

## **An overview**

Although it could not be considered as in optimal shape, the situation emerging from the Check Up Mezzogiorno of December 2017, the traditional study carried out by Confindustria and SRM, Studi e Ricerche per il Mezzogiorno (research centre of the Gruppo Intesa Sanpaolo), is surely showing signs of a remarkable improvement.

The synthetic index of Southern economy, elaborated by Confindustria and SRM, shows an increase for the third year in a row, effectively returning to the 2009 values, although the pre-crisis levels are still distant, mainly because of the low performance of investment. Every indicator that composes the index is increasing, but only one out of five, the one related to export, has surpassed the pre-crisis levels.

## **GDP continues its recovery**

Specifically, the GDP has been increasing more in the Mezzogiorno than the Centre-North (+1%, versus +0.8% of the rest of the Country) for the second consecutive year: the investment is also increasing, driven by private ones, especially the ones related to the industry, which has increased by 40% on the previous year. Even if it's still not enough to return to the values of 2007, it should still be considered as a significant progress.

The positive trend should be consolidating itself even throughout the current and next year: according to the average of the forecasts elaborated with the consensus method, the GDP of the Mezzogiorno should increase, in fact, by 1.3% in 2017 and by 1.1% in 2018, essentially performing just as much (or slightly less) than the other departments.

## **The recovery lies in the hands of the companies**

The number of active companies keeps on increasing (nowadays they are slightly less than 1 million and 700 thousand), and the difference with the Centre-North is actually decreasing: for the fifth year in a row, the balance of Southern regions is better than the one of the rest of the Country; in particular, during the third trimester of 2017, the number of Southern companies has increased by 0.4%, while the one of the companies of the Centre-North keeps on decreasing, for the sixth year in a row.

Turnover is also improving more than in the Centre-North, but results are mostly better for medium-sized companies (+1.7% in 2016 on the previous year) and large-sized ones (+1.1%, with the exception of refineries), while small companies, while performing better than the rest of the Country, saw their turnover (albeit just slightly) decrease (-1.8%, compared to a -4.4% decrease of the Centre-North).

It should be highlighted a first, significant signal related to the productive structure of the South: considering as 100 the total of the companies of the Mezzogiorno, the ones with 1 to 9 employees are decreasing, while the ones with 10 to 49 increased by 0.2%. This is a small, but relevant strengthening signal of the productive fabric, which is confirmed by the steady growth of capital companies, not only in absolute value (during the third trimester of 2017 they exceeded, for the first time, 300 thousand units, with a 5.8% increase on the

previous year), but also on the total of Southern companies (since they are now equal to 17.9% of the total).

The recovery is still proceeding slowly. When looking at the structural indicators of the companies of the South, it can be easily observed how the pre-crisis values are still distant, in reference with turnover (in 2015 it was still 14.7% lower than 2007) and investment (46% lower), and also compared to the employees number (-11.8%). The gap with the 2007 values is particularly deep for manufacturing companies, especially compared with the local unit number (a decrease of 33 thousand units) and employees (about 150 thousand less).

The improvement registered between 2015 and 2016, in reference with the estimates on value added and productivity (more pronounced in the Mezzogiorno than the rest of the Country, especially in the building, agriculture and services sectors), gives hope for an improvement that could also affect other economic sectors. The most recent data, in fact, leave room for cautious optimism: between 2015 and 2016, the indicators related to value added and productivity are improving more in the South than in the Centre-North, in particular for building (+4.4% for value added, versus -0.3% of the Centre-North), agriculture (value added at +7.5%), and services. The trust indices of manufacturing companies have reached their peak for the last two-year period, much alike the ones of consumers, confirming this cautious optimism.

The growth of companies participating in Networking contracts (reaching 6,000 units as of now) (almost 1,000 more during the second part of the year), of youth companies and female businesses (more than 3,000 just in the II trimester of 2017) keeps on increasing: companies filing for bankruptcy and societies with at least one protest are keeping on decreasing (now behind the pre-crisis levels); SME and innovative Startups are also increasing (more than 400 in the II semester of 2017 compared to the same period of the previous year).

