

Country Insight Snapshot

Italy

March 2020





OVERVIEW

OVERALL COUNTRY RISK RATING: DB4b

Moderate risk: Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

A

Rating Outlook: Deteriorating rapidly

CORE OUTLOOK

- + Italy possesses a well-educated pool of human capital.
- + The reformist agenda of the new government could address some of the bureaucratic hindrances to doing business, as well as the complicated legal system.
- + Italy was the first G7 economy to officially endorse China's new Silk Road Project, which will deliver long-term growth and enhance supply-chain potential.
- Excessive fiscal constraints, pervasive corruption, endemic tax evasion and high energy costs are all obstacles to long-term growth potential.
- The small size and family ownership of the vast majority of businesses hampers technological innovation.
- The elderly population is extensive, and growth in the younger population is stagnant; public spending on pensions in Italy is the highest among its European peers.

KEY DEVELOPMENT

Dun & Bradstreet downgrades Italy's country risk rating to DB4b and the rating outlook to 'deteriorating rapidly' amid the impact of the coronavirus outbreak in the country.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Deteriorating rapidly

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Deteriorating rapidly

Key Development has had a negative impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Deteriorating rapidly

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

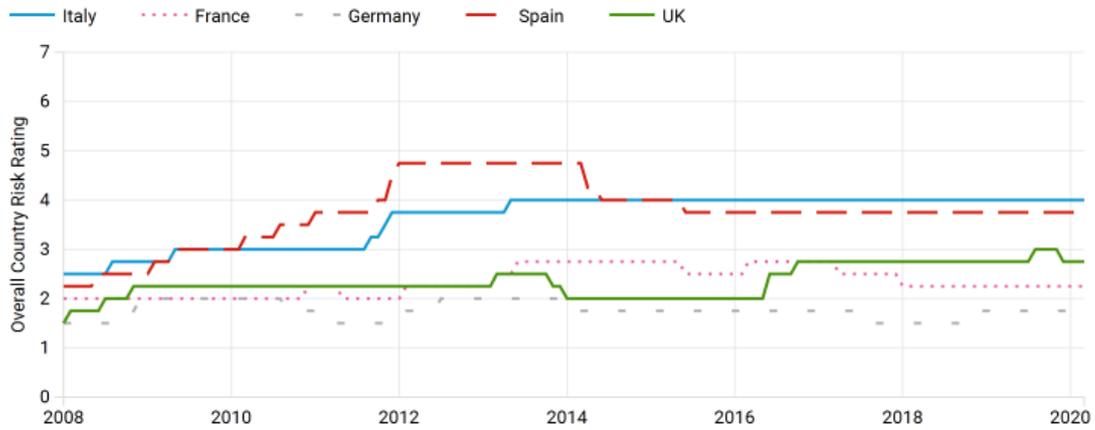
Trend: Deteriorating

Key Development has had a negative impact on the outlook.



