



France & Italy one year later

*Some macroeconomic data for the
Franco-Italian Business Forum*

Servizio Studi, April 2014



BNL
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| La banca per un mondo che cambia

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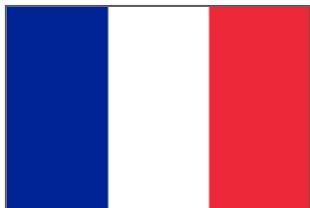
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The Franco-Italian partnership



Exports to Italy: €30bn (2013)

- Italy is the third best buyer for France (2nd in 2012)
- Italy accounts for 7% of French exports

Imports from Italy

- Italy is the fourth best supplier of France (3rd in 2012)
- Italy accounts for 7.3% of French imports

FDI Italian companies in France

- 2.562 Italian companies working in France
- 140.255 employees in 2011

Exports to France: €42bn (2013)

- France is the second best buyer for Italy (2nd in 2012)
- France accounts for 10.8% of Italian exports

Imports from France

- France is the second best supplier of Italy (2nd in 2012)
- France accounts for 8.4% of Italian imports

FDI French companies in Italy

- 1.205 French companies working in Italy
- 145.301 employees in 2011

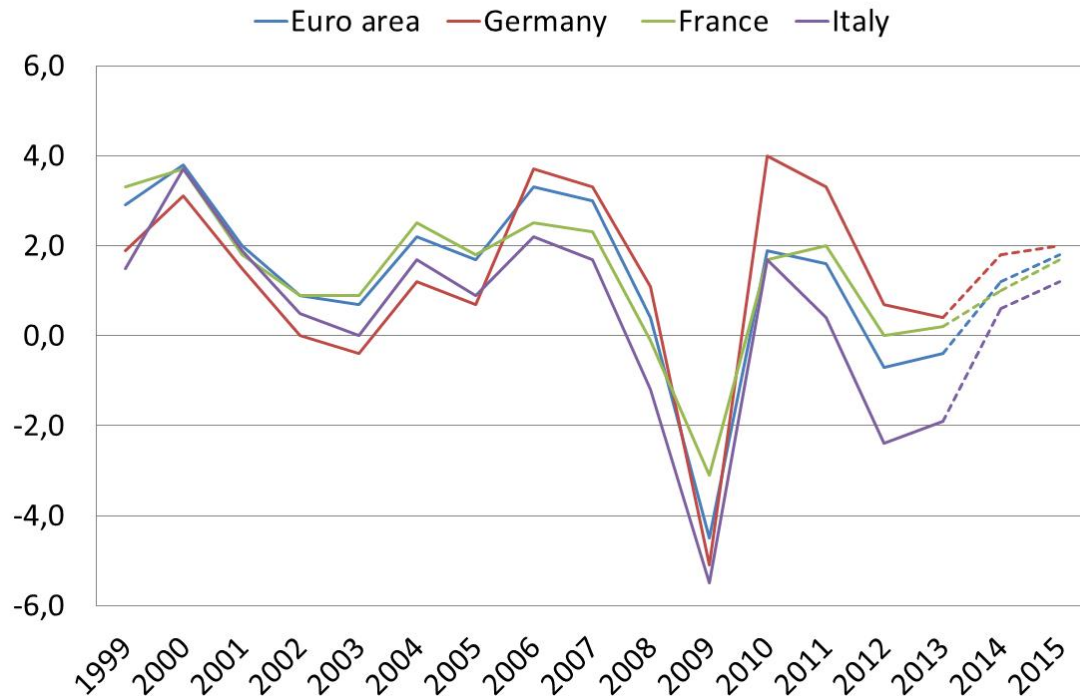
Sound and substantial trade and industrial linkages



GDP growth

Real GDP growth rates

(% y/y; source of data and forecasts for 2013-2014: EU Commission)



ONE year later ...

On last year's Forum, **Italy** was expected to decrease by -1.3% in 2013: the actual fall was -1.9%.

For **France**, GDP change for 2013 was expected at -0.1%: it has been +0.2%.

Slowly recovering from recession: need to do more



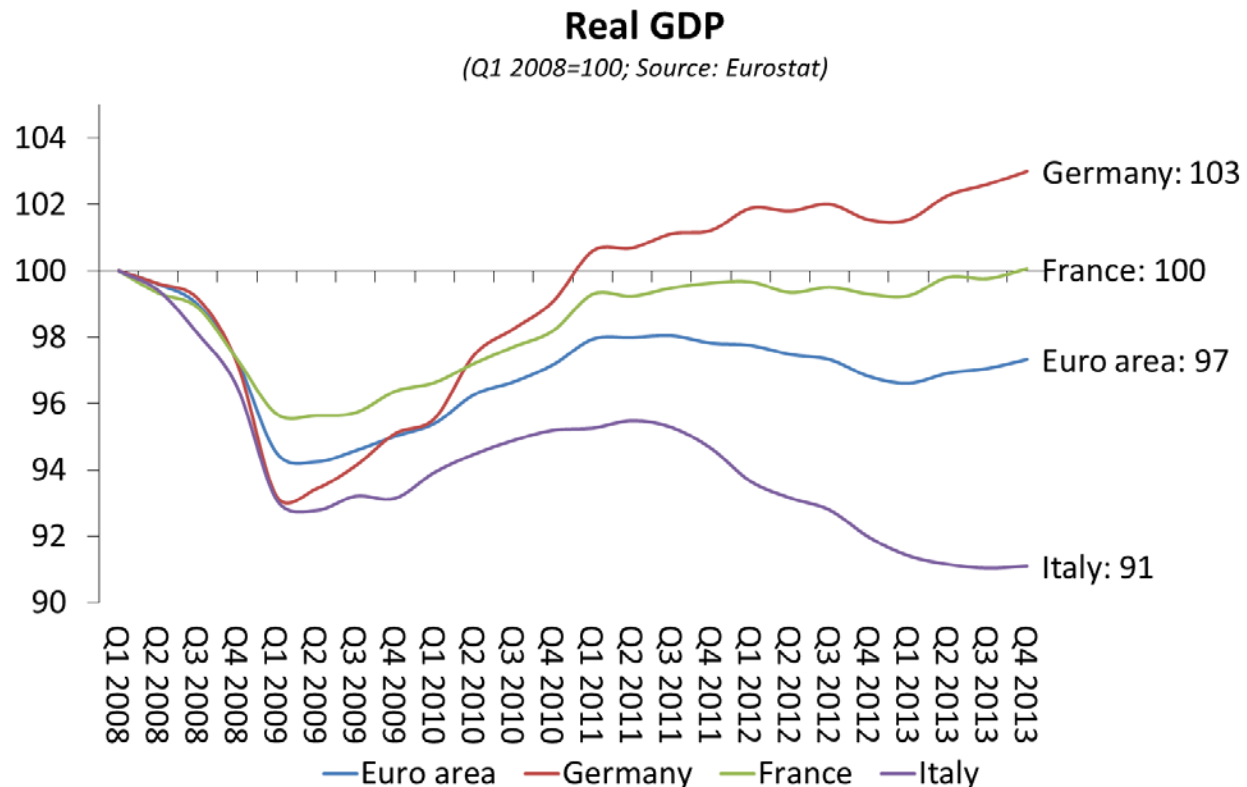
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La banca per un mondo che cambia

GDP since 2008

ONE year later ...

On last year's Forum , **real GDP** was -9% lower than pre crisis in **Italy** and -1% lower in **France**. Now, the real GDP is on par with 2008Q1 in **France** and still -9% down in **Italy**.



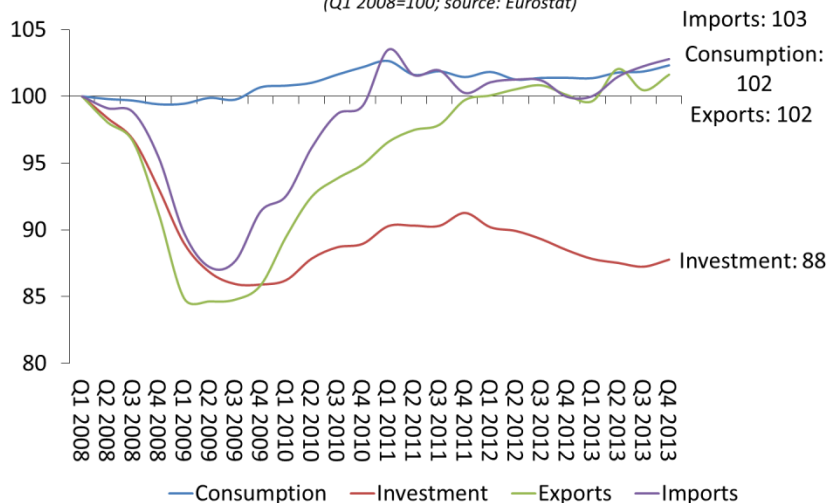
Recession hit Italy more than France



Inside GDP

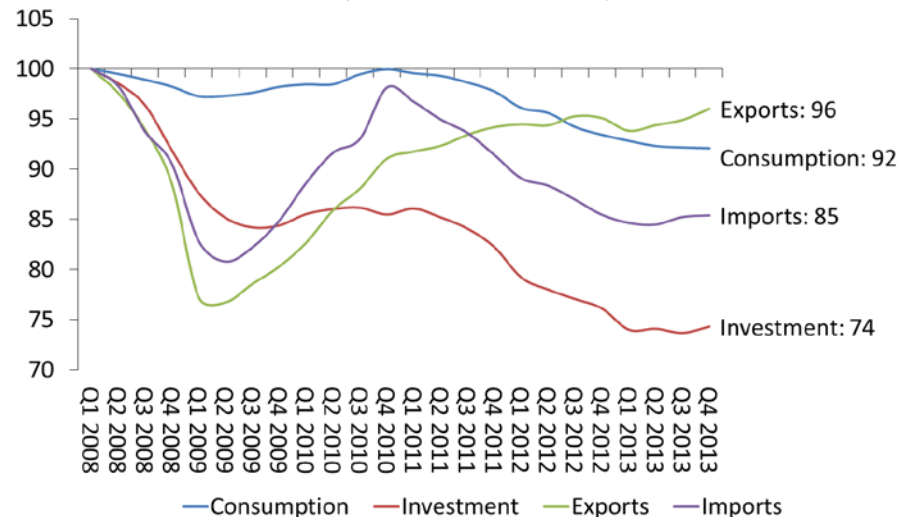
France: real GDP components

(Q1 2008=100; source: Eurostat)



Italy: real GDP components

(Q1 2008=100; source: Eurostat)



ONE year later ...

On last year's Forum, **investment** was -12% lower than 2008Q1 in **France** and -26% down in **Italy**. Now investment is still -12% lower than 2008Q1 in **France** and -26% down in **Italy**. **Consumption** moved from +1% to +2% vis-à-vis pre-crisis in **France** while it dropped from -7% to -8% in **Italy**.

A common challenge: reviving investment



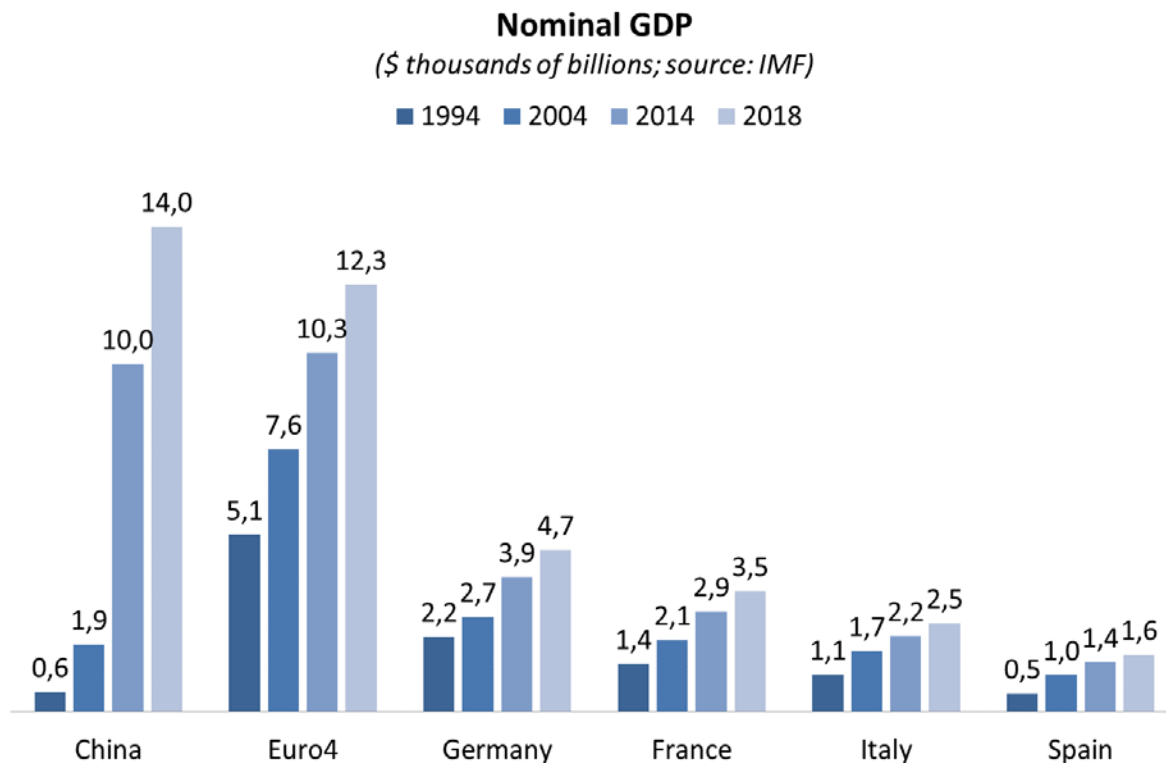
Nominal GDP

1994

China
is
1/10
of
Euro4

2014

China
is
1/1
of
Euro4



Euro4 is the sum of Germany, France, Italy and Spain

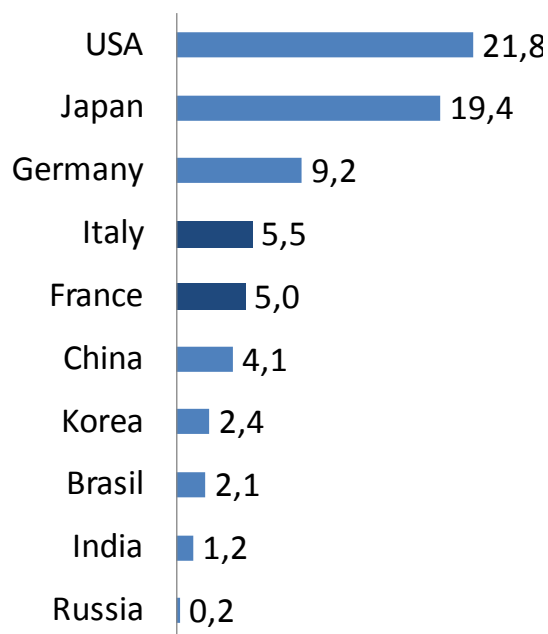
For both, coping with a major global rebalancing



