dun & bradstreet

Country Insight Snapshot

Italy

July 2021

Written 04 July 2021

OVERVIEW

OVERALL COUNTRY RISK RATING: DB4c

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

A

Rating Outlook: Improving

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

We have upgraded Italy's country risk rating to DB4c amid the positive impact of the end of sanitary restrictions and a significant acceleration of the vaccination campaign.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Improving

Key Development has had a positive impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Improving

Key Development has had a positive impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Improving

Key Development has had a positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

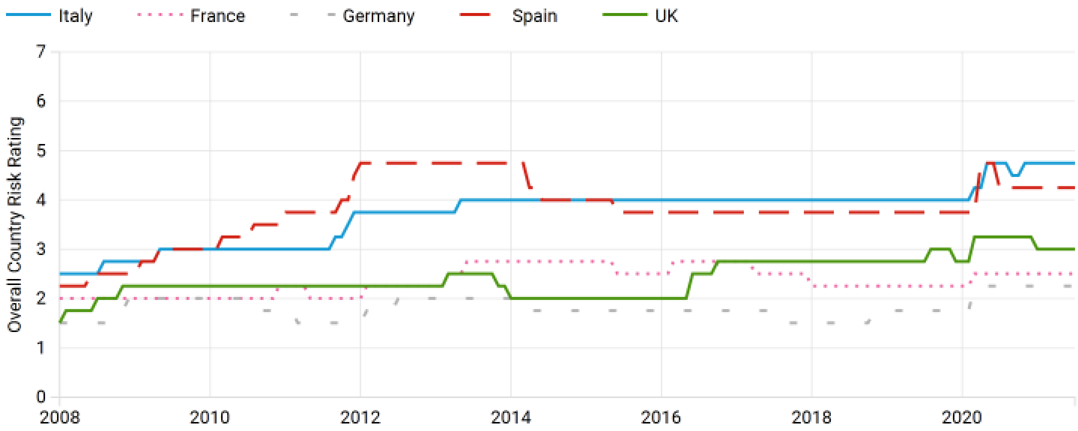
A

Trend: Improving

Key Development has had a positive impact on the outlook.

