

COUNTRY PROFILE:**ITALIAN REPUBLIC****DATED:****APRIL 2009****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

GCIC rating & Comment	1B; We are open for cover without any restrictions in this market where we have large exposures. This market has however not been claims free.
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Recent Political Highlights

- ❑ Chief of state since May 2006 has been President Giorgio Napolitano with head of government Prime Minister Silvio Berlusconi since May 2008. The next election is due in May 2013.
- ❑ The financial crisis of 2008 led to a boost in Mr Berlusconi's popularity ratings. He took steps to inject money into troubled banks and high-profile businesses, such as the falling national carrier Alitalia and his ability to rule by decree when necessary seems to have had a reassuring effect on at least some of the electorate.

Recent Economic Highlights

- ❑ Italy's population is currently estimated at 60m. According to a recent report by Italy's Central Statistics Agency, at least 2.5 million Italians are living in poverty. The report which presented data from 2007 said 3.3% of the poor lived in the north of the country, 2.8% came from the centre of the country and 6% in the south of the country.
- ❑ Italy suffered a 1% GDP contraction in 2008, which was worse than the 0.6% contraction the government had predicted. The contraction was largely due to a 3.7% fall in exports, a 3% fall in investment and a 0.5% fall in consumption. Amid the economic crisis, Italians have had to change their lifestyles mainly cutting down on expenditure on things such as gifts, entertainment and holidays. Italy is not expected to come out of its current recession until some time in 2010. Think tank REF has cut its forecast for Italian 2009 GDP contraction from 2.5% to 4%. The IMF has forecast that Italy's GDP will contract 4.4% in 2009. Helped by falling commodity prices and weak domestic demand inflation is expected to ease from an annual average of 3.5% to around 1% in 2009 and 2010.
- ❑ Italy's open economy and export product expose it to the full force of recession in other countries. The recovery is likely to be slow and unemployment will rise steeply this year into 2010. Exports are falling steeply as Italy specialises in luxury goods, consumer durables and investment goods whose demand is falling due to the global financial crisis. Car producer Fiat Spa, Italy's biggest manufacturer and Indesit Spa, Europe's third-largest appliance maker have both cut output and jobs. Despite this, Italian business confidence rose in April as companies saw signs of an increase in orders of goods and services in Europe's fourth-largest economy. The business confidence index climbed to 64.2 from a revised 60.9 in March.
- ❑ To pull the €2.1 trillion economy out of a recession Berlusconi's administration approved measures including incentives for the purchase of new cars and home appliances. The government's economic committee also approved a program of public projects this year to help the country weather the global downturn. Aimed at boosting the economy and creating jobs, the plan involves €17.8bn, which will be mainly invested in infrastructure.
- ❑ According to the EIU, Italy's banks appear to be less exposed to the global financial turmoil than most others in Europe. However there is a risk that a severe and protracted economic downturn could cause corporate and household debt defaults to rise sharply, with negative consequences for Italy's banks and also its public finances. The government set up an emergency recapitalisation facility in October for banks in severe difficulties and in February it announced a facility for injecting funds in the form of bonds, to any bank wanting them; terms include a commitment to maintain lending to small companies and a rate of interest which rises after the first year, but no bank has taken up that facility.
- ❑ Italy's effort to reduce the EU's largest debt has eased and the recession is hurting tax revenue and fuelling government stimulus spending, further compromising efforts to tame borrowing. Italy's debt is forecast to reach 115.3% of GDP this year, remaining the highest in the EU. The budget deficit is forecast to grow to 5.4% of GDP this year and 5.9% next year, almost twice the EU's 3% limit. The government spends about 5% of GDP servicing the debt each year.
- ❑ Italy experienced its worst earthquake in three decades in April this year. About 281 people died and 28,000 were left homeless in the mountain city of L'Aquila. Officials say the quake will have a huge impact in a region which relies on tourism, farming and family businesses. One estimate put the damage from the disaster at up to €3bn, but its impact on Italy's economy is expected to be limited. Half of the companies in the Abruzzo region are no longer producing after the quake and businesses in the region will get preferential access to credit. Italy's cabinet approved a measure suspending some tax and utility payments in the affected areas and earmarked another €70 million for rescue and relief efforts. The Economy Minister asked Italy's bank association to halt mortgage repayments in the earthquake-hit area and to scrap or reduce bank charges.
- ❑ With municipal bond investigations spreading to Europe from the US, Italian authorities have seized about \$300m in assets of four global banks: JP Morgan Chase, Deutsche bank, UBS and Depfa, whose officials have been accused of fraud. The seizures stem from the banks handling of \$2.2bn municipal bond issues and related financial contracts that Milan undertook to retire other debt in June 2005.

Latest Trade Developments

- ❑ Major exports: engineering products, textiles and clothing, production, production machinery, motor vehicles, transport equipment, chemicals, food, beverages and tobacco.
- ❑ Major imports: engineering products, chemicals, transport equipment, energy products, minerals and nonferrous metals, textiles and clothing, food and beverages and tobacco.
- ❑ Main trading partners: Germany, France, US, Spain, UK, Netherlands, China and Belgium.
- ❑ Italy's trade deficit increased dramatically to €837million in February from €449 million recorded in February last year. The fall in demand was recorded in all sectors, but the automobile sector was particularly hard hit with a fall in exports of 46%, chemical sector was down 29.5%, electrical goods were down 27.3% and export of other manufactured goods fell by 22.7%. Imports were down by 25.3% at €24.3bn.
- ❑ South African exports to Italy totaled R10.3bn in 2007, R13bn in 2008 and R1.5bn in the year-to-February 2009.