Why Italy?

Summary
Area: 301,340 sq km (including Sardinia and Sicily)

Population: 60.8 million (Forecast 62 m by 2020)

Population growth rate (% change): 0.3

Population density (people per sq km): 208.5

Urban population: 68.8%

Capital city: Rome (pop. 3 m)

Other major cities: Milan (1.5 m); Naples (1 m); Turin (900,000)

Official language: Italian

Currency: Euro €

Nominal GDP: US $2,147.7 bn

Real annual GDP Growth: -0.4%

GDP per capita: US $35,335

Annual inflation rate: 0.2%

Unemployment rate: 12.7%

General government gross debt: 132.1% (of GDP)

Fiscal balance: -3.0% (of GDP)

Current account balance: 1.9% (of GDP)

Current account balance: US $41.1 bn

Exports of goods to UK: US $27,757 m

Imports of goods from UK: US $13,375 m

Inward direct investment flow: US $16.5 bn

Exports + imports as share of GDP: 56%

[Source: mostly FCO Economics Unit (Latest update, Oct 2015)]

International organisation participation: Italy is a founding member of the North Atlantic Treaty Organisation (NATO), in 1949, and of the European Community (precursor of the European Union) in 1957; a member of GATT/WTO, OECD, G7 as well as OSCE and Council of Europe.

[Source: FCO (Feb 2016)]

Background

Geography Italy is located in southern Europe from the Alps in the north and jutting south into the Mediterranean Sea. South of the Alps is the large plain of the River Po, draining eastwards into the Adriatic Sea. South of this valley, and running the length of the country to the southern tip are the Apennine Mountains. In addition to the mainland, Italy includes the Mediterranean islands of Sicily to the south, and Sardinia to the west.

Its total area is 301,340 km2 (116,350 sq. miles), and it lies between latitudes 35° and 48° N, and longitudes 6° and 19° E. Italy borders with Switzerland, France, Austria and Slovenia, plus the two small enclaves of San Marino and Vatican City.

Government overview Italy is a democratic country with a population of about 60.6 million living on a total area of 116,344 sq. miles. It is a founding member of the North Atlantic Treaty Organisation (NATO), in 1949, and of the European Community (precursor of the European Union) in 1957; a member of GATT/WTO, OECD, G7 as well as OSCE and Council of Europe. The Italian Republic came into existence in June 1946 after the end of the Second World War.

The current President, Sergio Mattarella, was elected in February 2015. Parliament has legislative powers and is composed of a Senate (315 seats) and a Chamber of Deputies (630), both directly elected and with equal authorities. A reform of the Senate to overcome perfect bicameralism is currently under discussion.

Matteo Renzi became Prime Minister in February 2014. He heads a multi-party coalition, comprising his centre left Democratic Party, the New Centre Right (NCD) and smaller centrist parties (Civic Choice, UDC and For Italy), which has a majority in both the Senate and Chamber. The main opposition parties represented in parliament are the populist 5 Star Movement (M5S), Forza Italia, SEL (Left, Ecology and Freedom), and the anti-immigration/euro Northern League.

Renzi has begun a process of reforms, starting at a fast pace. His ambitious programme covers labour market, electoral, judicial, education, public administration, fiscal and constitutional reform. Though there has been progress with the approval of some flagship reforms, such as electoral, labour market and education, the challenge is to maintain momentum.

Human rights Italy's international commitment is based on an open dialogue approach respectful of diversity but founded on the principle of universal human rights. It goes hand-in-hand with support for the social and economic development of the least advantaged nations through cooperation programmes. As a member of the United Nations, Italy makes use of a series of bilateral and multilateral instruments, both universal and regional. Their general aim is to strengthen shared standards in the field of human rights and design mechanisms by which to monitor compliance with and the application of those standards. This also involves Italy's civil society and, in particular, NGOs and citizens' associations active in this field. For more information visit the Ministry for Foreign Affairs website: www.esteri.it/mae/en/politica_estera/temi_globali/diritti_umani/litalia_e_i_diritti_umani.html. Italy is also a member of the International Labour Organization (ILO) and transposes its directives.

