



Decide with Confidence

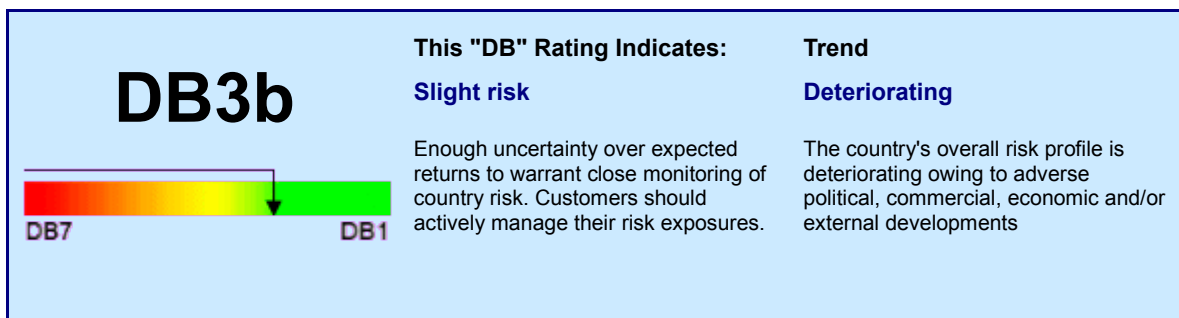
D&B Country RiskLine Report

ITALY

Region : Western Europe

Edition : August 2011

D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	59.9m
Surface area (sq km):	301,340
Capital:	Rome
Timezone:	GMT +01:00
Official language:	Italian
Head of government:	Prime Minister Silvio BERLUSCONI
GDP (USD):	2.1trn
GDP per capita (USD):	35,281
Life expectancy (years):	80
Literacy (% of adult pop.):	98.4

Country Overview:

Italy is situated in southern Europe, with 7,600 km of Mediterranean coastline and borders with France, Switzerland, Austria and Slovenia. The country is the world's seventh-largest economy.

Following the breakdown of the multi-party system in the early 1990s amid revelations of rampant corruption, the Italian polity has realigned, with one loose alliance on the left of the political spectrum and another on the right; however, government stability and effectiveness are still lacking.

A founding member of the EU, Italy has traditionally supported closer European integration; the ambition to qualify for euro-membership was an important catalyst for macroeconomic stabilisation over the 1990s. However, the economy still faces enormous long-term challenges: the population is in decline, productivity growth has stalled and the export-oriented economy has lost international market share due to intensifying global competition in many areas of Italy's industrial specialisation. Internally, there is a prosperity gap between the rich north and the poorer south.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	SD
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:	SD
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D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms:	30-120 days
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Normal period of credit associated with transactions with companies in the stated country.

Transfer Situation

Local Delays:	0-2 months
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The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays:	0-1 month
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The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

Trade & Commercial Environment

Counterparty risk remains high in Italy, as evidenced by the still-challenging payment situation. D&B's latest proprietary cross-border payments performance data show that in the year to Q2 Italy-based companies paid 10.8% of their bills to European shippers 30 or more days over agreed terms, slightly up from 10.7% in the year to Q1; moreover, payment delays still exceeded the average for Europe's six largest economies (France, Germany, Italy itself, the Netherlands, Spain and the UK) which was 8.4% in the same period. These statistics highlight the continuing pressure on operating cash flow for Italian companies, as credit conditions improve only slowly, input price inflation continues to rise strongly, and business profits (especially in the domestic market) remain sluggish.

Export Credit Agencies

US Eximbank	Full cover available
Atradius	Cover available subject to conditions
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

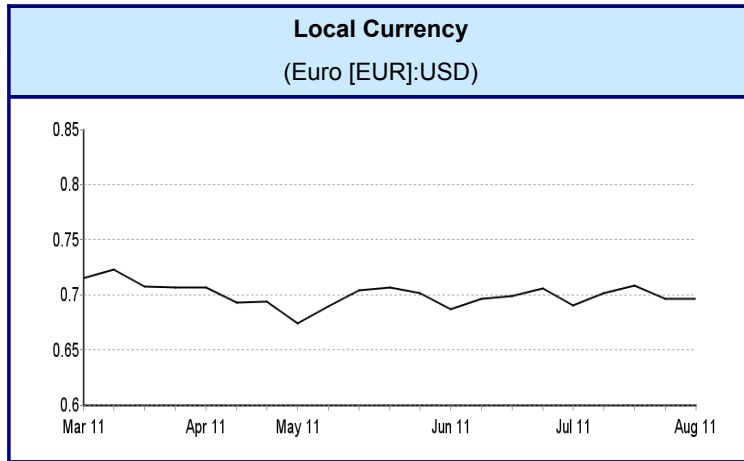
Economic Indicators

	2008	2009	2010e	2011f	2012f
Real GDP growth, %	-1.3	-5.2	1.3	0.7	1.1
Inflation, annual ave, %	3.4	0.8	1.5	2.8	2.2
Govt balance, % GDP	-2.7	-5.4	-4.6	-3.8	-2.9
Unemployment, %	6.7	7.8	8.4	8.0	7.8
C/A balance, % GDP	-3.4	-3.1	-3.6	-3.5	-3.6

Inflation and unemployment are based on EU-harmonised data; "Payments Performance" chart reflects experiences of EU rather than US companies.