Global manufacturing

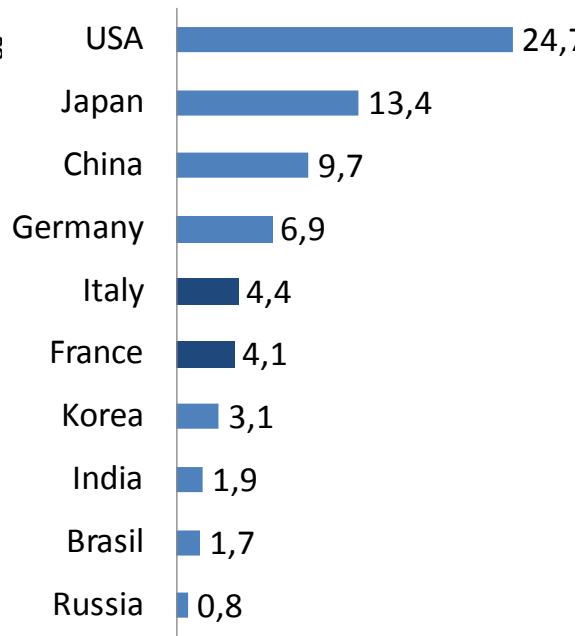
1991-1992 Shares on World Production in Manufacturing

(%; source: Confindustria)



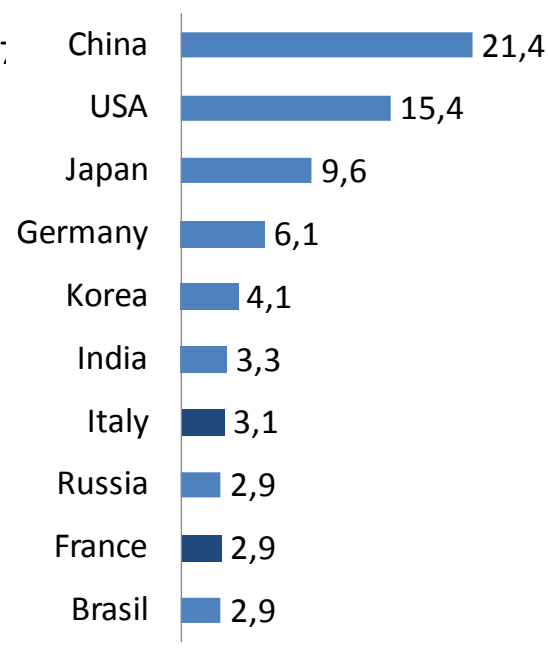
2001-2002 Shares on World Production in Manufacturing

(%; source: Confindustria)



2011-2012 Shares on World Production in Manufacturing

(%; source: Confindustria)



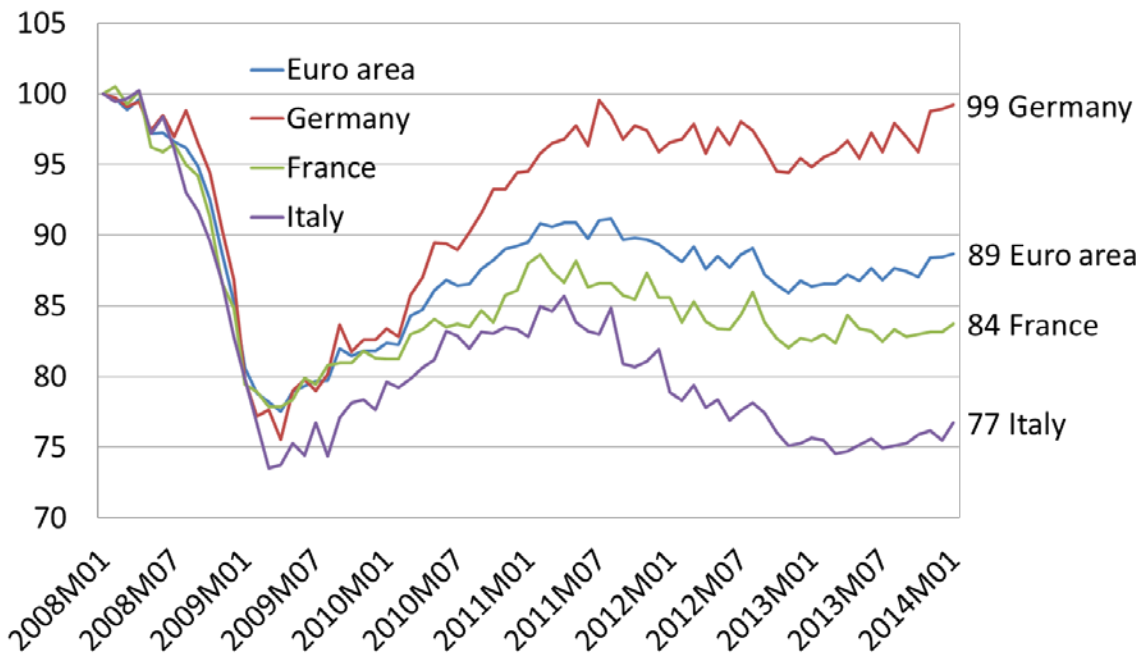
Still ranking within the top ten



Industrial production

Production in Manufacturing

(2008 (1) = 100; source: Eurostat)



ONE year later ...

On last year's Forum, industrial production was **-19%** lower than 2008Q1 in **France** and **-25%** lower in **Italy**. Now, **France** is **-16%** lower than pre-crisis, while **Italy** is **-23%** down vis-à-vis 2008Q1. Recovery is slow to transmit to the industrial production.

Still below pre-crisis levels, even in Germany



Household incomes

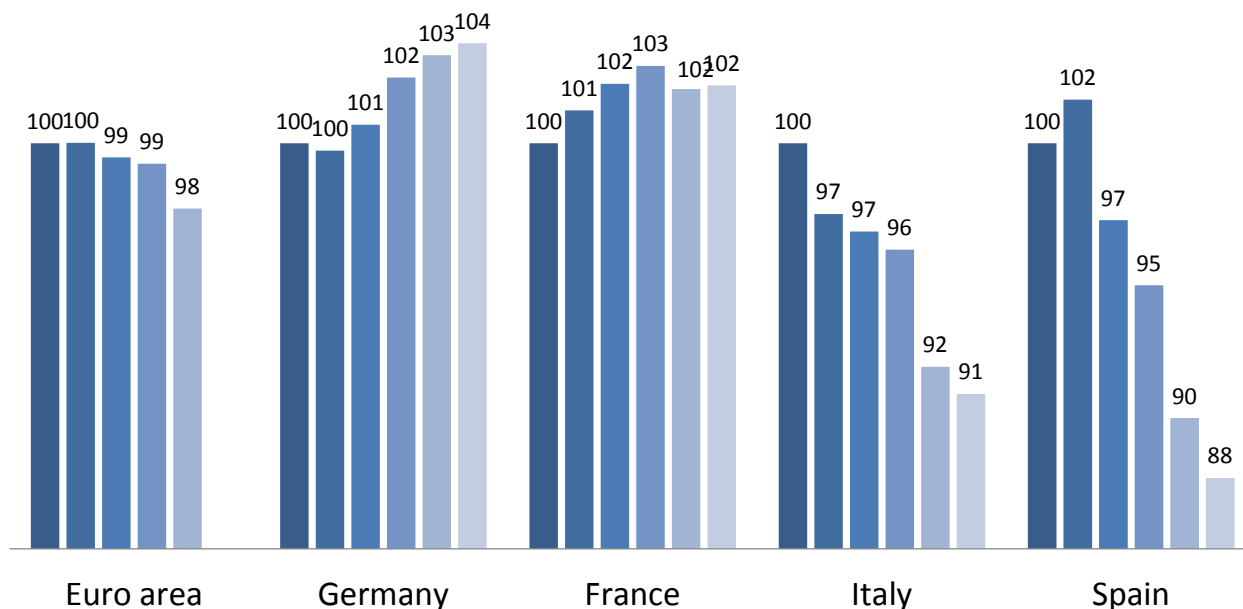
ONE year later ...

In 2013 real household incomes have been +2% higher than in 2008 in **France** while they dropped to -9% vis-à-vis 2008 in **Italy** with a further 1% fall with respect to 2012.

Household Real Disposable Income

(2008 = 100; calculations on European Commission; 2013: estimates)

■ 2008 ■ 2009 ■ 2010 ■ 2011 ■ 2012 ■ 2013*



Real household incomes bear the burden of recession

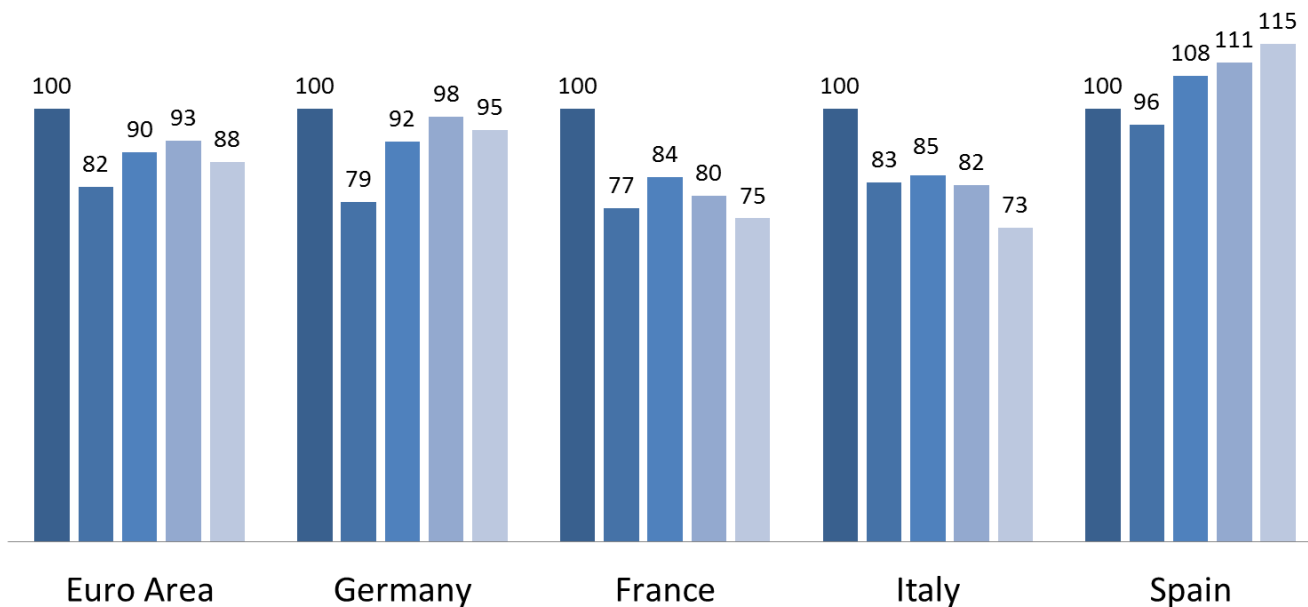


Business margins

Net operating surplus of non financial corporations

(2008 = 100; source: Eurostat)

■ 2008 ■ 2009 ■ 2010 ■ 2011 ■ 2012



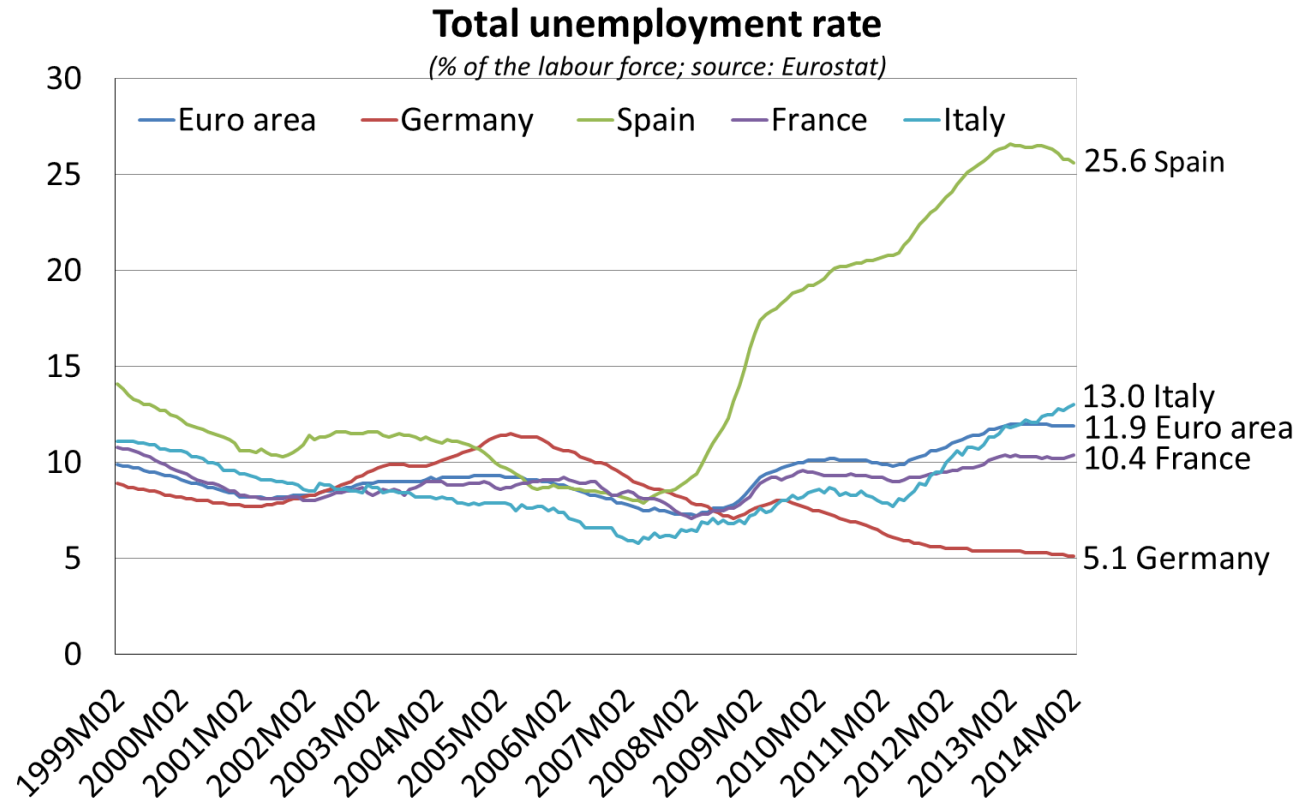
Profits have declined



Total unemployment rate

ONE year later ...

