



****Coronavirus Covid-19 Update****

The risks associated with doing business are likely to be negatively impacted by the global coronavirus pandemic. Severe disruption to supply chains caused by lockdown procedures in many countries will affect country risk ratings. Demand will also be lower than initially anticipated as export earnings will be reduced amid a global economic slowdown and falls in both business and consumer confidence, as well as lower investment due to decreasing corporate earnings. We advise clients to monitor the containment efforts, as the adverse economic and supply chain effects will persist until the outbreak is controlled.

Country Insight Snapshot

Italy

May 2020





OVERVIEW

OVERALL COUNTRY RISK RATING: DB4d

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.
- The Covid-19 outbreak will have a lasting, adverse impact on the country's economy and financial stability.
- 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 by two quartiles, from DB4b to DB4d, amid the ongoing recession caused by the coronavirus pandemic.

CREDIT ENVIRONMENT OUTLOOK

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Trend: Deteriorating rapidly

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

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Trend: Deteriorating rapidly

Key Development has had a negative impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

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Trend: Deteriorating rapidly

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

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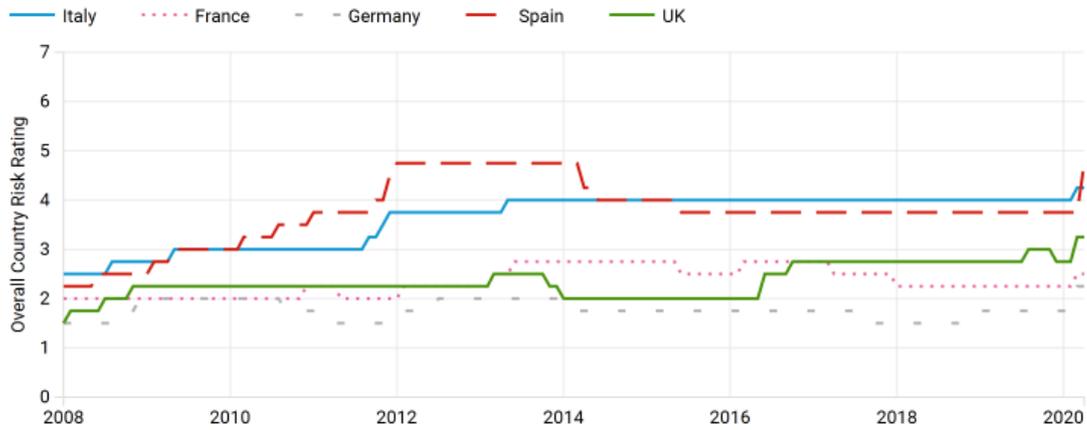
Trend: Deteriorating rapidly

Key Development has had a negative impact on the outlook.



KEY INDICATORS

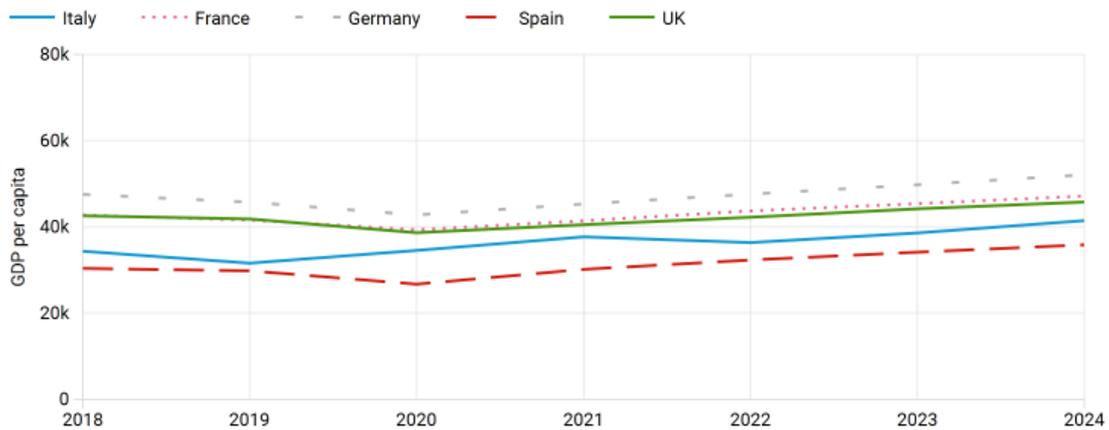
Rating History and Comparison



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	2019	2020f	2021f	2022f	2023f	2024f
C/A balance % GDP	2.6	2.5	2.4	2.0	2.1	2.2	2.1	2.0
Govt balance, % GDP	-2.4	-2.2	-2.5	-11.5	-5.0	-2.9	-1.3	-1.4
Inflation, annual avge %	1.3	1.2	0.6	0.2	1.3	1.7	1.6	1.4
Real GDP Growth, %	1.7	1.0	0.2	-10.5	3.6	2.0	1.8	1.3
Unemployment, %	11.3	10.6	10.0	11.6	11.0	10.7	10.0	10.0

