Euler Hermes: Mediterranean and Gulf countries (GCC) economic trends, Italian export opportunities

MILAN – 16 JULY 2013 – Mediterranean and Gulf countries (GCC) economic trends, and their export implications for Italian products, were highlighted today at a press conference hosted by global and regional executives from Euler Hermes.

The analysis was an introductory preview of a more in-depth regional study the company will publish this autumn.

Wilfried Verstraete, CEO, Euler Hermes Group, said that world GDP growth by year-end would be lower than earlier forecast, at +2.4%, before an uptick in 2014 to +3.1%. While emerging countries would remain the global growth drivers for 2013 and 2014, at 4.4% and 4.9% respectively, he cautioned that slowing Asian growth overall and a sharper-than-anticipated 2013 Eurozone GDP contractions would increase momentum in global insolvencies (+8% in 2013; +2% in 2014).

According to Michele Pignotti, head of Mediterranean, Middle East and Africa region, “Steady economic growth and a high degree of trade openness make the Middle East and GCC a key area for Italian export growth. Construction, energy, machinery and textiles are the main export sectors. However, there may also be a higher risk of non-payments emerging in some areas; we registered a triple digit increase in Turkey to mid-year 2013.”

Presenting preliminary results of the Mediterranean benchmark study, Ludovic Subran, Euler Hermes chief economist, addressed two central themes:

A Mediterranean sea of opportunities, but high tide, headwind and wave warnings still apply

Three-speed Mediterranean regional growth will be demarcated by “Old Europe”, future Arabic champions (“Abtal”) and “Asian Gateway” country clusters. In 2013, overall regional economic growth of +0.4% should strengthen to +1.7% in 2014 with diverging growth rates between “Old Europe” (-1.3% in 2013 and +0.4% in 2014) and the rest of the region (+3.5% and +4.1%). While advanced economies will remain the trade and logistics hubs for the region, growth dynamics, opportunities and risks vary markedly intra-region.

Increased national investments as a percentage of GDP could stimulate Mediterranean regional growth overall. Growing middle classes - especially in the GCC, Morocco and Turkey – could generate increased purchasing power potential in Middle East & Northern Africa (MENA) countries. However, prolonged economic limbo in the Eurozone would negatively impact the entire region, and political, social and consumer demand uncertainties in the MENA and GGC will be key business climate factors there.

- As “Old Europe” countries, export is the key to growth regeneration in France, Italy and Spain. Strengths include strong R&D capabilities, skilled labor forces, value-added industries, and established trading infrastructures and institutions. However supply and demand, and business confidence, all remain depressed, partially as these countries continue to de-industrialize.
- Among Arabic-speaking countries in the Mediterranean basin, Morocco, Algeria and Tunisia stand out among the “Abtals”. Significant natural resources and major growth in the middle classes are enhanced by competitive labor costs and increased industrialization. Better quality maritime trade infrastructure including ports and infrastructure, and the adoption of international business financing standards are central to sustainable intra-regional trade growth. Moroccan economic resilience underpins its potential as the initial champion short-term.
- Among the “Asian Gateway” countries, Saudi Arabia, the U.A.E and Turkey are best positioned to leverage traditional and recently increased Asian trading ties. Strengths include ongoing industrialization coupled with rising middle class demographics. Private sector trade opportunities are driven by a competitive labor market (Turkey) and stable financing in the GCC. Risks in this sub-region include vulnerability to high capital flows, social and political stress (Turkey), and a high dependency on energy prices (GCC).

Italy – rebuilding for the future

As Italy weathers its second consecutive year of recession (-2.4% in 2012; -1.8% in 2013), a mild recovery is forecast for 2014 (+0.3%). Insolvencies are increasing for the sixth consecutive year (+7% in 2013) and are expected to stabilize in 2014. Domestic demand, down 10% since the pre-crisis peak, is expected to continue its downward trend in 2014 (-14%). The parallel decline in funding availability to non-financial companies also remains a challenge to economic recovery.

