All roads lead to…
…The Mediterranean?
Yes. Even bumpy ones!

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Genoa – September 20, 2013

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Agenda

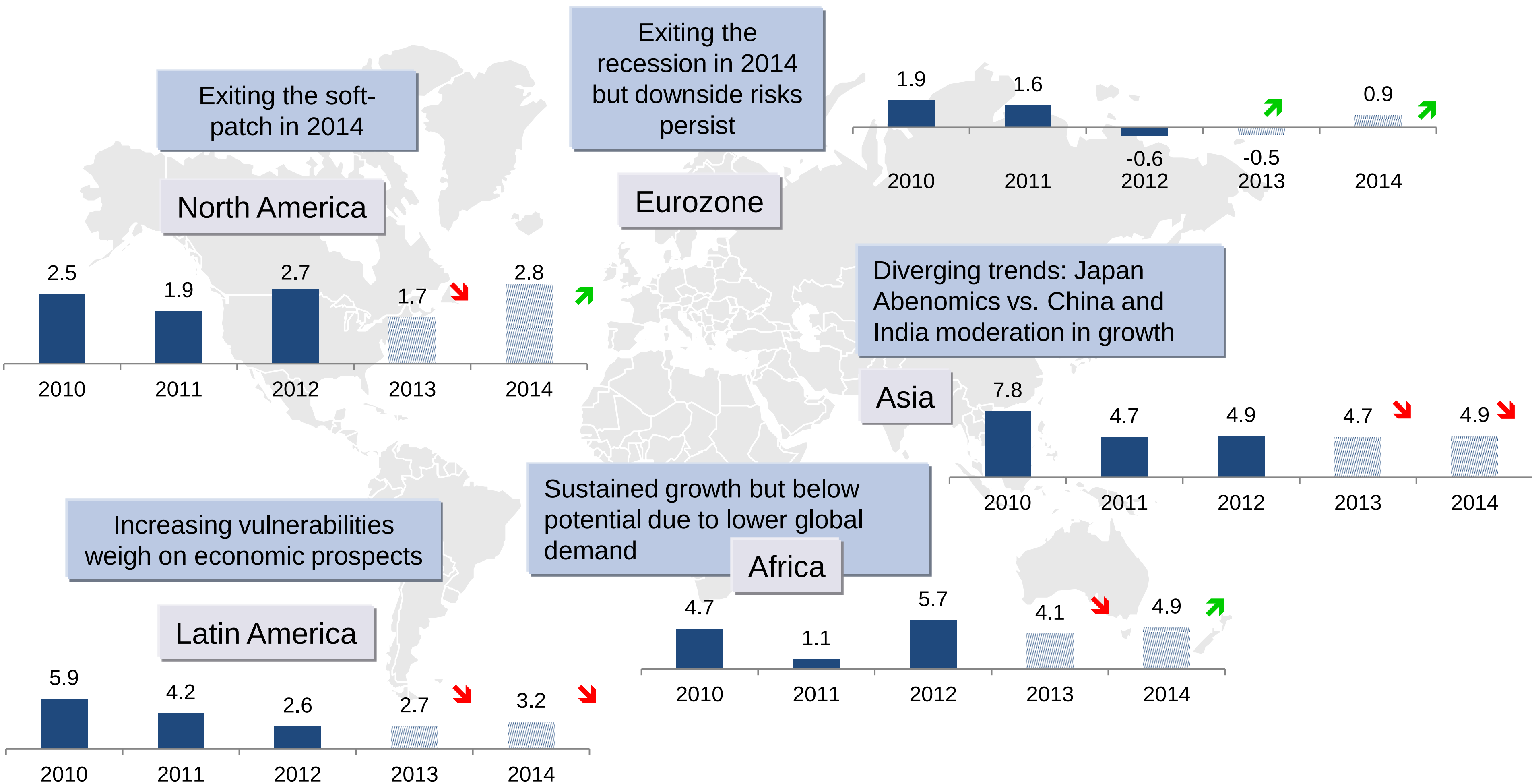
1 **Half-baked global recovery**

2 Italy: A future to build back

3 The Mediterranean Region: Turning the tide

Improving prospects in the advanced economies compensated by the slowdown in emerging markets

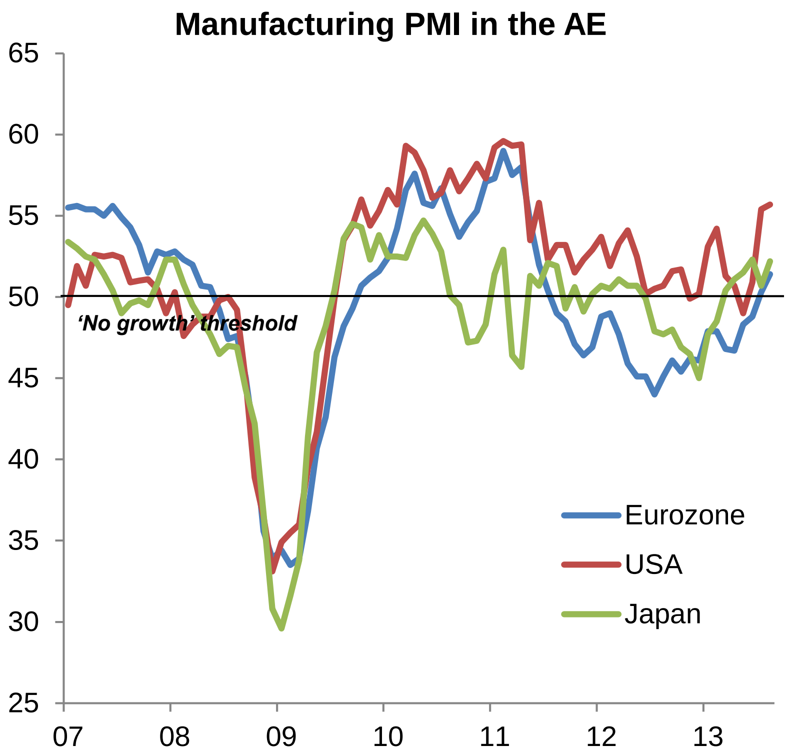
World GDP to grow by 2.2% in 2013 and by 3.1% in 2014



Source: Euler Hermes

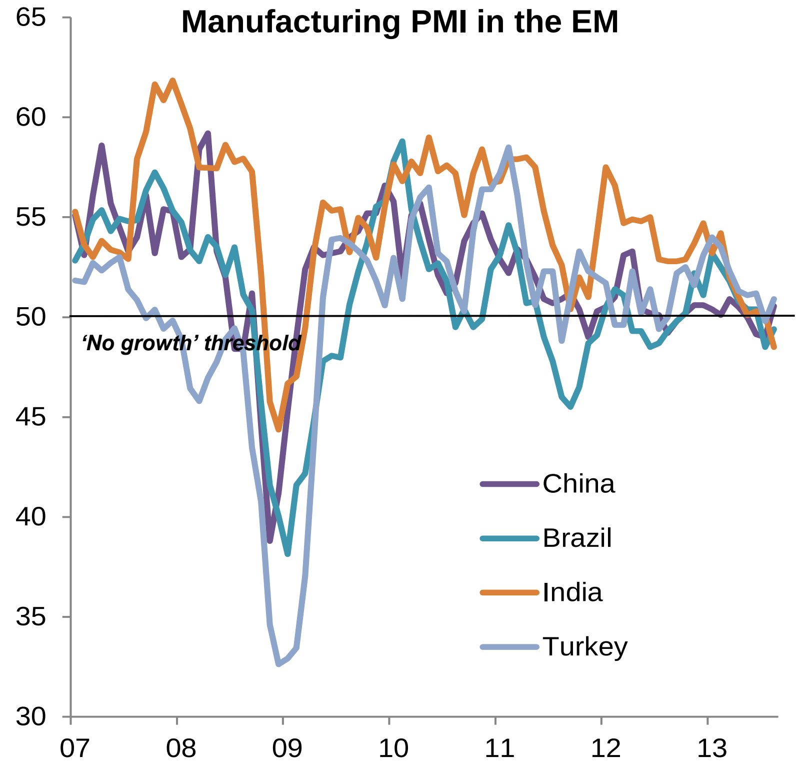
Diverging trends in the global business climate

Business confidence improved in the advanced economies suggesting better economic prospects…



Sources: Markit, Euler Hermes

…while optimism is deteriorating in the emerging markets pointing to an economic slowdown

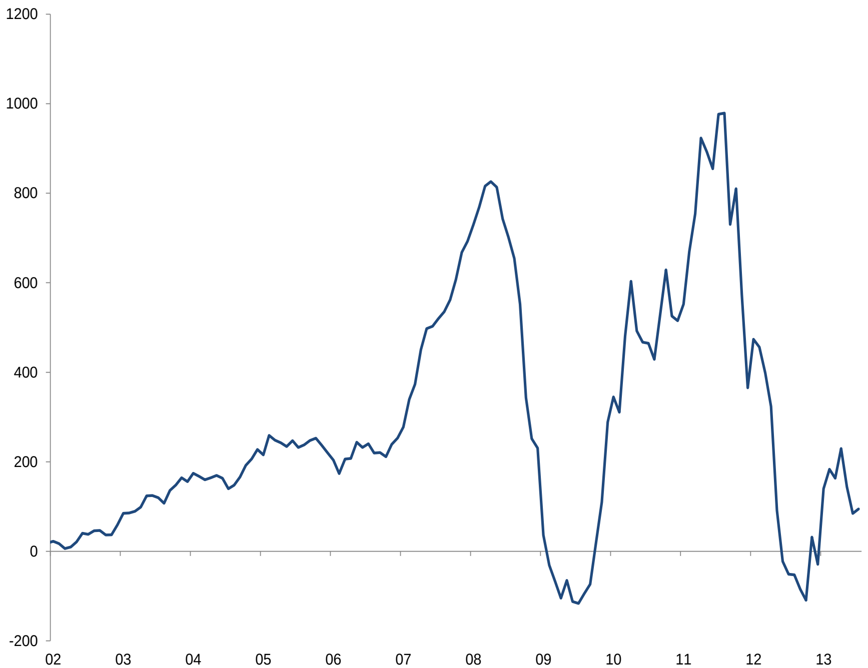


Sources: Markit, Euler Hermes

The ‘monetary tsunami’ to calm down…

Capital outflows accelerated in some of the emerging markets

Proxy for capital inflows (USDbn, 12m average)