### **Credit offer and demand are still not meeting each other**

Loans are decreasing in the South (-0.5% in the II semester of 2017 on the previous year), but overdue debts are decreasing, having increased in the Mezzogiorno by just 140 million euro, after the average increases of billions during the previous years. Interest rates on short-term operations are keeping a differential of almost one point and half to the disadvantage of Southern regions (with three point peaks for the Calabria region), but companies with safety and solvency statuses are increasing, so that upgrades (i.e. companies that improve their credit rating) are higher than the national average (as well as downgrades), highlighting a remarked difference with the rest of the Country: by doing so, the credit demand coming from Southern companies is not fully met by the corresponding offer, whose conditions, albeit slightly, are loosening.

Overall, credit conditions are improving, although not for everyone, and the funding of the economy is still a pivotal point for the recovery of the South.

### **Southern export is improving**

A robust contribution to the dynamism of the productive system is coming from the growth of Southern companies in the foreign markets.

Compared to the III trimester of the previous year, the export of Mezzogiorno companies is growing by 8.6%, a higher pace than the one of the Centre-North (+7.2%). With the

exception of means of transport and electronic apparel, the export of every industry sector is increasing, with a particular intensity for refining products (+42.9%), chemical products (+21.6%) and pharmaceutical ones (+9.4%). The export toward the BRICS and the Med Area is particularly growing.

In some cases, these trends have a lasting duration: one of the leading sectors of Southern export, agri-food, had a 63.1% growth compared to 2007, reaching almost 2 billion euro of exported goods.

### **Employment is also improving**

During both the second and third semester of 2017, in the South, there were percentage increases of employees higher than the ones of the Centre-North, with a growth, in absolute values, of over 108 thousand units in the III semester of 2017 on the same period of the previous year, also thanks to the support of the Bonus Employment South, funded by European structural funds, which in the first 8 months of the year favoured the hiring with a permanent contract of almost 83 thousand people.

Thanks to this, the overall unemployment rate (-0.7% on the previous year) and the one related to young people (-0.8% on one year ago) are also decreasing, albeit slowly.

However, while they have handily surpassed the 6 million threshold, the Southern employees are still 230 thousand less compared to the pre-crisis peak.

### **Some positive signals for the youth condition**

The road ahead is still long, since the share of Southern youths that don't study and don't have a job is still very high: they are over 1 million and 800 thousand (**almost** 60% of the national total, equal to 37.5% of the total of people between 15 and 34 years of age living in the South). Almost 800 thousand among them don't possess any qualification, having just a primary or secondary school certificate, but 200 thousand have a degree, with a considerable waste of teaching investment.

The quality and the efficiency of the educational system in the South is still one of the most dramatic missed competitiveness factors: Southern regions, in fact, register some of the lowest values related to the Invalsi tests on the quality of the Italian language and math knowledge; the percentage of youths leaving the studies prematurely is the highest (almost 5 points higher than the national average); the highest percentage of graduates that are still looking for a job 4 years after their degree; the lowest share of adult population with an advanced education; the lowest share of youths with university education.

In relation with the latter, there has been an important trend reversal during the last years, in particular for graduates and university enrolment; nevertheless, Southern universities are still less attractive than the ones of the Centre-North, which continue to attract a higher number of southern and foreign students.

### **The improvements are still too limited to take down social unease**

The domestic migratory balance is increasing again, also due to the unfavourable job opportunities, with a deficit of over 10 thousand units between 2015 and 2016: therefore, it is hardly surprising that the social progress index, elaborated by the EU Commission, gave a low ranking to every Southern region, which were mostly penalized by the indicators of

the “opportunities” category, related, among others, to social inclusion and access toward advanced education.

