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

August 2020

Written 31 July 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: Stable

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 upgrades its rating outlook for Italy from 'deteriorating' to 'stable' amid the positive outcome of European negotiations over the Recovery Fund.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a positive impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Improving rapidly

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

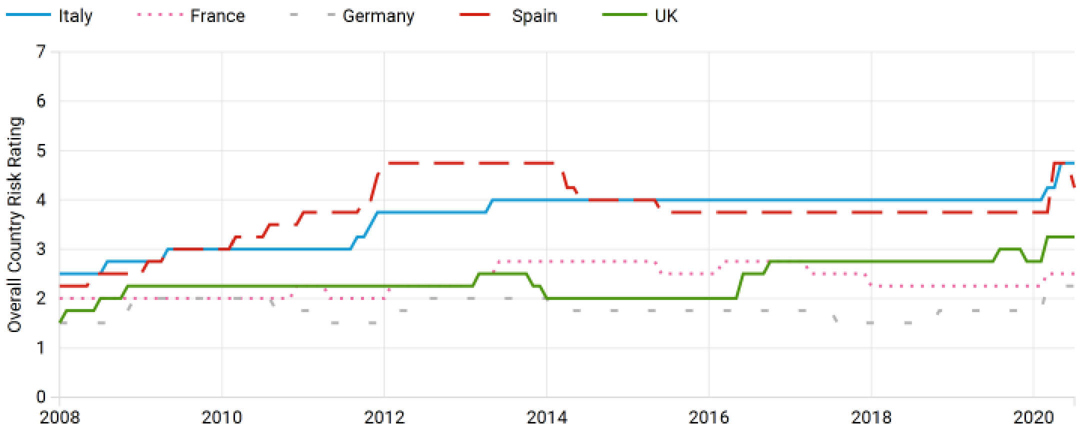
A

Trend: Deteriorating rapidly

Key Development has had a neutral impact on the outlook.