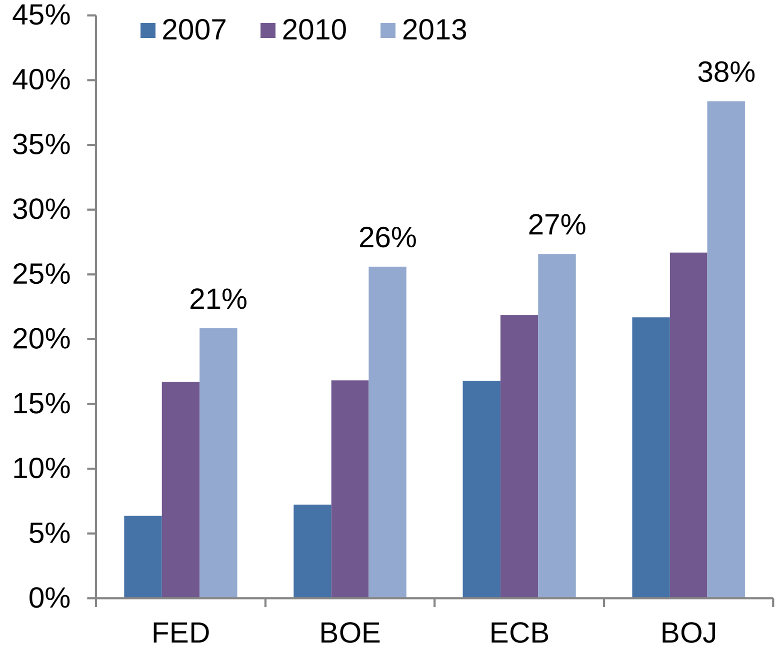


NB: Countries included in the proxy: Brazil, China, Colombia, India, Indonesia, Mexico, Poland, Russia, South Africa, Thailand, Turkey

Sources: IHS Global Insight, IMF, Euler Hermes

Fed QE tapering to start by Jan. 2014, but the BoJ is likely to hold global liquidity

Central Banks’ balance sheets, % of GDP

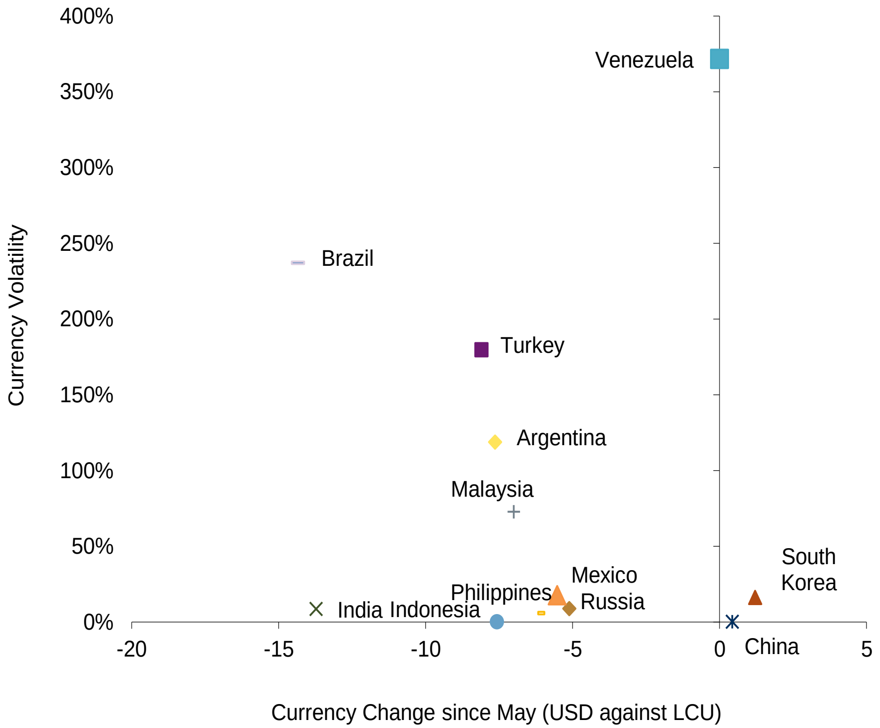


Sources: Bloomberg, Euler Hermes

…but not without second-round effects (1)

Higher risk of depreciation of currency

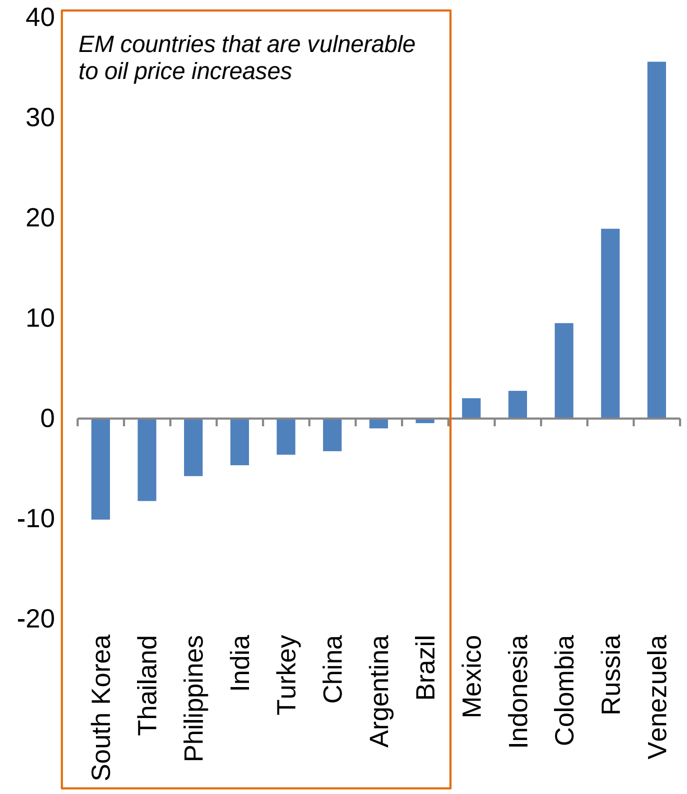
Exchange rate variation since May 2013 vs. FX volatility



Sources: IHS Global Insight, Euler Hermes

And oil dependency increases vulnerabilities

Net oil exports, % of GDP

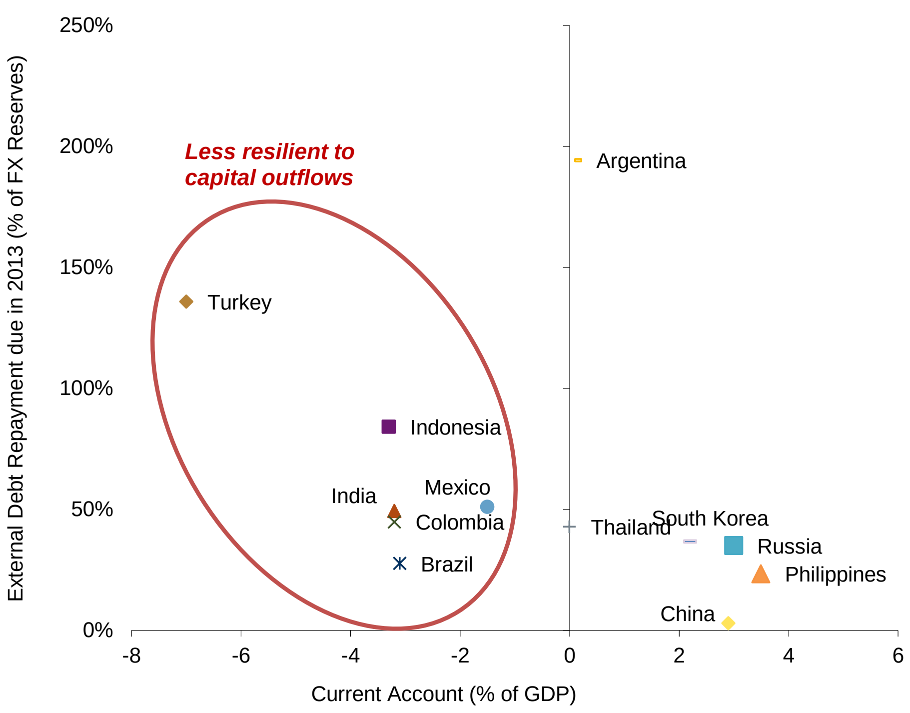


Sources: Chelem, Euler Hermes

…but not without second-round effects (2)

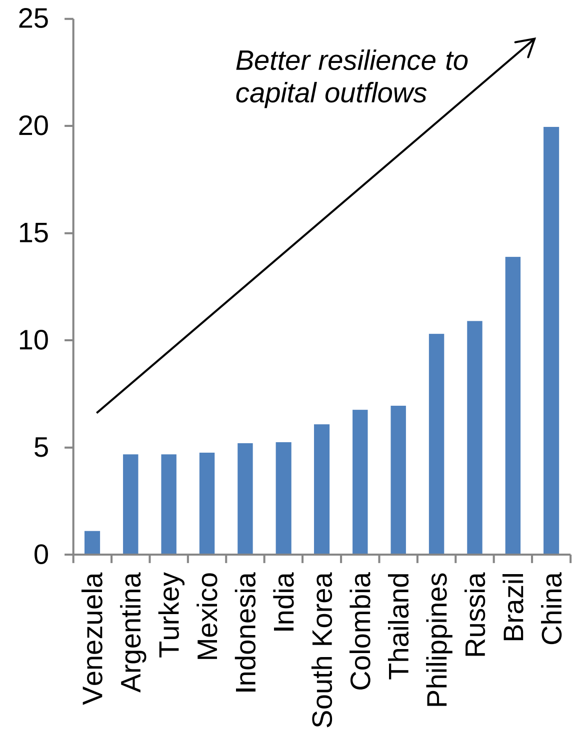
Liquidity risk in some countries is particularly high!

