

**COUNTRY PROFILE:****ITALIAN REPUBLIC****DATED:****JUNE 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	1B	No Restrictions

*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.
- ❑ Italy's largest opposition party stated that it would stage a nationwide protest against the Government accusing Premier Berlusconi of being unable to distinguish between his own interests and those of the country at large. The opposition said that they would wage intransigent opposition against the return of conflicts and tailor-made laws, referring to Berlusconi's parliamentary battles against prosecutors he claims are persecuting him. The opposition is angry at the trial freeze and a crackdown on wire taps which critics say would jeopardise corruption probes and gag the press. Berlusconi was also blamed for sinking cooperation on much-needed reforms aimed at making Government more efficient.

*Recent Economic Highlights*

- ❑ Italy has a population of 59m people with an expectant growth rate of -0.02% in 2008. Italy's resident population could reach 67m in 2051 with more elderly people and immigrants than children according to the national statistical bureau Istat.
- ❑ GDP growth is forecast to slow from 1.4% in 2007 to 0.4% in 2008, before picking up modestly to 1% in 2009. In the first three months of 2008 GDP growth rose by 0.5% quarter on quarter, reversing the contraction of 0.4% in the last quarter of 2007. In 2007, the construction sector saw modest expansion but bids for public works were down so opportunities for growth were also down. The services sector while still characterised by a favourable environment, recorded a stagnant growth for detailed commerce and for the first time the number of visitors grew less than the past two years. Credit growth is up 10% and has exceeded the €100m mark. Italy's black economy fell to 17% of GDP in 2006 from 19% in 2000. Italy is one of the few countries to include the underground economy in GDP estimates.
- ❑ Consumer inflation is expected to rise from 1.8% in 2007 to 3% in 2008 before declining to 2.2% in 2009. Food and energy price increases have pushed up inflation. It reached a high of 3.6% in May after bread prices rose 13.3% and pasta 20.7%. Consumer groups have called for greater deregulation in order to use competition as a means to cool inflation.
- ❑ Fiscal deficit was 1.9% of GDP in 2007 compared to 3.4% in 2006 and 4.2% in 2005. The high levels of taxation, a public debt/GDP ratio in excess of 100%, rising debt-servicing costs and political resistance to spending cuts make the medium-term fiscal outlook uncertain. The Economist expects the deficit to average 3% of GDP during 2008-2012.
- ❑ A herd of milk cows was brought to graze in downtown Milan by farmers protesting against the low price they get paid to produce milk. Farmers get paid at a wholesale price that is not sufficient to cover the costs of maintaining the cows. The protest was part of a broader initiative which could include actions to stop production at milk processing plants following the breakdown in negotiation on the price farmers in Lombardy receive for their milk. Lombardy produces 40% of the milk in Italy.
- ❑ The Senate approved a bill authorizing a €300m loan to ailing national carrier Alitalia. The bridge loan is at the centre of a probe by the European Commission on the grounds that it may represent an unauthorised state subsidy to the troubled airline. The probe could take up to 18 months and some observers believe that the Italian Government and Alitalia hope that by that time they would have found a buyer for Treasury's 49.9% controlling stake in the airline.

*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 fell to €1.004bn in April 2008 from €1.285bn in April 2007. The decline was due to an 18.8% rise in exports compared to a 17% increase in imports. The cost of energy imports was the main cause for the trade deficit with the value of oil exports in April 33% higher than a year earlier.
- ❑ Italy will approve the European Union's Lisbon Treaty despite the ratification being stalled by Ireland's rejection in a referendum vote. Berlusconi said that he would push for the treaty to be approved by all the other 26 member states forcing Ireland to then come up with a solution. Berlusconi cited that Europe needs the Lisbon Treaty in order to have single policies in the areas of defence, immigration, foreign affairs and energy.
- ❑ South African exports to Italy totaled R10.3bn in 2007 from R9.4bn in 2006 and R1.1bn in January 2008.

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