On last year's Forum, the overall rate of unemployment was 11.0% in France and 12.0% in Italy. Now (February 2014) the overall rate of unemployment has decreased to 10.4% in France while it has increased to 13.0% in Italy.



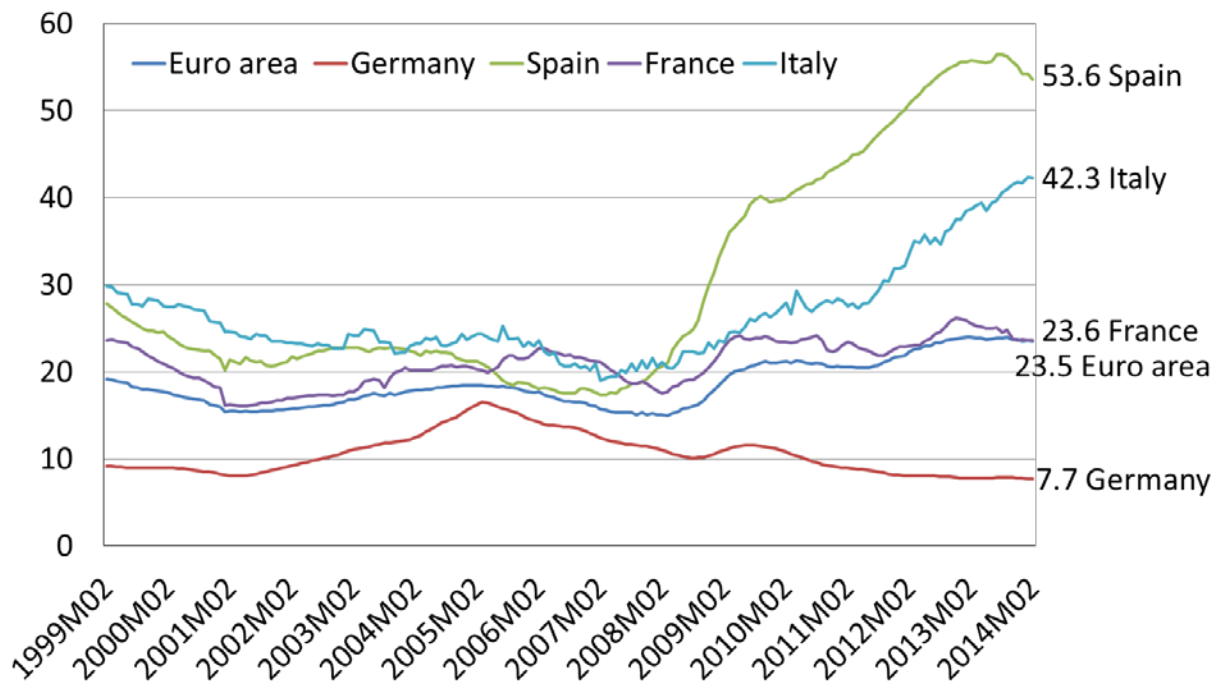
Still a very wide gap with respect to Germany



Youth unemployment rate

Youth unemployment rate

(% of the labour force; less than 25 years; source: Eurostat)



ONE year later ...

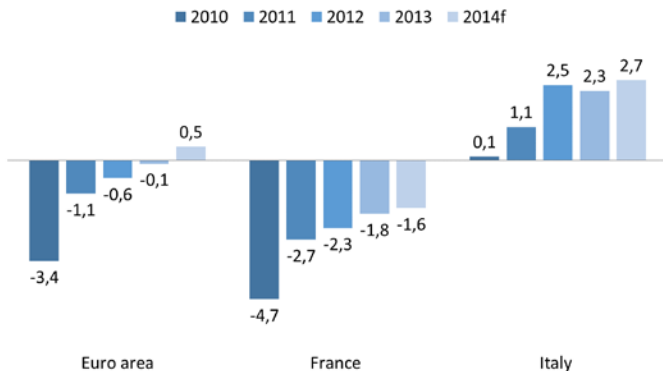
On last year's Forum, the **youth unemployment rate** was 26.5% in **France** and 40.5% in **Italy**. Now (February 2014) the **youth unemployment rate** has decreased to 23.6% in **France** while it has increased to 42.3% in **Italy**.

For both France and Italy a social and economic priority

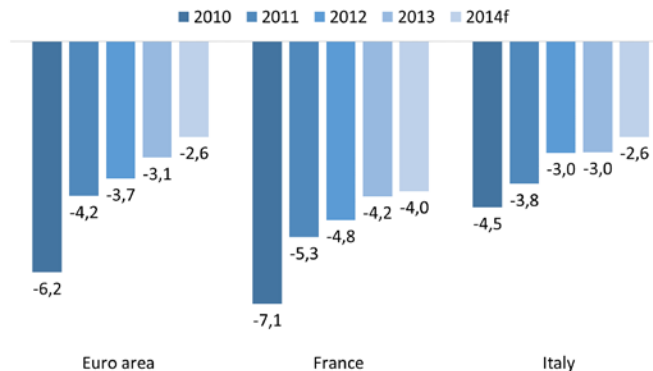


Fiscal consolidation

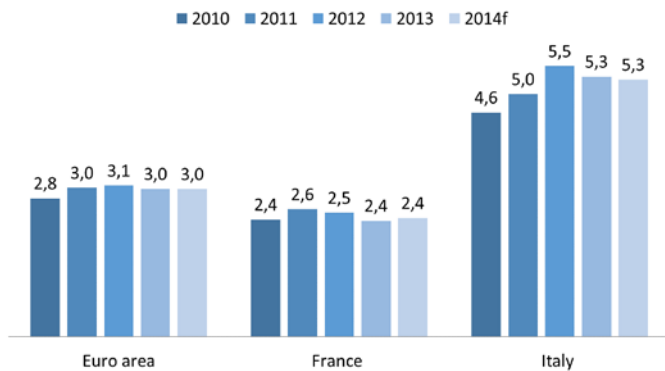
Primary surplus
(as a % of GDP; source: European Commission)



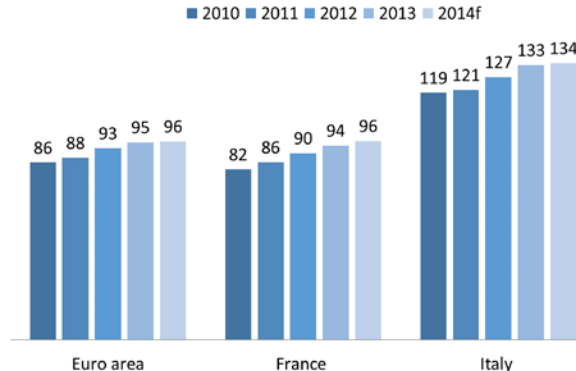
Public deficit
(as a % of GDP; source: Eurostat and European Commission)



Interests on the public debt
(as % of the GDP; source: European Commission)



Public Debt
(as a % of GDP; source: European Commission)



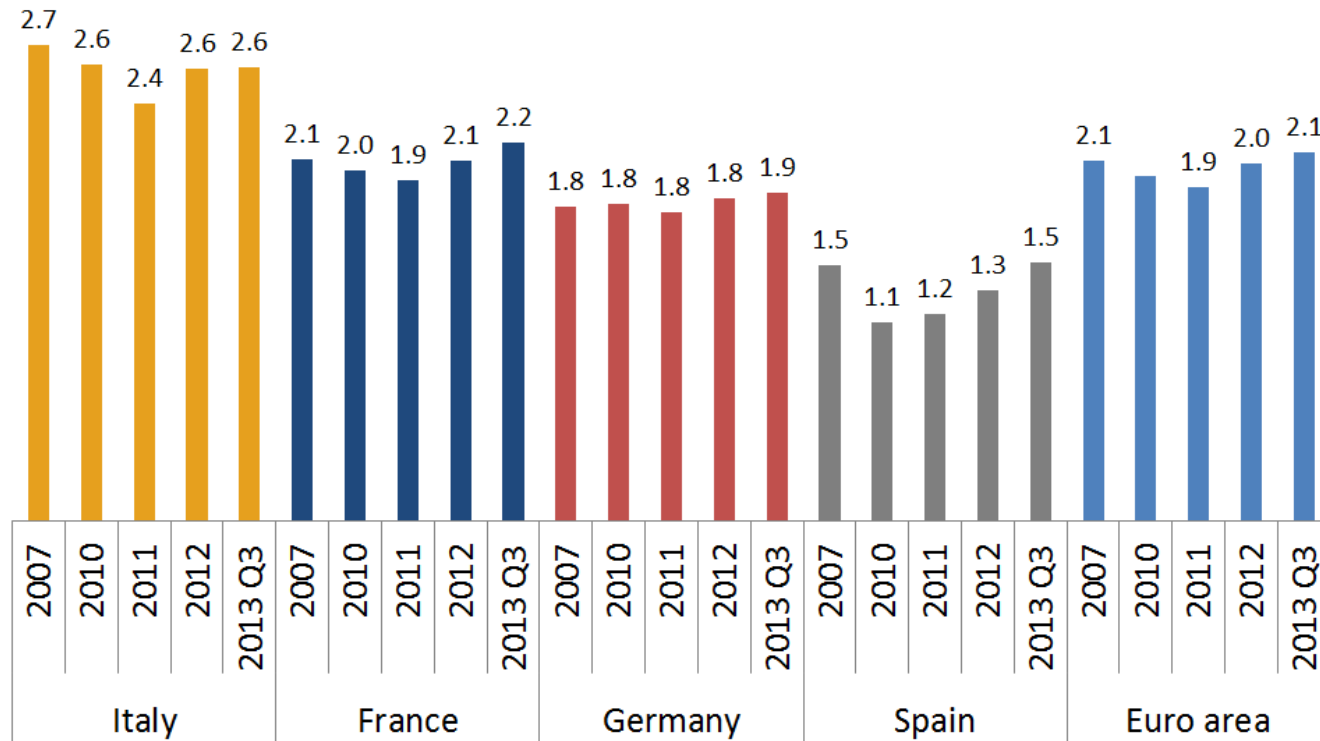
Coping with the Brussels homework



Household net wealth

Household Net Financial Wealth

(ratio to disposable income; source: Eurostat)



Household net wealth is essential to cushion the effects of crisis

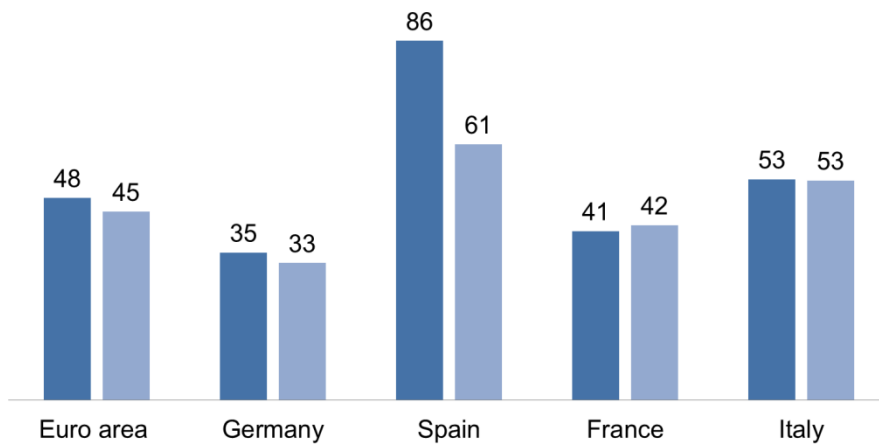


Financial indicators

Credit Intensity

(Loans to non financial corporations as % of GDP; stocks; source: ECB)

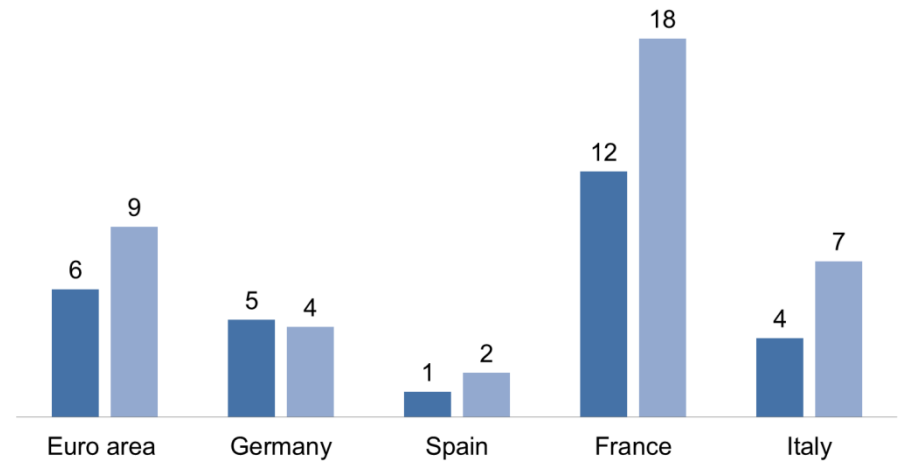
■ 2007 ■ 2013



Bond Intensity

(Bonds issued by non financial corporations as % of GDP; stocks; source: ECB)