KEY INDICATORS

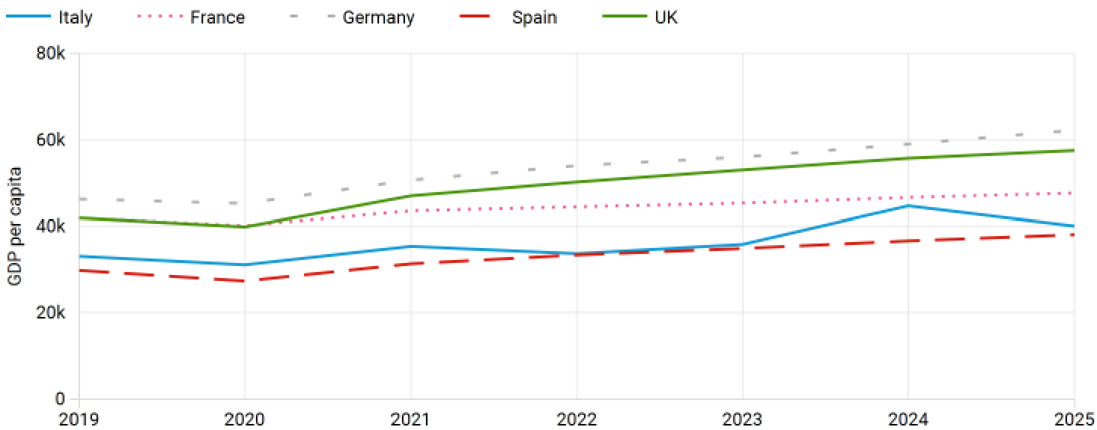
Rating History and Comparison



Source: Dun & Bradstreet

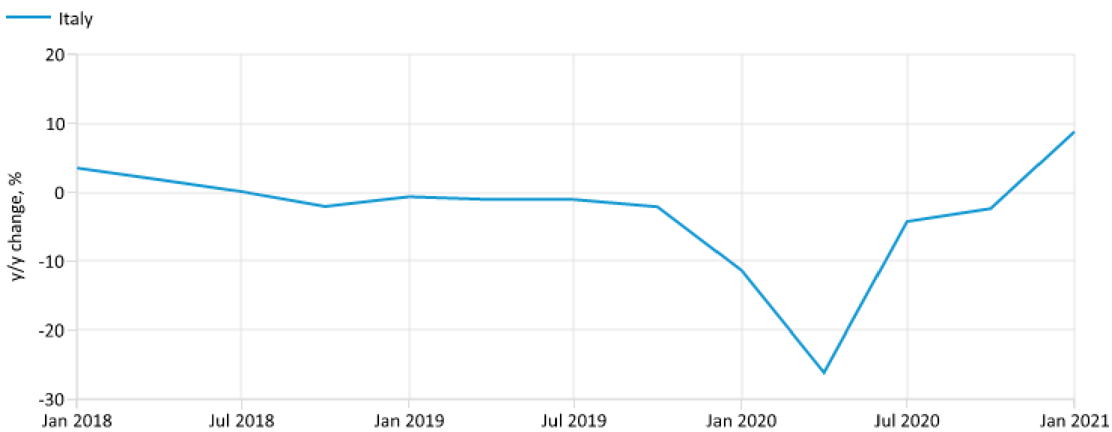
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source: Haver Analytics/Dun & Bradstreet

Economic Indicators

Indicator	2018	2019	2020	2021f	2022f	2023f	2024f	2025f
C/A balance % GDP	2.5	2.3	2.2	2.2	2.4	2.3	1.9	2.0
Govt balance, % GDP	-2.2	-1.6	-9.5	-8.5	-4.0	-1.3	-1.4	-0.8
Inflation, annual avge %	1.3	0.6	-0.1	0.5	1.6	1.3	1.2	1.2
Real GDP Growth, %	1.0	0.2	-8.8	4.0	2.4	1.5	0.9	0.6
Unemployment (annual avge, %)	10.7	10.0	9.3	9.7	10.0	10.2	9.8	9.5

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Despite the improvements, the trade and commercial environment is set to remain challenging in our two-year forecast period due to the long wave of the pandemic. Sovereign and financial risks will remain buoyant amid weak macroeconomic fundamentals, a sizeable fiscal deficit and a growing debt/GDP ratio. Looking forward, public debt is set to rise to 160% of GDP in 2021, up from 156% in 2020. According to government scenarios, the debt ratio should then decline, and return to pre-pandemic levels by 2032 (135.5%, near the 2019 134.6% level). However, we are less optimistic and expect public debt to oscillate constantly between 150% and 170%.

Years ago, this debt ratio would have almost immediately triggered a sovereign crisis. These days instead sovereign risks are contained thanks to the greater flexibility of the European Central Bank (ECB). Italy improved its debt profile (almost 30% of general debt is now on the joint Eurosystem balance sheet) and is able to access low sovereign borrowing rates.

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.