Current account vs. external debt repayments in 2013



Sources: IHS Global Insight, Euler Hermes

Import cover (in months of FX reserves)

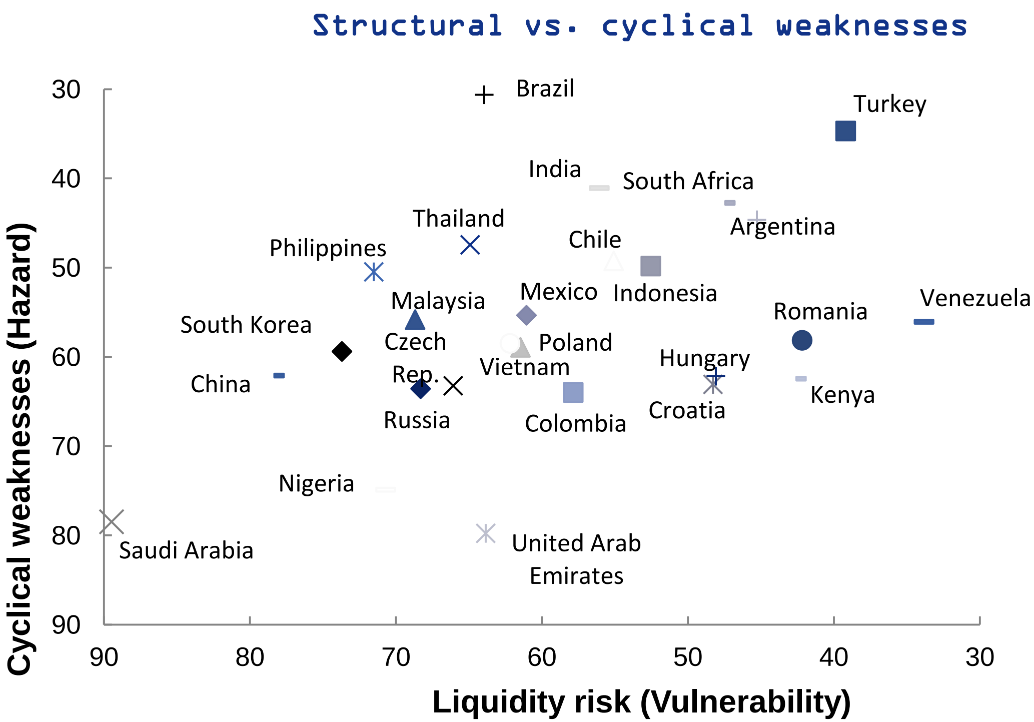


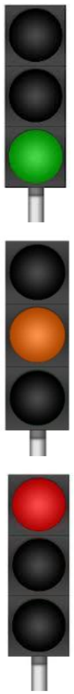
Sources: IHS Global Insight, Euler Hermes

…but not without second-round effects (3)

Structural vs. cyclical weaknesses:

Turkey, South Africa, Argentina, Morocco and Brazil are currently particularly at risk





Most resilient	Saudi Arabia Nigeria UAE China Russia
Moderately resilient	South Korea Czech Republic Malaysia Colombia Poland
Most vulnerable	Turkey South Africa Argentina Morocco Brazil

*N.B.: **'Vulnerability'** measures structural weaknesses of a country taking into account current account balance, external debt repayments, import cover and credit growth*

***'Hazard'** measures cyclical weaknesses of a country taking into account currency risk, oil dependency, financial risks (equity markets, bond markets, real interest rates)*

Source: Euler Hermes

Looking for Reconnection?
The world at a crossroads for the next few years…

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 # Disconnect

1) Decoupling within and between regions

2) Further divergence between real and financial spheres

3) Institutional blockade

Wealth effects feed the real economy

Monetary policies channels are restored and aligned

Confidence is restored

Yes

 # Reconnect

1) Global recovery with eurozone out of recession

2) USA, Japan to grow at moderate rates and emerging economies to grow at lower risk

3) Inflationary risks are subdued

Sound fiscal policy

Balanced competition (end of currency wars)

Protectionism and political risk fade away

Yes

 # Reconnect 2.0

1) Global growth to accelerate and sovereign risk to lower

2) Efficient specialization

3) New economic forces and leaders emerge

No

 # Depression relapse

1) Recession(s) and devaluation(s)

2) Industry and social fabrics at risk

3) A world of volatilities

No

 # Re-crisis

1) Global demand collapses

2) Financial crisis and deflationary pressures prevail

3) Eurozone to enter a third year of recession, rise in social unrests

Source: Euler Hermes

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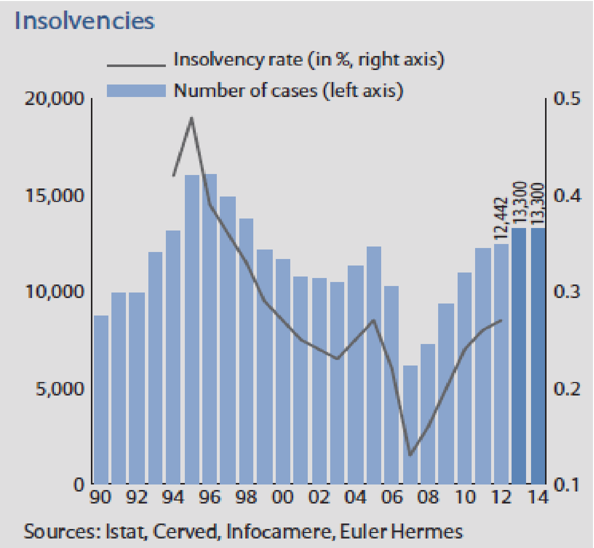
Rome was not built in one day

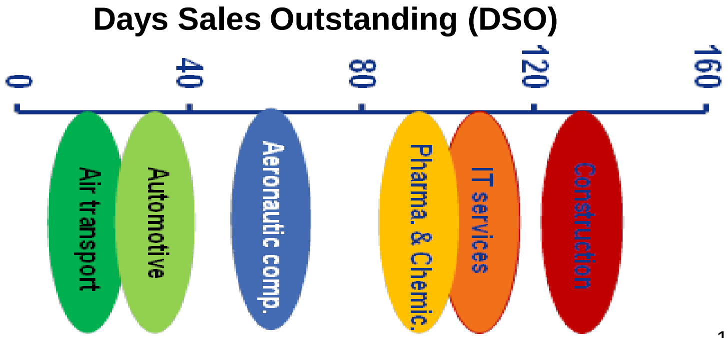
Second consecutive year of recession in 2013 (-1.8%) before a mild recovery in 2014 (+0.3%)

Italy		poids	2011	2012	2013	2014
GDP		100%	0.5	-2.4	-1.8	$\boxed{0.3}$
Consumer Spending		60%	0.1	-4.3	-2.6	-0.7
Public Spending		21%	-1.2	-2.9	0.0	0.0
Investment		19%	-1.4	-8.0	-5.6	-1.9
Stocks	*	0%	-0.5	-0.6	-0.3	-0.1
Exports		28%	6.6	2.2	-0.1	$\boxed{3.7}$
Imports		28%	1.1	-7.8	-3.6	-0.2
Net exports	*	0%	1.5	2.8	0.9	1.2
Current account	**		-48	-8	11	20
Current account (% of GDP)			*-3.1*	*-0.5*	*0.7*	*1.3*
Employment			0.3	-0.4	-1.4	-1.0
Unemployment rate			8.4	10.7	12.0	12.9
Wages			1.8	-0.2	0.6	0.1
Inflation			2.8	3.0	1.3	1.1
General government balance	**		-58	-45	-47	-39
General government balance (% of GDP)			*-3.7*	*-2.9*	*-3.0*	*-2.5*
Public debt (% of GDP)			*120.8*	*127.0*	*131.5*	*136.1*

Sources : IHS Global Insight, Euler Hermes

Insolvencies on the rise for the 6th consecutive year (+7% in 2013) before stabilizing in 2014; DSOs at 100 days on average: 40 days to go!

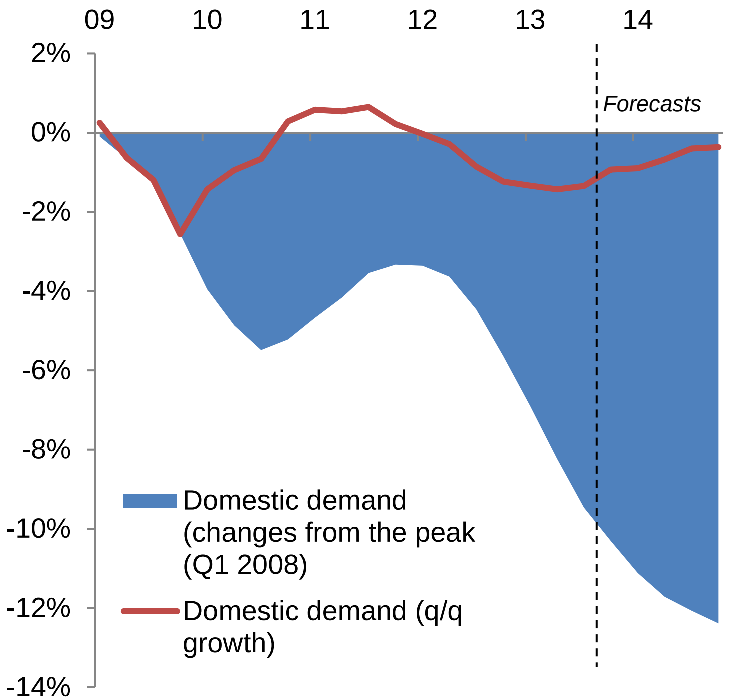




Two Crunches: Demand and Credit
One solution: Confidence

Fall in domestic demand (-11%) since the pre-crisis peak. More to come…-13% at end-2014!

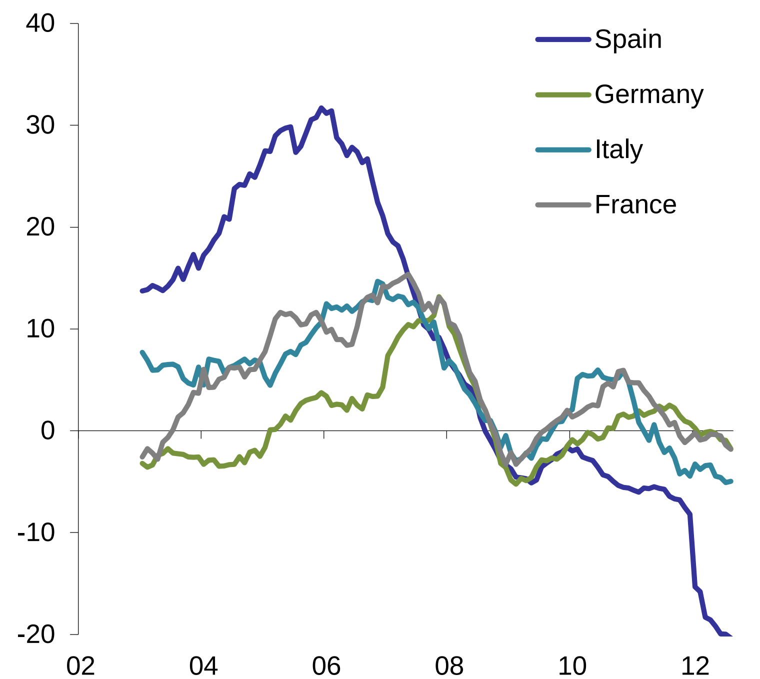
Changes in domestic demand since Q1 2008