KEY INDICATORS

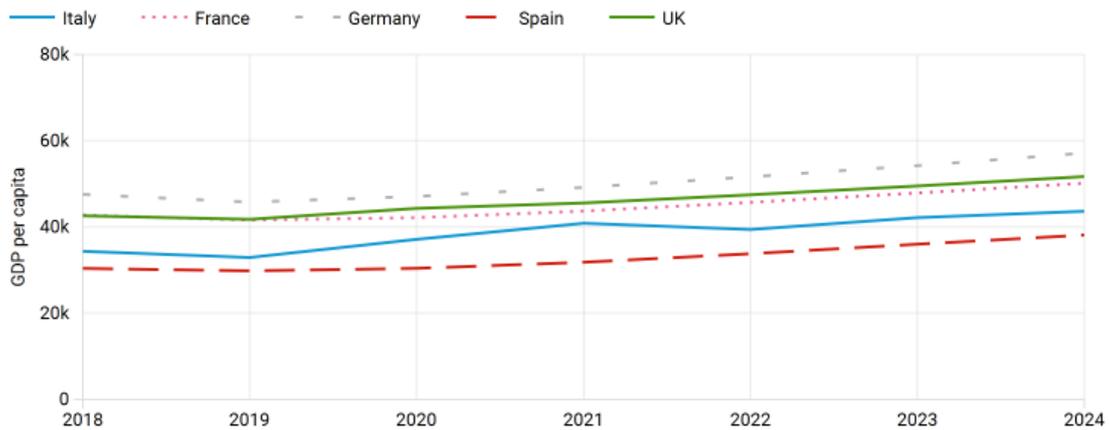
Rating History and Comparison



Source: Dun & Bradstreet

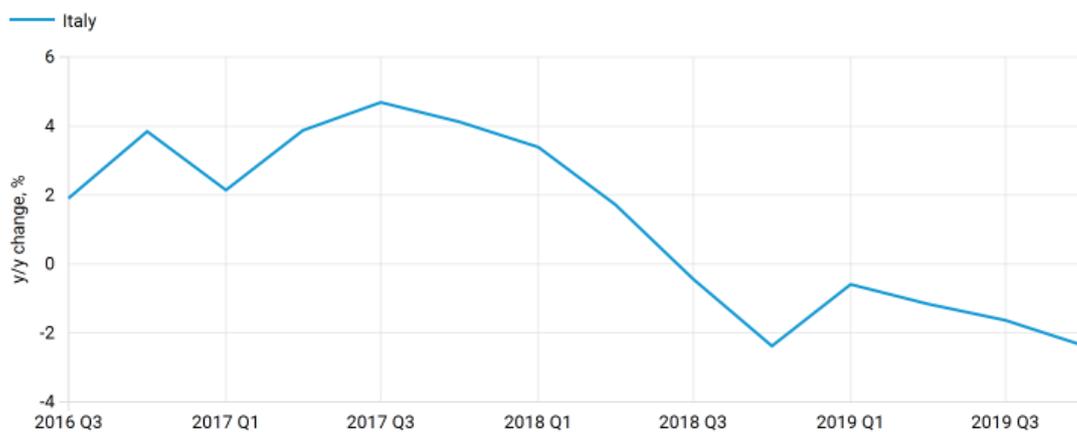
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source: Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2017	2018	2019e	2020f	2021f	2022f	2023f	2024f
C/A balance % GDP	2.7	2.6	2.3	1.8	1.9	2.0	1.9	1.9
Govt balance, % GDP	-2.4	-2.2	-2.5	-2.9	-2.3	-2.0	-1.4	-1.4
Inflation, annual avge %	1.3	1.2	0.6	0.5	1.3	1.7	1.6	1.4
Real GDP Growth, %	1.8	1.0	0.2	-0.3	0.5	1.5	1.8	1.3
Unemployment, %	11.3	10.6	10.0	11.2	10.5	10.0	9.7	9.5

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Italy's international competitiveness has not improved significantly in the past year, and remains behind most of its peers. The World Economic Forum's latest *Global Competitiveness Report* ranks Italy as the 31st most competitive economy (out of 140) - 12 places above last year (out of 138). Italy has run successive current account surpluses since 2013, but Istat data shows a decrease of 4.2% in the trade surplus in 2017. Despite the volume of exports growing by more than imports, Italy's terms of trade have shrunk since 2017 as oil prices continued to rise. Italy still scores particularly well in four macro-categories: health and skills, market size, business sophistication, and innovation capability. The country performs better than most of its peers in terms of life expectancy (5th), GDP (12th), and R&D (13th). However, according to Italian firms, the most problematic factors when doing business are: inefficient government bureaucracy, tax rates, restrictive labour regulations, and tax regulations.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: SD

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: SD

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-120 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-2 months