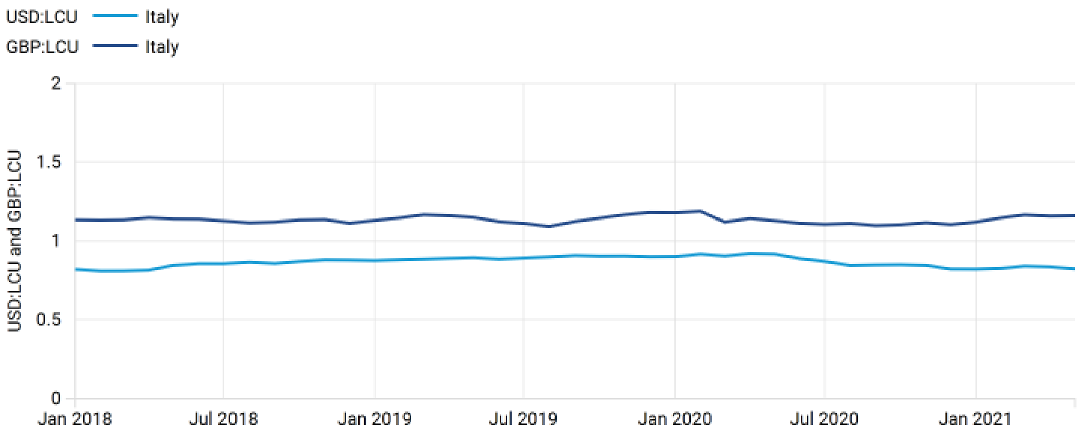
Local Delays: 0-2 months

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.

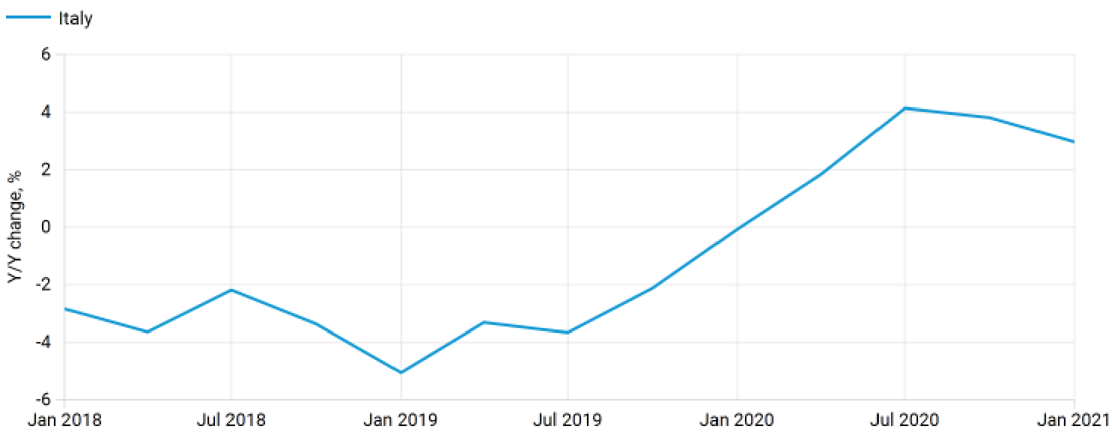
Exchange Rate



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

Business Continuity

Risk rating upgraded as successful vaccination campaign enables reopening

After upgrading Italy's overall outlook trend, as well as the credit, from 'stable' to 'improving' in May 2021, in June we also upgraded Italy's country risk rating again by one quartile, from DB4d to DB4c amid the positive impact of the end of sanitary restrictions, a significant acceleration of the vaccination campaign and a more efficient government action. The vaccination campaign, despite some problems associated with poor communication regarding heterologous vaccines, keeps gaining momentum. As of late June 2021, around 33% of the Italian population have completed the whole vaccination process. An additional 24% of the population had one of the two doses already and Italy keeps vaccinating around 550,000 people a day, close to 1% of the population. This success allowed Italy to lift most of the restrictions introduced earlier in the year.

Authorities officially scrapped the curfew, and from 28 June, the whole country became a 'white zone' - the country's lowest-risk category. Wearing masks outside is not compulsory anymore, although the provision of wearing a mask indoors or in crowded outdoor places is still in place. Moreover, social distancing (1m) is still in place, while authorities maintained a ban on house parties and large gatherings. On 1 July, Italy reopened almost entirely, with swimming pools, games rooms, and beauty centres allowed to operate again. Training courses in presence, both private and public, have also restarted, which will provide a considerable boost to the services sectors, particularly in food and hospitality.

Although the more contagious delta variant represents a concern, we expect the outlook for business continuity to remain stable for the next three months at least.

