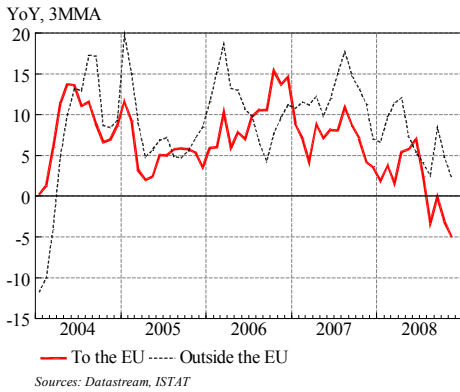


THE BURDEN OF A BIG DEBT

Already contracting in 2008, the Italian economy will continue to shrink over 2009, due to the sharp fall in exports, the significant narrowing in private investment figures and a further deterioration of private consumption. Furthermore, differently from its European peers, Italy cannot afford any substantial fiscal stimulus, its debt-servicing costs being already astronomical. The measures announced over the past months were nothing really new but rather a repackaging of initiatives already taken through the use of EU funds or the anticipation of planned expenditures.

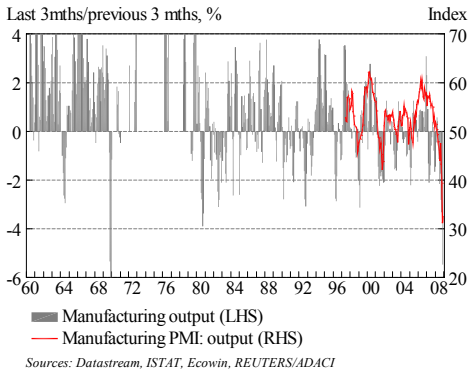
BIG FALL IN EXPORTS



Withdrawal of the internal demand...

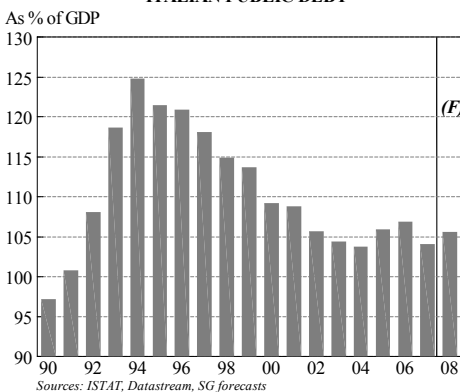
Already week during the past years, internal demand will significantly deteriorate in 2009, with the ongoing contraction in investments adding up to the already gloomy outlook for private consumption. We forecast a decline in total private investment of 6.7% mainly due to reduced capacity utilisation and the difficult access to credit. As far as the credit to businesses and households is concerned, it has continued to become more expensive and difficult to obtain with the recent rate cuts of the ECB only marginally passed to final customers and with the availability of credit shrinking fast. Private consumption, which has surprisingly grown over the third quarter, is very likely to post negative numbers for the fourth quarter of 2008 and to further contract this year, with the stagnation in real incomes and the expected growth in unemployment contributing to further depress household spending over 2009. We therefore expect private consumption to contract of 0.7% in 2008 and to stagnate in 2010. The only event that might bring about an improvement of the economic outlook by the end of the year will be the resurgence of the exports, but this will depend on how deep and protracted will be the recession in the Euro-zone and how much of the fiscal stimulus of other countries will turn out to be beneficial to Italian exports. So far, the data on external trade are far from encouraging with the PMI-exports index at its lowest level in a decade. We expect a fall in exports of around 5% in 2009, as a result of particularly weak EU intra-trade and of the continued decline of the exports to the US.

MANUFACTURING: THE WORST RECESSION OF THE LAST 40 YEARS



Industrial production seems already to take full measure of the crisis. According to recent data, the working-day adjusted index fell by 6.9% yoy in October, the biggest drop since December 2001. The data for the last two months of the year will further confirm this trend. As a result, business and consumer confidence could not be lower: in December, the consumer confidence index dropped to the 4-month low of 99.6, well below the long term average of around 113 while the business confidence index reached the historical record-low of 66.6. With these data in mind, the present unemployment rate seems not to reflect yet the magnitude of the crisis. This is partly due to the fact that the widespread temporary lay-off scheme passed by many of the biggest company in Italy (with the car-manufacturers on the top of the list) are not counted as unemployment in the national accounting data. Nonetheless, the limited re-absorption capacities of several big groups, together with the expected massive lay-offs in Italian SMEs this year will undoubtedly increase the jobless count. We expect unemployment rate to reach 8% by the end of 2009 and to further grow in 2010.

ITALIAN PUBLIC DEBT



To further aggravate the Italian recession is the lack of a real fiscal stimulus plan. Aside the government propaganda, the new measures to fight the crisis are little more than €5 billions (less than what originally announced). Such a tiny fiscal stimulus is unlikely to render possible a domestically-driven recovery at the end of 2009/beginning 2010. Yet, the very little increase in public net borrowing is explained by justified fears of a further widening of the already huge spread between German Bund and Italian bonds (in January at more than 150bp). With interest rate payments at these levels, any benefit from a bigger fiscal stimulus would be more than outweighed by the enormous debt-servicing costs.

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ITALY

<i>% Change at annual rate, 2000 Prices</i>	2006	2007	2008(f)	2009(f)	2008 Q3	2008 Q4(f)	2009 Q1(f)	2009 Q2(f)
Private consumption	1.1	1.5	-0.4	-0.7	0.4	-1.1	-1.0	-0.8
Public consumption	0.9	1.3	1.2	1.2	1.0	1.5	1.5	1.0
Expenditure on capital goods	3.9	-0.5	-2.5	-7.7	-12.4	-13.2	-11.2	-5.8
Expenditure on construction	1.7	2.0	-1.1	-5.8	-2.6	-6.5	-7.5	-7.0
Total investment	2.8	0.7	-1.8	-6.7	-7.6	-9.9	-9.3	-6.4
<i>Contrib. of inventories to GDP growth</i>	0.4	0.0	-0.5	-0.1	0.5	-0.3	-0.2	-0.3
Domestic demand (incl. inventories)	1.8	1.2	-0.9	-1.7	-0.7	-2.8	-2.4	-1.8
Exports of goods and services	6.5	4.5	-1.1	-5.2	-6.2	-6.0	-6.4	-5.0
Imports of goods and services	6.1	4.0	-2.5	-4.4	-1.9	-6.0	-6.0	-5.0
External trade contribution	0.1	0.1	0.4	-0.2	-1.3	0.0	-0.1	0.0
Gross Domestic Product (GDP)	1.9	1.4	-0.4	-1.9	-1.9	-2.7	-2.5	-1.8
<i>% change year-on-year</i>	2.5	0.1	-1.1	-2.2	-0.8	-1.1	-2.2	-2.3
Consumer prices (CPI)	2.2	2.0	3.5	0.9				
<i>% change year-on-year, end of period</i>	2.1	2.8	2.4	1.4				
Productivity per head	0.2	0.4	-1.5	-2.8				
Compensation per head	2.5	1.9	4.7	2.6				
Unit wage costs	2.3	1.6	6.3	5.6				
Employment	1.8	1.0	1.0	0.4				
Unemployment rate	6.8	6.2	6.8	8.0				
Real Disposable income	0.3	1.0	0.0	0.2				
Household saving rate	15.1	14.2	14.8	14.4				

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