[Source: FCO Overseas Business Risk (Feb 2016)]

Economic overview In the international ranking of developed economies, Italy holds 8th position in terms of nominal GDP ($2,147 billion, International Monetary Fund statistics, 2014). The Eurozone crisis hit Italy hard and was led by a strong contraction in domestic demand (consumption and investment), also due to persistently tight credit conditions, the sizeable fiscal adjustment and depressed confidence, with private investment 30% below its 2008 level, while trade figures have confirmed a positive trend.

After a three-year recession (-2.7% in 2012, -1.7% in 2013 and -0.4% in 2014), the economic situation is now slowly improving, also due to the launch of a Quantitative Easing programme by the European Central Bank, the depreciation of the euro, and lower oil prices.

Projected growth rates by the main international financial institutions indicate a slight increase of GDP of about 0.6-0.7% in 2015 and of 1.1-1.4% in 2016, supported by exports and domestic demand. However, the government is facing the risk of a jobless recovery: the unemployment rate was at a post-war high of 12.7% in 2015, with youth unemployment at 40.9%.

Despite six years of fiscal consolidation, the highest primary surplus in the EU (around 1.5% of GDP) and a significant households' saving capacity, the government debt-to-GDP ratio puts a heavy burden on the economy: it was 132.1% in 2014 and was expected to peak at above 133.7% in 2015 (IMF World Economic Outlook, April 2015). The structural balance as a percentage of potential GDP was -0.89% for 2014 and -0.37% in 2015. In 2014 the budget deficit stayed below the 3% threshold (IMF projections). These efforts were essential for strengthening confidence in Italy's fiscal position. Indeed, sovereign financing pressures have subsided and Treasury debt auctions have seen renewed interest from long-term institutional investors, both domestic and foreign. The cost of borrowing for the government dropped in 2015, as Italy's yields on ten-year government bonds fell below 2%, although the consequences of the Greek case which exploded in June 2015 are still unpredictable.

On the other hand, the seeds of Italy's economic difficulties pre-date the crisis and stem from the loss of competitiveness of Italian industry, a complex bureaucracy, a slow judicial system, high energy costs, high corporate tax burden, corruption and tax evasion and an over-leveraged public sector.

Because of these difficulties, Italy is not a straightforward country in which to do business. Italy ranks 45th out of 189 nations in the World Bank's 'Ease of Doing Business Index' for 2015. It also lags behind the largest economies for Foreign Direct Investment attractiveness. Nevertheless, in Italy there are over 13,000 foreign businesses (800 of them are large companies) and FDI reached a total value of US $403,746 million in 2013 (UNCTAD statistics).

[Source: FCO Overseas Business Risk (Feb 2016)]

Growth potential High public debt and weak external competitiveness contributed to a contraction of the Italian economy following the global economic crisis. A strong acceleration is expected in 2015/16. Whilst 85% of Italy's FDI comes from North America and Europe, there have been stronger activities from China, India, Russia and other Asian countries (+255% since 2000). The stock of UK FDI in Italy has increased steadily in the last five years, recovering to pre-crisis levels.

Italy's economy is now emerging slowly from recession. Estimates by the European Commission, Bank of Italy, International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) released recently indicate a moderate increase in GDP of 0.5 to 0.6% in 2015 and 1.1 to 1.4% in 2016. See: www.ec.europa.eu/index_en.htm; www.imf.org/external/index.htm; www.bancaditalia.it/homepage/index.html?com.dotmarketing.htmlpage.language=1 and www.oecd.org.

