COUNTRY PROFILE: **ITALIAN REPUBLIC**
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CREDIT GUARANTEE: IES/02: ATTACHMENT A

Export Department Comment/Opinion	**Rating 1B. Open cover. High value of exposure and commitments. This is not a claims free market.** **(Euler Hermes: AA; Atradius: 2, no commercial rating)** **Sanctions: Nil**

Recent Political Highlights

- President Giorgio Napolitano has been chief of state since 15 May 2006. Prime Minister Silvio Berlusconi founded his own political party, Forza Italia, in 1993 and formed a coalition with the right-wing National Alliance and Northern League as he took up the role as Prime Minister in 1994 but this lasted only 7 months due to rivalries between the three leaders and Mr Berlusconi's charge for alleged tax fraud by a Milan court. In the 1996 elections he lost to the left-wing Romano Prodi but was back in power in 2001. In the 2006 elections Mr Berlusconi lost again to Romano Prodi before beginning his third term as head of government in April 2008. He is Italy's longest serving post-war prime minister as well as one of its richest.
- The prime minister is appointed by the president with the next presidential elections to be held in May 2013.
- Prime Minister Silvio Berlusconi announced plans to cut tax rates as part of an agreement with Umberto Bossi, the head of the second leading party in the government coalition. This will come against strong opposition from many commentators as Italy's economy is fragile with low growth and tax income and increasing inflation. Tensions in Berlusconi's centre-right coalition are high and the tax cut proposal is seen as an attempt by Prime Minister Berlusconi to increase his fragile political support levels.
- The proposed austerity measures are likely to be the next major test for Berlusconi, who has suffered harsh defeats in mayoral elections and popular referendums over the last month but won an important confidence vote in parliament in June 2011 with the support of its Northern League ally.
- The EIU expects Prime Minister Berlusconi's government to collapse resulting in early elections in mid-2012. Mr Berlusconi lost supporters due to corruption scandals, a faltering economy and a scandal involving an underage prostitute.

Recent Economic Highlights

- Italy has the fifth highest population density in Europe at about 200 persons per square kilometer with the total population estimated at 61m.
- Italy imports most of its raw materials and 80% of the country's energy needs. The economy's strength is in the processing and manufacturing of goods, mostly by small and medium sized family owned firms. Italy struggles with a large underground economy worth 27% of GDP resulting in a loss of tax revenue for the government.
- Real GDP growth increased from -5.2% in 2009 to 1.3% in 2010. GDP composition by sector: services sector 73%, industrial sector 25% and the agricultural sector 2%.
- On concerns of contagion from Greece's crisis on Italy's fragile economic recovery, Moody's placed Italy's Aa2 credit rating on review for downgrade. The ratings agency cited structural weaknesses including an inflexible labour market which hinders growth and is concerned over the funding conditions for countries with high debt levels and high debt servicing costs. In making their decision, Moody's will also take into account Italy's ability to implement the consolidation plans required to reduce the country's debt and keep it at affordable levels.
- Italy's debt is equivalent to 120% of GDP, the second highest in the euro area after Greece, but the country managed to protect themselves against the euro-zone crisis through its conservative banking system, high levels of private savings and a tight hold on public spending. The high debt levels however led to Standard & Poor lowering the country's rating outlook from stable to negative in May citing the country's slowing growth and diminished prospects for a reduction of government debt.
- The government is aiming to reduce the budget deficit from 4.6% of GDP in 2010 to 3.9% of GDP in 2011. This is well below many levels seen in most euro zone countries. The government will bring the proposed budget cuts before the cabinet during the last week of June, which is expected to be approved. This will include measures worth ±$61bn to eliminate the budget deficit by 2014 of which deficit cuts of $4.2bn is planned for 2011. The planned reforms will include spending cuts on the national health service, extending the public sector hiring and salary freeze for 2011-2013 to 2014 and reducing and simplifying tax breaks to companies and low income families. The government also plans to address weaknesses in the labour market by implementing a more flexible framework for contract negotiations and streamlining of judicial procedures for contract enforcement. It's reported that the government is also considering bringing forward the increase in the retirement age from 2015 to 2013.
- As a result of the fiscal tightening the EIU expects real GDP growth to slow to 0.7% and 0.8% in 2011 and 2012.
- Italy's main business association Confindustria, which represents Italy's big industrial firms, also reduced its economic growth outlook and warned that growth may slow even more drastically if reforms are not implemented. The economy recorded growth of 0.1% in Q1'11 supported by growth in exports but constrained by weak domestic demand.
- The IMF stated that Italy's GDP per capita has not grown in the last ten years, resulting in one of the worst performances among advanced economies due to a heavy and distortive tax burden, public service inefficiencies, high business and service regulations, low education attainment and export specialization in low value-added products. The IMF stated that fiscal consolidation and strengthened financial stability are prerequisites for growth to boost investor confidence and support private investment in the country.

Latest Trade Developments

- Total exports increased from $407bn in 2009 to $458bn in 2010. Export commodities include: engineering products, textiles and clothing and motor vehicles.
- Total imports increased from $403bn in 2009 to $460bn in 2010. Import commodities include: engineering products, chemicals, transport equipment and food.
- Italy's main trading partners include: Germany, France, Spain, China, US & UK.
- SA exports to Italy totaled R9bn in 2009, R10.5bn in 2010 and R3bn up to March 2011.
- SA imports from Italy totaled R13.6bn in 2009, R14.6bn in 2010 and R4.6bn up to March 2011.

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