Currency Information

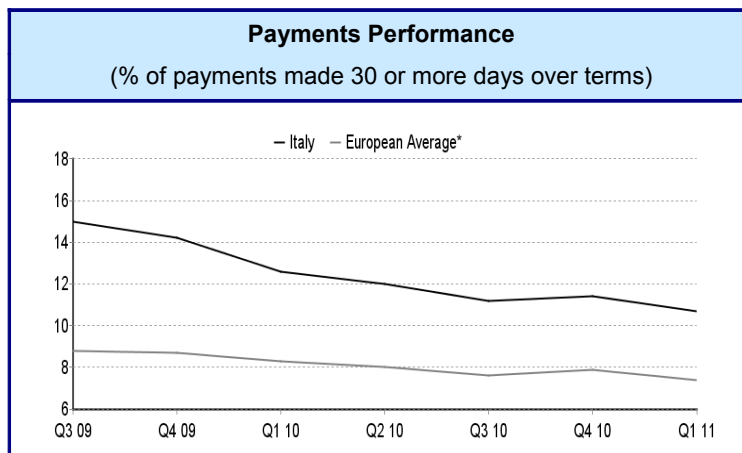
Exchange Rates	
(London, 25 Jul 11)	
GBP	1.1355
JPY*	0.8884
USD	0.6961
*(x 100)	



Local Currency
(Euro [EUR]:USD)

	Mar 11	Apr 11	May 11	Jun 11	Jul 11	Aug 11
Week 1	0.715	0.707	0.674	0.686	0.690	0.696
Week 2	0.723	0.693	0.689	0.696	0.701	
Week 3	0.707	0.694	0.704	0.699	0.708	
Week 4	0.707		0.707	0.706	0.696	
Week 5			0.701			

Payments Performance



Data Table

Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11
15.0	14.2	12.6	12.0	11.2	11.4	10.7
8.8	8.7	8.3	8.0	7.6	7.9	7.4

Risk Factor

We have downgraded Italy's country risk rating from DB3a to DB3b amid rising sovereign debt risk, significant political uncertainty and sluggish growth prospects. On July 18 government bond yields hit a 14-year high at 6.02%, while the spread over German bond yields reached a euro-era peak of 3.37%. This was mainly the result of rising fears that a spat between Prime Minister Silvio Berlusconi and Finance Minister Giulio Tremonti over fiscal policy might lead to the latter's resignation and a deterioration in Italy's budget deficit and public debt: whereas Berlusconi wanted to reduce income tax in order to boost his flagging popularity, Tremonti ruled out this possibility, triggering a harsh behind-the-scenes clash. Positively, the markets' reaction caused the authorities to set aside their differences and approve within a week a series of fiscal consolidation measures that managed to soothe investors' concerns, at least temporarily; the plan is to reduce the deficit by EUR48.0bn in 2011-14, thus reaching a balanced budget by 2014; that said, around EUR40.0bn will have to be found in 2013 and 2014, after the next elections. This means that the government has decided to postpone the most difficult decisions, thus raising doubts about the authorities' determination to pursue the path of fiscal stabilisation and debt reduction.

Overall, Italy's debt position remains more solid than that of Greece or Portugal, for example. We anticipate that Italy's budget deficit will come in at 3.8% of GDP in 2011, well below most peripheral euro-area economies. Moreover, the country's total external debt, private sector liabilities, international investment position and public debt maturity are relatively benign. Nevertheless, three main factors weigh negatively on the medium and long-term debt outlook. First, Italy's public debt is very high, as it was equivalent to 119.0% of GDP at the end of 2010, the second-highest in the EU. Second, growth prospects are sluggish, as the economy suffers from low productivity, weak competitiveness and significant constraints to doing business. Third, endemic government instability means that the authorities are unwilling to tackle the country's long-standing economic problems. As a result, we remain sceptical about Italy's medium and long-term ability to boost economic growth in order to repay its considerable public debt.

Negatively, rising sovereign debt risk also weighs negatively on Italian banks' large refinancing costs, thus undercutting profitability. That said, the financial sector's resilience to shocks is improving, according to the European Banking Authority's latest stress tests published in July; this was the result of the central bank's effective drive to push local financial institutions to strengthen their capital buffers in recent years. We believe that financial sector risk will continue to decrease slowly during our forecast period.

Glossary & Definitions

DEFINITIONS

Minimum Terms:

The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:

D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms:

Normal period of credit associated with transactions with companies in the stated country.

Local Delays:

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

F/X Bank Delays:

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

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