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: No delays reported

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



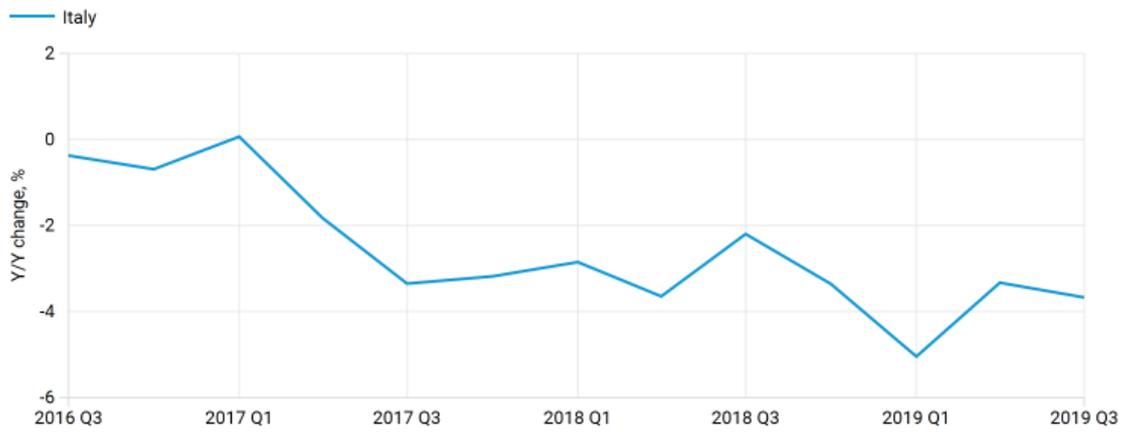
Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = euro

Bank Lending to the Private Sector



Source: IMF, Central Banks, Haver Analytics



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Risk rating downgraded

Dun & Bradstreet has downgraded Italy's country risk rating from DB4a to DB4b due to the effects of the coronavirus outbreak. We also downgraded the overall rating outlook, and the credit, market and supply environment outlooks - all from 'deteriorating' to 'deteriorating rapidly'. As Italy tries to contain the spread of the virus, the government shut all schools and universities for ten days as of 5 March and, on 8 March, the authorities put an additional 15 areas under lockdown in order to fight the spread of the virus (including Milan, the country's financial hub). The areas affected are home to around 16m people.

As a result, the Italian economy is now heading towards a new recession, the fourth since the beginning of the global financial crisis in 2008. Internal consumption is down, as economic activities have reduced consistently across the entire country - not just in the areas hardest hit by the emergency. Services activity, whose robust growth has had a tremendous impact on Italian economic growth over the past few years, is at a standstill, and so is the transport sector. The crisis has hit tourism hard, and the industry is unlikely to recover before H2 2020 at the very earliest.

The construction industry had been recovering after a deep recession, but the halt to many economic activities and the consequential liquidity crunch that several companies will face will also reverse this trend. Industrial production, which was already weakening before the spread of the virus, is now in freefall. In February, Italy recorded another decline in manufacturing, and this drop will accelerate further on the back of the outbreak. This enduring weakness will have a significantly adverse impact on the broader Italian economy.

Owing to all these dynamics, we have revised our real GDP forecast downwards for 2020 again, from growth of 0.3% to a contraction of -0.3%; this assumes that Italy manages to contain the coronavirus effects successfully - and entirely - by no later than early Q3. Should the crisis last longer, we are likely to revise these estimates down further.

FX Risk

Exports will suffer

The outbreak is also taking a serious toll on the Italian external sector. The adverse impact of coronavirus will weaken global growth, and shrinking foreign demand will weigh on exports. In addition, FX dynamics are also likely to further erode Italian competitiveness. In 2019, the euro averaged EUR0.89:USD, and its weakening over 2018 helped Italy, boosting exports. However, the euro was already forecast to strengthen slightly in 2020, but this pace will accelerate as a result of the expansive measures adopted by the US Federal Reserve, which has cut interest rates by a half-percentage point. This move will contribute to putting greater appreciation pressure on the euro. As such, we expect this appreciation to reduce Italian export prospects even further.

While this appreciation should theoretically boost imports, thus creating opportunities for companies interested in the Italian market, the halt to economic activities and difficulties in accessing cash for many Italian SMEs will keep these opportunities below potential. Only a few sectors (where state intervention will be substantial, for instance health procurement) might present exciting opportunities for foreign businesses in the next two to three months.



COUNTRY PROFILE AND STATISTICS

Overview

Italy is situated in southern Europe, with 7,600km of Mediterranean coastline and borders with France, Switzerland, Austria and Slovenia. The economy is the world's seventh-largest.