KEY INDICATORS

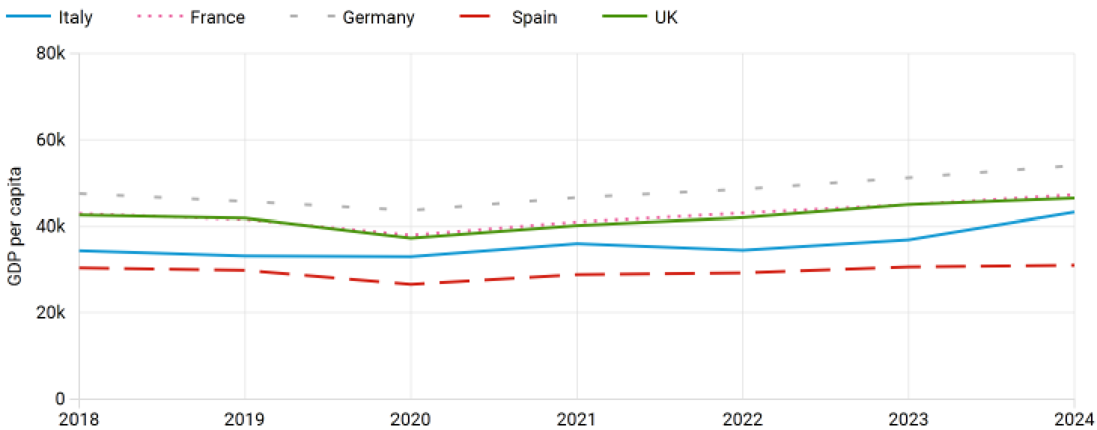
Rating History and Comparison



Source: Dun & Bradstreet

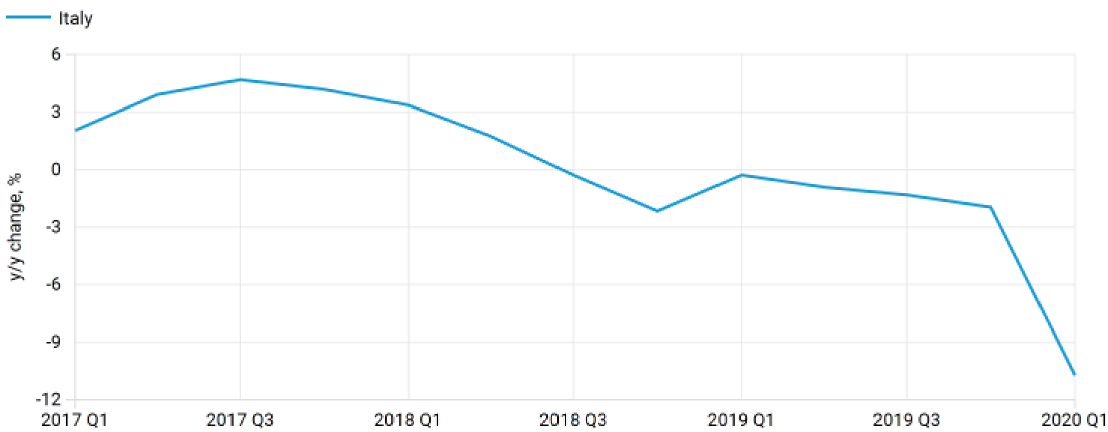
Note: 1 = Low Risk, 7 = High Risk

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	2.3	2.1	2.2	2.3	2.2	1.9
Govt balance, % GDP	-2.4	-2.2	-2.5	-13.0	-7.0	-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	-14.0	5.4	2.0	1.8	1.3
Unemployment, %	11.3	10.6	10.0	12.4	11.5	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 S&P 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.

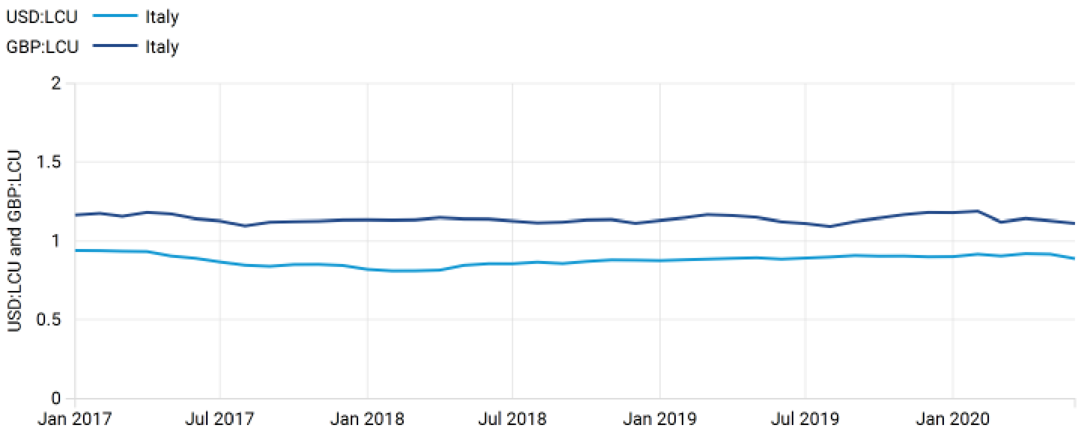
Local Delays: 0-2 months

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.