Sources : IHS Global Insight, Euler Hermes

Funding pressures continue to be elevated

Credit to non-financial corporations, y/y, %



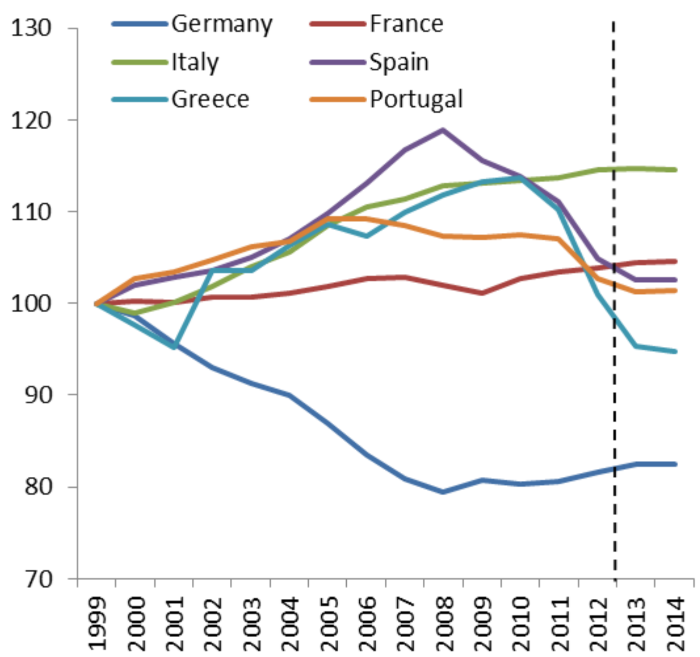
Sources : ECB, Euler Hermes

(Cost) competitiveness should be improved…

Germany 2 – Italy 0

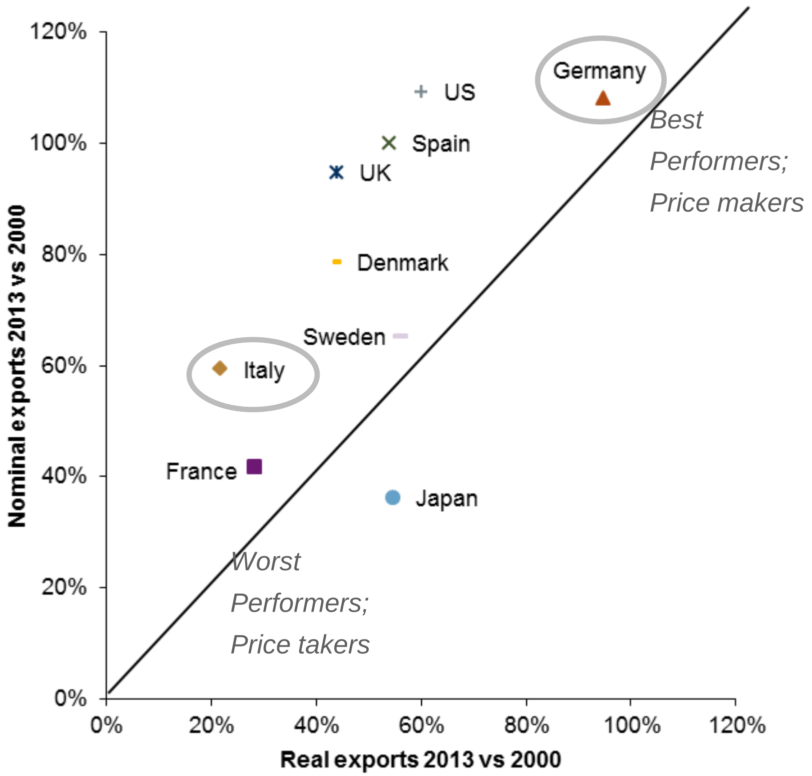
Competitiveness is dampened by productivity issues and high labor costs

Nominal unit labor costs, index 1999 = 100



Sources : OECD, Euler Hermes

Italian exports are mainly oriented towards mid-range tech products



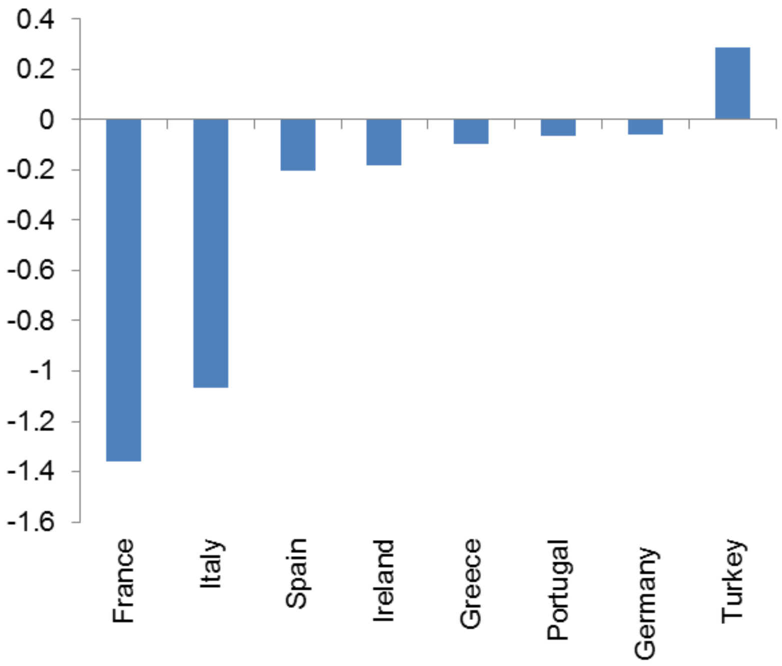
Sources : IHS Global Insight, Euler Hermes

… as exports could be Italy's salvation but the window of opportunity is now!

Italy 2 – France 0

Decrease in global export market share

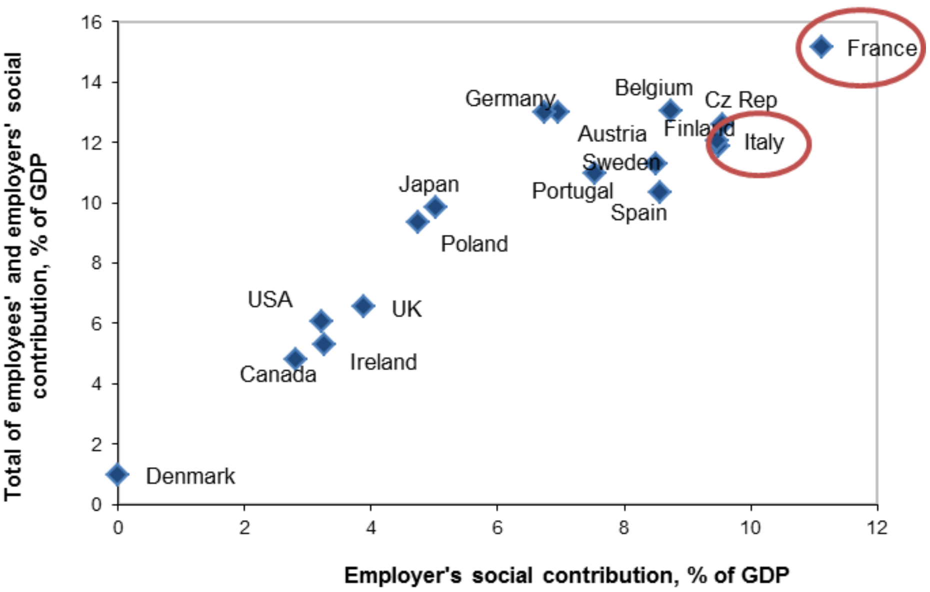
Global export market share, % change 2012 vs. 2000



Sources : Eurostat, Euler Hermes

High fiscal pressure on firms

Tax burden on businesses

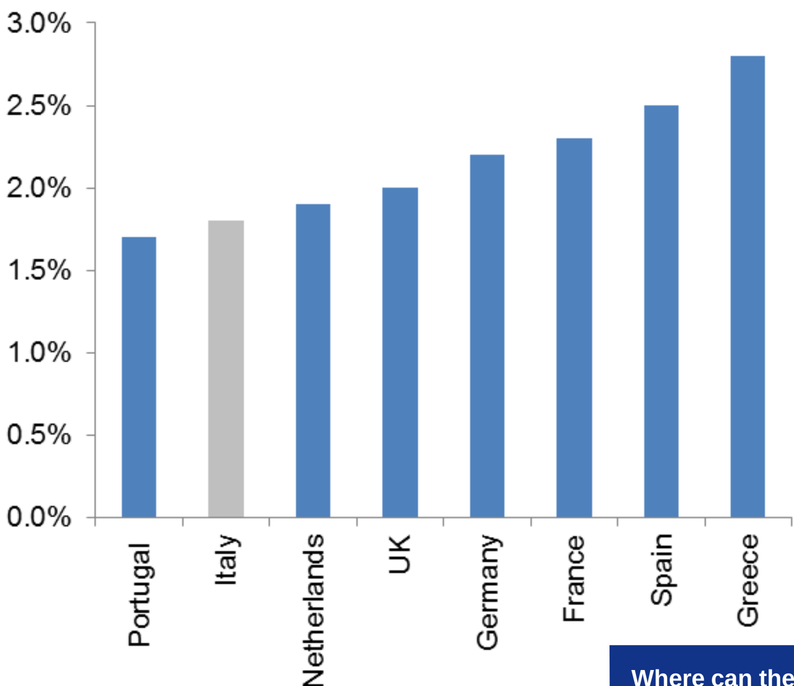


Sources: OECD, Euler Hermes

Two Assets: Diversification and *"Made In Italy"*

The structure of Italian exports remains one of the most diversified in the world

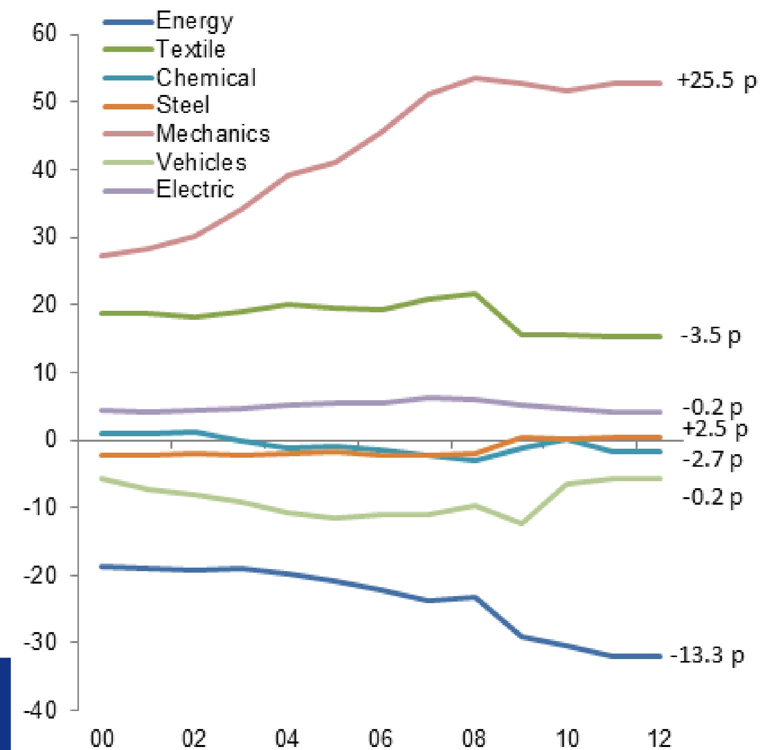
Export concentration by product index



Sources: Chelem, Euler Hermes

Important comparative advantage in some niche sectors especially mechanics and textile

Comparative advantages by sector for Italy



Sources: Chelem, Euler Hermes

Where can these goods go?