[Source: Department for International Trade (DIT)/UK Export Finance (Feb 2016)]

Benefits for UK businesses exporting to Italy

Italy has a long-standing trade relationship with the UK. It is a major advanced economy with a Gross Domestic Product (GDP) of USD $2,148 billion in 2014. Italy is the second largest manufacturer in Europe behind Germany.

Italian companies are globalising. Most are small and medium enterprises (SMEs) which require professional services to grow internationally.

Benefits for UK businesses exporting to Italy include:

- similar regulatory framework to UK and modern intellectual property protection practices
- appreciation for British professional services and technologies and quality consumer goods
- easy access from the UK with low cost flights from several regional airports
- only one hour ahead of UK time

Strengths of the market

Strengths of the Italian market include:

- modern infrastructure
- high level of internationalisation and entrepreneurship, with fully integrated supply chains
- strong manufacturing and innovation capability in several areas
- gateway to Mediterranean and Middle-East markets, where the lifting of Iranian sanctions could increase exports by EUR €3 billion over the next four years
- hosts many trade exhibitions with global appeal
- one of the world’s highest rates of household wealth
- one of the world’s top-five tourist destinations

Read the practical guide to doing business in Europe, at: www.europa.eu/youreurope/business/index_en.htm

In addition:

- In 2014 Italy was ranked 69th out of 175 countries in Transparency International's latest corruption perception index (the UK ranked 14th): www.transparency.org/cpi2014/results

- Italy is ranked 45th out of 189 in the World Bank’s 2015 Ease of Doing Business index (the UK ranked 6th): www.doingbusiness.org/rankings

- The World Economic Forum’s Global Competitiveness report ranks Italy 49th out of 144 for 2014-15 (the UK is ranked 9th): www.weforum.org/reports/global-competitiveness-report-2014-2015

Contact a Department for International Trade (DIT) export adviser at: www.greatbusiness.gov.uk/ukti for a free consultation if you are interested in exporting to Italy.

Contact UK Export Finance (UKEF) about trade finance and insurance cover for UK companies. You can also check the current UKEF cover position for Italy. See: www.gov.uk/guidance/country-cover-policy-and-indicators#italy

Trade between the UK and Italy

Bilateral trade in goods was valued at £25.7 billion in 2014, a 6.6% increase over 2013. UK goods exports to Italy totalled £8.9 billion in 2014, a 3.11% increase on 2013. This made Italy the 10th largest market for UK exports of goods and the 8th trade partner for imports of goods. See: Office for National Statistics www.ons.gov.uk

The main exports of goods by value from the UK to Italy in 2014 were:

- crude petroleum

- basic chemicals, fertilisers and nitrogen compounds, plastics and synthetic rubber

- motor vehicles

- pharmaceutical products and preparations

- natural gas

Whereas Italy has a trade surplus for goods, over the past few years the UK has experienced a significant surplus in trading in services with Italy.

UK exports of services to Italy totalled £2,411 million in 2013. This does not include data for the travel, transport and banking sectors.

According to the Inward Investment Report 2014-15 published by the Department for International Trade (DIT), Italy continues to be one of the top source markets for FDI projects in the UK, with 91 projects, over 1,200 new jobs and over 940 safeguarded jobs in the FY 2014/15.
See: www.gov.uk/government/publications/ukti-inward-investment-report-2014-to-2015/ukti-inward-investment-report-2014-to-2015-online-viewing

[Source: FCO Overseas Business Risk (July 2015); Department for International Trade (DIT) *(Nov 2015)]*

Free Trade Agreements (FTAs)

Italy is a member of the EU, the World Trade Organization (WTO) and other international bodies. Goods manufactured in the UK are currently exempt from import duties.

SOLVIT is a free service provided by the national administration in each EU country and in Iceland, Liechtenstein and Norway, providing solutions to problems with EU rights. Contact the SOLVIT team at: www.ec.europa.eu/solvit/index_en.htm if you have market access issues relating to the operation of the Single Market.

[Source: Department for International Trade (DIT) (June 2016)]

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