Following the breakdown of the multi-party system in the early 1990s amid revelations of rampant corruption, the Italian polity realigned, with one loose alliance on the left of the political spectrum and another on the right. However, the emergence of the populist anti-EU Five Star Movement (M5S) as a serious electoral force scattered political affiliations again.

A founding member of the EU, Italy has traditionally supported closer European integration: the ambition to qualify for euro-membership was an important catalyst for macroeconomic stabilisation in the 1990s. However, the economy still faces enormous long-term challenges: the population is in decline, productivity growth has stalled, and the export-oriented economy has lost international market share due to intensifying global competition in many areas of Italy's industrial specialisation. Internally, there is a prosperity gap between the rich north and the poorer south.

Key Facts

Key Fact	Detail
Head of government	Prime Minister Giuseppe Conte
Capital	Rome
Timezone	GMT +01-00
Official language	Italian
Population (millions)	60.6
GDP (USD billions)	1,993.8
GDP per capita (USD)	32,929
Life expectancy (years)	83.1
Literacy (% of adult pop.)	99.2
Surface area (sq km)	301,340

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2015	2016	2017	2018	2019e
Real GDP growth (%)	0.7	1.4	1.8	1.0	0.2
Nominal GDP in USDbn	1,835	1,877	1,959	2,084	1,994
Nominal GDP in local currency (bn)	1,654	1,696	1,738	1,765	1,780
GDP per Capita in USD	30,297	30,934	32,295	34,371	32,929
Population (year-end, m)	60.6	60.7	60.7	60.6	60.6
Exchange rate (yr avge, USD-LCU)	0.9	0.9	0.9	0.8	0.9
Current Account in USDbn	25.4	48.4	53.4	53.9	45.5
Current Account (% of GDP)	1.4	2.6	2.7	2.6	2.3
FX reserves (year-end, USDbn)	333.9	344.4	353.2	378.4	390.8
Import Cover (months)	1.4	1.5	1.4	1.3	1.4
Inflation (annual avge, %)	0.1	-0.1	1.3	1.2	0.6
Govt Balance (% GDP)	-2.6	-2.4	-2.4	-2.2	-2.5

Source: Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2020f	2021f	2022f	2023f	2024f
Real GDP growth (%)	-0.3	0.5	1.5	1.8	1.3
Nominal GDP in USDbn	2,246	2,467	2,376	2,537	2,620
Nominal GDP in local currency (bn)	2,005	2,145	2,030	2,132	2,165
GDP per Capita in USD	37,141	40,869	39,420	42,179	43,647
Population (year-end, m)	60.5	60.4	60.3	60.1	60.0
Exchange rate (yr avge, USD-LCU)	0.9	0.9	0.9	0.8	0.8
Current Account in USDbn	41.0	47.0	48.1	48.9	50.0
Current Account (% of GDP)	1.8	1.9	2.0	1.9	1.9
FX reserves (year-end, USDbn)	410.8	427.4	444.8	467.5	546.9
Import Cover (months)	1.4	1.3	1.3	1.2	1.3
Inflation (annual avge, %)	0.5	1.3	1.7	1.6	1.4
Govt Balance (% GDP)	-2.9	-2.3	-2.0	-1.4	-1.4

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Italy	France	Germany	Spain	UK
Income per Capita (USD)	37,141	42,171	47,094	30,409	44,325
Country Population (m)	60.5	65.3	83.8	46.8	67.9
Internet users (% of population)	61.3	85.6	89.6	80.6	94.8
Real GDP Growth (% p.a., 2020 - 2029)	0.5 - 2.0	1.3 - 2.5	1.8 - 3.0	1.5 - 3.0	1.8 - 3.5

Source: Various sources/Dun & Bradstreet



LINKS

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Email: countryinsight@dnb.com
Telephone
UK: +44 (0)1628 492700
US: +1 800 234 3867
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contact your local office
or call +44 1628 492700

Publisher

Dun & Bradstreet
Marlow International
Parkway
Marlow
Bucks SL7 1AJ
United Kingdom
Tel: 01628 492000
Fax: 01628 492929
Email: countryinsight@dnb.com

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