■ 2007 ■ 2013



Italy suffers from an excess of dependance on bank loans



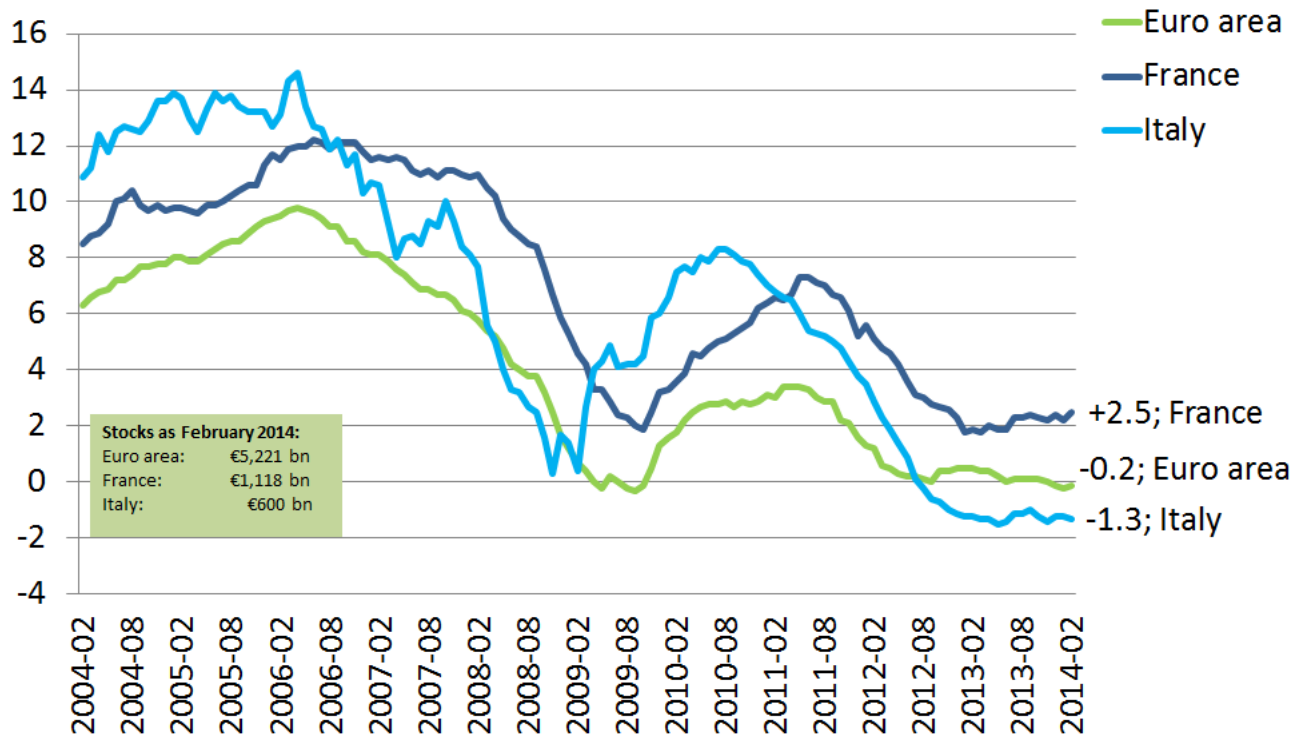
Credit to households growth rates

Loans to households: total

(y/y %; source: Ecb)

ONE year later ...

On last year's Forum, the y/y % change of loans to households was +2.0% in France and -1.3% in Italy. Now (February 2014) the y/y change is +2.5% for France and -1.3% for Italy.



Stocks as February 2014:
 Euro area: €5,221 bn
 France: €1,118 bn
 Italy: €600 bn

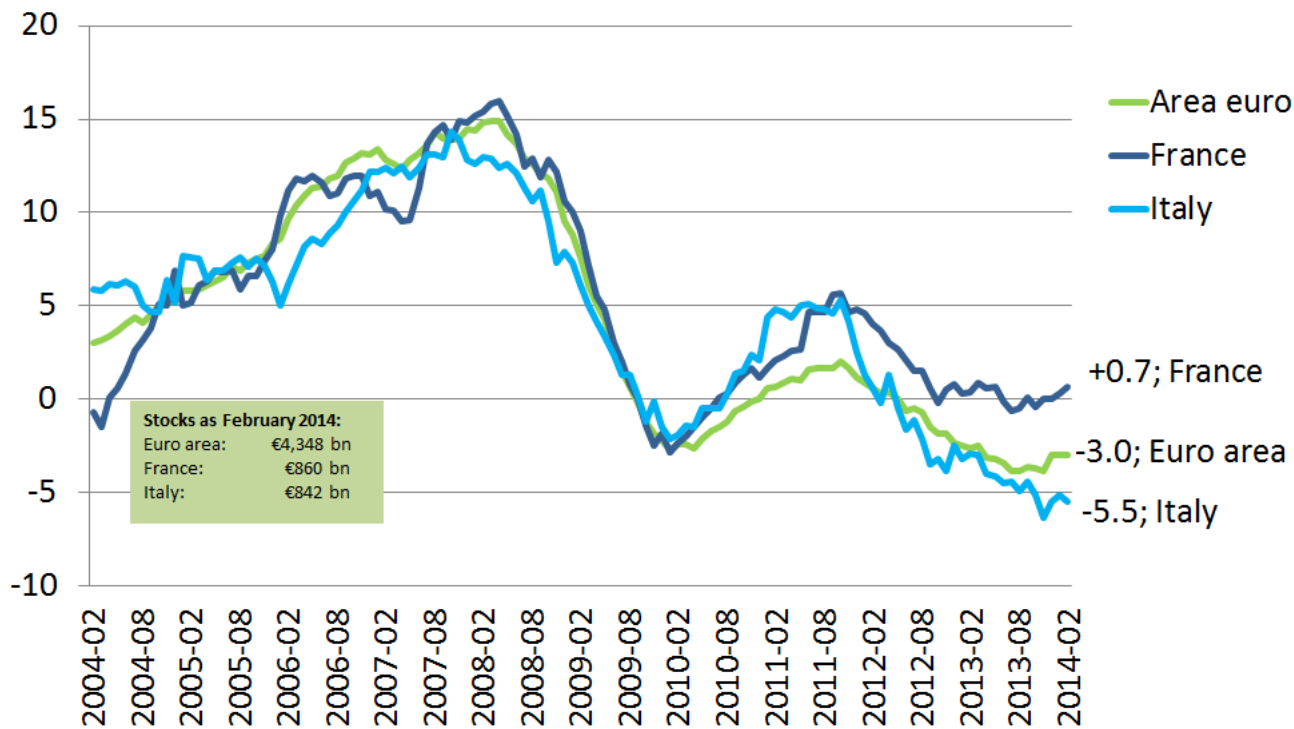
More moderate slowdown compared to non financial corporations



Credit to businesses growth rates

Loans to non financial corporations: total

(y/y %; source: Ecb)



Stocks as February 2014:
 Euro area: €4,348 bn
 France: €860 bn
 Italy: €842 bn

ONE year later ...
 On last year's Forum, the y/y % change of loans to non financial corporations was +0.9% in France and -4.0% in Italy. Now (February 2014) the y/y change is +0.7% for France and -5.5% for Italy.

Weak investment and high cost of risk behind low credit to firms



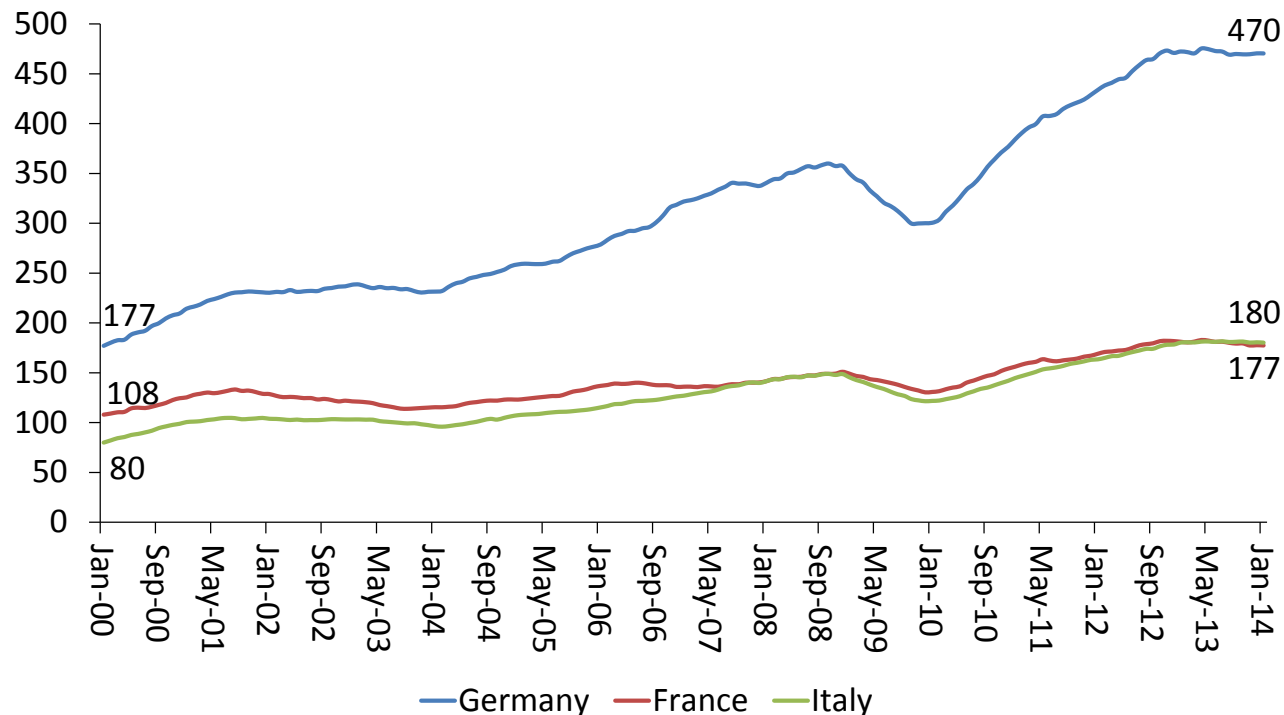
Exports to non EU countries

ONE year later ...

Since last year Forum the 12month value of **exports to non EU countries** has stabilized for both **France and Italy** as well as for **Germany**.

Exports to non EU countries

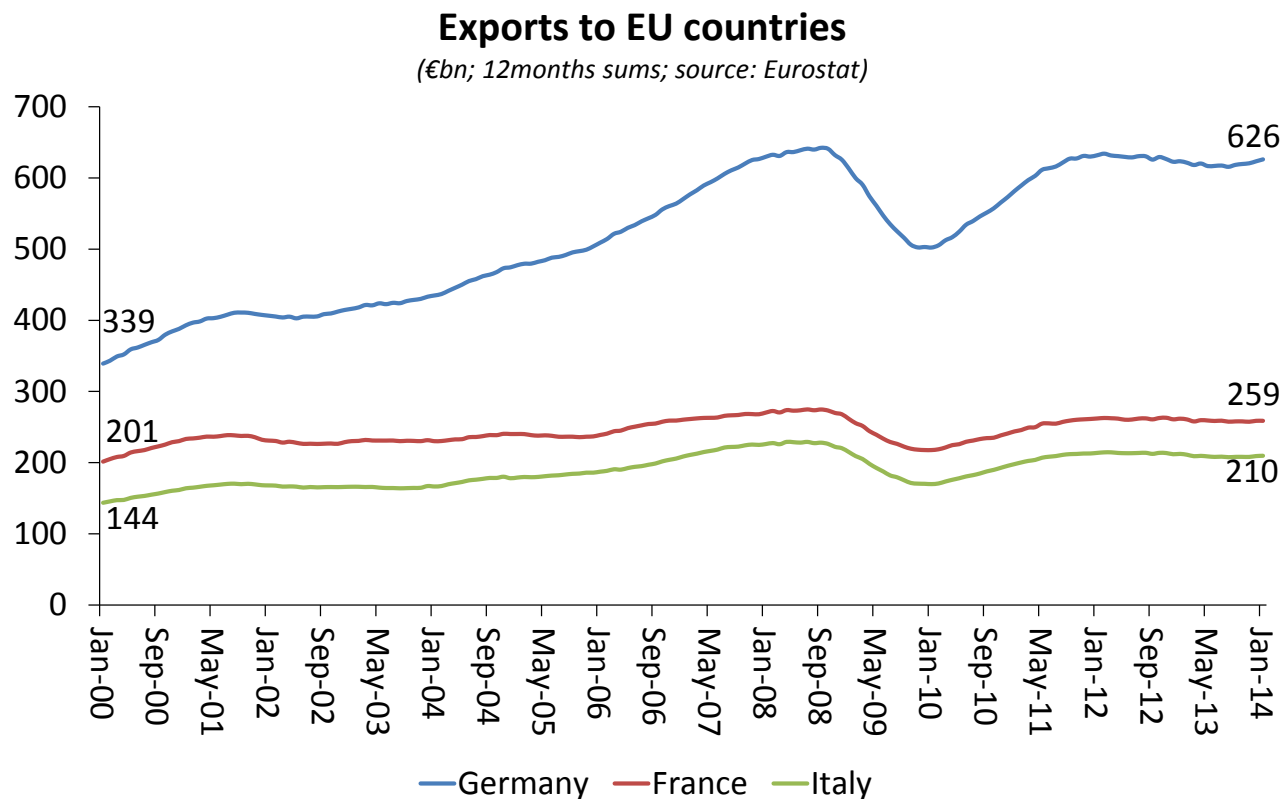
(€bn; 12months sums; source: Eurostat)



Remarkable increases through crisis, but now slowing down



Exports to EU countries



ONE year later ...

Since last year Forum the 12month value of **exports to non EU countries** has stabilized for both **France and Italy** as well as for Germany.