Market Potential

Consumption rebounds

These dynamics have also boosted several sectors that had suffered significantly over the past year and a half, for instance services and retail sectors. As for services, the full reopening of the country, the fact that 90% of Italians going on holiday will remain in the country and greater confidence for the future is providing a considerable boost to private consumption and to all those intermediate activities that stopped working as a result of sanitary restrictions. Confidence in services posted the highest reading since June 2018 levels, while consumer confidence returned to levels unseen since August 2018. Moreover, as the government is taking active measures to stabilise employment levels, householders are less afraid to spend their money, and trends regarding purchasing durable goods are favourable.

As such, we expect a significant boost to consumption, services and retail activities in Q3. We advise customers to invest heavily in Italy as returns are expected to be particularly important in the period considered.

Short-Term Economic Outlook

Investment outlook set to improve significantly as EU Commission endorses PNRR

On 22 June, the European Commission formally endorsed Italy's recovery and resilience plan (PNRR). This is a fundamental step towards the EU disbursing EUR68.9bn in grants and EUR122.6bn in loans under the Recovery and Resilience Facility (RRF). Money will start to arrive in August. As such, we are confident that the outlook for investments, both from national actors and foreign investors, is set to improve significantly in Q4 2021.

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 Mario Draghi
Capital	Rome
Timezone	GMT +01-00
Official language	Italian
Population (millions)	60.5
GDP (USD billions)	1,881.0
GDP per capita (USD)	31,111
Life expectancy (years)	83.3
Literacy (% of adult pop.)	99.2
Surface area (sq km)	301,340

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2016	2017	2018	2019	2020
Real GDP growth (%)	1.4	1.7	1.0	0.2	-8.8
Nominal GDP in USDbn	1,877	1,960	2,091	2,005	1,881
Nominal GDP in local currency (bn)	1,696	1,739	1,771	1,791	1,650
GDP per Capita in USD	30,938	32,298	34,493	33,107	31,111
Population (year-end, m)	60.7	60.7	60.6	60.6	60.5
Exchange rate (yr avge, USD-LCU)	0.9	0.9	0.8	0.9	0.9
Current Account in USDbn	48.4	51.5	52.1	45.5	41.0
Current Account (% of GDP)	2.6	2.6	2.5	2.3	2.2
FX reserves (year-end, USDbn)	344.4	353.2	378.4	386.6	423.0
Import Cover (months)	1.5	1.4	1.3	1.4	1.7
Inflation (annual avge, %)	0.0	1.3	1.3	0.6	-0.1
Govt Balance (% GDP)	-2.4	-2.4	-2.2	-1.6	-9.5

Source: Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2021f	2022f	2023f	2024f	2025f
Real GDP growth (%)	4.0	2.4	1.5	0.9	0.6
Nominal GDP in USDbn	2,137	2,031	2,156	2,685	2,400
Nominal GDP in local currency (bn)	1,766	1,665	1,767	2,165	1,905
GDP per Capita in USD	35,393	33,709	35,841	44,729	40,088
Population (year-end, m)	60.4	60.3	60.1	60.0	59.9
Exchange rate (yr avge, USD-LCU)	0.8	0.8	0.8	0.8	0.8
Current Account in USDbn	47.0	48.1	48.9	50.0	48.9
Current Account (% of GDP)	2.2	2.4	2.3	1.9	2.0
FX reserves (year-end, USDbn)	425.1	442.4	464.9	503.2	566.4
Import Cover (months)	1.5	1.5	1.5	1.5	1.5
Inflation (annual avge, %)	0.5	1.6	1.3	1.2	1.2
Govt Balance (% GDP)	-8.5	-4.0	-1.3	-1.4	-0.8

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Italy	France	Germany	Spain	UK
Income per Capita (USD)	35,393	43,584	50,698	31,354	47,053
Country Population (m)	60.4	65.4	83.9	46.7	68.2
Internet users (% of population)	74.4	82.0	89.7	86.1	94.9
Real GDP Growth (% p.a., 2021 - 2030)	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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