in the previous survey).

The information on lending rates is collected separately for each customer. The data refer to loans to non-bank customers and record each position, at the end of the reference quarter, for which the amount granted or drawn reported to the Central Credit Register is at least €75,000. For new fixed-term loans the banks report the amount granted and the annual percentage rate of charge.

For deposit rates the data refer to the terms offered on the current account deposits of non-bank customers outstanding at the end of the quarter.

For further information, see the Methodological Appendix in the Bank of Italy's Statistical Bulletin.

Tables 3.3-3.4 and a3.8

### ***The archives containing data on intermediaries***

The information on credit and financial intermediaries are drawn from the registers kept by the Bank of Italy, Consob and the UIC, as prescribed by law.

For additional information, see the Methodological Appendix in the Bank of Italy's Statistical Bulletin.

## LOCAL GOVERNMENT FINANCES

Figure 4.1

### *Regional health costs*

The data refer to an aggregate of expenditure that includes the main cost items of the accounts of health units entered in the Health Sector Information System as of 20 February 2008 and included in the General Report on the Economic Situation for 2007. The items in question are staff costs, total expenditure for assistance from accredited facilities operating under an agreement, purchases of goods and purchases of other services. The aggregate reconstructed here does not include expenditure for care of patients transferred to facilities in other regions or other facilities within the region and financial items introduced into the accounts (amortization, credit claim value adjustments, value adjustments to financial assets).

Figure 4.5

### *Local government debt*

Local government debt consists of the sector's total financial liabilities at face value. It is consolidated within general government; that is, it excludes those liabilities that are assets, in the same instruments, of entities belonging to the general government sector, in line with the definition used for purposes of the EMU's excessive deficit procedure. Consistent with the methodological standards of EC Council Regulation 3605/93, the aggregate is calculated summing the financial liabilities of the following categories: cash and deposits, securities other than shares, and loans. It includes, under "other liabilities", loans in connection with securitizations, which are treated as loans according to the Eurostat standards.

For further information, see Indicatori monetari e finanziari: Debito delle Amministrazioni locali in *Supplementi al Bollettino statistico*, Appendice metodologica.

## POLICIES FOR UNDERUTILIZED AREAS AND THE NEW PLANNING CYCLE

Figure 5.2

### *The regional aid map*

Article 87.3(a) of the EU Treaty establishes that aid that "may be considered to be compatible with the common market" includes "aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment." Letter (c) of that paragraph cites as also compatible "aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest."

## SPECIAL TOPICS

### INNOVATION AND TECHNOLOGY TRANSFER: COOPERATION BETWEEN BUSINESS AND UNIVERSITIES

Figure 6.1

#### *Survey of industrial and service firms*

The branches of the Bank of Italy conducted telephone interviews for the 15th Sample Survey between 20 September and 10 October 2007, contacting a total of 4,196 firms with 20 or more employees, of which 3,058 non-construction industrial firms and 1,138 non-financial private service firms. The questionnaire covered the usual topics of investment, orders and turnover, debt, workforce and wage trends; it also asked for forecasts of industrial production in the last quarter of 2007, opinions on market developments in the last six months and projections for the next six. A special section was included on technological innovation and relations with universities. For further information see “Supplements to the Statistical Bulletin”, No. 65, 2007.

Figures 6.2-6.3

#### *Regional universities*

The data used to calculate the budget indicators for universities for the period 2001-05 are supplied by the Ministry of Education, Universities and Research and are expressed in current euros. As a rule the budget items are entered on an accruals basis: assessed revenues and expenditure commitments. The indicators are defined as follows: 1) private funds (third-party funds), which include revenues from private sources stemming from contracts, conventions, planning agreements and sales of goods and services; they do not include transfers from private sources without invoice and other own revenues (items 1260, 1310, 1320); 2) ordinary finance funds (item 2111); 3) wages and salaries, including allowances and miscellaneous fees for all teaching and non-teaching, permanent and fixed-term personnel, inclusive of social security charges and IRAP (item 1000).

Public research spin-off companies are defined as new companies operating in hi-tech sectors, formed by a group of teachers, researchers or PhD candidates belonging to a public research institution, who may either leave or retain their ties to that institution to set up the company. For further information see Rapporto RITA (research report on entrepreneurship in hi-tech sectors), Politecnico di Milano, 2005.