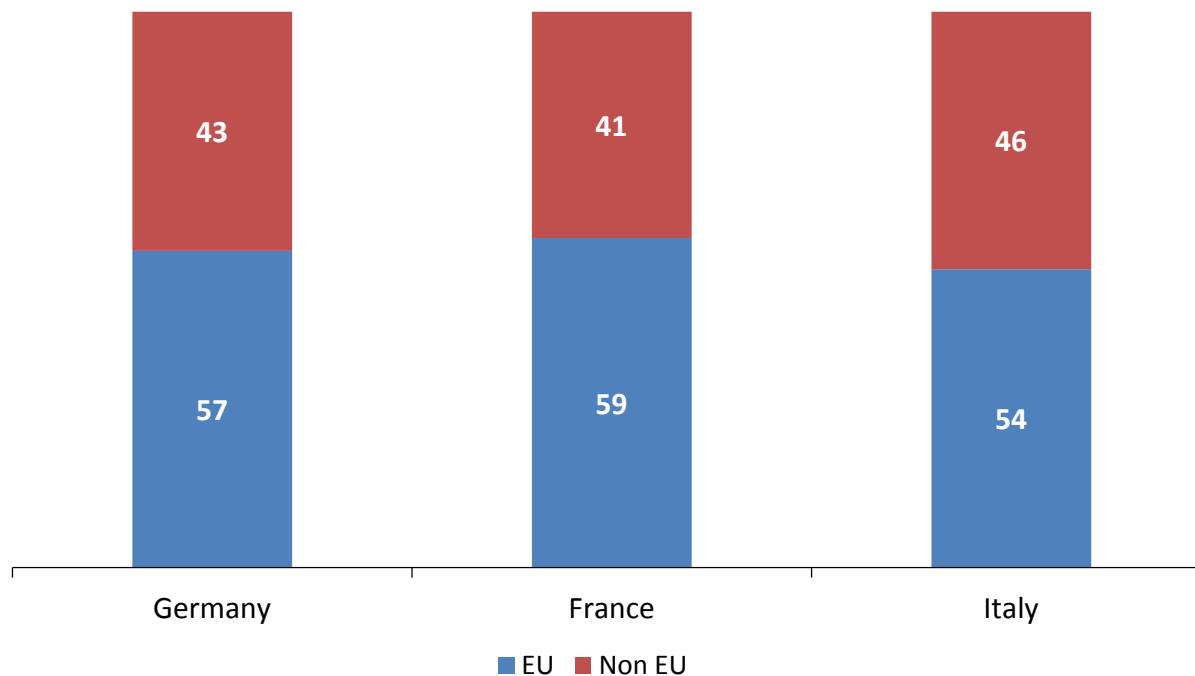
Paying the consequences of European economic weakness



Export mix

Distribution of exports to EU and non EU countries

(% shares; 12 months ending on December 2013; source: calculations on Eurostat)



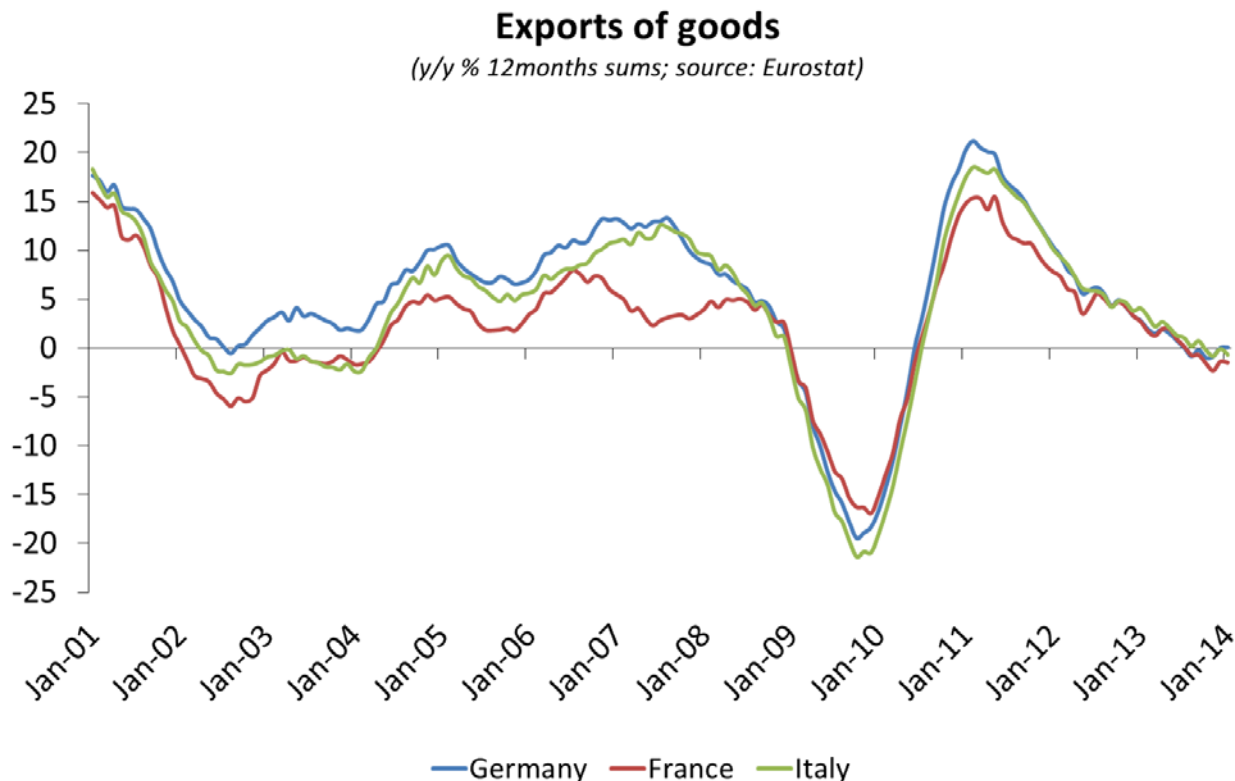
Nearly half of exports to non EU countries



Overall export dynamics

ONE year later ...

On last year's Forum, the y/y % change of 12month sum of exports of goods was barely positive for both France and Italy as well as for Germany. The annual results for 2013 have confirmed the weak performance of overall export dynamics

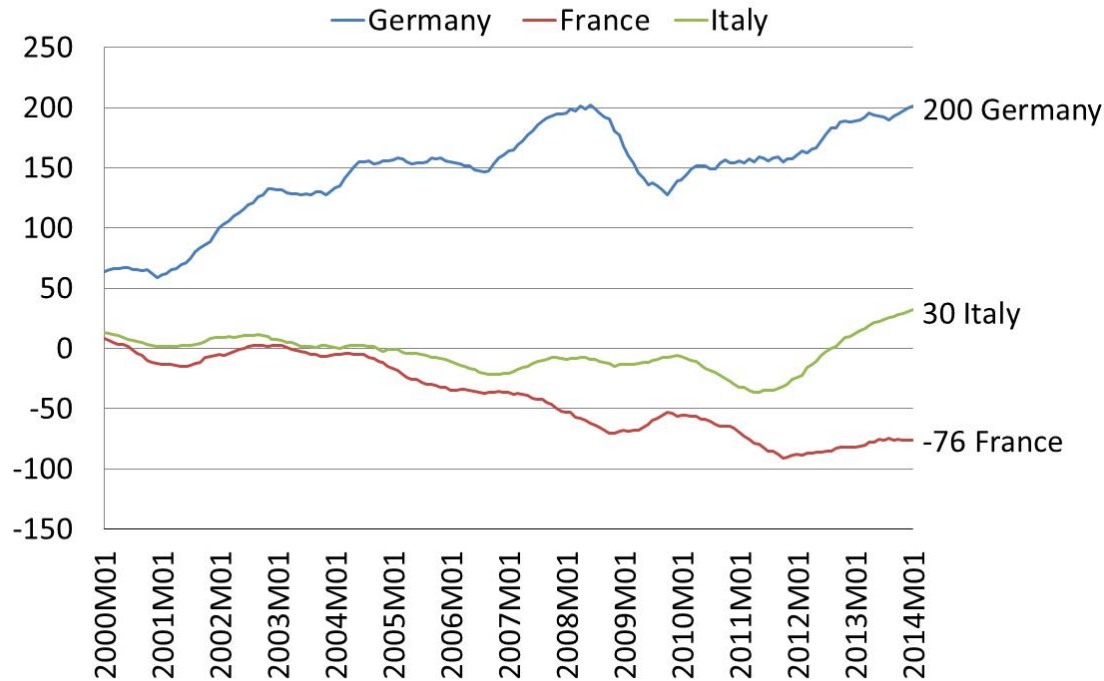


Need for a competitive shock to stop slowdown



Trade balance

Trade balance
(€bn; 12 month sums; source: Eurostat)



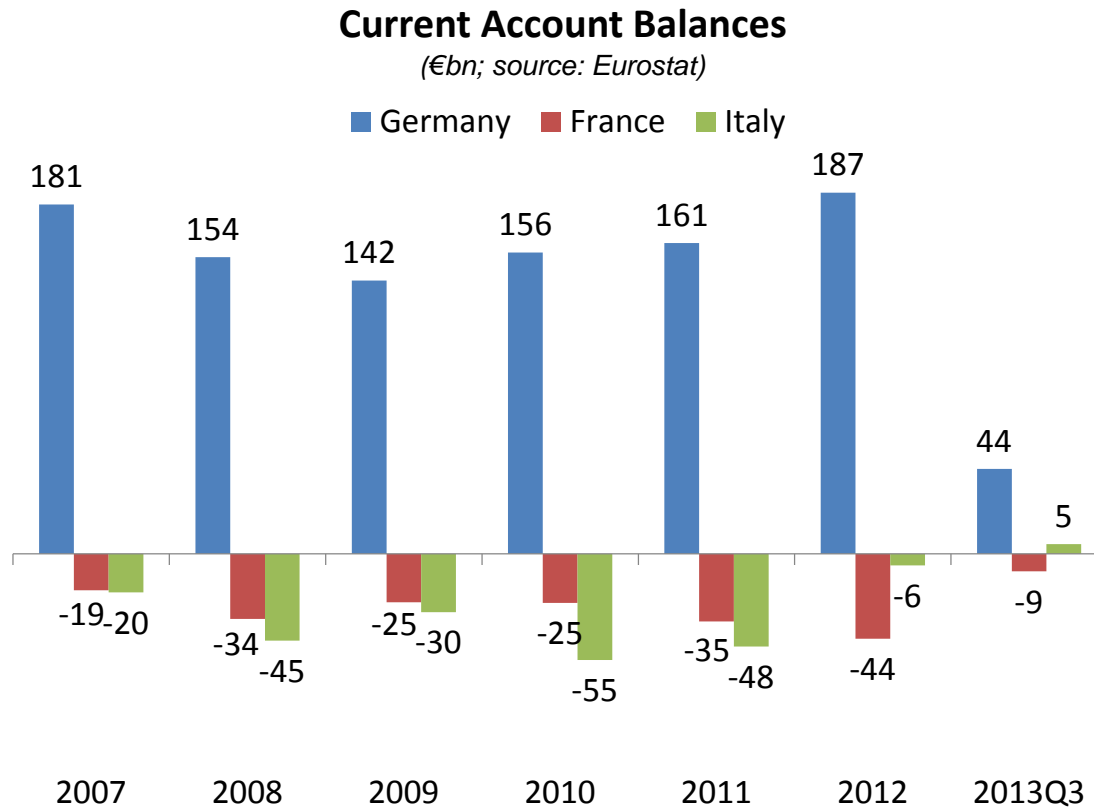
ONE year later ...

Improvement of trade balances has been confirmed since last year with higher trade surplus in **Italy** and diminishing trade deficit in **France**.

Substantial improvement for Italy



Current account balances



Still a long way to go for a Euro area rebalancing



Exchange rates

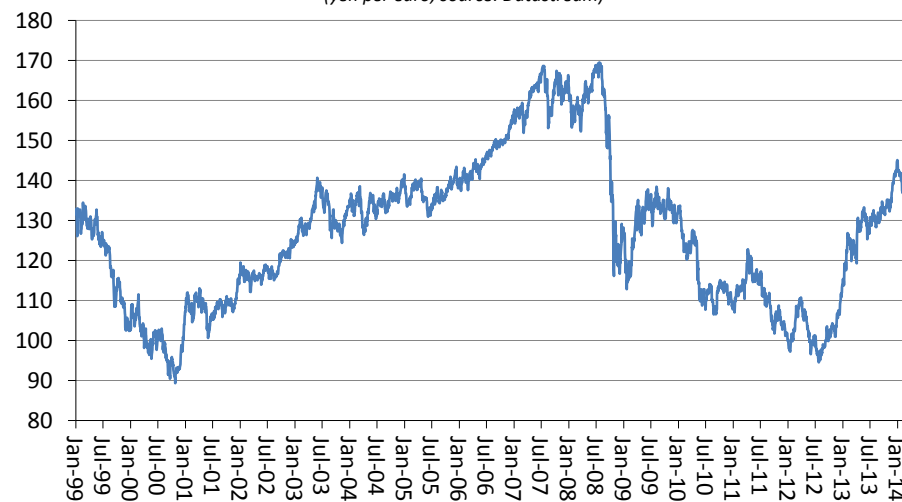
Euro/dollar exchange rate

(USD per euro; source: Datastream)



Euro/Yen exchange rate

(yen per euro; source: Datastream)



ONE year later ...

On July 23rd 2013, the date of last year's Forum, one euro was worth 1.32 US dollar 132 Japanese yen. As March 2014 averages, the value of the euro went up to 1.38 US dollar and to 142 Japanese yen.