- GCC: Vehicles, Electrical equipments, Pharmaceuticals, Steel
- Turkey: Textile, Electrical equipments
- Morocco: Steel, Electrical equipments and components

Go for new trade routes… and not necessarily that far…

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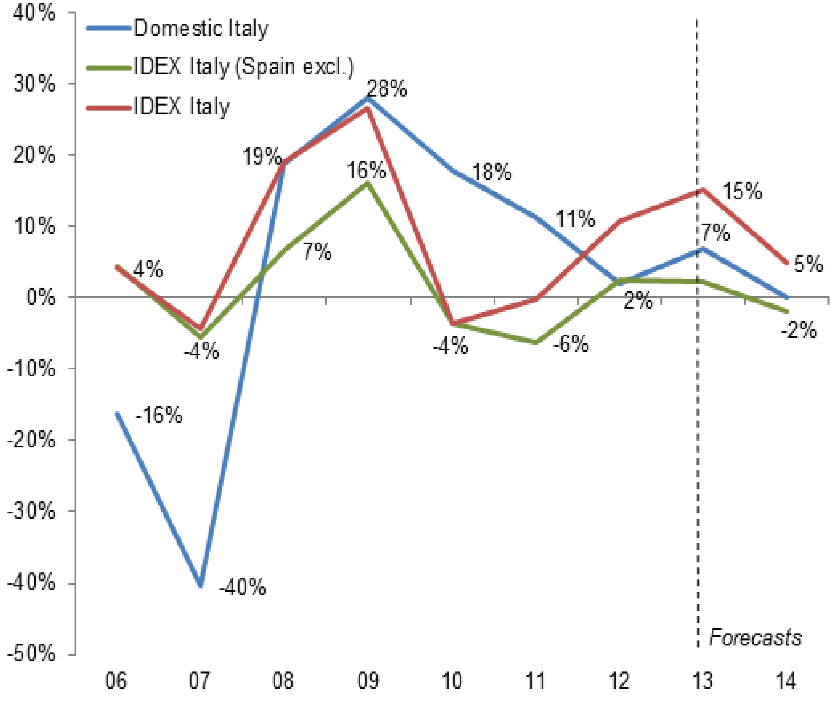
Exporting outside the euro zone is less risky than trading domestically (or so it looks)

Change in insolvencies

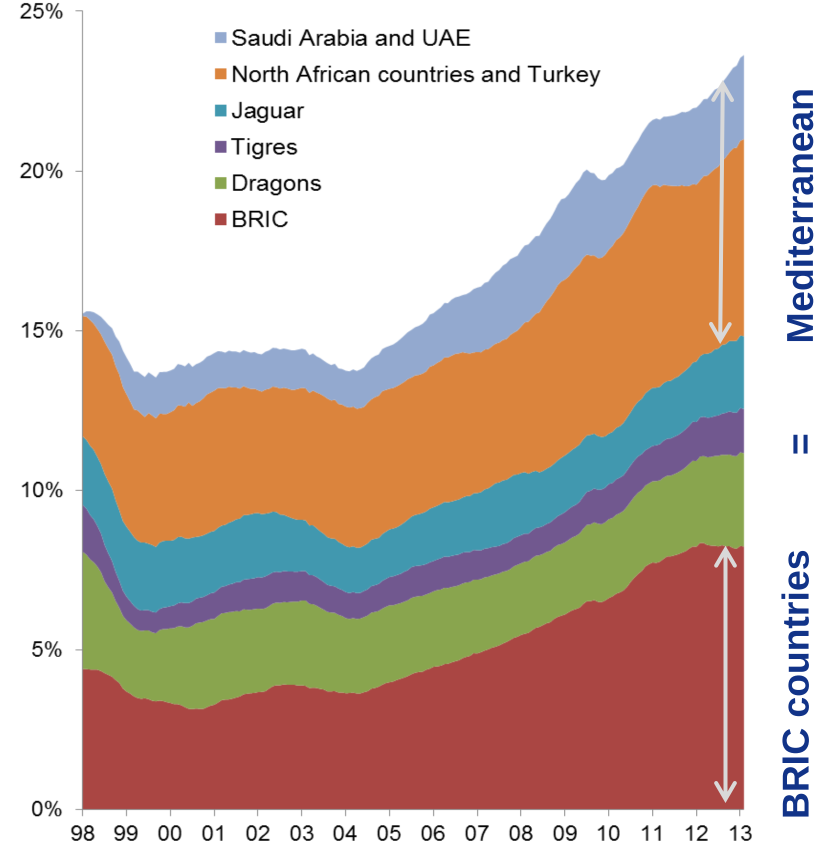


Sources: Euler Hermes

* **IDEX stands for the Insolvency Index for Exporters**

The Mediterranean Bonanza

Export share by destination



* **BRIC:** Brazil, Russia, India and China
Dragons: Singapore, Hong-Kong and South Korea
Tigers: Thailand, Malaysia, Indonesia, Vietnam and Philippines
Jaguars: Mexico, Argentina, Chile, Colombia and Venezuela

Source: Global Insight, Euler Hermes

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The *new* Mediterranean region goes further than its coastlines (if you include GCC countries)

Four time zones but as many growth rates (and risks) as you have countries

	Country risk	GDP forecast 2013	GDP forecast 2014
France	AA1	0.2	0.6
Italy	AA3	-1.8	0.3
Spain	AA3	-1.4	0.1
Turkey	C3	3.3	4.0
Saudi Arabia	BB1	4.0	4.5
UAE	BB1	3.5	4.0
Egypt	D4	2.5	4.0
Greece	AA4	-4.2	-0.3
Israel	BB1	2.7	4.0
Algeria	C3	3.5	4.5
Qatar	BB1	4.5	5.0
Kuwait	BB1	4.0	3.0
Morocco	B2	4.5	4.5
Libya	D4	-5.0	5.0
Oman	BB1	5.0	6.0
Croatia	C4	-0.5	1.0
Syria	D4	-14.0	-10.0
Slovenia	AA3	-3.0	-0.5
Tunisia	B3	3.0	4.0
Lebanon	D4	2.0	3.5
Bahrain	B3	3.5	3.5
Cyprus	AA4	-8.5	-4.5
Albania	D4	1.8	2.5
Malta	AA2	1.0	1.2
Monetenegro	D4	0.7	2.0

Source: Euler Hermes

Three economic clusters

1. Aging Europe: France, Italy and Spain

• Strengths: Strong R&D, skilled labor force, high value-added industries + Infrastructure and institutions

•Weaknesses: Depressed demand and supply + Ongoing deindustrialization + Confidence crisis

2. *Abtals* (Champions): Morocco, Algeria, Tunisia

• Strengths: Solid natural resources and demography + Competitive labor cost + Industrialization

•Weaknesses: Lack of infrastructure and poor business climate + Low skilled labor force + High political risk +High dependency on natural resources

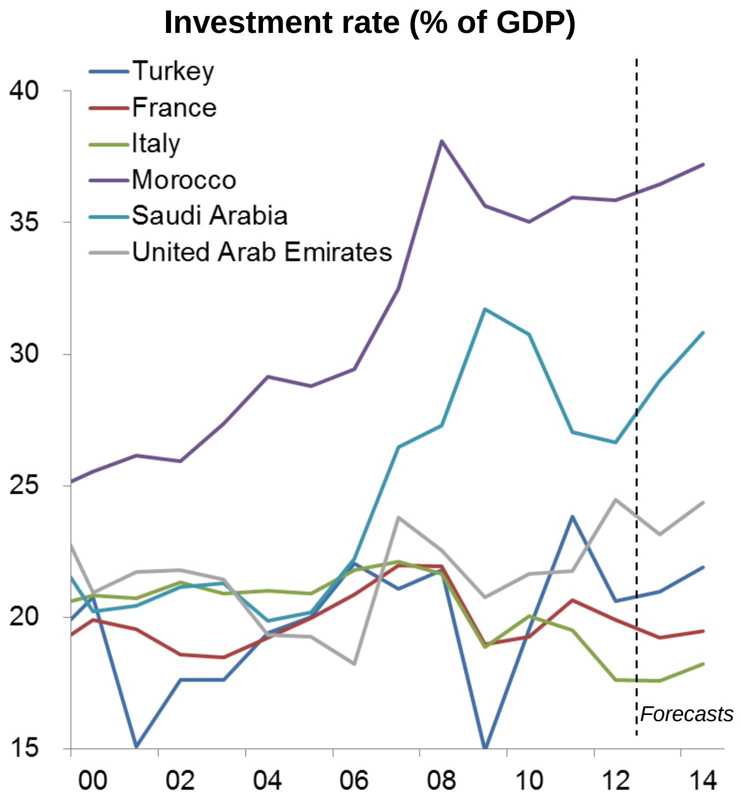
3. Gateway to Asia: Turkey, United Arab Emirates and Saudi Arabia

•Strengths: Ongoing industrialization + Rising middle class and wealth + Solid financial systems + Strengthening trade with Asia

•Weaknesses: Social and political stress + High capital flows vulnerability + High dependency on energy prices

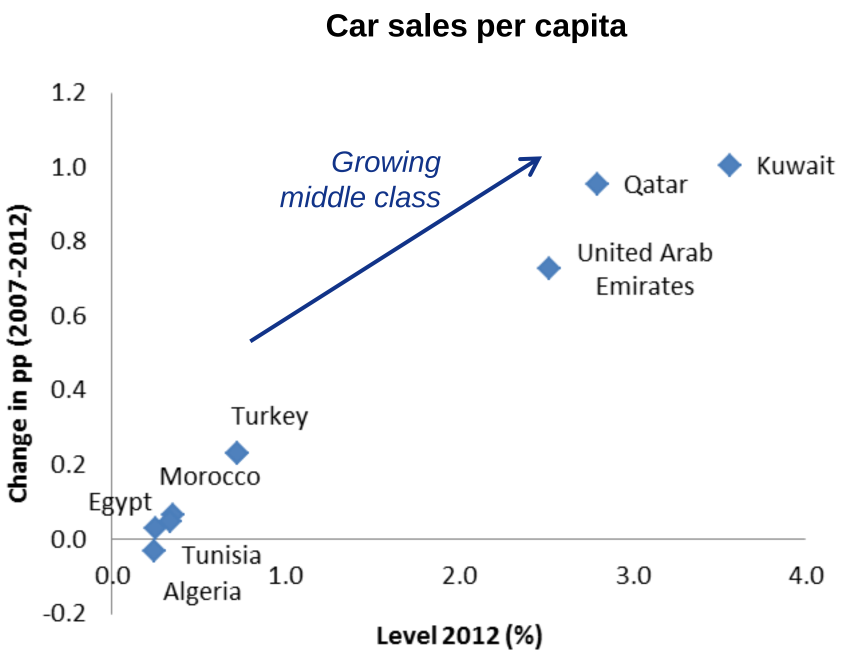
Opportunity #1: Solid growth in investment and consumption (Note: Caution with credit though!)