### THE COMPETITIVENESS OF THE NATIONAL SEAPORT SYSTEM

Table 8.1

The Genoa branch of the Bank of Italy conducted the survey among the Italian offices of 12 of the world's largest shipping companies to analyse the competitive advantages and disadvantages of Italian ports over Northern Range and West Med ports in terms of container traffic management. The companies in question handle over two-thirds of this traffic. Their opinions on various aspects of competition were recorded, covering five areas (port infrastructure, port efficiency, land infrastructure, number and quality of logistics support centres, and geographical location).

The Italian ports are Genoa, la Spezia, Savona, Venice, Trieste, Ravenna, Livorno, Naples, Salerno, Gioia Tauro, Taranto and Cagliari, which together, handled over 98 per cent of national container traffic in 2007. The foreign ports considered are Algeciras, Valencia, Barcelona, Marseille (West Med), Port Said, Piraeus, Dumyat, Haifa (East Med), Rotterdam, Hamburg, Antwerp, Bremen, Zeebrugge and Le Havre (Northern Range).

## **HOUSEHOLD DEBT AND THE SUPPLY OF MORTGAGES WITH INNOVATIVE CHARACTERISTICS**

Tables 11.1-11.2 and Figure 11.2

### ***Sample of banks used in the survey of mortgage loans offered to households***

The analysis of innovative mortgage loans offered to households is based on data obtained from a sample survey conducted in 2007 by the Economic Research Units of the Bank of Italy's branches among 316 banks, 114 with their head office in the North-West, 92 in the North-East, 74 in the Centre and 36 in the South and Islands. The sample represented 87.5 per cent of households' mortgages at the end of 2006. A new survey was carried out at the beginning of 2008 on data for 2007, enlarging the sample to 367 banks (118 in the North-West, 111 in the North-East, 88 in the Centre and 50 in the South and Islands) to cover 95.8 per cent of households' mortgages. For further information see *Questioni di economia e finanza*, No. 13, June 2008.

## **THE ORGANIZATION OF LENDING TO SMALL FIRMS AND THE USE OF CREDIT SCORING**

Tables 12.1-12.5

### ***The sample of banks used in the survey of banks' organization and the use of credit scoring models***

The organization of bank lending to small and medium-sized firms and the use of credit scoring models to assess credit risk is analysed using a nation-wide sample survey of 322 banks, of which 285 small and minor institutions. For the classification of banks into size groups see "Banche" in the Glossario section of the Appendix to *Relazione annuale della Banca d'Italia* (the Bank's annual report in Italian). For further information see *Questioni di economia e finanza*, No. 12, April 2008.

## **PUBLIC SPENDING ON INFRASTRUCTURE IN THE ITALIAN REGIONS**

Figures 13.1-13.2 and Table 13.1

### ***Public spending on infrastructure***

Calculations are based on data from the Territorial Accounts Database. The item "civil engineering works" covers capital expenditure on immovable assets in the following sectors: water supply, sewerage system and water purification; environment; waste disposal; other health and hygiene works; road network; other transport; telecommunications; agriculture; energy; other public works. The item "social infrastructure" covers capital expenditure on immoveable assets in the following sectors: public safety; education; training; research and development; culture; construction; health; social work; labour; social security. The item does not include investment in residential buildings and moveables (machinery and equipment, office equipment, furniture, means of transport and software).

The Territorial Accounts Database usually provides information relating to the enlarged public sector, consisting of general government (central, regional and local) and public bodies outside general government, which includes national and local public enterprises producing marketable services: among them are Enel, ENI, the State railways, former IRI companies, Infrastrutture SpA, Sviluppo Italia, local firms and institutions, and publicly owned companies and foundations.

Flows are divided by economic activity following the classification used to compile the budget on a financial accounting basis. For the breakdown of expenditure by type of work, items are aggregated according to the standard classification of civil engineering works.

Territorial Accounts Database figures at constant 1995 prices are obtained using the deflator derived from Istat national accounts series for general government investments in non-residential buildings and other non-housing works.

## PUBLIC PHARMACEUTICAL SPENDING: ANALYSIS BY MACRO AREAS

Figure 15.1

### *Indirect pharmaceutical spending*

Federfarma-Assofarm is the source of all calculations in the text. The reference aggregate is indirect pharmaceutical spending via the network of pharmacies open to the public, net of the discount, which is computed as the difference between the price advertised and the price actually charged, and of the patient's co-payment (including the regional prescription charge per item and the difference between the price of the generic product and the price of the more expensive brand-name product).

Per capita spending is calculated for the age-weighted population using the system developed by the Planning Department of the Ministry of Health to compute the per capita share of the national health fund related to the level of pharmaceutical contribution; this system assigns greater weight to the population groups with a greater need for pharmaceuticals. The regional population, classified by age group, is that recorded by Istat on 1 January of each year.