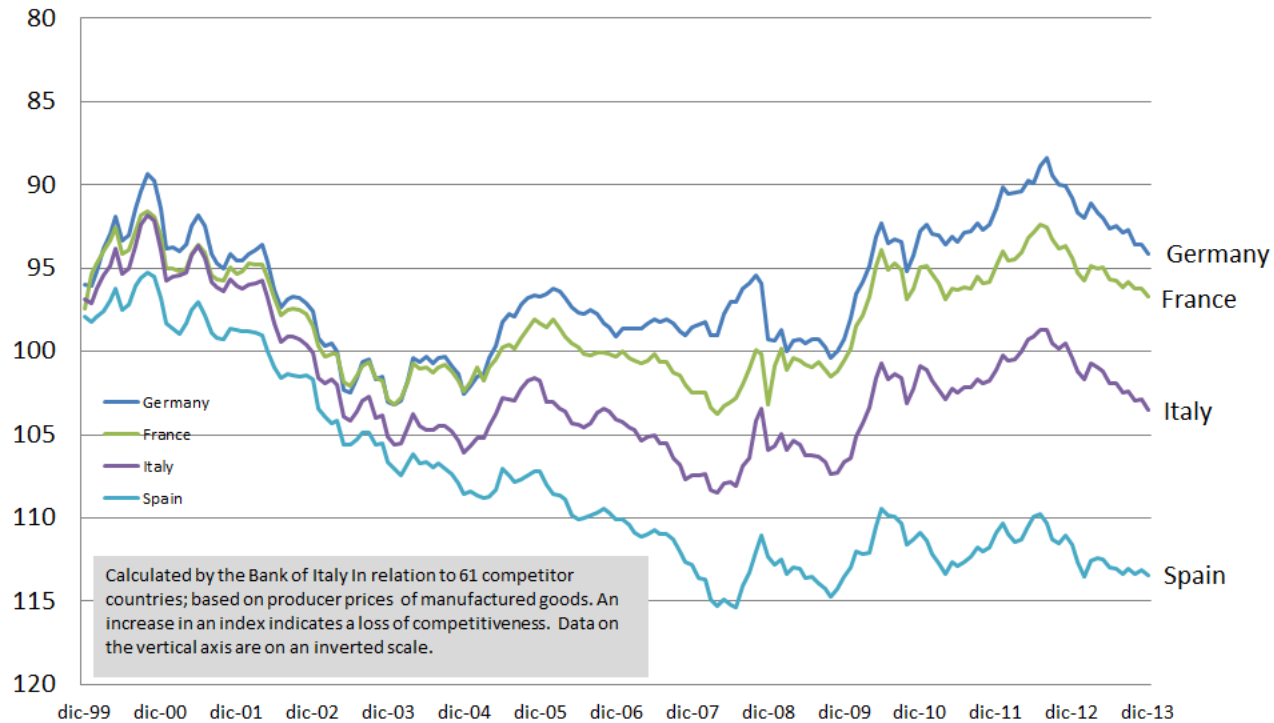
The appreciation of the euro has come with challenges



Competitiveness

Indicators of competitiveness

(indices; 1999=100)



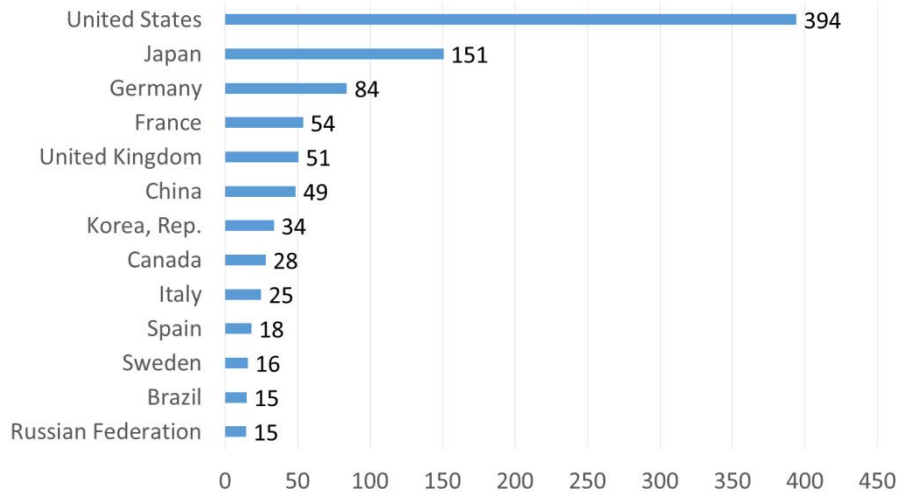
Need for improvement



R&D expenditures (in USDbn)

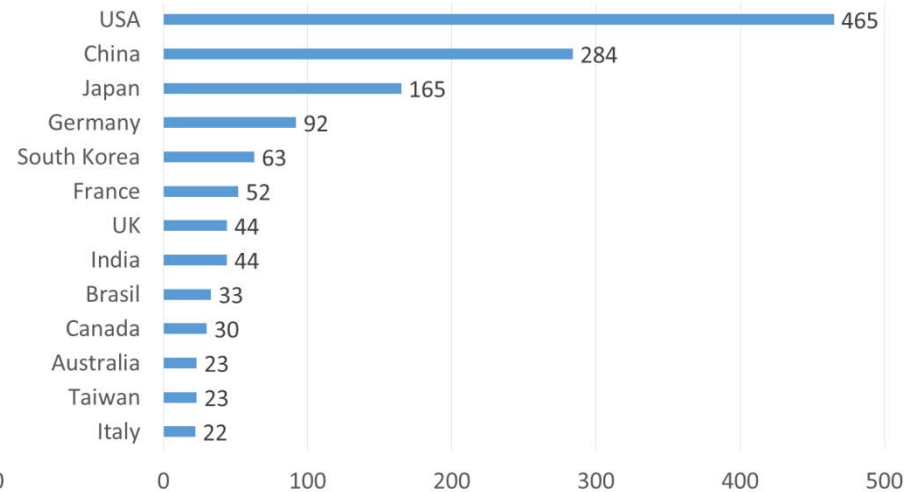
Expenditures on R&D in 2007

(USD billions; estimates by Servizio Studi BNL on World Bank)



Expenditures on R&D in 2014

(USD billions; estimates by Battelle on IMF and World Bank)



ONE year later ...

According to some estimates, in 2014 R&D expenditures could amount to some \$52bn in France and to \$22bn in Italy with no major change vis-à-vis the last year. In 2014 R&D expenditures could rise to some \$285bn in China and to \$465bn in the US.

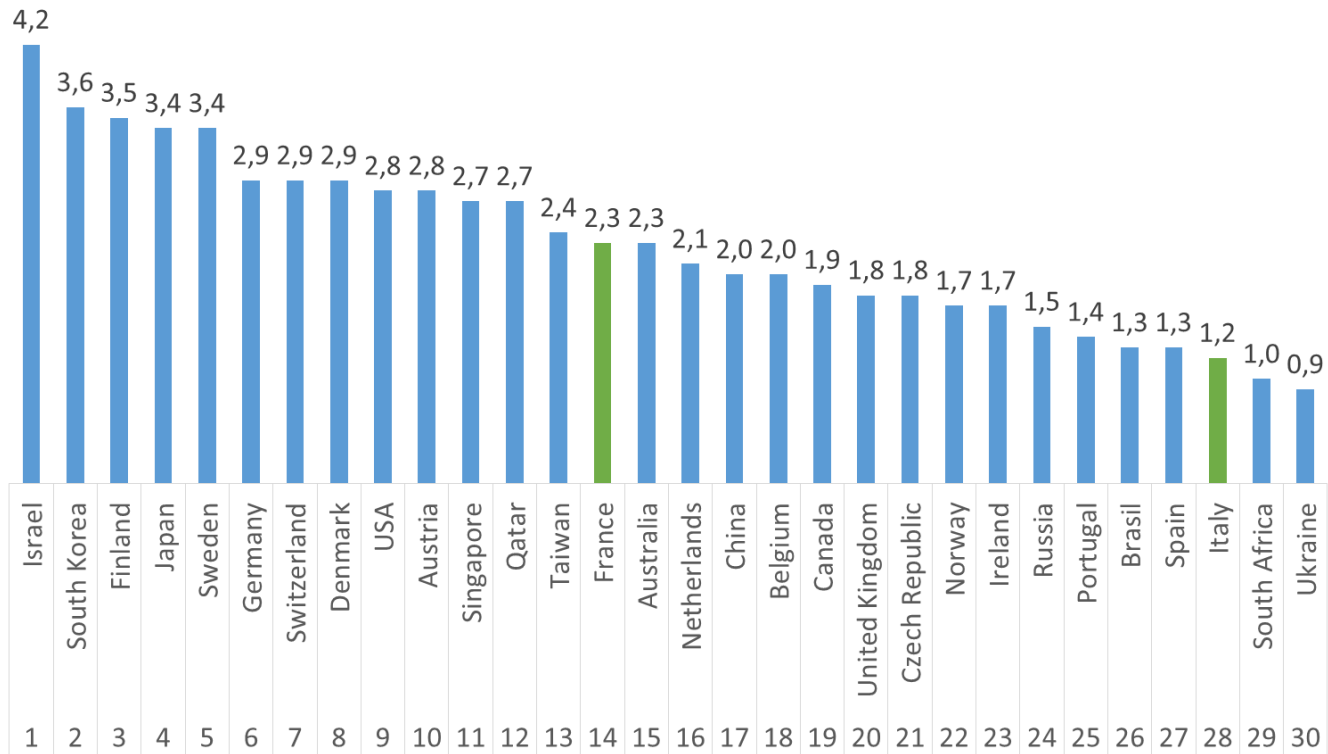
Emerging countries are swiftly progressing as the US



R&D expenditures (as % of GDP)

Expenditures on R&D in 2014

(as % of GDP; estimates by Battelle on IMF and World Bank)



Future economic growth will be innovation-driven



Ease of doing business

Ease of Doing Business Rankings 2014 (source: World Bank)

Economy	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
Singapore	1	3	3	6	28	3	2	5	1	12	4
United States	4	20	34	13	25	3	6	64	22	11	17
Korea, Rep.	7	34	18	2	75	13	52	25	3	2	15
United Kingdom	10	28	27	74	68	1	10	14	16	56	7
Germany	21	111	12	3	81	28	98	89	14	5	13
Japan	27	120	91	26	66	28	16	140	23	36	1
France	38	41	92	42	149	55	80	52	36	7	46
Spain	52	142	98	62	60	55	98	67	32	59	22
Italy	65	90	112	89	34	109	52	138	56	103	33
Turkey	69	93	148	49	50	86	34	71	86	38	130
Romania	73	60	136	174	70	13	52	134	76	53	99
Russian Federation	92	88	178	117	17	109	115	56	157	10	55
Serbia	93	45	182	85	44	42	80	161	98	116	103
China	96	158	185	119	48	73	98	120	74	19	78
Brazil	116	123	130	14	107	109	80	159	124	121	135
India	134	179	182	111	92	28	34	158	132	186	121

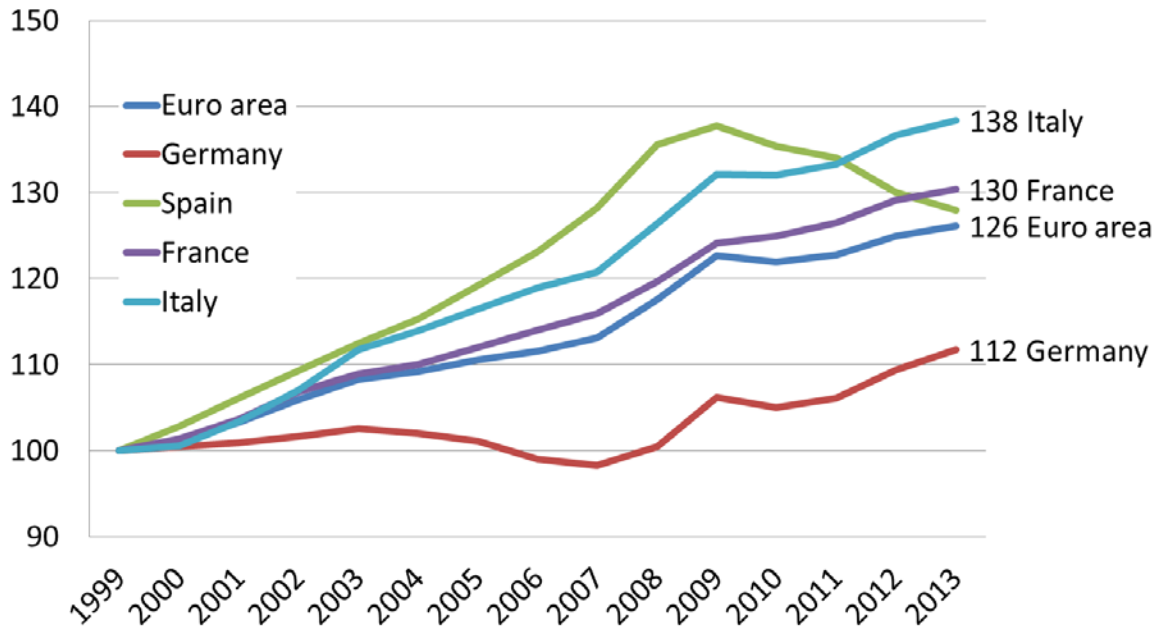
Room for improvement for Italy and France



Unit labor costs

Nominal Unit Labour Cost

(Ratio of compensation per employee to real GDP per person employed;
1999 = 100; calculation on EU Commission)



Nominal Unit Labor Cost

is a **ratio** between **remuneration** (compensation per employee in current prices) and **real productivity** (gross domestic product (GDP) at constant prices per employment) . It is the relationship between how much each "worker" is paid and the "volume" of product he/she produces by their work.

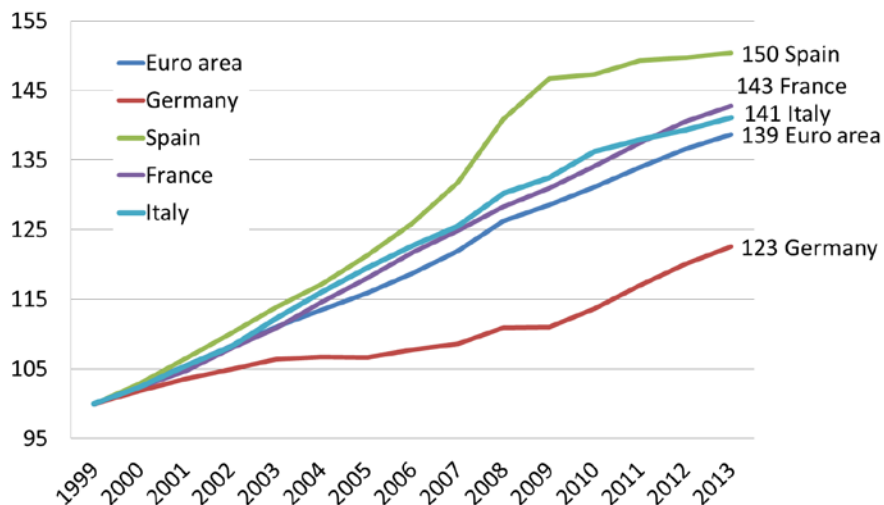
Spain as an example



Remunerations and productivity

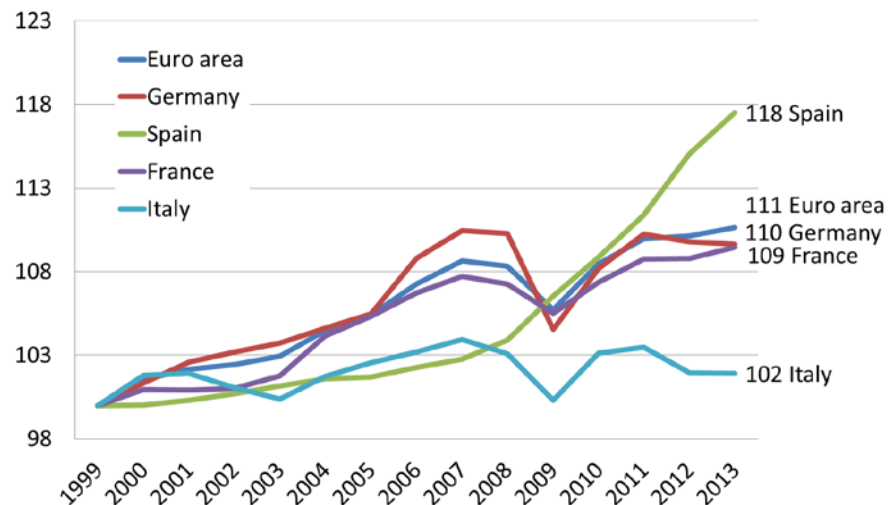
Compensation per employee

(1999 = 100; source: EU Commission)