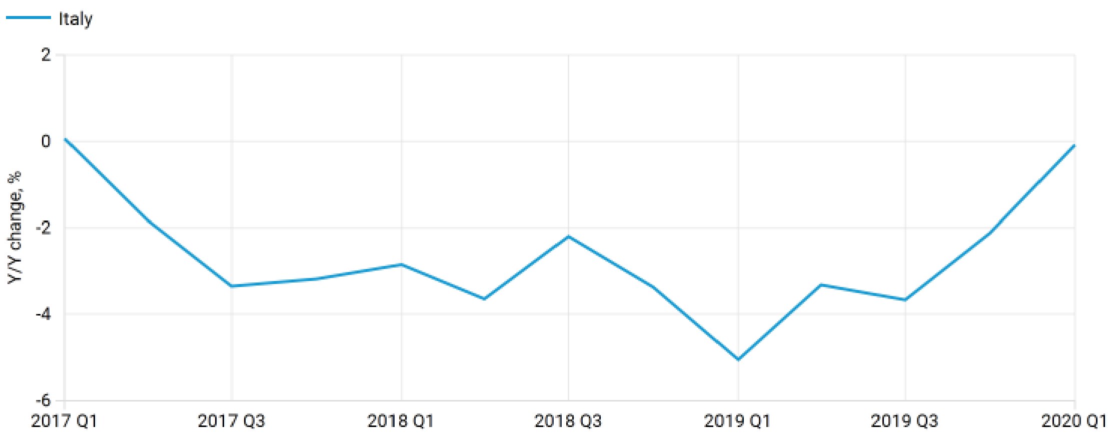
Exchange Rate



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

Rating outlook upgraded

Dun & Bradstreet has upgraded Italy's rating outlook, as well as both the credit environment and the market environment outlooks, from 'deteriorating' to 'stable' as the outcome of the negotiations over the EU's Recovery Fund was extremely positive for Italy. Rome should obtain a total of EUR208.8bn, even more than the EUR172.8bn the European Commission recommended initially. The amount of subsidies has declined slightly compared with the initial terms, from EUR81.8bn to EUR81.4bn, but Italy will get a much higher share of loans (from EUR90.9bn to EUR127.4bn). For the 2021-27 budget, Italy will also become a net beneficiary. Cohesion funds destined to the Italian regions will also increase because of the collapse of GDP.

Most importantly, the investments starting from 1 February 2020 will be eligible, thus eliminating a major concern for Italy: the Recovery Fund is supposed to come into operation in 2021. As such, Italy will have more flexibility and can avoid activating the European Stability Mechanism (ESM), which remains a highly divisive issue. Prime Minister Giuseppe Conte, as well as the Five Star Movement, are against the ESM, fearing a greater degree of EU control over Italy. The other parties of the coalition would like to access ESM loans to boost short-term investments in the public health system, fearing a second Covid-19 wave in the fall.

Macroeconomic fundamentals will remain weak, but access to these funds should help Italy to better handle the impact of the economic crisis in the short term, slightly reducing risks of late or non-payments. That said, these risks are set to remain substantial in our two-year forecast period.

Political/Insecurity Risk

Political instability undermines reforms

From a financial perspective, Italy was indeed one of the countries that benefitted the most from this agreement, on paper. However, from a political point of view, Italy could not avoid the inclusion of a 'super emergency break' into the package, a condition that the 'frugal four', headed by The Netherlands, imposed to give the green light to the fund. As such, any EU government could question how member states use these funds. This conditionality will partially limit Italy's freedom of action. Against this backdrop, the Italian government is called on to design a serious and ambitious reform plan, which also needs to be implemented quickly to obtain these funds. However, we expect that mounting political divisions and structural bureaucratic weaknesses will slow down this process.

Once euphoria over the success in Brussels fades, we expect the stability of the current governing coalition to start eroding. Parties will fight over how to distribute the new resources available. Moreover, should the major parties of the current alliance lose the regional elections scheduled for September, this might put further pressure on governmental stability.

While snap elections remain unlikely, mounting political instability will adversely impact the government's capacity to implement meaningful reforms and incentive agreements on less ambitious goals. In this case, the likelihood of a greater EU control on Italy is set to rise sharply, which is also likely to create a backlash, favouring anti-EU and populist parties. Our customers should monitor this closely.

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)	2,008.6
GDP per capita (USD)	33,173
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	2,009
Nominal GDP in local currency (bn)	1,654	1,696	1,738	1,766	1,793
GDP per Capita in USD	30,297	30,938	32,296	34,386	33,173
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	2.3
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 (%)	-14.0	5.4	2.0	1.8	1.3
Nominal GDP in USDbn	1,996	2,174	2,079	2,220	2,598
Nominal GDP in local currency (bn)	1,766	1,890	1,792	1,881	2,165
GDP per Capita in USD	33,013	36,006	34,491	36,910	43,286
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)	2.1	2.2	2.3	2.2	1.9
FX reserves (year-end, USDbn)	407.1	423.7	440.9	463.3	542.0
Import Cover (months)	1.4	1.3	1.3	1.2	1.3
Inflation (annual avge, %)	0.2	1.3	1.7	1.6	1.4
Govt Balance (% GDP)	-13.0	-7.0	-2.9	-1.3	-1.4

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Italy	France	Germany	Spain	UK
Income per Capita (USD)	33,013	37,996	43,664	26,576	37,304
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)	0.1 - 3.3	0.5 - 2.5	0.5 - 2.5	0.5 - 2.5	1.5 - 2.8

Source: Various sources/Dun & Bradstreet

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Please click here to visit our online user guide.

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