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Italy's trade and commercial environment is set to deteriorate sharply as a result of the Covid-19 pandemic. A growing debt/GDP ratio; a broadening fiscal deficit and weakening macroeconomic fundamentals will increase sovereign and financial risks. While Standard & Poor's confirmed its rating for Italy, Fitch adopted a completely different approach, bringing Italy's credit rating to 'BBB-minus', one notch above junk titles. The ongoing recession will also harm the outlook for non-performing loans (NPLs). Before the crisis, the picture was improving sharply: the net NPLs ratio over total outstanding loans hit 1.61% in December 2019, standing at its lowest since March 2010. However, this ratio is set to rise sharply again in the coming months. Moody's enlisted at least 11 Italian bad loan securitisation deals on review for downgrade, and we expect many Italian banks to suffer in 2020. That said, we expect financial and sovereign risks to be mitigated by a significant European intervention.

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

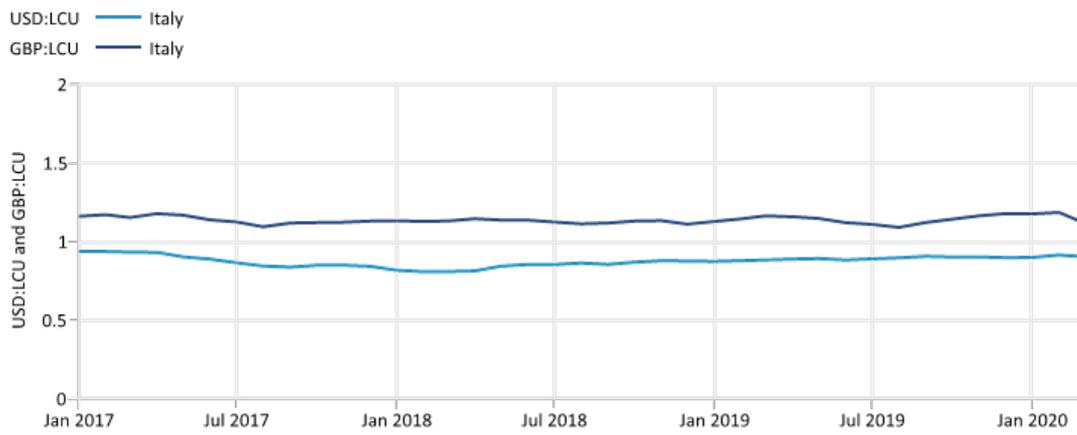
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