The incidence of poverty is decreasing, albeit slowly, with the exception of the age range 35-44, which highlights the increasing difficulty of finding a job for those people who are not so young anymore but very far away from retirement age.

Most of Southern families, during 2016, considered their economic situation unchanged, while the judgement of single citizens is improving, although slowly: the percentage of Southern citizens that consider their economic situation as very or partially satisfying is growing (+2%), but it's still 11 points behind the national average.

The economic situation of Southern regions, then, seems to have settled on a new normality status, also as proven by the performance of income support, which has returned to its minimum levels, after the spikes of the crisis years. A new normality, which, however, is still not capable of cutting down the unease that is still permeating most of Southern society.

### **The tourism industry: a Southern excellency**

The tourism industry of the South gives a major contribution to the positive signals of the economy of the Mezzogiorno, since this sector has been growing in the context of an overall positive trend that has been characterizing our Country.

In 2016, in fact, arrivals and stays in the Southern regions of the whole group of Italian and foreign tourists have increased (+4.3%, 1 point and half more than the Centre-North). The so-called “tourist export” has particularly increased, i.e. stays (+7.8%) and expenditure (+24%) of foreign tourists, promoting tourism as the distinguishing feature of our industry and cornerstone of the national economic policy.

At the basis of these positive results we find the Southern tourist companies, which represent 25% of the national total, and, in detail, 20% of the Italian accommodation businesses. The sector is a very solid one, with over 70 thousand employees and two billion and half of value added, with a turnover showing growing values on the previous year and performing just as well (and, in some cases, even better) than in the rest of the Country. In particular, the profitability of Southern hotel companies has been particularly increasing (with a steady growth ever since 2012), while debt and ensuing financial expenses are decreasing. The sector has a high-quality offer (the number of 4-5 star hotels is almost two times the national average) and a series of important niches, such as thermal industry, accounting for almost 10% of arrivals in Italian thermal localities, especially for foreigners, and ¼ of the income of the overall national thermal industry.

Therefore, tourism is a very significant sector, which represents (spill over included) 11% of Italian GDP and with almost 3 million employees. In comparison with the rest of the Country, tourism in the Mezzogiorno has still a huge improvement margin: should it be able to achieve the same ratio between local units and economic indicators of the Centre-North, the turnover could increase by 40%, value added by 25%, and the employees by about 10 percentage points.

The speed with which the gap with the rest of the Country has been decreasing, higher than in other sectors, leaves room for hope.

## **A territory with different speeds**

Therefore, as highlighted in the previous Check up, the numbers of Southern economy are moderately positive, but the intensity with which the pre-crisis levels are being recovered is still reduced. The composition of the post-crisis Southern productive fabric, with a considerable number of structured companies being replaced by a likewise high number of small and very small-sized companies which, despite themselves, contribute to the low productivity, partly explains this “trend”.

This is why the first contrasting data related to the increase of the number of small and medium-sized companies has to be examined thoroughly, since it could anticipate a trend that, should it be confirmed in the medium term, could act as a more solid basis for the recovery of the South.

However, there are two additional phenomena that partially explain the moderate performance of the Southern recovery. The first among them is the extreme territorial diversification, which shows a Mezzogiorno with different speeds.

With 100 as the national average, the estimates related to GDP data per citizen show that the Mezzogiorno should increase its per capita GDP by 0.2 percentage points between 2015 and 2016. Within this macro-classification, however, there are different performances, with regions faring better such as Campania (+1.2%), Molise (+1.2%), Basilicata (+0.9%), Puglia (+0.6%), and others with a less lively growth, or even with decreasing GDP.

Campania and Puglia, which not coincidentally are the regions with the most solid entrepreneurial basis, are also the ones that (proportionally) registered the smaller turnover decrease during the crisis years, and the smaller employee decrease. Essentially, they are the ones that proved to be the most resilient ones. Campania is also the region with the largest increase of active companies (more than 6 thousand during this last year), and the one with the largest share of exported goods in value (7.6 billion during the first 9 months of the year) and with the largest number of “networking” companies.