Investment expected to remain buoyant in the South



Sources: IMF, Euler Hermes

Growing middle class suggests more purchasing power



Sources: Euler Hermes

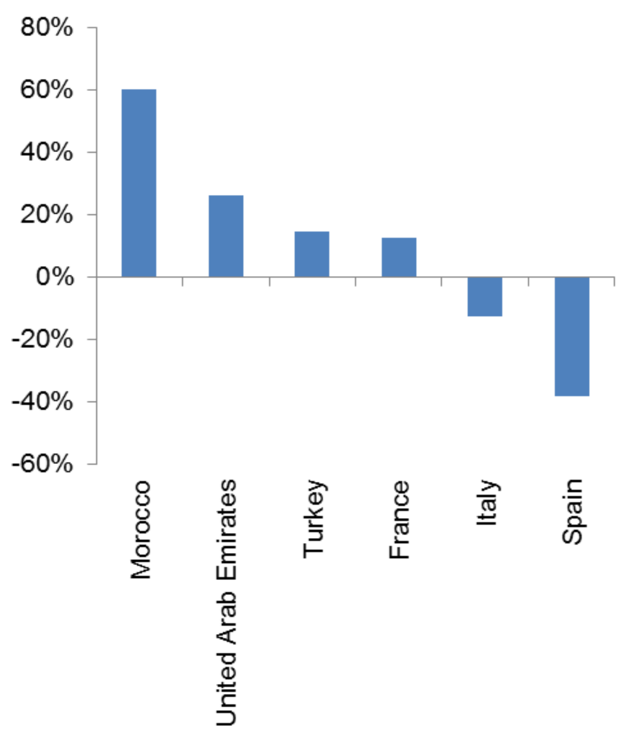
In 2020, the Maths of Demography:

- Turkey + Egypt = 1/3 of the region's population = Italy + France + Spain + Greece
- Morocco+ Algeria +Tunisia > France

Opportunity #2: Business climate to strengthen and become a backdrop for business growth

Vibrant past business creation likely to be the norm in the coming years…

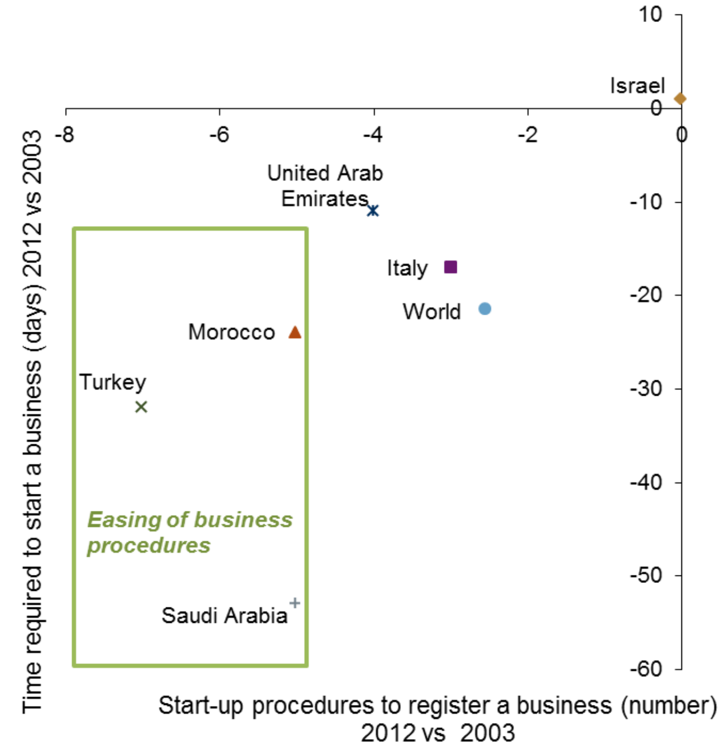
Business creation (latest data vs 2005)



Sources: World Bank, Euler Hermes

…On the back of improving commercial practices

Procedures for new business



Sources: World Bank, Euler Hermes

Opportunity #3: Hard and Soft Drivers are encouraging

Regional advanced economies remain the trade and logistics hub for the region

Logistics performance

Deteriorating prospects
- Greece
- Egypt
- Algeria
- Libya

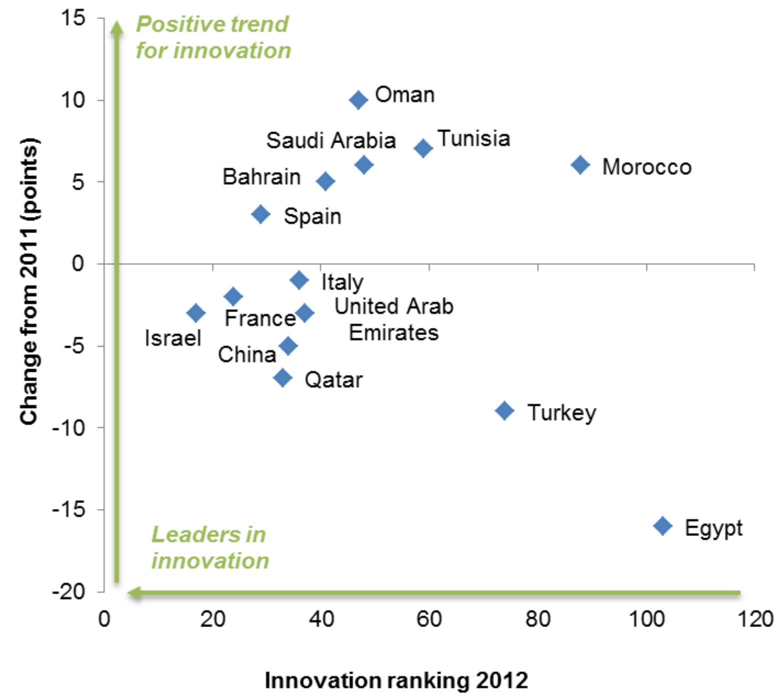
Improving prospects
- Saudi Arabia
- Qatar
- Kuwait
- Oman
- Turkey
- Morocco
- Tunisia

Good prospects
- France
- Italy
- Spain
- UAE

Source: Euler Hermes

The advantage of backwardness

Innovation index

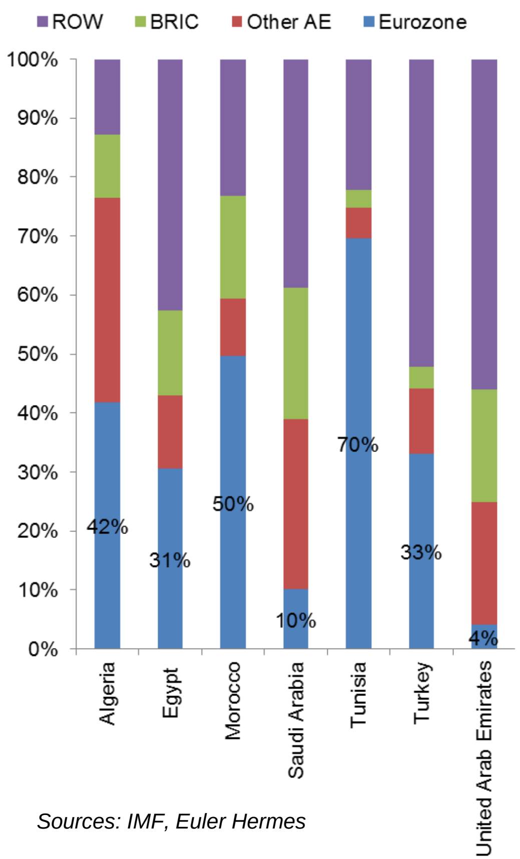


Sources: Insead, Euler Hermes

Risk #1: Prolonged economic limbo in the euro zone will have a toll on the entire region – go for uncorrelated countries!

