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MOODY'S ANALYTICS ITALY OUTLOOK 2014

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ITALIAN GDP GROWTH REMAINS STAGNANT DESPITE STRONG CONFIDENCE INDICATORS

LONDON/PRAGUE, 26 June 2014 — Moody's Analytics, a leading independent provider of economic forecasting, has released its latest outlook for Italy. According to the report, Italy's GDP decreased by 0.1% in the three months to March, despite the nearly three-year high reached by the business confidence index.

"The disappointing pace of growth is most likely due to tight credit. In spite of increasing credit demand from small and medium-sized enterprises, banks have kept a tight grip on loans, restraining output growth," says Tomas Holinka, Economist at Moody's Analytics.

The percentage of banks reporting tighter credit for small and medium-sized enterprises increased to 12.5% in the three months to March. What's more, these smaller firms, which depend on bank financing, account for 80% of Italian employment. According to the OECD, Italy's potential growth rate dropped to -0.5% in 2013 from 1.3% in 2003, and will rise only to 0.3% in 2015.

Moody's Analytics notes that faster write-offs from banks are key to boosting credit availability and thus the country's growth potential. Higher capital charges and shorter time limits for writing off nonperforming loans would also drive capital lending. Furthermore, the European Central Bank's new plan to inject targeted funds for bank lending into the system could spur growth. The central bank proposes to inject €400 billion via four-year loans at a fixed rate of 0.25%.

Still, domestic demand remains limited, owing to high unemployment, low wage growth, and weak inflation, which elevates the country's debt burden. The euro remains 4% higher than in 2013, lowering the price of imports and magnifying the threat of deflation. Rising labour costs also pose a challenge, rising 4.3% since 2010 in Italy, compared with a 9% drop in Portugal and a 6% decline in Spain.

"Italy's long-term growth outlook remains weak due to the rigid labour market, an inefficient judicial system and an unconducive business climate. We expect the Italian economy to grow by only 0.3% this year, which will be mainly driven by exports," says Holinka.

For more information, visit Moody's Analytics Dismal Scientist.

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Moody's Analytics helps capital markets and risk management professionals worldwide respond to an evolving marketplace with confidence. The company offers unique tools and best practices for measuring and managing risk through expertise and experience in credit analysis, economic research and financial risk management. By providing leading-edge software, advisory services and research, including proprietary analyses from Moody's Investors Service, Moody's Analytics integrates and customizes its offerings to address specific business challenges. Moody's Analytics is a subsidiary of Moody's Corporation (NYSE: MCO), which reported revenue of $3.0 billion in 2013, employs approximately 8,400 people worldwide and has a presence in 31 countries. Further information is available at www.moodysanalytics.com.

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