The data related to employees are partially different. Between the III trimester of 2016 and the same period of 2017, the Mezzogiorno has registered over 108 thousand new employees, but more than 65 thousand of them belong to just two regions, Campania (with almost 35 thousand new employees) and Abruzzo, with over 30 thousand. The number of employees for the Puglia region was essentially the same, while in Basilicata and Molise it actually decreased.

The stays and the expenditure of national and foreign tourists are also very different, with Sardinia having the largest increases of 2017.

Therefore, even though the tone of the economic phase is generally positive, the different intensity with which the several indicators perform in the different regional realities contributes to hinder the overall intensity.

## **Improving the competitiveness of the territories, strengthening public investment**

Likewise, the uneven and not fully expressed expansion of the Southern economy is affected by the conditioning deriving from the low competitiveness of the related territories. In most of the 74 indicators (grouped together in the three contexts of “basic conditions”, “efficiency” and “innovation”) of the Regional Competitiveness Index, elaborated by the European Commission, the regions of the Mezzogiorno ranked among the lowest (although they were not so far away from the rest of the other Italian regions).

The values related to the quality of the institutions are particularly low (they refer to a series of indicators such as perceived corruption, political stability, regulatory quality, business facilitations, transparency of administrative action, presence of organized crime), as well as quality and accessibility of infrastructures, and the level of innovation.

The data related to this aspect are quite troubling, especially when looking at the future: according to the Regional Innovation Scoreboard, elaborated by the European Commission, the Southern regions all have values from 35 to 50 points lower than the European average when it comes to the overall innovation capability of the economy and the society.

Moreover, the contribution of public expenditure to investment is still not enough. According to the estimates of the Territorial Public Accounts, in 2016, the capital expenditure of P.A., net of financial items, is decreasing again, after the slight trend reversal of 2015, reaching the lowest figure of the last 15 years, going from 15 to 13 billion, more than 11 billion less than the peak reached in 2002.

The halving of the expenditure for additional resources is the main culprit, due to the slow start of the new programming cycle of structural funds, and due to the actual utilization of the FSC within the Masterplan for the South only in 2017.

Specifically, the level of benefits distributed to companies is still low, having actually reached a new low in 2016 in the South, also caused by the slow start of the 2014-2020 programme and by the Tax Credit for Investment in the Mezzogiorno only actually starting in 2017, whose effects on funding should be starting to be seen in 2017, but mostly in 2018.

## **In conclusion**

The Mezzogiorno is continuing its recovery, with different speeds due to the different productive structure of the several regional realities, deeply affected by the crisis. The effects on employment are starting to manifest themselves, even though the pre-crisis levels are still far away.

The results achieved during the last two years and the forecasts for the next one, however, seem to confirm that the recovery of Southern economy has steadily matched the one of the rest of the Country, in spite of the presence of halting factors such as a credit offer that is not able to meet the demand, and a public expenditure for investment stuck on the lowest levels of the last years.

The better results, even though they come from different starting stages, of many Southern regions, compared to the group of Centre-North regions, are a testimony that there is an actual opportunity for bridging the gaps.

The conditions for a stronger recovery, which could happen as early as 2018, are all in place.

From one side, the provisions provided by the Government, from the hyper amortization to the Tax Credit for Investment, from the Development Contracts to the "Resto al Sud" initiative, from the South Employment Bonus to the Special Economic Zones, and from the other side the actual start of the actualization of the 2014-2020 Programmes by the regions, are creating advantageous conditions for investing in the Mezzogiorno.

The Southern business landscape, which has been downsized but also strengthened by 7 years of crisis, has been showing a considerable liveliness.

The coincidence of favourable conditions and entrepreneurial dynamism can turn 2018 into a pivotal year for the outlook of the Mezzogiorno economy: the year when it can leap toward achieving solid growth trajectories or, on the contrary, when the gaps with the most developed area, which has returned to form, could inexorably widen up again.