Export structure

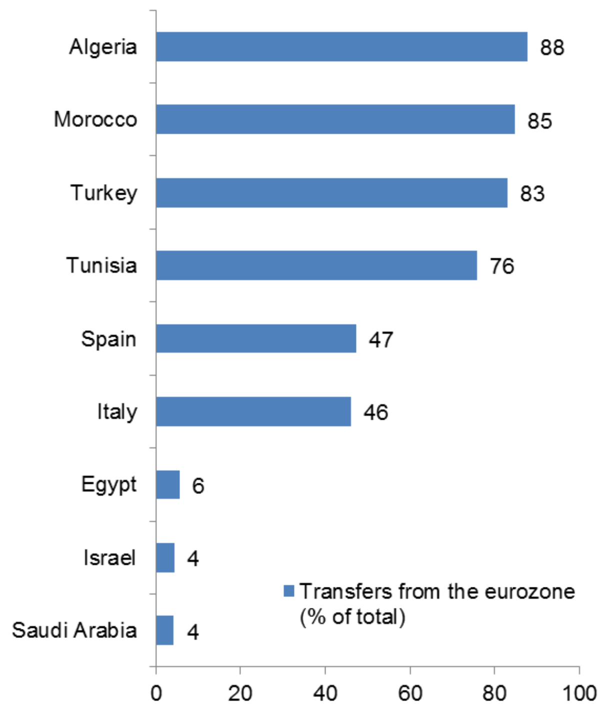
Export partners, % of total exports



Sources: IMF, Euler Hermes

Remittances

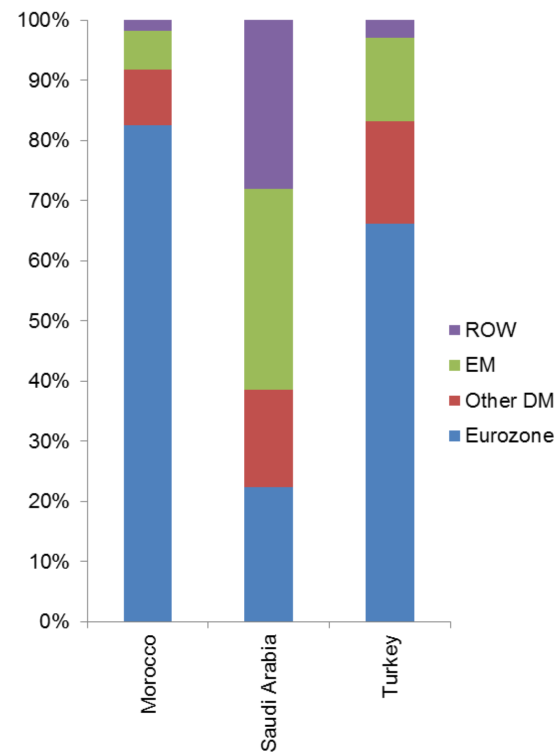
Transfers



Sources: IMF, Euler Hermes

Inward FDIs

FDI inflows, latest data, % of total

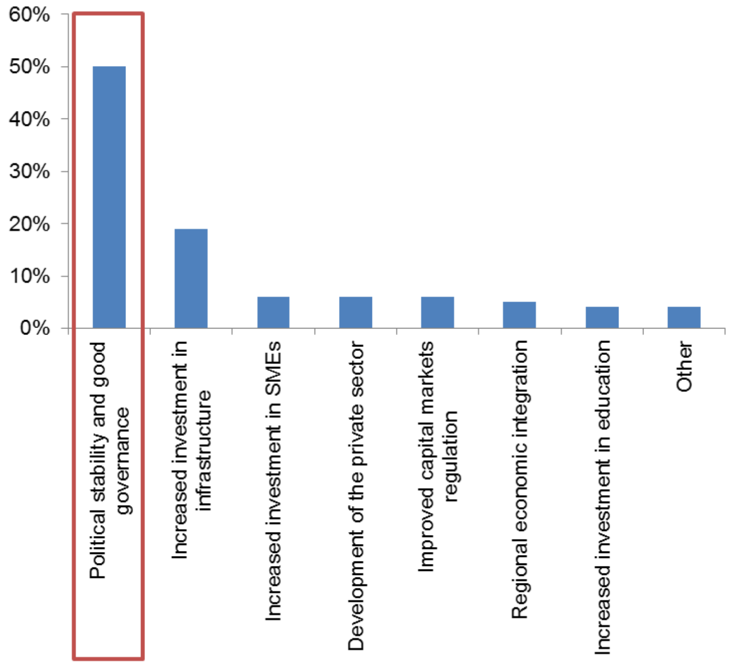


Sources: IMF, Euler Hermes

Risk #2: Political (and societal) instability and volatile business climate – but hedging options do exist

Fragile political stability is pointed out as the key drag on the MENA economies…

Survey: What do you think would have the most positive impact on the economy in the MENA region in 2013?



Sources: CFA Institute, Euler Hermes

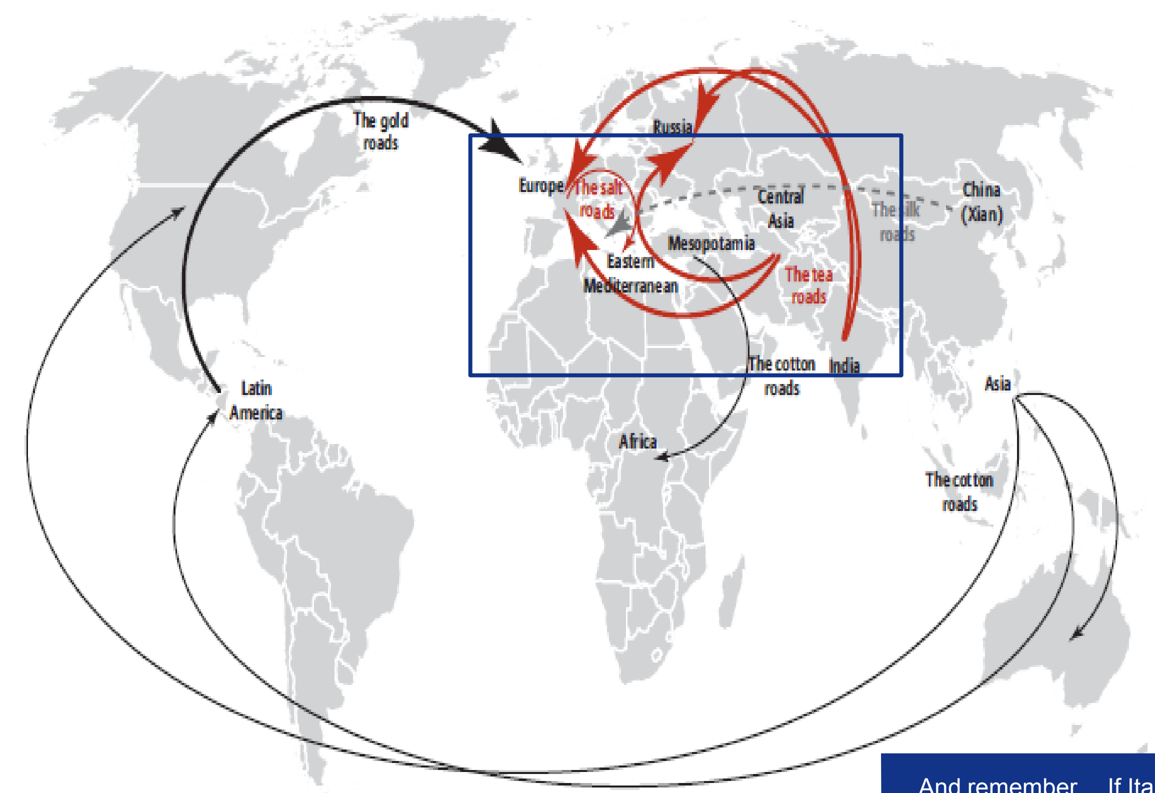
… and EH political ratings continue to reveal high risk in the short-term

	EH political risk rating ***(1=the better; 6= the worst)***	**Short-term outlook**
Saudi Arabia	3	=
United Arab Emirates	3	=
Morocco	4	+
Algeria	4	-
Tunisia	4	-
Turkey	4	-
Egypt	6	-
Libya	6	-

Sources: Euler Hermes

All roads lead to… the Mediterranean?
Certainly a trade basin for centuries to capitalize upon!

Silk road, cotton road, salt road, tea road: what is next?



Sources: Euler Hermes

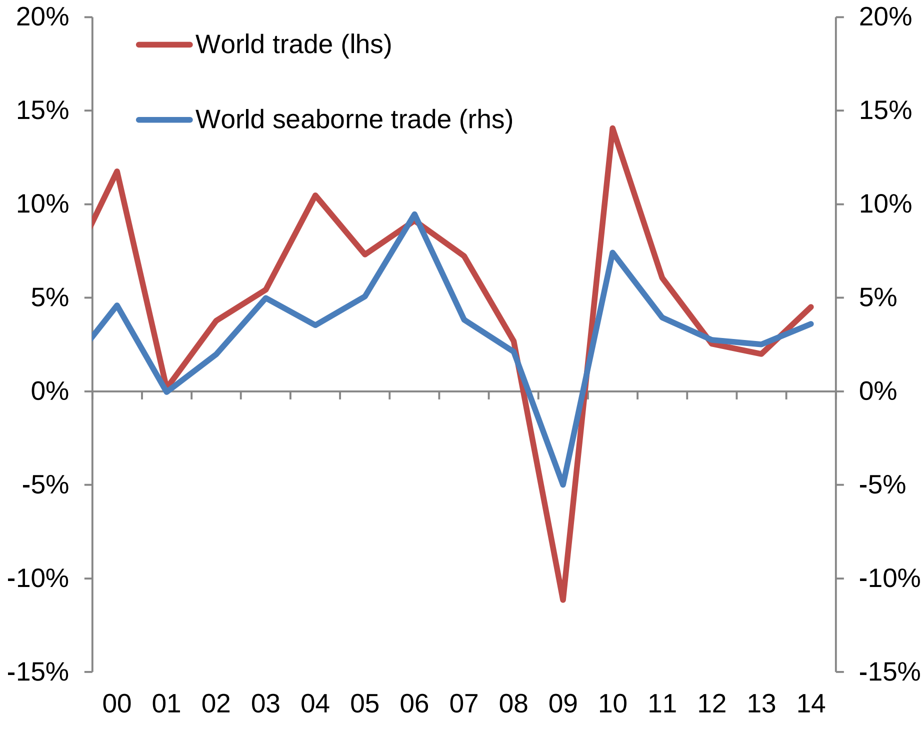
Sectors with Momentum

- Sectors intensive in skilled workers and R&D such as aeronautics, IT, Finance
- And low value added sectors such as textile
- Logistics and transport sectors (airport and port)
- Sectors benefiting for vibrant demand: energy, chemicals, construction, car manufacturers and suppliers, retail, household equipment, IT services

And remember… If Italy does not lose its market share in the Mediterranean, naturally three sectors: cars ($2bn/year), mecanical ($9bn) and textile ($3bn) will be equivalent – every year – to an additional:
- 90,000 Fiat 500;
- 30,000 tractors; and
- Some 3 millions suits and 1 million sofas!

