

ITALIAN REPUBLIC
SEPTEMBER 2010

CREDIT GUARANTEE COUNTRY PROFILE:

IES/02: ATTACHMENT

Country rating	S/T business cycle indicator	S/T political indicator
3B	→ / ↑	→

Credit Guarantee experience

This is not a claims free market. Suggested use of a collection agent is advised.

Country rating key – political risks: 1 = low, 2 = medium, 3 = high

Commercial risks: A = low, B = medium, C = high

Recent Political Highlights

- Giorgio Napolitano was elected president in May 2006. The former member of the Italian Communist Party was among the leading architects of the party's transformation into a social-democratic movement. The Italian president heads the armed forces and has powers to veto legislation, disband parliament and call elections.
- Silvio Berlusconi began his third term as prime minister of Italy in May 2008, heading a centre-right coalition including his own Forza Italia party. Mr Berlusconi built a business empire out of construction and media interests in his native Milan. He is one of Italy's wealthiest men and owns three of the country's seven television channels and several leading newspapers. He also has interests in banking and insurance and owns the AC Milan football team. His business contacts and media role have led to accusations of conflict of interest, especially over legislation seen as protecting his commercial interests. Mr Berlusconi has been put on trial at least six times over financial matters. Although found guilty on three occasions he was later acquitted or benefited from the expiry of the statute of limitations.
- His coalition lost its majority in the lower house of parliament in August 2010, when more than 30 deputies led by his long-time ally, Gianfranco Fini broke away from his Party of Freedom. Mr Fini had repeatedly voiced concern about the rule of law in Italy.

Recent Economic Highlights

- Italy has a population of 60 million people and the lowest birth rate in Europe; the country is now facing the economic implications of an ageing population. The population is forecast to fall significantly over the next 50 years.
- The Italian economy is driven in large part by the manufacture of high-quality consumer goods produced by small and medium-sized enterprises, many of them family owned. Italy also has a sizable alternative economy of unregulated employees estimated to account for 15% of GDP. These activities are most common within the agriculture, construction, and service sectors.
- The regional disparities in Italy's economic development remain distinctive. The northern part of the country has well-established traditions of private-sector entrepreneurship while the southern part of the country has long been dependent on the agricultural sector and government welfare. The Italian economy on the whole has become increasingly dominated by the services sector, which accounts for around 70% of GDP.
- As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production therefore distorting agricultural prices. Items subject to price controls at the national level include drinking water, electricity, gas, highway tolls and prescription drugs reimbursed by the National Health Service, telecommunications and domestic travel.
- The financial sector is relatively well developed and provides a wide range of services. The global financial turmoil's impact on the banking sector has been relatively modest with Italian banks less exposed to troubled financial instruments than banks in some other countries.
- Italy's exports increased by 12.8% in the first half of 2010 compared to the same period last year. The biggest increase were for refined petroleum products (62.3%), chemicals (29.6%), pharmaceuticals (18.7%) and computer/ electronic devices (17.4%)
- Italy's arms exports increased by 61.3% in 2009 (to €4.9 billion). This was due mainly to a hefty contribution from the sale of Eurofighter jets to Saudi Arabia. Although the Eurofighter deal with Saudi Arabia was brokered by the U.K. government, Italian industry has a share in proceeds thanks to Italy's workshare on the program, alongside Germany, Spain and the U.K. The Italian government does not specify the exact value of the work obtained from the Typhoon contract but notes that Saudi Arabia leapt to become Italy's No. 1 export destination with a total value of €1.1 billion in sales.
- Sisal SpA, the betting company owned by Apax Partners Worldwide LLP and Permira Advisers LLP, opened the first of 6 casino-style outlets planned for Italy in the coming months as it adds new services in preparation for an initial public offering. Sisal's first Wincity located in central Milan has 100 slot machines, a restaurant and a bar. The company will open another five shops by the first quarter of 2011. Chief Executive Officer Emilio Petrone expects Sisal, which offers online gaming, lotteries and betting, to post "double-digit" sales growth this year after revenue rose 28% to €426 million in 2009. The next Wincity opening will be in Rome, followed by Turin, Brescia, Verona and Pescara.

- ❑ Italy's overall economic freedom is limited by ineffective public finance management, considerable corruption and a high tax burden. Government spending remains over 45% of GDP. Reduction of the budget deficit has proved difficult and public debt still hovers around 105% of GDP.
- ❑ The state still controls some strategic enterprises, mainly in transportation and energy. Credit is allocated on market terms and foreign participation is welcome. Only three major financial institutions remain state-controlled but banks are not free from political interference and approval is needed to gain control of a financial institution.
- ❑ Young Italian graduates are finding it easier to obtain and retain jobs overseas. Not only do they receive more competitive salaries but they avoid the Italian system that they perceive to be a bureaucratic stumbling block too big to overcome. Italians have admitted that their education is of the highest quality but graduates find the jobs they obtain don't match the skills they have acquired during their study years. Italians move to the U.S or U.K and other neighbouring countries in Europe.
- ❑ The International Monetary Fund expects the Italian economy to grow just 0.8% this year and 1.2% in 2011. The country's unemployment rate is expected to reach 8.7% this year and 2011 will see just a marginal drop to 8.6% according to the IMF.
- ❑ The Italian parliament has approved an austerity package worth more than \$32bn aimed at cutting the country's budget deficit and reassuring financial markets. The package will cut public sector hiring and pay, temporarily block those set to retire and reduce funding to local government. Only 20% of those who leave the public sector in 2011 to 2013 will be replaced and it cuts transfers to municipal and regional authorities by €2 billion in 2011 and €3.8 billion in 2012. Those who would have earned the right to retire in mid-2011 and at the end of 2011 must remain at work for a further six months. Spending by government ministries, including pay, is reduced by 8-10% per year in 2011 to 2013. Other policies in the draft are a 10% cut from 2011 in the pay of government ministers and a 10% cut in the pay of public sector employees earning more than €75,000 per annum. The budget aims to cut the deficit by around €13 billion in 2011.
- ❑ Persistent problems in other areas include organized crime, increasing unemployment and the long-standing imbalance between the prosperous and industrialized North and the less developed South.

Latest Trade Developments

- ❑ Major exports: engineering products, textiles and clothing, production machinery, motor vehicles, transport equipment, chemicals; food, beverages and tobacco; minerals, and nonferrous metals.
- ❑ Major imports: engineering products, chemicals, transport equipment and energy products.
- ❑ Main trading partners: Germany, France, China, Netherlands, Spain, Russia, Belgium, US and Switzerland
- ❑ SA exports to Italy totaled R15.9bn in 2008, R9bn in 2009 and year to June 2010 totaled R5.5bn.
- ❑ SA imports from Italy totaled R17.8bn in 2008, R13.6bn in 2009 and year to June 2010 totaled R7bn.

Researched and compiled by Hlolohelo Pule, economic services – Credit Guarantee Insurance