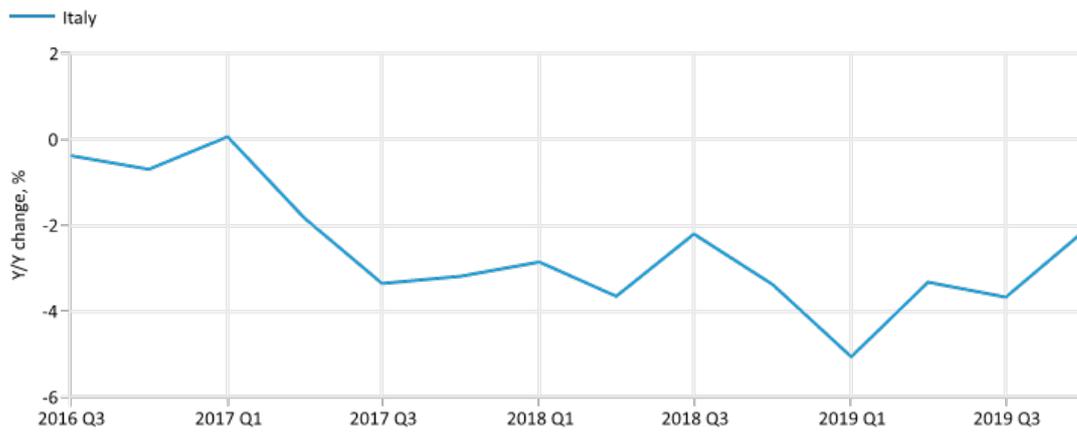
Exchange Rate



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 again

Dun & Bradstreet has downgraded Italy's country risk rating by two quartiles, from DB4b to DB4d, due to the effects of the coronavirus outbreak. In our short-term outlook, we expect the Italian economy to contract sharply amid the ongoing Covid-19 pandemic and its impact on Italy and the global economy. The Italian government announced that the economy will contract by 8% in 2020, before rebounding by 4.7% in 2021. However, this scenario is based on a return to normality by early June. We believe this is highly unlikely and extremely optimistic. As such, we expect the Italian GDP to contract by a more severe 10.5% in 2020. Unemployment should rise to 11.6% according to the government, from 10.0%. However, we believe the increase might be higher, particularly if tourism struggles to recover quickly. In addition, there is a significant amount of informal workers, particularly in the south, who lost their jobs and these workers do not appear in any official statistics. All these dynamics will inevitably have a significantly-adverse impact on domestic consumption.

Italian Prime Minister Giuseppe Conte unveiled the features of the so-called Fase 2 (Phase 2) to ease lockdown, starting 4 May. Most factories will reopen, restaurants will be allowed to offer takeaway services, and return to a full reopening by early June, jointly with other activities (for instance, hairdressers and beauty centres). According to the plan, Italy should return to a sort of new normality by 1 June. However, the project has already created a backlash, as the new rules are perceived to be erratic and vague. In addition, as uncertainty is set to remain very significant over the next six-to-nine months, at the very least, this will boost even further the Italian households' structurally high propensity to save. Indeed, while the Italian public debt is rampant, and will hit 155.7% of the GDP in 2020 as a result of the ongoing recession, private debt is usually low.

The same logic will apply to businesses, as many will adopt a conservative wait-and-see approach on investments, and will try to reduce their exposures to risks. Additionally, the decline in external demand will hit the Italian manufacturing sector hard, particularly the automotive industry, as well as the hospitality industry.

Market Potential

Tourism set to suffer

One of the assumptions of Phase 2 is that many companies will reopen for business, particularly in the hospitality sector. However, this is very unlikely. The tourism industry is set to suffer significantly over the coming months. This crisis will put many small companies out of the market. Others, instead, are likely not to reopen for the summer season as costs are likely to outweigh the expected profits, as Italy might not reopen the country fully to arrivals from abroad. In addition, several European countries - for instance Germany - extended travel warnings to mid-June.

As such, domestic demand will not be strong enough to compensate for the inevitable reduction in foreign arrivals coming to Italy, thus having a significantly adverse impact not only on tourism itself but also on those sectors - from PR services to food, to mention only a couple - dependent on it. As such, credit risks will increase sharply in these industries through the entire year of 2020, and our customers should expect higher rates of non-payments or delayed payments if they are exposed to these sectors, and should work to mitigate these risks accordingly.



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)	1,914.0
GDP per capita (USD)	31,610
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	2019
Real GDP growth (%)	0.7	1.4	1.7	1.0	0.2
Nominal GDP in USDbn	1,835	1,877	1,959	2,085	1,914
Nominal GDP in local currency (bn)	1,654	1,696	1,738	1,766	1,709
GDP per Capita in USD	30,297	30,938	32,296	34,386	31,610
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	51.4	51.5	45.5
Current Account (% of GDP)	1.4	2.6	2.6	2.5	2.4
FX reserves (year-end, USDbn)	333.9	344.4	353.2	378.4	386.6
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 (%)	-10.5	3.6	2.0	1.8	1.3
Nominal GDP in USDbn	2,090	2,277	2,193	2,323	2,490
Nominal GDP in local currency (bn)	1,917	2,052	1,941	2,038	2,165
GDP per Capita in USD	34,565	37,722	36,390	38,621	41,483
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	0.9	0.9
Current Account in USDbn	41.0	47.0	48.1	48.9	50.0
Current Account (% of GDP)	2.0	2.1	2.2	2.1	2.0
FX reserves (year-end, USDbn)	407.1	423.6	440.8	463.3	542.0
Import Cover (months)	1.4	1.4	1.3	1.3	1.4
Inflation (annual avge, %)	0.2	1.3	1.7	1.6	1.4
Govt Balance (% GDP)	-11.5	-5.0	-2.9	-1.3	-1.4

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Italy	France	Germany	Spain	UK
Income per Capita (USD)	34,565	39,363	42,799	26,740	38,675
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



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Please click [here](#) to visit our online user guide.

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