Real GDP per person employed

(1999 = 100; source: EU Commission)



Remuneration

Productivity

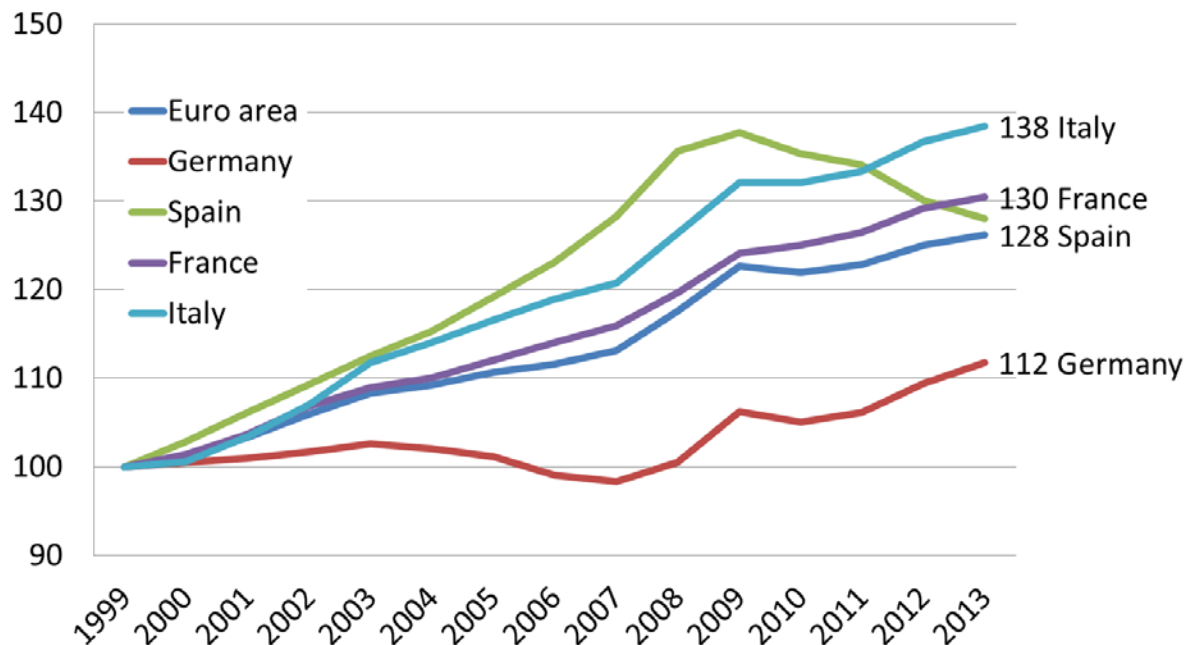
Tying further remuneration and productivity is a challenge for both countries



Labour productivity

Nominal Unit Labour Cost

(Ratio of compensation per employee to real GDP per person employed;
1999 = 100; calculation on EU Commission)



Labour productivity per hour worked

is calculated as real output (deflated GDP) per unit of labour input (total number of hours worked). Measuring labour productivity per hour worked provides a better picture than labour productivity per person employed, as it eliminates differences in the full time/part time composition of the workforce across countries and years..

A major challenge, especially for Italy

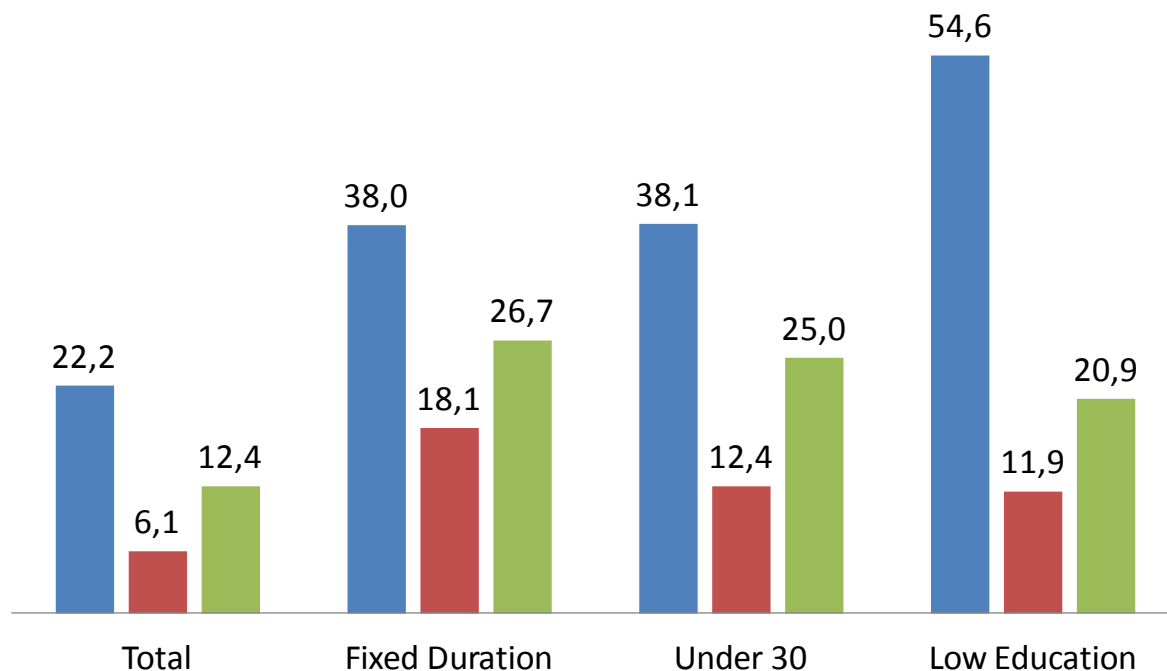


Low wage earners

Proportion of low wage earners

(%; year 2010; source: Eurostat)

■ Germany ■ France ■ Italy



Low wage earners

are defined as those employees earning two thirds or less than the national median hourly earnings. As far as the EUROSTAT statistic is concerned, the low wage threshold amounts to **€10.2** per hour for **Germany**, **€9.2** per hour for **France**, **€7.9** per hour for **Italy**. Amounts are gross of social security contributions.

A lesson from Germany



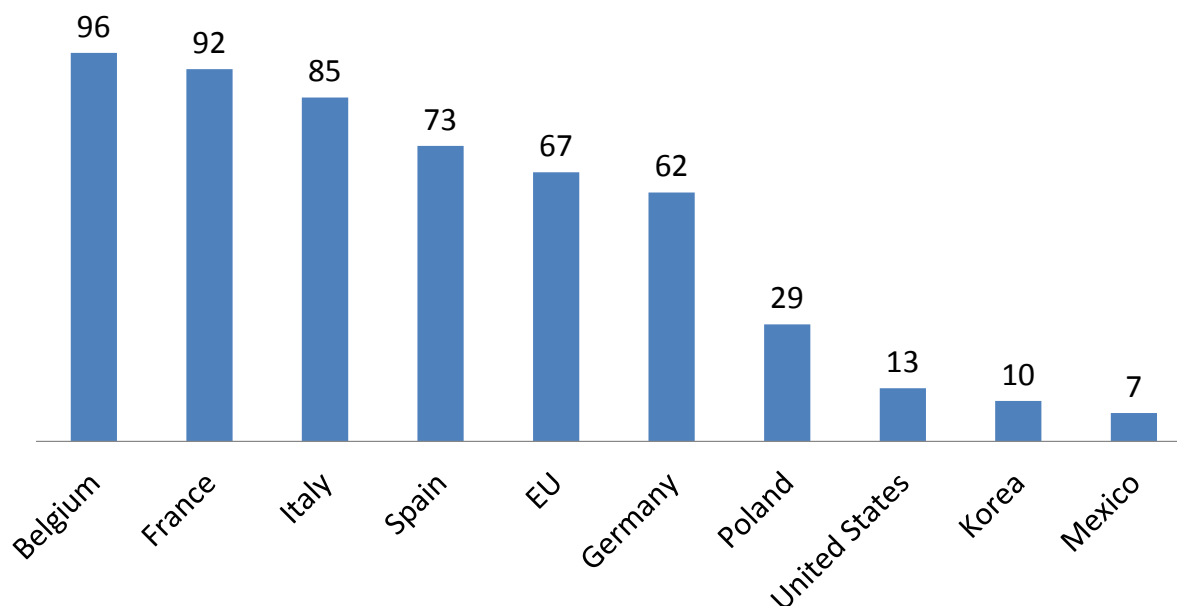
Industrial relations

The **collective agreement** is concluded between one or more employers or an employers' organisation, and one or more workers' organisations.

The **coverage rate** is measured as the percentage of workers who are covered by collective bargaining agreements, regardless of whether or not they belong to a trade union.

Coverage rates of collective bargaining agreements

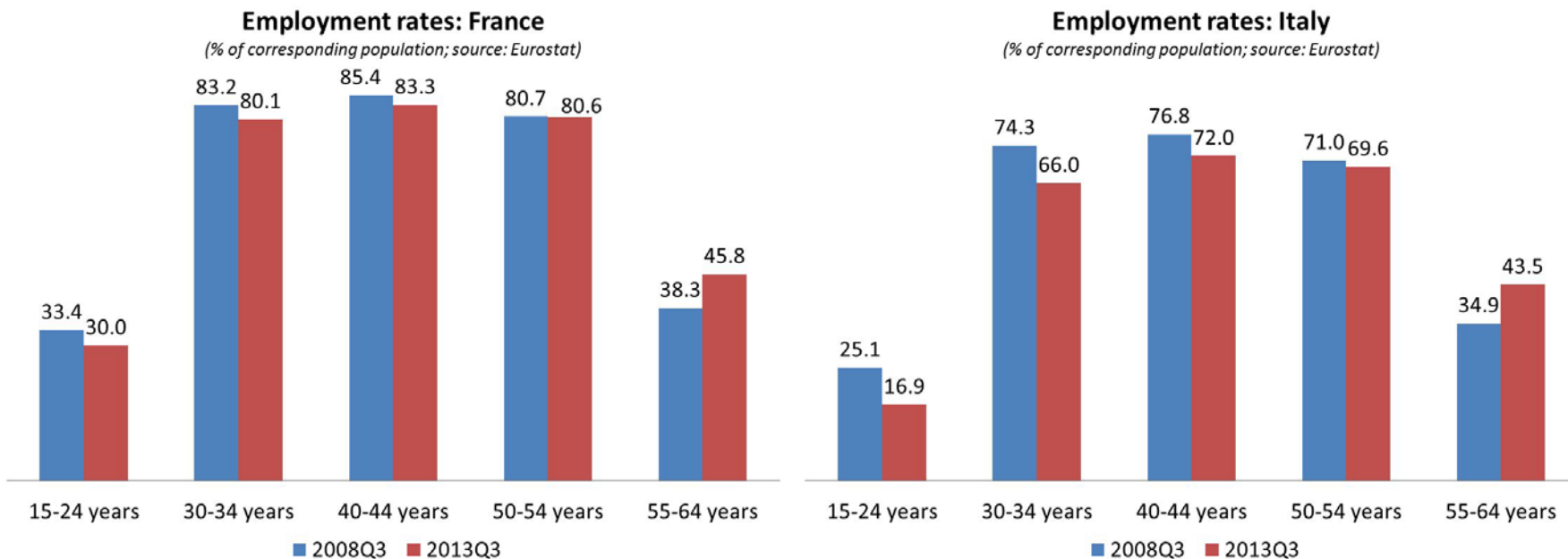
(% of workers; latest available; source: OECD 2014)



Room for more decentralised bargaining?