For Italian businesses, innovation, cost-competitiveness and exports are key to reviving and sustaining growth. Italian exports are currently oriented to mid-range technical products, compared to value-add leaders such as Germany and the U.S. However, the structure of Italian exports remains one of the most diversified in the world – chemicals, electronics, energy, machinery, steel, textiles and vehicles.. Vibrant global demand in each of these sectors offers current and future opportunities. Further improving hard skills and productivity will serve Italian businesses well in reducing labor costs and strengthening value-added service capabilities. Developing new supply and value chains can also stimulate exports. Already challenged by significant payment delays and insolvencies domestically, Italian businesses will need to ensure stronger credit management practices to offset added risks in emerging markets.

As the world’s economic power and trade routes continue to realign, Italy is at a crossroads in capitalizing on export opportunities. Global momentum creates prospects for Italian sectors with an intensive concentration of R&D and highly skilled labor forces, such as aeronautics, finance and information technology. The lower value-added textiles sector is already one of the most competitive. The country’s geographic location translates to logistics and transport sector opportunities, given the growing port and airport requirements around the Mediterranean basin.

"In pragmatic terms, assuming Italy is able to retain its current Mediterranean market share in three of its core sectors – cars $2bn/year; machinery $9bn/year; textiles $3bn/year – the global export opportunities for these sectors could equate to an additional 90,000 Fiat 500 cars, 30,000 tractors, and approximately 3 million suits."

Appendix:

Aggregated Growth	2012	2013	2014
World	2.5%	2.4%	3.1%
MED	0.6%	0.4%	1.7%
MED excl. Eurozone countries	4.2%	3.5%	4.1%
MED Eurozone countries	-1.4%	-1.3%	0.3%
"Abtal" *	3.2%	3.7%	4.4%
"Gateway to Asia" **	4.3%	4.0%	4.2%

** "Abtal" - Algeria, Morocco, Tunisia*
*** "Gateway to Asia" - GCC and Turkey*

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Italian Exports by sectors and Countries (value in mln $)

2012 estimated	World	Turkey	Algeria	Morocco	Tunisia	Saudi Arabia	Others Gulf Countries
Total	497.150	13.345	4.744	2.167	4.276	5.195	11.710
Energy	23.461	1.299	513	148	762	721	694
Food	40.134	280	144	69	206	188	313
Textile	57.338	1.136	46	299	1.046	210	614
Wood paper	27.535	494	108	135	224	261	536
Chemical	79.155	2.207	437	329	437	669	1.199
Metal	24.315	874	816	85	167	274	535
Non ferrous	9.780	122	68	37	247	47	88
Mechanics	124.030	4.056	1.944	671	613	2.048	5.022
Vehicles	36.573	1.339	155	94	154	185	418
Electric	26.990	825	361	194	324	384	866
Electronic	22.404	475	145	87	82	186	505
Others	25.434	239	8	19	14	22	918

*Other Gulf countries = Bahrain, UAE, IRAK, Iran, Kuwaït, Oman and Qatar

Sources: Chelem, IMF, Euler Hermes

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Euler Hermes Italy
Euler Hermes established trade credit insurance activities in Italy in 2002 with the acquisition of Società Italiana Assicurazioni (SIAC), which was originally established in 1927. With 400 employees based in the Rome headquarters and regional office, Euler Hermes Italy realized a 2012 turnover of approximately€221 million and today serves more than 4,500 customers across a range of business sectors and sizes. www.eulerhermes.it

Euler Hermes is the worldwide leader in credit insurance and one of the leaders in the areas of bonding, guarantees and collections. With 6,000+ employees in over 50 countries, Euler Hermes offers a complete range of services for the management of B-to-B trade receivables and posted a consolidated turnover of €2.4 billion in 2012.
Euler Hermes has developed a credit intelligence network that enables it to analyze the financial stability of 40+ million businesses across the globe. The Group insured worldwide business transactions totaling €770 billion exposure end of December 2012.
Euler Hermes, a company of Allianz, is listed on Euronext Paris. The Group is rated AA- by Standard & Poor's.

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