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PRESS RELEASE

Encouraging signals of North - South convergence in Italy though development is still slowed by an adverse socio-juridical context

Research conducted by the Banca Monte dei Paschi di Siena highlights the economic North-South divide. Apulia confirmed in its role as the locomotive of the South. Employment on the rise in Sicily and Calabria.

Siena, 8 May 2009 – The actual convergence process of Southern Italy's regions towards average Italian values is at risk of remaining incomplete on account of a socio-juridical context that limits the potential for development of the South. Such were the results of a study conducted by the Research, Intelligence & Investor Relations Area of the Banca Monte dei Paschi di Siena.
The extremely encouraging progress and signals registered in a number of Southern Italian regions, especially in Apulia and Sicily, may even risk being nullified.

Over the last seven years, the GDP of Southern Italy and the Islands has lagged behind that of the Centre-North and, contrary to the average Italian trend, the South ended the year in recession in 2003.

Nevertheless, analysis of the individual components (macroeconomic, socio-juridical, financial variables) reveals that, with reference to both **economic growth** and **the financial context, improvements in the individual Southern regions are evident,** with the divide slowly being bridged. Sicily and Calabria **have proved to be Italy's most virtuous regions in terms of growth and employment,** thus showing that, with respect to growth, a certain degree of convergence has indeed been achieved.

The socio-juridical situation is less encouraging. Over the last few years (2000-2007) the respective positions of **Calabria and Molise worsened**, although the social and juridical context was shown to be affected by growing difficulties in all Italian regions except Piedmont, Trentino and Apulia, with the latter turning out to be Southern Italy's most virtuous region.

With a view to identifying the reasons for the convergence processes and **analyzing the trends of the individual regions independently from each other**, the MPS Research & Intelligence Service developed a **territorial gap index** (*) to rank the position of the Italian regions with respect to different groups of variables in order to obtain an overview of the territorial divide based not only on economic growth indicators but also on different social, juridical and financial factors that may be drivers of growth and, as such, may favour the actual convergence process.

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The results of the model together with additional statistical evidence led to the following conclusions:

1) **The inflow of public funds and the improvement of the financial context** alone are not sufficient conditions for the promotion of real convergence in the regions of Southern Italy. The socio-juridical subcomponent (see attachment on page 8) appears to be one of the decisive variables for the convergence process to occur as rapidly as possible. A society still characterized by very low female participation in the labour force (a clear sign of poor dynamism) and a crime rate higher than Italy's average(**) does not create the necessary conditions of trust for the development of a spirit of entrepreneurship aimed at innovation, development and competitiveness. A lack of social dynamism and trust in the system inevitably dampens **R&D** investments **in the private sector**, which are in fact well below an all too poor national average, if compared to other European countries (see page 17).
2) The **density of investments, per se, is not a sufficient condition** to ensure sustained growth. Data concerning capital density (see page 20) points out that the South is not affected by a low investments/GDP ratio but rather by a poor capability to attract capital for production and allocate available resources more efficiently. **Direct foreign investments** are a clear indication of the **South not being able to attract this type of capital inflow.** Not only that. Southern Italy was even a net capital exporter in 2006, which bears witness to the residents' scarce trust in the socio-juridical fabric of their own region.
3) If it is true that **the financial context in Italy's Southern regions is still lagging behind the national average (see page 22)**, the sub-components of the North-South gap index focusing on factors such as the loans/GDP ratio or the territorial distribution of bank branches reveal that a certain degree of convergence between the Southern and the Centre-Northern regions of Italy was achieved in the period between 2000 and 2007 (see page 9). The road ahead is still long due to the considerable run-up distance at the start. Also the rate differential between interest earned and interest paid proves to have been reduced over the last few years. However, the South is still disadvantaged if compared to the Centre/North of Italy on account of a higher deterioration rate in lending, especially to the manufacturing sectors.

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