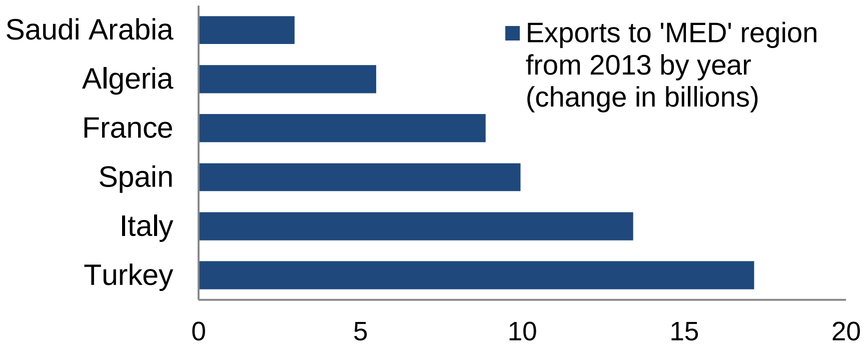
Implication for shipping #1: intensification of trade is a key driver

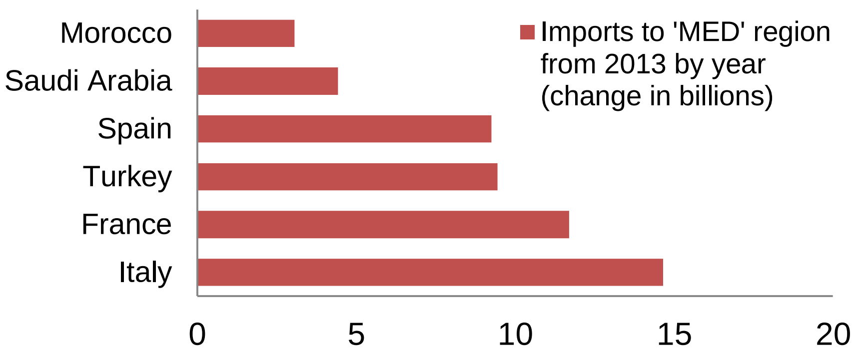
Trade cycle to drive maritime activity: world trade to grow by +4.5% in 2014, world seaborne trade by +3.6%



Source: UNCTAD, Euler Hermes

… Regional trade to intensify, Italy to be one of the big players

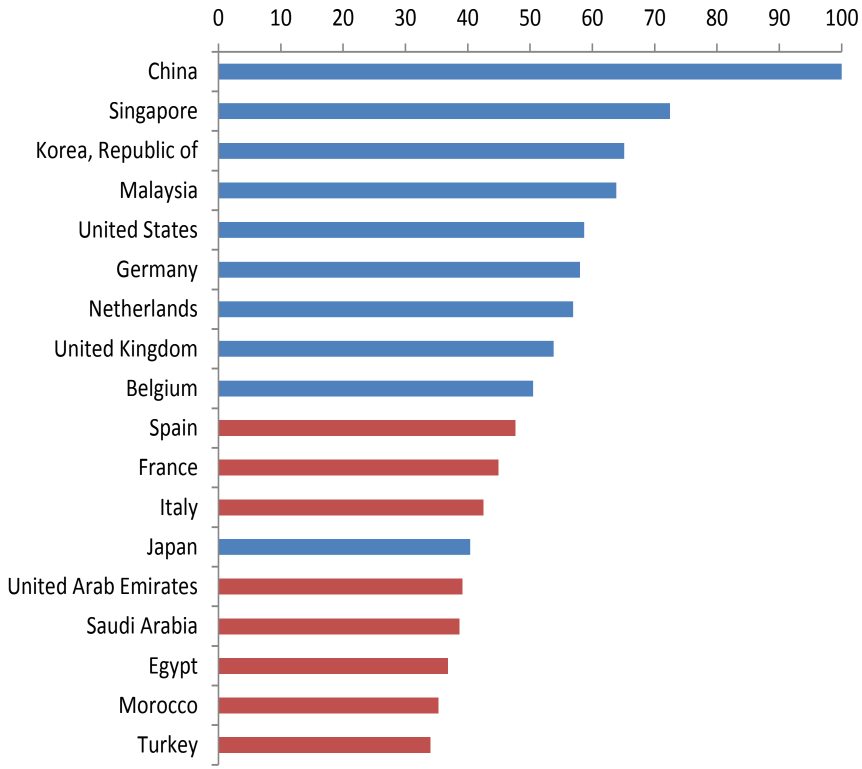




Implication for shipping #2: Italy is well placed to take the lead

The importance of endowment: Positioning and infrastructure enable to high performer

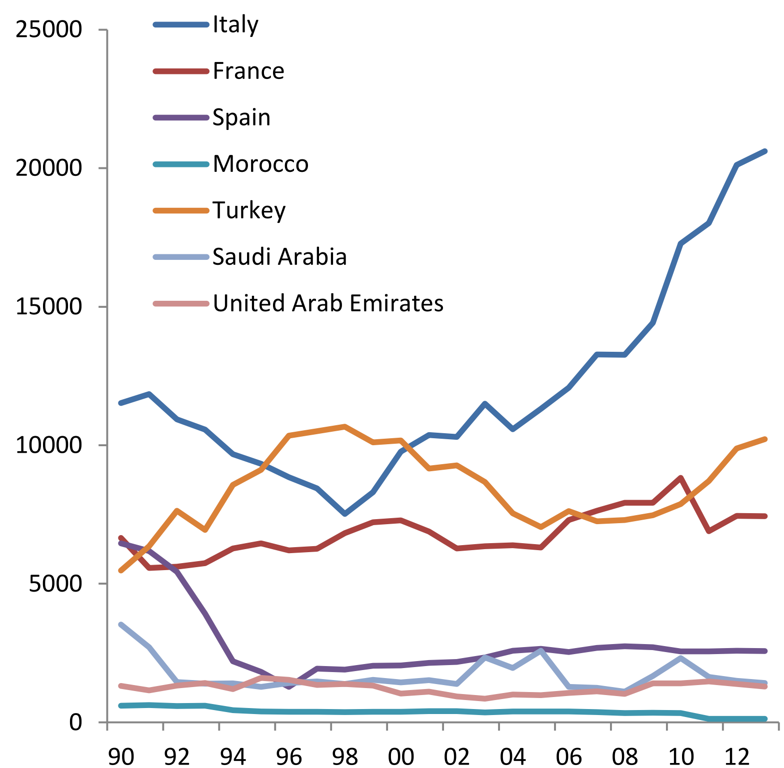
Integration to maritime transport (100= best ranked, 2012)



Sources: UNCTAD, Euler Hermes

Leading merchant fleet of the region: After Greece, Italy has the biggest merchant fleet of the Mediterranean region

Merchant fleet (by flag of registration, Dead weight tons in thousands)



Implication for shipping #3: Transport and infrastructure strategies are central for Mediterranean countries

Competition between Mediterranean countries is set to intensify especially with key players from the southern shore implementing strong strategies to boost trade

Morocco: Tanger-Med, major port complex
The "Tanger-Mediterranean" port complex was inaugurated in 2007. Tanger-Med 1 has been a big success since its inception: traffic has exceeded projections by 30% and the port plays host to the world's largest shipping groups (notably Maersk Line, CMA CGM). Between 2007 and 2012, the country climbed 60 places in the World Bank's Liner Shipping Connectivity Index. This progress is expected to be confirmed following the extension of the complex under the Tanger-Med 2 project, expected to get under way in 2015.

Tunisia: Taparura project, or the creation of a new urban center geared for trade
The Taparura project is undoubtedly the most ambitious public works project in Tunisia. Initiated 28 years ago, this project aims to (1) restore the coastline around the city of Sfax, (2) create an urban hub, and (3) develop the port industry. The second phase of the project is to create a new urban center, expanding the city of Sfax and boosting tourism and dynamism in the real estate market.

Algeria: Oran, the regional Barcelona
The city of Oran is in the midst of major change. The Algerian government is aiming to make it a major metropolis on an equal footing with those on the Mediterranean's northern shore, notably Barcelona. In May 2012, the city inaugurated its first tramline (32 stations, 19 km) and an extension is under discussion. Construction of a high-speed rail line (Oran-Tlemcen) and a fourth ringroad is under way. The launch of construction work for Oran's first metro line – approximately 16 km from east to west – will take place in 2014.

Turkey: to build the world's largest airport in 2017/2018
Turkey has plans to build the largest airport in the world by 2017/2018 in Istanbul. It will be able to receive nearly 150 million passengers per year, compared with 90 million for Atlanta airport, which is currently the world's largest. This project is part of Turkey's strategy of increasing integration in global transport networks: Turkish air traffic is currently the 13th largest in the world, with nearly 130 million passengers; Atatürk Airport, the sixth largest in the world, recorded an increase in traffic of 20% in 2012, making it the fastest-growing in the world.

Sources: UNCTAD, Euler Hermes

Focus on Turkey: the rising star

More secure growth from 2013: Growth expected to strengthen in 2013 (+3.3%) and +4.0% in 2014 helped by recovery in domestic demand

	2010	2011	2012	2013	2014
GDP	**9.2%**	**8.8%**	**2.2%**	**3.3%**	**4.0%**
Consumer spending	6.7%	7.7%	-0.6%	4.9%	3.3%
Public spending	2.0%	4.7%	6.1%	7.5%	3.7%
Investment	30.5%	18.0%	-2.7%	3.0%	5.0%
Exports	3.4%	7.9%	16.7%	3.0%	4.6%
Imports	20.7%	10.7%	-0.3%	9.0%	4.4%

Sector growth (%)	2011	2012
Agriculture, hunting, forestry, fishing	6.1	3.5
Mining, utilities	7.5	2.8
Manufacturing	10.0	1.9
Construction	11.5	0.6
Wholesale, retail trade, restaurants and hotels	11.0	0.5
Transport, storage and communication	10.5	3.2
Other Services	6.8	3.5

Sources: Turkstat, Euler Hermes

- **Fiscal Policy:** Turkey's fiscal position has markedly improved since the domestic economic crisis in 2001
- **Monetary Policy:** Lowered interest rates and sharp increase of reserve requirements paid off. Current reserves of around USD100bn look comfortable, but cover only some two thirds of estimated external debt payments falling due in 2013

Sectors to watch:

- Agriculture still important
- Distribution (-10.5pp), construction (-10.9 pp) and manufacturing (-8.1pp) slowed down in 2012
- Import cover: 4.5 months

Focus on Turkey: exports - higher value, and better routes

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Higher value-added industries are expanding their export market share.

Main export products		Rank		Main import products
Machinery, appliances etc.	14.0%	1	25.4%	Mineral fuels, oils and products thereof
Textiles and Clothing	11.5%	2	18.0%	Machinery, appliances etc.
Iron and steel	11.4%	3	9.3%	Iron and steel
Precious stones, precious metals	10.7%	4	6.6%	Plastic, rubber and products thereof
Road vehicles and parts	9.9%	5	6.1%	Road vehicles and parts
Mineral fuels, oils and products thereof	5.1%	6	4.7%	Chemicals and pharmaceuticals
Plastic, rubber and products thereof	4.9%	7	3.6%	Precious stones, precious metals

Sources: Turkstat, Euler Hermes

Base year: 2012

- Turkey has taken role as regional (balanced) hub between Europe and the Middle East. For now, the impact of the euro zone crisis on Turkey remains considerable
  - EU's export market share fell sharply to 38.8% in 2012 from 46.2% in 2011, favoring MENA now representing 27.8%

- Iran became third largest export market in 2012 due to sharply increased Turkish gold exports to the country. But this position is unlikely to be sustained – exports to Iran already moderated in Q4 2012

Thank you for your attention

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