### **The role of the cohesion policy**

There are three context that can affect, in one way or the other, this key point: support for private investment; recovery of public investment; a steady, competitive context.

Only one policy can favour these three key elements at the same time: the cohesion policy, both national and european nature, i.e. the main investment policy of the European Union. This policy, in fact, supports the creation of jobs, the competitiveness of companies, the economic growth and the improvement of the quality of life of the citizens of every region of the European Union, with a specific focus on the ones related to those Countries and regions that are lagging behind when it comes to development, in order to decrease the economic, social and territorial disparities that are still present within the EU.

In the 2014-2020 period more than 300 billion euros were spent for the cohesion policy, almost one third of the overall balance of the EU. For Italy, the overall assets of the Partnership Agreement (the document, provided by EC regulations, with which each member State is asked to define their strategy, their priorities and the ways with which they will employ the structural Funds in the 2014-2020 period) amounted to 44 billion euro (this makes Italy the second EU recipient for amount of funding, after Poland), of which 30 are destined to the Mezzogiorno.

ESI funds are joined by national co-funding, whose amount ranges from 25% to 50%, according to the Programme of reference, for an overall budget for the Mezzogiorno, national co-funding included, of about 45 billion for the 2014-2020 period. Taking into account National Cohesion Resources (FSC) (equal to over 40 billion euro), all the additional resources for the South exceed 85 billion euro.

This means that the European cohesion policy, as of today, has founded about 1/3 of the capital expenditure of the Mezzogiorno: but, most of all, it means that its rules, its priorities and its programming and control mechanisms are also the reference point for the national resources of the cohesion policy, which, with the FSC, contributes at outlining the so-called "unitary programming" for development and cohesion. Put together, these two funding sources cover more than half of the capital expenditure of the South. Therefore, the way with which these resources are utilized, in the current cycle and particularly in the next one (after 2020), is of crucial importance for the future of the public policy, both for the whole country and the southern regions.

According to the Seventh Report on Cohesion of the European Commission, it is estimated that the additional investment of the cohesion policy 2014-2020 is going to contribute, in 2023, at increasing the GDP of the Mezzogiorno regions by 1 or 2%, and that the long-term effects (up to 2030) could be even more significant, with a 2 to 4% GDP increase for the area.

In 2007-13, the results have been remarkable. In our Country, over 50,000 companies have received investment support, of which almost 5,000 were startups; 60,000 jobs have been created or supported, and over 6,000 research projects have been funded and 2,500 cooperation projects have been supported. 2.3 million of Italian citizens had access to broadband internet, and the additional capacity generated by the production of renewable energy reached 403 MW; more than 1,700 km of railways have been built or restructured.

In 2014-2020, with just the European funds, the expected results are even greater: 100 thousand companies are going to be supported, over 7,000 startups are going to be born, 2 million citizens are going to be reached by broadband; 350 km of railways are going to be restructured and over 250 km of urban transportation on rail are going to be built; 4,000 new researchers are going to be hired, and 5 million students are going to be affected by renovation interventions of school structures: there are going to be over 1,200 improvement projects for the Public Administration.

A considerable set of results, which, combined with the ones that might be achieved by the national cohesion policy, could truly be able to change the outlook of the Country, especially of the Southern regions, deeply affecting those reduced competitiveness factors that are halting the recovery, as well as fighting the social unease conditions, always so hard to undermine. All under the condition, though, that the projects are going to be actually aimed toward achieving those results, that their implementation is going to be carried on quickly, that the organisational changes “imported” from the European regulations are going to be extended to the public action, and that this rebalancing action could be spread out in the medium to long term.

This spring, the European Commission is going to present its proposals on the post-2020 EU Financial Framework balance and policies, and, among them, is going to show its ideas on the role and the budget of the cohesion policy: so, in order to ensure a stable and concrete outlook for the gap-reducing goals, the negotiation scheduled for the forthcoming weeks is going to be the decisive one.