Employment age segmentation



Addressing the employability of the youngers

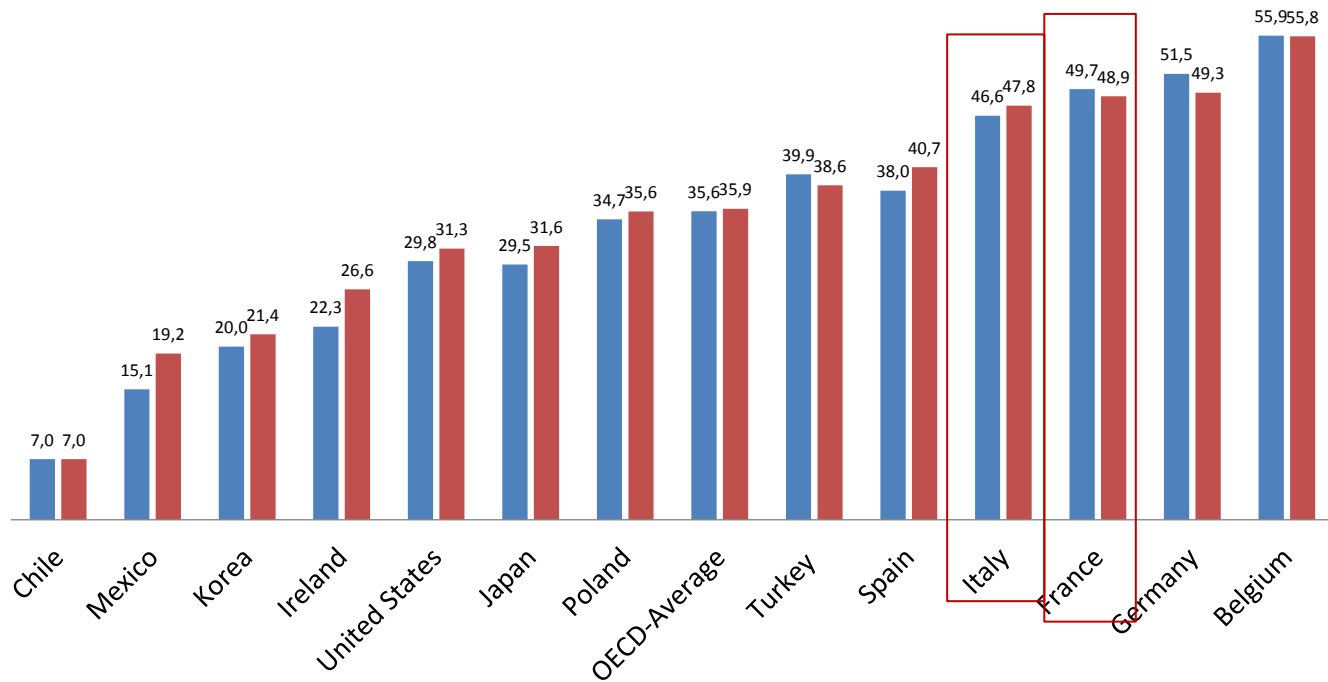


Tax wedge on labour

Tax wedge as a % of total labour cost

(source OECD)

■ 2008 ■ 2013



France and Italy among the most heavily burdened

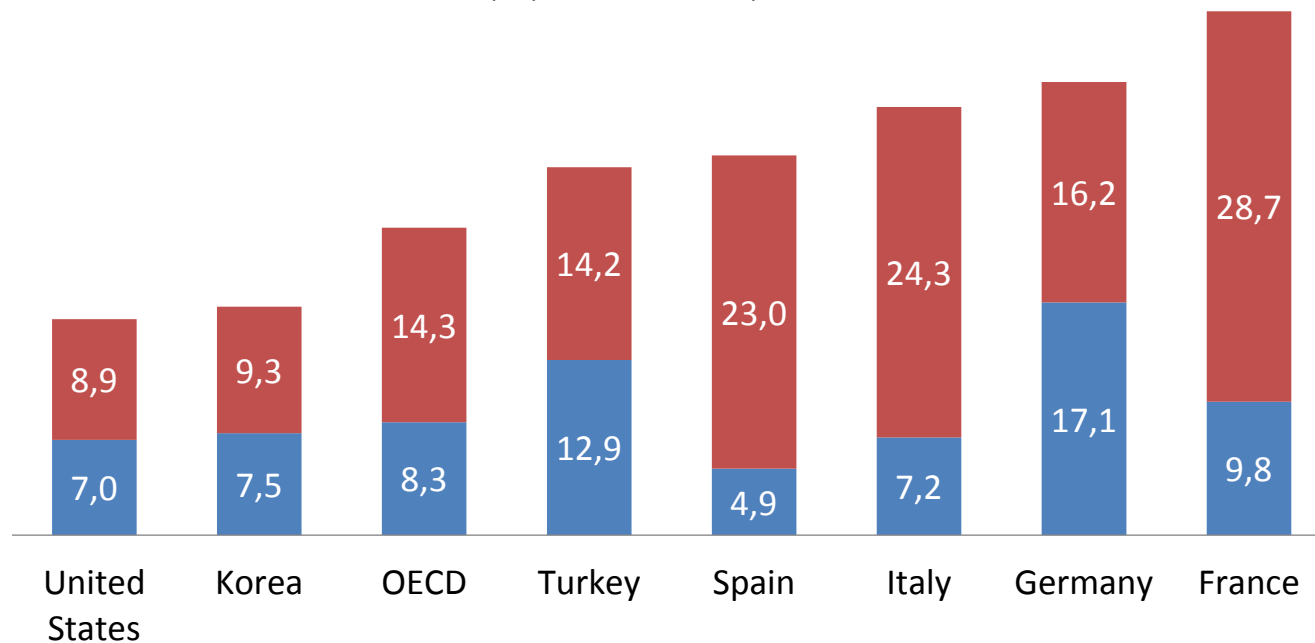


Social contributions

Social security contributions

(as a % of labour cost; 2013; source: OECD)

- Employees' social security contribution
- Employers' social security contribution



Reducing the gap above the OECD average

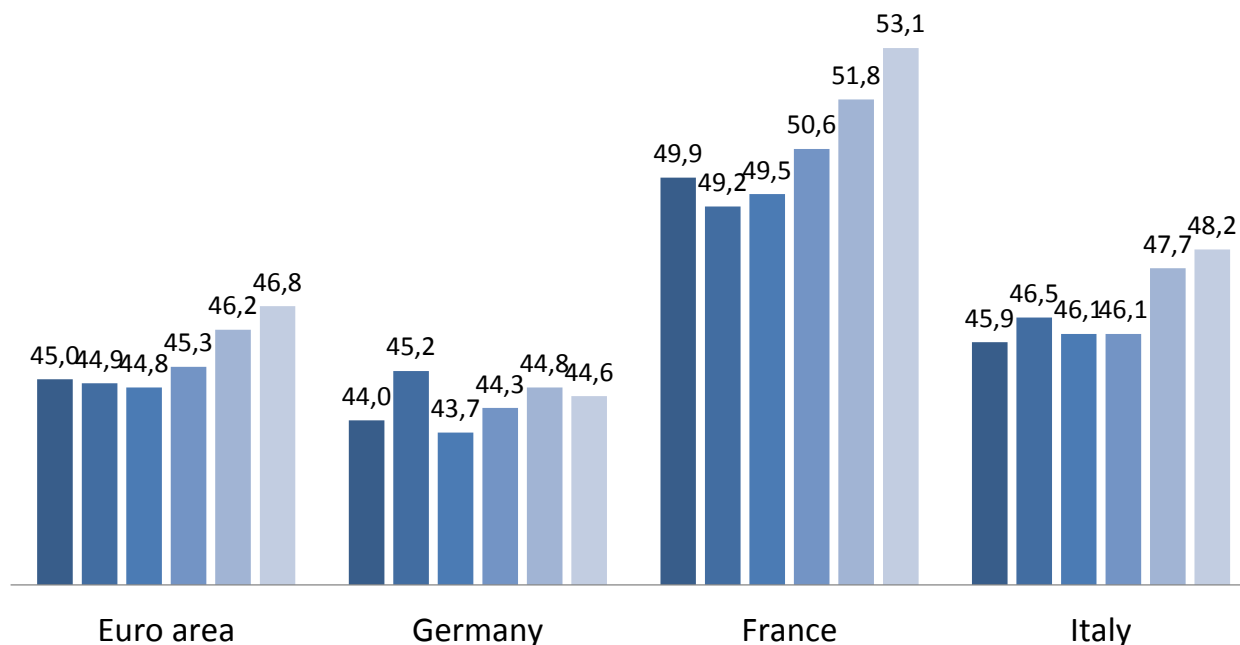


Overall government revenues

Total general government revenues

(as a % of GDP; source: Eurostat and European Commission)

■ 2008 ■ 2009 ■ 2010 ■ 2011 ■ 2012 ■ 2013



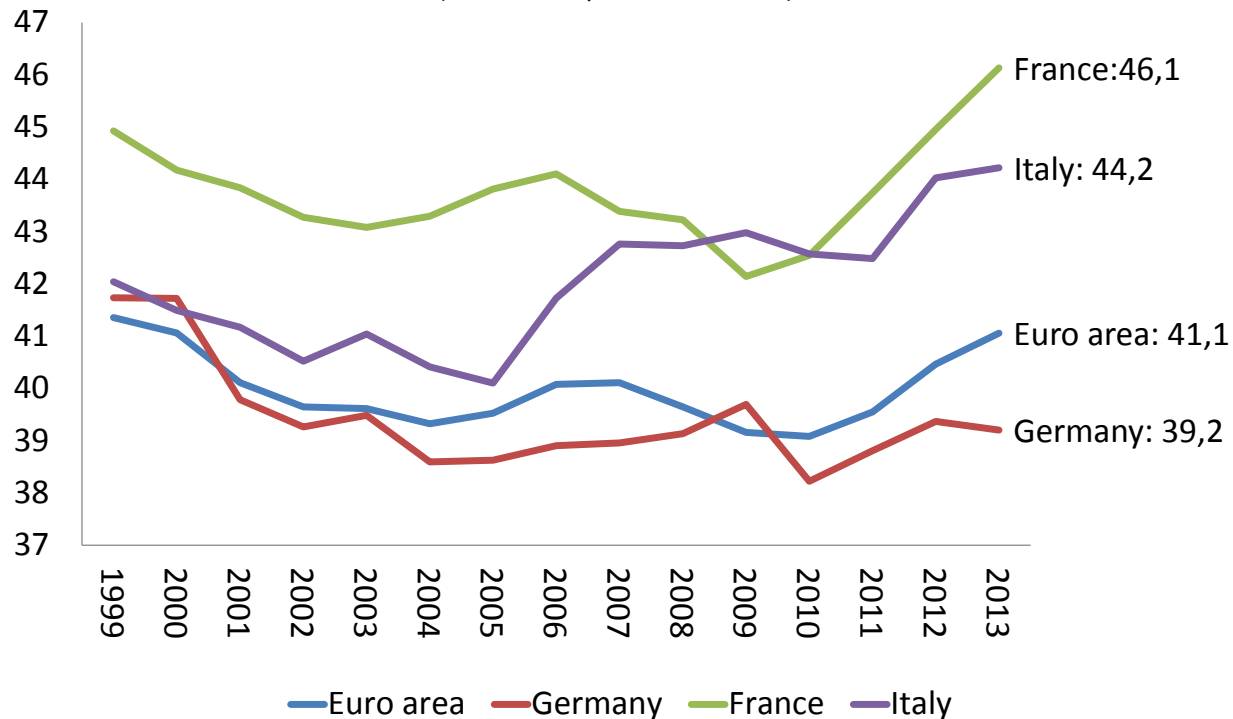
More than 50% of GDP in France and close to 50% in Italy



Overall tax burden

Tax burden as a % of the GDP

(source: European Commission)



ONE year later ...

Since 2012 to 2013 tax burden as a % of the GDP rose from 45% to 46.1% in France and from 44.0% to 44.2% in Italy.

Substantial increase through crisis

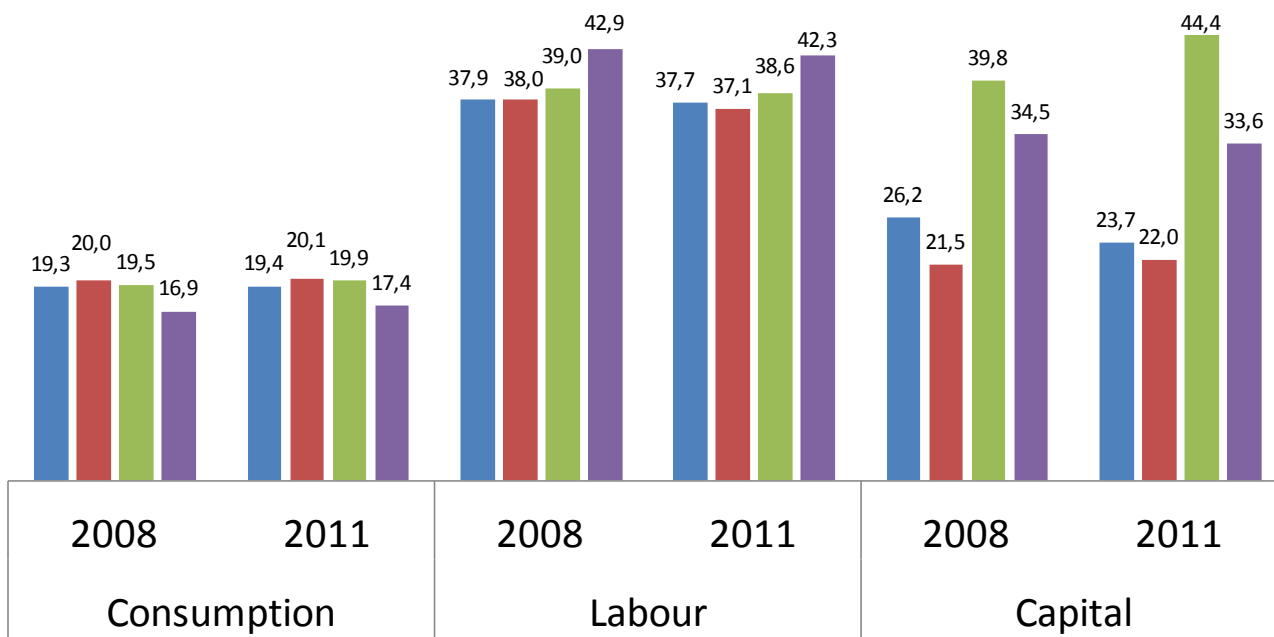


Taxes by economic function

Implicit tax rates by economic function

(Tax revenues as a % of tax base; source: Eurostat)

■ Euro area ■ Germany ■ France ■ Italy



France (capital) and Italy (labour) could reduce the gap with the Euro Area



Administrative burden

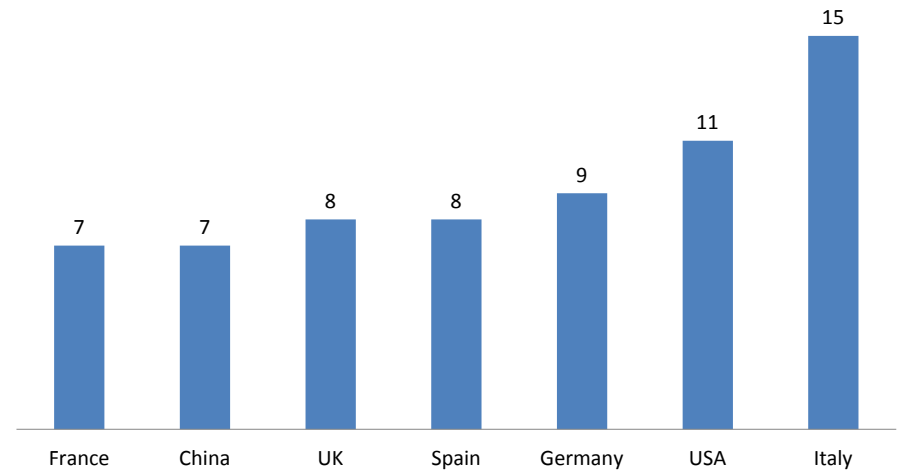
**Time to comply with taxes (hours per year)
for a standardized business**

(source: World Bank, Doing Business 2014)



**Number of tax payments to be done in one year
by a standardized business**

(source: World Bank, Doing Business 2014)



Besides tax rates, tax rules also matter

